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Red Herring Prospectus
Dated September 20, 2006
Please read Section 60B of the Companies Act, 1956
100% Book Building Issue

DCB

Development Credit Bank Limited

(Being a company incorporated under the Companies Act, 1956 and a banking company within the meaning of the Banking Regulation Act, 1949 pursuant to its conversion from Development Co-operative Bank Limited, a co-operative bank, to a joint stock banking company on May 31, 1995.)

Registered Office: 154, S.V.Patel Road (East), Dongri. Mumbai – 400 009, **Telephone:** 91-22-2289 9999; **Fax:** 91-22-2287 6112
Corporate Office: 204, Raheja Centre, Nariman Point, Mumbai – 400 021, **Telephone:** 91-22- 2287 2465, **Fax:** 91-22- 2287 6112
Contact Person: Mr H.V Barve, **Email:** dcbipo@dcbl.com, **Website:** www.dcbl.com

PUBLIC ISSUE OF 71,500,000 EQUITY SHARES OF RS. 10 EACH FOR CASH AT A PRICE OF RS. [●] PER EQUITY SHARE AGGREGATING RS. [●] MILLION BY DEVELOPMENT CREDIT BANK LIMITED (THE "BANK" OR "ISSUER") (THE "ISSUE"). THE ISSUE COMPRISES A NET ISSUE TO THE PUBLIC OF UP TO 68,997,500 EQUITY SHARES OF RS. 10 EACH (THE "NET ISSUE") AGGREGATING RS. [●] MILLION AND A RESERVATION FOR ELIGIBLE EMPLOYEES OF 2,502,500 EQUITY SHARES OF RS. 10 EACH AGGREGATING RS. [●] MILLION, AT THE ISSUE PRICE. THE ISSUE WOULD CONSTITUTE 48.43% OF THE FULLY DILUTED POST ISSUE PAID-UP CAPITAL OF THE BANK.

PRICE BAND: RS. 22 TO RS. 26 PER EQUITY SHARE OF FACE VALUE RS. 10

THE FACE VALUE OF THE SHARE IS RS. 10 AND THE FLOOR PRICE IS 2.2 TIMES OF THE FACE VALUE AND THE CAP PRICE IS 2.6 TIMES OF THE FACE VALUE.

The Issue is being made through the 100% book building process where up to 50% of the Net Issue shall be allocated on a proportionate basis to Qualified Institutional Buyers ("QIBs"), of which not less than 5% shall be allocated to mutual funds. Further, not less than 15% of the Net Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Net Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. 2,502,500 shares shall be allotted on a proportionate basis to Eligible Employees.

RISK IN RELATION TO FIRST ISSUE

This being the first issue of Equity Shares of the Bank, there has been no formal market for the Equity Shares of the Bank. The face value of the shares is Rs. 10 and the Floor Price is 2.2 times of the face value and the Cap Price is 2.6 times of the face value. The Issue Price (as determined by the Bank in consultation with the Book Running Lead Managers ("**BRLMs**") on the basis of assessment of market demand for the Equity Shares by way of book building) should not be taken to be indicative of the market price of the Equity Shares after the Equity Shares are listed. No assurance can be given regarding an active and/or sustained trading in the Equity Shares or regarding the price at which the Equity Shares will be traded after listing.

GENERAL RISKS

Investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Bank and the Issue including the risks involved. The Equity Shares offered in the Issue have not been recommended or approved by the Securities and Exchange Board of India ("**SEBI**"), nor does SEBI guarantee the accuracy or adequacy of this Red Herring Prospectus. Specific attention of the investors is invited to the section titled "Risk Factors" on page [●] of this Red Herring Prospectus. The Issue has not been graded.

ISSUER'S ABSOLUTE RESPONSIBILITY

The Bank having made all reasonable inquiries, accepts responsibility for and confirms that this Red Herring Prospectus contains all information with regard to the Bank and the Issue, which is material in the context of the Issue, that the information contained in this Red Herring Prospectus is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Red Herring Prospectus as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING

The Equity Shares offered through this Red Herring Prospectus are proposed to be listed on the National Stock Exchange of India Limited ("**NSE**") and the Bombay Stock Exchange Limited ("**BSE**"). The Bank has received in-principle approval from these stock exchanges for the listing of the Equity Shares pursuant to letters dated September 1, 2006 and August 31, 2006, respectively. BSE is the Designated Stock Exchange.

BOOK RUNNING LEAD MANAGERS		REGISTRAR TO THE ISSUE
JM MORGAN STANLEY **JM MORGAN STANLEY PRIVATE LIMITED** 141, Maker Chambers III, Nariman Point Mumbai 400 021, India Tel.: 91-22-6630 3030 Fax.: 91-22-2204 7185 Email: dcbwg@jmmorganstanley.com Website: www.jmmorganstanley.com Contact Person: Utkarsh Katkoria	ENAM **ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED** 801/ 802, Dalamal Towers Nariman Point, Mumbai 400 021, India Tel: 91-22-6638 1800 Fax: 91-22-2284 6824 E-mail: dcbipo@enam.com Website: www.enam.com Contact Person: Lekha Nair	INTIME SPECTRUM REGISTRY LIMITED **INTIME SPECTRUM REGISTRY LIMITED** C-13, Pannalal Silk Mills Compound, LBS Marg, Bhandup (W), Mumbai- 400 078, India Tel: 022- 25960320(9 lines) Fax: 022- 25960329 Email ID: dcb@intimespectrum.com Website: www.intimespectrum.com Contact Person: Salim Shaikh

ISSUE PROGRAMME

BID / ISSUE OPENS ON : SEPTEMBER 29, 2006	BID / ISSUE CLOSES ON : OCTOBER 6, 2006

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SECTION 1: DEFINITIONS AND ABBREVIATIONS

Term	Description
The "Company" or "the Bank" or "DCB" or "Development Credit Bank Limited" or "we" or "our" or "us"	Unless the context otherwise requires, refers to Development Credit Bank Limited, a company incorporated under the Companies Act and carrying on the business as a banking company in India under the Banking Regulation Act

Conventional/General Terms

Term	Description
ACA	Associate Chartered Accountant
AS	Accounting Standards as issued by the Institute of Chartered Accountants of India
Banking Regulation Act	The Banking Regulation Act, 1949, as amended from time to time
Billion	1,000,000,000 (One thousand million)
BSE	The Bombay Stock Exchange Limited
CAGR	Compounded Annual Growth Rate
CASA	Current and Savings Account
CDSL	Central Depository Services (India) Limited
CHF	Swiss Franc
Companies Act	The Companies Act, 1956, as amended from time to time
Depositories Act	The Depositories Act, 1996, as amended from time to time
Depository	A body corporate registered under the SEBI (Depositories and Participant) Regulations, 1996, as amended from time to time
Depository Participant	A depository participant as defined under the Depositories Act
DRT	Debt Recovery Tribunal
EPS	Earnings per share
ESOP Plan	The Development Credit Bank Ltd. 2005 Employee Stock Option Plan
FEDAI	Foreign Exchange Dealers' Association of India
FEMA	Foreign Exchange Management Act, 1999, as amended from time to time, and the regulations framed thereunder
FII	Foreign Institutional Investor (as defined under Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000) registered with SEBI under applicable laws in India
Fiscal Year/ Financial Year / FY year/ FY	Period of twelve months ended March 31 of that particular year, unless otherwise stated
Government/ GoI	The Government of India
HUF	Hindu Undivided Family
I.T. Act	The Income Tax Act, 1961, as amended from time to time
Indian GAAP	Generally accepted accounting principles in India
MMS	Master of Management Studies

Term	Description
Mn	Million
NAV	Net Asset Value
NBFC	Non Banking Finance Company
Non Residents	All Bidders who are Persons resident outside India as defined in the FEMA
NRE Account	Non Resident External Account
NRI/Non-Resident Indian	A Person resident outside India, who is a citizen of India or a Person of Indian origin and having the same meaning as ascribed to such term in the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000
NRO Account	Non Resident Ordinary Account
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
OCB/ Overseas Corporate Body	A company, partnership, society or other corporate body owned directly or indirectly to the extent of at least 60% by NRIs, including overseas trusts in which not less than 60% of beneficial interest is irrevocably held by NRIs directly or indirectly as defined under Foreign Exchange Management (Deposit) Regulations, 2000. OCBs are not allowed to invest in this Issue
P/E Ratio	Price/Earnings Ratio
PAN	Permanent Account Number
Person/Persons	Any individual, sole proprietorship, unincorporated association, unincorporated organization, body corporate, corporation, company, partnership, limited liability company, joint venture, or trust or any other entity or organization validly constituted and/or incorporated in the jurisdiction in which it exists and operates, as the context requires
PIO/ Person of Indian Origin	Shall have the same meaning as is ascribed to such term in the Foreign Exchange Management (Investment in Firm or Proprietary Concern in India) Regulations, 2000
RBI	The Reserve Bank of India
Reserve Bank of India Act/ RBI Act	The Reserve Bank of India Act, 1934, as amended from time to time
RoC	The Registrar of Companies, Maharashtra at Mumbai located at 100, Everest House, Marine Lines, Mumbai – 400 020
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
SEBI	The Securities and Exchange Board of India constituted under the SEBI Act, 1992
SEBI Guidelines	SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 27, 2000, as amended, including instructions and clarifications issued by SEBI, from time to time
SEBI Takeover Regulations	Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 1997, as amended from time to time
SICA	Sick Industrial Companies (Special Provisions) Act, 1995
TDS	Tax Deducted at Source
U.S. GAAP	Generally accepted accounting principles in the United States of America
VRS	Voluntary Retirement Scheme

Issue Related Terms

Term	Description
Banker(s) to the Issue	HDFC Bank Limited and Development Credit Bank Limited
Bid	An indication to make an offer during the Bidding Period by a prospective investor to subscribe to the Bank's Equity Shares at a price within the Price Band, including all revisions and modifications thereto
Bid Amount	The highest value of the optional Bids indicated in the Bid cum Application Form
Bid Closing Date /Issue Closing Date	The date after which the Syndicate will not accept any Bids for the Issue, which shall be notified in an English national newspaper, Hindi national newspaper and a regional language newspaper with wide circulation
Bid Opening Date/Issue Opening Date	The date on which the Syndicate shall start accepting Bids for the Issue, which shall be the date notified in an English national newspaper, Hindi national newspaper and a regional language newspaper with wide circulation
Bid cum Application Form	The form in terms of which the Bidder shall make an offer to subscribe to the Equity Shares of the Bank and which will be considered as the application for issue of the Equity Shares pursuant to the terms of the Red Herring Prospectus
Bidder	Any prospective investor who makes a Bid pursuant to the terms of the Red Herring Prospectus and the Bid cum Application Form
Bidding Period / Issue Period	The period between the Bid Opening Date/Issue Opening Date and the Bid Closing Date Issue Closing Date inclusive of both days and during which prospective Bidders can submit their Bids
Book Building Process	Book building route as provided under Chapter XI of the SEBI Guidelines, in terms of which the Issue is made
BRLMs/Book Running Lead Managers	Book Running Lead Managers to the Issue, in this case being JM Morgan Stanley Private Limited and Enam Financial Consultants Private Limited.
CAN/Confirmation of Allocation Note	The note or advice or intimation of allocation of Equity Shares sent to the Bidders who have been allocated Equity Shares after discovery of the Issue Price in accordance with the Book Building Process
Cap Price	The higher end of the Price Band, above which the Issue Price will not be finalised and above which no Bids will be accepted
Cut-off Price	Any price within the Price Band finalised by the Bank in consultation with the BRLMs. A Bid submitted at Cut-off Price is a valid Bid at all price levels within the Price Band
Designated Date	The date on which funds are transferred from the Escrow Account(s) to the Issue Account after the Prospectus is filed with the RoC, following which the Board shall allot Equity Shares to successful Bidders
Designated Stock Exchange	The Bombay Stock Exchange Limited
Draft Red Herring Prospectus	The Draft Red Herring Prospectus filed with the SEBI on August 09, 2006, which did not have complete particulars on the price at which the Equity Shares are offered and size of the Issue.
JMMS	JM Morgan Stanley Private Limited, a company incorporated under the Companies Act and having its registered office at 141, Maker Chambers III, Nariman Point, Mumbai- 400 021
Eligible Employee	A permanent employee or Director of the Bank as on the date of the filing of the Red Herring Prospectus with the RoC.

Term	Description
Employee Reservation Portion	The portion of the Issue being a maximum of 2,502,500 Equity Shares available for allocation to Eligible Employees
Enam	Enam Financial Consultants Private Limited, a company incorporated under the Companies Act and having its registered office at 113, Stock Exchange Towers, Dalal Street, Fort, Mumbai 400 001, India
Equity Shares	Equity shares of the Bank of Rs. 10 each unless otherwise specified in the context thereof
Escrow Account	Account opened with an Escrow Collection Bank(s) and in whose favour the Bidder will issue cheques or drafts in respect of the Bid Amount
Escrow Agreement	Agreement entered into amongst the Bank, the Registrar, the Escrow Collection Bank(s) and the BRLMs for collection of the Bid Amounts and for remitting refunds, if any, of the amounts collected, to the Bidders
Escrow Collection Bank(s)	The banks, which are clearing members and registered with SEBI as Banker(s) to the Issue, at which the Escrow Account will be opened
First Bidder	The Bidder whose name appears first in the Bid cum Application Form or Revision Form
Floor Price	The lower end of the Price Band, below which the Issue Price will not be finalised and below which no Bids will be accepted
IPO	Initial Public Offering
Issue	Public issue of 71,500,000 Equity Shares at the Issue Price comprising a Net Issue to the public of at least 68,997,500 Equity Shares of Rs. 10 each and a reservation for Eligible Employees of 2,502,500 Equity Shares of Rs. 10 each at the Issue Price aggregating Rs. [●] million pursuant to the Red Herring Prospectus and the Prospectus
Issue Account	Account opened with the Banker(s) to the Issue to receive monies from the Escrow Accounts for the Issue on the Designated Date
Issue Price	The final price at which Equity Shares will be allotted in terms of the Prospectus, as determined by the Bank in consultation with the BRLMs, on the Pricing Date
Margin Amount	The amount paid by the Bidder at the time of submission of his/her Bid, which may range between 0% and 100% of the Bid Amount
Net Issue / Net Issue to the Public	The Issue less the allocation to the Employee Reservation Portion
Non-Institutional Bidders	All Bidders that are not QIBs or Retail Individual Bidders and who have Bid for Equity Shares for an amount more than Rs. 100,000
Non-Institutional Portion	The portion of the Net Issue to the public being 10,349,625 Equity Shares of Rs. 10 aggregating Rs. [●] million each available for allocation to Non Institutional Bidders
Pay-in-Period	(i) With respect to Bidders whose Margin Amount is 100% of the Bid Amount, the period commencing on the Bid Opening Date and extending until the Bid Closing Date, and (ii) with respect to Bidders whose Margin Amount is less than 100% of the Bid Amount, the period commencing on the Bid Opening Date and extending up to the date specified in the CAN
Price Band	The price band with a minimum price (Floor Price) of Rs. 22 and the maximum price (Cap Price) of Rs. 26, including any revisions thereof
Pricing Date	The date on which the Bank in consultation with the BRLMs finalizes the Issue Price

Term	Description
Promoter Group Company	Unless the context otherwise requires, the company mentioned in the section titled "Promoter and Group Companies" on page 132 of this Red Herring Prospectus
Promoter	AKFED
Prospectus	The Prospectus, filed with the RoC containing, inter alia, the Issue Price that is determined at the end of the Book Building Process, the size of the Issue and certain other information
QIB	Qualified Institutioanl Buyer
QIB Portion	The portion of the Net Issue to public and up to 34,498,750 Equity Shares of Rs. 10 aggregating Rs. [●] million each at the Issue Price, available for allocation to QIBs
Qualified Institutional Buyers or QIBs	Public financial institutions as defined in Section 4A of the Companies Act, FIIs, scheduled commercial banks, mutual funds registered with SEBI, venture capital funds registered with SEBI, foreign venture capital investors registered with SEBI, state industrial development corporations, insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with a minimum corpus of Rs. 250 million, pension funds with a minimum corpus of Rs. 250 million, and multilateral and bilateral development financial institutions
Registrar /Registrar to the Issue	Registrar to the Issue, in this case being Intime Spectrum Registry Limited
Retail Individual Bidders	Individual Bidders (including HUFs) who have Bid for Equity Shares for an amount less than or equal to Rs. 100,000, in any of the bidding options in the Issue
Retail Portion	The portion of the Net Issue to the public and being a minimum of 24,149,125 Equity Shares of Rs. 10 aggregating Rs. [●] million each available for allocation to Retail Individual Bidder(s)
Revision Form	The form used by the Bidders to modify the number of Equity Shares or the Bid Price in any of their Bid cum Application Forms or any previous Revision Form(s)
RHP or Red Herring Prospectus	The document issued in accordance with the SEBI Guidelines, which does not have complete particulars on the price at which the Equity Shares are offered and the size of the Issue. The Red Herring Prospectus which will be filed with the RoC at least 3 days before the Bid Opening Date and will become a Prospectus after filing with the RoC after pricing and allocation
Stock Exchanges	BSE and NSE
Syndicate	The BRLMs and the Syndicate Members
Syndicate Agreement	The agreement to be entered into among the Bank and the Syndicate, in relation to the collection of Bids in this Issue
Syndicate Members	JM Morgan Stanley Financial Services Private Limited, Enam Securities Private Limited and Motilal Oswal Securities Limited
TRS or Transaction Registration Slip	The slip or document issued by the Syndicate Members to the Bidder as proof of registration of the Bid
Underwriters	The BRLMs and the Syndicate Members
Underwriting Agreement	The agreement among the members of the Syndicate and the Bank to be entered into on or after the Pricing Date

Company Related Terms

Term	Description
AKFED	Aga Khan Fund for Economic Development S.A, a limited liability company incorporated under the laws of Switzerland
Articles/ Articles of Association	The Articles of Association of the Bank
Auditors	The statutory auditors of the Bank, N.M. Raiji & Co., Chartered Accountants
Board of Directors/Board	The board of directors of the Bank or a committee constituted thereof
BBG	Business Banking Group
CBG	Corporate Banking Group
CEO	Chief Executive Officer of the Bank
CFO	Chief Financial Officer
COTO	Chief Operations and Technology Officer
Corporate Office	The corporate office of the Bank being 204, Raheja Centre, Free Press Journal Marg, Nariman Point, Mumbai – 400 021
Director(s)	Director(s) of the Bank, unless otherwise specified
Head Office/ Registered Office	The registered office of the Bank being 154, S.V. Patel Road (East), Dongri. Mumbai – 400 009, India
Memorandum/ Memorandum of Association	The Memorandum of Association of the Bank
Private Equity Investors	● Khattar Holdings Pte. Ltd. ● Housing Development Finance Corporation Limited (HDFC Limited) ● Suvijay Exports Limited ● Rajiv Maliwal (joint A/c) ● Amtel Finance Limited
Scheme of Conversion	The scheme of conversion of Development Co-operative Bank Limitedinto a company under provisions of Part IX of the Companies Act, 1956.

Technical and Industry Terms

Term	Description
ALCO	Asset Liability Management Committee
ALM	Asset Liability Management
ARCIL	Asset Reconstruction Company of India Limited
ATMs	Automated Teller Machines
CA	Chartered Accountant
CS	Company Secretary
C&IB	Corporate and Institutional Banking
CAR	Capital Adequacy Ratio
CBS	Core Banking Solution

Term	Description
CDR	Corporate Debt Restructuring
CRM	Credit Risk Management
CRR	Cash Reserve Ratio
CIT	Commissioner of Income Tax
ECS	Electronic Clearing Services
EFT	Electronic Funds Transfer
HR	Human Resources
ICWAI	Institute of Cost And Works Accountants of India
IT	Information Technology
ITAT	Income Tax Appellate Tribunal
JV	Joint Venture
KYC norms	Know Your Customer norms, as stipulated by the Reserve Bank of India
LC	Letters of Credit
LGD	Loss Given Default
NFS	National Financial Switch
NPA	Non Performing Asset
OTS	One Time Settlement
PD	Probability of Default
PIN	Personal Identification Number
RoNW	Return on Net Worth
RTGS	Real Time Gross Settlement
SGL	Subsidiary General Ledger
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprises
Spread	The difference between the yield on the average of interest earning assets and the cost of the average of the interest bearing liabilities.
TMT	Telecommunications, Media and Technology
Tier I capital	The core capital of a bank, which provides the most permanent and readily available support against unexpected losses. It comprises paid up capital and reserves consisting of any statutory reserves, free reserves and capital reserves as reduced by equity investments in subsidiaries, intangible assets, and losses in the current period and those brought forward from the previous period.
Tier II capital	The undisclosed reserves and cumulative perpetual preference shares, revaluation reserves (at a discount of 55.0%), general provisions and loss reserves (allowed up to a maximum of 1.25% of risk weighted assets), investment fluctuation reserve, hybrid debt capital instruments (which combine certain features of both equity and debt securities) and subordinated debt (excluding such debt with initial maturity of less than 5 years or remaining maturity of less than one year)

Certain Conventions; Use of Market Data

Unless stated otherwise, the financial data in this Red Herring Prospectus is derived from the Bank's financial statements prepared in accordance with Indian GAAP and included in this Red Herring Prospectus. The Bank's current financial year commenced on April 1, 2006 and ends on March 31, 2007. In this Red Herring Prospectus, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding-off.

There are significant differences between Indian GAAP and U.S. GAAP; accordingly, the degree to which the Indian GAAP financial statements included in this Red Herring Prospectus will provide meaningful information is entirely dependent on the reader's level of familiarity with Indian accounting practices. Any reliance by a Person not familiar with Indian accounting practices on the financial disclosures presented in this Red Herring Prospectus should accordingly be limited. The Bank has not attempted to explain those differences or quantify their impact on the financial data included herein, and the Bank urges the investors to consult their own advisors regarding such differences and their impact on its financial data.

For definitions, please see the section titled "Definitions and Abbreviations" on page I of this Red Herring Prospectus.

All references to "India" contained in this Red Herring Prospectus are to the Republic of India, all references to the "US" or the "U.S." or the "USA" or the "United States" are to the United States of America, and all references to "UK" are to the United Kingdom. All references to "Rupees" or "Rs." are to Indian Rupees, the official currency of the Republic of India.

Unless stated otherwise, industry data used throughout this Red Herring Prospectus has been obtained from industry publications. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although the Bank believes that industry data used in this Red Herring Prospectus is reliable, it has not been independently verified. Similarly, data provided by the Bank, while believed by the Bank to be reliable, have not been verified by any independent sources.

Forward-Looking Statements

The Bank has included statements in this Red Herring Prospectus, that contain words or phrases such as “will”, “aim”, “will likely result”, “believe”, “expect”, “will continue”, “anticipate”, “estimate”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “project”, “should”, “will pursue” and similar expressions or variations of such expressions that are “forward-looking statements”.

All forward-looking statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from the Bank’s expectations include, among others:

- Changes in Indian or international interest rates;
- General economic and business conditions in India and other countries;
- The Bank’s ability to successfully implement its revitalisation plan, strategy, its growth and expansion plans and technological changes;
- Changes in the value of the Rupee and other currency changes;
- Performance of the agricultural, retail and industrial sectors in India;
- Rate of growth of the Bank’s deposits, advances and investments;
- Potential mergers, acquisitions or restructuring;
- Performance of the Indian debt and equity markets;
- Occurrence of natural calamities or natural disasters affecting the areas in which the Bank has operations or outstanding credit;
- Changes in laws and regulations that apply to banks in India, including laws that impact the Bank’s ability to enforce its collaterals;
- Changes in political conditions in India; and
- Changes in the foreign exchange control regulations in India.

For further discussion of factors that could cause the Bank’s actual results to differ, see the section titled “Risk Factors” on page X of this Red Herring Prospectus. By their nature, certain risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. The Bank, the members of the Syndicate and their respective affiliates do not have any obligation to, and do not intend to, update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, the Bank and the BRLMs will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges in respect of the Equity Shares allotted in this Issue.

SECTION 2: RISK FACTORS

Prospective investors should carefully consider the risks described below, in addition to the other information contained in this Red Herring Prospectus before making any investment decision relating to the Equity Shares. The occurrence of any of the following events could have a material adverse effect on the Bank's business, results of operation, financial condition and prospects and cause the market price of the Bank's Equity Shares to fall significantly and the investor may lose all or part of his/her investment.

Prior to making an investment decision, prospective investors should carefully consider all of the information contained in this Red Herring Prospectus, including the [restated financial statements] included in this Red Herring Prospectus beginning on page 138.

Unless otherwise stated in the relevant risk factors set forth below, the Bank is not in a position to specify or quantify the financial or other implications of any of the risks mentioned herein.

INTERNAL RISKS AND RISKS RELATED TO THE BANK'S BUSINESS

There is a criminal proceeding pending against the Bank and its officers

The Santacruz police have filed a criminal case (No 1203/P/98) against amongst others the Bank in the Metropolitan Magistrate's Court, Bandra, Mumbai. The case has been registered against the executives and officers of the Bank and the Bank itself alleging that the officers of the Bank opened fraudulent accounts on behalf of several fixed deposits account holders. The impact on the Bank if the case is determined against it cannot be quantified.

The Bank has incurred net losses in each of the last three fiscal years and may continue to incur losses.

The Bank has incurred a net loss in each of the last three financial years. In FY 2004, FY 2005 and FY 2006 the Bank's net losses amounted to Rs. 431.85 million, Rs. 729.89 million and Rs. 805.88 million respectively. These net losses were primarily on account of provisions taken in each period that related to the portfolio of impaired corporate assets existing prior to 2003. The Bank's interest income has also declined in each of the past five years.

Although the Bank is implementing its revitalization plan, it may not be successful and therefore may continue to incur losses.

The Bank is not in compliance with priority Sector lending requirements

The Bank is not in compliance with the priority sector advance norms stipulated by the RBI. The RBI requires that every bank should extend at least 40% of its net bank credit to priority sectors. The Bank is not in compliance with the same and as at March 31, 2006, the priority sector advances constituted 32.73% of its net bank credit. Further, the Bank is also not in compliance with the requirement to lend to the agriculture sector. The Bank has to make up the shortfall by investing in RBI stipulated instruments, which have a lesser yield than normal advances. Continuing failure to adhere to RBI stipulations could result in penalties and / or strictures from the RBI, thereby adversely affecting the Bank.

The Bank has resorted to write-offs in relation to certain non-performing assets on its balance sheet, which have been challenged in the Courts.

The Bank had written off an amount of Rs. 620.95 million out of the securities premium account after obtaining requisite approvals in the financial year 2004-2005. The same has been challenged by a shareholder of the Bank before the High Court of Judicature at Bombay, who has also filed a case for another writ from the court seeking to restraint the Bank from writing off NPAs aggregating Rs. 1061.20 million in the same financial year. A stay has been granted by the High Court of Judicature at Bombay restraining the Bank from affecting any future write- offs pending disposal of the petition. For further details please refer to the section titled "Outstanding Litigation and Material Developments" on page 196 of this Red Herring Prospectus. As a result of this write-off, the Bank has obtained certain tax benefits. If however, the court determines the case against the Bank, the Bank would be required to revers the said write off. However, there would be no financial impact on the Bank. Also refer to the qualification to the auditor's report in relation to the aforesaid litigation under the head "Financial Information- Auditor's Report" on page 136 of the Red Herring Prospectus.

The Bank has net negative cash flows

The Bank has had negaitive cash flows in FY 2004, FY 2005, FY 2006 of Rs. 71.52 million, Rs. 382.92 million and Rs. 577.04 million respectively. This will *inter alia* affect the Bank's ability to pay dividends in the future. Additionally in case there is no reversal of the situation in the future it could result in a liquidity crisis for the Bank.

The Bank's promoter, AKFED, intends to transfer Equity Shares at Rs. 10 to certain Shareholders

The Bank and the Promoter have entered into seperate subscription agreements dated February 16, 2006 (the "Agreement") with HDFC Limited, Khattar Holdings Pte Limited and Amtel Finance Limted (together, the "Investors". The Investors have subscribed to an agreement of 10,666,668 Equity Shares of the Bank at the price of Rs 45 each, comprising 14.01% of the share capital of the Bank. For further details please refer to chapter on "History and Certain Corporate Affairs - Investment by Private Equity Investors" on page 114 of this Red Herring Prospectus.

AKFED intneds to transfer 730,320 Equity Shares to the above mentioned Investors at the price of Rs. 10 per Equity Share. The intended transfer, subject to the appropriate regulatory approvals, would bring down the Investors effective cost of purchase of Equity Shares from Rs. 45 to Rs. 42.76. For further details please refer to the chapter on 'Capital Structure' on page 21 of this Red Herring Prospectus.

In order to promote growth, the Bank will need to maintain a minimum capital adequacy ratio.

The Bank is required to maintain a minimum capital adequacy ratio of 9.0% in relation to its total risk-weighted assets. It must maintain this minimum capital adequacy level to support its continuous growth. Under the prudential norms prescribed by RBI, the prescribed capital adequacy ratio requirement is 9%. The Bank's capital adequacy ratio, as at March 31, 2004, March 31, 2005, March 31, 2006 and Quarter ended June 30, 2006 was 9.50%, 9.54%, 9.66% and 9.39% respectively.

The Bank's ability to support and grow its business may be limited by a declining or stagnant capital adequacy ratio. In the recent past, amongst other reasons, capital adequacy constraints led to a decline in the Bank's total advances from Rs 27,169.90 million as on March 31, 2004 to Rs. 23,450.30 million as on March 31, 2005 and to Rs. 20,982.80 million as on March 31, 2006. In addition, these capital constraints have restricted the lines of credit available to the Bank, thereby adversely affecting its Treasury operations.

The Bank's future growth plans may be restricted by inadequate liquidity.

To ensure the growth of its consumer and commercial banking business in line with its strategy, the Bank will need to ensure that its liquidity requirements are met through credit lines and borrowings. If it is unable to obtain adequate credit on commercially viable terms and conditions, its growth plans and income will be constrained.

The Bank may be unable to sustain the growth rate of its retail banking business.

The retail banking business of the Bank has achieved significant growth in net advances in recent years. Between March 31, 2005 and March 31, 2006, the net advances of the retail banking business grew from Rs. 5,807.83 million to Rs. 6,977.40 million. As at March 31, 2006, consumer loans represented 35.25% of total outstanding credit of the Bank. The present business strategy reflects continued focus on further growth in this segment. The Bank proposes to grow its income from this segment by offering new products and services and by cross-selling to its customers. While the Bank anticipates continued demand in this area, there can be no assurance that the retail portfolio will continue to grow at the rates that have been recently experienced.

The Bank's results of operations depend to a great extent on its net interest income, and volatility in interest rates and other market conditions could adversely impact the Bank's business and financial results.

In FY 2006, net interest income represented 27.13% of the Bank's interest income and 21.04% of its total income. Volatility and changes in market interest rates could affect the interest that the Bank earns on its assets differently from the interest it pays on its liabilities. The difference could result in an increase in interest expense relative to interest income leading to a reduction in the Bank's net interest income. Accordingly, volatility in interest rates could adversely affect the Bank's business and financial performance. An increase in interest rates may also adversely affect the rate of growth of important sectors of the Indian economy such as the corporate, retail and agricultural sectors, which may adversely impact the Bank's business.

Interest rates are sensitive to many factors beyond the Bank's control, including RBI's monetary policy, deregulation of the financial sector in India, domestic and international economic and political conditions and other factors. On January 24, 2006 the reverse repo rate (which is the overnight rate at which commercial banks place funds with RBI) was raised from 5.25% to 5.50% and with effect from July 25, 2006 rate was raised to 6%.

Under the regulations of RBI, the Bank is required to maintain a minimum specified percentage, currently 25.0% (Statutory Liquidity Ratio), of its net demand and time liabilities in cash, government or other approved securities with RBI. As of March 31, 2006, 31.21% of the Bank's net demand and time liabilities and 80.54% of the Bank's total investments were in cash, government and other approved securities. Yields on these investments, as well as yields on the Bank's other interest earning assets, are dependent to a large extent on interest rates. In a rising interest rate environment, especially if increase was sudden or sharp, the Bank could be adversely affected by the decline in the market value of its government securities portfolio and other fixed income securities and may be required to further provide for depreciation in the "Available for Sale" and "Held for Trading" categories. As on March 31, 2006, the Bank had 22.33% of its investments in Held for Trading category, 28.38% in the Available for Sale category and 49.29% in the "Held to Maturity" category.

The Bank has substantial activity in priority sectors and its business could be adversely affected by market and other factors, which impact these sectors.

The Bank has substantial exposure to loans and advances to priority sectors. The RBI requires that every bank should extend at least 40% of its net bank credit to priority sectors. As at March 31, 2006, priority sector credit constituted 32.73%of the net bank credit, of which loans to agricultural and small-scale industry borrowers constituted 10.63% and 6.32%, respectively, of the net bank credit. As at March 31, 2006, the percentage of the Bank's priority sector gross non-performing assets to total priority sector advances was 9.85%. As at March 31, 2006, the percentage of the agricultural gross non-performing assets to total agricultural advances was 0.05% and the ratio of the small-scale industry gross non-performing assets to total small-scale industry advances was 40.27%. In the event of failure to comply with the statutory mandated minimum the Bank is required to invest such shortfall in RBI designated instruments. However, the Bank earns lower interest on these instruments than those for the priority sector portfolio.

The Bank could be subject to volatility in income from its integrated treasury operations that may adversely impact its financial results.

Approximately 38.63% of the Bank's total income in financial year 2005, 35.10% of the total income in March 31, 2006 and 30.93% of the total income for the quarter ended June 30, 2006 was derived from integrated treasury operations. Treasury operations are vulnerable to changes in interest rates, exchange rates, equity prices and other factors. In particular, if interest rates rise, the Bank may not be able to realize the same level of income from treasury operations as it has in the past. Any decrease in income from treasury operations could adversely affect the Bank's business if it is unable to offset the same by increasing returns on loan assets.

The Bank faces significant challenges in its new businesses.

The Bank proposes to diversify its products and services, especially in the consumer banking sector. For example, the Bank distributes mutual funds and life and general insurance policies. As part of its strategy, the Bank proposes to focus on the distribution and sale of new products such as gold related asset products, loan against property with part-overdraft, vehicle loans to reduce interest cost and overdraft facility on debit cards to enhance its fee-based revenues and net interest margins. However, the distribution and sale of new products such as these may not be profitable in the initial years of operation and are subject to start-up risks as well as general risks and costs associated with the respective businesses, which may limit the growth of this revenue stream.

The Bank has been dependent on its Promoter for infusion of capital.

The Bank has in the past been dependent on its Promoter for the infusion of funds into the Bank for the purposes of meeting various operational and regulatory requirements. The Promoter also being a dominant shareholder exercises management control over the Bank. There can be no guarantee that the Promoter will infuse funds into the Bank when required. Further, in the event permission from the RBI is required for such infusion there can be no assurance that such permission will be granted, and as a result, the Bank's ability to expand may be adversely affected to that extent.

The Bank is concentrated in certain regional centres, primarily Maharashtra, Andhra Pradesh and Gujarat and is primarily dependent on the economy of these sectors.

The Bank's business is concentrated in certain regional centers, primarily in Maharashtra (especially in Mumbai), Andhra Pradesh and Gujarat. As at June 30, 2006 branches, comprising approximately 76% of the total branches of the Bank were located in these regions and approximately 77.88% of the Bank's loans and advances were from these branches. Further, as at March 31, 2006, 26 branches, comprising approximately 39 % of the total branches were located in Mumbai and approximately 52.96% of the Bank's loans and advances were from branches located in Mumbai. The concentration of assets in Mumbai exposes the Bank more acutely to any adverse economic, political or environmental developments in Mumbai. If there is a sustained downturn in the economy of Maharashtra, Andhra Pradesh or Gujarat, the Bank's financial condition and results of operations may be affected.

The Bank has a concentration of loans to certain customers and to certain groups of customers and credit losses from these customers or groups could adversely affect its business and financial condition.

As at March 31, 2006, the Bank's total exposure was Rs. 28,960.0 million, which includes outstanding funded exposure and non-funded exposure. The Bank's exposure to its 10 largest borrowers in the aggregate accounted for approximately 10.07% of its total exposure as at March 31, 2006. The Bank's exposure to its largest single borrower as at March 31, 2006 accounted for approximately 1.69% of its total exposure and 19.17% of the capital funds (comprising Tier I and Tier II capital as defined in Indian banking regulations). The Bank's exposure to its largest borrower group (excluding food credit) as at March 31, 2006 accounted for approximately 2.96% of the total exposure and 38.54% of its capital funds. Credit losses on these large borrowers and group exposures could adversely affect the Bank's business and financial condition.

The Bank's internal policies limit its credit exposure to various industries. The maximum permissible exposure across all industries is to the infrastructure sector, which is 25% of total permissible exposure of the Bank as at March 31, 2006. The top five industries accounted for 37.24% and 51.20% of the Bank's total exposure as at March 31, 2005 and March 31, 2006 respectively. Based on fund based outstanding exposures as at March 31, 2006, the five largest industry exposures were to the finance, infrastructure, wholesale trade, chemicals and engineering and which in the aggregate constituted 30.92% of the total fund based exposures in respect of accounts larger than Rs. 10 million. Financial difficulties in these industries could adversely affect the Bank's business and financial condition.

The Bank's low grade borrowers could be vulnerable to worsening in economic conditions or slowing down of economic growth rates, which could adversely affect the Bank's business and financial condition

As at March 31, 2006, 71.63% of the Bank's rated advances were to borrowers that it rates as of "AA" grade and "A" grade, which is considered by it to be the highest grade. As at March 31,2006, 28.36% of the rated advances were to borrowers that the Bank rates as being in the moderate safety grade of "BBB". 25.50% of total advances as on March 31,2006 are rated and 74.50% of total advances are unrated as 50% of our total advance portfolio is in Retail Segment which is not rated.

If the Bank is not able to reduce the level of non-performing assets, the business and financial condition may be adversely affected. The Bank's net non-performing assets were Rs. 839.60 million as at March 31, 2006, representing 4.50% of net advances. The Bank's net non-performing assets were 4.05% of the net advances as at June 30, 2006.

The Bank has had a high level of non-performing assets (NPAs) and has been actively recognizing these NPAs, providing for them in its accounts and managing its NPA exposure. Since FY 2002, the Bank has recognised most of its non-performing assets and as a result the gross non-performing assets have increased from Rs. 2154.50 million as at March 31, 2002, representing 9.09% of gross advances to Rs. 3,149.20 million as at March 31, 2006 representing 15.01% of its gross advances.

In the last three years, the Bank has been able to reduce its net non-performing assets through recoveries, write-offs of non-performing assets and additional provisioning. However, the Bank's ability to continue to reduce or contain the level of gross non-performing assets may be affected by a number of factors that are beyond its control, including, for example, increased competition, a recession in the economy including specific industries to which the Bank is exposed, decreases in agricultural production, declines in commodity and food grain prices, adverse fluctuations in interest and exchange rates or adverse changes in Government policies, laws or regulations. In addition, the expansion of the Bank's business may also cause the level of the non-performing assets to increase. Although the Bank's loan portfolio contains loans to a wide variety of businesses, financial difficulties in these industries could increase the level of non-performing assets and adversely affect its business, financial condition and results of operations.

As of March 31, 2006, approximately 38.00% of the Bank's gross industrial sector non-performing asset portfolio was concentrated in the following industries:

(Rs. In million)

Industry (Top Five)	Balance Outstanding	Gross NPAs
Chemicals, Dyes etc.	842.50	325.30
Rubber	370.20	313.60
All Engineering	499.30	227.80
Textiles – Others	386.30	190.20
Cement	268.60	140.00
Total	**2,366.90**	**1,196.90**

These industries together constituted 11.28%of the total advances as at March 31, 2006. Although the Bank's loan portfolio contains loans to a wide variety of businesses, financial difficulties in these industries could increase the level of non-performing assets and adversely affect its business and financial condition.

Dilutive effect of the ESOP Plan on Equity Shares of the Bank

The Bank is authorized to issue 71,500,000 Equity Shares of the issued capital for the purpose of the IPO. The Bank has formulated an ESOP plan, pursuant to which the Bank has granted. 2,917,000 options. The ESOP Plan provides for a vesting period of 3 years after date of grant. The exercise of these options would increase the equity capital of the Bank and would dilute the earnings per share of the Bank and may affect future trading value of Equity Shares.

The shareholders in the Annual General Meeting held on Spetember 11, 2006 have approved a resolution providing additional 3% of equity to be reserved for ESOPs subject to obtaining all requsite approvals /compliances. For further details regarding the ESOP plan, refer to page 28 of this Red Herring Prospectus.

The Bank may experience delays in enforcing its collateral when borrowers default on their obligations to the Bank, which may result in the inability of the Bank to recover the expected value of the collateral.

The Bank takes collateral for a large proportion of its loans, including mortgages, pledge/hypothecation of inventories, receivables and other current assets, and in some cases, charges on fixed assets and financial assets, such as marketable securities including appropriate margins. As at March 31, 2006, 71.23% of net advances were secured by tangible assets, such as properties, plant and machinery, inventory, receivables, and other current assets. Foreclosure of such securities may require court or tribunal intervention that may cause delay leading to deterioration in quality and value of such securities. Therefore, the Bank may not be able to realize the full value of securities in all cases.

A loan advanced to a firm in which a director of the Bank is interested is classified as a NPA

The Bank had advanced a sum of Rs. 2.5 million to Bombay Enterprises, a proprietary concern of Habibulla A.Merchant., The proprietor is the brother of one of the directors of the bank, Mr. Amirali A. Sabuwala. The sub standard facility in Bombay Enterprises has been restructured in January 2006 into a loan under Easy Business in the name of its proprietor, Habibulla A. Merchant, since the firm was affected by floods in July, 2005. The same will need to be paid in 84 monthly installments.

Risks associated with pending registration of trademarks.

The Bank has not yet obtained registration of some of its trademarks and applications for registration are pending. In respect of DCB with the logo application for registeration in the service marks class is pending.

Significant security breaches in the Bank's computer systems and network infrastructure, fraud and system failures could adversely impact its business.

The Bank seeks to protect its computer systems and network infrastructure from physical break-ins as well as from security breaches and other disruptive problems. Computer break-ins and power disruptions could affect the security of information stored in and transmitted through these computer systems and networks. The Bank has implemented a basic Internet banking platform and is aware that these concerns will intensify with increased use of technology and Internet-based resources. The Bank employs security systems, including firewalls and intrusion detection systems, conducts periodic penetration testing for identification and assessment of potential vulnerabilities and uses encryption technology (such as passwords) for transmitting and storing critical data to address these issues and to minimize the risk of security breaches. However, these systems may not guarantee prevention of frauds, break-ins, damage and failure. A significant failure in security measures could have an adverse effect on the business of the Bank.

Further, with the implementation of Finacle and other technology initiatives, the importance of technology to the Bank's business has increased significantly. Each of the delivery channels including branches, ATMs and Internet banking is vulnerable to system failures or other calamities. Any failure in the systems, particularly those utilized for the Bank's retail products and services and transaction banking, or the occurrence of calamities such as earthquakes, tsunamis and cyclones that affect areas in which the Bank has a significant presence, could affect operations and the quality of customer service.

The Bank's success depends to a large extent upon its senior management and key personnel and its ability to attract and retain them.

The Bank is highly dependent on the senior management of the Bank. The Bank's future performance will be affected by the continued service of these persons. Competition in the industry for senior management personnel is intense and the Bank may not be able to retain such senior management personnel. The loss of any of the members of its senior management or other key personnel may adversely affect the Bank's business, results of operations and financial condition.

The Bank is involved in a number of legal proceedings that, if determined against it, could have a material adverse impact on the Bank.

There are 37 civil cases filed against the Bank for disputes relating to interest imposed, negligence, recovery of money, guarantees, letters of credit, and 11 suits/writ petitions filed by employees/ex-employees pending against the Bank, in which the aggregate amount claimed is Rs. 121.19 million. There are also three proceedings before the Banking Ombudsman against the Bank, aggregating Rs. 10.67 million.

There are 1008 cases filed by the Bank relating to property, frauds, recovery suits issuing money against forged cheques etc. The total amount claimed in these cases aggregates Rs. 2542.36 million.

The information on the above cases is given as of September 11, 2006. The Bank may incur substantial liability if the courts rule against it in these cases. For details of these cases, please refer to the section titled "Outstanding Litigation and Material Developments" beginning on page 196 of this Red Herring Prospectus.

The Bank has tax disputes which will adversely affect the Bank, if determined against it

The Bank has 17 disputes pending before various tribunals aggregating Rs. 1191.90 million (excluding interest thereon). The Bank will incure substantial liability if the said cases are decieded against the Bank. For further details please refer to the section titled "Outstanding Litigation and Material Developments" beginning on page 196 of this Red Herring Prospectus.

The Bank's contingent liabilities could adversely affect its financial condition.

As at March 31, 2006, the Bank had contingent liabilities not provisioned for amounting to Rs. 30,010.26 million, details of which are as follows:

(Rs. In million)

Particulars	Amount
Forward Exchange Contracts	19,530.64
Derivative Contracts	1,675.88
Guarantees given on behalf of constituents (in and outside India)	3,594.46
Acceptances, endorsements and other obligations	4,088.41
Claims against the bank not acknowledged as debts	1,081.60
Other obligations	39.27
Total	**30,010.26**

Of the above the foreign exchange contracts, derivative contracts, guarantees and acceptance and endorsements are contingent liabilities arising in the ordinary course of business.

If the contingent liabilities materialize, fully or partly, the Bank's financial condition and results of operations could be adversely affected. For further details please refer to section titled "Outstanding Litigation and Material Developments" beginning on page 196 of this Red Herring Prospectus.

Implementation of Basel II norms by RBI may increase the Bank's capital requirements and may require additional investment in risk management systems.

Basel II is the international capital adequacy framework for banks, which prescribes minimum capital requirements for market risk and operational risk in addition to the requirement of minimum capital for credit risk. The capital requirements are expected to increase when Basel II standards are implemented by RBI. The Bank may need to augment its capital base to meet these norms. The Bank's ability to support and grow its business may be limited by a declining or stagnant capital adequacy ratio if it is unable to or has difficulty accessing the capital markets or has difficulty obtaining capital in any other manner and it may be liable to penalty under various banking provisions. In Annual Policy Statement for the year 2006-07, the RBI increased requirements for provisioning on Standard Advances from 0.40% to 1.00% in respect of personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lacs and commercial real estate loans in phases over a year and in respect of direct exposure to finance, SME and agriculture sector same shall be provided @ 0.25%.Credit risk and operational risk management measures, as per Basel II norms, will be implemented as directed by the RBI, by March 31, 2007. While the Bank is in the process of adopting the recommendations, if it is required to implement the Basel II standards before it is ready to implement those standards, it could adversely impact the Bank's business and financial performance.

The Bank is required to maintain cash reserve and statutory liquidity ratios and increases in these requirements could adversely affect the Bank's business.

As a result of the statutory reserve requirements stipulated by the RBI, the Bank may be more exposed structurally to interest rate risk than banks in many other countries. Under RBI regulations, the Bank is subject to a cash reserve ratio requirement under which the banks are currently required to maintain 5.00% of their net demand and time liabilities in a current account with the RBI. RBI may increase the cash reserve ratio requirement as a monetary policy measure. With effect from June 24, 2006, in line with RBI guidelines the Bank does not earn interest of the cash reserves maintained with the RBI. On the remaining cash reserves held with RBI, the Bank earns interest at rates (currently at 3.5% per annum) that are less than those for retail and corporate loan portfolio. In addition, under the RBI regulations, the Bank's liabilities are subject to a statutory liquidity ratio requirement, according to which 25% of its net demand and time liabilities need to be invested in GoI securities, state government securities and other approved securities. Increases in cash reserve ratio and statutory liquidity ratio requirements could adversely affect the Bank's business and financial performance.

There are operational risks associated with the banking industry which, when realised , may have an adverse impact on the Bank's results.

The Bank is exposed to many types of operational risk, including the risk of fraud or other misconduct by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. Given the high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, the Bank's dependence upon automated systems to record and process transactions may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. The Bank may also be subject to disruptions of its operating systems, arising from events that are wholly or partially beyond its control (including, for example, computer viruses or electrical or telecommunication outages), which may lead to a deterioration in customer service and to loss or liability to the Bank.

The Bank also outsources some functions to other agencies and is exposed to the risk that external vendors may be unable to fulfill their contractual obligations to the Bank (or that the external vendors will be subject to the same risk of fraud or operational errors by their respective employees as is the Bank), and to the risk that its (or its vendors') business continuity and data security systems may prove to be inadequate. The Bank also faces the risk that the design of its controls and procedures may prove inadequate, or may be circumvented, thereby causing delays in detection or errors in information. Although the Bank maintains a system of controls designed to keep operational risk at appropriate levels, there can be no assurance that the Bank will not suffer losses from operational risks in the future that may be material in amount. For a discussion of how operational risk is managed see the section titled "Business – Risk Management – Operational Risk" on page 61 of this Red Herring Prospectus.

The percentage holding of shareholders may be diluted by additional issuances of equity and any dilution may adversely affect the market price of the Equity Shares.

The Bank may undertake additional equity offerings to finance future growth. Further, RBI, while granting the approval for the Issue, has stipulated that the holding of AKFED, the Promoter, should be reduced to 10% within one year from the date of listing of the Equity Shares in the IPO i.e. March 31, 2007. In order to comply with the same, we may issue additional equity shares and/or convertible instruments or otherwise reduce AKFED's shareholding. See chapter on Other Regulatory and Statutory Disclosures on page 211 of this Red Herring Prospectus. Such future issuance of Equity Shares could dilute the percentage holding of the shareholders of the Bank and could adversely affect the market price of the Equity Shares.

Investors will be subject to market risks until the Equity Shares are credited to their demat account.

Investors can commence trading in the Equity Shares allotted only after they have been credited to their demat account and necessary Stock Exchange approvals have been received. Under the current regulations, the Bank is required to credit the demat account of the investor within 15 days of the Bid/Issue Closing Date, failing which interest at 15% per annum for any delay beyond this period is required to be paid. Further, there can be no assurance that the Equity Shares allocated will be credited to the demat account of the investor, or that trading in the Equity Shares will commence, in a timely manner. This risk factor is for the information of investors and it does not in any way dilute the right of investors and the Bank's obligations.

A significant reduction in the Bank's credit rating could adversely affect the Bank's ability to raise capital and therefore affect its business, financial condition and results of operations

The Bank's certificate of deposits are rated P1+ by CRISIL for Certificate of Deposit Scheme and (A minus(ind)) for subordinated debt by Fitch. A downgrade in the Bank's credit rating may negatively affect its ability to obtain funds and may increase financing costs by increasing the interest rates of its outstanding debt or the interest rates at which the Bank is able to refinance existing debt or incur new debt, which may adversely affect the Bank's business, financial condition and results of operations.

The Bank faces greater credit risks than banks in developed economies.

The Bank faces higher credit risk because most of its borrowers are based in India. Unlike several developed economies, a nation-wide credit bureau has become operational in India only recently. This may affect the quality of information available to the Bank about the credit history of its borrowers, especially individuals and small businesses. In addition, the credit risk of its borrowers, particularly small and middle market companies, is higher than borrowers in more developed economies due to the greater uncertainty in the Indian regulatory, political, economic and industrial environment and the difficulties of many of the borrowers to adapt to global technological advances. Also, several of the borrowers suffered from low profitability because of increased competition from economic liberalization, a sharp decline in commodity prices, a high debt burden and high interest rates in the Indian economy at the time of their financing, and other factors. This may lead to an increase in the level of its non-performing assets and there could be an adverse impact on the Bank's business, its future financial performance, the shareholders' funds and the price of its Equity Shares.

The Bank competes directly with banks that are much larger than it.

The Bank faces strong competition in all of its principal lines of business and many of its competitors are much larger. The primary competitors are certain of the public sector banks, other private sector banks, foreign banks and, in some product areas, non-banking financial institutions, which generally have much larger deposit bases, more capital and larger customer bases than the Bank does. Due to competitive pressures, the Bank may be unable to successfully execute its growth strategy and offer products and services at reasonable returns, which may impact its business, financial condition and results of operations.

Any inability to attract and retain talented professionals may adversely impact the Bank's business

Attracting and retaining talented professionals is a key element of the Bank's strategy and the Bank believes it to be a significant source of competitive advantage. See 'Business – Strategy' on page 61 and 'Business – Employees' on page 90 of the Red Herring Prospectus. The Bank's inability to attract and retain talented professionals or the loss of key management personnel could have an impact on its business, its future financial performance and the price of its Equity Shares.

EXTERNAL RISK FACTORS

The Indian and global banking industry is very competitive and the ability of banks to grow depends on their ability to compete effectively.

In India, the Bank competes with public and private sector Indian commercial banks as well as with foreign commercial banks. Many of the Bank's competitors in India and internationally are large institutions, which may have much larger customer and deposit bases, larger branch networks and more capital than the Bank. Some of the banks with which the Bank competes may be more flexible and better positioned to take advantage of market opportunities than it. In particular, private banks in India and many of the Bank's competitors outside of India may have operational advantages in implementing new technologies, rationalizing branches and recruiting employees through incentive-based compensation.

Both the Indian and global financial sector may experience further consolidation, resulting in fewer banks and financial institutions. The Government has also announced measures that would permit foreign banks to establish wholly-owned subsidiaries in India and invest up to 74% in Indian private sector banks, which is likely to further increase competition in the Indian banking industry. RBI has introduced a two-phase road map for allowing ownership of private banks in India by foreign banks. In the first phase up to March 2009, foreign banks are permitted to convert existing branches into wholly owned subsidiaries or acquire shares in select Indian private sector banks that are identified by RBI for restructuring up to the limit of 74%. In the second phase from April 2009, subject to guidelines that will be issued by RBI, foreign banks will be permitted to undertake merger and acquisition transactions with private sector banks within an overall investment limit of 74%, thus enabling consolidations between foreign banks and private sector banks. Therefore, the Bank may face more competition from larger banks as a result of any such consolidation.

The Government is also encouraging banks and other financial institutions to significantly increase their lending to the agriculture sector, which will make this segment more competitive.

These competitive pressures affect the Indian and international banking industry as a whole, including the Bank, and the Bank's future success will depend in large part on its ability to respond in an effective and timely manner to these competitive pressures.

A slowdown in economic growth in India could cause the Bank's business to suffer.

Any slowdown in the Indian economy or volatility of global commodity prices, in particular that of oil, could adversely affect the Bank's borrowers and contractual counterparties. Because of the importance of the Bank's commercial banking operations for retail customers and, any slowdown in the growth of the housing, automobiles and agricultural sectors could adversely impact the Bank's business, including the ability to grow its asset portfolio, the quality of its assets, its financial performance, its shareholders' funds, its ability to implement its strategy and the price of its Equity Shares.

Exchange rate fluctuations may have an impact on the Bank's financial performance.

As a financial organization the Bank is exposed to exchange rate risk. Adverse movements in foreign exchange rates may impact the Bank's business, its future financial performance, its shareholders' funds and the price of its Equity Shares. In addition, the Bank's financial statements are denominated in Rupees while the functional currencies of its international operations are foreign currencies. Accordingly, the financial performance of these international operations when translated into Rupees may from time to time be adversely impacted by exchange rate movements.

A significant change in the GoI's economic liberalization and deregulation policies could adversely affect the Bank's business and the price of its Equity Shares.

The Bank's assets and customers are predominantly located in India. The Indian Government has traditionally exercised and continues to exercise a dominant influence over many aspects of the economy. Government policies could adversely affect business and economic conditions in India, the Bank's future financial performance, its shareholders' funds and the price of its Equity Shares.

If regional hostilities, terrorist attacks or social unrest in some parts of the country increase, the Bank's business and the price of its Equity Shares could be adversely affected.

India has from time to time experienced social and civil unrest and hostilities both internally and with neighboring countries. In the past, there have been military confrontations between India and Pakistan. India has also experienced terrorist attacks in some parts of the country. These hostilities and tensions could lead to political or economic instability in India and adversely affect the Bank's business, financial condition and results of operations and the price of its Equity Shares.

Trade deficits could adversely affect the Bank's business and the price of the Bank's Equity Shares.

India's trade relationships with other countries and its trade deficit, driven to a major extent by global crude oil prices, may adversely affect Indian economic conditions. If trade deficits increase or are no longer manageable because of the rise in global crude oil prices or otherwise, the Indian economy, and therefore the Bank's business, its financial performance, shareholders' funds and the price of its Equity Shares could be adversely affected.

Natural calamities could adversely affect the Indian economy, the Bank's business and the price of its Equity Shares.

India has experienced natural calamities like earthquakes, floods and drought in the past few years. The extent and severity of these natural disasters determine their impact on the Indian economy. For example, in FY 2003, many parts of India received significantly less than normal rainfall. As a result of the drought conditions in the economy during FY 2003, the agricultural sector recorded a negative growth of 7.0%. Also, the erratic progress of the monsoon in FY 2005 adversely affected sowing operations for certain crops and resulted in a decline in the growth rate of the agriculture sector from 9.1% in fiscal 2004 to 1.1% in fiscal 2005. Further prolonged spells of below or above normal rainfall or other natural calamities could adversely affect the Indian economy, the Bank's business, financial condition and results of operations and the price of its Equity Shares.

Financial difficulty and other problems in certain financial institutions in India could adversely affect the Bank's business and the price of its Equity Shares.

As an Indian bank, the Bank is exposed to the risks of the Indian financial system which may be affected by the financial difficulties faced by certain Indian financial institutions because the commercial soundness of many financial institutions is closely related as a result of credit, trading, clearing or other relationships. This risk, which is sometimes referred to as "systemic risk", may adversely affect financial intermediaries, such as clearing agencies, banks, securities firms and exchanges with which the Bank interacts on a daily basis. Any such difficulties or instability of the Indian financial system in general could create an adverse market perception about Indian financial institutions and banks and adversely affect the Bank's business, its future financial performance, the shareholders' funds and the price of its Equity Shares. See also "The Indian Banking Sector" on page 45. As the Indian financial system operates within an emerging market, it faces risks of a nature and extent not typically faced in more developed economies, including the risk of deposit runs notwithstanding the existence of a national deposit insurance scheme. Any failure to control such situations in the future could result in high volumes of deposit withdrawals that could adversely impact the Bank's liquidity position.

A decline in India's foreign exchange reserves may affect liquidity and interest rates in the Indian economy that could adversely impact the Bank.

A decline in India's foreign exchange reserves could result in reduced liquidity and higher interest rates in the Indian economy, which could adversely affect the Bank's business, its future financial performance, its shareholders' funds and the price of its Equity Shares. See also "Internal Risk Factors" on page X.

Any downgrading of India's debt rating by an international rating agency could adversely affect the Bank's business and the price of its Equity Shares.

Any adverse revisions to India's credit ratings for domestic and international debt by international rating agencies may adversely affect the Bank's business, its future financial performance, the shareholders' funds and the price of its Equity Shares.

The Bank is exposed to certain risks of the Indian financial system and could be impacted by the financial difficulties of other financial institutions in India.

The Bank is exposed to the risks of the Indian financial system, which in turn may be affected by financial difficulties, and other problems faced by Indian financial institutions. As an emerging market system, the Indian financial system faces risks of a nature and extent not typically faced in developed countries. Additionally, the credit risk of borrowers in India is higher than in more developed countries. India's nationwide credit bureau is still developing, which may affect the quality of information available to the Bank about the credit history of its borrowers, especially individuals and small businesses.

Certain Indian financial institutions have experienced difficulties during recent years. Some co-operative banks have also faced serious financial and liquidity crises. The problems faced by individual Indian financial institutions and any instability in or difficulties faced by the Indian financial system generally could create adverse market perception about Indian financial institutions and banks. This in turn could adversely affect the Bank's business, financial condition and results of operations.

Regulatory changes or enforcement initiatives in India may adversely affect the Bank's business and the price of its Equity Shares.

The Bank is subject to a wide variety of banking and financial services laws and regulations. The laws and regulations or the regulatory or enforcement environment may change at any time and may have an adverse effect on the products or services the Bank offers, the value of its assets or its business in general. Also, the laws and regulations governing the banking and financial services industry have become increasingly complex governing a wide variety of issues, including interest rates, liquidity, capital adequacy, securitization, investments, ethical issues, money laundering, privacy, record keeping, and marketing and selling practices, with sometimes overlapping jurisdictional or enforcement authorities. In its mid-term review of the annual policy statement for FY 2005, the RBI increased the risk weight for the computation of capital adequacy from 50% to 75% in the case of housing loans and from 100% to 125% in the case of consumer credit (including personal loans and credit cards) as a temporary counter-cyclical measure. In April 2005, the RBI issued draft guidelines on securitization of standard assets, which, implemented in their present form would require a significantly higher level of capital to be maintained for securitized assets and may have an adverse impact on the Bank's business, capital adequacy and financial performance. In July 2005, the Reserve Bank of India increased the risk weight for capital market exposure and exposure to commercial real estate from 100% to 125 In Annual Policy Statement for the year 2006-07, the RBI increased requirements for provisioning on Standard Advances from 0.40% to 1.00% in respect personal loans, loans and advances qualifying as capital market exposures, residential hosuing loans beyond Rs.20 lacs and commercial real estate loans in phases over a year and in respect of direct exposure to finance, SME and agriculture sector same shall be provided @ 0.25%. Any change in the directed lending norms may result in the Bank's inability to meet the priority sector lending requirements as well as require it to increase its lending to relatively riskier segments and may result in an increase in non-performing assets in the directed lending portfolio. Future changes in laws and regulations and failure or the apparent failure to address any regulatory changes or enforcement initiatives could have an adverse impact on the business of the Bank and its future financial performance, subject it to penalties, fines, disciplinary actions or suspensions of any kind, or increase its risk of litigation and have an adverse effect on the price of its Equity Shares.

There are a number of restrictions under the Banking Regulation Act, which impede the Bank's operating flexibility and affect or restrict investors' rights. These include the following:

- Section 15(1) of the Banking Regulation Act, states that "no banking company shall pay any dividend on its shares until all its capitalised expenses (including preliminary expenses, organisation expenses, share-selling commission, brokerage, amount of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off."
- Section 12(2) of the Banking Regulation Act, states that "no person holding shares in a banking company shall exercise voting rights on poll in excess of 10.0% of the total voting rights of all the shareholders of the banking company."

- The forms of business in which the Bank (directly or through subsidiaries) may engage are specified and regulated by the Banking Regulation Act. Pursuant to the provisions of section 8 of Banking Regulation Act, the Bank cannot directly or indirectly deal in the buying, selling or bartering of goods by itself or for others, except in connection with the realization of security given to it or held by it, or in connection with bills of exchange received for collection or negotiation, or in connection with the administration of estates as executor, trustee or otherwise, or in connection with any business specified under Section 6(1)(o) of the Banking Regulation Act. Goods for this purpose means every kind of movable property, other than actionable claims, stocks, shares, money, bullion and specie and all instruments referred to in Section 6(1)(a) of Banking Regulation Act. Unlike a company incorporated under the Companies Act, which may amend the objects clause of its Memorandum of Association to commence a new business activity, banking companies may only carry on business activities permitted by Section 6 of the Banking Regulation Act or specifically permitted by the Reserve Bank of India. This may restrict the Bank's ability to pursue profitable business opportunities as they arise.
- Section 17(1) of the Banking Regulation Act requires every banking company to create a Reserve Fund and to transfer out of the balance of the profit of each year as disclosed in the profit and loss account a sum equivalent to not less than 20% of such profit before paying any dividend.
- Section 19 of the Banking Regulation Act restricts the opening of subsidiaries by banks, which may prevent the Bank from exploiting emerging business opportunities. Similarly, Section 23 of the Banking Regulation Act contains certain restrictions on banking companies regarding the opening of new places of business and transfers of existing places of business, which may hamper its operational flexibility.
- Section 25 of the Banking Regulation Act requires each banking company to maintain assets in India equivalent to not less than 75% of its demand and time liabilities in India, which in turn may restrict the Bank from building overseas asset portfolios and exploiting overseas business opportunities.
- The Bank is required to obtain approval of the Reserve Bank of India for the appointment and remuneration of Bank's Chairman, Managing Director and other wholetime directors. The Reserve Bank of India has powers to remove managerial and other persons from office, and to appoint additional directors. The Bank is also required to obtain approval of the Reserve Bank of India for the creation of floating charges for its borrowings, thereby hampering leverage. The Banking Regulation Act also contains provisions regarding production of documents and availability of records for inspection.
- A compromise or arrangement between the Bank and its creditors or any class of them or between it and its shareholders or any class of them or any modification in such arrangement or compromise will not be sanctioned by any High Court unless such compromise or arrangement or modification, as the case may be, is certified by the RBI in writing as not being incapable of being implemented and as not being detrimental to the interests of its depositors. Amalgamation of the Bank with any other banking company will require the sanction of the RBI and shall be in accordance with the provisions of the Banking Regulation Act. The provisions for winding-up of banking companies as specified in the Banking Regulation Act are at variance with the provisions of the Companies Act. Further, the RBI can also apply for winding up of a banking company in certain circumstances and can also be appointed as the liquidator and the Government of India has powers to acquire the undertakings of banking companies in certain cases.
- The Bank is required to prepare its balance sheet and profit and loss account in the forms set out in the Third Schedule to the Banking Regulation Act or as near thereto and subject to and in accordance with the other provisions of the Banking Regulation Act read with the Companies Act, 1956. Subject to and on account of laws governing banking companies, the financial disclosures in the Offer Document may not be available to the investors on a continuous basis after listing.
- Under Section 12(1) (ii) of the Banking Regulation Act, 1949, a banking company is not permitted to issue preference shares. Accordingly, the inability to issue preference shares limits the flexibility of the Bank in raising resources.

For more information see "Regulations and Policies" on page 91 of this Red Herring Prospectus.

Limit on permitted levels of foreign ownership of Banks in India.

Pursuant to the Government of India's Press Note No.2 of 2004 dated March 5, 2004 and the Guidelines on Ownership and Governance of Private Sector Banks issued by the RBI on February 28, 2005 (the "Ownership Guidelines"), the aggregate foreign investment in a private sector bank from all sources (including foreign direct investment ("**FDI**"), registered foreign institutional investors ("**FIIs**") and non-resident Indians ("**NRI**s)) is permitted up to 74% of its share capital. See the Chapter titled "Regulation and Policies" on page 91 of this Red Herring Prospectus. As at March 31, 2006, the level of aggregate foreign investment in the Bank from all sources (i.e. FDI, FIIs and NRIs) was 67.79%.

The Ownership Guidelines may require a reduction in shareholding by some of the Bank's major shareholders, which may place downward selling pressure on the market value of the Shares

The Ownership Guidelines have also set out a framework for ensuring that no single entity or group of related entities holds or controls, directly or indirectly, in excess of 10% of the paid-up share capital of an Indian bank. The Ownership Guidelines require any bank in respect of which any individual entity or group of related entities holds or controls in excess of 10% of its paid-up share capital to submit for the consideration and approval of the RBI a timetable for the reduction of the relevant shareholding(s) to the 10% level or below. In addition, the Ownership Guidelines require banks that hold in excess of the 5% paid-up capital in another bank to submit for the consideration and approval of the RBI a "timebound plan" for the reduction of their holding to the 5% level or below. The Ownership Guidelines provide that in the case of the restructuring of problem or weak banks, the RBI may permit a higher level of shareholding than 10% (including shareholdings above the 10% level which are held by other banks). The Bank's present shareholding pattern has been permitted by the RBI. However, the Ownership Guidelines may require large shareholders of the Bank to reduce their shareholding as provided therein. This may have an impact on the Bank's shareholding pattern and potentially on the market price of the equity shares of the Bank.

Acquisitions or Transfers of Shares resulting in an aggregate holding of 5% of the Bank's paid up share capital need prior RBI acknowledgement

Pursuant to the Guidelines for Acknowledgement of Shares in Private Banks dated February 3, 2004 (the "Acknowledgement Guidelines"), any acquisition or transfer of shares in a private bank which will take the aggregate holding of an individual or a group to 5% or more of the paid-up capital of a bank, requires the prior "acknowledgement" of the RBI. The term "holding" refers to both direct and indirect holdings, beneficial or otherwise, and is computed with reference to the holding of the applicant, relatives (where the applicant is a natural person) and associated enterprises. "Relative" has the same meaning as assigned under Section 6 of the Companies Act, and "associated enterprises" has the same meaning as assigned under section 92A of the Income Tax Act, 1961 (the "Income Tax Act"). In considering whether it will grant its acknowledgement to any application for an acquisition or transfer resulting in a holding of 5% or more of the paid-up capital of a private bank, the RBI *inter alia* appraises whether the applicant or proposed acquirer (including all entities connected with the acquirer) meets certain fitness and propriety tests. The RBI considers additional criteria when granting its acknowledgement where the acquisition or transfer will take the aggregate shareholding of the applicant or proposed acquirer to 10% or more and 30% or more of the paid-up capital of a private bank. The RBI may require the applicant or proposed acquirer to seek further approval from the RBI in relation to subsequent acquisitions at any higher threshold as it may specify.

Accordingly, any issue of shares exceeding 5% of the paid-up capital by the Bank, or transfer of a tranche of shares exceeding 5% of the paid-up capital of the Bank, may require RBI acknowledgement that may or may not be forthcoming.

Notes:

- The Reserve Bank of India conducts regular inspections of banking companies under the provisions of the Banking Regulation Act. The reports of RBI are strictly confidential. The Bank is in dialogue with RBI in respect of observations made by RBI in their report for prior periods. RBI does not permit disclosure of its inspection report and all the disclosures in this Red Herring Prospectus are on the basis of the Bank's management and audit reports.
- Public Issue of 71,500,000 Equity Shares of Rs. 10 each for cash at a price of Rs. [●] per Equity Share aggregating Rs. [●] million.

- The book value per equity share of Rs. 10 each computed from the Bank's restated financial statements was Rs. 18.30 at March 31, 2006 and Rs. 18.86 as at June 30, 2006
- The Bank's net worth as at March 31, 2006 was Rs. 1,393.05 million.
- The average cost of acquisition of Equity Shares of the Bank by the Promoter is Rs. 48.49 per Equity Share.
- The Bank had entered into certain related party transactions. For details see "Related Party Transactions" on page 160.
- None of the Promoter, the Promoter Group and directors of the Promoter has, either directly or indirectly, undertaken transactions in the Equity Shares in the six months preceding the date of this Red Herring Prospectus except as stated on page 21**.** AKFED intends to transfer Equity Shares at Rs. 10 to certain shareholders. For details, refer to page 24 of the Red Herring Prospectus in the section titled Capital Structure.
- The investor may contact the BRLMs for any complaints pertaining to the Issue.
- The investor is advised to refer to "Basis for Issue Price" on page 36.
- The investor is free to contact the BRLMs for any clarification or information relating to the Issue. The BRLMs are obliged to provide the same to the investor.
- The investor may note that in case of over-subscription in the Issue, allotment to Bidders shall be on a proportionate basis subject to compliance with total foreign and foreign institutional investor shareholding limits. For more information, see "Statutory and other Information – Basis of Allotment" on page 245.
- Platinum Jubilee Investment Limited, a promoter group company has an equity stake to the extent of 3.22 % (pre-issue equity capital) of the Bank.

SECTION 3 : INTRODUCTION

Summary

The investor should read the following summary together with the risk factors and the more detailed information about the Bank and its financial results included primarily in the section entitled "Business" of this Red Herring Prospectus.

Business Overview

Development Credit Bank Limited is a new private sector Indian bank, which has embarked on an ambitious revitalization plan. As part of its revitalization plan, the Bank has in place a new management team and board of directors committed to improving the Bank's business and its balance sheet and financial performance. The Bank is committed to maintaining its position as a cost efficient and customer-focused institution that provides comprehensive banking and related services. The revitalization plan

- emphasizes on prudent risk management;
- addresses the historically high level of NPAs;
- implements a program to reduce the operating expenses;
- focuses management attention to raise capital and improve liquidity to free capital for growth of the advances book and treasury business;
- emphasizes growth of low cost consumer deposit products; and
- focuses on developing the Bank's three core businesses: consumer banking, commercial banking and treasury.

The Bank's business is concentrated in certain regional centres, primarily Maharashtra, Andhra Pradesh and Gujarat, which are high growth areas. The Bank has 72 interconnected branches including 5 extension counters, spread over 26 cities in the country. It also has an ATM network of 58 interconnected onsite and 43 interconnected offsite ATMs. In addition, the Bank offers Internet banking to its customers.

The Bank has three main business lines:

- consumer banking;
- commercial banking; and
- treasury operations.

The consumer banking business of the Bank, formally launched in October 2002, comprises primarily transaction banking accounts – current and savings accounts, time deposits, consumer loans – personal and housing loan and mortgaged based loans, consumer durable, vehicle loans, IPO financing and investment services products such as bank-assurance, mutual funds and bonds. As at March 31, 2006, the consumer banking business accounted for 33.25% of total advances, 61.73% of total deposits, 39.37% of interest income on advances and 42.27% of non interest income of the Bank. As at June 30, 2006, the consumer banking business accounted for 36.01% of total advances, 54.73% of total deposits, 46.03% of interest income on advances and 48.58% of non interest income of the Bank.

The commercial banking business of the Bank is organized into the business banking group (BBG) and the corporate banking group (CBG). The BBG is responsible for catering to the small and medium business enterprises which have a turnover of less than Rs. 1000 million, while the CBG is responsible for catering to corporates with a turnover in excess of Rs. 1000 million and less than Rs. 5000 million and corporates with a turnover in excess of Rs. 5000 million on a case to case basis.

Prior to its conversion to a joint stock banking company, the Bank's focus as a co-operative bank was on the small and medium business category. The Bank continues to build and expand on this customer base. Over the years a number of these customers have grown in size and now form part of the clientele catered to by the CBG. The Bank has also expanded its commercial banking reach to include large companies as a part of its corporate banking group clientele. These also provide the basis for reaching out to the supplier / sales channel of such companies.

The Bank through the operation of the commercial banking group provides a range of commercial banking products and services to its customers which include term loans, working capital facilities, import and export financing, bill discounting, structured financing, securitisation, asset based financing, foreign currency loans, investment in various securities, cash management, salary accounts, payable at par cheque facility, non fund based services such as letters of credit (LCs), guarantees, foreign currency conversion, foreign exchange, interest rate , etc. The commercial banking products and services are delivered to the customers through a combination of 11 designated corporate banking locations around the country.

The Treasury is the Bank's interface with the financial markets. Treasury operations integrate domestic / money and the foreign exchange segment of the market. The activities also include all derivative products that are permitted to be handled by the banks. The Bank has a well-equipped integrated dealing room that was established in mid 2002. Treasury activities are supported by the requisite technology, information systems and risk management systems and manned by experienced professionals.

Due primarily to our high levels of provisions in respect of NPAs and due to capital constraints, we have incurred a net loss in each of the last three years. In FY 2004, FY 2005 and FY 2006 the Bank's net losses amounted to Rs. 431.85 million, Rs. 729.89 million and Rs. 805.88 million respectively. For the quarter ended June 30, 2006 the Bank had a Net Profit of Rs. 43.43 million.

Given below is a summary of the total advances and deposits for, FY 2004, FY 2005 and FY 2006

(Rs. In million)

Domestic Sector	**March 31, 2004**		**March 31, 2005**		**March 31, 2006**	
	Loans	**Deposits**	**Loans**	**Deposits**	**Loans**	**Deposits**
Consumer Banking	2,129.70	20,246.40	5,807.83	18,227.00	6,977.40	18,734.00
Commercial Banking	22,971.28	24,495.38	15,710.57	20,720.64	11,695.82	12,505.96
Total	**25,100.98**	**44,741.78**	**21,518.40**	**38,947.64**	**18,673.22**	**31,239.96**

Revitalization Plan

The management has been actively addressing the financial, liquidity, risk management, personnel and operational issues facing the Bank. The Bank has formulated a comprehensive revitalization plan to revitalize its business and to address key weaknesses that have restricted its ability to grow its business. This revitalization plan is in addition to the long-term business strategy discussed below.

The key elements of the revitalization plan are:

Raising Capital

The management has pursued new capital infusions from private investors since constraints on the Bank's capital have restricted its ability to grow its business including the advances book. The Bank believes that additional capital is required for future asset growth and compliance with regulatory requirements. In February 2006, the Bank issued 11,553,334 equity shares constituting 15.18 % of its equity share capital for Rs. 519.90 million to the Private Equity Investors. In addition, this Issue will also address the Tier 1 capital needs. For further information see section entitled "Objects of the Issue" on page 35 of this Red Herring Prospectus.

Improve asset quality through prudent risk management

The Bank has improved its loan and investment portfolios by carefully targeting the customer base and implementing a comprehensive risk assessment process and diligent risk monitoring and remediation procedures. The Bank applies its credit risk rating process to advances in excess of Rs 2.5 million. Additionally, it actively monitors loans and reassess their credit ratings once a year or more frequently if they are at risk. The Bank also applied aggressive remediation policies to recover non-performing loans. Since 2003 incremental net impaired loan assets has been 0.75% to total net incremental credits approved.

Addressing the legacy of historically high level of NPAs

The Bank has had a legacy of high level of NPAs and has adopted a conservative policy in actively recognizing these NPAs, providing for them in its accounts and otherwise managing the NPA exposure. The Bank has taken provisions in respect of NPAs of Rs. 605.75 million, Rs. 417.75 million and Rs. 544.66 million in each of FY 2004, FY 2005 and FY 2006 respectively and Rs.29.59 million for the quarter ended June 30, 2006. After provisioning, the Bank's net non-performing assets were Rs. 839.60 million as at March 31, 2006, representing 4.50% of net advances and Rs. 779.83 million as at June 30, 2006, representing 4.05% of net advances.

Lowering the cost of funding through consumer deposit products

The Bank's main focus will remain on growing CASA to further lower the cost of funds and growing term deposits to facilitate the creation of liquidity to fund balance sheet growth. Since the formal launch of consumer banking, the Bank has reduced its cost of funds from 8.09% as at March 2003 to 5.47% as at March 2006 and 5.73% as at June 2006. Further, CASA increased from Rs 6210.35 million as at March 31, 2003 to Rs. 10,014.54 million as at March 2006 and Rs. 10,641 million as at June 30, 2006.

Reducing operating expenses

The Bank has taken a variety of measures to reduce staff costs and non-strategic operating costs. It has introduced a voluntary retirement scheme in 2005 and has a rigorous programme to identify and reduce non-strategic costs. The financial benefits of these measures are already being recognized, and these cost savings initiatives will be continued as the business grows.

Focusing on core business

The Bank intends to maintain its position as a customer-focused institution that provides comprehensive banking and related services in its core consumer banking, commercial banking and treasury businesses.

Competitive Strengths

The Bank believes that it has the following strengths which will enable it to compete effectively in the Indian financial services sector:

- **Promoter** – The Bank's Promoter, viz. the Aga Khan Fund for Economic Development S.A. (AKFED). AKFED, incorporated in Switzerland, is an international development agency which promotes entrepreneurship in the private sector in specific regions of the developing world. AKFED has in the past supported the Bank by infusing capital when required. The Bank proposes to build on the Promoter's expertise in financial services, especially in the area of micro-credit, as well as to capitalize on the business relations of the Promoter with other banks. This will help the Bank in acquiring and servicing NRI customers in the UK, East Africa and Middle East.
- **Professional Board and Corporate Governance** – The Bank has a professional and effective_Board. The Bank reconstituted its Board in 2004 to ensure that most of its members have relevant experience in finance and banking matters. The Board comprises eminent persons like Dr Vijay Kelkar, who is a renowned economist, was formerly an advisor to the Finance Minister as well as the Finance Secretary to the Government of India and is currently the chairman of IDFC Private Equity Company Limited. Mr. Narayan Seshadri is a corporate consultant and he was on the board of Sundaram Asset Management Company. Mr. Anuroop Singh has over three decades of work experience in banking and insurance services and has spearheaded the setting up of a number of institutions including Max New York Life and ANZ Grindlays Bank in India. The Bank's corporate governance framework is based on an

effective independent Board, the separation of the Board's supervisory role from the executive management and the presence of an independent advisory board. The Bank's non executive chairman, Mr. Nasser Munjee, has over 28 years of experience in the financial services industry. The Bank has three eminent consultants in Mr. M.G. Bhide, Mr. N.C.Singhal and Mr. Vijay Mahajan. Mr. M.G. Bhide was the Chairman, National Institute of Bank Management, Managing Director, State Bank of India and subsequently Chairman and Managing Director, Bank of India. Mr. N.C. Singhal was the former CEO of Shipping Credit and Investment Corporation of India Limited as well as former director of ICICI Limited, who comprise the advisory board to the Chairman and have significant experience in banking and industry. Mr. Vijay Mahajan has a specialization in microfinance. He is also a fellow of Princeton University, where he studied economic development policy. Mr. Mahajan has also established Pradhan, a non government organization and is currently involved with BASIX, a new generation livelihood promotion institution that has extended micro credit to over 200,000 people.

- **Professional and experienced management team** – The Bank has recently inducted an experienced management team whose members have immense expertise in their respective fields, including the Managing Director, Mr. Gautam Vir who has over 26 years of experience in the banking industry. For details of other key managerial personnel see "Key Managerial Personnel" on page 128 of the Red Herring Prospectus.
- **Extensive use of Information technology systems** – The Bank has established an effective technology platform. The Bank has implemented "Finacle", which enables the complete integration of the Bank's front-, mid- and back- offices. The Bank has centralized back- office operations in Mumbai catering to all its offices and branches at the national level for their front and back office operations ensuring accuracy and timely delivery. It has launched Internet Banking facility for its consumers. The Bank has also deployed Oracle Financials, a decision support system and Oracle Human Resource Management System Software, an HR automation system. In addition, the Bank has established a Management Information System (MIS) to enhance its capacity for risk management.
- **Scalable Infrastructure and Products**– The Bank has a scalable distribution infrastructure comprising 72 fully networked consumer branches including 5 extension counters, 101 ATMs, and online Internet banking and mobile messaging facilities.
- **Customer base –** The Bank has a customer base of approximately 600,000 customers with about 595,000retail customers. The Bank has had a long lasting relationship with a large percentage of its customers.
- **Treasury –** The Bank has an active treasury managing the interest rate risks and liquidity to enable uninterrupted flow of funds, positioning the Bank for future balance sheet growth.

Business Strategy

The Bank's strategy and business model is built around its current strengths. The Bank intends to grow by offering an extensive product and service range in select geographical locations

Focus on growth opportunities in consumer banking business

The Bank's main focus will remain on growing CASA to further lower the cost of funds and growing term deposits to facilitate the creation of liquidity to fund balance sheet growth. In order to capitalize on the growth opportunities presented by the retail segment, the Bank has devised the following strategies

- **Increase and focus on the branch network** – At present the Bank has 72 branches including five extension counters, and the Bank proposes to increase the branches to approximately 100 by 2008.
- **Grow fee-based income.** In order to grow its fee-based income, the Bank proposes to introduce new product offerings such as demat services and has launched new delivery channels such as Internet banking. It proposes to set-up a centralized customer contact centre for enhanced delivery of customer service.
- **Transform branches into one-stop retail financial super markets** – The Bank intends to upgrade and convert its branches into one-stop retail financial super markets. The Bank plans to offer a standard product offering and also to standardize the look and feel of all these new financial super markets.

- **Internet and call centre offerings** –The Bank provides basic Internet banking and demat services to its customers. The Bank also intends to enhance the capability of its call centre to ensure a full service offering.
- **Enhance the retail sales network** – The Bank intends to increase the retail sales network through increase in the network offices from the current 13 to 26 and strengthen the indirect distribution channels for retail assets – The Bank also intends to increase its distribution reach through direct sales agencies and sales team. The Bank currently has 59 agencies and sales team of 409 persons.

Build the Bank's Commercial Banking Business

The Bank seeks to build its commercial banking business through the following strategies:

- **Focus on SMEs –** The Commercial Banking Group will focus on small and medium enterprises (SME) with turnover of less than Rs.1000 million and corporates with a turnover in excess of Rs. 1000 million but less that Rs. 5000 million. The CBG shall also handle corporates with a turnover in excess of Rs. 5000 million on a case-by-case basis. The Bank believes that with its present size concentrating on SME's will be an effective business strategy.
- **Focus on selected regional locations –** The Bank intend to focus its commercial banking business on selective regional locations like Mumbai, Ahmedabad, Hyderabad, Delhi and Bangalore.
- **Developing existing client base and relationships –** The Bank intends to focus on customer clusters such as large traders, auto ancillaries, downstream infrastructure entities, business process outsourcing units and agriculture finance and formulate specific products to cater to industries such as supply chain financing, franchisee financing, cash management and third party product sales.

Building regional sales team – The Bank will have relationship managers with specific industry expertise to improve contribution in the select industry segments. Such focus is expected to help improve business volumes and also enhance fee income and floats in the Bank. These sales teams will look to tap large corporate clients for asset origination facility both for originating assets and for acquired assets originated by others.

Develop substantial regional presence

The Bank proposes to distinguish itself as a niche player with a significant regional presence in Maharashtra, Gujarat and Goa, Rajasthan, Punjab, Andhra Pradesh and Haryana and the National Capital Region.

Use of technology for competitive advantages

The Bank seeks to be at the forefront of technology in the financial services sector. It intends to use information technology as a strategic tool for its business operations to gain a competitive advantage over its peers and to improve overall productivity and efficiency of the organization.

Leveraging business alliances

The Bank intends to enhance its fee-based income by enhancing and entering into new businesses and alliances. This will also help the Bank in increasing the product portfolio offered to its customers and enhancing its service offerings. The Bank has entered into lines of business such as distribution of life insurance and mutual fund products, which are complementary to its existing products and service lines. The Bank has entered into an alliance with Birla Sun Life Insurance Company Limited to distribute life insurance and with Bajaj Allianz General Insurance Company Limited to distribute general insurance products. The Bank also has built on alliances to distribute mutual funds for various fund management companies.

Human Capital

The Bank proposes to build the image of a preferred employer, to attract and retain quality professionals. The Bank offers the right balance of performance incentives, stock options etc to ensure that the employees are committed towards achieving profitability and controlling risk. Further, the Bank proposes to enhance the sales and service culture in the Bank.

Service quality as a differentiator

The Bank believes that its consistent and seamless service quality through all its delivery channels will differentiate it from its peers. Towards this end, the Bank proposes to introduce a 'six sigma' service quality programme. The Bank proposes to introduce training programs for staff to communicate the vision, values, sales techniques, regulations such as KYC, ALM and other aspects of risk management.

Building the Bank's corporate image and its "DCB" brand

The Bank intends to continue to enhance its brand recognition in the marketplace through brand building efforts. The Bank has undertaken various communication and promotional initiatives such as developing and introducing the Bank's new tag line "Feel the difference", and launching various campaigns. The Bank's main emphasis of building a brand would be to reposition itself by focusing on service quality and changing the public perception of the Bank. The Bank believes that such initiatives will enhance the visibility of its brand name and strengthen the Bank's recognition as an established Indian bank.

Leveraging the synergies with the Promoter

The Promoter and some of its associates are involved in poverty alleviation and in this process have gained significant expertise and network in the area of micro finance. The Bank proposes to build on its expertise as well as capitalize on the business relations of the Promoter with other banks. This will help the Bank in acquiring and servicing NRI customers in the UK, East Africa and Middle East

Strengthen the Bank's priority sector banking business

The Bank believes that the priority sectors offer large and potential profitable growth opportunities. The Bank intends to integrate environmental and corporate social responsibility within its business and build a presence in the agriculture and small-scale industry sectors by lending through products that will meet the financing requirements of this sector. The Bank also intends to pursue and further develop its existing credit programs aimed at women which it has already started on a small scale.

THE ISSUE

The Issue	71,500,000 Equity Shares of Rs. 10 each aggregating Rs. [●] million
Of which:Reserved for Allotment to Eligible Employees of the Bank	2,502,500 Equity Shares of Rs. 10 each aggregating Rs. [●] million
Therefore,	
Net Issue to the Public	68,997,500 Equity Shares of Rs. 10 each aggregating Rs. [●] million
Of which:	
Qualified Institutional Buyers portion	34,498,750 Equity Shares of Rs. 10 each aggregating Rs. [●]million (allocation on a proportionate basis)
Of which :	
Reservation for mutual funds	1,724,938 Equity Shares aggregating Rs. [●] million (allocation on a proportionate basis)
Balance for all QIBs including mutual funds	32,773,812 Equity Shares aggregating Rs. [●] million (allocation on a proportionate basis)
Non-Institutional Portion	10,349,625 Equity Shares of Rs. 10 each aggregating Rs. [●]million (allocation on a proportionate basis)
Retail portion	24,149,125 Equity Shares of Rs. 10 each aggregating Rs. [●] million (allocation on a proportionate basis)
Equity Shares outstanding prior to the Issue	76,132,187 Equity Shares of Rs. 10 each [●]
Equity Shares outstanding after the Issue	147,632,187 Equity Shares of Rs. 10 each
Objects of the Issue	The net proceeds of the Issue will be used to augment the capital base to meet the Bank's capital adequacy requirements. For more information, please see the section on Objects of the Issue at page 35 of this Red Herring Prospectus.

SELECTED FINANCIAL DATA

Summary of Unconsolidated Financial Data under Indian GAAP

The following table sets forth selected historical financial information of Development Credit Bank derived from its restated and audited financial statements as of March 31, 2001, 2002, 2003, 2004, 2005 and 2006 all prepared in accordance with Indian GAAP, the Companies Act and SEBI Guidelines, and restated as described in the auditors' report of N.M. Raiji & Co. dated May 16, 2006, included in the section titled "Financial Statements" on page 138 of this Prospectus and should be read in conjunction with those financial statements and notes thereto

Summary Statement of Profit and Loss Restated

(Rs. In million)

		Audited Profit & Loss Statement for the Year ended 31st March (as restated)					
		2001	**2002**	**2003**	**2004**	**2005**	**2006**
A	**INCOME**						
I	**INTEREST EARNED**	**3,887.92**	**3,773.82**	**3,584.58**	**3,532.89**	**3,032.18**	**2,771.42**
	I. Interest/Discount on Advances/Bills	2,121.04	2,339.61	2,098.90	2,109.72	1,765.88	1,760.86
	II. Income on Investments	1,658.89	1,348.74	1,315.28	1,127.71	1,003.76	870.35
	III. Interest on balances with Reserve Bank of India and other interbank lending	107.99	85.47	170.40	249.60	262.54	138.70
	IV Others	0.00	0.00	0.00	45.86	0.00	1.51
2	**OTHER INCOME**	**487.83**	**958.45**	**731.29**	**883.56**	**912.85**	**802.90**
	I. Commission, Exchange and Brokerage	201.38	234.25	287.65	293.21	368.61	394.93
	II. Profit on sale of investments (net)	102.98	656.99	160.41	295.67	155.54	138.96
	III. Profit/(Loss) on revaluation of investments (net)	0.00	(103.60)	86.49	0.00	0.00	0.00
	IV. Profit/(Loss) on sale of land, buildings and other assets (Net)	(0.11)	(12.16)	(43.42)	0.71	(1.14)	(0.69)
	V. Profit on exchange transactions (net)	30.44	52.87	96.62	107.95	100.89	105.88
	VI. Income earned by way of dividends etc. from Subsidiaries/ Companies/ Joint Ventures in India	0.00	0.00	0.00	0.00	0.00	0.00
	VII. Lease Income	133.88	112.97	105.46	82.47	76.17	40.50
	VIII. Miscellaneous Income	19.26	17.13	38.08	103.55	212.78	123.32
	TOTAL INCOME	**4,375.75**	**4,732.27**	**4,315.87**	**4,416.45**	**3,945.03**	**3,574.32**

		Audited Profit & Loss Statement for the Year ended 31st March (as restated)					
		2001	**2002**	**2003**	**2004**	**2005**	**2006**
B	**EXPENDITURE**						
I	**Interest Expended**	**3,018.56**	**2,879.20**	**2,878.18**	**2,568.65**	**2,335.20**	**2,019.53**
	I. Interest on Deposits	2,739.38	2,677.98	2,681.16	2,245.60	2,052.94	1,768.15
	II. Interest on Reserve Bank of India/ Inter-Bank borrowings	192.41	183.44	159.61	164.22	188.55	215.01
	III. Others	86.77	17.78	37.41	158.83	93.71	36.37
II	**Operating Expenses**	**696.53**	**797.36**	**985.73**	**1297.74**	**1651.11**	**1,751.45**
	I. Payments to and provisions for employees	276.74	346.34	423.36	553.69	543.40	517.04
	II. Rent, Taxes and Lighting	58.39	70.06	87.66	123.60	206.48	218.94
	III. Printing and Stationery	13.62	18.79	29.83	35.66	33.50	26.17
	IV. Advertisement and Publicity	13.33	9.60	20.65	41.43	31.09	6.73
	V. Depreciation on Bank's Properties (net of amount adjusted against Revaluation Reserve)	127.54	144.45	156.96	129.89	126.90	78.70
	VI. Director's Fees, Allowances and Expenses	1.71	8.14	6.22	6.86	11.85	8.84
	VII. Auditors' Fees and Expenses	3.49	3.49	4.08	3.17	4.09	2.75
	VIII. Law Charges	3.29	2.34	4.09	8.38	17.32	9.19
	IX. Postage,Telegrams,Telephones,etc.	13.08	11.70	24.09	44.10	40.56	40.03
	X. Repairs and Maintenance	21.25	19.16	26.61	26.99	28.02	32.00
	XI. Insurance	14.56	12.48	16.04	15.45	28.47	34.30
	XII. Other Expenditure	149.53	150.81	186.14	308.52	579.43	776.76
	TOTAL EXPENDITURE	**3,715.09**	**3,676.56**	**3,863.91**	**3,866.39**	**3,986.31**	**3,770.98**
	Operating Profit/(Loss) (before Provision & Contingencies)	**660.66**	**1,055.71**	**451.96**	**550.06**	**(41.28)**	**(196.66)**
	Less : Provisions & Contingencies (other than Provision for Tax)	277.74	430.95	593.95	1,070.01	688.61	578.40
	Profit/(Loss) Before Tax	**382.92**	**624.76**	**(141.99)**	**(519.95)**	**(729.89)**	**(775.06)**
	Provision for Tax	97.50	260.00	(44.20)	(88.10)	0.00	30.82
	Net Profit/(Loss) after Tax	**285.42**	**364.76**	**(97.79)**	**(431.85)**	**(729.89)**	**(805.88)**
	Net Profit/(Loss) for the year / period ended as per Financial Statements	**285.42**	**364.76**	**(97.79)**	**(431.85)**	**(729.89)**	**(805.88)**
	Profit/(Loss) Brought Forward	**94.96**	**80.84**	**104.88**	**(336.11)**	**(945.86)**	**(1,657.54)**
	Total	**380.38**	**445.60**	**7.09**	**(767.96)**	**(1675.75)**	**(2,463.42)**

(Rs. in million)

	Audited Profit & Loss Statement for the Year ended 31st March (as restated)					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
APPROPRIATIONS TRANSFER TO						
a) Statutory Reserve	92.50	85.50	86.50	44.50	0.00	0.00
b) Capital Reserve	0.00	177.20	35.80	59.10	3.75	0.00
c) Revenue and Other Reserves	150.00	2.50	40.00	0.00	0.00	0.00
d) Investment Fluctuation Reserve	0.00	3.00	102.50	25.00	0.00	(130.50)
e) Dividend (including Dividend Tax)	57.04	72.52	78.40	49.30	0.00	0.00
i) Interim Dividend	25.88	34.50	36.70	0.00	0.00	0.00
ii) Proposed Dividend	25.88	34.50	36.70	43.70	0.00	0.00
iii) Tax on Dividend	5.28	3.52	5.00	5.60	0.00	0.00
Transfer to : Unallocated Profit/(Loss)	**80.84**	**104.88**	**(336.11)**	**(945.86)**	**(1679.50)**	**(2,332.92)**
TOTAL	**380.38**	**445.60**	**7.09**	**(767.96)**	**(1675.75)**	**(2,463.42)**
Break up of Miscellanous Income (*)						
Recovery in Bad Debts w/o	1.57	2.64	3.06	74.67	120.75	79.01
Others	17.69	14.49	35.02	28.88	92.03	44.31
Total Miscellanous Income	**19.26**	**17.13**	**38.08**	**103.55**	**212.78**	**123.32**
(*) Items listed here are generally of recurring nature						
Break-up of Provisions and Contingencies						
Provisions for Non Performing Advances (incl. Lease NPA)	160.76	398.41	221.50	605.75	417.75	544.66
Provisions for Standard Advances	10.03	5.50	7.50	0.00	(10.00)	20.00
Depreciation on Investments	104.49	27.04	265.64	404.76	208.56	11.10
Provision for Restructured Standard Accounts	0.00	0.00	0.00	0.00	5.40	(13.30)
Others	2.46	0.00	99.31	59.50	66.90	15.94
Provisions and Contingencies (other than provision for income tax)	**277.74**	**430.95**	**593.95**	**1070.01**	**688.61**	**578.40**
Provisions for Income Tax	97.50	260.00	(44.20)	(88.10)	0.00	30.82
TOTAL	**375.24**	**690.95**	**549.75**	**981.91**	**688.61**	**609.22**

Summary Statement of Assets and Liabilities as Restated

(Rs. in million)

		Audited Balance Sheet for the Year ended 31st March (as restated)					
		2001	**2002**	**2003**	**2004**	**2005**	**2006**
(A)	**Assets**						
1	Cash in Hand	120.63	164.82	258.91	280.30	312.05	197.99
2	Balance with RBI	1,432.69	2,488.88	2,172.15	2,488.52	1,899.02	1,726.75
3	Balance with Banks	981.35	1,160.68	1,607.70	1,198.42	1,373.24	1,082.54
	- In India	664.33	1,038.68	1,250.43	1,088.12	1,065.12	563.52
	- Outside India	317.02	122.00	357.27	110.30	308.12	519.02
4	Money at Call and Short Notice	1,650.00	1,050.00	0.00	0.00	0.00	0.00
5	Investments	12,544.40	12,081.99	12,197.58	20,594.46	18,333.87	12,919.20
	- In India	12,544.40	12,081.99	12,197.58	20,594.46	18,333.87	12,919.20
	- Outside India	0.00	0.00	0.00	0.00	0.00	0.00
6	Advances	20,504.18	22,560.36	24,681.98	25,100.98	21,518.40	18,673.22
	- In India	20,504.18	22,560.36	24,681.98	25,100.98	21,518.40	18,673.22
	- Outside India	0.00	0.00	0.00	0.00	0.00	0.00
7	Fixed Assets	1,485.11	1,402.24	1,311.86	1,241.64	1,164.00	1,071.50
	Less: Revaluation Reserve	273.75	268.76	263.78	258.79	253.80	248.81
	Net Fixed Assets	1,211.36	1,133.48	1,048.08	982.85	910.20	822.69
8	Other Assets	904.37	1,134.99	1,555.25	2,104.62	1,916.57	1,746.03
	TOTAL – (A)	**39,348.98**	**41,775.20**	**43,521.65**	**52,750.15**	**46,263.35**	**37,168.42**
(B)	**LIABILITIES**						
1	Deposits	34,304.86	36,917.58	36,570.94	44,741.78	38,947.64	31,239.96
a	Demand Deposits	2,005.26	2,740.07	2,724.67	3,663.69	3,437.52	4,053.78
	- From Banks	58.20	23.83	14.07	18.40	20.01	18.51
	- From Others	1,947.06	2,716.24	2,710.60	3,645.29	3,417.51	4,035.27
b	Saving Deposits	2,682.22	2,953.96	3,485.68	4,744.72	5,406.23	5,960.76
c	Term Deposits	29,617.38	31,223.55	30,360.59	36,333.37	30,103.89	21,225.42
	- Term Deposits from Banks	8,086.12	8,599.27	7,805.55	11,543.59	7,428.86	3,604.00
	- Term Deposits from Others	21,531.26	22,624.28	22,555.04	24,789.78	22,675.03	17,621.42
2	Borrowings	972.18	292.48	2,999.22	2,385.79	1,597.71	1,298.01
	- In India	972.18	214.41	2,524.37	1,926.76	985.28	856.40
	- Outside India	0.00	78.07	474.85	459.03	612.43	441.61
3	Other Liabilities and Provisions	1,232.71	1,433.67	1,432.32	2,084.27	2,394.95	1,577.40
4	Subordinate Debts	0.00	0.00	660.00	1,660.00	1,660.00	1,660.00
	TOTAL – (B)	**36,509.75**	**38,643.73**	**41,662.48**	**50,871.84**	**44,600.30**	**35,775.37**

(Rs. in million)

		Audited Balance Sheet for the Year ended 31st March (as restated)					
		2001	**2002**	**2003**	**2004**	**2005**	**2006**
(C)	**NET WORTH (C= A-B)**	**2,839.23**	**3,131.47**	**1,859.17**	**1,878.31**	**1,663.05**	**1,393.05**
	Represented by :						
(D)	Share Capital	229.73	229.73	281.50	393.58	645.79	761.32
(E)	Share Application Money	0.00	0.00	0.00	260.01	9.17	0.00
(F)	**RESERVES AND SURPLUS**						
	1 Statutory Reserve	592.50	678.00	764.50	809.00	809.00	809.00
	2 Capital Reserve	6.99	184.19	219.99	279.09	282.84	282.84
	3 Revaluation Reserve	273.75	268.76	263.78	258.79	253.80	248.81
	4 Investment Fluctuation Reserve	0.00	3.00	105.50	130.50	130.50	0.00
	5 Revenue and Other Reserves	1,460.00	1,462.50	199.30	21.97	0.00	0.00
	6 Balance of Profit & Loss Account	80.84	104.88	(336.11)	(945.86)	(1,657.54)	(2,332.92)
	7 Share Premium	469.17	469.17	624.49	960.72	1,473.99	1,872.81
	TOTAL	**2,883.25**	**3,170.50**	**1,841.45**	**1,514.21**	**1,292.59**	**880.54**
	Less: Revaluation Reserve	273.75	268.76	263.78	258.79	253.80	248.81
	Less: Deferred Tax Asset	0.00	0.00	0.00	30.70	30.70	0.00
	TOTAL – (F)	**2,609.50**	**2,901.74**	**1,577.67**	**1,224.72**	**1,008.09**	**631.73**
	NET WORTH (D+E+F)	**2,839.23**	**3,131.47**	**1,859.17**	**1,878.31**	**1,663.05**	**1,393.05**
(G)	**Contingent Liabilities**						
	1 Claims against the Bank not acknowledged as debts	258.19	136.60	132.93	576.30	847.90	1,081.60
	2 Liability for partly paid investments	0.00	0.00	0.00	0.00	0.00	0.00
	3 Liability on account of outstanding forward exchange contracts	7,631.10	7,413.55	16,696.86	16,983.69	19,902.22	19,530.64
	4 Guarantees given on behalf of constituents:						
	In India	1,680.13	1,826.73	2,699.39	1,796.81	1,944.49	1,995.98
	Outside India	250.02	756.06	980.70	735.47	1,428.30	1,598.48
	5 Acceptances, Endorsements and Other Obligations	2,325.41	3,996.16	3,789.72	3,119.44	5,469.80	4,088.41
	6 Other items for which the Bank is contingently liable	847.52	1,133.90	4,284.21	2,603.88	6,361.25	1,715.15
	TOTAL (G)	**12,992.37**	**15,263.00**	**28,583.81**	**25,815.59**	**35,953.96**	**30,010.26**
	Bills for Collection	2,815.79	3,304.38	2,256.22	4,552.52	5,076.41	4,766.09

GENERAL INFORMATION

Development Credit Bank Limited

Registered Office

The registered office of the Bank is situated at 154, S.V.Patel Road (East), Dongri. Mumbai – 400 009.

The Bank is registered under the number 11-89008 of 1995 with the Registrar of Companies, Maharashtra situated at 100 Everest, Marine Drive, Mumbai – 400 002

Board of Directors

Mr. Nasser Munjee, Chairman

Ms. Nasim Devji

Mr. Shabir Suleman Kassam

Dr. Vijay Kelkar

Mr. Amin Hasanali Manekia

Mr. R. A. Momin

Mr. A. A. Sabuwala

Mr. Narayan K. Seshadri

Mr. Anuroop Singh

Mr. Gautam Vir, Managing Director and CEO

For further details of the Bank's Chairman, Managing Director and CEO and other Directors, refer to the section titled "Management" on page 117 of this Red Herring Prospectus.

Company Secretary and Compliance Officer

Mr. H.V. Barve
Development Credit Bank Limited
Corporate Office
204, Raheja Centre, Nariman Point
Mumbai- 400 021
Tel: 91-22- 22883166
Fax: 91-22-22876112
E-mail: barve@dcbl.com

Investors can contact the Compliance Officer or the Registrar in case of any pre-Issue or post-Issue related problems such as non-receipt of letters of allocation, credit of allotted Equity Shares in the respective beneficiary account or refund orders etc.

Legal Advisor to the Bank

J. Sagar Associates
Vakils House, 18 Sprott Road
Ballard Estate
Mumbai – 400 001, India
Tel: 91-22-56561500
Fax: 91-22-56561515
Email: mumbai@jsalaw.com

Domestic Legal Advisor to the Book Running Lead Managers

Amarchand & Mangaldas & Suresh A. Shroff & Co.
Peninsula Chambers
Peninsula Corporate Park
Ganpatrao Kadam Marg
Lower Parel
Mumbai – 400 013
Tel: 91-22-2496 4455
Fax: 91-22-2496 3666

International Legal Advisor to the Book Running Lead Managers

Dorsey and Whitney LLP.
21 Wilson Street
London, England EC2M 2TD
Tel: +44 (20) 7588 0800
Fax: +44 (20) 7588 0555
Email : chrisman.john@dorsey.com
Website : www.dorsey.com
Contact person: Mr. John Chrisman

Book Running Lead Managers

JM Morgan Stanley Private Limited
141, Maker Chambers III,
Nariman Point,
Mumbai 400 021, India
Tel.: 91-22-6630 3030
Fax.: 91-22-2204 7185
Email: dcbwg@jmmorganstanley.com
Website: www.jmmorganstanley.com
Contact person: Mr. Utkarsh Katkoria

Enam Financial Consultants Private Limited
801/ 802, Dalamal Towers,
Nariman Point
Mumbai 400 021, India
Tel: 91-22-6638 1800
Fax: 91-22-2284 6824
E-mail: dcbipo@enam.com
Website: www.enam.com
Contact person: Ms. Lakha Nair

Syndicate Members

JM Morgan Stanley Financial Services Private Limited
Apeejay House,
3, Dinshaw Waccha Road,
Churchgate, Mumbai- 400 021
Tel.: 91-22-6504 0404
Fax.: 91-22-5630 1694
Email: dcbwg@jmmorganstanley.com
Website: www.jmmorganstanley.com
Contact person: Mr. Deepak Vaidya/Mr. T.N. Kumar

Enam Securities Private Limited
2nd Floor, Khatau Building,
44, Bank Street,
Off Shahed Bhagat Singh Road,
Fort, Mumbai – 400 001
Tel. : 91-22-2267 7901
Fax. : 91-22-2266 5613
Email :dcbipo@enam.com
Website: www.enam.com
Contact person: M. Natrajan

Motilal Oswal Securities Limited
81/82 Bajaj Bhavan,
8th Floor, Nariman Point
Mumbai - 400 021
Tel. : 91-22-3980 4200
Fax. : 91-22-2288 3821
Email : dcb.ipo@motilaloswal.com
Website: www.motilaloswal.com
Contact person: Nisha Shah

Registrar to the Issue

Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound,
LBS Marg, Bhandup (W),
Mumbai- 400078.
Tel.: 022- 2596 3838
Fax : 022- 2594 6969
Email: isrl@intimespectrum.com
Dedicated Number for public issue investors:
Tel.: 2596 0320
Fax : 2596 0329
Website: www.intimespectrum.com
Contact person: Mr. Salim Shaikh

Escrow Collection Bank and Bankers to the Issue

HDFC Bank Limited
Trade World 'A' Wing
2nd Floor,
Kamala Mills Compound
Senapati Bapat Marg
Lower Parel
Mumbai- 400 013
Tel: 91-22-24988972
Fax: 91-22-24963871
Email: sunil.kolenchery@hdfcbank.com

Development Credit Bank Limited
154, S.V.Patel Road (East),
Dongri
Mumbai – 400 009
Tel : 91-22-2289 9999 Fax : 91-22-2287 6112
Email : dcbipo@dcbl.com

Statutory Auditors

N.M. Raiji & Co.
Chartered Accountants
Universal Insurance Building,
6th Floor, Sir P.M. Road.
Mumbai – 400 001.
Tel : 91-22-22870068
Fax : 91-22-2282 8646
Email : nmraiji@mtnl.net.in

Statement of *Inter-se* Allocation of Responsibilities between the BRLMs

Sr. No.	Activities	Responsibility	Co-ordinator
1.	Capital structuring with the relative components and formalities such as type of instruments, etc.	JMMS/Enam	JMMS
2.	Due diligence of the Bank's operations / management / business plans/legal documents etc. Drafting & Design of Offer Document and of statutory advertisement including memorandum containing salient features of the Prospectus. The designated Lead Manager shall ensure compliance with stipulated requirements and completion of prescribed formalities with Stock Exchange, Registrar of Companies and SEBI	JMMS/Enam	JMMS
3.	Drafting and approval of all publicity material, roadshow presentation including corporate advertisement, brochure etc.	JMMS/Enam	Enam
4.	Appointment of Registrar, Bankers, Printers and Advertising agency	JMMS/Enam	JMMS
5.	Institutional Marketing StrategyFinalisation of the list of Investors for one to one meetings in consultation with the company	JMMS/Enam	Enam
6.	Retail/HNI Marketing Strategy which will cover inter alia, ● Formulating marketing strategies, preparation of publicity budget ● Finalize Media & PR strategy ● Finalizing centers for holding conferences for brokers, etc. ● Finalize collection centers Follow-up on distribution of publicity and Offer material including form, prospectus and deciding on the quantum of the Offer material	JMMS/Enam	JMMS
7.	Managing the book, Co-ordination with stock exchanges and Pricing and Allocation	JMMS/Enam	Enam
8.	Post bidding activities including management of Escrow Accounts, co-ordination with Registrar and Banks, Refund to Bidders, etc. Post Issue activities like essential follow up steps, which must include finalisation of listing of instruments and dispatch of certificates and refunds, with the various agencies connected with the work such as Registrars to the Issue, Bankers to the Issue and the bank handling refund business. BRLMs shall be responsible for ensuring that these agencies fulfill their functions and enable him to discharge this responsibility through suitable agreements with the Issuer Company.	JMMS/Enam	Enam

Credit Rating

As this is an Issue of Equity Shares there is no credit rating for this Issue.

Trustees

As this is an Issue of Equity Shares, the appointment of Trustees is not required.

Book Building Process

Book Building refers to the process of collection of bids from investors, which is based on the price band. The Issue Price is fixed after the Bid/Issue Closing Date. The principal parties involved in the Book Building Process are:

(1) The Bank;

(2) Book Running Lead Managers, in this case being JM Morgan Stanley Private Limited and Enam Financial Consultants Private Limited

(3) Syndicate Members who are intermediaries registered with SEBI or registered as brokers with BSE/NSE and eligible to act as underwriters, in this case being JM Morgan Stanley Financial Services Private Limited, Enam Securities Private Limited and Motilal Oswal Securities Limited

(4) Registrar to the Issue, in this case being Intime Spectrum Registry Limited.

SEBI, through its guidelines, has permitted an Issue of securities to the public through the 100% Book Building Process, wherein up to 50% of the Net Issue shall be allocated on a proportionate basis to Qualified Institutional Buyers (QIBs), which includes reservation amounting to 5% of the QIB Portion for mutual funds. Further, at least 15% of the Net Issue shall be available for allocation on a proportionate basis to Non Institutional Bidders and at least 35% of the Net Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. The allocation shall be subject to applicable restrictions on foreign ownership.

QIBs are not allowed to withdraw their Bid after the Bid/ Issue Closing Date. For details see the section titled "Terms of the Issue" on page 223 in this Red Herring Prospectus.

Steps to be taken by the Bidders for bidding:

- Check whether he/ she is eligible for bidding;
- Ensure that he/she has a demat account;
- Ensure that the Bid cum Application Form is duly completed as per instructions given in this Red Herring Prospectus and in the Bid cum Application Form; and
- Ensure that the Bid cum Application Form is accompanied by the Permanent Account Number or by Form 60 or Form 61 as may be applicable together with necessary documents providing proof of address. For details please refer to the Section titled "Issue Procedure" on page 228 of this Red Herring Prospectus. Bidders are specifically requested not to submit their General Index Register number instead of the Permanent Account Number as the Bid is liable to be rejected.

Illustration of Book Building and Price Discovery Process *(Investors should note that the following is solely for the purpose of illustration and is not specific to this Issue)*

Bidders can bid at any price within the price band. For instance, assuming a price band of Rs. 20 to Rs. 24 per share, issue size of 3,000 equity shares and receipt of five bids from bidders details of which are shown in the table below. On line, real time graphical representation of the consolidated demand and price would be made available at the website of the BSE (www.bseindia.com) and NSE (www.nseindia.com) during the bidding period. The illustrative book as shown below shows the demand for the shares of a company at various prices and is collated from bids from various investors.

Number of equity shares Bid for	Bid Price (Rs.)	Cumulative equity shares Bid for	Subscription
500	24	500	16.67%
1,000	23	1,500	50.00%
1500	22	3,000	100.00%
2,000	21	5,000	166.67%
2,500	20	7,500	250.00%

The price discovery is a function of demand at various prices. The highest price at which the issuer is able to issue the desired quantum of shares is the price at which the book cuts off i.e., Rs. 22 in the above example. The issuer, in consultation with the BRLMs will finalise the issue price at or below such cut off price i.e. at or below Rs. 22. All bids at or above this issue price and cut-off bids are valid bids and are considered for allocation in respective category.

Underwriting Agreement

After the determination of this Issue Price and allocation of the Equity Shares but prior to filing of the Prospectus with RoC, the Bank will enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be issued through this Issue. It is proposed that pursuant to the terms of the Underwriting Agreement, the BRLMs shall be responsible for bringing in the amount devolved in the event that the Syndicate Members do not fulfill their underwriting obligations.

The Underwriters have indicated their intention to underwrite the following number of Equity Shares:

(This portion has been intentionally left blank and will be filled in before filing of the Prospectus with Registrar of Companies)

Name and Address of the Underwriters	Indicated Number of Equity Shares to be Underwritten	Amount Underwritten (Rs. million)
JM Morgan Stanley Private Limited 141, Maker Chambers III, Nariman Point, Mumbai- 400 021 Tel. : 91-22-6630 3030 Fax. : 91-22-5630 1694 Email : dcbwg@jmmorganstanley.com	[●]	[●]
Enam Financial Consultants Private Limited 801/ 802, Dalamal Towers, Nariman Point, Mumbai 400 021, India Tel: 91-22-6638 1800 Fax: 91-22-2284 6824 E-mail: dcbipo@enam.com	[●]	[●]

JM Morgan Stanley Financial Services Private Limited Apeejay House, 3, Dinshaw Waccha Road, Churchgate, Mumbai- 400 021 Tel. : 91-22-5504 0404 Fax. : 91-22-5630 1694 Email : dcbwg@jmmorganstanley.com	[●]	[●]
Enam Securities Private Limited 2nd Floor, Khatau Building, 44, Bank Street, Off Shaheed Bhagat Singh Road, Fort, Mumbai- 400 001 Tel. : 91-22-2267 7901 Fax. : 91-22-2266 5613 Email :dcbipo@enam.com	[●]	[●]
Motilal Oswal Securities Limited 81/82 Bajaj Bhavan, 8th Floor, Nariman Point, Mumbai - 400 021 Tel. : 91-22-3980 4200 Fax. : 91-22-2288 3821 Email : dcb.ipo@motilaloswal.com Website: www.motilaloswal.com Contact person: Nisha Shan		

The above-mentioned amount is indicative underwriting and would be finalized after pricing and actual allocation. The above underwriting agreement is dated [●].

In the opinion of the Board of Directors (based on a certificate given by the Underwriters) and the BRLMs, the resources of all the above mentioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. All the above-mentioned Underwriters are registered with SEBI under Section 12(1) of the SEBI Act. We confirm that besides ourselves, all the intermediaries named in the Red Herring Prospectus are registered with SEBI and till date such registeration is valid * and

**JM Morgan Stanley Private Limited registration with SEBI as underwriter expired on August 15, 2006. The application for renewal of certificate of registration in prescribed Form A was made by JM Morgan Stanley to SEBI three months before expiry of period of certificate on May 15, 2006 as required under Regulation 9(1) of SEBI (MerchantBankers) Regulations, 1992. The approval of SEBI in this regard is awaited. No communication has been received from SEBI rejecting the said application.*

Notwithstanding the above table, the BRLMs and the Syndicate Members shall be severally responsible for ensuring payment with respect to Equity Shares allocated to investors procured by them. In the event of any default, the respective underwriter in addition to other obligations to be defined in the Underwriting Agreement, will also be required to procure / subscribe to the extent of the defaulted amount. Allotment to QIBs is proportionate as per the terms of this Red Herring Prospectus. For further details about Allotment please refer to "Issue Procedure" on page 228 of this Red Herring Prospectus.

CAPITAL STRUCTURE

(Rs. in million)

	As of September 11, 2006		Aggregate Value at nominal value	Aggregate Value at Issue Price
A)	**AUTHORISED**			
	300,000,000	Equity Shares of Rs. 10 each	3000.00	
B)	**ISSUED, SUBSCRIBED AND CALLED UP EQUITY SHARE CAPITAL**			
	76,132,187	Equity Shares of Rs. 10 each fully paid up	761.32	
C)	**PRESENT ISSUE IN TERMS OF THIS RED HERRING PROSPECTUS**			
	71,500,000	Equity Shares of Rs. 10 each fully paid up *	715.00	
	Out of the above, reservation for eligible employees of the Bank			
	2,502,500	Equity Shares of Rs.10 each	25.00	
	Net Offer to public			
	68,997,500	Equity Shares of Rs. 10 each fully paid up	689.98	[●]
D)	**EQUITY CAPITAL AFTER THE ISSUE**			
	147,632,187	Equity Shares of Rs. 10 each fully paid up shares	1,476.32	[●]
E)	**SHARE PREMIUM ACCOUNT ***			
	Before the Issue		1,872.54	
	After the Issue		[●]	
*Share Premium Account Details				

(In Rs million)

Balance in Share Premium Account on February 13, 2006	1473.99
Added to Premium Account on Allotment of 11,553,334 Shares @ Rs.35/- per Share	404.37
Less: Expenses on Private Placement	5.82
Post Private Placement Balance in Share Premium Account	1872.54

- The Issue in terms of this Red Herring Prospectus has been authorized pursuant to a resolution passed at the general meeting of the Bank's shareholders held on November 21, 2005.

Notes to Capital Structure

1. Share Capital history of the Bank

(Rs. in million)

Date of allotment of the Equity Shares	No. of Equity Shares	Face Value (Rs.)	Issue Price (Rs.)	Nature of Payment	Reasons for Allotment	Cumulative Paid-up Capital	Cumulative share premium account
31-May-95	7,334,100	10	10	Cash	Initial capital on conversion of Development Co-operative Bank Limited into the Company	73.34	Nil
09-Nov-95	1,500,000	10	40	Cash	Under scheme of conversion	88.34	45.00
24-Nov-95	1,572,000	10	40	Cash	Under scheme of conversion	104.06	92.16
25-Nov-95	275,800	10	40	Cash	Under scheme of conversion	106.82	100.43
13-Dec-95	200	10	40	Cash	Under scheme of conversion	106.82	100.44
03-Jan-96	5,236,200	10	40	Cash	Under scheme of conversion	159.18	257.53
11-Jan-96	217,600	10	40	Cash	Under scheme of conversion	161.36	264.05
16-Jan-96	162,600	10	40	Cash	Under scheme of conversion	162.99	268.93
22-Apr-96	21,600	10	40	Cash	Under scheme of conversion	163.2	269.58
07-Jun-96	12,200	10	40	Cash	Under scheme of conversion	163.32	269.95
20-Jun-96	5,000	10	40	Cash	Under scheme of conversion	163.37	270.1
18-Jul-96	12,800	10	40	Cash	Under scheme of conversion	163.5	270.48
23-Aug-96	1,600	10	40	Cash	Under scheme of conversion	163.52	270.53
12-Sep-96	1,800	10	40	Cash	Under scheme of conversion	163.54	270.58

18-Sep-96	200	10	40	Cash	Under scheme of conversion	163.54	270.59
14-Nov-96	1,200	10	40	Cash	Under scheme of conversion	163.55	270.62
30-Dec-96	200	10	40	Cash	Under scheme of conversion	163.55	270.63
06-Mar-97	1,000	10	40	Cash	Under scheme of conversion	163.56	270.66
13-Jun-97	200	10	40	Cash	Under scheme of conversion	163.56	270.67
17-Jul-97	200	10	40	Cash	Under scheme of conversion	163.57	270.67
16-Oct-97	200	10	40	Cash	Under scheme of conversion	163.57	270.68
13-Nov-97	200	10	40	Cash	Under scheme of conversion	163.57	270.68
11-Dec-97	400	10	40	Cash	Under scheme of conversion	163.57	270.7
12-Mar-98	250,000	10	40	Cash	Under scheme of conversion	166.07	278.2
27-May-97	200	10	40	Cash	Under scheme of conversion	166.08	278.2
14-Jan-00	200	10	40	Cash	Under scheme of conversion	166.08	278.21
23-Feb-01	6,365,400	10	40	Cash	Under scheme of conversion	229.73	469.17
19-Dec-02	5,177,272	10	40	Cash	Under scheme of conversion	281.5	624.49
12-Feb-04	6,664,541	10	40	Cash	Rights issue	348.15	824.42
11-Mar-04	51,350	10	40	Cash	Rights issue	348.66	825.96
25-Mar-04	4,491,843	10	40	Cash	Rights issue	393.58	960.72
03-Jun-04	47,589	10	40	Cash	Rights issue	394.06	962.15
31-Mar-05	25,173,158	10	55	Cash	Preferential allotment	645.79	2094.94
February 17, 2006	11,553,334	10	45	Cash	Preferential allotment	761.32	*2499.31

* (Rs. in million)

Cumulative Balance of Share Premium received right from beginning	2499.31
Less: NPA written off, Debited to Share Premium Account on 11.09.2004	620.95
Less: Expenses on private placement	5.82
Post private placement balance in premium account	1872.54

On February 17, 2006 the Bank allotted 11,553,334 equity shares at a price of Rs. 45 aggregating a sum of Rs.519.90 million constituting 15.18% of the shareholding of the Bank in the following manner:

Private Equity Investor	No. of Equity Shares	Face Value (Rs.)	Issue Price (Rs.)	% of pre-Issue paid-up equity capital
Khattar Holdings Pte. Ltd.*	3,555,556	10/-	45/-	4.67
Housing Development Finance Corporation Ltd.*	3,555,556	10/-	45/-	4.67
Suvijay Exports Limited	220,000	10/-	45/-	0.29
Rajeev Maliwal (Joint A/c)	666,666	10/-	45/-	0.88
Amtel Finance Limited.*	3,555,556	10/-	45/-	4.67
Total	**11,553,334**	**10/-**	**45/-**	**15.18**

* Have entered into separate subscription agreements dated February 16, 2006 with the Bank and the Promoter. For further details, please refer to the chapter on 'History and Certain Corporate Affairs- Investment by Private Equity Investors' on page 114 of the Draft Red Herring Prospectus.

AKFED intends to transfer Equity Shares at the price of Rs. 10 per Equity Share to the following shareholders of the Bank :

Name of the Shareholders	No. of Equity Shares held as on Sept 11, 2006	% of pre-Issue paid-up equity capital	No of Equity Shares to be transferred	% of pre-Issue paid-up equity capital after the transfer	% of post-Issue paid up equity capital(Assuming no participation in the IPO)
Khattar Holdings Pte. Ltd.	3,555,556	4.67	243,440	4.99	2.57
Housing Development Finance Corporation Ltd.	3,555,556	4.67	243,440	4.99	2.57
Amtel Finance Limited.	3,555,556	4.67	243,440	4.99	2.57

The intended transfer is subject to the appropriate regulatory approvals, if any, and acceptance thereof by the shareholders. The intended transfer is expected to be completed before filing the Prospectus with ROC. After the aforesaid transfer, AKFED's holding in the Bank would stand reduced to 57.47% of the Pre Issue Capital from the current level of 58.43%.

2. **Promoter's Contribution and Lock-In**

In terms of the SEBI Guidelines, 20% of the shareholding of the Promoter would be locked-in for a period of three years as under:

Date on which the Equity Shares were allotted / acquired	Nature of Payment	Number of Equity Shares	Face Value	Issue Price	% of post-Issue paid-up equity capital	Lock in period (years)
January 3, 1996	Cash	2,250,000	10	40	1.52%	1
February 23, 2001	Cash	6,365,400	10	40	4.31%	1
December 19, 2002	Cash	5,177,272	10	40	3.51%	1
February 12, 2004	Cash	1,125,000	10	40	0.76%	1
March 25, 2004	Cash	4,366,386	10	40	2.96%	3
June 3, 2004	Cash	23,156	10	40	0.02%	3
March 31, 2005	Cash	25,173,158	10	55	17.05%	3

The Equity Shares will be locked-in for the periods specified above from the date of allotment of Equity Shares in this Issue. The Equity Shares to be locked-in for a period of three years have been computed as 20% of the Bank's equity capital after the Issue. The Promoter's contribution has been brought in to the extent of not less than the specified minimum lot and from persons defined as promoters under the SEBI Guidelines.

Locked-in Equity Shares held by the Promoter can be pledged with banks or financial institutions as collateral security for loans granted by such banks or financial institutions. In terms of clause 4.16 (b) of the SEBI Guidelines, Equity Shares held by the Promoter may be transferred to and amongst the Promoter Group or to a new promoter or persons in control of the Bank subject to continuation of the lock-in in the hands of the transferees for the remaining period and compliance with SEBI Takeover Regulations, as applicable.

Further, in terms of clause 4.16 (a) of the SEBI Guidelines, Equity Shares held by shareholders other than the Promoter may be transferred to any other person holding shares which are locked-in as per Clause 4.14 of the SEBI Guidelines, subject to continuation of the lock-in in the hands of the transferees for the remaining period and compliance with SEBI Takeover Regulations, as applicable.

Other than the lock-in on the Equity Shares held by the Promoters as stated above, the entire pre-Issue equity share capital of the Bank will be locked in for the period of one year from the date of allotment in this Issue. The Bank has already despatched a letter dated January 20, 2006 to the existing shareholders intimating them of the lock-in which would be imposed after the allotment of equity shares to be issued in the Issue. On finalisation of basis of allotment for the Equity Shares to be issued pursuant to the Issue, the Bank would mail stickers (to all shareholders holding shares in physical form) indicating the lock in period to all shareholders whose Equity Shares are to be locked in for a period of one year. The lock in for Equity Shares held in dematerialised form would be created as per the by-laws of the depositories. The Bank will also inform the Stock Exchanges about the details of Equity Shares locked in for a period of one year and three years.

3. No securities have been purchased or sold by the Promoter, Promoter Group, directors of Promoter and the Directors of the Bank during a period of six months preceding the date on which the Red Herring Prospectus is filed with the Board and the Bank will update the Draft Prospectus by incorporating the information in this regard till the time of filing the Prospectus with the Registrar of Companies.

4. **Equity Shares held by top ten shareholders**

The Bank's top ten shareholders and the Equity Shares held by them on the date of filing the Red Herring Prospectus and ten days prior to the date of filing the Red Herring Prospectus with SEBI are as follows:

(As on September 11, 2006)

S.No.	Name	No. of Equity Shares	Percentage to total issued capital before Issue
1	AKFED	44,480,372	58.43
2	Khattar Holding Pte. Ltd.	3,555,556	4.67
2	Housing Development Finance Corporation Ltd	3,555,556	4.67
2	Amtel Finance Limited.	3,555,556	4.67
3	Platinum Jubilee Investments Ltd.	2,450,182	3.22
4	Rajeev Maliwal (joint A/c)	666,666	0.88
5	Vinodchandra M. Parekh Sanjeev V. Parekh	503,360	0.66
6	Suvijay Exports Limited.	220,000	0.29
7	Sanjeev V. Parekh Daksha S. Parekh	186,731	0.25
8	Nadirshah N. Padamsee Noorjehan N. Padamsee	163,142	0.21
9	Sanjeev V. ParekhVinodchandra M. Parekh	161,570	0.21
10	Kumarpal M. Parekh Sangita K. Parekh	160,000	0.21

(As on September 01, 2006)

S.No.	Name	No. of Equity Shares	Percentage to total issued capital before Issue
1	AKFED	44,480,372	58.43
2	Khattar Holding Pte. Ltd.	3,555,556	4.67
2	Housing Development Finance Corporation Ltd	3,555,556	4.67
2	Amtel Finance Limited.	3,555,556	4.67
3	Platinum Jubilee Investments Ltd.	2,450,182	3.22
4	Rajeev Maliwal (joint A/c)	666,666	0.88
5	Vinodchandra M. Parekh Sanjeev V. Parekh	503,360	0.66
6	Suvijay Exports Limited.	220,000	0.29
7	Sanjeev V. Parekh Daksha S. Parekh	186,731	0.25
8	Nadirshah N. Padamsee Noorjehan N. Padamsee	163,142	0.21
9	Sanjeev V. Parekh Vinodchandra M. Parekh	161,570	0.21
10	Kumarpal M. Parekh Sangita K. Parekh	160,000	0.21

The Bank's shareholders and the Equity Shares held by them two years prior to the date of filing the Red Herring Prospectus (as on September 11, 2004) are as follows:

Name	No. of Equity Shares	Percentage to total issued capital before Issue
AKFED	19,307,214	25.36%
Platinum Jubilee Investments Ltd.	2,450,182	3.22%
Vinodchandra M. Parekh & Sanjeev Parekh	503,360	0.66%
Mirza Issa Merchant	250,739	0.33%
Sanjeev V. Parekh & Daksha S. Parekh	186,731	0.25%
Sanjeev V. Parekh & Vinodchandra M. Parekh	161,570	0.21%
Kumarpal M. Parekh &Sangita K. Parekh	160,000	0.21%
Habib Gulamhusein Lalji	115,010	0.15%
Pranav Kumarpal Parekh & Kumarpal M. Parekh	92,765	0.12%
Navaz Sarosh Bharucha & Sarosh A. Bharucha	84,284	0.11%
Mirza Issabhai Merchant & Maleksultan Merchant	84,284	0.11%

5. Other than ESOPs as disclosed here-in-under, as of the date of the Red Herring Prospectus there are no outstanding warrants, options or rights to convert debentures, loans or other financial instruments into the Bank's Equity Shares.

6. **Shareholding pattern as on date of filing**

The table below presents the Bank's shareholding pattern before the proposed Issue and as adjusted for the Issue

(As on September 11, 2006)

Shareholder Category	Prior to the Issue		After the Issue	
	Number	%	Number	%
Promoter	44,480,372	58.43	44,480,372	30.13
Platinum Jubilee Investments Limited	2,450,182	3.22	2,450,182	1.66
Public	29,201,633	38.36	100,701,633	68.21
Total	**76,132,187**	**100.0**	**147,632,187**	**100.0**

*Post Issue shareholding is calculated assum ing that the existing shareholders will not participate in the Issue

7. Neither the Bank, nor the Directors or the Promoter or the directors of the Promoters or the BRLMs have entered into any buyback and/or standby arrangements for the purchase of the Equity Shares from any person.

8. The Bank has not raised any bridge loan against the proceeds of the Issue. For details on use of proceeds, see the section titled "Objects of the Issue" on page 35 of this Red Herring Prospectus.

9. Up to 50% of the Net Issue shall be allocated to QIBs on a proportionate basis, including the reservation of 5% of the QIB portion for mutual funds. Further, not less than 15% of the Net Issue will be available for allocation on a proportionate basis to Non-Institutional Bidders and the remaining 35% of the Net Issue will be available for allocation to Retail Individual Bidders, subject to valid Bids being received from them at or above the Issue Price. Under-subscription, if any, in the Employee Reservation Portion would be added back to Non-institutional Bidder Portion and Retail Individual Bidder Portion in the ratio of 50:50. Under-subscription, if any, in any other categories would be

allowed to be met with spill over from any other category at the sole discretion of the Bank and the BRLMs.

10. A Bidder cannot make a Bid for more than the number of Equity Shares offered in this Issue, subject to the maximum limit of investment prescribed under relevant laws applicable to each category of investor.

11. The Bank operates an employee stock option scheme, being the Development Credit Bank Ltd. 2005 Employee Stock Option Plan ("**ESOP Plan**"). The shareholders of the Bank approved the ESOP Plan at the EGM on November 21, 2005. The ESOP Plan covers permanent employees in valid and active employment of the Bank, including Directors. The ESOP Plan provides for the issue of a maximum of 2,917,000 shares of Rs. 10 each to the eligible employees. The Nomination Committee of the Board of Directors comprising Mr. Anuroop Singh (Chairman), Mr. Nasser Munjee, Mr. Amin Manekia and Mr. Amir Sabuwala.administers the ESOP Plan. A copy of the ESOP Plan is made available for inspection as part of "Material Contracts and Documents for Inspection" listed on page 274.

As of the date of filing this Red Herring Prospectus, the Bank has granted the following options under the ESOP Plan:

SI. No.	Nature of Disclosure	Particulars
1.	Number of Options Granted	2,917,000
2.	Exercise price	Rs. 40 per share or 90% of the Issue price, whichever is lower
3.	Options vested	None
4.	Options exercised	None
5.	The total number of Equity Shares arising as a result of exercise of options	2,917,000
6.	Options lapsed	None
7.	Variation of terms of options	N.A.
8.	Money realized by exercise of options	N.A.
9.	Total number of options in force	2,917,000
10.	Person-wise details of options granted to:	
	(i) Directors and key managerial employees	Details given in table below
	(ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during that year	N.A.
	(iii) Identified employees who are granted options, during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Bank at the time of grant	Gautam Vir, Managing Director is entitled to options equivalent to 2% of the diluted issued capital of the Bank.

SI. No.	Nature of Disclosure	Particulars
11.	Diluted Earning Per share (EPS) pursuant to issue of shares on exercise of options (for the unconsolidated financial statement of the Company)	Not applicable as no options have been exercised
12	Difference, if any, between employee compensation cost (calculated using the intrinsic value of stock options) and the employee compensation cost (calculated on the fair value of the options)	N.A.
13.	Impact of this difference on the profits and EPS of the Bank	N.A. Options have only been granted during the current financial year and therefore there has not yet been any impact on the profits and on the EPS of the Bank.
14.	Weighted average exercise price of options whose exercise price either equals or exceeds or is less than the market price of the stock	N.A.
15.	Weighted average fair value of options whose exercise price either equals or exceeds or is less than the market price of the stock	N.A.
16.	Vesting schedule	The vesting schedule under the ESOP Plan is as • 40% at the end of the 3rd year· • 30% at the end of the • 4th year 30% at the end of the 5th year from the of grant.
17.	Lock-in	• Can be exercised between 3 to 5 years after grant.

The details regarding options granted to Directors and key managerial employees are set forth below:

No.	Name of Director or Key Managerial Employee	Date of Allotment	Number of Options entitled	Number of equity shares issuable upon exercise of the option
	Directors			
1	Mr Gautam Vir	13-09-2005	1,522,000	1,522,000
	Key Managerial Employees			
2	Mr. K. Harihar	12-11-2005	205,000	205,000
3	Mr D.K. Vasal	10-12-2005	150,000	150,000
4	Mr. R. Venkattesh	15-12-2005	125,000	125,000
5	Mr. Pravin Batra	03-01-2006	235,000	235,000
6	Mr. Parag Patankar	16-01-2006	205,000	205,000
7	Mr. P.N. Vasudevan	18-01-2006	175,000	175,000
8.	Mr. Adil Kasad	16-05-2006	150,000	150,000
9.	Mr. Susheel Narain Kak	15-09-2006	150,000	150,000

a) The Bank has granted 2,917,000 options to 8 employees and 1 Director. None of the options granted under the ESOP plan have vested

b) Mr. Gautam Vir, Managing Director of the Bank was allotted 1,522,000 during FY 2006 which if exercised exceeds 1% of the issued capital of the Bank at the time of grant of option. For details of employees who received grant in any one FY amounting to 5% or more of options granted during that year, see the table above. None of the options has been vested with the employees, hence disclosure under clause 15.3(b) and 15.3(c) are not required

13. Except on the exercise of the options allotted under the ESOP Plan, there would be no further issue of capital whether by way of issue of bonus shares, preferential allotment, rights issue or in any other manner during the period commencing from submission of the Red Herring Prospectus with SEBI until the Equity Shares offered hereby have been listed.

14. Except on the exercise of the options allotted under the ESOP Plan or further issue of capital by the Bank so as to reduce the holding of AKFED to less than 10% of the paid-up capital of the Bank, the Bank presently does not have any intention or proposal to alter its capital structure for a period of six months commencing from the date of opening of this Issue, by way of split/ consolidation of the denomination of Equity Shares or further issue of Equity Shares or securities convertible into Equity Shares, whether on a preferential basis or otherwise. However, during such period or at a later date, the Bank may issue equity shares or securities linked to equity shares to finance an acquisition, merger or joint venture by the Bank or as consideration for such acquisition, merger or joint venture, or for regulatory compliance or such other scheme of arrangement if an opportunity of such nature is determined by the Board to be in the interest of the Bank. The shareholders in the Annual General Meeting held on Spetember 11, 2006 have approved a resolution providing additional 3% of equity to be reserved for ESOPs subject to obtaining all requsite approvals /compliances.

15. The Bank has not issued any Equity Shares out of revaluation reserves or any Equity Shares for consideration other than cash,, except for issue of Equity Shares to shareholders of Development Co-operative Bank Limited pursuant to conversion of Development Co-operative Bank Limited into the Company, within a period of two years preceding the date of this Red Herring Prospectus.

16. There will be only one denomination of the Equity Shares of the Bank unless otherwise permitted by law and the Bank shall comply with such disclosure and accounting norms as may be specified by SEBI from time to time.

17. The Bank has 53,336 members as of the date (September 11, 2006) of filing this Red Herring Prospectus.

RECENT DEVELOPMENTS

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF

DEVELOPMENT CREDIT BANK LIMITED

ON LIMITED REVIEW OF UNAUDITED FINANCIAL RESULTS FOR THE

QUARTER ENDED JUNE 30, 2006

We have reviewed the accompanying statement of unaudited financial results of **Development Credit Bank Limited** ('the Bank') for the quarter ended June 30, 2006. This statement is the responsibility of the Bank's Management and has been approved by the Board of Directors in their meeting held on July 25, 2006.

A review of unaudited financial results consists principally of applying analytical procedures for financial data and making inquiries of persons responsible for financial and accounting matters. Our review was carried out having regard to the guidelines issued by the Reserve Bank of India and AAS-33 – Engagements to Review Financial Statements as issued by the Institute of Chartered Accountants of India. This standard requires that we plan and perform the review to obtain moderate assurance, whether the financial statements are free from material misstatements. It is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review conducted as above, nothing has come to our notice that causes us to believe that the accompanying statement of unaudited financial results has not disclosed the information required, including the manner in which it is to be disclosed, or that it contains any material misstatement or that it has not been prepared in accordance with the Accounting Standards and with the relevant prudential norms issued by the Reserve Bank of India in respect of income recognition, asset classification, provisioning and other related matters.

For N.M. Raiji & Co.
Chartered Accountants

Vinay D. Balse
Partner
Membership No.39434

Place: Mumbai

Dated: July 25, 2006

Development Credit Bank Limited

Unaudited financial results for the quarter ended June 30, 2006

(Rs. In Millions)

Sr. No.	Particulars	For the Quarter ended 30.06.2006	For the Quarter ended 30.06.2005	For the Year ended 31.03.2006
		Unaudited	**Unaudited**	**Audited**
1	**Interest Earned (a+b+c+d)**	**737.93**	**703.74**	**2,771.42**
a.	Interest / Discount on advance/ bills	477.94	404.72	1,760.86
b.	Income on Investments	211.91	235.48	870.35
c.	Interest on balances with Reserve Bank of India and Other Inter Bank Funds	48.08	62.03	138.70
d.	Others	-	1.51	1.51
2	Other Income	261.39	194.67	802.90
A.	**TOTAL INCOME (1+2)**	**999.32**	**898.41**	**3,574.32**
3	Interest Expended	510.73	548.69	2,019.53
4	Operating Expenses (a+b)	402.74	427.31	1,751.44
a.	Payments to and Provisions for Employees	150.69	145.83	517.04
b.	Other Operating Expenses	252.05	281.48	1,234.40
B.	**TOTAL EXPENDITURE (3+4)**	**913.47**	**975.99**	**3,770.97**
C.	**OPERATING PROFIT (A - B)**	**85.85**	**(77.58)**	**(196.65)**
D.	Other Provisions and Contingencies	42.42	164.02	625.26
E.	(i) Provision for Taxes	**-**	-	**-**
	(ii) Deferred Tax Assets	**-**	-	30.70
F.	**Net Profit (C - D - E)**	**43.43**	**(241.60)**	**(852.61)**
5	Paid-up Equity Share Capital	761.32	645.79	761.32
6	Reserves excluding Revaluation Reserves	675.99	843.93	631.74
7	**Analytical Ratios**			
a.	Percentage of shares held by Government of India	Nil	Nil	Nil
b.	Capital Adequacy Ratio (%)	9.39	9.10	9.66
c.	Earning per share for the period / year - Basic / Diluted (Rs.)	0.57	(3.74)	(12.93)
d.	Gross NPAs to Gross Advances (%)	14.51	14.38	15.01
e.	Net NPAs to Net Advances (%)	4.05	6.36	4.50
f.	Return on Assets (%) (Annualised)	0.43	(2.08)	(2.01)
8	**Aggregate of Non-promoter shareholding**			
	(i) No. of shares	29,201,633	17,648,299	29,201,633
	(ii) % of shareholding	38.36	27.33	38.36

Segment-wise Results

(Rs. in Millions)

Sr. No.	Business Segment Particulars	For the Quarter ended 30.06.2006	For the Quarter ended 30.06.2005	For the Year ended 31.03.2006
		Unaudited	**Unaudited**	**Audited**
1	**Segment Revenue**			
a	Treasury Operations	309.10	361.70	1,254.58
b	Banking Operations	643.01	521.68	2,232.08
c	Others	47.20	15.03	87.66
	Income from Operations	**999.31**	**898.41**	**3,574.32**
2	**Segment Results**			
a	Treasury Operations	31.70	(22.84)	230.70
b	Banking Operations	(33.42)	(232.64)	(1,166.36)
c	Others	45.15	13.88	83.05
	Total Profit/(Loss) after Provisions & Tax	**43.43**	**(241.60)**	**(852.61)**
3	**Capital Employed**			
	(Segment Assets - Segment Liabilities)			
a	Treasury Operations	8,523.61	5,418.14	5,230.59
b	Banking Operations	(7,834.87)	(3,863.38)	(4,522.00)
c	Others	-	-	-
	Total	**688.74**	**1,554.76**	**708.59**

Notes:

1. These results have been reviewed by the Audit Committee and taken on record by the Board of Directors at its meeting held on 25th July,2006, in respect of which a Limited Review has been conducted by the Statutory Auditors of the Bank.

2. Disclosure about investor complaints:

Complaints at the beginning of the quarter	Received during the quarter	Disposed of during the quarter	Unresolved as on 30.06.2006
NIL	1	1	NIL

3. During the quarter, the Bank has written back excess bonus provision for the previous year of Rs.19.00 millions which is no longer required.

4. During the quarter, the Bank has changed its policy of accounting for recoveries of Non - performing advances, in that recoveries affected against Sub - Standard assets, that were hitherto adjusted against overdue interest and then against principal are now adjusted initially against the principal and then against overdue interest. Consequent thereto, profit for the quarter before tax is lower by Rs.1.53 millions.

5. Previous period figures have been regrouped / rearranged wherever necessary.

Key Ratios

DEVELOPMENT CREDIT BANK LIMITED

Key Accounting Ratios Restated

INR in Million

Particulars	Audited Balance Sheet as at 31st March	Reviewed 3 months ended	
	2006	**Jun-06**	**Jun-05**
Earnings per Share (basic) (Rs.)	-12.23	0.57	-3.67
Earnings per Share (diluted) (Rs.)	-12.23	0.57	-3.67
Book Value per Share (Rs.)	18.30	18.86	23.14
Return on Average Net Worth	-52.74%	12.27%	-60.08%
Net NPA to Net Advances	4.50%	4.05%	6.36%
Interest Income/Average Working Funds	6.57%	7.29%	6.05%
Non Interest Income/Average Working Funds	1.90%	2.58%	1.67%
Return on Assets	-1.91%	0.43%	-2.04%
Business per Employee	39.03	34.40	47.02
Net Profit/(Loss) per Employee	-0.63	0.11	-0.78
Capital Adequacy Ratio	9.66%	9.39%	9.13%
Tier I	5.96%	5.79%	5.33%
Tier II	3.70%	3.60%	3.80%
Dividend Pay Out Ratio	0.00%	0.00%	0.00%

OBJECTS OF THE ISSUE

As a banking company, the Bank is regulated by the RBI. The RBI guidelines require the Bank to maintain a minimum ratio of capital to risk adjusted assets and off-balance sheet items of 9.0%, at least half of which must be Tier-I capital. See "Regulations and Policies – Reserve Bank of India Regulations – Capital Adequacy Requirements" on page 91. The Bank's total capital adequacy ratio was 9.66% as at March 31, 2006 including Tier-I capital adequacy ratio of 5.96% and Tier-II capital of 3.70% of risk-weighted assets.

As part of its Revitalization Plan, the Bank has actively pursued new capital infusions. The Bank believes that additional capital is required for future asset growth and in compliance with regulatory requirements. The objects of the Issue are:

(i) to augment the Bank's Tier-I capital base to meet the Bank's future capital requirements which are expected to arise out of growth in the Bank's assets, primarily the Bank's loans/advances and investment portfolio and to ensure compliance with RBI guidelines and other regulatory requirements; and

(ii) to fund other general corporate purposes including meeting the expenses of the Issue.

Requirement and Sources of Funds

Requirement of Funds	**(Rs. in million)**
Augment the capital base of the Bank to meet future capital adequacy requirements arising out of growth in businesses	[•]
Estimated Issue expenses	[•]
Total	**[•]**
Sources of Funds	**(Rs. in million)**
Proceeds of the Issue	[•]
Total	**[•]**

The main objects clause and the objects incidental or ancillary to the main objects clause of the Memorandum of Association enable the Bank to undertake its existing activities and the activities for which the funds are being raised by it in the Issue.

Augment the Bank's capital base to meet future capital adequacy requirements arising out of growth in the Bank's businesses

The Bank is engaged in the business of banking and is seeking to strengthen its capital base to support the future growth in assets and comply with capital adequacy requirements applicable to it. The proceeds of this Issue after meeting all expenses of the Issue will be used for the Bank's business activities as permitted under law.

Estimated Issue Expenses

The expenses for the Issue include among others, underwriting and management fees, selling commissions, printing and distribution expenses, legal fees, statutory advertising expenses and listing fees payable to the stock exchanges. The estimated Issue expenses* are as follows.

Activity	**(Rs. in million)**	**% of Total Issue Expenses**	**% of Total Issue Size**
Lead Management fee, underwriting and selling commission	[•]	[•]	[•]
Registrars fee	[•]	[•]	[•]
Advertising and Marketing expenses	[•]	[•]	[•]
Printing and stationery	[•]	[•]	[•]
Others (legal fee, listing fee, Auditors, Book Building fees, etc.)	[•]	[•]	[•]
Total	**[•]**	**[•]**	**[•]**

* Subject to approval of the Reserve Bank of India.

BASIS FOR ISSUE PRICE

Qualitative Factors

- **Comprehensive Revitalization Plan:** The management has been actively addressing the financial, liquidity, risk management, personnel and operational issues facing the Bank. The Bank has established a comprehensive revitalization plan to revitalize its business and to address key weaknesses that have restricted its ability to grow its business.
- **High customer base:** The Bank is a private sector banking institution with a customer base of approximately 595,000 retail customers. The Bank has had a long relationship with a large percentage of its customers. The Bank maintains high levels of customer service which it believes promotes loyalty in customers.
- **Scalable Infrastructure and products:** The Bank has a scalable distribution infrastructure comprising 72 fully networked consumer branches including 5 extension counters, 101 ATMs, online Internet banking and mobile messaging. The Bank has developed a range of products and delivery infrastructure on a technology platform that can be leveraged to deliver high volume growth with a less than proportionate increase in the costs.
- **Differentiated business model:** The Banks business model focusing primarily on offering an extensive product and service range in select geographical locations. The Bank's business approach will be titled 'Feel the difference' and will be based on its delivery channels.
- **Extensive use of Information technology systems:** The Bank has implemented "Finacle", a core banking solution, which enables the complete integration of the Bank's front, mid and back offices for achieving higher levels of efficiency. The Bank has also deployed Oracle Financials, a decision support system and Oracle Human Resource Information System Software, a HR automation system.
- **Professional and experienced management team:** The Bank reconstituted its Board in 2004 to ensure that most of the members of the board have relevant finance and banking experience. The Bank now has a committed and experienced management team which has immense expertise in their respective fields, including Mr. Nasser Munjee who has over 28 years of experience in the financial service industry and was previously the CEO of Infrastructure Development Finance Company and Mr. Gutam Vir who has over 26 years of experience in the banking industry and who was previously with Citibank.
- **Promoter:** The Bank has a committed Promoter, viz. the Aga Khan Fund for Economic Development S.A. (AKFED). AKFED operates in five broad sectors: industry and infrastructure, tourism development, financial services, media and aviation and has in the past consistently supported the bank by infusing capital when required. The Bank proposes to build on their expertise, as well as to capitalize on the business relations of the Promoter with other banks which will enable the Bank in acquiring and servicing NRI customers in the UK, East Africa and Middle East.

While the Bank has already made provisioning with respect to its corporate loans in excess of the regulatory standards and above the industry norms, during FY 2001 and FY 2002, it went through a rigorous exercise to recognize impaired corporate assets, following the downturn of certain industries and non performance of certain loans given to a few capital market participants. During the period from FY 2001 through FY 2005, the Bank witnessed an overall slow growth rate and was unable to build up their loan book due to capital constraints and an increase in provisioning from 29.18% in FY 2002 to 55.06%% in FY 2005. As a result the ratio of the Bank's Net NPAs to net advances rose from 6.16% as on March 31, 2001 to 6.76% as on March 31, 2002 to 9.73% as on March 31, 2003 and to 7.55% as on March 31, 2004. Going forward the Bank may decide to make provisioning on a prudential basis so that it may not have any material adverse impact on the Bank's future earnings.

The Bank has recently gone in for a senior level management change. It brought in former IDFC CEO Naseer Munjee as the non executive chairman of the Bank and Gautam Vir, former CEO of Hebros Bank and who has previously worked with Citibank. The new management team has decided to raise funds to sustain business growth. Infusion of capital is being done through the recent preferential issue of shares on February 17, 2006 and the proposed Issue. The infusion of these funds would enable the Bank to access resources to support growth and increase provision levels. The new management team has brought in a greater focus on risk management and on containing non-strategic. The Bank introduced the Voluntarily Retirement Scheme (VRS scheme) in May 2005, which has reduced the number of employees from 1516 to 1253, enabling the Bank in reducing non strategic expenses. The Bank has established a Management Information System (MIS) to enhance its capability for risk management. The Bank's past profitability has suffered due to legacy NPAs for which the Bank has made provisions. Over the last 5 years the Bank has maintained the capital adequacy ratio requirement as per the norms stipulated by the RBI. The Banks capital adequacy ratio was 11.68% as on March 31, 2001, 11.49% as on March 31, 2002, 9.16% as on March 31, 2003, 9.50% as on March 31, 2004 and 9.54% as on March 31, 2005.

Quantitative Factors

Information presented in this section is derived from the Bank's audited restated standalone financial statements prepared in accordance with Indian GAAP.

1. Weighted average earnings per share (EPS)*

Period	Basic EPS	Weight
Year ended March 31, 2004	(14.84)	1
Year ended March 31, 2005	(17.34)	2
Year ended March 31, 2006	(12.23)	3
Weighted Average	**(14.37)**	

* The weighted average number of Equity Shares has been considered for calculation of EPS.

2. Weighted average return on average net worth*

Period	Return on Average Net Worth (%)	Weight
Year ended March 31, 2004	(23.11)	1
Year ended March 31, 2005	(41.22)	2
Year ended March 31, 2006	(52.74)	3
Weighted Average	**(43.96)**	

* Net worth has been computed by aggregating share capital, reserves and surplus and adjusting for revaluation reserves, intangible assets and deferred tax assets as per the Bank's audited restated financial statements.

3. Net Asset Value per Equity Share at March 31, 2006 is Rs. 18.30

4. Net Asset Value per Equity Share after Issue

The net asset value per Equity Share after the Issue is [●]

Issue Price per Equity Share: Rs. [●]

Issue Price per Equity Share will be determined on conclusion of book building process.

5. Comparison of Accounting Ratios for the FY year ended March 31, 2006

	EPS	P/E	Return on Average Net Worth	Book value Per Share
DCB	-	-	(52.74)	18.30
Bank of Rajasthan	2.8	13.6	4.6	31.7
IndusInd Bank Ltd	0.2	-	27.0	29.8
ING Vyasa Bank Ltd	1.6	87.0	-	100.1
Jammu & Kashmir Bank Ltd	35.3	11.1	10.2	371.1
Karur Vyasa Bank Ltd	37.9	7.3	16.6	242.4
Karnataka Bank	14.1	8.0	16.9	91.6
Yes Bank Ltd	2.3	39.9	14.1	21.2

Source: EPS, RONW, BV from *Capital Market*, Sep 11 - 24, 2006. vol. XXI/14

The Issue Price of Rs. [●] has been determined on the basis of the demand from investors through the book-building process and is justified based on the above. The face value of the Equity Shares is Rs. 10 each and the Issue Price is [●] times of the face value.

The BRLMs believe that the Issue Price of Rs. [●] is justified in view of the above qualitative and quantitative parameters. See the section titled "Risk Factors" on page X of this Red Herring Prospectus and the financials of the Bank including important profitability and return ratios, as set out in the Auditors' report on page 165 of this Red Herring Prospectus to have a more informed view.

STATEMENT OF TAX BENEFITS

The information provided below sets out the possible tax benefits available to the Bank and its shareholders under the current tax laws presently in force in India, as provided by M/s N.M. Raiji & Co, the Auditors of the Bank by their 'statement of tax benefits', dated September 9, 2006. Several of these benefits are dependent on the Bank or its shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence, the ability of the Bank or its shareholders to derive the tax benefits is dependent upon fulfilling conditions, as may be necessary, and is based on business imperatives the Bank faces in the future. It may be also kept in mind that the Bank may or may not choose to fully utilize the benefits. It may be also noted that the benefits discussed below are not exhaustive and this statement is only intended to provide general information to the investors and is neither designed nor intended to be substitute for professional tax advice.

I) INCOME TAX

a) To the Bank

1. As per provisions of Section 10(15)(i) of the Income Tax Act, 1961 (hereinafter called "the Act"), income by way of interest, premium on redemption or other payment on securities, bonds, deposits etc. notified by the Central Government is exempt from tax, subject to such conditions and limits as may be specified by Central Government in this behalf.
2. Under Section 10(34) of the Act, income earned by way of dividend from another domestic company is exempt from tax in the hands of the Bank.
3. Under Section 10(35) of the Act, income received in respect of units of a mutual fund specified under Section 10(23D) of the Act, income received in respect of units from the Administrator of specified undertaking and / or specified company [as defined under Unit Trust of India (Transfer of Undertaking and Repeal Act, 2002)], are exempt from tax in the hands of the Bank.
4. Long-term capital gains arising from transfer of eligible equity shares purchased by the bank on or after March 1, 2003 and before March 1, 2004 are exempt from tax subject to and in accordance with the provisions of Section 10(36) of the Act.
5. Capital gains arising on transfer of long-term capital assets, being equity shares in a company or units of equity oriented mutual fund on sale, on which securities transaction tax is paid, are exempt under Section 10(38) of the Act, whereas short-term capital gains are subject to a concessional rate of tax under Section 111A of the Act at the rate of 10% (plus applicable surcharge and education cess). However, minimum alternate tax of 10% (plus applicable surcharge and education cess) of book profit is payable under Section 115JB on such long term capital gains if 10% of book profit computed as per provision of Section 115JB is higher than the total income as per normal provision of the Act. If the shares or units on which securities transaction tax has been paid are treated as stock-in-trade liable to tax as business profits, rebate can be claimed from the income tax payable by the Bank in accordance with provisions of Section 88E of the Act towards such securities transaction tax.
6. The benefit of exemption from tax under Section 10(38) of the Act on long-term capital gains, or, concessional rate of tax under Section 111A of the Act on short-term capital gains will not be available, where no securities transactions tax is applicable. In such cases, under the provisions of Section 112 of the Act, taxable long-term capital gains, if any, on sale of listed securities or units would be charged to tax at the concessional rate of 20% (plus applicable surcharge and education cess), after considering indexation benefits, or at 10% (plus applicable surcharge and education cess) without indexation benefits in accordance with and subject to the provision of Section 48 of the Act. Under Section 48 of the Act, the long-term capital gains arising out of sale of capital assets excluding bonds and debentures (except Capital Indexed Bonds issued by the Government) will be computed after indexing the cost of acquisition/improvement.

7. As per the provisions of section 36(1)(iiia), the Bank is entitled to deduction in respect of pro rata amount of discount on a zero coupon bond, having regard to the period of life of such bond, calculated in the manner as may be prescribed by rules in this behalf. Zero coupon bond is defined under section 2(48) of the Act to mean a bond issued by any infrastructure capital company or infrastructure capital fund or public sector company on or after 1.6.2005 in respect of which no payment and benefit is received or receivable before maturity or redemption from infrastructure capital company/fund or public sector company and which is notified by the Central Government in this behalf.

8. Under Section 36(1)(viia) of the Act, in respect of any provision made for bad and doubtful debts, the Bank is entitled to deduction;

   (i) Upto 7.5% of the total income (computed before making any deductions under the said clause and Chapter VIA);

   (ii) Upto 10% of the aggregate average advances made by the rural branches, if any, of the Bank computed in the prescribed manner; and

   (iii) Further, with effect from April 1, 2004, the Bank, at its option, can claim further deduction in excess of the limits specified in the foregoing provisions for an amount not exceeding the income derived from redemption of securities in accordance with a scheme framed by the Central Government provided that such income is disclosed in the return of income of the Bank under the head “Profits & Gains of Business or Profession”

9. Under Section 36(1)(vii) of the Act, any bad debts, or part thereof, written off as irrecoverable, would be allowed as a deduction from the total income in accordance with and subject to the provisions contained therein.

10. As per provisions of clause (d) of proviso to Section 43(5) of the Act, an eligible transaction in respect of trading in derivatives referred to in clause (aa) of section 2 of Securities Contracts (Regulation) Act, 1956, carried out in a recognized stock exchange is not deemed to be a speculative transaction. An eligible transaction is defined to mean any transaction carried out electronically on screen-based systems by banks or mutual funds or through a SEBI registered stock broker or sub-broker, or such other intermediary, and which is supported by a time stamped contract note issued by such stock broker or sub-broker or intermediary to the client indicating unique client identity number and permanent account number. This has the benefit of set off of losses in respect of such transactions with other income of the Bank.

11. As per the provisions of Section 43D of the Act, interest income on certain categories of bad or doubtful debts as specified in Rule 6EA of the Income Tax Rules 1962 shall be chargeable to tax only in the year in which it is credited to the Profit and Loss account or actually received, whichever is earlier.

12. As per Section 54EC of the Act, subject to the conditions specified therein, tax on capital gains arising from the transfer of a long-term capital asset is exempt from tax, provided that the Bank has, at any time within a period of six months after the date of the transfer, invested the whole of the capital gains in any specified long-term asset for the purposes of Section 54EC of the Act. If only a portion of the capital gains is so invested, then the exemption would be available proportionately.

13. As per the provisions of section 72AA of the Act, where there has been an amalgamation of a banking company with the Bank under a scheme sanctioned and brought into force by the Central Government under sub-section (7) of section 45 of the Banking Regulation Act, 1949, the accumulated loss and the unabsorbed depreciation of such banking company shall be deemed to be the loss or, as the case may be, allowance for depreciation of the Bank for the previous year in which the scheme of amalgamation was brought into force and other provisions of the Act relating to set-off and carry forward of loss and allowance for depreciation shall apply accordingly.

14. As per the provisions of Section 80LA of the Act as amended by SEZ Act, 2005 with effect from 10.02.2006, where the bank's gross total income, in any previous year, includes income from an Offshore Banking Unit (OBU) in a special economic zone or income from banking business (as defined in Banking Regulations Act, 1949 with an undertaking located in a special economic zone, or any other undertaking which develops, or develops and operates, or operates and maintains a special economic zone, shall, subject to the fulfillment of the conditions specified in Section 80LA of the Act, be entitled to 100% deduction of such income for five consecutive assessment years, beginning with the assessment year relevant to the previous year in which the RBI's permission to open the offshore unit shall have been obtained, and after those three years, 50% deduction of such income for the next five consecutive assessment years.

b) To the resident shareholders of the Bank

1. As per section 10(34) of the Act, dividends declared, distributed or paid by the Bank are exempt from income tax in the hands of the recipient shareholders.
2. Section 94(7) of the Act provides that losses arising from the sale/transfer of shares purchased up to three months prior to the record date and sold within three months after such date, will be disallowed to the extent dividend on such shares are claimed as tax exempt by the shareholder.
3. As per Section 54EC of the Act, subject to the conditions specified therein, capital gains arising from the transfer of a long-term capital asset (including Equity Shares of the Bank) is exempt from tax, provided that the shareholder has, at any time within a period of six months after the date of the transfer, invested the whole of the capital gains in any specified long-term asset for the purposes of Section 54EC. If only a portion of capital gains is so invested, then the exemption is available proportionately.
4. As per the provisions of Section 54F of the Act, subject to the conditions specified therein, long-term capital gains accruing to a shareholder, not owning more than one house, being an individual or a Hindu undivided family, on transfer of shares of the Bank, shall be exempt from tax, provided the net consideration is utilised in the purchase of a residential house within a period of one year before or two years after the date of transfer of such shares, or in the construction of a residential house within a period of three years from the date of transfer of such shares of the Bank. If only a portion of the net consideration is so invested, then the exemption is available proportionately. The exemption is subject to other conditions specified in Section 54F of the Act.
5. Long-term capital gains would accrue to resident shareholders, where the Equity Shares are held for a period of more than 12 months prior to the date of their transfer. In accordance with and subject to the provisions of Section 48 of the Act, in order to arrive at the quantum of capital gains, the following amounts would be deductible from the full value of the consideration:

   (i) Cost of acquisition/improvement of the shares, as adjusted by the Cost Inflation Index notified by the Central Government and

   (ii) Expenditure incurred wholly and exclusively in connection with the transfer of the shares.
6. Capital gains arising on transfer of long-term capital assets, being equity shares in a company, on sale of which securities transaction tax is paid, are exempt under Section 10(38) of the Act, whereas short-term capital gains are subject to tax under Section 111A of the Act at the rate of 10% (plus applicable surcharge and education cess). However, shareholders being companies are required to pay minimum alternate tax of 10% (plus applicable surcharge and education cess) of book profit under Section 115JB on such long term capital gains if 10% of their book profit computed as per provisions of Section 115JB is higher than the total income as per normal to provisions of the Act.

   If the shares on which securities transaction tax has been paid are treated as stock-in-trade, liable to tax as business profits at the maximum marginal rate, rebate can be claimed in accordance with provisions of Section 88E of the Act towards such securities transaction tax.

7. The benefit of exemption from tax under Section 10(38) of the Act, on long-term capital gains or, concessional rate of tax under Section 111A of the Act, on short-term capital gains, will not be available, where no securities transactions tax is applicable.

   In such cases, under the provisions of Section 112 of the Act, taxable long-term capital gains, if any, on sale of listed securities would be charged to tax at the concessional rate of 20% (plus applicable surcharge and education cess) after considering indexation benefits or at 10% (plus applicable surcharge and education cess) without indexation benefits, in accordance with and subject to the provision of Section 48 of the Act.

   In respect of capital gains not chargeable under section 111A, the short term capital gains in respect of shares held for a period less than 12 months, is added to the total income. Total income, including short-term capital gains, is chargeable to tax as per the relevant rate applicable to the assessee, plus applicable surcharge and education cess.

c) To the Non-resident Shareholders, including NRIs, OCBs and FIIs.

1. As per section 10(34) of the Act, dividends declared, distributed or paid by the Bank are exempt from income tax in the hands of the recipient shareholders.

2. Section 94(7) of the Act provides that losses arising from the sale/transfer of shares purchased up to three months prior to the record date and sold within three months after such date, will be disallowed to the extent dividend on such shares are claimed as tax exempt by the shareholder.

3. As per Section 54EC of the Act, subject to the conditions specified therein, tax on capital gains arising from the transfer of a long-term capital asset (including Equity Shares of the Bank) is exempt from tax, provided that the shareholder has, at any time within a period of six months after the date of the transfer, invested the whole of the capital gains in any specified long-term asset for the purposes of Section 54EC. If only a portion of capital gains is so invested, then the exemption is available proportionately.

4. As per the provisions of Section 54F of the Act, subject to the conditions specified therein, long-term capital gains accruing to a shareholder, not owning more than one house, being an individual or a Hindu undivided family, on transfer of shares of the Bank, shall be exempt from tax, provided the net consideration is utilised in the purchase of a residential house within a period of one year before or two years after the date of transfer of such shares, or in the construction of a residential house within a period of three years from the date of transfer of such shares of the Bank. If only a portion of the net consideration is so invested, then the exemption is available proportionately. The exemption is subject to other conditions specified in Section 54F of the Act.

5. Long-term capital gains would accrue to non-resident shareholders, where the equity shares are held for a period of more than 12 months prior to the date of their transfer. In accordance with and subject to the provisions of Section 48 of the Act, in order to arrive at the quantum of capital gains, the following amounts would be deductible from the full value of consideration:

   (i) Cost of acquisition/improvement of the shares as adjusted by the Cost Inflation Index notified by the Central Government and

   (ii) Expenditure incurred wholly and exclusively in connection with the transfer of the shares

   As per the provisions of the first proviso to Section 48 of the Act, capital gains arising from the transfer of equity shares acquired by non-residents in foreign currency are to be computed by converting the cost of acquisition/improvement, expenditure incurred wholly and exclusively in connection with such transfer and the full value of the consideration received or accruing into the same foreign currency, as was initially utilised in the purchase of equity shares, and the capital gains so computed in such foreign currency shall then be re-converted into Indian currency. Cost indexation benefits will not be available in such cases.

6. Capital gains arising on transfer of long-term capital assets, being equity shares in a company, on sale of which securities transaction tax is paid, are exempt under Section 10(38) of the Act, whereas short-term capital gains are subject to tax under Section 111A of the Act at the rate of 10% (plus applicable surcharge and education cess). However, shareholders being companies are required to pay minimum alternate tax of 10% (plus applicable surcharge and education cess) of book profit under Section 115JB on such long term capital gains if 10% of their book profit computed as per provisions of Section 115JB is higher than the total income as per normal to provisions of the Act.

   Where securities transaction tax has been paid on shares, which are treated as stock-in-trade, liable to tax as business profits at the maximum marginal rate, rebate can be claimed in respect of such securities transaction tax in accordance with provisions of Section 88E of the Act.

7. The benefit of exemption from tax under Section 10(38) of the Act on long-term capital gains or, concessional rate of tax under Section 111A of the Act on short-term capital gains, will not be available where no securities transactions tax is applicable. In such cases, under the provisions of Section 112 of the Act, taxable long-term capital gains, if any, on sale of listed securities or units would be charged to tax at the concessional rate of 10% (plus applicable surcharge and education cess).

8. As per the provisions of Section 115-I of the Act, Non-Resident Indians have an option to be governed by Chapter XII-A of the Act, according to which:-

   i) Under section 115E of the Act, capital gains arising to a Non-Resident on transfer of shares in a Company, subscribed to in convertible foreign exchange and held for a period exceeding 12 months (not covered under Sections 10(38) of the Act) would be taxed at a concessional rate of 10% (without indexation benefit plus surcharge and education cess as applicable).

   ii) Under section 115F of the Act, long-term capital gains accruing to a Non-Resident on transfer of shares in a company, subscribed to in convertible foreign exchange (not covered under Sections 10(38) of the Act) would be exempt from income tax, if the net consideration is invested in specified assets as defined in Section 115C(f), or in any saving certificates specified under Section 10(4B), within six months of the date of transfer. If only part of the consideration is so invested, the exemption would be proportionately reduced. The amount so exempted would be chargeable to tax, if the specified assets are transferred or converted within three years from the date of their acquisition.

   iii) The aforesaid benefits will apply only in case of transfer of shares of the Bank, which is not subject to STT, and hence not exempt from tax under section 10(38).

   iv) As per the provisions of Section 115G of the Act, a non-resident Indian is not required to furnish a return of income under Section 139(1) of the Act, if his total income consists only of investment income and / or long term capital gains, arising from investment in shares subscribed to or purchased in convertible foreign exchange and tax has been deducted at source from such income.

   v) As per the provisions of Section 115H of the Act, where a non-resident Indian becomes assessable as a resident in India in any previous year, he may furnish a declaration in writing to the Assessing Officer along with his return of income under Section 139 of the Act to the effect that the provisions of Chapter XII-A shall continue to apply to him in relation to income derived for that year and for subsequent years from the shares of the Bank acquired with convertible foreign exchange, until such assets are converted into money.

   vi) As per the provisions of Section 115-I of the Act, a non-resident Indian may elect not to be governed by the provisions of Chapter XII-A for any assessment year by furnishing his return of income for that assessment year under Section 139 of the Act, declaring therein that the provisions of Chapter XII-A shall not apply to him for that assessment year and accordingly his total income for that assessment year will be computed in accordance with the other provisions of the Act.

9. Capital gains arising to Foreign Institutions Investors (FIIs) on sale of shares on which securities transaction tax is not paid is governed by Section 115AD of the Act. As per Section 115AD of the Act, long-term capital gains arising on transfer of shares purchased by FIIs, are taxable at the rate of 10% (plus applicable surcharge and education cess). Short-term capital gains are, however, taxable at the rate of 30% (plus applicable surcharge and education cess). Cost indexation benefits will not be available. Further, the provisions of the first proviso of Section 48 of the Act, as stated in para 5 above, will not apply.

10. Where any Double Taxation Avoidance Agreement (DTAA) entered into by India with any other country or agreement enter into by specified association in India with any specified association in the specified territory outside India which is notified by the Central Government under Section 90 and 90A provides for a concessional tax rate or exemption in respect of income from the investment in the Company's shares, those beneficial provisions shall prevail over the provisions of the Act in that regard.

d) Mutual Funds

As per the provisions of Section 10(23D) of the Act, any income from investments in the shares of the Bank, or income by way of short term or long term capital gains arising from transfer of such shares, earned by mutual funds registered under the Securities and Exchange Board of India Act, 1992, or Regulations made thereunder, or mutual funds set up by Public Sector Banks or Public Financial Institutions and Mutual Funds authorised by the Reserve Bank of India, would be exempt from income tax, subject to the conditions as the Central Government may, by notification in the Official Gazette, specify in this behalf.

II) WEALTH TAX

Shares are not treated as assets within the meaning of Section 2(ea) of the Wealth Tax Act, 1957. Hence wealth tax will not be applicable on shares of the Bank in the hands of shareholders.

III) GIFT TAX

The Gift Tax Act, 1958, ceased to apply to gifts made on or after October 1, 1998. Gifts of shares of the Bank would, therefore, be exempt from gift-tax.

INDIAN BANKING SECTOR

The information presented in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Government and its various ministries and RBI, and has not been prepared or independently verified by the Issuer or by the BRLMs. This is the latest available information to the Bank's knowledge on May 15, 2006.

Introduction

RBI, the central banking and monetary authority in India, is the central regulatory and supervisory authority for the Indian financial system. A variety of financial intermediaries in the public and private sectors participate in India's financial sector, including the following:

- commercial banks;
- long-term lending institutions;
- non-banking finance companies, including housing finance companies;
- other specialised financial institutions, and state-level financial institutions;
- insurance companies; and
- mutual funds.

Until the early 1990s, the Indian financial system was strictly controlled. Interest rates were administered, formal and informal parameters governed asset allocation, and strict controls limited entry into and expansion within the financial sector. The Government's economic reform program, which began in 1991, reformed the financial sector. The first phase of the reform process began with the implementation of the recommendations of the Committee on the Financial System, the Narasimham Committee I. The second phase of the reform process began in 1999. See the section titled "Banking Sector Reform-Committee on Banking Sector Reform (Narasimham Committee II)" on page 50 of this Red Herring Prospectus.

RBI

RBI is the central banking and monetary authority in India. RBI manages India's money supply and foreign exchange and also serves as a bank for the Government and for India's commercial banks. In addition to these traditional central-banking roles, RBI undertakes certain developmental and promotional roles.

RBI issues guidelines on various areas including exposure standards, income recognition, asset classification, provisioning for non-performing and restructured assets, investment valuation and capital adequacy standards for commercial banks, long-term lending institutions and non-banking financial companies. RBI requires these institutions to furnish information relating to their businesses to RBI on a regular basis. For further discussion regarding RBI role as the regulatory and supervisory authority of India's financial system and its impact on Development Credit Bank, see the section titled "Regulations and Policies" on page 91 of this Red Herring Prospectus.

Commercial Banks

Commercial banks in India have traditionally focused only on meeting the short-term financial needs of industry, trade and agriculture. At FY 2005, there were 284 scheduled commercial banks in the country, with a network of 68,116 branches serving approximately Rs. 17.53 trillion in deposit accounts. Scheduled commercial banks are banks that are listed in the schedule to the Reserve Bank of India Act, 1934, and are further categorized as public sector banks, private sector banks and foreign banks. Scheduled commercial banks have a presence throughout India, with approximately 69.5% of bank branches located in rural or semi-urban areas of the country. A large number of these branches belong to the public sector banks.

Public Sector Banks

Public sector banks make up the largest category in the Indian banking system. They include the State Bank of India and its seven associate banks, 19 nationalised banks and 196 regional rural banks. Excluding the regional rural banks, the remaining public sector banks have 47,320 branches, and accounted for 70.4% of the outstanding gross bank credit and 74.0% of the aggregate deposits of the scheduled commercial banks at FY 2005. The public sector banks' large network of branches enables them to fund themselves out of low cost deposits.

The State Bank of India is the largest bank in India. At FY 2005, the State Bank of India and its seven associate banks had 13,722 branches. They accounted for 24.2% of aggregate deposits and 23.1% of outstanding gross bank credit of all scheduled commercial banks.

Regional rural banks were established from 1976 to 1987 by the central government, state governments and sponsoring commercial banks jointly with a view to develop the rural economy. Regional rural banks provide credit to small farmers, artisans, small entrepreneurs and agricultural labourers. At FY 2005, there were 196 regional rural banks with 14,433 branches, accounting for 3.5% of aggregate deposits and 2.8% of gross bank credit outstanding of scheduled commercial banks.

Private Sector Banks

After the first phase of bank nationalization was completed in 1969, public sector banks made up the largest portion of Indian banking. The focus on public sector banks was maintained throughout the 1970s and 1980s. In addition, existing private sector banks which showed signs of an eventual default were merged with state-owned banks. In July 1993, as part of the banking reform process and as a measure to induce competition in the banking sector, RBI permitted entry by the private sector into the banking system. This resulted in the introduction of private sector banks. These banks are collectively known as the "new" private sector banks. There are ten "new" private sector banks at present, including the Bank. In addition, 20 private sector banks existing prior to July 1993 are currently operating as of March 31, 2005.

At FY 2005, private sector banks accounted for approximately 18.1% of aggregate deposits and 20.0% of gross bank credit outstanding of the scheduled commercial banks. Their network of 6,143 branches accounted for 9.0% of the total branch network of scheduled commercial banks in the country.

Foreign banks

At FY 2005, there were 31 foreign banks with 220 branches operating in India. Foreign banks accounted for 4.4% of aggregate deposits and 6.7% of outstanding gross bank credit of scheduled commercial banks at FY 2005. As part of the liberalisation process, RBI has permitted foreign banks to operate more freely, subject to requirements largely similar to those imposed on domestic banks. The primary activity of most foreign banks in India has been in the corporate segment. However, some of the larger foreign banks have made consumer financing a major part of their portfolios. These banks offer products such as automobile finance, home loans, credit cards and household consumer finance. Foreign banks operate in India through branches of the parent bank. Certain foreign banks also have wholly owned non-banking financial company subsidiaries for both corporate and retail lending. In a circular dated July 6, 2004, the Reserve Bank of India stipulated that banks should not acquire any fresh stake in a bank's equity shares, if by such acquisition, the investing bank's holding exceeded 5.0% of the investee bank's equity capital. This also applies to holdings of foreign banks with a presence in India, in Indian banks.

The Reserve Bank of India issued a notification on "Roadmap for presence of foreign banks in India" on February 28, 2005, announcing the following measures with respect to the presence of foreign banks:

- During the first phase (up to March 2009), foreign banks will be allowed to establish a presence by setting up wholly-owned subsidiaries or by converting existing branches into wholly-owned subsidiaries.
- In addition, during the first phase, foreign banks would be allowed to acquire a controlling stake in a phased manner only in private sector banks that are identified by the Reserve Bank of India for restructuring.
- For new and existing foreign banks, it has been proposed to go beyond the existing World Trade Organization commitment of allowing increases of 12 branches per year. A more liberal policy will be followed for under-banked areas.
- During the second phase (from April 2009 onwards), after a review of the first phase, foreign banks would be allowed

to acquire up to 74.0% in private sector banks in India. Certain foreign banks have also proposed to acquire equity stakes in non-banking finance companies.

Cooperative Banks

Cooperative banks cater to the financing needs of agriculture, small industry and self-employed businessmen in urban and semi-urban areas of India. The state land development banks and the primary land development banks provide long-term credit for agriculture. In the light of liquidity and insolvency problems experienced by some cooperative banks in FY 2001, the Reserve Bank of India undertook several interim measures, pending formal legislative changes, including measures related to lending against shares, borrowings in the call market and term deposits placed with other urban cooperative banks. Presently the Reserve Bank of India is responsible for supervision and regulation of urban cooperative banks, and the National Bank for Agriculture and Rural Development for state cooperative banks and district central cooperative banks. The Banking Regulation (Amendment) and Miscellaneous Provisions Act, 2004 provides for the regulation of all cooperative banks by the Reserve Bank of India. See also "— Recent Structural Reforms - Proposed Amendments to the Banking Regulation Act" on page 50.

In its Annual Policy Statement for FY 2005, the Reserve Bank of India announced that it proposed to consider issuance of fresh licenses to urban cooperative banks only after a comprehensive policy on urban cooperative banks was in place, including an appropriate legal and regulatory framework for the sector. In the mid-term review of the annual policy statement for FY 2005, the Reserve Bank of India announced that a vision document for the future role of urban cooperative banks was being evolved to ensure depositors' interests while providing useful service to local communities. With respect to structural issues, the Reserve Bank of India has stated that it would be encouraging growth of strong and viable entities within this sector through consolidation. A task force appointed by the Government of India to examine the reforms required in the cooperative banking system submitted its report in December 2004. It recommended several structural, regulatory and operational reforms for cooperative banks, including the provision of financial assistance by the government for revitalizing this sector. In the Union Budget for FY 2006, the Finance Minister accepted the recommendations of the Task Force in principle and proposed to call state governments for consultation and begin to implement the recommendations in the states willing to do so. In the Annual Policy Statement for FY 2006, the Reserve Bank of India has stated that it is in the process of preparing a medium-term framework for urban cooperative banks.

Long-Term Lending Institutions

The long-term lending institutions were established to provide medium-term and long-term financial assistance to various industries for setting up new projects and for the expansion and modernization of existing facilities. These institutions provide fund based and non-fund based assistance to industry in the form of loans underwriting, direct subscription to shares, debentures and guarantees. The primary long-term lending institutions include Industrial Development Bank of India (converted into a banking company from October 2004), Industrial Finance Corporation of India Limited and Industrial Investment Bank of India.

The long-term lending institutions were expected to play a critical role in Indian industrial growth and accordingly, had access to concessional Government funding. However, in recent years, the operating environment of the long-term lending institutions has changed substantially. Although the initial role of these institutions was largely limited to providing a channel for Government funding to industry, the reform process required them to expand the scope of their business activities. Their new activities included:

- fee-based activities like investment banking and advisory services; and
- short-term lending activity; including issuing corporate finance and working capital loans.

Pursuant to the recommendations of the Narasimham Committee II and the Khan Working Group, a working group created in 1999 to harmonize the role and operations of long-term lending institutions and banks, the RBI, in its mid-term review of monetary and credit policy for FY 2000, announced that long-term lending institutions would have the option of transforming themselves into banks subject to compliance with the prudential norms as applicable to banks. In April 2001, RBI issued guidelines on several operational and regulatory issues which were required to be addressed in evolving the path for transition of a term lending institution into a universal bank. See "— Recent Structural Reforms – Universal Banking Guidelines" on page 53.

ICICI Limited had a reverse merger with its banking subsidiary effective from April 2002. Industrial Development Bank of India was converted into a banking company with the name of Industrial Development Bank of India Limited within the meaning of the Bank Regulation Act and the Companies Act with effect from October 2004.

Non-Banking Finance Companies

There were over 13,187 non-banking finance companies in India as of March 31, 2005, mostly in the private sector. All non-banking finance companies are required to register with RBI. The non-banking finance companies may be categorized into entities, which take public deposits and those which do not. The companies, which accept public deposits, are subject to strict supervision and capital adequacy requirements of RBI. The scope and activities of non-banking finance companies have grown significantly over the years. The primary activities of the non-banking finance companies are consumer credit including automobile finance, home finance and consumer durable products finance, wholesale finance products such as bill discounting for small and medium-sized companies, and fee-based services such as investment banking and underwriting. In 2003, Kotak Mahindra Finance Limited, a large non-banking finance company was granted a banking license by RBI and converted itself into Kotak Mahindra Bank.

Over the past few years, certain non-banking finance companies have defaulted to investors and depositors and consequently actions (including bankruptcy proceedings) have been initiated against them, many of which are currently pending.

Housing Finance Companies

Housing finance companies form a distinct sub-group of the non-banking finance companies. As a result of the various incentives given by the Government for investing in the housing sector in recent years, the scope of their business has grown substantially. Until recently, Housing Development Finance Corporation Limited was the premier institution providing housing finance in India. In recent years, several other players including banks have entered the housing finance industry. The National Housing Bank and the Housing and Urban Development Corporation Limited are the two Government-controlled financial institutions created to improve the availability of housing finance in India. The National Housing Bank Act provides for refinancing and securitisation of housing loans, foreclosure of mortgages and setting up of the Mortgage Credit Guarantee Scheme. RBI has directed commercial banks to lend at least 3.0% of their incremental deposits in the form of housing loans. RBI in 2002 had reduced the risk weight for loans for residential properties to 50.0% for the purpose of determining capital adequacy. However, RBI increased this risk weightage for loans to residential properties to 75% in December 2004. Housing loans up to certain limits prescribed by RBI as well as mortgage-backed securities qualify for priority sector lending under RBI's directed lending rules.

Other Financial Institutions

Specialized Financial Institutions

In addition to the long-term lending institutions, there are various specialized financial institutions that cater to the specific needs of different sectors. They include the National Bank for Agricultural and Rural Development, Export Import Bank of India, Small Industries Development Bank of India, Risk Capital and Technology Finance Corporation Limited, Tourism Finance Corporation of India Limited, National Housing Bank, Power Finance Corporation Limited and the Infrastructure Development Finance Corporation Limited.

State Level Financial Institutions

State financial corporations operate at the state level and form an integral part of the institutional financing system. State financial corporations were set up to finance and promote small and medium-sized enterprises. The state financial institutions are expected to achieve balanced regional socio-economic growth by generating employment opportunities and widening the ownership base of industry. At the state level, there are also state industrial development corporations, which provide finance primarily to medium-sized and large-sized enterprises.

Insurance Companies

Currently, there are 29 insurance companies in India, of which 14 are life insurance companies, 14 are general insurance companies and one is a reinsurance company. Of the 14 life insurance companies, 13 are in the private sector and one is in the public sector. Among the general insurance companies, nine are in the private sector and five are in the public sector. The reinsurance company, General Insurance Corporation of India, is in the public sector. Life Insurance Corporation of India, General Insurance Corporation of India and public sector general insurance companies also provide long-term financial assistance to the industrial sector. In FY 2004, the total gross premium underwritten of all general insurance companies was Rs. 160.37 billion and the total new premium of all life insurance companies was Rs. 194.30 billion. As per provisional figures released by Insurance Regulatory and Development Authority (IRDA), in FY 2005, the total gross premium underwritten of all general insurance companies was Rs. 180.95 billion and the total new premium of all life insurance companies was Rs. 253.43 billion. Over the past few years, the market share of private sector insurance companies has been increasing in both life and non-life insurance businesses. The market share of private sector life insurance companies in new business written increased from 1.35% in FY 2002 to 5.66% in FY 2003 and 12.56% in the FY 2004. Provisional figures released by IRDA indicate a market share of 21.93% during FY 2005 for private sector life insurance companies in new business written. The market share of private sector non-life insurance companies for business in India increased from 3.86% in FY 2002 to 9.16% in FY 2003 and 14.09% during the FY 2004. Provisional figures released by IRDA indicate a market share of 19.65% during FY 2005 for private sector non-life insurance companies for business in India.

In December 1999, the Insurance Regulatory and Development Authority Act 1999 was passed. The Act opened up the Indian insurance sector for foreign and private investors. The Act allows foreign equity participation in new insurance companies of up to 26.0%. A new insurance company is required to have a minimum paid up equity capital of Rs. 1.0 billion to carry out the business of life insurance or general insurance or Rs. 2.0 billion to carry out exclusively the business of reinsurance. The insurance sector in India is regulated by the Insurance Regulatory and Development Authority, which was established to protect the interests of holders of insurance policies, to regulate promote and ensure orderly growth of the insurance industry and for related matters.

In the monetary and credit policy for FY 2001, RBI issued guidelines governing the entry of banks and financial institutions into the insurance business. The guidelines permit banks and financial institutions to enter the business of insurance underwriting through joint ventures provided they meet stipulated criteria relating to their net worth, capital adequacy ratio, profitability track record, level of non-performing loans and the performance of their existing subsidiary companies.

Mutual Funds

At the end of September 2005, there were 29 mutual funds in India. From 1963 to 1987, Unit Trust of India was the only mutual fund operating in India. It was set up in 1963 at the initiative of the Central Government and RBI. From 1987 onwards, several other public sector mutual funds entered this sector. These mutual funds were established by public sector banks, Life Insurance Corporation of India and General Insurance Corporation of India. The mutual funds industry was opened up to the private sector in 1993. The industry is regulated by the SEBI (Mutual Fund) Regulations 1996.

Impact of Liberalization on the Indian Financial Sector

Until 1991, the financial sector in India was heavily regulated and commercial banks and long-term lending institutions, the two dominant financial intermediaries, had mutually exclusive roles and objectives and operated in a largely stable environment, with little or no competition. Long-term lending institutions were focused on the achievement of the Government's various socio-economic objectives, including balanced industrial growth and employment creation, especially in areas requiring development. Long-term lending institutions were extended access to long-term funds at subsidized rates through loans and equity from the Government and from funds, guaranteed by the Government, originating from commercial banks in India and foreign currency resources originating from multilateral and bilateral agencies. On the other hand, the focus of the commercial banks was primarily to mobilize household savings through demand and time deposits and to use these deposits to meet the short-term financial needs of borrowers in industry, trade and agriculture. In addition, the commercial banks provided a range of banking services to individuals and business entities.

However, since 1991, there have been comprehensive changes in the Indian financial system. Various financial sector reforms have transformed the operating environment of the banks and long-term lending institutions. In particular, the deregulation of interest rates, emergence of a liberalized domestic capital market, and entry of new private sector banks, along with the broadening of long-term lending institutions' product portfolios, have progressively intensified the competition between banks and long-term lending institutions. RBI has permitted the transformation of long-term lending institutions into banks subject to compliance with the prudential norms applicable to banks.

Banking Sector Reforms

Most large banks in India were nationalized in 1969 and thereafter were subject to a high degree of control until reform began in 1991. In addition to controlling interest rates and entry into the banking sector, these regulations also channelled lending into priority sectors. Banks were required to fund the public sector through the mandatory acquisition of low interest-bearing Government securities or statutory liquidity ratio bonds to fulfill statutory liquidity requirements. As a result, bank profitability was low, non-performing assets were comparatively high, capital adequacy was diminished, and operational flexibility was hindered.

Committee on the Financial System (Narasimham Committee I)

The Committee on the Financial System (The Narasimham Committee I) was set up in August 1991 to recommend measures for reforming the financial sector. Many of the recommendations made by the committee, which addressed organisational issues, accounting practices and operating procedures, were implemented by the Government. The major recommendations that were implemented included the following:

- with FY stabilization and the Government increasingly resorting to market borrowing to raise resources, the statutory liquidity ratio or the proportion of a bank's net demand and time liabilities that was required to be invested in Government securities was reduced from 38.5% in the pre-reform period to 25.0% in October 1997. This meant that the significance of the statutory liquidity ratio shifted from being a major instrument for financing the public sector in the pre-reform era to becoming a prudential requirement;
- similarly, the cash reserve ratio or the proportion of a bank's net demand and time liabilities that was required to be deposited with RBI was reduced from 15.0% in the pre-reform period to 4.5%. In a circular dated September 11, 2004, the Reserve Bank of India has raised the cash reserve ratio to 4.75% with effect from September 18, 2004 and 5.0% with effect from October 2, 2004;
- special tribunals were created to resolve bad debt problems;
- most of the restrictions on interest rates for deposits were removed. Commercial banks were allowed to set their own level of interest rates for all deposits except savings bank deposits; and
- substantial capital infusion to several state-owned banks was approved in order to bring their capital adequacy closer to internationally accepted standards. The stronger public sector banks were given permission to issue equity to further increase capital.

Committee on Banking Sector Reform (Narasimham Committee II)

The second Committee on Banking Sector Reform (Narasimham Committee II) submitted its report in April 1998. The major recommendations of the committee were in respect of capital adequacy requirements, asset classification and provisioning, risk management and merger policies. RBI accepted and began implementing many of these recommendations in October 1998.

Recent Structural Reforms

Proposed Amendments to the Banking Regulation Act

Legislation seeking to amend the Banking Regulation Act was recently introduced in the Indian Parliament.

As presently drafted, the main amendments propose to:

- permit banking companies to issue non-redeemable and redeemable preference shares;
- make prior approval of RBI mandatory for the acquisition of more than 5.0% of a banking company's paid up capital by any individual or firm or group;
- prohibit lending to relatives of directors and to non-subsidiary companies that are under the same management as the banking company, joint ventures, associates or the holding company of the banking company.
- remove the minimum statutory liquidity ratio requirement of 25.0%, giving RBI discretion to reduce the statutory liquidity ratio to less than 25.0%. See the section titled "Regulations and Policies" on page 91 of this Red Herring Prospectus;
- bring mergers of non-banking finance companies with banking companies into the governance of the Banking Regulation Act. Mergers of non-banking finance companies with banking companies are currently governed by the Companies Act. The Banking Regulations (Amendment) and Miscellaneous Provisions Bill, 2003 will, if passed, require mergers of non-banking finance companies with banking companies to be approved by the majority of the shareholders of both companies and by RBI. It also provides, if the merger is approved, for dissenting shareholders at their option to be paid in exchange for their shares the value of their shares as determined by RBI;
- bring all co-operative banks under the supervision of RBI; and
- remove the limit of 10.0% on the maximum voting power exercisable by a shareholder in a banking company.

Amendments to the Reserve Bank of India Act

Further, the Finance Act, 2005, provides for the introduction of the following amendments to the Reserve Bank of India Act, 1934:

- to remove the limits of the CRR to facilitate greater flexibility in monetary policy; and
- to enable RBI to lend or borrow securities by way of repo, reverse repo or otherwise.

Legislative Framework for Recovery of Debts due to Banks

In FY 2003, the Indian Parliament passed the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (the "SARFAESI"). The SARFAESI provides that a secured creditor may, in respect of loans classified as non-performing in accordance with RBI guidelines, give notice in writing to the borrower requiring it to discharge its liabilities within 60 days, failing which the secured creditor may take possession of the assets constituting the security for the loan, and exercise management rights in relation thereto, including the right to sell or otherwise dispose of the assets. The SARFAESI also provides for the setting up of asset reconstruction companies regulated by RBI to acquire assets from banks and financial institutions. RBI has issued guidelines for asset reconstruction companies in respect of their establishment, registration and licensing by RBI, and operations. The Asset Reconstruction Company (India) Limited, set up by ICICI Bank, Industrial Development Bank of India, State Bank of India and certain other private sector banks and institutions, has recently received registration from RBI.

The constitutionality of the SARFAESI was challenged in *Mardia Chemicals Limited v. Union of India*, (AIR 2004 SC 2371), a petition filed before the Supreme Court. The Supreme Court upheld the validity of the SARFAESI, except Section 17(2), wherein they found that the requirement of making a deposit of 75% of the amount claimed at the time of making a petition or an appeal to the Debt Recovery Tribunal under Section 17 in order to challenge the measures taken by the creditor in pursuance of Section 13(4) was unreasonable and therefore, struck down. RBI has issued guidelines for asset reconstruction companies in respect of their establishment, registration and licensing by RBI, and operations.

Earlier, following the recommendations of the Narasimham Committee, the Recovery of Debts due to Banks and Financial Institutions Act, 1993 was enacted. The Act provides for the establishment of a tribunal for speedy resolution of litigation and recovery of debts owed to banks or financial institutions. The Act creates tribunals before which the banks or financial institutions can file a suit for recovery of the amounts due to them. However, if a scheme of reconstruction is pending before the Board for Industrial and Financial Reconstruction, under the Sick Industrial Companies (Special Provision) Act, 1985, no proceeding for recovery can be initiated or continued before the tribunals. While presenting its budget for FY 2002, the Government announced measures for the setting up of more debt recovery tribunals and the eventual repeal of the Sick Industrial Companies (Special Provision) Act, 1985. To date, however, this Act has not been repealed.

Corporate Debt Restructuring Forum

To put in place an institutional mechanism for the restructuring of corporate debt, RBI has devised a corporate debt restructuring system. The objective of the framework is to ensure a timely and transparent mechanism for the restructuring of corporate debts of viable entities facing problems, outside the purview of the Board of Industrial and Financial Rehabilitation, debt recovery tribunals and other legal proceedings. In particular, the framework aims to preserve viable corporations that are affected by certain internal and external factors and minimise the losses to the creditors and other stakeholders through an orderly and coordinated restructuring program. The corporate debt restructuring system is a non-statutory mechanism and a voluntary system based on debtor-creditor and inter-creditor agreements. Any lender having a minimum 20% exposure in term loan or working capital may make a reference to the CDR Forum. The system put in place by RBI contemplates a three tier structure with the CDR Standing Forum at the helm, which is the general body of all member institutions, out of which is carved out the core group, a niche body of select institutions that decides policy matters. Decisions on restructuring are taken by the CDR Empowered Group, which has all the member banks/FIs as its members. To assist the CDR Forum in secretarial matters and for analysis of the restructuring packages, a CDR Cell has been formed. While all Indian banks have consented, foreign banks operating in India have not yet agreed to participate in this system.

The RBI has by its circular DBOD.BP.BC.No. 45-21.04.132-2005-06 dated November 10, 2005 amended the above guidelines on CDR. The major amendments include:

- extension of the scheme to entities with outstanding exposure of Rs.100 million or more;
- requirement of support of 60% of creditors by number in addition to the support of 75% of creditors by value with a view to make the decision making more equitable;
- discretion to the core group in dealing with wilful defaulters in certain cases other than cases involving frauds or diversion of funds with malafide intentions;
- linking the restoration of asset classification prevailing on the date of reference to the CDR Cell to implementation of the CDR package within four months from the date of approval of the package;
- restricting the regulatory concession in asset classification and provisioning to the first restructuring where the package also has to meet norms relating to turn-around period and minimum sacrifice and funds infusion by promoters;
- convergence in the methodology for computation of economic sacrifice among banks and FIs limiting RBI's role to providing broad guidelines for CDR mechanism;
- enhancing disclosures in the balance sheet for providing greater transparency;
- pro-rata sharing of additional finance requirement by both term lenders and working capital lenders;
- allowing OTS as a part of the CDR mechanism to make the exit option more flexible; and
- regulatory treatment of non-SLR instruments acquired while funding interest or in lieu of outstanding principal and valuation of such instruments.

Universal Banking Guidelines

Universal banking in the Indian context means the transformation of long-term lending institutions into banks. Pursuant to the recommendations of the Narasimham Committee II and the Khan Working Group, RBI in its mid-term review of monetary and credit policy for FY 2000, announced that long-term lending institutions would have the option of transforming themselves into banks subject to compliance with the prudential norms as applicable to banks. If a long-term lending institution chose to exercise the option available to it and formally decided to convert itself into a universal bank, it could formulate a plan for the transition path and a strategy for smooth conversion into a universal bank over a specified time frame. In April 2001, RBI issued guidelines on several operational and regulatory issues which were required to be addressed in evolving the path for transition of a long-term lending institution into a universal bank.

Credit Policy Measures

As part of its effort to continue bank reform, RBI has announced a series of measures in its monetary and credit policy statements aimed at deregulation and strengthening the financial system.

Annual Policy Statement for FY 2005

In its annual policy statement for FY 2005 announced in May 2004, the Reserve Bank of India kept the bank rate and reverse repo rate (the annualized interest earned by the lender in a repurchase transaction between a bank and the Reserve Bank of India) unchanged at 6.0% and 4.5% respectively and introduced the following key measures:

- banks were permitted to raise long-term bonds with a minimum maturity of five years to the extent of their exposure of residual maturity of more than five years to the infrastructure sector;
- the scope of definition of infrastructure lending was expanded to include construction relating to projects involving agro-processing and supply of inputs to agriculture, construction of preservation and storage facilities for processed agro-products and construction of educational institutions and hospitals;
- measures were announced to facilitate the flow of credit to agricultural and related sectors by including loans for storage facilities and securitized agricultural loans as priority sector advances;
- resident individuals were permitted to remit freely up to US$ 25,000 per calendar year, for any current or capital account transaction or a combination of these. Indian corporates and partnership firms are allowed to invest up to 100.0% of their net worth overseas;
- banks were permitted, under exceptional circumstances, with the approval of their Boards, to consider enhancement of the exposure to the borrower up to a maximum of 5.0% of capital funds, subject to the borrower consenting to the bank making appropriate disclosures in its annual report; and
- a graded higher provisioning requirement according to the age of non-performing assets, which are included under “doubtful for more than three years’ category, was introduced with effect from March 31, 2005. See “Regulations and Policies – RBI Regulations – Asset Classification and Provisioning” on page 92.

Mid-term Review of the Annual Policy Statement for FY 2005

In the mid-term review of the annual policy statement announced in October 2004, the Reserve Bank of India raised the reverse repo rate by 25 basis points to 4.75% with effect from October 27, 2004. The bank rate, however, was kept unchanged at 6.0%. The following measures were also introduced:

- ceiling on non resident external deposit rates were raised to LIBOR/SWAP rates of US Dollar of corresponding maturities plus 50 basis points from the existing level of USD LIBOR/SWAP rates; and
- as a temporary counter-cyclical measure, the risk weight was increased from 50.0% to 75.0% in the case of housing loans and from 100.0% to 125.0% in the case of consumer credit including personal loans and credit cards.

Annual Policy Statement for FY 2006

In its annual policy statement for FY 2006 announced in April 2005, the Reserve Bank of India:

- raised the reverse repo rate by 25 basis points to 5.0% and reduced the spread between the reverse repo and the repo rate to 100 basis points from 125 basis points;
- proposed to issue guidelines for voluntary mergers between private sector banks and non-banking finance companies (see "Regulations and Policies – Reserve Bank of India Regulations" on page 91); and
- has proposed that in consultation with banks, primary dealers and the Government, the permitted structures of primary dealer business would be expanded to include banks which fulfil certain minimum criteria; and
- urged banks to refocus on deposit mobilization and to empower depositors. It also proposed to set up an independent Banking Codes and Standards Board of India in order to (i) ensure a comprehensive code of conduct for fair treatment of customers; (ii) issue guidelines prescribing card issuing banks to ensure transparency and disclosure of information; and (iii) widen the authority of the Banking Ombudsman to cover individual grievances relating to non-adherence to the fair practices code evolved by Indian Banks Association.

Mid-Term Review of Annual Policy Statement

The Mid-Term Review of the Annual Policy Statement of RBI for the FY 2006, which was released in late October 2005, included the following revisions:

Monetary Measures

- Bank rate kept unchanged at 6.0%.
- Reverse repo rate increased to 6% effective July 25, 2006. The spread between reverse repo rate and the repo rate under LAF was maintained at 100 basis points.
- The cash reserve ratio was kept unchanged at 5.0%.

Interest Rate Policy

- Indian Banks' Association is being asked to review the benchmark prime lending rate system and issue transparent guidelines for appropriate pricing of credit.

Financial Markets

- RBI constituted a new department called the Financial Markets Department in July 2005 with a view to moving towards functional separation between debt management and monetary operations.
- RBI proposes the introduction of intra-day short selling in government securities proposed.

External Commercial Borrowings (ECBs)

- Special purpose vehicles, or any other entity notified by the RBI, which are set up to finance infrastructure companies/ projects would be treated as financial institutions and ECBs raised by such entities would be considered under the approval route.
- Banks are to be allowed to issue guarantees or standby letters of credit in respect of ECBs raised by textile companies for the modernisation or expansion of textile units.

Credit Delivery Mechanisms

- Banks have been advised (a) to fix their own targets for financing the SME sector so as to reflect higher disbursement required by RBI, (b) formulate liberal and comprehensive policies for extending loans to the SME sector and (c) rationalise the cost of loans to the SME sector with cost linked to credit ratings.

- A debt restructuring mechanism for units in the SME sector, in line with the corporate debt restructuring (CDR) mechanism prevailing in the banking sector has been formulated by the RBI.
- An internal working group proposed to examine and revise guidelines concerning relief measures to be provided in areas affected by natural calamities.

Financial Inclusion

- Measures have been proposed in respect of credit delivery mechanisms to (a) ensure financial inclusion of all segments of the population, in both rural and urban areas, (b) instate a comprehensive framework to revive the co-operative credit system, revitalise the regional rural banks and focus commercial banking towards the credit-disadvantaged sectors.
- With a view to achieving greater financial inclusion all banks have been requested to make available a basic banking 'no frills' account either with nil or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population. All banks are urged to give wide publicity to the fact such a 'no-frills' account is available, so as to promote greater financial inclusion.

Prudential Measures

- A bank's aggregate capital market exposure has been restricted to 40% of the net worth of the bank on a stand alone and consolidated basis; consolidated direct capital market exposure has been modified to 20% of the bank's consolidated net worth. Individual banks that have sound internal controls and robust risk management systems can approach the Reserve Bank to apply for higher limits.
- General requirements for provisioning on Standard Advances from 0.40% to 1.00% in respect personal loans, loans and advances qualifying as capital market exposures, residential hosuing loans beyond Rs.20 lacs and commercial real estate loans in phases over a year and in respect of direct exposure to finance, SME and agriculture sector same shall be provided @ 0.25%.A supervisory review process to be initiated with select banks having significant exposure to some sectors, namely, real estate, highly leveraged NBFCs, venture capital funds and capital markets, in order to ensure that effective risk management systems and sound internal controls are in place.
- A general permission has been granted to banks to issue debit cards in tie-up with non-bank entities.

Institutional Developments

- The details of the scheme regarding implementation of the provisions of the Right to Information Act, 2005 have been placed on the Reserve Bank's website.
- The RBI has recently updated its nominal effective exchange rates (NEER) and real effective exchange rates (REER) indices. The RBI anticipates that the new 6-currency indices and the revised 36-country indices of NEER and REER will be published in the Reserve Bank of India Bulletin of December 2005.

The RBI anticipates that:

- By the end of March 2006, 15,000 branches will be covered by RTGS connectivity, and the number of monthly transactions of the system is expected to expand from 100,000 to 200,000 transactions.
- The National Electronic Funds Transfer (NEFT) system will be implemented in phases for all networked branches of banks all over the country.
- The pilot project for Cheque Truncation Systems will be implemented in New Delhi by the end of March 2006.
- The national settlement system to enable banks to manage liquidity in an efficient and cost effective manner will be introduced in four metropolitan centres by the end of December 2005.
- A new company to handle retail payment systems, to be owned and operated by banks, will be established under Section 25 of Companies Act and will begin operation from April 1, 2006.

Reforms of the Non-Banking Finance Companies

The standards relating to income recognition, provisioning and capital adequacy were prescribed for non-banking finance companies in June 1994. The registered non-banking finance companies were required to achieve a minimum capital adequacy of 6.0% by year-end FY 1995 and 8.0% by year-end FY 1996 and to obtain a minimum credit rating. To encourage the companies complying with the regulatory framework, RBI announced in July 1996 certain liberalisation measures under which the non-banking finance companies registered with it and complying with the prudential norms and credit rating requirements were granted freedom from the ceiling on interest rates on deposits and amount of deposits. Other measures introduced include requiring non-banking finance companies to maintain a certain percentage of liquid assets and to create a reserve fund. The percentage of liquid assets to be maintained by non-banking finance companies has been revised uniformly upwards and since April 1999, 15.0% of public deposits must be maintained. From January 1, 2000 the requirement should not be less than 10.0% in approved securities and the remaining in unencumbered term deposits in any scheduled commercial bank, the aggregate of which shall not be less than 15.0% of the "public deposit" outstanding at the close of business on the last working day of the second preceding quarter. The maximum rate of interest that non-banking finance companies could pay on their public deposits was reduced from 12.5% per annum to 11.0% per annum effective March 4, 2003.

Efforts have also been made to integrate non-banking finance companies into the mainstream financial sector. The first phase of this integration covered measures relating to registrations and standards. The focus of supervision has now shifted to non-banking finance companies accepting public deposits. This is because companies accepting public deposits are required to comply with all the directions relating to public deposits, prudential norms and liquid assets. A task force on non-banking finance companies set up by the Government submitted its report in October 1998 and recommended several steps to rationalise the regulation of non-banking finance companies. Accepting these recommendations, RBI issued new guidelines for non-banking finance companies, which were as follows:

- a minimum net owned fund of Rs. 2.5 million is mandatory before existing non-banking finance companies may accept public deposits;
- a minimum investment grade rating is compulsory for loan and investment companies accepting public deposits, even if they have the minimum net owned funds;
- permission to accept public deposits was also linked to the level of capital to risk assets ratio. Different capital to risk assets ratio levels for non-banking finance companies with different ratings were specified; and
- non-banking finance companies were advised to restrict their investments in real estate to 10.0% of their net owned funds.

In the monetary and credit policy for FY 2000, RBI stipulated a minimum capital base of Rs. 20 million for all new non-banking finance companies. In the Government's budget for FY 2002, the procedures for foreign direct investment in non-banking finance companies were substantially liberalised.

During FY 2003, the Reserve Bank of India introduced a number of measures to enhance the regulatory and supervisory standards of non-banking finance companies, especially in order to bring them at par with commercial banks, in select operations, over a period of time. Other regulatory measures adopted and subsequently revised in November 2004 included aligning interest rates in this sector with the rates prevalent in the rest of the economy, tightening prudential norms and harmonizing supervisory directions with the requirements of the Companies Act, procedural changes in nomination facilities, issuance of a 'Know Your Customer' policy and allowing non-banking finance companies to take up insurance agency business.

New Initiatives in the Banking Sector

Risk Management and Basel II

With gradual deregulation, banks are now exposed to different types of risks. In view of the dynamic nature of the financial market, banks face various market risks like interest rate risk, liquidity risk, and exchange risk. In respect of lending, they face credit risk which includes default risk and portfolio risk. Banks also face operational risk.

In preparation for the adoption of the Basel II accord, banks have already been required by RBI to take active measures in terms of risk management systems, evaluate capital charges including for operational risk and bring about more transparency in financial reporting as part of market discipline. RBI has also moved towards adoption of Risk Based Supervision (RBS) of banks under which the risk profile of the banks will decide their supervisory cycles - a bank with higher risk rating will undergo more frequent supervisory reviews than those with lower risk rating. RBI has also indicated that it will adopt a phased approach to the implementation of the Basel II accord. Implementation of market risk systems will be completed within two years from the year ended March 31, 2005 and the credit risk and operational risk systems with effect from March 31, 2007.

The bank would follow the standardization approach for calculating the capital requirements for the credit risk and the basic indicator approach for the operational risk. However, to build up data to move over internal rating based approach, the bank is in the process of putting in place the necessary infrastructure. Market risk will be taken care of through existing models.

RTGS Implementation in India

With the commencement of operations of the Real Time Gross Settlement ("RTGS") system from March 26, 2004, India crossed a major milestone in the development of systemically important payment systems and complied with the core principles framed by the Bank for International Settlements. As at March 31, 2005, there are 95 direct participants in the RTGS system, including the Bank. The salient features of the RTGS are as follows:

- Payments are settled transaction by transaction for high value and retail payments;
- Settlement of funds is final and irrevocable;
- Settlement is done on a real time basis and the funds settled can be further used immediately;
- It is a fully secure system which uses digital signatures and public key infrastructure based inscription for safe and secure message transmission;
- There is a provision for intra-day collaterised liquidity support for member banks to smoothen the temporary mismatch of fund flows; and
- RTGS provides for transfer of funds relating to inter bank settlements as also for customer related fund transfers.

Exchange Controls

Restrictions on Conversion of Rupees

There are restrictions on the conversion of Rupees into Dollars. Before February 29, 1992, RBI determined the official value of the Rupee in relation to a weighted basket of currencies of India's major trading partners. In the February 1992 budget, a new dual exchange rate mechanism was introduced by allowing conversion of 60.0% of the foreign exchange received on trade or current account at a market-determined rate and the remaining 40.0% at the official rate. All importers were, however, required to buy foreign exchange at the market rate except for certain specified priority imports. In March 1993, the exchange rate was unified and allowed to float. In February 1994 and again in August 1994, RBI announced relaxations in payment restrictions in case of a number of transactions. Since August 1994, the Government of India has substantially complied with its obligations owed to the International Monetary Fund, under which India is committed to refrain from using exchange restrictions on current international transactions as an instrument in managing the balance of payments. Effective July 1995, the process of current account convertibility was advanced by relaxing restrictions on foreign exchange for various purposes, such as foreign travel and medical treatment.

In December 1999, the Indian parliament passed the Foreign Exchange Management Act, 1999, which became effective on June 1, 2000, replacing the earlier Foreign Exchange Regulation Act, 1973. This legislation indicated a major shift in the policy of the Government with regard to foreign exchange management in India. While the Foreign Exchange Regulation Act, 1973 was aimed at the conservation of foreign exchange and its utilization for the economic development of the country, the objective of the Foreign Exchange Management Act, 1999 was to facilitate external trade and promote the orderly development and maintenance of the foreign exchange market in India.

The Foreign Exchange Management Act, 1999 regulates transactions involving foreign exchange and provides that certain transactions cannot be carried out without the general or special permission of RBI. The Foreign Exchange Management Act, 1999 has eased restrictions on current account transactions. However, RBI continues to exercise control over capital account transactions (i.e., those which alter the assets or liabilities, including contingent liabilities, of persons). RBI has issued regulations under the Foreign Exchange Management Act, 1999 to regulate the various kinds of capital account transactions, including certain aspects of the purchase and issuance of shares of Indian companies. RBI has also permitted authorized dealers to freely allow remittances by individuals up to US$ 25,000 per calendar year for any permissible current or capital account transactions or a combination of both.

Restrictions on Sale of the Equity Shares and Repatriation of Sale Proceeds

Under Indian regulations and practice, the approval of RBI is required for the sale of Equity Shares by a non-resident of India to a resident of India as well as for renunciation of rights to a resident of India. However, sale of such shares under the portfolio investment scheme prescribed by RBI does not require the approval of RBI provided the sale is made on a recognized stock exchange and through a registered stockbroker.

If the prior approval of RBI has been obtained for the sale of the Equity Shares, then the sale proceeds may be remitted as per the terms of such an approval. However, if the Equity Shares are sold under the portfolio investment scheme then the sale proceeds may be remitted through an authorized dealer, without the approval of RBI provided that the Equity Shares are sold on a recognized stock exchange through a registered stockbroker and a no objection/tax clearance certificate from the income-tax authority has been produced.

Technology

Technology is emerging as a key-driver of business in the banking and financial services industry. Banks are developing alternative channels of delivery like ATMs, telebanking, remote access and Internet banking etc. Indian banks have been making significant investments in technology. Besides computerization of front-office operations, the banks have moved towards back-office centralization. Banks are also implementing “Core Banking” or “Centralised Banking”, which provides connectivity between branches and helps offer a large number of value-added products, benefiting a larger number of customers. RBI Annual Report for the FY 2005 states that the use of ATMs has been growing rapidly and this has helped in optimising the investments made by banks in infrastructure. Banks have joined together in small clusters to share their ATM networks during the year. There are five such ATM network clusters functioning in India.

Corporate Governance

Adoption of good corporate governance practices has been getting the attention of banks as well as the regulators and owners in India. Banks in India now typically have an audit committee of the board of directors which is entrusted with the task of overseeing the organisation, operationalisation and quality control of the internal audit function, reviewing financial accounts and follow-up with the statutory and external auditors of the bank as well as examinations by regulators. Disclosure levels in bank balance sheets have been enhanced, while measures have also been initiated to strengthen corporate governance in banks.

Consolidation

Indian banks are increasingly recognizing the importance of size. These efforts have received encouragement from the views publicly expressed by the current Government favouring consolidation in the Indian banking sector. Although there have been instances of mergers, these have usually involved financially distressed banks. Mergers and acquisitions are seen by banks as a means of achieving inorganic growth in size and attaining economies of scale and scope. Notwithstanding the government ownership of public sector banks, the government has indicated that it would not stand in the way of mergers of public sector banks, provided the bank boards come up with a proposal of merger, based on synergies and potential for improved operational efficiency. The Government has also provided tax breaks aimed at promoting mergers and acquisitions (Section 72(A) of the I.T. Act enables the acquiring entity (which could be a company, a corresponding new bank, a banking company or a specified bank) the benefit of “carry forward and set-off of accumulated losses and unabsorbed depreciation” of the acquired entity, subject to specified conditions being fulfilled). Further, under the Finance Act, 2005 a new Section 72AA has been incorporated into the I.T. Act pursuant to which, during the amalgamation of a banking company with any other banking institution under a scheme sanctioned and brought into force by the Central Government under Section 45 (7) of the Banking Regulation Act, the accumulated loss and the unabsorbed depreciation of such banking company shall be deemed to be the loss or, as the case may be, allowance for depreciation of such banking institution for the previous year in which the scheme of amalgamation was brought into force and other provisions of the I.T. Act relating to the set-off and carry forward of loss, and allowance, for depreciation shall apply accordingly. Recently, Bank of Punjab merged with the Centurion Bank to form the Centurion Bank of Punjab. It is envisaged that instances of consolidation will be on the rise, particularly as banks will be required to attain higher capital standards under Basel II and meet the pressures of competition by adoption of the extended universal banking model.

SECTION 4: ABOUT THE BANK

Business

Overview

Development Credit Bank Limited is a new private sector bank, which has embarked on a revitalization plan. As part of its revitalization plan, the Bank has in place a new management team and board of directors committed to improving the Bank's business and its balance sheet and financial performance. The Bank is committed to maintaining its position as a cost efficient and customer-focused institution that provides comprehensive banking and related services. The revitalization plan

- emphasizes on prudent risk management;
- addresses the historically high level of NPAs;
- implements a program to reduce the operating expenses;
- focuses management attention to raise capital and improve liquidity to free capital for growth of the advances book and treasury business;
- emphasizes growth of low cost consumer deposit products; and
- focuses on developing the Bank's three core businesses – consumer banking, commercial banking and treasury.

The Bank's business is concentrated in certain regional centres, primarily Maharashtra, Andhra Pradesh and Gujarat, which are high growth areas. The Bank has 72 interconnected branches including 5 extension counters, spread over 26 cities in the country. It also has an ATM network of 58 interconnected onsite and 43 interconnected offsite ATMs. In addition, the Bank offers Internet banking to its customers. This facilitates customers in viewing their account balances, printing account statements, viewing transaction history, opening or creating fixed deposits etc.

The Bank has three main business lines:

- consumer banking;
- commercial banking; and
- treasury operations.

The consumer banking business of the Bank, formally launched in October 2002, comprises primarily transaction banking accounts - current and savings accounts, time deposits, consumer loans – personal and housing loan and mortgaged based loans, consumer durable, vehicle loans, IPO financing and investment services products such as bank-assurance, mutual funds and bonds. As at March 31, 2006, the consumer banking business accounted for 33.25% of total advances, 61.73% of total deposits, 39.37% of interest income on advances and 42.27% of non interest income of the Bank. As at June 30, 2006, the consumer banking business accounted for 36.01% of total advances, 54.73% of total deposits, 46.03% of interest income on advances and 48.58% of non interest income of the Bank.

The commercial banking business of the Bank is organized into the business banking group (BBG) and the corporate banking group (CBG). The BBG is responsible for catering to the small and medium business enterprises which have a turnover of less than Rs. 1000 million, while the CBG is responsible for catering to corporates with a turnover in excess of Rs. 1000 million and less than Rs. 5000 million and corporates with a turnover in excess of Rs. 5000 million on a case to case basis.

Prior to its conversion to a joint stock banking company, the Bank's focus as a co-operative bank was on the small and medium business category. The Bank continues to build and expand on this customer base. Over the years a number of these customers have grown in size and now form part of the clientele catered to by the CBG. The Bank has also expanded its commercial banking reach to include large companies as a part of its corporate banking group clientele. These also provide the basis for reaching out to the supplier/ sales channel of such companies.

The Bank through the operation of the commercial banking group provides a range of commercial banking products and services to its customers which include term loans, working capital facilities, import and export financing, bill discounting, structured financing, securitisation, asset based financing, foreign currency loans, investment in various securities, cash management, salary accounts, payable at par cheque facility, non fund based services such as letters of credit (LCs), guarantees, foreign currency conversion, foreign exchange, interest rate , etc. The commercial banking products and services are delivered to the customers through a combination of 11 designated corporate banking locations around the country.

The Treasury is the Bank's interface with the financial markets. Treasury operations integrate domestic / money and the foreign exchange segment of the market. The activities also include all derivative products that are permitted to be handled by the banks. The Bank has a well-equipped integrated dealing room that was established in mid 2002. Treasury activities are supported by the latest technology, information systems and risk management systems and manned by experienced professionals.

Due primarily to our high levels of provisions in respect of NPAs and to capital constraints, the Bank incurred a net loss in each of the last three years and FY 2006. In FY 2003, FY 2004 , FY 2005 and FY 2006 our net losses amounted to Rs. 97.79 million, Rs. 431.85 million, Rs. 729.89 million and Rs. 805.88 millions respectively. .The Bank made a profit of Rs.43.43 million for the quarter ended June 30, 2006.

Given below is a summary of the total advances and deposits for FY 2004, FY 2005, FY 2006

(Rs. in million)

Domestic Sector	**March 31, 2004**		**March 31, 2005**		**March 31, 2006**	
	Loans	**Deposits**	**Loans**	**Deposits**	**Loans**	**Deposits**
Consumer Banking	2,129.70	20,246.40	5,807.83	18,227.00	6,977.40	18,734.00
Commercial Banking	22,971.28	24,495.38	15,710.57	20,720.64	11,695.82	12,505.96
Total	**25,100.98**	**44,741.78**	**21,518.40**	**38,947.64**	**18,673.22**	**31,239.96**

Revitalization Plan

The management has been actively addressing the financial, liquidity, risk management, personnel and operational issues facing the Bank. The Bank has established a comprehensive revitalization plan to revitalize its business and to address key weaknesses that have restricted its ability to grow its business. This revitalization plan is in addition to the long-term business strategy discussed below.

The key elements of the revitalization plan are:

Raising Capital

The management has pursued new capital infusions from private investors since constraints on the Bank's capital have restricted its ability to grow its business including the advances book. The Bank believes that additional capital is required for future asset growth and compliance with regulatory requirements. In February 2006, the Bank issued 11,553,334 equity shares (15.18%) of the Bank for Rs. 519.9 million. In addition, this Issue will also address the Tier I capital needs. For further details see "Objects of the Issue" on page 35 of this Red Herring Prospectus.

Improve asset quality through prudent risk management

The Bank has improved its loan and investment portfolios by carefully targeting the customer base and implementing a comprehensive risk assessment process and diligent risk monitoring and remediation procedures. The Bank applies its credit risk rating process to advances in excess of Rs. 2.5 million. Additionally, it actively monitors loans and reassess their credit ratings once a year or more frequently if they are at risk. The Bank also applied aggressive remediation policies to recover non-performing loans. Since FY 2003 incremental net impaired loan assets has been 0.75 % to total net incremental credits approved.

Addressing the legacy of historically high level of NPAs

The Bank has had a legacy of high level of non-performing assets (NPAs) and has adopted a conservative policy in actively recognizing these NPAs, providing for them in its accounts and otherwise managing its legacy NPA exposure. The Bank has taken provisions in respect of NPAs of Rs. 605.75 million, Rs. 417.75 million and Rs. 544.66 million in each of FY 2004, FY 2005 and FY 2006 respectively and Rs. 29.59 million for the quarter ended June 30, 2006. After provisioning, the Bank's net non-performing assets were Rs. 839.60 million as at March 31, 2006, representing 4.50% of net advances. Bank's net non-performing assets were Rs.779 million as at June 30, 2006, representing 4.05 of net advances.

Lowering the cost of funding through consumer deposit products

The Bank's main focus will remain on growing CASA to further lower the cost of funds and growing term deposits to facilitate the creation of liquidity to fund balance sheet growth. Since the formal launch of consumer banking, the Bank has reduced its cost of funds from 8.09% as at March 2003 to 5.47% as at March 2006. Further, CASA increased from Rs. 6,210.35 million as at March 31, 2003 to Rs. 10,641.63 million as at June 30, 2006

Reducing operating expenses

The Bank has taken significant measures to reduce staff costs and non-strategic operating costs. It has introduced a voluntary retirement scheme in 2005 and has a rigorous programme to identify and reduce non-strategic costs. The financial benefits of these measures are already being recognized, and these cost savings initiatives will be continued as the business grows.

Focusing on core business

The Bank intends to maintain its position as a customer-focused institution that provides comprehensive banking and related services in its core consumer banking, commercial banking and treasury businesses.

The Bank's Strengths

The Bank believes that it has the following strengths which enable it to implement its revitalization plan and its long-term strategy and to compete effectively in the Indian financial services sector:

- **Promoter** - The Bank's Promoter, the Aga Khan Fund for Economic Development S.A. (AKFED). AKFED, incorporated in Switzerland, is an international development agency which promotes entrepreneurship in the private sector in specific regions of the developing world. AKFED promotes private sector initiative and entrepreneurship through equity investment in partnerships with multilateral agencies, international investors, local development institutions and individuals. AKFED operates in five broad sectors: industry and infrastructure, tourism development, financial services, media and aviation. AKFED has in the past supported the Bank by infusing capital when required. The Promoter has in the past three years infused Rs. 1,605.11 million by way of equity participation. The Bank believes that its association with the Promoter helps it in attracting talent. The Bank proposes to build on their expertise, as well as to capitalize on the business relations of the Promoter with other banks. This will help the Bank in acquiring and servicing NRI customers in the UK, East Africa and Middle East.
- **Professional Board and Good Corporate Governance** – The Bank has a professional and effective board. The Bank's reconstituted its Board in 2004 to ensure that most of the members of the board have relevant finance and banking experience. The Board comprises eminent persons like Dr Vijay Kelkar, an economist, who was formerly an advisor to the Finance Minister and also the Finance Secretary to the Government of India and is currently the chairman of IDFC Assets Management Company Limited. Mr. Narayan Seshadri is a corporate consultant. He was on the board of Sundaram Asset Management Company. Mr. Anuroop Singh has over three decades of work experience in banking and insurance services and has spearheaded the setting up of a number of institutions including Max New York Life Insurance Company Limited, and ANZ Grindlays Bank. The Bank's corporate governance framework is based on an effective independent board, the separation of the Board's supervisory role from the executive management and the presence of an independent advisory board. The Bank's non executive chairman, Mr. Naseer Munjee, has over 28 years of experience in the financial services industry. The Bank has three eminent consultants in Mr. M.G. Bhide, Mr.

N.C.Singhal and Mr. Vijay Mahajan. Mr. M.G. Bhide was the Chairman, National Institute of Bank Management, Managing Director, State Bank of India and subsequently Chairman and Managing Director, Bank of India. Mr. N.C. Singhal was the former CEO of Shipping Credit and Investment Corporation of India Limited as well as former director of ICICI Limited, who comprise the advisory board to the Chairman and have significant experience in banking and industry. Mr. Vijay Mahajan specializes in microfinance. He is a fellow of Princeton University, where he studied economic development policy. Mr. Mahajan has established Pradhan, a non -government organization and is currently involved with BASIX, a new generation livelihood promotion institution that has extended micro credit to over 200,000 people.

- **Professional and experienced management team** - The Bank has recently inducted an experienced management team which has expertise in their respective fields, including the Managing Director, Mr. Gautam Vir. Mr. Gautam Vir has over 26 years of experience in the banking industry. For details of other key managerial personnel see “Key Managerial Personnel” on page 128 of this Red Herring Prospectus.
- **Extensive use of information technology systems** - The Bank has established an effective technology platform. The Bank has implemented “Finacle”, a core banking solution, which enables the complete integration of the Bank’s front, mid and back offices. The Bank has a centralized back-office operation in Mumbai catering to all its offices and branches nationally for their front and back office operations ensuring accuracy and timely delivery. The Bank has also deployed Oracle Financials, a decision support system and Oracle Human Resource Information System Software, an HR automation system. In addition, the Bank has established a Management Information System (MIS) to enhance its capability for risk management. It has launched Internet Banking facility for its customers. The Bank has launched the Visa Money Transfer facility and also “Celfill” a product which enables recharging of pre-paid cellular mobile connections through ATMs. This facility is available to non- DCB customers as well.
- **Scalable Infrastructure and products**– The Bank has a scalable network infrastructure comprising 72 fully networked consumer branches including 5 extension counters, 101 ATMs, online Internet banking and mobile messaging. The Bank has developed a range of products and delivery infrastructure on a technology platform that can be leveraged to deliver volume growth with a less than proportionate increase in the costs.
- **Customer base –** The Bank has a customer base of approximately 600,000 customers with about 595,000 retail customers. The Bank has had a long lasting relationship with a large percentage of its customers. The Bank believes that it maintains high levels of customer service which it believes promotes loyalty in customers.
- **Treasury –** The Bank has an active treasury, managing the interest rate risks and liquidity to enable uninterrupted flow of funds positioning the Bank for future balance sheet growth.

The Bank’s Mission

To be the preferred financial services provider amongst the Bank’s peers with a passion for excellence in service.

Strategy

The Bank’s strategy and business model is built around its current strengths. The Bank intends to grow by offering an extensive product and service range in select geographical locations.

Focus on growth opportunities in consumer banking business

With the increase in household income levels in India and the consequent need for diversified financial services, the retail sector has emerged as a rapidly growing opportunity for banks with the skills and infrastructure to adequately service this market.

The Bank’s main focus will remain on growing CASA to further lower the cost of funds and growing term deposits to facilitate the creation of liquidity to fund balance sheet growth. In order to capitalize on the growth opportunities presented by the retail segment, the Bank has devised the following strategies

- **Increase and focus the branch network** – At present the Bank has 72 branches including five extension counters, and the Bank proposes to increase the branches to approximately 100 by 2008. The new branch selection criteria will be based on the population density, competing bank branch density, market growth rates, market size, potential for retail asset / SME businesses etc. This expansion plan will be in line with the regional distribution strategy of the Bank. The Bank also proposes to merge and / or relocate its existing branches while it initiates its expansion of branch network in order to enhance focus on clusters to service the niche needs of customers.
- **Grow fee-based income.** In order to grow its fee-based income, the Bank proposes to introduce new product offerings such as demat services and has launched new delivery channels such as Internet banking and an online centralised customer contact centre. The Bank also proposes to earn fee based income from the sales and distribution of investment products and mutual funds as well as insurance products, IPO financing and wealth management services.
- **Transform branches into one-stop retail financial super markets** - The Bank intends to upgrade and convert its branches into one-stop retail financial super markets. The Bank plans to offer a standard product offering and also to standardize the look and feel of all these new financial super markets. The Bank will offer products like personal loans, educational loans, gold loans, IPO financing and a variety of other products. The Bank is also in the process of establishing total solution centers, which will also provide customer advisory and account opening capability supported by ATMs, in addition to the above mentioned products. In addition, each financial super market will have an ATM.
- **Internet and call centre offerings** –The Bank provides basic Internet banking and demat services to its customers. The Bank also intends to enhance the capability of its call centre to ensure a full service offering.
- **Enhance the retail sales network** – The Bank intends to increase the retail sales network through increase in the network offices from the current 13 to 26 and strengthen the indirect distribution channels for retail assets. The Bank also intends to increase its distribution reach through direct sales agencies and sales team. The Bank currently has 59 agencies and sales team of 409 persons.

Build the Bank's Commercial Banking Business

The Bank seeks to build its commercial banking business through the following strategies:

- **Focus on SMEs –** The Commercial Banking Group will focus on small and medium enterprises (SME) with turnover of less than Rs.1000 million and corporates with a turnover in excess of Rs. 1000 million but less than Rs. 5000 million. The CBG shall also handle corporates with a turnover in excess of Rs. 5000 million on a case-by-case basis. The Bank believes that with its present size concentrating on SME's will be an effective business strategy. The rationale for focusing on SME/ small businesses includes the following:
    - Bank's expertise in SME lending,
    - diversified credit risk profile due to the smaller individual exposure
    - comparatively higher yields,
    - associated business/cross-selling opportunities,
    - existing customers data base can be leveraged,
    - higher degree of secured/collateralized loans,
    - good geographic spread, and
    - meeting of priority sector targets.

  In order to reduce the risk in lending to SME/small businesses, the Bank proposes to offer standardized products to this segment. These products will be designed and priced after due evaluation of the industry profile and dynamics considering the risks versus rewards matrix. The Bank's focus will be to improve turnaround time in approving and disbursing of credit proposals and assure higher level of customer service.

- **Focus on selected regional locations –** The Bank proposes to focus primarily on selective regional locations like Mumbai, Ahmedabad, Hyderabad, Delhi, and Bangalore
- **Developing existing client base and relationships –** The Bank intends to focus on customer clusters such as large traders, auto ancillaries, downstream infrastructure entities, business process outsourcing units, agriculture finance etc. and formulate specific products to cater to industries such as supply chain financing, franchisee financing, cash management, third party product sales, etc.
- **Building regional sales team –** The Bank will have relationship managers with specific industry expertise to improve contribution in the select industry segments. Such focus is expected to help improve business volumes and also enhance fee income and floats in the bank. These sales teams will look to tap large corporate clients for asset origination facility both for originating assets and for acquired assets originated by others.

Develop substantial regional presence

The Bank proposes to distinguish itself as a niche player with a substantial regional presence in Maharashtra, Gujarat and Goa, Rajasthan, Punjab, Andhra Pradesh and Haryana and the National Capital Region.

The Bank currently has a high regional concentration and proposes to build upon this, in addition to the other centers. The Bank proposes to distinguish itself as a niche player with a substantial regional presence and believes that it has the necessary infrastructure and the presence in select parts of the country to focus on certain markets and geographic locations which have not been exploited and which therefore have a potential for growth. In addition to the large metropolitan cities, the geographic clusters the Bank serves / proposes to serve are Maharashtra, Gujarat and Goa, Rajasthan, Punjab, Andhra Pradesh and Haryana and the National Capital Region.

The Bank currently has a high regional concentration and proposes to build upon this. The Bank intends to rationalize its branch distribution strategy to maximize business efficiencies. The Bank also proposes to build strategic alliances with other regional players to cater to its requirements in other locations.

Use of technology for competitive advantages

The Bank seeks to be at the forefront of technology in the financial services sector. It intends to use information technology as a strategic tool for its business operations to gain a competitive advantage over its peers and to improve overall productivity and efficiency of the organization.

The Bank intends to use technology to build a cost efficient distribution network and effective Customer Service capabilities. The Bank has introduced technology-driven products like debit cards, mobile recharge, electronic funds transfer and mobile alerts for personal loans and home loans. Furthermore, the Bank offers the facility to generate statement of account by e-mail on a monthly frequency to all its customers free of cost. The Bank proposes to strengthen its contact center in Mumbai. The Bank launched Internet banking facility in January 2006.

The Bank intends to continue to implement new information technology and other initiatives to provide customer centric solutions to its customers. The Bank has made considerable advances in the networking, computerization and interconnectivity of its branches, ATMs and other delivery channels.

Leveraging business alliances

The Bank intends to enhance its fee-based income by enhancing and entering into new businesses and alliances. This will also help the Bank in increasing the product portfolio offered to its customers and enhancing its service offerings. The Bank has entered into lines of business such as distribution of life insurance and mutual fund products, which are complementary to its existing products and service lines. The Bank has entered into an alliance with Birla Sun Life Insurance Company Limited to distribute life insurance and with Bajaj Allianz General Insurance Company Limited to distribute general insurance products. The Bank also has built on alliances to distribute mutual funds for various fund management companies.

The Bank has already entered into strategic partnerships with HDFC Bank Limited and the CASHNET network comprising Citibank N.A, IDBI Bank Limited, UTI Bank Limited, Corporation Bank Limited, Dhanalakshmi Bank Limited and Centurion Bank of Punjab, covering 5613 ATMs across India.

In addition the Bank has a tie up with VISA whereby the Bank's customers can access their accounts for cash withdrawals and balance enquiries through approximately 16,000 VISA ATMs across the country. The Bank has also signed an agreement with the Institute for Development and Research in Banking Technology to form part of the proposed National Financial Switch Network, which will give customersaccess to 5437 ATMs, across India.

Human Capital

The Bank proposes to build the image of a preferred employer, to attract and retain quality professionals. The Bank offers the right balance of performance incentives, stock options etc to ensure that the employees are committed towards achieving profitability and controlling risk. Further, the Bank proposes to enhance the sales and service culture in the Bank.

Service quality as a differentiator

The Bank believes that its consistent and seamless service quality through all its delivery channels will differentiate it from its peers. Towards this end, the Bank proposes to introduce a 'six sigma' service quality programme. The Bank proposes to introduce training programs for staff to communicate the vision, values, sales techniques, regulations such as KYC, ALM and other aspects of risk management.

Building the Bank's corporate image and its "DCB" brand

The Bank intends to continue to enhance its brand recognition in the marketplace through brand building efforts. The Bank has undertaken various communication and promotional initiatives such as developing and introducing the Bank's new tag line "Feel the difference", and launching various campaigns. The Bank's main emphasis of building a brand would be to reposition itself by focusing on service quality and changing the public perception of the Bank. The Bank believes that such initiatives will enhance the visibility of its brand name and strengthen the Bank's recognition as an established Indian bank.

Leveraging the synergies with the Promoter

The Promoter and some if its associates are involved in poverty alleviation and in this process have gained significant expertise and network in the area of micro finance. The Bank proposes to build on its expertise as well as capitalize on the business relations of the Promoter with other banks. This will help the Bank in acquiring and servicing NRI customers in the UK, East Africa and Middle East

Strengthen the Bank's priority sector banking business

The Bank believes that the priority sectors offer large and potential profitable growth opportunities. India has a variety of agro-climatic zones and large tracts of arable land and is one of the largest producers of milk, cereals, vegetables and fruits. The Bank intends to integrate environmental and corporate social responsibility within its business and build a presence in the agriculture and small-scale industry sectors by lending through products that will meet the financing requirements of this sector. The Bank proposes to expand into micro finance and commercial vehicle loans. The Bank's focus will be therefore, to enhance its expertise in handling this segment by increasing business and building relationships in this area.

The Bank also intends to pursue and further develop its existing credit programs aimed at women which it has already started on a small scale. These credit programs seek to cater to women entrepreneurs seeking easy and affordable finance to establish their businesses.

DETAILS OF OPERATIONS

Consumer Banking

The Bank formally launched its consumer banking business in October 2002 with the primary objective of:

a) reduction of the cost of funds;

b) reduction of reliance on high cost wholesale time deposits;

c) reducing the risk in asset portfolio;

d) increasing the yield on assets; and

e) increasing fee income opportunities.

Since the formal launch of consumer banking, the Bank has reduced its cost of funds from 8.09% as at March 2003 to 5.73% as at March 2006. Further, CASA increased from Rs. 6,210.35 million as at March 31, 2003 to Rs. 10,641.63 million as at June 30, 2006

This has also enabled the Bank to reduce its dependence on price sensitive liabilities. As at March 31, 2006 the consumer business contributed 61.73% of the total deposits of the Bank.

Towards marketing the "DCB" brand and also popularizing the consumer services offered, the Bank has employed retail sales teams for asset products as well as for liability acquisition. The Bank as on June 30, 2006 employed approximately 350 sales personnel for liability and about 350 contract sales staff for assets products.

The general perception about the Bank prior to 2003 was that it was a niche player that catered to a specific segment of retail consumers. The Bank has directed its efforts in changing this perception and to re-position itself by focusing on service quality as a niche player with a pluralistic pan-India image.

The Bank has invested substantially in technology, networking and an integrated core banking solution, viz. Finacle. Although the Bank had a computerized banking system in place prior to 2003, the branches were networked and the technological capability of the Bank was efficiently leveraged to enhance business capabilities only thereafter. Currently, all the retail branches are networked and integrated with Finacle.

The consumer banking division also caters to its customers through various channels including alternate banking methods such as mobile banking. The Bank has also introduced Internet banking.

The consumer business contribution to the Bank's income was 5.8% in FY 2004, was 17.8% in FY 2005, and was 39.37% in FY 2006. The Bank believes that it has developed a range of products, dedicated sales teams and delivery infrastructure on a technology platform that can be leveraged to deliver high volume growth with a less than proportionate increase in the costs.

The Bank also plans to introduce the "model branch" concept which will encompass specialist services including wealth management and consumer credit services. These branches will have enhanced service levels and better ambience. The Bank believes that the model is scalable and can be replicated in other branches and proposes to convert all its branches to this model within the next two years. This will be the bedrock of the one-stop retail financial supermarkets.

The following table sets forth the details of the key product offerings by the consumer banking business:

Existing key product offerings	Product details
Liability Products	
Premium Saving Bank Account	Special Saving Bank Accounts for HNI's with add-on benefits such as free remittances, free ATM access on shared network etc.
Junior Saver SB Accounts	Savings Bank accounts for minors, offering international debit cards to minors, with life cover to guardians
Corporate Payroll Accounts	Corporate Salary account for employees of corporate, with certain degree of relaxation on maintenance of Average balance.
Premium Current Accounts	Exclusive Current Account offerings for HNI's with free remittances, free ATM access on shared network etc.
3D – FD Term Deposits	Fixed deposit linked with accidental insurance.
Various Time Deposits	Monthly, Quarterly, Half yearly & Cumulative Interest schemes to suite customer requirement.
Asset Products	
Personal Loans	Unsecured Personal Loan offerings to all target segment viz. Individuals, Salaried, Small Business Persons, Professionals etc.
Mortgage Loans	Mortgaged loans backed by residential / commercial property
Educational Loans	Finance for educational purpose
Vehicle Loans	Loans for purchase of two and four wheelers
IPO Finance	Loans for purchase of shares in the primary market
Investment Products	
Life Insurance	Distribution of various life insurance products such as classic life, term plan, endowment polices etc. through Birla Sun Life Insurance Company Limited.
Non Life Insurance	Distribution of Non-life insurance for residential / commercial properties, travel policies etc. through Bajaj Allianz General Insurance Limited
Mutual Funds	Distribution for various Mutual Funds such as Franklin Templeton, Principal, Reliance, Kotak, ICICI Prudential, etc.
GOI / Capital Gain Bonds	Distribution of RBI bonds
International Debit Card	Offering International Visa flag Debit Card with access to over 13500 ATMs across the country.
Mobile Recharge – Cellfill	Offering mobile recharge facility through the Bank's ATMs. This facility is available for non-customers as well.
Visa Money Transfer	Visa Money Transfer (OCT) facilitates fund transfer to any visa debit / credit card.

The consumer loans increased during the FY 2005 from Rs. 5,807.83 million at March 31, 2005 to Rs. 6,977.40 million at March 31, 2006.

In addition, the Bank introduced following new liability products since January 2006

Free Style Savings Account

The main features of the free style savings account are that no minimum/average balance is stipulated. It also offers the customer a 90 days free trial period wherein a customer not satisfied with the Bank's services may opt for a refund. The customer however, will have to pay upfront annual account maintenance charges. The account also has provides the customer free personal accident death insurance for Rs. 1,00,000/- per account as well as a free international debit card; and other facilities including any branch banking, Internet banking etc. Since inception in February 2006, 26,212 free style savings accounts have been opened with the Bank.

"No Frills" Account

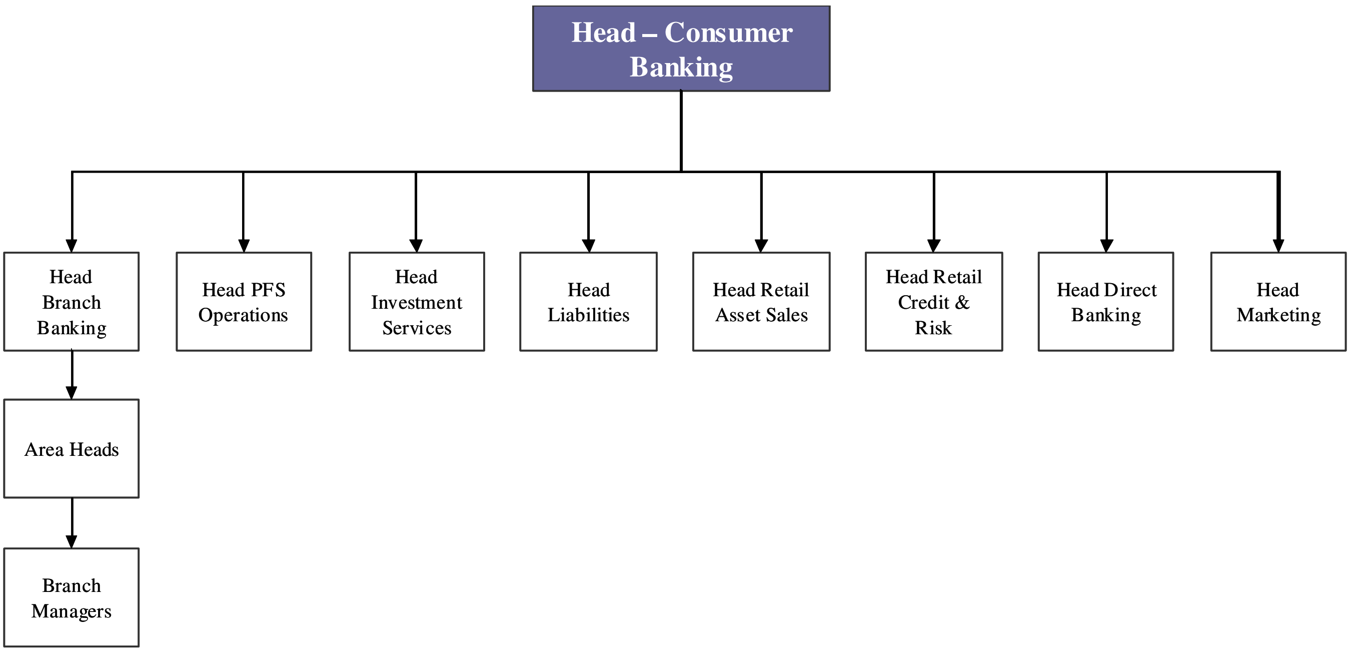
RBI, vide its circular No.DBOD.No.Leg.BC.44/09.07.005/2005-06 dated November 11, 2005 has made it mandatory for the Bank to make available a basic banking "no-frills" account either with nil or very low minimum balances and charges that would make such accounts accessible to vast sections of population.

These are basic savings accounts with a minimum balance requirement of Rs. 500. This also entitles customer to a free ATM card with usage restricted to DCB ATMs in addition to free Internet banking.

M-Power Current Account

Launched in May 2006, this is a zero balance saving account which does not require the maintenance of an average quarterly balance. One of the main features of the account is the auto sweep out / in facility. The auto sweep facility ensures that the account balance above threshold limit (Rs. 50,000/-) is transferred to fixed deposit for a minimum tenure of 14 days to generate returns. This swept out amount is brought back into the account in case the balance in the account goes below the threshold limit. The fixed deposit is automatically renewed on due date along with the interest. The account holder also enjoys other free benefits like international debit card, unlimited banking transactions, Internet banking, any branch banking etc.

Organisation Chart of Consumer Banking



Branch Network

The consumer banking business leverages on the wide branch network of the bank.

The Bank's branch network as at quarter ended June 30, 2006 is as under:

Sr. No.	Region	Branches	Satellite Offices (SO)	Extension Counters	Total (Branches, SOs, Extension Counters)	ATMs
1	Mumbai – South	12	9	2	23	13
2	Mumbai – North	14	6	2	22	28
3	Maharastra	2	0	—	2	6
4	Gujarat	13	6	—	19	16
5	South	13	6	1	20	22
6	Pune, East, Goa & North	13	7	—	20	16
	TOTAL	**67**	**34**	**5**	**106**	**101**

Commercial Banking

The commercial banking group caters to the various business needs of varied enterprises and corporate entities. The commercial banking business of the Bank is organized into:

- Business banking group and
- Corporate banking group

Business Banking Group

The BBG focuses on the needs of small and medium businesses with annual sales turnover up to Rs. 1000 million. Prior to its conversion as a joint stock banking company the Bank's focus as a co-operative bank was on the small and medium business category. The BBG continues to build and expand on this legacy small business franchise. Over the years a large number of these customers have grown in size and now form part of the clientele catered to by the CBG. The Bank has also expanded its commercial banking reach to include existing large companies as a part of its Corporate Banking group clientele. These large companies provide the Bank the basis for reaching out to the supplier / sales channel of such companies which are ideal BBG customers.

The business banking group offers the following products for its customers:

Existing key product offerings	Product details
Working capital finance	Over draft and cash credit limits are provided against stocks\inventory and receivables.
Demand loans	To facilitate margins to meet working capital\ onetime bulk orders\short term working capital gaps.
Term loans	For investment in fixed assets, for example, plant and machinery, sheds, buildings, furniture etc., payable in instalments
Loans against receivables	Against rents/tolls/job works/service charges receivable over a contracted period

Existing key product offerings	Product details
Dealer financing	Cash credit/bill limits to dealers of large corporates, through corporate arrangement with or without recourse to corporates
Vendor financing	Bill Discounting limits to vendors of large/medium corporates for purchases of corporates
Equipment financing	Finance to vendors purchasing equipments from manufacturers through corporate arrangement.
Developer\builder finance	Finance to builders and developers for construction of commercial/ residential complexes
Trade finance	Inland\foreign letters of credit/bank guarantees for facilitating domestic/overseas trade transactions guarantees
Easy business	Working capital facility against properties for small business without hassles of submission of periodical statements
Corporate current accounts	Current accounts with any branch banking, free remittance and payable at par cheque facilities
Cash management	Cash/cheque pickup facilities
Export/import finance	Pre and post shipment finance, forward covers, buyer's credit and finance in foreign currency.

The Bank also cross sells and distributes a host of investment and insurance products to these customers and their proprietors, owners, and / or employees.

Corporate Banking Group

The CBG was specifically created to meet the banking requirements of corporates with a turnover exceeding Rs. 1000 million but less than Rs. 5000 million. Additionally it also caters to companies with a turnover in excess of Rs. 5000 million on a case-to-case basis, as the needs of these sectors are different from the entities catered to by the BBG. The CBG intends to focus primarily on selective regional locations like Mumbai, Ahmedabad, Hyderabad, Delhi, Bangalore, and Pune.

The CBGs business primarily consists of extending term loans, working capital facilities, import and export financing, bill discounting, structured financing, securitisation, asset based financing, foreign currency loans, investment in various securities issued by corporates and includes providing other value added services such as salary accounts, cheques at par facility, non fund based services such as Letters of Credit, forward covers for hedging exposure, foreign currency conversion, guarantees etc.

The Bank focuses only on quality corporate customers and has given priority to the timely and customized service of the customer needs.

The key commercial banking products and services offered to corporate customers include:

Existing key product offerings	Product details
Working capital finance	Over draft and cash credit limits are provided against stocks/ inventory and receivables.
Corporate loans	To facilitate margins to meet working capital margins/onetime bulk orders
Term loans	For investment in fixed assets, for example, plant and machinery, sheds, buildings, furniture etc., payable in installments
Bill Finance	Purchase/sale bill discounting
Export/import finance	Pre and post shipment finance, forward covers, buyer's credit and finance in foreign currency.
Corporate current accounts	Current accounts with any branch banking, free remittance and payable at par cheque facilities.
Corporate term deposits	Fixed deposit schemes with attractive deposit rates to enable corporates to invest short term surpluses.
Cash management	Cash/cheque pickup facilities finance in foreign currency.

The Bank also cross sells host of investment and insurance products to the business entities.

The Bank intends to focus on selective regional locations like Mumbai, Ahmedabad, Hyderabad, Delhi, Bangalore, Pune etc. The focus will be on the existing client base of borrowing and non borrowing relationships. The Bank believes that with its present size concentrating on SME's will be appropriate. The rationale for focusing on SME/ Small businesses includes the following:

- Bank's expertise in SME lending;
- diversified credit risk profile
- comparatively higher yields;
- associated business/cross-selling opportunities;
- existing customers data base can be leveraged;
- higher degree of secured/collateralized loans;
- this sector has been in the past underbanked;
- good geographic spread; and
- it enables the Bank to meet its priority sector targets.

The Bank intends to focus on customer clusters like large traders, auto ancillaries, downstream infrastructure entities, business process outsourcing units, agriculture finance etc. and formulate specific products to cater to such industries such as supply chain financing, franchisee financing, cash management, third party product sales, etc.

The Bank proposes to have relationship managers with specific industry expertise to improve contribution in these areas. This would further help to not only improve business volumes but also enhance fee income and floats in the Bank. Large corporate clients can be tapped for asset origination facility both for originating assets and for acquired assets originated by others. The Bank can leverage its geographical spread to service acquired assets originated by others.

The Bank has in the preceding three years implemented various strategies to improve the functioning of its commercial banking business. In the said period of three years, the Bank has implemented the following two major projects:

- focus on processes – the Bank has introduced various processes to ensure smooth operations including implementation of the core banking solutions, viz. "Finacle", Oracle Financials, Decision Support System etc.; and

- centralised operations – the Bank has in the past few years centralised its operations through the introduction of a nationalised processing centre to ensure co-ordination and for operational ease.

This has enabled the Bank to handle growth and seize fresh opportunities, to garner business and improve customer service turnaround time for approving credit proposals. The Bank having ability to handle growth, proposes to enhance its asset base through a quantitative increase in the number of loans advanced. In the light of its past experiences, the Bank prefers to increase the number of assets rather than increase its exposure to individual borrowers.

The Bank proposes to increase its focus on fee based businesses such as letters of credit, bank guarantee, etc.

Credit Approval Process

The Bank has also restructured its credit approval process model whereby the risk evaluation and sanction occur centrally at any one of the two hierarchical levels currently existing i.e., Head of Corporate & Business Banking and Chief Credit & Risk Officer jointly or at the level of the Managing Director's Committee. Loans above such delegated powers are sanctioned by the Executive and Credit Committee (ECC) which meet once a week. This ensures transparency and accountability and responsibility for actions, besides reducing the response time. The Committee is required to have a minimum of two Directors as its members. The Committee currently comprises Mr. Nasser Munjee, Mr. Gautam Vir and Mr. Amin Manekia, who is the Chairman of the Committee.

The ECC of the Board has the complete authority to approve credits without any limits on the credit amount.

The Bank has developed an internal credit rating system for the SME sector. This system is dynamic and takes into account various factors including operational, financial and managerial strengths of the potential customers. The Bank updates this system on the basis on varying ground realities. The internal rating system is regulated and supervised by the credit risk department headed by the Head – Credit Risk.

Treasury Operations

Treasury is the Bank's interface with the financial markets. Treasury operations integrate domestic, money and the foreign exchange segment of the market. The activities also include all derivative products which are permitted to be handled by banks. The Bank has a well-equipped integrated dealing room which was established in 2002. Up-to-date technology, information systems and risk management systems have been deployed and are manned by experienced market professionals.

The Bank has an experienced team of money market dealers who are responsible for ensuring that the Bank is compliant with the minimum cash reserve ratio of 5% and the minimum statutory liquidity ratio of 25%, stipulated by the RBI. Fund inflows and outflows of the Bank are carefully monitored to ensure that adequate funds are available to meet the Bank's requirements. The extent of call money borrowing/ lending will be fine tuned to meet these requirements. Call money borrowings are generally below the ceiling permitted by RBI (i.e., Fortnightly Average of 100% of Capital Funds i.e. Tier I *plus* Tier II with effective from April 30, 2005). The money desk does not arbitrage except as a means of routine management of funds. Short term asset/ liability mismatches are managed by investments / sale, under guidance from the ALCO. The arbitrage opportunities between money and forex markets are also exploited. The Bank has also set up the real time gross settlements ("RTGS") system. The money desk monitors flows through RTGS and this has helped the Bank to enhance its service to customers and also have more efficient settlements with other banks.

Treasury manages the SLR requirements and also invests in Government of India securities, keeping in view market developments expectations of policy changes and interest rate movements. Treasury also invests in non SLR instruments such as commercial paper, corporate debentures, PSU bonds, equity IPOs, mutual funds, etc. This portfolio is managed with a view to capitalize on the market movements in interest rates and credit spread and also to deepen the relationships with corporate customers.

The Bank is active in the spot and forward forex markets in Rupee and cross currencies and also in the derivatives business across various products such as Interest Rate Swaps, Currency Swaps, USD / INR and G7 currency options. Timely advice and delivery of these products benefits customers and thereby enhance customer relationships.

The organization of the treasury operations integrates the domestic markets and the foreign exchange and derivatives segments. However, the risk management is functionally separate and the Bank follows a model wherein the treasury operations division is demarcated into:

- the front office – the front office concludes deals and transactions on behalf of the Bank;
- the back office – the back office settles the transaction concluded by the front office. The back office controls the transactions by adhering to the internal / external norms stipulated by the Board, RBI and other regulatory authorities; and
- the mid-office – the mid-office was established in keeping with international best practices. The mid-office maintains an overall control on the transaction concluded and executed by the front and back offices respectively. Further, it also lays down internal operational parameters and apprises the Board of Directors on all Treasury activities periodically.

All three units maintain separate lines of reporting where the front office reports to the Managing Director, the back office reports to the (COTO) and the mid office reports to the Head – Credit Risk and Management.

The treasury operations fund the balance sheet through both inter-bank deposits, including those from FIs, mutual funds, insurance companies etc, and corporate deposits.

Additionally, the Treasury also handles all correspondent banking relationships with foreign banks, FIs, mutual funds, domestic banks and corporates in general. The main services provided through the correspondent banking network include collection of bills, advising and confirming letters of credit issued by other banks, discounting of bills drawn under letters of credits, maintenance of foreign currency accounts, and handling remittances on behalf of other banks.

The Treasury also plays a vital role in asset liability management ("ALM") and gap management by providing the Bank with a clearer understanding of dynamics of the market. Towards this end, it takes into account a range of issues including market economics, general financial trends, political state of affairs etc.

The Bank believes that the fresh infusion of capital will result in increase in size and diversity of counter party limits and such rise will enhance its position and profits, which in turn will lead to fresh corporate business.

Details of the Bank's investment portfolio for FY 2004, FY 2005 and FY 2006 is as follows

(Rs. in million)

Sl. No.	Particulars	Year ending March 31,		
		2004	**2005**	**2006**
1	Government Securities	17,182.35	16,100.34	10,003.21
2	Other Approved Securities	349.74	299.95	270.07
3	Shares	25.08	24.68	24.68
4	Debentures & Bonds	1,120.39	1,273.10	1,896.22
5	Others	1,916.90	635.80	725.02
	TOTAL	**20,594.46**	**18,333.87**	**12,919.20**

Forex Business

The Bank's forex business involves transaction in foreign currency with corporates and other banks. Details of the Bank's profits from its forex business and its turnover in FY 2004, FY 2005 and FY 2006 are as follows:

(Rs. in million)

Particulars	Year ending March 31,		
	2004	**2005**	**2006**
Turnover	449,989.70	498,053.30	607,182.50
Forex Income	107.95	100.89	105.88

ASSET COMPOSITION AND CLASSIFICATION

Loan Concentration

The Bank follows a policy of portfolio diversification and evaluates its total financing exposure in a particular sector in light of the forecast of growth and profitability of that sector. The risk management department tracks and suggests revisions to the credit risk management committee (CRMC) with respect to quantum of exposure in all major sectors of the economy. The effort is to respond to any economic weakness in an industrial segment by restricting new exposures to that segment and capitalize on any growth in an industrial segment by increasing new exposure to the segment, resulting in active portfolio management.

The following table represents the Bank's industry wise exposure for FY 2005 and FY 2006

Sr. No.	Industry Name	Exposure as on March 31, 2005	Exposure as on March 31, 2005 as a % of total assets	Exposure as on March 31, 2006	Exposure as on March 31, 2006 as a % of total assets
1	Iron and Steel	720.00	1.94%	430.00	1.16%
2.	Metal & Metal Products	1,620.00	4.36%	640.00	1.72%
3	All Engineering	2,340.00	6.30%	2,240.00	6.03%
4	IT & Entertainment	1,380.00	3.71%	1,460.00	3.93%
5	Textiles	980.00	2.64%	830.00	2.23%
6	Food & Beverages	1,000.00	2.69%	1,200.00	3.23%
7	Vegetable Oils	1,380.00	3.71%	1,040.00	2.80%
8	Cement	540.00	1.45%	450.00	1.21%
9	Gems & Jewellery	1,090.00	2.93%	1,140.00	3.07%
10	Infrastructures	3,760.00	10.11%	3,820.00	10.28%
11	Transports	1,620.00	4.36%	120.00	0.32%
12	Other industries	3030.00	8.15%	5,300.00	14.26%
13	Finance	5,880.00	15.82%	2,430.00	6.54%
14	Plastic & Plastic Products	420.00	1.13%	490.00	1.32%
15	Retail Trade	770.00	2.07%	1,030.00	2.77%
16	Wholesale Trade	2,890.00	7.78%	3,240.00	8.72%
17	Chemicals	2,270.00	6.11%	3,100.00	8.34%
	Total	**31,690.00**	**85.26%**	**28,960.00**	**77.92%**

Pursuant to RBI guidelines the Bank's exposure to individual borrowers should not exceed 15 % of its capital funds comprising Tier I and Tier II capital. Exposure to individual borrowers may exceed the 15 % of the Bank's capital funds by another 5% (i.e. up to 20%) provided the additional exposure is on account of infrastructure financing. Under the same regulation, the Bank's Board has discretion to approve additional 5% exposure with the consent of the borrower to publish their name in the Bank's balance sheet The Bank's exposure to a group of companies under the same management control must not exceed 40% of the Bank's capital funds unless the exposure is in respect of infrastructure project, in which case the exposure to a group of companies under the same management control may be up to 50% of the Bank's capital funds. Although the Bank has adhered to the RBI norms in general, in some of cases the Bank exceeded the 15% cap on a single borrower with prior RBI approval.

Non-fund based exposures are calculated at 100.0% and in addition, banks include forward contracts in foreign exchange and other derivative products, like currency swaps and options, at their replacement cost value in determining individual or group borrower exposure ceilings, effective April 1, 2003.

Although the Bank has adhered to the RBI norms in general, in some of cases the Bank exceeded the ~~15%~~ cap on a single borrower with prior RBI approval.

LOAN REVIEW GROUP (LRG)

The LRG was established to ensure perform the function of loan review and quality assurance. This is achieved through:

- identifying loans which develop credit weakness and initiate timely corrective action;
- evaluate portfolio quality and isolate potential problem areas;
- assess the adequacy of and adherence to loan policies and procedures, and to monitor compliance with relevant laws and regulation and to provide top management with information on credit administration, including credit sanction process, risk evaluation and post sanction follow up.
- determine appropriate policies relating to qualification and independence of loan review officers, frequency, scope and depth of reviews.

Loan Review Policy

As part of its credit risk management process, the Bank has put in place a system of loan review which will determine the quality of the loan portfolio. Initially the review process will review large loans above Rs. 2.5 million including the impaired Loan Portfolio managed by Special Accounts Group. The review covers small loans on a portfolio basis. The review assesses and rates the quality and management of the loan portfolio. The review classify standard assets as regular, anxiety-causing and problem based on the assessment of the loan quality, extent of impairment etc. The review process also ensures that problem loans are isolated, and effectively managed. This also enables the Bank to identify weaknesses both systemic and endemic in the credit process as it relates to loan acquisition, sanction process, risk evaluation and post sanction follow up. The review also evaluates the accuracy and timeliness of the credit gradings, adherences to the internal policies and procedures and also compliance with applicable laws and / or regulations. The findings of the reviews are discussed with the relationship managers and corrective action taken on deficiencies. Any deficiencies that remain unsolved are reported to the Audit Committee of the Board. The independence of the LRG is ensured as its findings are placed before the Audit Committee of the Board with the observations of the CRM committee.

The following table sets forth the Bank's total outstanding fund based exposure to its 10 largest single borrowers as at March 31, 2006.

(Rs. in million)

Sl. No.	Name of the Account	Industry	Total outstanding fund based exposure	Total outstanding fund based exposure as a % of total assets
1	Borrower 1	Finance others	426.00	1.15%
2	Borrower 2	Whole sale trade	356.00	0.96%
3	Borrower 3	Whole sale trade	350.00	0.94%
4	Borrower 4	Gems and Jewellary	285.00	0.77%
5	Borrower 5	Construction-Civil Eng.	283.00	0.76%
6	Borrower 6	Shipping	272.00	0.73%
7	Borrower 7	Miscellaneous Services	253.00	0.68%
8	Borrower 8	Education	246.00	0.66%
9	Borrower 9	Heavy Engineering	234.00	0.63%
10	Borrower 10	IT & Entertainment	210.00	0.56%
	Total		**2,915.00**	**7.84%**

Directed Lending

Prudential Ceilings and Exposure norms

The RBI requires banks to lend to certain sectors of the economy. Such directed lending comprises priority sector lending, export credit and housing finance. The Bank's position as at March 31, 2005 and March 31, 2006 in these areas is given below:

(Rs. in million)

Portfolio	Minimum Stipulation	March 31, 2005	March 31, 2006
Priority Sector Advances	40% of Net Bank Credit	8,661.39	6,788.40
Agriculture	18% of Net Bank Credit	1,701.84	2,204.10
Weaker Section Advances	Lower of 10% of Net Bank Credit or 25% of Priority Sector	129.00	138.10
Export Credit	12% of Net Bank Credit	1,673.18	1,625.96

The net Bank credit as of March 31, 2005 was Rs. 23079.20 million and as of March 31, 2006 was Rs. 20,737.90 million.

Priority Sector Lending

RBI guidelines on priority sector lending require banks to lend 40.0% of their net bank credit (total domestic loans less marketable debt instruments and certain exemptions permitted by the RBI from time to time) to certain specified sectors called priority sectors. Priority sectors include the agricultural sector, SSIs, food and agri-based industries (with investments in plant and machinery up to Rs. 50 million), small business, self-employed and professional individuals, housing finance up to certain limits and certain other sectors. Out of the 40.0%, banks are required to lend a minimum of 18.0% of their net bank credit to the agriculture sector and the balance to certain specified sectors, including small scale industries (defined as manufacturing, processing and services businesses with a limit on investment in plant and machinery of Rs. 10 million), small businesses, including retail merchants, professional and other self employed persons and road and water transport operators, housing loans up to certain limits and to specified state financial corporations and state industrial development corporations.

The Bank is making a continuous effort to improve credit off-take from these sectors. The Bank is required to comply with the priority sector lending requirements on the last reporting Friday (alternate Fridays are designated by RBI as "reporting Fridays") of each financial year. Any shortfall in the amount required to be lent to the priority sectors will be required to be deposited with Government sponsored Indian development banks like the National Bank for Agriculture and Rural Development and the Small Industries Development Bank of India. These deposits have a maturity of up to five years and carry interest rates lower than market rates.

Position of priority sector advances:

(Rs. in million)

Particulars	March 31, 2004	March 31, 2005	March 31, 2006
Agriculture	2,224.50	1,701.84	2,204.10
SSI	1,117.20	963.85	1,311.00
Others	6,236.80	5,995.70	3,273.30
Total	**9,578.70**	**8,661.39**	**6,788.40**

The net Bank credit as of March 31, 2005 was Rs. 23079.20 million and as of March 31, 2006 was Rs. 20,737.90 million.

Export Credit

As part of directed lending, the RBI also requires banks to make loans to exporters at concessional rates of interest. Export credit is provided for pre-shipment and post-shipment requirements of exporter borrowers in rupees and foreign currencies. At the end of any financial year, 12.0% of a bank's net bank credit is required to be in the form of export credit. This requirement is in addition to the priority sector lending requirement but credits extended to exporters that are small scale industries or small businesses may also meet part of the priority sector lending requirement. The RBI provides export refinancing for an eligible portion of total outstanding export loans at the bank rate prevailing in India from time to time.

As at March 31, 2006 7.84% of the Bank's net bank credit is in the form of export credit.

Housing Finance

The RBI requires banks to lend up to 3.0% of their incremental deposits in the previous financial year for housing finance. This can be in the form of home loans to individuals or investments in the debentures and bonds of the National Housing Bank and housing development institutions recognised by the Government of India.

Classification of Assets

The Bank's assets are classified in accordance with RBI guidelines on Classification of Assets. Under these guidelines, an asset is classified as non-performing if any amount of interest or principal remains overdue for more 90 days, in respect of term loans. In respect of overdraft or cash credit, an asset is classified as non-performing if the account remains overdue for a period of 90 days and in respect of bills, if the account remains overdue for more than 90 days.

Assets are classified as described below:

Standard assets	Assets that do not disclose any problems or which do not carry more than normal risk attached to the business.
Sub-standard assets*	Sub-standard assets comprise assets that are non-performing for a period not exceeding 18 months
Doubtful assets	Doubtful assets comprise assets that are non-performing for more than 18 months
Loss assets	Loss assets comprise assets (i) the losses for which are identified (ii) that are considered uncollectible

* *With effect from March 2005, an asset would be classified as doubtful if it remains in the category of sub-standard asset for 12 months as against prevailing norm of 18 months. However, banks would be allowed to phase the additional provisioning consequent upon the reduction of the transition period from sub-standard to doubtful assets from 18 months to 12 months over a four year period, commencing from the year ending March 2005, with a minimum of 20 percent each year.*

Provision and Write-Offs

The RBI guidelines on provisioning and write-offs are as follows:

Standard assets	A general provision of 1% in respect of personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs. 20 lacs and commercial real estate loans in phases over a year and in respect of direct exposure to finance, SME and agriculture sector same shall be provided @ 0.25%.
Sub-standard assets	A general provision of 10%
Doubtful assets	A 100% write off is made of the unsecured portion of the doubtful asset and charged against income. The value assigned to the collateral securing a loan is that which is reflected on the borrower's books or that determined by third party appraisers as realizable. In cases where there is a secured portion of asset, depending upon the period for which the asset remains doubtful, 20% to 50% provision on such secured assets is made as follows:

	Upto one year: 20% provision
	One year to three years: 30% provision
	More than three years: 50% provision.
	Effective the quarter ended June 30, 2004, a 100% provision is required for assets classified as doubtful for more than three years on or after April 1, 2004. In respect of assets classified as doubtful for more than three years at March 31, 2004, 60% to 100% provision on such secured portion is required as follows:
	By March 31, 2005: 60% provision;
	By March 31, 2006: 75% provision; and
	By March 31, 2007: 100% provision.
Loss assets	The entire asset is written-off/provided for
Restructured asset	A provision is made equal to the net present value of the future sacrifices owing to concessional pricing on the loan over its maturity

The following table sets forth details regarding the classification of the Bank's gross assets (net of write-offs and unpaid interest on non performing assets)

(Rs. In million)

Quality of Assets	**At March 31,**											
	2001		**2002**		**2003**		**2004**		**2005**		**2006**	
Standard		19393.4		21534.5		24013.2		23710.6		20342.80		17833.60
Non-Standard												
(a) Sub-Standard	849.3		1070.5		1688.00		1140.5		585.5		**142.70**	
(b) Doubtful	797.0		1036.0		1390.00		2207.0		1848.0		**1844.30**	
(c) Loss	4.0	1650.3	48.0	2154.5	82.00	3159.0	111.0	3458.5	674.0	3107.50	**1162.20**	3149.20
Total		**21043.7**		**23689.0**		**27172.2**		**27169.1**		**23450.30**		**20982.80**

The following table sets forth details regarding the Bank's non-performing assets as at dates:

(Rs. in million except percentages)

Year ended	**Gross NPA**	**Gross Advances**	**% of Gross NPA to Gross Advances**	**Net NPA**	**Net Advances**	**% of Net NPA to Net Advances**
March 31, 2001	1,650.30	21,043.70	7.84%	1,263.90	20,504.20	6.16%
March 31, 2002	2,154.50	23,689.00	9.09%	1,525.90	22,560.40	6.76%
March 31, 2003	3,159.00	27,172.20	11.63%	2,313.80	24,682.00	9.37%
March 31, 2004	3,458.50	27,169.10	12.73%	1,894.40	25,101.00	7.55%
March 31, 2005	3,107.50	23,450.30	13.25%	1,325.60	21,518.40	6.16%
March 31, 2006	3,149.20	20982.80	15.01%	839.60	18,673.20	4.50%

Details of movement in NPAs during the year ended March 31, 2005 and for year ended March 31, 2006

(Rs. in million)

	Gross*	Net*
Opening balance as on April 1, 2004	3,458.50	1,894.40
Additions during the year ended March 31, 2005	822.60	672.70
Reductions (including write offs) during the year ended March 31, 2005	1,173.60	1,241.51
Closing balance as on March 31 2005	3,107.50	1,325.60
Additions during the year ended March 31, 2006	635.20	172.40
Reductions (including write offs) during the year ended March 31, 2006	593.50	658.40
Closing balance as on March 31, 2006	3,149.20	839.60

* Net of write-off

Details of movement in provisions of NPA are as follows:

(Rs. in million)

	As at March 31, 2006
Opening Balance as on April 1, 2005	1,711.00
Additions during the year	600.00
Recoveries/write-offs/write backs during the year	90.70
Closing balance as on March 31, 2006	2,220.30

The Bank's non-performing non-SLR investments moved in the following way during the year ended March 31, 2006

(Rs in million)

	As at March 31, 2005	As at March 31, 2006
Opening balance	230.00	30.00
Additions during the year	—	-
Reductions during the year	200.00	-
Closing balance	30.00	30.00
Total provisions held	30.00	30.00

For the year ended March 31	2001	2002	2003	2004	2005	2006
Capital Adequacy Ratio	11.68%	11.49%	9.16%	9.50%	9.54%	9.66%
Tier I	11.00%	10.87%	5.68%	5.66%	5.62%	5.96%
Tier II	0.68%	0.62%	3.48%	3.84%	3.92%	3.70%

FUNDING

Deposits

Deposits are the primary source of funding and the details of deposits as on March 31, 2005 and March 31, 2006 are as follows:

(Rs in million)

	March 31, 2005	March 31, 2006
Demand Deposits	3437.52	4053.78
i. From Banks	20.01	18.51
ii. From Others	3417.51	4035.27
Savings Bank Deposits	5406.23	5960.76
Term Deposits	30103.89	21225.42
i. From Banks	7428.86	3604.00
ii. From Others	22675.03	17621.42
TOTAL	**38947.64**	**31239.96**
Deposits of Branches In India	38947.64	31239.96
TOTAL	**38947.64**	**31239.96**

Borrowings

Other than deposits, the Bank's source of fund is borrowings which constitute borrowings in India. Details of the Bank's borrowings as at March 31, 2004, March 31, 2005 and March 31, 2006 are as follows:

(Rs. in million)

	March 31, 2004	March 31, 2005	March 31, 2006
I. Borrowings in India	**1,926.76**	985.28	856.40
i. Reserve Bank of India	0	0	0.00
ii. Other Banks	87.43	0	300.00
iii. Other Institutions and Agencies	1,839.33	985.28	556.40
II. Borrowings outside India	459.03	612.43	441.61
TOTAL (I and II)	**2,385.79**	**1,597.71**	**1298.01**
Secured Borrowings included in (I) & (II) above is	NIL	NIL	Nil

The following table sets forth the Bank's 11 largest borrowings as at March 31, 2006.

Sr. No.	Category	Outstanding balance (Rs. in million)	Interest Rate (%)	Tenor
1	Bank	300.00	7.50	3 Months
2	Other Institutions & Agencies	249.87	6.50	3 days
3	Bank	133.85	4.90	179 Days
4	Bank	133.85	5.01	77 Days
5	Bank	131.95	0.59	90 Days
6	Bank	89.23	5.10	98 Days
7	Bank	87.21	0.59	181 Days
8	Other Institutions & Agencies	83.33	7.30	3 years
9	Bank	44.62	4.97	182 Days
10	Bank	43.98	0.63	90 Days
11	Other Institutions & Agencies	0.13	13.50	15 years
	Total	**1,298.01**		

The top ten net NPAs as at March 31, 2006

Rs. in Million

Sr. No.	Name of the Borrower	Industry Segment	Amt. O/s (Gross)	Net O/s (Net of Int Susp, ECGC, Prov.)
1	Borrower 1	SHIPPING	272.38	Nil
2	Borrower 2	CERAMICS	253.32	Nil
3	Borrower 3	STEEL PRODUCTS	181.40	80.71
4	Borrower 4	ENGINEERING	151.32	59.73
5	Borrower 5	TRADING – EXPORTS	141.66	16.10
6	Borrower 6	PLASTIC PRODUCTS	134.48	Nil
7	Borrower 7	ENGINEERING	131.15	87.22
8	Borrower 8	NBFC	125.47	Nil
9	Borrower 9	INFRASTRUCTURE DEVELIOPMENT	118.45	80.96
10	Borrower 10	ENGINEERING	89.01	25.19
	Total		**1598.64**	**349.91**

RISK MANAGEMENT

As a financial intermediary, the Bank is exposed to risks that are particular to its lending and trading businesses and the environment in which it operates. The Bank's goal in risk management is to ensure that it understands, measures and monitors the various risks that arise and that the organization adheres strictly to the policies and procedures, which are established to address these risks.

Bank is proactive in implementation of best practices in the arena of Risk Management by setting up of Asset Liability Committee (ALCO) for Market Risk, Credit Risk Management Committee (CRMC) for Credit Risks and Operational Risk Committee (ORCO) for Operational Risk. The functioning of these committees was stabilized and streamlined during the period FY 2003 onwards. Many best practices in banking were evaluated through these committees and adopted by the Bank. The Bank is ready for implementing the "International Convergence of Capital Measurement and Capital Standards" commonly known as Basel II Accord.

Credit Risk

"Credit Risk" is one of the standard risks run by a commercial bank, and is defined as 'the possibility of loss due to the failure of a borrower or counter party to repay the loan or abide by the terms and conditions of any financial contract' with the bank.

The Bank has a documented credit policy, approved by the Board which serves as a single point reference document in guiding the lending process. It comprehensively addresses the compliance requirements under regulatory and statutory guidelines/ directives. It also covers the Bank's preferred lending sectors and caps stipulated for lending to various sectors and industries. Negative areas of lending are brought out clearly in the policy. The credit assessment methodology, structure of facilities, approving authorities in the Bank, requirements of safeguards in lending etc. are also extensively covered in the policy. The document also enumerates the principles of recovery and broad policy on the recovery management. This is further supported by a dedicated Recovery Policy with finer details. The policy is reviewed once in a year by the Credit Risk Management Committee, chaired by the Managing Director and revisions/ modifications are approved by the Board.

The credit evaluation function is segregated from origination to eliminate 'conflict of interest' and is centralized as in the case of the approving process. This enables the Bank to build up specialization, uniformity in risk evaluation, compliance to the risk parameters set in the policy, besides faster response to the customer requirements. The risk rating model in the Bank enables objective assessments, backed by experienced professionals in credit to offer the final credit judgment aspect to the credit decisions. This system followed since 2003 has resulted in low incremental net impaired loan assets of 0.75% to total net incremental credits approved.

The post approval functions like documentation, disbursement and credit monitoring are segregated and managed by Credit Administration Dept., headed by an Asst General Manager, which has resulted in specialization of this function and faster disbursals as well as focused monitoring of the quality of individual loan assets. A Credit Monitoring Unit has been set up to continuously monitor risks in the assets booked, so as to alert the management of impending risk manifestations, enabling initiation of proactive measures.

Further, the Bank also has a Credit Risk Inspection Group, headed by a Deputy General Manager which independently examines whether the credit policy guidelines are complied with in the lending process by reviewing credit approvals and also recommends changes needed in the processes or policies to the Credit Risk Management Committee, to ensure that good practices are followed to minimize credit risk and at the same time eliminate hurdles to orderly/safe credit growth. The quality movements of the credit portfolio is tracked and rated by this group and the management is kept informed of such movements.

The Credit Risk Management Committee meets once in every month and the recommendation, if any evolved, are placed to the Board and approvals obtained.

The Bank follows the following principles to manage credit risk issues:

- Individual credit exposures are considered as aggregate of fund, non-fund, investment, cash management services, derivative and other similar exposures.

- Individual and group exposure norms, as per 'Prudential Norm guidelines' of Reserve Bank of India are strictly followed. These guidelines ensure that there is no credit concentration on any individual corporate or group. Presently, the ceiling applicable to the Bank are as under:

The prudential exposure limits based on the Tier-I and Tier-II capital position as on March 31, 2006 (are as follows:

The various credit related exposure norms – regulatory are linked to capital numbers of the Bank as on March 31, 2006 regulatory limits for individual and group exposure work out as follows –

(Rs. in million)

Exposure Limits		Regular			Including Infrastructure		
		%	As on 31.03.2005	As on 31.03.2006	%	As on 31.03.2005	As on 31.03.2006
Regular	Individual	15%	390	**330**	20%	530	**440**
	Group	40%	1060	**880**	50%	1320	**1110**
Including additional discretionary limit of 5%	Individual	20%	530	**440**	25%	660	**5500**
	Group	45%	1190	**990**	55%	1450	**1220**

The individual / group exposure limits to various entities will be as under –

Particulars		**Individual Borrower**		**Group Borrower**	
		%	Absolute Amount	%	Absolute Amount
(i)	PSUs / Govt. Cos.	15	330.00	40	880.00
(ii)	Public Listed Cos.	15	330.00	40	880.00
(iii)	Unlisted Public Cos.	12	260.00	25	550.00
(iv)	Private Cos.	5	110.00	10	220.00
(v)	Partnership firms	-	40.00	3.3	70.00
(vi)	Others	-	10.00	1	20.00

Apart from fund based credit facilities, the Bank also provides non-fund credit facilities like letters of credit and guarantees. These are also treated on par with loans for evaluation of credit risk, and the same guidelines as enunciated earlier are followed. The position of non-fund business as at March 31, 2005 and March 31, 2006 are as under:

(Rs. in million)

Non Fund Business	**As on March 31, 2005**	**As on March 31, 2006**
Bank Guarantees	3,372.79	3,594.46
Letters of Credit	5,469.80	4,088.41
Total	**8,842.59**	**7,682.87**

Market Risk

Market risk deals with the potential losses due to change in market variables such as interest rates, exchange rates and equity prices.

Within the Bank, the market risk management department (MRMD) looks after two areas:

- Trading risk management deals with pure trading activities of the treasury
- Asset and liability management deals with the risk of the complete balance sheet.

The Board has constituted the following committees for tackling market risks:

The Market Risk is managed by Asset Liability Committee (ALCO) consisting of Senior Management personnel. The implementation of the policies initiated by the ALCO enables the Bank in maintaining sound liquidity position and at the same time ensuring effective management of the market risks. Through derivatives such as Interest Rate Swaps, the structural positions in the Banking book were taken care of. The Bank has plans to acquire appropriate software application for Asset Liability Management, which will introduce modern methods like Balance Sheet Simulation, Duration Gap Analysis etc to manage Market Risk.

Trading Risk Management

Trading Risk Management deals with the trading activities of the treasury. This consists of transactions involving SLR and non-SLR bonds, derivatives and foreign exchange activities. The investment policy sets the various limits, controls and general guidelines for the treasury operations.

Asset and Liability Management

The asset and liability management within Bank focuses on managing the risk in the balance sheet, dealing with pricing of assets and liabilities to provide stable and growing earnings while efficiently managing liquidity and earnings risk generated in the banking book.

(i) Liquidity Risk

Liquidity risk arises out of maturity mismatch between the Bank's assets and liabilities. Funding decisions are made based on a regular review of structural and dynamic liquidity requirements of the Bank. This ensures sufficient cash flows to meet all financial commitments of the Bank while making most of the market opportunities. The following table shows the maturity profile of the key assets and liabilities as at March 31, 2006

(Rs. in million)

Particulars	1 to 14 days	15 to 28 days	29 days and upto 3 months	Over 3 months and upto 6 months	Over 6 months and upto 1 year	Over 1 year and upto 3 years	Over 3 years and upto 5 years	Over 5 years	Total
Assets									
Investments	1,595.90	789.30	1,286.50	503.70	862.30	2,032.90	1,340.70	4,507.20	12,919.20
Advances	1,914.80	945.90	2,827.80	1,309.00	2,496.50	6,083.20	1,388.40	1,708.02	18,673.22
Liabilities									
Deposits	3,573.60	1,306.40	5,445.10	4,949.20	3,779.40	11,567.30	536.00	82.96	31,239.96
Borrowings	377.30	178.50	654.90	87.31	0.00	0.00	0.00	0.00	1,298.01
Foreign currency assets/ liabilities									
Foreign Currency Assets	1,708.90	1,407.10	2,561.20	2,669.40	1,297.30	250.00	0.00	43.50	9,937.40
Foreign Currency Liabilities	1,424.30	1,408.90	2,092.70	767.60	1,088.80	250.00	0.00	0.00	7,032.30

(ii) *Earnings at Risk*

Earnings at Risk are defined as the impact on the earnings of the Bank due to changes in interest rates of assets and liabilities.

Internal Inspections and Audits

The Bank has an experienced Internal Audit Department which reports to the Audit Committee of the Board. The basic objectives of Audit Department is to provide the top management/ Board the comfort that the systems and controls are adequate, as also effective and check on how far rules, regulations, systems, procedures laid down by the Bank and by the regulators are adhered to.

The main functions of the Audit Department are:

a) Carrying out audit assignments as per the annual plan approved by the Audit Committee of the Board covering all the units in the Bank viz. branches, departments, functions, etc.;

b) Conducting independent review of the loans portfolio covering quality of credit submissions, quality of credit checks on new borrowers, compliance with the Bank's credit policy / prudential norms / RBI guidelines / income recognition norms/ asset classification /adequacy of provisioning etc.;

c) Reviewing IT- related controls to ensure confidentiality, integrity and availability of information;

d) Overseeing and co-ordinating the concurrent audit function and also the statutory audit function; and

e) Placing irregularities, regulatory information and other significant issues before the Audit Committee.

The audits are carried out on a risk -based approach. The audit reports rate the units as Increasing, Stable or Decreasing risk. The reports are submitted to the senior management and the summaries are also submitted to the Audit Committee.

The Internal Audit function reports to the Audit Committee, thereby ensuring its independence.

Basel II Requirements

RBI is adopting the requirements of Basel II, the international capital adequacy framework for banks. The Bank is in the process of moving towards meeting these guidelines. These requirements will affect the management of all three principal categories of risk. In particular, Basel II will introduce minimum capital requirements for market risk and operational risk in addition to the previous requirement of minimum capital only for credit risk. The following are the measures incorporated to ensure compliance with the BASEL II norms.

The Bank would follow the standardisation approach for calculating the capital requirements for the credit risk and the basic indicator approach for the operational risk. However, to build up data to move over internal rating based approach, the Bank is in the process of putting in place the necessary infrastructure. Market risk will be taken care of through existing models.

Operational Risk

Under the implementation plan for the Basel II, the Bank has adopted the Basic Indictor Approach to compute capital for the Operational Risk. The Operational Risk Committee (ORCO) periodically reviews the Key Operating Risk Indicators (KORIs), devises control mechanisms and recommends policies to Board for management of Operational Risks.

Risk Management Systems – Risk management in the Bank is a responsibility of the Risk Management Department, which is in operation for about 3½ years and exists independent of the business units. The Department is headed by the Head – Credit & Risk Management who reports directly to the CEO of the Bank and is responsible for management of bank wide risks namely, market risk (Interest rate, Foreign exchange and Equity risk), Credit risk (including counter party and inter bank risk) and operational risk. For the purpose of risk identification, measurement, control and reporting the Bank follows the guidelines on Asset Liability Management and Risk Management issued by RBI in 1999 onwards. Though the Risk Management Department functions as a nodal office for management of different risks, the Bank follows the Committee approach for the purpose.

Market Risk – The risk committee for the purpose is Asset Liability Committee (ALCO), headed by the CEO, which recommends policies to the Board for management of market risk (interest rate risk and foreign exchange risk), both in the trading and banking book of the bank. Policies cover identification, measurement, control and reporting aspects of the market risk. Measurement tools currently followed by the Bank include Value at Risk (VaR), Modified duration, Convexity, Earnings at Risk (EaR), IRS gaps etc. The Risk Management Department performs the role of mid office and independently monitors and reports usage of / deviation from limits to the ALCO and Board periodically. The Bank is ready to implement the Standardized approach for computation of capital charge for market risk effective from March 31, 2005 as advised by RBI.

Credit Risk – The risk committee for the purpose is Credit Risk Management Committee (CRMC), headed by the CEO which recommends policies to the Board for management of credit risk including the counter party risk and country risk. Policies include credit policy, exposure norms etc, which identify and lay down the broad framework for acquisition of credit risk. The control tools being used include:

- Organization of credit business into two separate functions namely, acquisition and risk management,
- Acquisition of credit further segmented into business banking, corporate banking retail including small business,
- Use of risk rating model for corporate accounts of sanction amount of Rs. 50 million and above. The model known as Moody’s Risk Adviser (MRA) is in use for about 5 years and uses a scale of 10 (1 being AAA equivalent and 10 being D equivalent). The model is used as an integral part of the appraisal process and is used for acceptance / rejection of corporate credit risk.
- Independent monitoring of usage of exposure limits and policy parameters and reporting deviations if any to the CRMC and Board periodically.
- Independent affirmation / verification of risk ratings already done by the credit analysts.
- Portfolio study of Expected Loss and Unexpected Loss and determination of economic capital by using the PDs / LGDs historical data released by the international rating agencies. Exercises done for two years 2003 and 2004.
- Credit and Risk Inspection Group (CRIG), a part of the Business Assurance group, reviews on an ongoing basis, through both on site inspections and off-site reports, the adherence to the Board approved policies and processes by the Business units/Credit appraisal and Delivery units. The Group, based on the quality parameters approved by the Board, categorizes and tracks each and every loan account above the threshold limit (currently Rs 250 million), which are classified as Standard as per Regulatory norms into one of the three sub-categories namely, Regular, Anxiety Causing and Problem based on the extent of impairment. This facilitates prompt follow-up remedial action to improve loan/portfolio quality. The Group’s reports are placed before the CRMC and with CRMC’s inputs before the ACB of the Bank.
- Operating Risk – The risk committee for the purpose is Operating Risk Committee (ORCO), headed by the CEO, which recommends policies to the Board for identification, measurement, control and reporting of operating risk in the books of the Bank. The various policies and tools for control of operating risk, currently followed by the Bank include, compilation and monitoring of Key Operating Risk Indicators (KORIs) on monthly basis, new product / process approval, organization of business and defining roles and responsibilities of personnel, laying down internal controls, up keeping of operating manuals, business continuity plans, using Operating Income as the basis for defining a cap for operating losses during any FY etc.
- Internal Controls and Audit – The department which enforces internal controls and carries out periodical audit of operations of the bank is known as Business Assurance Group headed by a senior executive who reports directly to the ACB. The department also conducts transaction / concurrent audit of critical operations such as treasury (Front and back office) and key branches in addition to periodical internal audit.

Risk Based Internal Audit (RBIA) - The Bank is gearing itself for implementation of Risk Based Internal Audit. .It had accordingly appointed M/s Ernst & Young, the consultants, as a co – sourcing partner for the purpose of advising and implementation of the RBIA methodology. The Bank and Ernst & Young had identified certain high-risk areas, which were covered in this phase for which an audit plan had been drawn up and finalized**.** The time line and the resources, which are needed for implementation, have also been approved by the ACB. The Bank also keeps RBI posted about progress in the matter.

Further, the self assessment of the prevailing risk management structure and internal controls leads the Bank to believe that it is prepared to adopt (a) the Standardized Approach for Credit risk, (b) Basic Indicator Approach for Operating risk as and when the new norms for capital adequacy are implemented by the RBI and (c) Standardized Approach for market risk from 31.03.05 as already directed by RBI.

IRB approaches – The Bank is not yet ready to implement the advanced approaches stipulated in the new framework for capital adequacy. However the Bank has initiated steps in this direction for compilation of historic data (PDs, LGDs, EADs etc) for sufficient period of time (3 to 5 years) so as to position the bank for adoption of advanced approaches for computation of economic capital.

Insurance

The Bank has the following insurance cover:

Sl. No.	Type of policy	Assets covered	Insurance cover (in Rs. millions)	Insurer	Period
1.	Standard Fire and special perils	Bank's assets like premises, building, furniture and fixtures, computers, UPS systems. The coverage includes earthquake and terrorist risks, and burglary cover for electronic equipment.	594.51	Bajaj Allianz General Insurance Company Limited	July 1, 2005 to June 30, 2006
2.	Banker's indemnity	Money and securities including gold ornaments pledged, risk of direct losses of cash on premises and cash in transit	10 (Basic coverage) +30 (Additional cover for premises)	Bajaj Allianz General Insurance Company Limited	July 1, 2005 to June 30, 2006
3.	Special contingency	9 laptops, digital cameras, fire and allied perils, earthquake, burglary and theft, external accidents	0.92	Bajaj Allianz General Insurance Company Limited	August 11, 2005 to August 10, 2006
4.	Plate glass	Plate glass installed in various branches and departments	3.22	Bajaj Allianz General Insurance Company Limited	July 17, 2005 to June 30, 2006
5.	Burglary insurance policy	Bank assets like premises, buildings, furniture and fixtures, computers and other peripherals, UPS, equipment etc.	163.32	Bajaj Allianz General Insurance Company Limited	July 1, 2005 to June 30, 2006
6.	Group Mediclaim Insurance	Medical insurance for employees	32.40	Bajaj Allianz General Insurance Company Limited	June 6, 2005 to June 5, 2006
7.	Group medical insurance	Life and critical illness cover for all employees	395.80	Birla Sun Life Insurance Company Limited	July 1, 2005 to June 30, 2006
8.	Group personal accident insurance policy	Personal accident policy for employees	50.00	HDFC Chubb General Insurance Company Limited	August 21, 2005 to August 20, 2006
9.	Directors and officers Liability and Bank Reimbursement Policy	Policy providing cover for liability of directors and officers	50.00	Tata AIG General Insurance Company Limited	December 5, 2005 to December 4, 2006

Competition

The Bank faces strong competition in all its principal lines of business. The primary competitors of the Bank are some of the public sector banks, other private sector banks, foreign banks and, in some product areas, non-banking financial institutions.

Consumer Banking

The primary competitors in Consumer banking, principal competitors are the public sector banks, new generation private sector banks as well as foreign banks and non-banking finance companies for retail loan products. Some of the foreign banks have a significant presence amongst non-resident Indians and also compete for non-branch-based products such as personal loans, vehicle loans etc. In mutual fund distributions and other investment related products, the Bank's principal competitors are broking houses, foreign banks and private sector banks. In distribution of insurance products, the principal competitors are other banks, insurance brokers etc.

Commercial Banking

The principal competitors of the Bank in commercial banking are certain public sector banks, private sector banks as well as foreign banks. The large public sector banks have traditionally been market leaders in this segment. Foreign banks have focused primarily on serving the needs of multinational companies, larger Indian corporations with cross-border financing requirements including trade, transactional and foreign exchange services and SMEs. The large public sector banks have extensive branch networks and large local currency funding capabilities.

Intellectual Property

The Bank has applied for and has received registration of some of its trademarks viz., 'DCB' and 'Development Credit Bank' along with the DCB logo as appearing on the cover page of this Red Herring Prospectus in many classes including the the service mark category. The Bank has also applied for the registration of the trademarks 'Power Banker', 'ePower Banker', 'Power Dealer' and 'Power Treasury' in respect of the banking software developed in-house by the Bank.

The following is the list of the trademarks registered in favour of the Bank.

Sr. No.	Type of Trade Marks	Trade Mark No.	Date of Application	Class	Status of the mark
1.	Logo	984180	January 16, 2001	9	Registered
2.	Logo	984182	January 16, 2001	19	Registered
3.	DCB	984183	January 16, 2001	9	Registered
4.	DCB	984185	January 16, 2001	19	Registered
5.	Development Credit Bank Ltd.	984186	January 16, 2001	9	Registered
6.	Development Credit Bank Ltd.	984187	January 16, 2001	16	Registered
7.	Logo	1255089	December 12, 2003	36	Registered
8	Development Credit Bank Ltd	1255090	December 12, 2003	36	Registered
9.	Development Credit Bank Ltd.	1255091	December 12, 2003	36	Registered

The following is the list of the trademarks applied for by the Bank pending registration.

Sr. No.	Type of Trade Marks	Trade Mark No.	Date of Application	Class	Status of the mark
1.	Logo	984181	January 16, 2001	16	Pending
2.	DCB	984184	January 16, 2001	16	Pending
3.	Development Credit Bank Ltd.	984188	January 16, 2001	19	Pending
4.	DCB with logo – Feel the Difference	1437341	March 24, 2006	36	Pending

Employees

As at June 30, 2006, the Bank had 1277 employees. Following is a table of the total number of employees as of the dates indicated:

	As at March 31,		
	2004	**2005**	**2006**
Officers & Above	639	801	815
Other employees	797	702	462
Total	**1,436**	**1,503**	**1,277**

The Bank introduced a voluntary retirement scheme in 2005. Subsequently, the Bank has consistently achieved improvements in both business per employee and employee productivity. The business per employee on March 31, 2005 was Rs. 40.32 million and as onMarch 31, 2006 it was Rs. 39.03 million.

The Bank has introduced an Employees Stock Option (ESOP) Scheme. The shareholders of the Bank at its EGM dated November 21, 2005 passed the resolution authorising framing the ESOP scheme and also authorised the Nomination Committee to do all things needful towards that end. The ESOP Plan covers permanent employees in valid and active employment of the Bank, including Directors. The ESOP Plan provides for the issue of a maximum of 2,917,000 shares of Rs. 10 each to the eligible employees. The Nomination Committee of the Board of Directors comprising Mr. Anuroop Singh (Chairman), Mr. Nasser Munjee, Mr. Amin Manekia and Mr. Amir Sabuwala administers the ESOP Plan. A copy of the ESOP Plan is made available for inspection as part of "Material Contracts and Documents for Inspection" listed on page 274.

The Bank relies extensively on its human capital and continues to attract the top talent from across the country. The Bank recognizes the need to recruit talented employees who will enable it to consolidate its position and to grow consistently. Towards this end the Bank is constantly on the look out for qualified personnel who will fit in the Bank's profile.

In addition, the Bank dedicated a significant amount of senior management time to ensure that employees remain highly motivated and perceive the organization as a place where opportunities abound, innovation is fuelled, teamwork is valued and success is rewarded.

Benefits to Bank Employees

All employees of the Bank are covered under the following Group Insurance Policies:-

a) Accident Insurance

b) Life Cover

c) Critical illness

d) Mediclaim (for the employee's spouse and two dependents).

In addition, the Bank provides "Leave Travel Assistance" to the employees to enable them to travel to any destination with their family once in a year.

The Bank is in compliance with the regulations under the Prevention of Money Laundering Act, 2002. The Bank has appointed Mr. D. K. Vasal as the Principal Officer of the Bank. The Bank is also in the process of selecting appropriate software to further strengthen the AML monitoring of suspicious transactions to aid the compliance with the PML Act and RBI guidelines issued in respect to KYC and AML.

REGULATIONS AND POLICIES

The main legislation governing commercial banks in India is the Banking Regulation Act. Other important laws include the Reserve Bank of India Act, the Negotiable Instruments Act and the Banker's Books Evidence Act. Additionally, the Reserve Bank of India, from time to time, issues guidelines to be followed by banks. Compliance with all regulatory requirements is evaluated with respect to financial statements under Indian GAAP.

Reserve Bank of India Regulations

Commercial banks in India are required under the Banking Regulation Act to obtain a license from the Reserve Bank of India to carry on banking business in India. Before granting the license, the Reserve Bank of India must be satisfied that certain conditions are complied with, including (i) that the bank has the ability to pay its present and future depositors in full as their claims accrue; (ii) that the affairs of the bank will not be or are not likely to be conducted in a manner detrimental to the interests of present or future depositors; (iii) that the bank has adequate capital and earnings prospects; and (iv) that the public interest will be served if such license is granted to the bank. The Reserve Bank of India can cancel the license if the bank fails to meet the above conditions or if the bank ceases to carry on banking operations in India.

The Bank, being licensed as a banking company, is regulated and supervised by the Reserve Bank of India. The Reserve Bank of India requires the Bank to furnish statements, information and certain details relating to its business. It has issued guidelines for commercial banks on recognition of income, classification of assets, valuation of investments, maintenance of capital adequacy and provisioning for impaired assets. The Reserve Bank of India has set up a Board for Financial Supervision, under the chairmanship of the Governor of the Reserve Bank of India. The appointment of the auditors of banks is subject to the approval of the Reserve Bank of India. The Reserve Bank of India can direct a special audit in the interest of the depositors or in the public interest.

Regulations relating to the Opening of Branches

Section 23 of the Banking Regulation Act provides that banks must obtain the prior approval of the Reserve Bank of India to open new branches. Permission is granted based on factors such as the financial condition and history of the Bank, its management, adequacy of capital structure and earning prospects and the public interest. The Reserve Bank of India may cancel the license for violations of the conditions under which it was granted. Under the banking license granted to the Bank by the Reserve Bank of India, the Bank is required to have at least 25% of its branches located in rural and semi-urban areas. A rural area is defined as a centre with a population of less than 10,000. A semi-urban area is defined as a centre with a population of greater than 10,000 but less than 100,000. These population figures relate to the 1991 census conducted by the Government of India. In September 2005, the Reserve Bank of India issued a new branch authorization policy in terms of which the existing system of granting authorizations for opening individual branches from time to time will be replaced by a system of aggregated approvals on an annual basis. The Reserve Bank of India will discuss with individual banks their branch expansion strategies and plans over the medium term. The term "branch" for this purpose has been defined to also include extension counters, offsite ATMs, administrative offices and back offices as well as call centres where banking transactions are undertaken. While processing authorization requests, the Reserve Bank of India will give importance to the availability of banking services in under-banked areas, credit flow to the priority sector and efforts to promote financial inclusion, the need to induce enhanced competition in the banking sector, the Bank's regulatory compliance, quality of governance, risk management and relationships with subsidiaries and affiliates.

Capital Adequacy Requirements

The Bank is subject to the capital adequacy requirements of the Reserve Bank of India, which, based on the guidelines of the Basel Committee on Banking Regulations and Supervisory Practices, 1998, require the Bank to maintain a minimum ratio of capital to risk adjusted assets and off-balance sheet items of 9.0%, at least half of which must be Tier I capital.

The total capital of a banking company is classified into Tier I and Tier II capital. Tier I capital, the core capital, provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital and reserves consisting of any statutory reserves, free reserves and capital reserve pursuant to the Income-tax Act as reduced by equity investments in subsidiaries, intangible assets and losses in the current period and those brought forward from the previous period. In FY 2003, the Reserve Bank of India issued a guideline requiring a bank's deferred tax asset to be treated as an intangible asset and deducted from its Tier I capital.

Tier II capital consists of undisclosed reserves, revaluation reserves (at a discount of 55.0%), general provisions and loss reserves (allowed up to a maximum of 1.25% of risk weighted assets), hybrid debt capital instruments (which combine certain features of both equity and debt securities) and subordinated debt. Any subordinated debt is subject to progressive discounts each year for inclusion in Tier II capital and total subordinated debt considered as Tier II capital cannot exceed 50.0% of Tier I capital. Tier II capital cannot exceed Tier I capital.

Risk adjusted assets and off-balance sheet items considered for determining the capital adequacy ratio are the risk weighted total of specified funded and non-funded exposures. Degrees of credit risk expressed as percentage weighting have been assigned to various balance sheet asset items and conversion factors to off-balance sheet items. The value of each item is multiplied by the relevant weight or conversion factor to produce risk-adjusted values of assets and off-balance-sheet items. Standby letters of credit and guarantees are treated as similar to funded exposure and are subject to similar risk weight. All foreign exchange open positions carry a 100.0% risk weight. Capital requirements have also been prescribed for open positions in gold. In December 2004, the Reserve Bank of India increased the risk weights on housing loans from 50.0% to 75.0% and on consumer credit including personal loans and credit card receivables from 100.0% to 125.0% as a temporary counter-cyclical measure given the rapid growth of these segments. In July 2005, the Reserve Bank of India increased the risk weights on capital market exposure and exposure to commercial real estate from 100.0% to 125.0%. In April 2005, the Reserve Bank of India issued draft guidelines on securitization, which if implemented in their present form would require a significantly higher level of capital to be maintained for securitised assets.

Effective March 31, 2001, banks and financial institutions were required to assign a risk weight of 2.5% in respect of the entire investment portfolio to cover market risk, over and above the existing risk weights for credit risk in non-government and non-approved securities. In FY 2002, with a view to building up adequate reserves to guard against any possible reversal of the interest rate environment in the future due to unexpected developments, the Reserve Bank of India advised banks to build up an investment fluctuation reserve of a minimum of 5.0% of the bank's investment portfolio within a period of five years, by FY 2006. This reserve has to be computed with respect to investments in Held for Trading and Available for Sale categories. Investment fluctuation reserve is included in Tier II capital. In June 2004, the Reserve Bank of India issued guidelines on capital for market risk. The guidelines prescribe the method of computation of risk-weighted assets in respect of market risk. The aggregate risk weighted assets are required to be taken into account for determining the capital adequacy ratio. Banks were required to maintain a capital charge for market risk in respect of their trading book exposure (including derivatives) by year-end FY 2005 and securities included under available for sale category by year-end FY 2006. In October 2005, the Reserve Bank of India has specified that banks that have maintained capital for both credit risk and market risk for both held for trading and available for sale category at year-end FY 2006 would be permitted to treat the entire balance in the investment fluctuation reserve as Tier I capital.

In February 2005, the Reserve Bank of India issued draft guidelines for the implementation of the revised capital adequacy framework of the Basel Committee. These draft guidelines, which are proposed to be effective from April 1, 2006, specify that all banks in India will adopt the standardised approach for credit risk and the basic indicator approach for operational risk with effect from March 31, 2007. After adequate expertise has been developed, both at the banks and at the supervisory levels, some banks may be allowed to migrate to the internal ratings based approach after obtaining the approval of the Reserve Bank of India. The guidelines also prescribe a 75.0% risk weight for retail credit exposures, differential risk weights for other credit exposures linked to their credit rating, and a capital charge for operational risk based on a factor of 15.0% of the sum of a bank's net interest income and non-interest income (excluding extraordinary income).

Asset Classification and Provisioning

In April 1992, the Reserve Bank of India issued formal guidelines on income recognition, asset classification, provisioning standards and valuation of investments applicable to banks, which are revised from time to time. The principal features of these Reserve Bank of India guidelines, which have been implemented with respect to the banks' loans, debentures, lease assets, hire purchases and bills are set forth below.

The RBI guidelines stipulate the criteria for determining and classifying non-performing assets set forth below:

Asset Classification

A non-performing asset is an asset in respect of which any amount of interest or principal is overdue for more than 90 days (180 days until year-end FY 2003). In particular, an advance is an impaired asset where:

- interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan;
- the account remains "out-of-order" for a period of more than 90 days in respect of an overdraft or cash credit;
- the bill remains overdue for a period of more than 90 days in case of bills purchased and discounted;
- interest and/or principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes; and
- any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Interest in respect of non-performing assets is not recognised or credited to the income account unless collected.

Non-performing assets are classified as described below.

Sub-Standard Assets. Assets that are non-performing assets for a period not exceeding 12 months (18 months until year-end FY 2004). In such cases, the current net worth of the borrower / guarantor or the current market value of the security charged is not enough to ensure recovery of dues to the banks in full. Such an asset has well-defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the bank will sustain some loss, if deficiencies are not corrected.

Doubtful Assets. Assets that are non-performing assets for more than 12 months (18 months until year-end FY 2004). A loan classified as doubtful has all the weaknesses inherent in assets that are classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss Assets. Assets on which losses have been identified by the bank or internal or external auditors or the Reserve Bank of India inspection but the amount has not been written off fully.

There are separate guidelines for projects under implementation which are based on the achievement of financial closure and the date of approval of the project financing.

The Reserve Bank of India also has separate guidelines for restructured loans. A fully secured restructured standard asset can be restructured by reschedulement of principal repayment and/or the interest element, but must be separately disclosed as a restructured asset. The amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved. Similar guidelines are applicable to sub-standard assets. The sub-standard accounts which have been subjected to restructuring, whether in respect of principal installment or interest amount, by whatever modality, are eligible to be upgraded to the standard category only after the specified period, i.e., a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period.

To put in place an institutional mechanism for the restructuring of corporate debt, the Reserve Bank of India has devised a corporate debt restructuring system. See "The Indian Banking Sector – Recent Structural Reforms — Corporate Debt Restructuring Forum" on page 52 of this Red Herring Prospectus.

Provisioning and Write-Offs

Provisions are based on guidelines specific to the classification of the assets. The following guidelines apply to the various asset classifications:

- *Standard Assets.* General requirements for provisioning on Standard Advances from 0.40% to 1.00% in respect of personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lacs and commercial real estate loans in phases over a year and in respect of direct exposure to finance, SME and agriculture sector same shall be provided @ 0.25%.
- *Sub-Standard Assets.* A general provision of 10.0% of the total outstanding is required to be made. However, unsecured exposures which are identified as sub-standard would attract an additional provision of 10.0%, i.e., a total of 20.0% on the outstanding balance.
- *Doubtful Assets.* A 100.0% write-off is required to be taken against the unsecured portion of the doubtful asset and charged against income. The value assigned to the collateral securing a loan is the amount reflected on the borrower's books or the realizable value determined by third party appraisers. Until year-end FY 2004, in cases where there was a secured portion of the asset, depending upon the period for which the asset remained doubtful, a 20.0% to 50.0% provision was required to be taken against the secured asset as follows:
    - Up to one year: 20.0% provision
    - One to three years: 30.0% provision
    - More than three years: 50.0% provision

In July 2004, the Reserve Bank of India introduced additional provisioning requirements for non-performing assets classified as 'doubtful for more than three years'. Effective year-end FY 2005, 100.0% provision is required for the secured portion of assets classified as doubtful for more than three years on or after April 1, 2004. For the secured portion of assets classified as doubtful for more than three years at year-end FY, 2004, a provision of 60.0% is required to be made by year-end FY 2005, 75.0% by year-end FY 2006 and 100.0% by year-end FY 2007.

- *Loss Assets.* The entire asset is required to be written off or provided for, i.e. a 100.0% provision.
- *Restructured Loans.* The amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

Regulations relating to making Loans

The provisions of the Banking Regulation Act govern the making of loans by banks in India. The Reserve Bank of India issues directions covering the loan activities of banks. Some of the major guidelines of Reserve Bank of India, which are now in effect, are as follows:

- The Reserve Bank of India has prescribed norms for bank lending to non-bank financial companies and financing of public sector disinvestment.
- Banks are free to determine their own lending rates but each bank must declare its prime lending rate as approved by its board of directors. Banks are required to declare a benchmark prime lending rate based on various parameters including cost of funds, operating expenses, capital charge and profit margin. Each bank should also indicate the maximum spread over the prime lending rate for all credit exposures other than retail loans. The interest charged by banks on advances up to Rs. 200,000 to any one entity (other than certain permitted types of loans including loans to individuals for acquiring residential property, loans for purchase of consumer durables and other non-priority sector personal loans) must not exceed the prime lending rate. Banks are also given freedom to lend at a rate below the prime lending rate in respect of creditworthy borrowers and exposures. Interest rates for certain categories of advances are regulated by the Reserve Bank of India.
- In terms of Section 20(1) of the Banking Regulation Act, a bank cannot grant any loans and advances against the security of its own shares, a banking company is prohibited from entering into any commitment for granting any

loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company (not being a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, 1956, or a government company) of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor. There are certain exemptions in this regard as the explanation to the section provides that 'loans or advances' shall not include any transaction which Reserve Bank of India may specify by general or special order as not being a loan or advance for the purpose of such section.

There are guidelines on loans against equity shares in respect of amount, margin requirement and purpose.

In June 2005, the Reserve Bank of India issued guidelines requiring banks to implement a policy for exposure to real estate with the approval of their board of directors. The policy is required to include exposure limits, collaterals to be considered, collateral cover and margins and credit authorization. The Reserve Bank of India has also permitted banks to extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures or wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investment. Banks are not permitted to finance acquisitions by companies in India.

Regulations relating to Sale of Assets to Asset Reconstruction Companies

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (as subsequently amended) provides for sale of financial assets by banks and financial institutions to asset reconstruction companies. The Reserve Bank of India has issued guidelines to banks on the process to be followed for sales of financial assets to asset reconstruction companies. These guidelines provide that a bank may sell financial assets to an asset reconstruction company provided the asset is a non-performing asset. These assets are to be sold on 'without recourse' basis only. A bank may sell a standard asset only if the borrower has a consortium or multiple banking arrangement, at least 75.0% by value of the total loans to the borrower are classified as non-performing and at least 75.0% by value of the banks and financial institutions in the consortium or multiple banking arrangement agree to the sale. The banks selling financial assets should ensure that there is no known liability devolving on them and that they do not assume any operational, legal or any other type of risks relating to the financial assets sold. Further, banks may not sell financial assets at a contingent price with an agreement to bear a part of the shortfall on ultimate realization. However, banks may sell specific financial assets with an agreement to share in any surplus realised by the asset reconstruction company in the future. While each bank is required to make its own assessment of the value offered in the sale before accepting or rejecting an offer for purchase of financial assets by an asset reconstruction company, in consortium or multiple banking arrangements where more than 75.0% by value of the banks or financial institutions accept the offer, the remaining banks or financial institutions are obliged to accept the offer. Consideration for the sale may be in the form of cash, bonds or debentures or security receipts or pass through certificates issued by the asset reconstruction company or trusts set up by it to acquire the financial assets. See also "The Indian Banking Sector – Recent Structural Reforms – Legislative Framework for Recovery of Debts Due to Banks" on page 51.

Guidelines on Sale and Purchase of Non-performing Assets

In July 2005, the Reserve Bank of India issued guidelines on sales and purchases of non-performing assets between banks, financial institutions and non-bank finance companies. These guidelines require that the board of directors of the bank must establish a policy for purchases and sales of non-performing assets. Purchases and sales of non-performing assets must be without recourse to the seller and on a cash basis, with the entire consideration being paid upfront. An asset must have been classified as non-performing for at least two years by the seller to be eligible for sale. The purchasing bank must hold the non-performing asset on its books for at least 15 months before it can sell the asset to another bank. The asset cannot be sold back to the original seller.

Directed Lending

Priority Sector Lending

The Reserve Bank of India requires commercial banks to lend a certain percentage of their net bank credit to specific sectors (the priority sectors), such as agriculture, small-scale industry, small businesses and housing finance. Total priority sector advances should be 40.0% of net bank credit with agricultural advances required to be 18.0% of net bank credit and advances to weaker sections required to be 10.0% of net bank credit, and 1.0% of the previous year's net bank credit required to be lent under the Differential Rate of Interest scheme. Any shortfall in the amount required to be lent to the priority sectors may be required to be deposited with the National Bank for Agriculture and the Rural Development. These deposits can be for a period of one year or five years.

Export Credit

The Reserve Bank of India also requires commercial banks to make loans to exporters at concessional rates of interest. This enables exporters to have access to an internationally competitive financing option. Pursuant to existing guidelines, 12.0% of a bank's net bank credit is required to be in the form of export credit. The Bank provides export credit for pre-shipment and post-shipment requirements of exporter borrowers in rupees and foreign currencies.

Credit Exposure Limits

As a prudent measure aimed at better risk management and avoidance of concentration of credit risk, the Reserve Bank of India has prescribed credit exposure limits for banks and long-term lending institutions in respect of their lending to individual borrowers and to all companies in a single group (or sponsor group).

The limits currently set by the Reserve Bank of India are as follows:

- The exposure ceiling for a single borrower is 15.0% of capital funds and group exposure limit is 40.0% of capital funds. In case of financing for infrastructure projects, the exposure limit to a single borrower is extendable by another 5.0%, i.e., up to 20.0% of capital funds and the group exposure limit is extendable by another 10.0%, i.e., up to 50.0% of capital funds. Banks may, in exceptional circumstances, with the approval of their board of directors, consider enhancement of the exposure to a borrower up to a maximum of further 5.0% of capital funds, subject to the borrower consenting to the banks making appropriate disclosures in their annual reports.
- Capital funds are the total capital as defined under capital adequacy norms (Tier I and Tier II capital).
- Non-fund based exposures are calculated at 100.0% and in addition, banks include forward contracts in foreign exchange and other derivative products, like currency swaps and options, at their replacement cost value in determining individual or group borrower exposure ceilings, effective April 1, 2003.

To ensure that exposures are evenly spread, the Reserve Bank of India requires banks to fix internal limits of exposure to specific sectors. These limits are subject to periodical review by the banks. The Bank has fixed industry specific ceilings to its exposure to various industries (other than retail loans) as detailed in the table below:

(Rs in million)

Sr. No.	Name of Industry classification	Approved Limits (Based on total sanction limits i.e. Rs.28000 million approx. as on March 31, 2006	
		% of Total	Amount
1	Iron and Steel	5	1400
2	Metal & Metal Products	5	1400
3	Engineering (Light and Heavy)	10	2800
4	Textile	10	2800
5	Food and Beverages	5	1400
6	Edible Oil	5	1400
7	Paper and Paper Products	10	2800
8	Chemicals:		
	Fertilizers	10	2800
	Pharmaceuticals & Bulk Drugs	10	2800
	Others	0	0
	Chemicals Total	**15**	4200
9	Plastic and Plastic Products	5	1400
10	Cement and Cement Products	5	1400
11	Gems and Jewellery	10	2800
12	Finance		
	Housing Finance Companies	10	2800
	Others	10	2800
	Finance Total	**20**	5600
13	Transport	10	2800
14	Retail Trade	5	1400
15	Wholesale Trade	10	2800
16	Infrastructure		
	Power	10	2800
	Telecom	10	2800
	Other services	-	-
	Infrastructure Total	**25**	7000
17	IT and Entertainment	5	1400
18	Minerals and Ores	2	560
19	Rubber and Rubber Products	2	560
20	Leather and Leather Products	2	560
21	Personal Loans	10	2800

(Rs in million)

Sr. No.	Name of Industry classification	Approved Limits (Based on total sanction limits i.e. Rs.28000 million approx. as on March 31, 2006	
		% of Total	Amount
22	Agriculture	20	5600
23	Miscellaneous		
	Misc Manufacturing	-	0
	Misc Services	-	0
	Travel & Tourism	-	0
	Miscellaneous Total	**10**	2800
24	Hiring of Capital Equip.	4	1120
25	LAMC	3	840

Regulations relating to Investments and Capital Market Exposure Limits

Pursuant to the Reserve Bank of India guidelines, the exposure of banks to capital markets by way of investments in shares, convertible debentures, units of equity oriented mutual funds and loans to brokers, should not exceed 5.0% of total advances (including commercial paper) at March 31 of the previous financial year and investments in shares, convertible debentures and units of equity oriented mutual funds should not exceed 20.0% of the bank's net worth. However the exposure to capital markets in excess of 5.0% is permitted by the Reserve Bank of India on a case by case basis. In its mid-term review of its annual policy statement for FY 2006, the Reserve Bank of India has proposed to restrict a bank's capital market exposure 40.0% of its net worth (both standalone and consolidated) and the consolidated direct capital market exposure to 20.0% of the consolidated networth.

In November 2003, Reserve Bank of India issued guidelines on investments by banks in non-Statutory Liquidity Ratio securities issued by companies, banks, financial institutions, central and state government sponsored institutions and special purpose vehicles. These guidelines apply to primary market subscriptions and secondary market purchases. Pursuant to these guidelines, banks are prohibited from investing in non-Statutory Liquidity Ratio securities with an original maturity of less than one year, other than commercial paper and certificates of deposits. Banks are also prohibited from investing in unrated securities. A bank's investment in unlisted non-Statutory Liquidity Ratio securities may not exceed 10.0% of its total investment in non-Statutory Liquidity Ratio securities as at the end of the preceding financial year with a sub-ceiling of 5.0% for investments in bonds of public sector undertakings. These guidelines do not apply to investments in security receipts issued by securitization or reconstruction companies registered with Reserve Bank of India and asset backed securities and mortgage backed securities with a minimum investment grade credit rating. These guidelines were effective April 1, 2004, with provision for compliance in a phased manner by January 1, 2005.

In April 1999, the Reserve Bank of India, in its monetary and credit policy, stated that the investment by a bank in subordinated debt instruments, representing Tier II capital, issued by other banks and financial institutions should not exceed 10.0% of the investing bank's capital including Tier II capital and free reserves. In July 2004, the Reserve Bank of India imposed a ceiling of 10.0% of capital funds (Tier I plus Tier II capital) on investments by banks and financial institutions in equity shares, preference shares eligible for capital status, subordinated debt instruments, hybrid debt capital instruments and any other instrument approved as in the nature of capital, issued by other banks and financial institutions. Investments in the instruments which are not deducted from Tier I capital of the investing bank or financial institution, are subject to a 100.0% risk weight for credit risk for capital adequacy purposes. The risk weight for credit risk exposure in capital markets has been increased to 125.0% from 100.0% in July 2005. Further, banks and financial institutions cannot acquire any fresh stake in a bank's equity shares, if by such acquisition, the investing bank's or financial institution's holding exceeds 5.0% of the investee bank's equity capital. Banks with investments in excess of the prescribed limits were required to apply to the Reserve Bank of India with a roadmap for reduction of the exposure.

Consolidated Supervision Guidelines

In FY 2003, the Reserve Bank of India issued guidelines for consolidated accounting and consolidated supervision for banks. These guidelines became effective April 1, 2003. The principal features of these guidelines are:

Consolidated Financial Statements. Banks are required to prepare consolidated financial statements intended for public disclosure.

Consolidated Prudential Returns. Banks are required to submit to the Reserve Bank of India, consolidated prudential returns reporting their compliance with various prudential norms on a consolidated basis, excluding insurance subsidiaries. Compliance on a consolidated basis is required in respect of the following main prudential norms:

- Single borrower exposure limit of 15.0% of capital funds (20.0% of capital funds provided the additional exposure of up to 5.0% is for the purpose of financing infrastructure projects);
- Borrower group exposure limit of 40.0% of capital funds (50.0% of capital funds provided the additional exposure of up to 10.0% is for the purpose of financing infrastructure projects);
- Deduction from Tier I capital of the bank, of any shortfall in capital adequacy of a subsidiary for which capital adequacy norms are specified; and
- Consolidated capital market exposure limit of 2.0% of consolidated total assets and 10.0% of consolidated net worth.

The Bank is in compliance with these guidelines, See also "Credit Exposure Limits" on page 96. In its mid-term review of its annual policy statement for FY 2006, the Reserve Bank of India has proposed to restrict a bank's capital market exposure 40.0% of its net worth (both standalone and consolidated) and the consolidated direct capital market exposure to 20.0% of the consolidated networth.

In June 2004, the Reserve Bank of India published the report of a working group on monitoring of financial conglomerates, which proposed the following framework:

- identification of financial conglomerates that would be subjected to focused regulatory oversight;
- monitoring intra-group transactions and exposures and large exposures of the group to outside counter parties;
- identifying a designated entity within each group that would collate data in respect of all other group entities and furnish the same to its regulator; and
- formalising a mechanism for inter-regulatory exchange of information.

The proposed framework covers entities under the jurisdiction of the Reserve Bank of India, the Securities and Exchange Board of India, the Insurance Regulatory and Development Authority and the National Housing Bank and would in due course be extended to entities regulated by the proposed Pension Fund Regulatory and Development Authority.

Banks' Investment Classification and Valuation Norms

The key features of the Reserve Bank of India guidelines on categorization and valuation of banks' investment portfolio are given below.

- The entire investment portfolio is required to be classified under three categories: (a) held to maturity, (b) held for trading and (c) available for sale. Held to maturity includes securities acquired with the intention of being held up to maturity; held for trading includes securities acquired with the intention of being traded to take advantage of the short-term price/interest rate movements; and available for sale includes securities not included in held to maturity and held for trading. Banks should decide the category of investment at the time of acquisition.
- Held to maturity investments compulsorily include (a) recapitalization bonds, (b) investments in subsidiaries and joint

ventures and (c) investments in debentures deemed as advance. Held to maturity investments also include any other investment identified for inclusion in this category subject to the condition that such investments cannot exceed 25.0% of the total investment excluding recapitalization bonds and debentures.

- Profit on the sale of investments in the held to maturity category is appropriated to the capital reserve account after being taken in the income statement. Loss on any sale is recognised in the income statement.
- The market price of the security available from the stock exchange, the price of securities in subsidiary general ledger transactions, the Reserve Bank of India price list or prices declared by Primary Dealers Association of India jointly with the Fixed Income Money Market and Derivatives Association of India serves as the "market value" for investments in available for sale and held for trading securities.
- Investments under the held for trading category should be sold within 90 days; in the event of inability to sell due to adverse factors including tight liquidity, extreme volatility or a unidirectional movement in the market, the unsold securities should be shifted to the available for sale category.
- Profit or loss on the sale of investments in both held for trading and available for sale categories is taken in the income statement.
- Shifting of investments from or to held to maturity may be done with the approval of the board of directors once a year, normally at the beginning of the accounting year; shifting of investments from available for sale to held for trading may be done with the approval of the board of directors, the Asset Liability Management Committee or the Investment Committee; shifting from held for trading to available for sale is generally not permitted.

In September 2004, the Reserve Bank of India announced that it would set up an internal group to review the investment classification guidelines to align them with international practices and the current state of risk management practices in India, taking into account the unique requirement applicable to banks in India of maintenance of a statutory liquidity ratio equal to 25.0% of their demand and time liabilities. In the meanwhile, the Reserve Bank of India has permitted banks to exceed the limit of 25.0% of investments for the held to maturity category provided the excess comprises only statutory liquidity ratio investments and the aggregate of such investments in the held to maturity category do not exceed 25.0% of the demand and time liabilities. The Reserve Bank of India permitted banks to transfer additional securities to the held to maturity category as a one time measure, in addition to the transfer permitted under the earlier guidelines. The transfer has to be done at the lower of acquisition cost, book value or market value on the date of transfer.

Held to maturity securities are not marked to market and are carried at acquisition cost or at an amortised cost if acquired at a premium over the face value.

Available for sale and held for trading securities are valued at market or fair value as at the balance sheet date. Depreciation or appreciation for each basket within the available for sale and held for trading categories is aggregated. Net appreciation in each basket, if any that is not realized, is ignored, while net depreciation is provided for.

Investments in security receipts or pass through certificates issued by asset reconstruction companies or trusts set up by asset reconstruction companies should be valued at the net asset value announced periodically by the asset reconstruction company based on the valuation of the underlying assets.

Limit on Transactions through Individual Brokers

Guidelines issued by the Reserve Bank of India require banks to empanel brokers for transactions in securities. These guidelines also require that a disproportionate part of the bank's business should not be transacted only through one broker or a few brokers. The Reserve Bank of India specifies that not more than 5.0% of the total transactions through empanelled brokers can be transacted through one broker. If for any reason this limit is breached, the Reserve Bank of India has stipulated that the board of directors of the bank concerned should ratify such action.

Prohibition on Short-Selling

The Reserve Bank of India does not permit short selling of securities by banks. The Reserve Bank of India has permitted banks to sell Government of India securities already contracted for purchase provided the purchase contract is confirmed and the contract is guaranteed by Clearing Corporation of India Limited or the security is contracted for purchase from the Reserve Bank of India. Each security is deliverable or receivable on a net basis for a particular settlement cycle.

Subsidiaries and Other Financial Sector Investments

The banks need the prior permission of the Reserve Bank of India to incorporate a subsidiary. The banks are required to maintain an "arms' length" relationship with their subsidiaries and with mutual funds sponsored by them in regard to business parameters such as taking undue advantage in borrowing/lending funds, transferring/selling/buying of securities at rates other than market rates, giving special consideration for securities transactions, in supporting/financing the subsidiary and financing the bank's clients through them when the banks are not able or not permitted to do so themselves. The banks have to observe the prudential norms stipulated by the Reserve Bank of India, from time to time, in respect of their underwriting commitments. Pursuant to such prudential norms, the underwriting or the underwriting commitment of the banks' subsidiaries under any single obligation shall not exceed 15.0% of an issue. The banks also need the prior specific approval of the Reserve Bank of India to participate in the equity of financial services ventures including stock exchanges and depositories notwithstanding the fact that such investments may be within the ceiling (lower of 30.0% of the paid-up capital of the investee company and 30.0% of the investing bank's own paid up capital and reserves) prescribed under Section 19(2) of the Banking Regulation Act. A bank's investment in a subsidiary, financial services company or financial institution cannot exceed 10.0% of the paid-up capital and reserves and the aggregate investments in all such companies and financial institutions together cannot exceed 20.0% of the paid-up capital and reserves of the bank.

Regulations relating to Deposits

The Reserve Bank of India has permitted banks to independently determine rates of interest offered on term deposits. However, banks are not permitted to pay interest on current account deposits. Further, banks may only pay interest of up to 3.5% per annum on savings deposits. In respect of savings and time deposits accepted from employees, the Bank is permitted by the Reserve Bank of India to pay an additional interest of 1.0% over the interest payable on deposits from the public.

Domestic time deposits have a minimum maturity of seven days. Time deposits from non-resident Indians denominated in foreign currency have a minimum maturity of one year and a maximum maturity of three years. Starting April 1998, the Reserve Bank of India has permitted banks the flexibility to offer varying rates of interests on domestic deposits of the same maturity subject to the following conditions:

- Time deposits are of Rs. 1.5 million and above; and
- Interest on deposits is paid in accordance with the schedule of interest rates disclosed in advance by the bank and not pursuant to negotiation between the depositor and the bank.

Interest rates on non-resident rupee term deposits of one to three years maturity are not permitted to exceed the LIBOR/SWAP rates for US dollar of corresponding maturity plus 50 basis points. Interest rates on non-resident rupee savings deposits are not permitted to exceed the LIBOR/SWAP rate plus 50 basis points for six months maturity on US dollar deposits and are fixed quarterly on the basis of the LIBOR/SWAP rate of US dollar on the last working day of the preceding quarter. On November 17, 2005 the Reserve Bank of India revised the interest rate on non-resident rupee term deposits of one to three years to LIBOR/SWAP rate plus 75 basis points. The interest rate on non-resident savings deposits will be at rate applicable to domestic savings deposits.

Regulations relating to Knowing the Customer and Anti-Money Laundering

The Reserve Bank of India issued a notification dated November 29, 2004 prescribing guidelines for Know Your Customer and anti money laundering procedures. Banks are required to have a customer acceptance policy laying down explicit criteria for acceptance of customers and defining risk parameters. A profile of the customers should be prepared based on risk categorization. Banks have been advised to apply enhanced due diligence for high-risk customers. The guidelines provide that banks should undertake customer identification procedures while establishing a banking relationship or carrying out a financial transaction or when the bank has a doubt about the authenticity or the adequacy of the previously obtained customer identification data.

Banks need to obtain sufficient information necessary to establish the identity of each new customer and the purpose of the intended banking relationship. The guidelines also provide that banks should monitor transactions depending on the account's risk sensitivity.

In August 2005, the Reserve Bank of India has simplified the KYC procedure for opening accounts for those persons who intend to keep balances not exceeding Rs. 50,000 in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed Rs. 100,000 in a year in order to ensure that the implementation of the KYC guidelines do not result in the denial of the banking services to those who are financially or socially disadvantaged.

The Parliament had enacted the Prevention of Money Laundering Act in 2002. Effective July 1, 2005, the provisions of this Act have come into force. The Act seeks to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering. In addition the applicable exchange control regulations prescribe reporting mechanisms for transactions in foreign exchange and require authorised dealers to report identified suspicious transactions to the Reserve Bank of India. In December 2004, the Parliament passed the Unlawful Activities (Prevention) Amendment Ordinance/Act, 2004 incorporating the provisions considered necessary to deal with various facets of terrorism. The Narcotic Drugs and Psychotropic Substances Act, 1985 deals with proceeds of drug related crime. In February – March 2006 the RBI prescribed norms for maintenance of records, reporting requirement etc for banks. These are along the lines of the rules under the Prevention of Money Laundering Act, 2002.

Regulations on Asset Liability Management

At present, the Reserve Bank of India's regulations for asset liability management require banks to draw up asset-liability gap statements separately for rupee and for four major foreign currencies. These gap statements are prepared by scheduling all assets and liabilities according to the stated and anticipated re-pricing date, or maturity date. These statements have to be submitted to the Reserve Bank of India on a quarterly basis. The Reserve Bank of India has advised banks to actively monitor the difference in the amount of assets and liabilities maturing or being re-priced in a particular period and place internal prudential limits on the gaps in each time period, as a risk control mechanism. Additionally, the Reserve Bank of India has asked banks to manage their asset-liability structure such that the negative liquidity gap in the 1-14 day and 15–28 day time periods does not exceed 20.0% of cash outflows in these time periods. This 20.0% limit on negative gaps was made mandatory with effect from April 1, 2000. In respect of other time periods, up to one year, Reserve Bank of India has directed banks to lay down internal norms in respect of negative liquidity gaps.

Foreign Currency Dealership

The Reserve Bank of India has granted the Bank a full-fledged authorised dealers' license to deal in foreign exchange through its designated branches. Under this license, the Bank has been granted permission to:

- engage in foreign exchange transactions in all currencies;
- open and maintain foreign currency accounts abroad;
- raise foreign currency and rupee denominated deposits from non resident Indians;
- grant foreign currency loans to on-shore and off-shore corporations;
- open documentary credits;
- grant import and export loans;
- handle collection of bills, funds transfer services;
- issue guarantees; and
- enter into derivative transactions and risk management activities that are incidental to its normal functions authorised under its organizational documents.

Further, the Bank is permitted to hedge foreign currency loan exposures of Indian corporations and schemes of mutual funds in the form of interest rate swaps, currency swaps and forward rate agreements, subject to certain conditions.

The Bank's foreign exchange operations are subject to the guidelines specified by the Reserve Bank of India in the exchange control manual. As an authorised dealer, the Bank is required to enroll as a member of the Foreign Exchange Dealers Association of India, which prescribes the rules relating to foreign exchange business in India. Authorised dealers, like the Bank, are required to determine their limits on open positions and maturity gaps in accordance with the Reserve Bank of India's guidelines and these limits are approved by the Reserve Bank of India.

Ownership Restrictions

The Government of India regulates foreign ownership in Indian banks. The total foreign ownership in a private sector bank cannot exceed 74.0% of the paid-up capital and shares held by foreign institutional investors under portfolio investment schemes through stock exchanges cannot exceed 49.0% of the paid-up capital.

The Reserve Bank of India's acknowledgement is required for the acquisition or transfer of a bank's shares which will take the aggregate holding (both direct and indirect, beneficial or otherwise) of an individual or a group to equivalent of 5.0% or more of its total paid up capital. The Reserve Bank of India, while granting acknowledgement, may take into account all matters that it considers relevant to the application, including ensuring that shareholders whose aggregate holdings are above specified thresholds meet fitness and propriety tests. In determining whether the acquirer or transferee is fit and proper to be a shareholder, Reserve Bank of India may take into account various factors including, but not limited to the acquirer or transferee's integrity, reputation and track record in financial matters and compliance with tax laws, proceedings of a serious disciplinary or criminal nature against the acquirer or transferee and the source of funds for the investment.

While granting acknowledgement for acquisition or transfer of shares that takes the acquirer's shareholding to 10.0% or more and up to 30.0% of a private sector bank's paid-up capital, The Reserve Bank of India may consider additional factors, including but not limited to:

- the source and stability of funds for the acquisition and ability to access financial markets as a source of continuing financial support for the bank,
- the business record and experience of the applicant including any experience of acquisition of companies,
- the extent to which the acquirer's corporate structure is in consonance with effective supervision and regulation of its operations; and
- in case the applicant is a financial entity, whether the applicant is a widely held entity, publicly listed and a well established regulated financial entity in good standing in the financial community.

While granting acknowledgment for acquisition or transfer of shares that takes the acquirer's shareholding to 30.0% or more of a private sector bank's paid-up capital, the Reserve Bank of India may consider additional factors, including but not limited to whether or not the acquisition is in the public interest and shareholder agreements and their impact on the control and management of the bank's operations.

In February 2005, the Reserve Bank of India issued the Guidelines on Ownership and Governance in Private Sector Banks. The key provisions of the guidelines on ownership are:

- No single entity or group of related entities would be permitted to directly or indirectly hold or control more than 10.0% of the paid, up equity capital of a private sector bank and any higher level of acquisition would require the Reserve Bank of India's prior approval;
- In respect of corporate shareholders, the objective will be to ensure that no entity or group of related entities has a shareholding in excess of 10.0% in the corporate shareholder. In case of shareholders that are financial entities, the objective will be to ensure that it is widely held, publicly listed and well regulated;
- The Reserve Bank of India may permit a higher level of shareholding in case of restructuring of problem banks or

weak banks or in the interest of consolidation in the banking industry;

- Banks would be responsible for compliance of the "fit and proper" criteria for shareholders on an ongoing basis; and
- Banks with shareholders with holdings in excess of the prescribed limit would have to indicate a plan for compliance.

The Reserve Bank of India has recently announced guidelines stating that these regulations would also apply in the event an existing shareholder's shareholding exceed the specified limit as a result of a rights issue of shares where other shareholders do not subscribe to the issue.

Legislation introduced in the Parliament to amend the Banking Regulation Act provides that prior approval of the RBI shall be mandatory for the acquisition of more than 5.0% of a banking company's paid up capital or voting rights by any individual or firm or group.

Restrictions on Payment of Dividends

Pursuant to the provisions of the Banking Regulation Act, a bank can pay dividends on its shares only after all its capitalised expenses (including preliminary expenses, organization expenses, share selling commission, brokerage, amounts of losses and any other item of expenditure not represented by tangible assets) have been completely written off. The Government may exempt banks from this provision by issuing a notification on the recommendation of the RBI.

Further, in accordance with RBI guidelines dated May 4, 2005 on the payment of dividends, only those banks which comply with the following minimum prudential requirements are eligible to declare dividends without the prior approval of the RBI:

- Capital adequacy ratio is at least 9.0% for the preceding two completed years and the accounting year for which the bank proposes to declare a dividend.
- Net non-performing asset ratio is less than 7.0%.
- The bank is in compliance with the prevailing regulations and guidelines issued by the Reserve Bank of India, including the creation of adequate provision for the impairment of assets, staff retirement benefits, transfer of profits to statutory reserves, etc.
- The proposed dividend will be paid out of the current year's profit.
- The Reserve Bank of India has not placed any explicit restrictions on the bank for declaration of dividends.
- In case the bank does not meet the capital adequacy norms, but has a capital adequacy ratio of at least 9.0% for the accounting year for which it proposes to declare a dividend, it would be eligible to do so if its net non-performing asset ratio is less than 5.0%.

Banks that are eligible to declare dividends under the above rules can do so subject to the following:

- The dividend payout ratio (calculated as a percentage of dividend payable in a year to net profit during the year) must not exceed 40.0%. The maximum permissible dividend payout ratio would vary from bank to bank, depending on the capital adequacy ratio in each of the last three years and the net non-performing asset ratio.
- In case the profit for the relevant period includes any extraordinary income, the payout ratio must be calculated after excluding that income for compliance with the prudential payout ratio.
- The financial statements pertaining to the financial year for which the bank is declaring a dividend should be free of any qualification by the statutory auditors, which might have an adverse effect on the profit during that year. In case there are any such qualifications, the net profit should be suitably adjusted while computing the dividend payout ratio.

But if a bank does not comply with the conditions stated above but wishes to declare dividends or a higher rate of dividends, the bank would need to obtain prior permission from the RBI.

Regulations on Mergers of Private Sector Banks and Banks and Non-banking Finance Companies

In May 2005, the Reserve Bank of India issued guidelines to facilitate mergers between private sector banks and between banks and non-banking finance companies. The guidelines particularly emphasise the examination of the rationale for amalgamation, the systemic benefits arising from it and the advantages accruing to the merged entity. With respect to a merger between two private sector banks, the guidelines require the draft scheme of amalgamation to be approved by the shareholders of both banks with a two-thirds majority after approval by the boards of directors of the two banks concerned. The draft scheme should also consider the impact of amalgamation on the valuation, profitability and capital adequacy ratio of the amalgamating bank and verify that the reconstituted board conforms to the Reserve Bank of India norms. The approved scheme needs to be submitted to the Reserve Bank of India for valuation and sanction in accordance with the Banking Regulation Act, along with other documentation such as the draft document of proposed merger, copies of all relevant notices and certificates, swap ratio, share prices, etc. With respect to a merger of a bank and a non-banking company, the guidelines specify that the non-banking finance company has to comply with Know Your Customer norms for all accounts and all relevant norms issued by the Reserve Bank of India and the Securities and Exchange Board of India. The non-banking finance company should also conform to insider trading norms issued by the Securities and Exchange Board of India, whether it is listed or not, in order to regulate the promoter's trading of shares before and after the amalgamation discussion period.

Credit Information Bureaus

The Parliament of India has enacted the Credit Information Companies (Regulation) Act, 2005, pursuant to which every credit institution, including a bank, has to become a member of a credit information bureau and furnish to it such credit information as may be required of the credit institution by the credit information bureau about persons who enjoy a credit relationship with it. Other credit institutions, credit information bureaus and such other persons as the Reserve Bank of India specifies may access such disclosed credit information.

Deposit Insurance

Demand and time deposits of up to Rs. 100,000 accepted by Indian banks have to be mandatorily insured with the Deposit Insurance and Credit Guarantee Corporation, a wholly-owned subsidiary of the Reserve Bank of India. Banks are required to pay the insurance premium for the eligible amount to the Deposit Insurance and Credit Guarantee Corporation on a semi-annual basis. The cost of the insurance premium cannot be passed on to the customer.

Statutes Governing Foreign Exchange and Cross-Border Business Transactions

The foreign exchange and cross border transactions undertaken by banks are subject to the provisions of the Foreign Exchange Management Act. All branches should monitor all non-resident accounts to prevent money laundering.

The Reserve Bank of India issued guidelines on External Commercial Borrowings vide its Master Circular in July 2004, which stated that no financial intermediary, including banks, will be permitted to raise such borrowings or provide guarantees in favor of overseas lenders for such borrowings. Eligible borrowers may raise such borrowings to finance the import of equipment and to meet foreign exchange needs of infrastructure projects. In a guideline dated August 1, 2005 the Reserve Bank of India has announced that external commercial borrowing proceeds can be utilised for overseas direct investment in joint ventures/ wholly owned subsidiaries subject to the existing guidelines on Indian Direct Investment in joint ventures/wholly owned subsidiaries abroad. Further utilization of external commercial borrowing proceeds is not permitted for lending, capital market investments or acquisitions in India or real estate investments.

Legal Reserve Requirements

Cash Reserve Ratio

A bank is required to maintain a specified percentage of its net demand and time liabilities, excluding inter-bank deposits, by way of cash reserve with itself and by way of balance in current account with the Reserve Bank of India.. Effective October 2, 2004, the cash reserve ratio is 5.0%.

The following liabilities are excluded from the calculation of the demand and time liabilities to determine the cash reserve ratio:

- inter-bank liabilities;
- liabilities to primary dealers; and
- refinancing from the Reserve Bank of India and other institutions permitted to offer refinancing to banks.

The cash reserve ratio has to be maintained on an average basis for a fortnightly period and should not be below 70.0% of the required cash reserve ratio on any day of the fortnight.

Statutory Liquidity Ratio

In addition to the cash reserve ratio, a bank is required to maintain a specified percentage of its net demand and time liabilities by way of liquid assets like cash, gold or approved unencumbered securities. The percentage of this liquidity ratio is fixed by the Reserve Bank of India from time to time, and it can be a minimum of 25.0% and a maximum of 40.0% pursuant to section 24 of the Banking Regulation Act. At present, the Reserve Bank of India requires banking companies to maintain a liquidity ratio of 25.0%. The Banking Regulation (Amendment) Bill, 2005 recently introduced in the Indian Parliament proposes to amend section 24 of the Banking Regulation Act to remove the minimum Statutory Liquidity Ratio stipulation, thereby giving the Reserve Bank of India the freedom to fix the Statutory Liquidity Ratio below this level. See also "The Indian Banking Sector - Recent Structural Reforms - Proposed Amendments to the Banking Regulation Act" on page 50.

Requirements of the Banking Regulation Act

Prohibited Business

The Banking Regulation Act specifies the business activities in which a bank may engage. Banks are prohibited from engaging in business activities other than the specified activities.

Reserve Fund

Any bank incorporated in India is required to create a reserve fund to which it must transfer not less than 25.0% of the profits of each year before dividends. If there is an appropriation from this account, the bank is required to report the same to the Reserve Bank of India within 21 days, explaining the circumstances leading to such appropriation. The Government of India may, on the recommendation of the Reserve Bank of India, exempt a bank from requirements relating to its reserve fund.

Payment of Dividend

Pursuant to the provisions of the Banking Regulation Act, a bank can pay dividends on its shares only after all its capitalised expenses (including preliminary expenses, share selling commission, brokerage, amounts of losses and any other item of expenditure not represented by tangible assets) have been completely written off. The Bank may exempt banks from this provision by issuing a notification on the recommendation of the Reserve Bank of India. The Reserve Bank of India has by its circular dated January 30, 2001 permitted banks to defer expenses incurred in relation to the Voluntary Retirement Scheme over a five-year period in the bank's Indian GAAP accounts. Further, the payment of the dividend by banks is subject to the eligibility criteria specified by the Reserve Bank of India from time to time.

Restriction on Share Capital and Voting Rights

Banks can issue only ordinary shares. The Banking Regulation Act specifies that no shareholder in a banking company can exercise voting rights on poll in excess of 10.0% of total voting rights of all the shareholders of the banking company. Only banks incorporated before January 15, 1937 can issue preference shares.

Legislation recently introduced in the Indian Parliament proposes to amend the Banking Regulation Act to remove the limit of 10.0% on the maximum voting power exercisable by a shareholder in a banking company and allow banks to issue redeemable and non-redeemable preference shares. See also "The Indian Banking Sector - Recent Structural Reforms - Proposed Amendments to the Banking Regulation Act" on page 50.

Restrictions on Investments in a Single Company

No bank may hold shares in any company exceeding 30.0% of the paid up share capital of that company or 30.0% of its own paid up share capital and reserves, whichever is less.

Regulatory Reporting and Examination Procedures

The Reserve Bank of India is empowered under the Banking Regulation Act to inspect a bank. The Reserve Bank of India monitors prudential parameters at quarterly intervals. To this end and to enable off-site monitoring and surveillance by the Reserve Bank of India, banks are required to report to the Reserve Bank of India on aspects such as:

- assets, liabilities and off-balance sheet exposures;
- the risk weighting of these exposures, the capital base and the capital adequacy ratio;
- the unaudited operating results for each quarter;
- asset quality;
- concentration of exposures;
- connected and related lending and the profile of ownership, control and management; and
- other prudential parameters.

The Reserve Bank of India also conducts periodical on-site inspections on matters relating to the bank's portfolio, risk management systems, internal controls, credit allocation and regulatory compliance, at intervals ranging from one to three years. The Bank is subject to the on-site inspection by the Reserve Bank of India at yearly intervals. The inspection report, along with the report on actions taken by the Bank, has to be placed before the Board of Directors. On approval by the Board of Directors, the Banks is required to submit the report on actions taken by it to the Reserve Bank of India. The Reserve Bank of India also discusses the report with the management team including the Managing Director & CEO.

The Reserve Bank of India also conducts on-site supervision of selected branches of with respect to their general operations and foreign exchange related transactions.

Appointment and Remuneration of the Chairman, Managing Director and Other Directors

The Bank is required to obtain prior approval of the Reserve Bank of India before it appoints its chairman and managing director and any other wholetime directors and fix their remuneration. The Reserve Bank of India is empowered to remove an appointee to the posts of chairman, managing director and wholetime directors on the grounds of public interest, interest of depositors or to ensure the Bank's proper management. Further, the Reserve Bank of India may order meetings of the Board of Directors to discuss any matter in relation to the Bank, appoint observers to such meetings and in general may make such changes to the management as it may deem necessary and may also order the convening of a general meeting of the shareholders to elect new Directors. The Bank cannot appoint as a director any person who is a director of another banking company. In July 2004, the Reserve Bank of India issued guidelines on 'fit and proper' criteria for directors of banks.

Penalties

The Reserve Bank of India may impose penalties on banks and its employees in case of infringement of regulations under the Banking Regulation Act. The penalty may be a fixed amount or may be related to the amount involved in any contravention of the regulations. The penalty may also include imprisonment. A press release has been issued by the Reserve Bank of India giving details of the circumstances under which the penalty is imposed on the bank along with the communication on the imposition of the penalty in public domain. A bank is also required to disclose the penalty in its annual report.

Assets to be maintained in India

Every bank is required to ensure that its assets in India (including import-export bills drawn in India and Reserve Bank of India approved securities, even if the bills and the securities are held outside India) are not less than 75.0% of its demand and time liabilities in India.

Restriction on Creation of Floating Charge

Prior approval of the Reserve Bank of India is required for creating floating charge on the Bank's undertaking or property. Currently, all of the Bank's borrowings including bonds are unsecured.

Secrecy Obligations

The Bank's obligations relating to maintaining secrecy arise out of common law principles governing its relationship with the Bank's customers. The Bank cannot disclose any information to third parties except under clearly defined circumstances. The following are the exceptions to this general rule:

- where disclosure is required to be made under any law;
- where there is an obligation to disclose to the public;
- where the Bank needs to disclose information in its interest; and
- where disclosure is made with the express or implied consent of the customer.

The Bank is also required to disclose information if ordered to do so by a court. The Reserve Bank of India may, in the public interest, publish the information obtained from the bank. Under the provisions of the Banker's Books Evidence Act, a copy of any entry in a bankers' book, such as ledgers, day books, cash books and account books certified by an officer of the bank may be treated as *prima facie* evidence of the transaction in any legal proceedings.

Every bank has to furnish to a credit information bureau of which it is a member, such credit information as may be required by the credit information bureau about persons who enjoy a credit relationship with it. See also "Regulation and Policies– Credit Information Bureaus", on page 105 of this Red Herring Prospectus.

Regulations governing Offshore Banking Units

The Government and Reserve Bank of India have permitted banks to set up Offshore Banking Units in Special Economic Zones, which are specially delineated duty free enclaves deemed to be foreign territory for the purpose of trade operations, duties and tariffs. The key regulations applicable to offshore bank units include, but are not limited to, the following:

- No separate assigned capital is required. However, the parent bank is required to provide a minimum of US$ 10 million to its offshore banking unit.
- Offshore Banking Units are exempt from cash reserve ratio requirements.
- Reserve Bank of India may exempt a bank's offshore banking unit from statutory liquidity ratio requirements on specific application by the bank.
- An offshore banking unit may not enter into any transactions in foreign exchange with residents in India, unless such a person is eligible to enter into or undertake such transactions under the Foreign Exchange Management Act, 1999.
- All prudential norms applicable to overseas branches of Indian banks apply to Offshore Banking Units.
- Offshore banking units are required to adopt liquidity and interest rate risk management policies prescribed by Reserve Bank of India in respect of overseas branches of Indian banks as well as within the overall risk management and asset and liability management framework of the bank subject to monitoring by the bank's board of directors at prescribed intervals.
- Offshore banking units may raise funds in convertible foreign currency as deposits and borrowings from non-residents including non-resident Indians but excluding overseas corporate bodies.
- Offshore banking units may operate and maintain balance sheets only in foreign currency.
- The loans and advances of Offshore Banking Units would not be reckoned as net bank credit for computing priority sector lending obligations.

- Offshore banking units must follow the Know Your Customer guidelines and must be able to establish the identity and address of the participants in a transaction, the legal capacity of the participants and the identity of the beneficial owner of the funds.

Regulations and Guidelines of the Securities and Exchange Board of India

The Securities and Exchange Board of India was established to protect the interests of public investors in securities and to promote the development of, and to regulate, the Indian securities market. The Bank and its subsidiaries and affiliates are subject to Securities and Exchange Board of India regulations for its public capital issuances, as well as underwriting, custodial, depositary participant, investment banking, registrar and transfer agents, brokering and debenture trusteeship activities. These regulations provide for the Bank's registration with the Securities and Exchange Board of India for each of these activities, functions and responsibilities. The Bank and its subsidiaries are required to adhere to a code of conduct applicable for these activities.

Special Status of Banks in India

The special status of banks is recognised under various statutes including the Sick Industrial Companies Act, 1985, Recovery of Debts Due to Banks and Financial Institutions Act, 1993, and the Securitisation Act. As a bank, the Bank is entitled to certain benefits under various statutes including the following:

- The Recovery of Debts Due to Banks and Financial Institutions Act, 1993 provides for establishment of Debt Recovery Tribunals for expeditious adjudication and recovery of debts due to any bank or Public Financial Institution or to a consortium of banks and Public Financial Institutions. Under this Act, the procedures for recoveries of debt have been simplified and time frames been fixed for speedy disposal of cases. Upon establishment of the Debt Recovery Tribunal, no court or other authority can exercise jurisdiction in relation to matters covered by this Act, except the higher courts in India in certain circumstances.
- The Sick Industrial Companies Act, 1985, provides for reference of sick industrial companies, to the Board for Industrial and Financial Reconstruction. Under the Act, other than the Board of Directors of a company, a scheduled bank (where it has an interest in the sick industrial company by any financial assistance or obligation, rendered by it or undertaken by it) may refer the company to the BIFR.
- The Securitisation Act focuses on improving the rights of banks and financial institutions and other specified secured creditors as well as asset reconstruction companies by providing that such secured creditors can take over management control of a borrower company upon default and/or sell assets without the intervention of courts, in accordance with the provisions of the Securitisation Act.

Income Tax Benefits

As a banking company, the Bank is entitled to certain tax benefits under the Indian Income-tax Act including the following:

- The Bank is allowed a deduction of up to 40.0% of its taxable business income derived from the business of long-term financing (defined as loans and advances extended for a period of not less than five years) which is transferred to a special reserve, provided that the total amount of this reserve does not exceed two times the paid-up share capital and general reserves. The Bank is entitled to this benefit because it is a financial corporation. Effective FY 1998, if a special reserve is created, it must be maintained and if it is utilised, it is treated as taxable income in the year in which it is utilised.
- The Bank is entitled to a tax deduction on the provisioning towards bad and doubtful debts equal to 7.5% of its total business income, computed before making any deductions permitted pursuant to Chapter VIA of the Indian Income-tax Act, and to the extent of 10.0% of the aggregate average advances made by its rural branches computed in the manner prescribed. The Bank has the option of claiming a deduction in respect of the provision made by it for any assets classified pursuant to the Reserve Bank of India's guidelines as doubtful or loss assets to the extent of 10.0% of the amount of such assets as on the last day of the year.

- The bank is eligible to issue tax saving bonds approved in accordance with the provisions of the Income-tax Act. The subscription to such bonds by certain categories of investors is a prescribed mode of investing for the purposes of availing of a tax rebate.

Regulations governing Insurance Companies

The Bank is subject to the provisions of the Insurance Act, 1938 and the various regulations prescribed by the Insurance Regulatory and Development Authority. These regulations regulate and govern, among other things, registration as an insurance company, investment, solvency margin requirements, licensing of insurance agents, advertising, sale and distribution of insurance products and services and protection of policyholders' interests. In May 2002, the Indian parliament approved the Insurance (Amendment) Act 2002, which facilitates the appointment of corporate agents by insurance companies and prohibits intermediaries and brokers from operating as surrogate insurance agents. The Indian Government, while presenting its budget for FY 2005, has proposed an increase in the limit on foreign equity participation in private sector insurance companies from 26.0% to 49.0%. However, this would require an amendment to the Insurance Regulatory and Development Authority Act 1999 and has not been implemented as yet.

HISTORY AND CERTAIN CORPORATE MATTERS

The Ismailia Co-operative Bank Limited and the Masalawala Co-operative Bank Limited came into being in the 1930s. Eventually, Diamond Jubilee Co-operative Bank Limited merged with Ismailia Co-operative Bank Limited. Subsequently in 1981, Ismailia Co-operative Bank Limited was amalgamated with Masalawalla Co-operative Bank Limited to form the Development Co-operative Bank Limited. Citi Co-operative Bank Limited later merged with Development Co-operative Bank Limited, which thereafter was converted into a joint stock banking company, the Development Credit Bank Limited on May 31, 1995.

In the 1990s there were about 1400 co-operative banks in India and a few of these co-operative banks were given permission by RBI to convert into scheduled commercial banks. Development Co-operative Bank was one of 11 such banks that converted themselves into scheduled commercial banks. Vide their resolution dated January 28, 1995, the shareholders of Development Co-operative Bank resolved to register as a limited company within the meaning of Sections 566 of the Companies Act. Development Credit Bank Limited was granted the certificate of incorporation under the Companies Act and the license to carry on banking business under Section 22 of the Banking Regulation Act, 1949 on May 31, 1995. At the time of its conversion to a limited company under the Companies Act, the Bank had a capital of Rs.73.34 million and net worth of over Rs.1000 million.

Since its conversion into a scheduled commercial bank, the Bank has over the years expanded its operations beyond the states of Maharashtra, Gujarat and Andhra Pradesh into the states of, Goa, Haryana, Karnataka, Tamil Nadu, Union Territories of Daman and Diu & Dadra & Nagar Haveli and the National Capital Territory of Delhi. Today, it has a network of 67 branches, 5 extension counters and 101 ATMs across the country.

The terms of the banking license issued to the Bank under Section 22 of the Banking regulation Act stipulated, amongst others, that:

a) the Bank must comply with the Guidelines on Entry of Private Sector Banks dated January 22, 1993 issued by the Reserve Bank of India;

b) on the date of conversion, the unimpaired value of the paid up capital and reserves of the Bank together with the share application money received by it should not be less than Rs.1000 million;

c) the Bank must make a public issue of its equity and arrange to have its shares listed on stock exchanges immediately after one year of its operations;

d) the Bank must comply with the priority sector lending norms of 40% as applicable to private sector banks; and that

e) the Bank must ensure that not less than 25% of its branches are in rural/semi-urban areas within three years of its operations.

The Guidelines on Entry of Private Sector Banks which chalk out the scheme for permitting the entry of new private sector banks, prescribe, in relation to such a new private sector bank that:

a) the new bank may be listed in the Second Schedule of the Reserve Bank, 1934;

b) shares of the banks should be listed on stock exchanges;

c) voting rights of the shareholders of the bank shall be governed by the ceiling of 1% (now increased to 10%) of the total voting rights as stipulated in Section 12(2) of the Banking Regulations Act;

d) the new bank must not have as its director any person who is a director of any other banking company or of companies which are entitled to exercise voting rights in excess of 20% of the total voting rights of all the shareholders of the banking company as laid down in the Banking Regulation Act, 1949;

e) the bank must achieve capital adequacy of 8% (now increased to 9%) of the risk weighted assets from the beginning. Similarly norms for income recognition, asset classification, and provisioning will also be applicable to it from the beginning. The bank must also comply with the single borrower and group borrower exposure limits that will be in force from time to time;

f) though the bank must comply with the norms for priority sector lending, some modification in the composition of the priority sector lending may be considered by the RBI for an initial period of three years;

g) the bank may be issued an authorised dealer's license to deal in foreign exchange when applied for;

h) it shall be governed by the policy that banks are free to open branches at various centres including that banks are free to open branches at various centres including urban/metropolitan centres without the prior approval of the RBI once they satisfy the capital adequacy and prudential accounting norms. However, to avoid over-concentration of their branches in metropolitan areas and cities, a new bank must open rural and semi-urban branches also; and that

i) such a new bank must make full use of modern infrastructural facilities in office equipment, computer, telecommunications etc. in order to provide good customer service.

Changes in Memorandum of Association

The Memorandum of Association of the Bank was amended in the following manner on various occasions:

Date	Details of Amendment
September 30, 2000	Authorised capital of the Bank increased from Rupees 250 million to Rupees 500 million
September 30, 2002	Insertion of the following object as a main object:"To carry on the business of insurance of all kinds or businesses allied to Insurance including *interalia*, the business of soliciting or procuring Insurance Business and to receive commission or remuneration of the Insurance Business so procured and to act as Insurance Agent and/or Broker and/or Writing Agent for all classes of Insurance Business and also business as Insurance Advisers, Pension Advisers, Consultants, Assessors, Valuers and Surveyors"
September 30, 2002	Original Clause 3.B (57) which read "To carry on Business of Insurance of all kinds or any business allied to insurance and for all risks" deleted, and original Clause 58 renumbered as Clause 57.
January 23, 2004	Authorised capital of the Bank increased from Rupees 500 million to Rupees 1000 million
November 21, 2005	Authorised capital of the Bank increased from Rupees 1000 million to Rupees 1500 million
July 25,2006	Authorised capital of the Bank increased from Rupees 1500 million to Rs. 3000 million

Main Objects of the Bank

The main objects of the Bank as contained in its Memorandum of Association are:

- To do all kinds of banking business
- To engage in any one or more of the following forms of businesses:
  - a) the borrowing, raising or taking up of money.
  - b) the lending or advancing of money with or without security.

c) the drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundis, promissory notes, coupons, drafts, railway receipts, warrants, debentures, certificates, scrips and other instruments, and securities whether transferable or negotiable or not.

d) the granting and issuing of letters of credit, traveller's cheques and circular notes.

e) the buying and selling and dealing in bullion and specie.

f) the buying and selling of foreign exchange including foreign Bank notes.

g) the acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds.

h) the purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or others.

i) the negotiating of loans & advances.

j) the receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise.

k) the providing of safe deposit vaults, and

l) the collecting and transmitting of money and securities.

- Acting as agents for any Government or Local Authority or any other person or persons, the carrying on of agency business of any description including the clearing and forwarding of goods giving of receipts and discharges and otherwise acting as an attorney on behalf of customers, but excluding the business of a Managing Agent or Secretary and Treasurer of a company.
- Contracting for public and private loans and negotiating and issuing the same.
- Effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue, public or private, of State, Municipal or other loans or of shares, stock debentures, or debentures stock of any company, corporation or association and the lending of money for the purpose of any such issue.
- Carrying on and transacting every kind of guarantee and indemnity business.
- Managing, selling and realizing any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims.
- Acquiring and holding and generally dealing with any property or any right, title or interest in any such property which may form the security or part of the security for any loans or advances or which may be connected with any such security.
- Undertaking and executing trusts.
- Undertaking and administration of estates as executors, trustee or otherwise.
- To carry on the business of insurance of all kinds or businesses allied to Insurance including interalia, the business of soliciting or procuring Insurance Business and to receive commission or remuneration of the Insurance Business so procured and to act as Insurance Agent and/or Broker and/or Writing Agent for all classes of Insurance Business and also business as Insurance Advisers, Pension Advisers, Consultants, Assessors, Valuers and Surveyors.

The main objects of the Memorandum of Association of the Bank enable it to undertake the activities for which the funds are being raised for the Issue and also the activities which the Bank has been carrying on till date.

Development Credit Bank Limited

Key Milestones of the Bank since inception

Year	Key Events, Milestones and Achievements
1981	Amalgamation of Masalawala Co-operative Bank Limited and Ismailia Co-operative Bank Limited into Development Co-operative Bank Limited
1995	Conversion of Development Co-operative Bank Limited into Development Credit Bank Limited and acquisition of shares in Development Credit Bank Limited by the Promoter
2002 – 2003	Launched Mobile Banking offering both push and pull options
2002- 2003	Flying Start Award from Birla Sun Life for achieving excellence in distributing of life insurance products
2003 – 2004	Achievers Award – West Zone from Birla Sun Life for outstanding contribution in distributing life insurance products
2003-2004	Classified as a "new private sector bank" by the RBI
2004 – 2005	Crisil Rating of P1+ for the Certificate of Deposits Programme for an aggregate value of Rs. 3000 million which was raised to Rs. 7000 million subsequently.
2004 – 2005	Recognized as Business Associates on Fast Track by Birla Sun Life for outstanding contribution in distributing life insurance products
2004 – 2005	Won the Emerging Bank Award of Standard Chartered Mutual Fund in 3 cities namely – Mumbai, Delhi and Kolkata
2004 – 2005	The Bank received several performance recognition awards and certificates from the following mutual funds in the year for marketing their products: Won various awards recognizing contribution from the following Asset Management Companies:- ● DSP Merrill Lynch ● Sahara Mutual Fund ● Kotak Mutual Fund ● Principal Financial Group ● Reliance Mutual Fund
2004-2005	Launched Visa Funds Transfer
2004-2005	Launched Celfill offering Mobile Recharge through ATMs to even non-customers
2004-2005	CRISIL rating of AAA (SO) for the personal loan portfolio which has been securitised
2005-2006	Private Equity Investment to the extent of Rs. 519.90 million

There has been no change in the registered office of the Bank, since its inception.

The Bank does not have any subsidiaries.

Investment by Private Equity Investors

The Bank and the Promoter have entered into separate subscription agreements dated February 16, 2006, (the "*Agreement*") with HDFC Limited, Khattar Holdings Pte. Ltd. and Amtel Finance Limited (together, the "**Investors**"). The Investors have subscribed to an aggregate of 10,666,668 equity shares of the Bank at the price of Rs. 45 each, comprising 14.01% of the share capital of the Bank. The equity shares issued to the Investor rank *pari passu* with the remaining equity shares of the Bank in all respects, including with respect to entitlement of dividends. The terms of the Agreement are valid and binding on the parties until the listing of the equity shares of the Bank.

1. During the term of the Agreement,

   - the Board of Directors may authorise any further preferential allotments of shares, depending on the financial requirements of the Bank subject however, to the condition that a maximum of two such preferential allotments may be made (including the preferential allotment to the Investor) and that the combined allotments should not exceed Rs.1,200 million.
   - in the event the Bank desires to offer any equity shares (other than the issue of shares under the Bank's ESOP Plan or by way of this initial public offer), the Investor shall be afforded the first opportunity to subscribe to Shares such that the Investor's current shareholding percentage in the Bank may be maintained.
   - if such capital, as mentioned above, is raised within six months of the date of the Agreement, i.e. February 16, 2006, the price at which the shares are allotted cannot exceed the price at which the shares have been allotted to the Investor. However, should the additional capital be raised through an IPO the pricing of shares of the IPO cannot be lower than the pricing of the shares offered in the preferential allotment. Further, in the event of additional capital being raised from sources (apart from under the ESOP scheme) at a price lower than the price at which the shares have been allotted to the Investor, prior consent of the Investor must be sought.

2. The Agreement imposes the following restrictions on the transfer of equity shares in the Bank by the Investor:

   - The Investor cannot create any encumbrance or charge on its equity shares without the prior written consent of the Bank and the Promoter.
   - The Investor may not transfer the Shares to any third party or affiliate till the earlier of: a) one year of the listing of the equity shares of the Bank, or b) June 30, 2006, unless

     i. required by law; or

     ii. it exercises its option to offer for sale shares not exceeding 25% of its shareholding in the Bank as part of this IPO, or

     iii. it has received prior written consent of the Bank and the Promoter.

   Subject to the abovementioned conditions, the Investor has the right to transfer the shares to an affiliate. However, such affiliate shall execute a deed of adherence, and an effective provision shall also be made to the satisfaction of the Bank and or the Promoter that the affiliate shall, prior to ceasing to be an affiliate of the Investor transfer the said shares to the Investor or another affiliate of the Investor.

3. In accordance with the terms of the Agreement, the Promoter as principal shareholder of the Bank shall not sell any shares that it holds in the Bank for a period of 12 months after the listing of the shares, unless required to dilute its holding by the RBI. The Investor will only be a minority financial investor and not acquire control and management of the Bank.

4. The Investor shall, during the term of the Agreement, have the right to receive from the Bank:

   - Unaudited quarterly financial statements, including cash flow statements, certified by the Chief Financial Officer of the Bank within 45 days of period end;
   - Audited financial statements, including cash flow statements, within 90 days of fiscal year end;
   - Monthly operational reports (MIS);
   - Minutes of Shareholders meetings within 30 days of the respective meeting;
   - Annual Operating Financial budget as approved by the Board of Directors of the Bank; and
   - Additional information as reasonably requested.

However, subsequent to the listing of the Shares pursuant to the IPO, the Investor shall not have the right to receive any information that may be considered as "unpublished price sensitive information" under applicable laws.

5. In accordance with the terms of the Agreement the Bank shall make an IPO on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited or any other recognized stock exchange or quotation system in India acceptable to the Investor on or before expiry of 12 months from the effective date of the Agreement i.e., February 16, 2006, such that not less than 25% of the paid up equity share capital of the Bank is held by the public.

6. Pursuant to the Agreement the Investor has the right, at its discretion, to offer 25% of its shareholding in the Bank for sale as part of this IPO. The Investor, however, shall not exercise such right in the Issue.

In addition to the three Investors, Rajeev Maliwal (joint A/c) and Suvijay Exports Limited have subscribed to 886,666 equity shares of the Bank comprising 1.17 % of the pre issue share capital of the Bank.

MANAGEMENT

Under its Articles of Association, the Bank must have a minimum of three Directors, and may have a maximum of fifteen Directors. The following table sets forth details regarding the Board of Directors of the Bank as of the date of filing the Red Herring Prospectus with SEBI:

Board of Directors

Sl. No.	Name, Designation, Father's Name, Address, Occupation	Nationality	Age	Date of Appointment and Term	Other Directorships
1.	**Mr. Nasser Munjee,** Non – Executive Chairman of the Board of Directors S/o Mr. Mukhtar Munjee Champagne House, 69, Worli Sea Face, Mumbai – 400 018 Advisor & Consultant	Indian	53	Appointed on June 29, 2005; expiry of the term on August 18, 2008	a) Asea Brown Boveri Limited b) HDFC Limited c) Repro India Limited d) Cummins India Limited e) Gujarat Ambuja Cements Limited f) Voltas Limited g) AXA BHARTI Life Insurance Co. Ltd h) Mahindra & Mahindra Financial Services Limited i) ITD Cementation India Limited. j) South West Port Ltd. Goa k) Unichem Laboratories Limited l) Securities Trading Corporation of India Limited m) Maharashtra Airport Development Company Ltd. n) Aga Khan Rural Support Programme (India) o) Fomento Resorts & Hotels Pvt. Ltd
2.	**Ms. Nasim Devji,** Director D/o Mr. Hassanali Kurji Riverside Park, Magadi 10, Nairobi, Kenya. Professional banker	British	52	Appointed on January 13, 2005; Liable to retire by rotation	a) Diamond Trust Bank Kenya Limited b) Diamond Jubilee Investment Trust (Uganda) Limited c) Diamond Trust Bank (Uganda) Limited d) Diamond Trust Properties (Uganda) Limited, e) Diamond Trust Bank Tanzania Limited
3.	**Mr. Shabir Kassam** Director S/o Mr. Suleman Kassam 4, Gemeren Grove, West Pennant Hills, NSW 2125 Consultant	Australian	49	Appointed on January 10, 2006. Up to next AGM.	a) Industrial Promotion and Development Company Ltd., Bangladesh

Sl. No.	Name, Designation, Father's Name, Address, Occupation	Nationality	Age	Date of Appointment and Term	Other Directorships
4.	**Dr. Vijay Kelkar,** Director S/o Mr. Laxman Kelkar Samudra Gaurav, 2nd floor, Worli Sea Face Road, Worli, Mumbai – 400 025. Company Director	Indian	64	Appointed on January 13, 2005; Liable to retire by rotation	a) IDFC Private Equity Company Limited b) Tata Chemicals Limited c) Hero Honda Motors Limited d) Jet Airways (India) Limited e) JM Financial Asset Management Private Limited f) SciTech Patent Art ServicesPrivate Ltd. g) Lupin Limited h) Britannia Industries Limited i) Roche Scientific Company India Private Limited j) JSW Steel Limited k) KPIT Cummins Infosystem Ltd.
5.	**Mr. Amin Manekia,** Director S/o Mr. Hasanali Manekia 10, Bhaveshwar Sagar, 20, Napeansea Road, Mumbai 400 036. Businessman	Indian	45	Appointed on September 30, 2000; Liable to retire by rotation	a) Sona Holdings & Trading Co. Pvt. Ltd.
6.	**Mr. R. A. Momin**, Director S/o Mr. Alimohmad Momin G-1202, Green Park, Off New Link Road, Near Shantivan, MHADA, Andheri (West), Mumbai – 400 053 Fellow Chartered Accountant	Indian	62	Appointed on January 13, 2005; Liable to retire by rotation	a) Platinum Jubilee Investments Limited b) Platinum Jubilee Publishers Limited
7.	**Mr. A. A. Sabuwala**, Director S/o Mr. Allaudin Sabuwala 2B/111, Windermere, Opp. Oshiwara MHADA, Andheri (West), Mumbai – 400 053 Businessman	Indian	55	Appointed on January 13, 2005; Liable to retire by rotation	a) Precious Oil Products Pvt. Ltd.

Sl. No.	Name, Designation, Father's Name, Address, Occupation	Nationality	Age	Date of Appointment and Term	Other Directorships
8.	**Mr. Narayan K. Seshadri**, Director S/o Mr. K. Seshadri G-37, Hyderabad Estate, Napeansea Road, Mumbai – 400 006. Fellow Chartered Accountant Consultant	Indian	49	Appointed on September 30, 2004; Liable to retire by rotation	a) Halcyon Enterprises P. Ltd. b) Halcyon Resources and Management Consulting P. Ltd. c) DHFL Venture Capital India Private Ltd. d) PI Industries Ltd.
9.	**Mr. Anuroop Singh,** Director S/o Mr. Gur Bakhsh Singh 76 BVD St. Marcell, 75005 Paris 75005, France Fellow Chartered Accountant	Indian	53	Appointed on January 13, 2005; Liable to retire by rotation	a) Max New York Life Insurance Company Limited b) Max Healthcare Institute Limited c) Perot Systems, USA d) SOS Children's Villages of India e) Society for Integrated Development of Himalayas (SIDH)
10.	**Mr. Gautam Vir,** Managing Director & CEO S/o Mr. Raj Kumar Vir B-63, Anand Vihar, New Delhi – 110 092. Professional banker	Indian	50	Appointed on September 13, 2005; expiry of term on September 12, 2008	Nil

Mr. Naseer Munjee is the non executive Chairman of the Bank. He holds a bachelor's degree from the University of Chicago and a master's degree from the London School of Economics, U.K. Mr. Munjee's last assignment was with the Infrastructure Development Finance Company Limited, India as its Managing Director and CEO. He was with the Housing Development Finance Corporation Limited (HDFC Limited) since its inception in February 1978 till 1997. In March 1993 he joined the Board of HDFC Limited as Executive Director with primary responsibility for resource mobilization, research, publications, training, communication and managing the centre for housing finance. At HDFC Limited, he promoted the Indian Association of Savings and Credit, of which he is now chairman. He is also chairman of the Aga Khan Rural Support Programme. His interests include rural development, housing finance, urban issues specially the development of modern cities and humanitarian causes. He is a trustee of make a wish, Akanksha, a non-governmental organization and Chairman of Muniwarabad Charitable Trust. Mr. Munjee is currently the President of the Bombay Chamber of Commerce & Industry. He is a member of Rotary Club (Mumbai main) and is also a Life Trustee of the Welhams Boys School, Dehradun.

Ms. Nasim Devji is a Fellow of the Institute of Chartered Accountants (England & Wales) and also a member of the Institute of Taxation, U.K. She has specialised in the field of banking and SSI. Ms. Devji is currently the Senior Executive and Managing Director of Diamond Trust Bank Kenya Ltd., a Bank in Kenya.

Mr. Shabir Suleman Kassam is a qualified Certified Public Accountant from Australia and also a Fellow of the Association of Chartered Accountant from United Kingdom. He is a consultant. He has more than 10 years' experience in Chartered Accounting and 13 years' experience in banking. Presently he is a member on the Board of Industrial Promotion and Development Company Ltd., Bangladesh.

Dr. Vijay Kelkar holds an M.S. degree from the University of Minnesota, USA and a doctorate from the University of California at Berkeley. He is an economist and was the former advisor to the Finance Minister. In the past he has held a number of key portfolios with the Indian Government including being the Chairman of the Tariff Commission, Secretary to the Ministry of

Petroleum and Natural Gas- as well as being the Finance Secretary. At present, Dr. Kelkar is the Chairman of IDFC Private Equity Company Limited, India Development Foundation and SciTech Patent Art Services Pvt. Ltd. He is also on the board of a number of companies such as Tata Chemicals Ltd., Hero Honda Motors Ltd., Jet Airways India Ltd., JM Financial Assets Management Private Ltd and Brittania India Limited.

Mr. Amin Manekia holds an MBA degree from Babson College (USA). Mr. Manekia has specialized in the field of 'Finance and Marketing' and has vast experience in understanding the consumer business in the country.

Mr. R. A. Momin holds a B. Com degree and is a Fellow of Institute of Chartered Accountants of India. Mr. Momin has more than 30 years of experience in the field of accounting and audit. He had been on the Board of Directors of the erstwhile Development Co-operative Bank for 6 years.

Mr. A. A. Sabuwala is a qualified diploma-holder in mechanical engineering and has specialised in Small Scale Industries. He has set up several small-scale industries over the last 30 years.

Mr. N. Seshadri holds a B.Sc degree and is also a Chartered Accountant. He has specialized in the field of agriculture, SSI and rural economy. Mr. Seshadri is a corporate consultant and is on the board of a number of companies such as PI Industries Ltd., Halcyon Enterprises Pvt. Ltd and Halcyon Resources & Management Consulting Pvt. Ltd.

Mr. Anuroop Singh is a Fellow Chartered Accountant with specialization in the fields of banking and insurance. Mr. Singh has over three decades of work experience in banking and insurance services and has spearheaded the setting up of a number of institutions such as Max New York Life, ANZ Grindlays Bank, Bank of America and American Express. Currently, Mr. Singh is Vice Chairman of Max New York Life Insurance Company. He is also an independent director on the board of Max Healthcare Institute Limited, Perot Systems, USA and Society for Integrated Development of Himalayas (SIDH), a philanthropic Institution..

Mr. Gautam Vir is the Managing Director and CEO of the Bank. Mr. Gautam Vir holds a PGDBA from the Indian Institute of Management, Kolkata and is an alumnus of St. Xavier's College, Kolkata where he did his B.A. (Hons.) in Economics. Mr. Vir has over 25 years of banking experience across India, Asia Pacific, Middle East and Eastern Europe. Prior to joining the Bank, he was CEO of Hebros Bank, Sofia, Bulgaria from 2000 to 2005. He started is career in Bank of America and has held very senior positions in Citibank N.A., Singapore (as Vice President, Director, Operations and Technical Support) in Standard Chartered Bank, Southern Gulf, Dubai (as Head for Personal Banking). He was involved in setting up the Citibank NRI business in India and after that, from 1988 to 1991, was Vice President and Area Director, Eastern India and commenced their retail business

Remuneration of Directors

1. Mr. Naseer Munjee, Non Executive Chairman

The shareholders of the Bank, subject to approvals of the Reserve Bank of India and the Central Government, at its Annual General Meeting held on September 11, 2006, approved the payment of an honorarium not exceeding Rs.2,75,000/- (Rupee Two Lacs Seventy Five Thousand only) per month effective from July 1, 2006, to Mr. Nasser Munjee, the Chairman of the Bank. He will also be entitled to reimbursement of traveling and out of pocket expenses at actuals.

2. Mr. Gautam Vir, Managing Director:

Mr. Vir was appointed as the Managing Director of the Bank with effect from September 13, 2005 for a period of 3 (this is five as per the employment agreement) years and the same was approved by RBI by its letter No. DBOD. No. 213/08.103.001/2005-05 dated September 8, 2005. Details of Mr. Vir's annual remuneration as contained in the agreement with the Bank dated September 13, 2005 comprise an annual salary of Rs. 6.3 million , house rent allowance of Rs. 2.4 million, and certain other perquisites in the nature of provision by the Bank of a fully furnished house or housing loan between Rs. 7.5 million and Rs, 35 million (alternative to the house rent allowance), Banks' Car & reimbursement of Drivers' salary and Bonus, other Loan of Rs.1.5 million @2% p.a., contribution to the provident fund of Rs. 0.08 million per annum, leave fare concession of Rs.0.37 million, health insurance and hospitalisation policy to cover him and dependent family members premium not exceeding Rs. 0.02 million reimbursement of routine expenses incurred by him or family members not exceeding Rs. 0.03 million and education expenses for children not exceeding Rs. 0.05 million.. The Bank has a Jeevan Griha Policy to cover the loan liabilities of the MD in event of death in harness.

2. Other Directors

No other director on the Board is paid any remuneration, except for sitting fees in certain instances.

Payment or benefit to officers of the Bank

Except as stated in the Red Herring Prospectus, no amount or benefit has been paid or given within the two preceding years or is intended to be paid or given to any of the Bank's officers except the normal remuneration for services rendered as Directors, officers or employees.

Corporate Governance

The Bank is in compliance with the SEBI Guidelines in respect of corporate governance specially with respect to broad basing of the Board of Directors, constituting the committees such as Shareholders'/ Investors' Grievance committee details of which are provided hereinbelow. Upon listing the Bank shall comply with the other requirements of the SEBI circular SEBI/CFD/DIL/CG/1/2004 dated October 29, 2004, which notifies revised corporate governance guidelines, by the required date, i.e., December 31, 2005.

The Board has 10 Directors, of which the Managing Director and CEO is the only wholetime director. The Chairman of the Board is a part time Director. Except for Mr. Gautam Vir, Ms. Nasim Devji and Mr. R. A. Momin, all the Directors of the Bank are independent Directors.

Committees of the Board

The Bank has constituted the following committees of the Board of Directors

a. Audit Committee;

b. Shareholders'/Investors' Grievance Committee;

c. Nomination Committee

d. Executive and Credit Committee

e. Fraud Reporting & Monitoring Committee

f. Customer Service Committee

g. Risk Management Committee

h. IPO Committee

The said committees have been formed to focus on specific areas mentioned as under:

Audit Committee

The members of the Audit Committee are Mr. N. Seshadri (Chairman), Mr. Shabir Suleman Kassam and Mr. R.A. Momin, all of whom are independent and non-executive Directors.

The responsibilities of the Audit Committee include the following:

1. Provide an open avenue of communication between the independent auditor, internal auditor and the Board.
2. Meet at least six times every year, or more frequently as circumstances require. The audit committee may ask members of the management or others to attend meetings and provide pertinent information as necessary.
3. Confirm and assure the independence of the independent auditor and objectivity of the internal auditor.
4. Appoint, compensate and oversee the work of the independent auditor (including resolving disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.

5. Review and pre-approve all related party transactions in the Bank. For this purpose, the committee may designate one member who shall be responsible for pre-approving related party transactions.
6. Review with the independent auditor the co-ordination of audit efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of all audit resources.
7. Consider and review the following with the independent auditor and the management:
   - The adequacy of internal controls including computerized information system controls and security, and
   - Related findings and recommendations of the independent auditor and internal auditor, together with the management's responses.
8. Consider and if deemed fit; pre-approve all non-auditing services to be provided by the independent auditor to the Bank. For the purpose of this clause, "non-auditing service" shall mean any professional services provided to the Bank by the independent auditor, other than those provided to the Bank in connection with an audit or a review of the financial statements of the Bank and includes (but is not limited to):
   - Book-keeping or other services related to the accounting records of financial statements of the Bank.
   - Financial information system design and implementation.
   - Appraisal or valuation services, fairness opinions, or contribution-in-kind reports.
   - Actuarial services
   - Internal audit outsourcing services.
   - Management functions or human capital.
   - Broker or dealer, investment advisor, or investment banking services.
   - Legal services and expert services unrelated to the audit, and
   - Any other service that the Board of Directors determines impermissible
9. Review and discuss with the management and the independent auditor, the annual audited financial statements, and quarterly audited / unaudited financial statements, including the Bank's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" prior to filing the Bank's Annual Report on Form 20-F and Quarterly Results on Form 6-K, respectively with the SEC.
10. Direct the Bank's independent auditor to review before filing with the SEC the Bank's interim financial statements included in Quarterly Reports on Form 6-K, using professional standards and procedures for conducting such reviews.
11. Conduct a post-audit review of the financial statements and audit findings, including any significant suggestions for improvements provided to management by the independent auditor.
12. Review before release, the unedited quarterly operating results in the Bank's quarterly earnings release.
13. Oversee compliance with the requirements of the SEC and SEBI, as the case may be, for disclosure of auditor's services and audit committee members, member qualifications and activities.
14. Review, approve and monitor the code of ethics that the Bank plans for its senior financial officers.
15. Review management's monitoring of compliance with the Bank's standards of business conduct and with the Foreign Corrupt Practices Act.
16. Review, in conjunction with counsel, any legal matters that could have significant impact on the Bank's financial statements.

17. Provide oversight and review, at least annually, of the Bank's risk management policies, including its investment policies.
18. Review the Bank's compliance with employee benefit plans.
19. Oversee and review the Bank's policies regarding information technology and management information systems.
20. If necessary, institute special investigations with full access to all books, records, facilities and personnel of the Bank.
21. As appropriate, obtain advice and assistance from outside legal, accounting or other advisors.
22. Review its own charter, structure, processes and membership requirements.
23. Provide a report in the Bank's proxy statement in accordance with the rules and regulations of the SEC.
24. Establish procedures for receiving, retaining and treating complaints received by the Bank regarding accounting, internal accounting controls or auditing matters and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
25. Consider and review the following with the management, internal auditor and the independent auditor:
    - Significant findings during the year, including the status of previous audit recommendations.
    - Any difficulties encountered during audit work including any restrictions on the scope of activities or access to required information and
    - Any changes required in the planned scope of the internal audit plan.
26. Report periodically to the Board on significant results of the foregoing activities.

Shareholders' Grievance Committee

The Shareholders' Grievance Committee comprises Mr. A. H. Manekia (Chairman), Mr. Gautam Vir and Mr. Amir A. Sabuwala.

The Shareholders' Grievance Committee has to:

a) periodically review status of complaints from shareholders vis-à-vis their redressal;

b) ensure the adequacies of control systems for recording the complaints and disposal thereof; and

c) recommend to the Board appropriate periodic intervals as it may deem fit.

Nomination Committee

The Nomination Committee of the Board comprises Mr. Anuroop Singh (Chairman), Mr. Nasser Munjee, Mr. Amin Manekia and Mr. Amir Sabuwala.

The Nomination Committee discharges the following functions:

a) set up the parameters of induction of individuals as Board Nominees;

b) deciding the number of wholetime Directors;

c) undertaking due diligence of the Directors;

d) set out the parameters of remuneration and rewards of Wholetime Directors;

e) setting out the budget of annual payment to wholetime Directors;

f) set out the policy on payments to part time independent directors;

g) recommend to the Board, on appointment, remuneration terms, etc. of Key Managerial Personnel; and;

h) maintain the records of Directors for monitoring the tenure as permissible under applicable laws and recommending to the Board to substitute at the appropriate time.

Executive and Credit Committee

The Executive and Credit Committee comprises Mr. Amin Manekia (Chairman), Mr. Nasser Munjee and Mr. Gautam Vir.

The Executive and Credit Committee discharges the following functions:

Credit Issues

a) Sanctioning of loans / advances and investments beyond the powers delegated by the Credit Committee.

b) Review of developments in key industrial sectors and impact of the Monetary Policies announced by the RBI from time-to-time.

c) Any other matter delegated by the Board.

Non- Credit Issues

a) Reviewing the Managing Director's monthly report;

b) Reviewing the funds position of the Bank;

c) Sanctioning of loans/advances and investments beyond delegated powers of Credit Committee

d) Approving and one Time Settlement cases in Non-Performing Loans

e) Approving expenditure, both of capital and revenue nature that is over and above the Managing Director's authority.

f) Opening, closing, etc of Bank Accounts

g) Purchase/Sale of Property

h) Any other matter delegated by the Board

Fraud Reporting and Monitoring Committee

The Fraud Reporting and Monitoring Committee comprises Mr. Narayan Seshadri (Chairman), Mr. Gautam Vir, Mr. Shabir Kassam, Ms. Nasim Devji and Mr. Rajab Momin.

It reviews all frauds over Rs.10 million.

Customer Service Committee

The Customer Service Committee comprises Mr. Gautam Vir (Chairman), Mr. Amin Manekia and Mr. Amir Sabuwalla.

The terms of reference to the Customer Service Committee are:

a) Enhancing the quality of customer service and improving the level of customer satisfaction for all categories of clientele at all times;

b) Overseeing the function of the standing committee on customer service.

Risk Management Committee

The Risk Management Committee comprises Mr. Narayan Seshadri (Chairman), Mr. Gautam Vir, Mr. Shabir Suleman Kassam, Ms. Nasim Devji and Mr. Rajab Momin

The functions of the Risk Management Committee are:

a) Reviewing the minutes of the various 'Committees of Executives', namely the Operational Risk Committee, Asset Liability Committee and Credit and Risk Management Committee and IT, through the review of their minutes and any issues that requires the attention of the Board;

b) Managing effectively the risk profile of the Bank; and

c) Monitoring the progress of all litigations.

IPO Committee

The IPO committee comprises Mr. Nasser Munjee, Chairman, Mr. Amin Manekia, Mr. Narayan Seshadri, Mr. Gautam Vir, MD & CEO.

The functions of the IPO committee are as follows:

a) Decide on the timing and all the terms and conditions of the issue(s) of the Equity Shares, the number of Equity Shares, the price including premium, the amount to be paid on application, allotment, calls and interest to be charged on calls in arrears, as may be deemed appropriate by the Committee subject to the approval of the concerned authority(ies), if and to the extent necessary, and to accept any amendments, modifications, variations or alterations thereto;

b) Alter, vary, add or delete any of the terms and conditions of the Issue and to accept such amendments, modifications, variations and alterations as the Securities and Exchange Board of India, the stock exchanges, the Company's solicitors and/or any other concerned authorities may stipulate in that behalf;

c) Appoint and enter into arrangements with lead managers to the Issue, co-managers to the Issue, underwriters to the Issue, stabilizing agent, legal advisors, depository, custodian, registrars, printers, paying, transfer and conversion agents, listing agents, trustees, advertising agency and any other agencies or persons;

d) Pay commission, fees, remuneration, expenses and/or any other charges to the above agencies/persons and to give them such directions or instructions as it may deem fit from time to time;

e) Finalise the budget for expenses of the Issue;

f) Incur expenses including the statutory payments/deposits in relation to/connected with the issue(s) as may be appropriate;

g) Finalise the Draft Red Herring Prospectus, Red Herring Prospectus, Prospectus, letters of offer, offer documents, application forms and any other document(s) in respect of the Issue;

h) Finalise the opening and closing date(s) including earliest closing date of the Issue;

i) Make application(s) to one or more stock exchange(s) in India for listing of the equity shares of the Company and to execute and deliver or arrange the delivery of Listing Agreement(s) or equivalent documentation to the concerned stock exchange(s);

j) Negotiate, finalise and settle and to execute and deliver or arrange the delivery of the Draft Red Herring Prospectus, the Red Herring Prospectus and the Prospectus, Memorandum of Understanding with the book running lead managers and the Registrar, the Escrow Agreement, the Syndicate Agreement, Subscription Agreement, Underwriting Agreement, Agency Agreements, Stabilising Agency Agreement and all other documents, deeds, agreements and instruments;

k) Issue offer document(s) and execute all such deeds, documents and writings as may be necessary in connection with such issue(s);

l) Decide the quantum of allotment in case of oversubscription and consider and approve applications in respect of the issue and to allot to the subscribers whose applications have been approved, in accordance with the provisions of the Companies Act, 1956, the Memorandum and Articles of Association of the Company and the issue document, in consultation with the concerned Stock Exchange(s), the book running lead managers and other regulatory authorities, to the extent necessary;

m) Dispose of the balance unsubscribed portion of the Issue, if any, to any person(s) or institution(s) as it thinks most beneficial to the Company, subject to such regulations, if any, as may be applicable;

n) Empower such persons as it may deem fit (including persons who are not employees of the Company) to sign the certificates;

o) Appoint any Company or agency to accept service of any process in connection with the issue of Securities;

p) Appoint escrow collection bankers and bankers to the issue and open such account(s) in such manner, with them as the Committee may deem fit;

q) Empower any officer(s) of the Company to operate on behalf of Development Credit Bank Limited, the bank account(s) that may be opened with any bank(s) in India for and in connection with the issue;

r) Take all such actions and give all such directions as may be necessary or desirable and also to settle any question or difficulty or doubts that may arise in regard to the creation, offer, issue and allotment of the Equity Shares of Development Credit Bank Limited;

s) Do all such acts, deeds, matters and things and to execute all such deeds, documents and writings as may be necessary in connection with such borrowings and if required the Common Seal of Development Credit Bank Limited be affixed thereto in the presence of any one Director and Chief Financial Officer or Mr H.V.Barve, Company Secretary, who do sign the same in token thereof;

t) Delegate any of the above power(s) to any person and/or employee of the Company individually or as Committee of such persons/employees, on such terms and conditions as it may deed fit and revoke and substitute such delegation as permitted by the regulatory authorities, the Companies Act, 1956; and

u) Execute Powers of Attorney in favour of any Director/employee of the Company or any other person authorising each of them severally to execute any document(s) or writing(s) on behalf of Development Credit Bank Limited in respect of any of the matters specified above in such form and manner as may be finalized by the Committee and the Common Seal of Development Credit Bank Limited be affixed to such Power of Attorney in the presence of any one Director and, Chief Financial Officer or Company Secretary, who do sign the same in token thereof."

Shareholding of the Directors

The Articles of Association of the Bank do not require the Directors to hold any qualification shares in the Bank. The list of Directors holding Equity Shares and the number of Equity Shares held by each of them as of September 11, 2006 is set forth below:

Shareholders	No. of Equity Shares held
Mr. Amin Manekia	16,303
Mr. R.A. Momin	9241
Mr. A.A. Sabuwala	5180
Mr. Nasser Munjee	326
Total	**31,050**

Interest of Directors

All Directors of the Bank may be deemed to be interested to the extent of fees, if any, payable to them for attending meetings of the Board or a Committee thereof as well as to the extent of other remuneration, reimbursement of expenses payable to them under the Articles of Association. The Directors are interested to the extent of remuneration paid to them for services rendered by them as officers or employees of the Bank. All the Directors of the Bank may also be deemed to be interested to the extent of Equity Shares, if any, already held by them or their relatives in the Bank, or that may be subscribed for and allotted to them, out of the present Issue in terms of the Red Herring Prospectus and also to the extent of any dividend payable to them and other distributions in respect of the said Equity Shares.

The Directors may also be regarded as interested in the Equity Shares, if any, held by or that may be subscribed by and allotted to the companies, firms and trust, in which they are interested as Directors, members, partners or trustees. See the section titled "Management–Remuneration of Directors" on page 120 of this Red Herring Prospectus.

Borrowing Powers of the Board

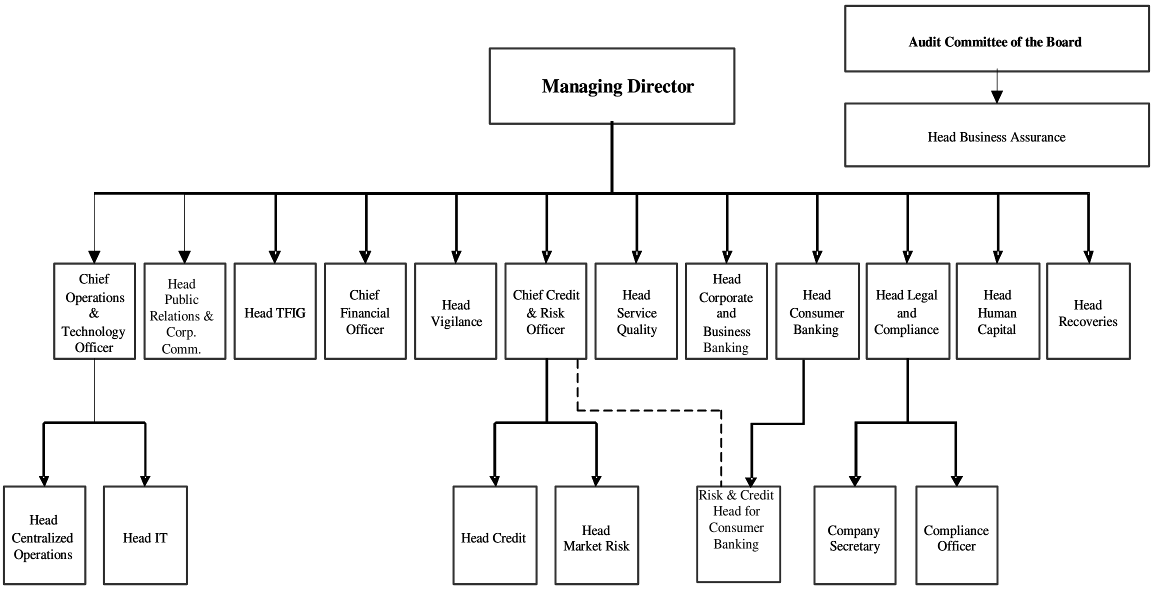
The Articles of Association of the Bank authorise the Board to borrow moneys and secure the payment of such sum or sums in such manner and upon such terms and conditions in all respects as it thinks fit. See section titled "Main Provisions of the Articles of Association" on page 254 of this Red Herring Prospectus. At the general meeting of the Bank held on September 30, 2003, the shareholders authorised the Board to borrow sums up to a limit of Rs. 5000 million.

Changes in the Board of Directors during the Last Three Years

The changes in the Board of Directors during the last three years are as follows:

Name	Date of Appointment	Date of Cessation
Mr. John Harris	January 23, 2004	-
Mr. S.H.Karim	-	January 23, 2004
Mr. J.N. Maredia	-	September 30, 2004
Mr. M.R. Prasla	-	September 30, 2004
Mr. H.B. Rajan	-	September 30, 2004
Mr. Narayan Seshadri	September 30, 2004	-
Mr. A.K. Dhuka	September 30, 2004	-
Mr. M.M. Furniturewala	September 30, 2004	-
Mr. A.H. Dossani	-	November 30, 2004
Mr.H.A.Dossani	-	November 30, 2004
Mr.S.V. Khoja	-	November 30, 2004
Dr.H.A.Kajani	-	November 30, 2004
Mr.A.H. Merchant	-	November 30, 2004
Mr.N.S. Maknojia	-	November 30, 2004
Mr. H.G. Rahimtoola	-	November 30, 2004
Ms. Nasim Devji	January 13, 2005	-
Mr. R.A. Momin	January 13, 2005	-
Mr. A.A. Sabuwala	January 13, 2005	-
Dr. Vijay Kelkar	January 13, 2005	-
Mr. Anuroop Singh	January 13, 2005	-
Mr. A.K. Dhuka	-	March 9, 2005
Mr. H.V. Seshadri (as MD and CEO)	-	March 13, 2005
Mr. Nasser Munjee	June 29, 2005	-
Dr.N.I. Padamsee	-	August 12, 2005
Mr. Gautam Vir (as MD and CEO)	September 13, 2005	-
Mr. M. Furniturewala	-	December 19, 2005
Mr. Iain Cheyne	-	December 31, 2005
Mr. John Harris	-	December 30, 2005
Mr. Shabir Suleman Kassam	January 10, 2006	-

Corporate Organisation Structure of the Bank



Key Managerial Personnel of the Bank

The details of the key managerial personnel who are in employment of the Bank as permanent employees are as follow:

Mr. Gautam Vir, 50, is the Managing Director and Chief Executive Officer of the Bank. He joined the Bank on September 13, 2005. For a brief profile of Mr. Vir, refer to the paragraph titled "Brief Profile of the Directors" on page 117 of this Red Herring Prospectus. Prior to joining the Bank he was with Hebros Bank, Sofia. His remuneration during the year 2005-2006 was was Rs. 6.28 million.

Mr. Harihar Krishnamoorthy, 44, is the Head - Treasury of the Bank. He holds a B.Com degree., is a A.C.A., and is also CAIIB. He joined the Bank on December 21, 2001. He has over 22 years of experience in the banking industryin banks such as the Standard Chartered Bank and immediately prior to joining the Bank Commerz Bank. His remuneration during the year 2004-2005 was Rs. 8.59 million.

Mr. D K Vasal, 50, is Head -Legal & Compliances of the Bank. He holds B.Com, LLB, CAIIB degrees. He has headed the legal departments of new generation private sector banks like the Times Bank Limted and Standard Chartered Bank for ten years. Prior to joining the Bank on December 10, 2005, he was Head Legal Counsel of Vedanta Resources Plc (Sterlite Group). His remuneration during the year 2005-2006 was Rs. 1.59 million

Mr. R Venkattesh, 38, is Head- Human Capital of the Bank. He holds B.Com, post graduate in Personnel Management (MBA) . Prior to joining the Bank on December 15, 2005, he was with Standard Chartered Bank as the Head Human Reources Group Country -HR.He has over 15 years of experience in the area of human resource management and mergers and acquisition. His remuneration during the year 2005-2006 was Rs. 1.70 million.

Mr. Pravin Batra, 44, is Head – Corporate & Business Banking. He holds a B.E degree and has also done his MMS. He joined the Bank on January 3, 2006. He has 17 years experience in Citibank NA in India and overseas in various capacities. Prior to joining the Bank he was with Indusind Bank as Senior Vice President & Head Corporate Banking. His remuneration during the year 2005-2006 was Rs. 6.09 million.

Mr. P N Vasudevan, 43, is Head - Consumer Banking. He holds a B.Sc degree and is also an Associate Company Secretary and a law graduate. He joined the Bank on January 18, 2006 He has 19 years of experience with Cholamandalam Investment & Finance Co Ltd where he last worked as Vice President- Financial Services Group. His remuneration during the year 2005-2006 was Rs. 1.62 million.

Mr. Parag Patankar, 38, is the Chief Operations and Technology Officer. He joined the Bank on January 16, 2006. He is a B.Tech from IIT Kanpur and holds a Post Graduate Diploma in Management from IIM Ahmedabad. He has 14 years experience in various organizations like ICICI Bank where he was Sr. Vice President Personal Financial Services Group and also Sr. Vice President Retail Technology Group of 3i Infotech (formerly ICICI Infotech). Prior to joining the Bank he was Director, CIO & Business Head in Apnaloan.com India Pvt Ltd. His remuneration during the year 2005-2006 was Rs. 1.87 million.

Mr. Adil Kasad, 40, is the Chief Financial Officer of the Bank. He joined the Bank on May 16, 2006. He is a CA, ICWAI, CS and also has law degree. He has over 20 years experience and has served in companies including A.F.Ferguson & Co, Merind Ltd., (JV of Merck Sharp & Dohme, USA & Tata), TATA Donnelley Ltd (JV of TATA & R R Donnelley, USA), JBS Steel Products limited (JV of British Steel and Jindal Iron & Steel Co Ltd), Accenture India (formerly Andersen Consulting). The last position he held was Senior Vice President and CFO in Countrywide Financial Corporation for their Indian Operations (BPO & IT Services). He was not an employee of the Bank during the last FY.

Mr. Susheel Narain Kak, 52, is Chief Credit & Risk Officer. He joined the Bank on September 15, 2006. He is a graduate in Arts and Law. He has over 30 years of experience and has served with the State Bank of India, Deutsche Bank AG, and IDBI Bank. The last position he held was Head- Corporate Bank Commercial Banking SBU, with IDBI Ltd. He was not an employee during the last FY.

Mr. Hariharan Iyer, 44, is the Head - Business Assurance of the Bank.. He holds a B.Com. degree and is also an ACA. He joined the Bank on August 23, 2004. He has over 18 years of experience in the banking field including being the auditor of banks such as the American Express Bank and Bahraini Saudi Bank, Baharain. Prior to joining the Bank he was practising as a Chartered Accountant. His remuneration during the year 2005-2006 was Rs.2.17 million.-

Mr. Gautam Gan, 52, is the Head – Branch Banking of the Bank. He holds an MA (English) degree. He has over 31 years of experience in various private sector banks including HDFC Bank Limited, Standard Chartered Bank and IDBI Bank Limited. Prior to joining the Bank on November 19, 2005, he was with Deutsche Bank as Vice President. His remuneration during the year 2005-2006 was Rs. 0.86 million

Mr. Joseph Anthony Fernando, 43, is the Head- Investment Services & Capital Markets. He is a M.Com and a CAIIB-I degrees. He joined the Bank on December 12, 2005. Prior to joining the Bank he was with Deutsche Bank, AG and also IDBI Bank Limited and Standard Chartered Bank. His remuneration during the year 2005-2006 was Rs. 0.95 million.

Mr. Paresh Nayar, 41, is Chief Dealer-Forex. He is B.A (Hons) and a CAIIB. He joined the Bank on April 18, 2002 and has 18 years of experience in various banks like Societe Generale, Canara Bank, State Bank of India and CommerzBank. The last position he held was Vice President Treasury & Finance in AGEE Gold Refinery His remuneration during the year 2004-2005 was Rs. 3.90 million.

Mr. Pio Leo Fernandes, 45, is Head –Recoveries of the Bank. He joined the Bank on December 21, 2005. He is a B.Sc, and a CAIIB, and also holds a diploma in financial services management. He has over 26 years of experience and has served in the Bank of Maharashtra Limited, and IndusInd Bank. The last position held by him was Assistant Vice President Asset Management in IndusInd Bank. He was handling a portfolio size of around Rs.6000 million mainly in written off accounts while serving in IndusInd Bank. His remuneration during the year 2005-2006 was Rs. 0.57 million.

Mr. Ashokumar B.Kurup, 36, is Head – Service Quality. He joined the Bank on May 02, 2006. He is B.E (Machine Tool) and also holds Diploma in Finance. He has over 12 years experience and has served in KPMG & Eserve. The last position he held was Sr. Manager (MBB) in Prudential Process Management Services India Pvt.Ltd. He was not an employee of the Bank in FY 2005-2006.

Mr. V.L.Ramakrishnan, 37, is Risk & Credit Head for Consumer Banking. He joined the Bank on July 06, 2006. He is B.Com, ACA & ACS. He has over 13 years experience and has served Modi Zerox, Cholamandalam, GE Capital etc. The last position he held with GE Capital Services India was AVP – Risk South & East. He was not an employee of the Bank during the last FY.

Mr. Ajit Choudhary, 41, is Chief Technology Officer. He joined the Bank on July 11, 2006. He is a MBA and also a CISA holder. He has over 16 years experience and has served Canara Bank, ICICI Bank, ING Vysya etc. The last position he held was Head - Business Solutions Group with First Gulf Bank, Abu Dhabi. He was not an employee of the Bank during the last FY**.**

Mr. Indranil Sarkar, 39, is Head- Corporate Business Banking Group- Mumbai. He joined the Bank on April 24, 2006. He is a BS(Mechanical Engineering) and has also done his MBA in Finance from IIM, Ahmedabad. He has over 17 years experience and has served with CITI Bank, ABN Amro Bank, Haldia Petrochemicals Ltd etc. The last position he held was as Head of Strategy & Corporate Finance with Crest Animation Studios. He was not an employee of the Bank during the last FY.

Ms. Parool Seth, 40, is Head- Products- Corporate Business Banking. She joined the Bank on August 7, 2006. She is a B.Com graduate and has also passed her Intermediate ICWA. She has over 12 years of experience and has served with HSBC. The last position she held was Manager- Treasury Sales with Barclays Group, Mumbai. She was not an employee of the Bank during the last FY.

All the Key Managerial Personnel of the Bank as listed above are the permanent employees of the Bank as on the date of filing of the Red Herring Prospectus.

Shareholding of the Key Managerial Personnel

None of the Key Managerial Personnel hold any shares in the Bank. However, some of the Key Managerial Personnel have been granted options under the ESOP scheme. For details please refer page 28 of this Red Herring Prospectus.

Changes in the Key Managerial Personnel during the last three years

The changes in the key managerial personnel in the last three years are as follows:

Name	Designation	Date of Joining	Date of Cessation	Reasons
Mr. Manoj Bhalla	Head – Corporate Banking	January 16, 2002	December 31, 2004	Resignation
Mr. T.S.Easwaran	Head - Credit & Risk	March 28, 2002	March 19, 2005	Resignation
Ms. Archana Shiroor	Head – Human Resources	April 8, 2002	March 7, 2005	Resignation
Mr. Mahesh Ramamoorthy	Chief Technology Officer	June 6, 2003	May 10, 2005	Resignation
Mr. D.A.Muljiani Superannuation	Head – Shared Services	December 1, 1977	November 11, 2005	
Mr. Sandeep Mookerjee	Head- Personal Financial Services	July 10, 2002	December 10, 2005	Resignation
Mr. Yogesh Chadha	Chief Financial Officer	December 10, 2002	April 30, 2006	Resignation
Mr. Bhupendra Jain	Chief Credit & Risk Officer	January 16, 2006	July 17, 2006	Resignation
Mr. Gautam Vir	Managing Director and CEO	September 13, 2005	-	Appointment
Mr. Gautam Gan	Head –Branch Banking	November 19, 2005	-	Appointment
Mr. D K Vasal	Head – Legal & Compliance	December 10, 2005	-	Appointment
Mr. Venkattesh	Head – Human Capital	December 15, 2005	-	Appointment
Mr. Pio Leo Fernandes	Head –Recoveries	December 21, 2005	-	Appointment

Name	Designation	Date of Joining	Date of Cessation	Reasons
Mr. Joseph Anthony Fernando	Head- Investment Services & Capital Markets	December 12, 2005	-	Appointment
Mr. Pravin Batra	Head – Corporate & Business Banking	January 2, 2006	-	Appointment
Mr. Parag Patankar	Chief Operations & Technology Officer	January 16 ,2006	-	Appointment
Mr.P.N.Vasudevan	Head – Consumer Banking	January 18 ,2006	-	Appointment
Mr. Indranil Sarkar	Unit Head and Sr. Relationship Manager	April 24, 2006	-	Appointment
Mr. Adil Kasad	Chief Financial Officer	May 16, 2006	-	Appointment
Mr. Ashokumar B. Kurup	Head – Service Quality	May 2, 2006	-	Appointment
Mr. V.L.Ramakrishnan	Risk & Credit Head for Consumer Banking	July 06, 2006	-	Appointment
Mr. Ajit Choudhary	Chief Technology Officer	July 11, 2006	-	Appointment
Ms Parool Seth	Corporate Banking – Product Head	August 7, 2006	-	Appointment
Mr. Susheel Narain Kak	Chief Credit and Risk Officer	September 15, 2006	-	Appointment

The Bank has no profit sharing plan for its employees.

PROMOTER AND GROUP COMPANIES

The Promoter

The Bank's Promoter is the Aga Khan Fund for Economic Development S.A. ("**AKFED**"), a limited liability company incorporated in 1984 under the laws of Switzerland. The Promoter invested in the Bank as an OCB up to 2003, and thereafter as a foreign registered body. It made the first equity investment in the Bank in 1996 pursuant to the scheme of conversion of the Bank and was issued further shares in six allotments. Currently, the Promoter holds 58.43% of the pre-issue paid up equity share capital. It is intended that the Promoter will hold 30.13% of the fully diluted post-issue paid up equity share capital of the Bank.

Under the Guidelines on Ownership and Governance in Private Sector Banks dated February 28, 2005 issued by the RBI, where any existing shareholding by any individual entity/group of related entities is in excess of 10 per cent, the bank will be required to indicate a time table for reduction of holding to the permissible level. Accordingly, the Bank is currently devising a strategy or roadmap for reduction of their holdings to the permissible level, and has already initiated the dilution process. As a first step towards such dilution, the Promoter has reduced its holding from 68.9% to 58.43% by way of expansion of the Bank's capital by way of the preferential issue to a clutch of investors on February 17, 2006 (For further details, please refer to page 21 of the Red Herring Prospectus). The next step in this dilution is the proposed Issue, due to which the Promoter's holding will come down from the existing 58.43% to 30.13% after allotment of shares in the IPO. The Promoter is also actively considering further steps to be taken to reduce its holding to the permissible levels, and will achieve such dilution in a manner that is compliant with the applicable SEBI and RBI regulations in this respect.

AKFED, a part of the Aga Khan Development Network ("**AKDN**"), is a for-profit international development fund engaged in promoting entrepreneurship and building economically viable enterprises in developing countries. Founded, controlled and guided by His Highness the Aga Khan, the Aga Khan Development Network ("**AKDN**") brings together a number of development agencies, institutions and programmes that work primarily in the poorest parts of Asia and Africa.

AKFED operates in five broad sectors: financial services; industry and infrastructure; tourism development; media and aviation. The AKFED Board is chaired by His Highness the Aga Khan and includes the following directors:

Prince Amyn Aga Khan

Prince Rahim Aga Khan

Maître André Ardoin

Ms. Béatrice Martin

Mr. Anwar Poonawala.

Mr. Sultan Allana

Financial Performance

The brief financial details of AKFED for the last three financial years ending December 31, are as under:

(In million of CHF)

Particulars	**December 31, 2005**	**December 31, 2004**	**December 31, 2003**
Gross Revenue	31.9	22.9	13.7
Profit after tax*	(8.4)	6.4	1.8
Equity share capital;	175.0	175.0	175.0
General Reserves & Retained Earnings	6.4	14.8	8.4
Total Assets	**850.3**	**614.0**	**343.7**

**For the year ended December 31, 2005 Profit After Tax includes CHF 12.5 million unrealized exchange loss.*

The equity shares of AKFED are not listed. AKFED has not promoted any other company in India. AKFED has no subsidiaries that are material to the Bank. AKFED has no interest in the business of the Bank other than their role as the promoters.

Platinum Jubilee Investments Limited

Platinum Jubilee Investments Limited ("**PJI**"), which holds 3.22 % of the shares of the Bank, is 39.67% owned by His Highness the Aga Khan

Shareholding Pattern

As of September 11, 2006, Indian Public, Directors and Promoters held 60.31%, 0.02% and 39.67% of shareholding of PJI respectively.

Board of Directors

As on September 11, 2006, Mr. R.A. Momin, Mr.N.B. Hirani, Mr.A.K. Jalia and Mr.S.K. Ukani constitute the Board of Directors of PJI.

Financial Performance

The brief financial details of PJI for the last three financial years are as under:

(Rs. In million)

Particulars	March 31, 2005	March 31, 2004	March 31, 2003
Total income	4.02	5.97	9.05
Profit after tax	2.23	3.13	4.47
Equity share capital;	3.68	3.68	3.68
Reserves	116.20	115.08	111.71
Total assets	120.27	119.08	115.65
Earnings per share (EPS)	3.05	9.15	12.11

Audited March 31, 2006 financials have not been disclosed as they are under audit.

Aga Khan Rural Support Programme (India) ("AKRSP")

The AKRSP, a company registered under Section 25 of the Companies Act, 1956, is limited by guarantee. The members and the amounts guaranteed by them are as follows:

Guarantor	Amount guaranteed (Rs. in Million)
Platinum Jubilee Investments Ltd	25,000.00
Chairman, Aga Khan Eduction Services, India	500.00
Chariman, Aga Khan Health Services, India	500.00
Chairman, Aga Khan Foundation, Geneva	500.00

Board of Directors

As on September 11, 2006, Mr. Nasser M. Munjee, Ms. Ela R. Bhatt, Ms. Madhu Sarin, Dr. David Nygaard, Dr. Naushad I. Padamsee, Mr. Deep C Joshi and Mr. Anwar Ali Baddrudin Rayani constituted the Board of Directors of AKRSP.

Financial Performance

The brief financial details of AKRSP for the last three financial years are as under:

(Rs million)

Particulars	March 31, 2006	March 31, 2005	March 31, 2004
Total income	168.626	139.699	135.435
Profit after tax	-1.541	1.416	0.095
Equity share capital	Not Applicable	Not Applicable	Not Applicable
Reserves	122.872	120.385	115.968
Total assets	149.122	146.635	142.218
Earnings per share (EPS)	Not Applicable	Not Applicable	Not Applicable

DIVIDEND POLICY

The declaration and payment of dividend will be recommended by the Board of Directors and approved by the shareholders of the Bank., at their discretion, and will depend on a number of factors, including but not limited to the Bank's profits, capital requirements and overall financial condition, and shall be subject to section 15 of the Banking Regulation Act, 1949, and the guidelines issued by the RBI from time to time including guidelines on declaration of dividend issued under circular RBI/451/ 2005 DBOD.NO.BP.BC.88/21.02.067/2004-05 dated May 4, 2005. The Board of Directors may also from time to time pay interim dividend.

For further details on restrictions on dividend declaration, see the section titled "Regulations and Policies – Restrictions on Payment of Dividend" on page 104 of this Red Herring Prospectus.

The dividends declared by the Bank during the last five years have been presented below.

(Rs. in million)

Particulars	**Audited Years ended 31st March**				
	FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**
Face Value of Equity Shares (Rs. Per Share)	10.00	10.00	10.00	10.00	10.00
Interim Dividend on Equity Shares	34.47	36.66	Nil	Nil	Nil
Final Dividend on Equity Shares	34.47	36.66	43.71	Nil	Nil
Total Dividend on Equity Shares	68.94	73.32	43.71	Nil	Nil
Dividend rate (%)	30%	30%	15%	N.A.	N.A.
Dividend tax	3.52	4.7	5.6	N.A.	N.A.

However, the amounts as dividends in the past are not necessarily indicative of the Bank's dividend amounts, if any, or the Bank's dividend policy, in the future. Future dividends will depend on the Bank's revenues, profits, cash flow, financial condition, capital requirements and other factors.

SECTION 5 : FINANCIAL INFORMATION

May 16, 2006

AUDITORS' REPORT

The Board of Directors
Development Credit Bank Limited
Mumbai
Maharashtra

Dear Sirs,

We have been engaged to examine and report on the financial information of Development Credit Bank Limited (the Bank), which has been prepared in accordance with the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000, issued by the Securities and Exchange Board of India (SEBI) in pursuance of Section 11 of the SEBI Act, 1992, (the SEBI Guidelines). The preparation and presentation of this financial information is the responsibility of the Bank's management. This financial information is proposed to be included in the offer document of the Bank in connection with its proposed Public Issue of Equity Shares.

1. For our examination, we have placed reliance on the following:

   a) The financial statements of the Bank for the financial years ended on March 31, 2001, 2002, 2003 and 2004 which were audited and reported upon by the respective auditors for the respective years, names of whom and the year covered by their audit are furnished below:

Year	Name of the Auditors
2000-2001	M/s. Gokhale & Sathe.
2001-2002	M/s. Habib & Co.
2002-2003	M/s. Habib & Co.
2003-2004	M/s. Habib & Co.

   b) The financial statements of the Bank for the year ended 31st March, 2005, which were audited jointly by us with M/s. Habib & Co., vide our report dated 29th June, 2005, to the extent that certain areas were exclusively verified by M/s Habib & Co.

2. The audit of the financial statements for the years referred to in paragraph 1 of this report comprised of the audit tests and procedures deemed necessary by the respective auditors for the purpose of expressing an opinion on such financial statements taken as a whole in accordance with generally accepted auditing practices in India.

3. We have performed such tests and procedures, which in our opinion were necessary for the purpose of our examination. These procedures mainly involved comparison of the attached financial information with the Bank's audited financial statements for the years 2000-2001 to 2005-2006.

4. We report that the profits / losses of the Bank as restated for the financial years ended March 31, 2001, 2002, 2003, 2004, 2005 & 2006 are as set out in Annexure I. These profits / losses have been arrived at after charging all expenses, including depreciation and after making the adjustments and regroupings as are, in our opinion, appropriate and are subject to the accounting policies, the notes thereon and our comments as stated in foregoing paragraph 4.

5. We report that the assets and liabilities for the Bank as restated as at March 31, 2001, 2002, 2003, 2004, 2005 & 2006 are also as set out in Annexure II, after making such adjustments and regroupings as are, in our opinion, appropriate and are subject to the accounting policies and notes thereon and our comments as stated in foregoing paragraph 4.

6. The financial statements, as referred to in paragraph 1 above, consists of the following:
   (a) Summary statement of Profit and Loss as restated (Annexure – I)
   (b) Summary statement of Assets and Liabilities as restated (Annexure –II)
   (c) Particulars of Adjustments (Schedule to Annexures I & II)
   (d) Notes on Adjustments (Annexure III)
   (e) Summary Statements of Cash Flows as restated (Annexure IV)
   (f) Significant Accounting Policies as at March 31, 2006 (Annexure V)
   (g) Notes to Accounts as at March 31, 2006 as restated (Annexure VI)
7. We report that the rates and amount of dividends declared by the Bank in respect of financial years ended March 31, 2001, 2002, 2003, 2004, 2005 & 2006 are as set out in Annexure VII.
8. We have also examined the following accompanying documents:
   (a) Key accounting ratios as set out in Annexure VIII;
   (b) Capitalisation statement as at March 31, 2006 as set out in Annexure IX;
   (c) Details of unsecured liabilities as set out in Annexure X;
   (d) Statement of tax shelters as set out in Annexure XI.
9. (a) In our opinion, the financial information of the Bank as stated in the preceding paragraphs, read with respective significant accounting policies, after making groupings and adjustments as were considered appropriate and subject to non-adjustment of certain matters as stated in the Annexure III, have been prepared in accordance with the SEBI guidelines.
   (b) In our opinion, the said financial information has been properly extracted from the Bank's audited financial statements for the financial years ended 31st March, 2001, 2002, 2003, 2004, 2005 and 2006 and has been correctly prepared from the financial information as applicable and in accordance with the SEBI Guidelines, subject to consequential effect of non-adjustment of qualifications as described in Annexure III.
11. This report is intended solely for your information and for inclusion in the offer document in connection with the proposed public issue of the shares of the Bank and is not to be used, referred to, or distributed for any other purpose, without our prior written consent.
12. This report should neither in any way be construed as a reissuance or redrafting of any of the previous audit reports issued by us or by other firms of chartered accountants, nor be construed as a new opinion on any financial statements referred to herein.

Yours faithfully,

For **N.M. Raiji & Co.**
Chartered Accountants

(Vinay D. Balse)
Partner
Membership No. 39434

DEVELOPMENT CREDIT BANK LIMITED

Financial Statements

Summary Statement of Profit and Loss Restated

Annexure I

(Rs in million)

			Audited Profit & Loss Statement for the Year ended 31st March (as restated)					
			2001	**2002**	**2003**	**2004**	**2005**	**2006**
A	INCOME							
I	INTEREST EARNED		**3,887.92**	**3,773.82**	**3,584.58**	**3,532.89**	**3,032.18**	**2,771.42**
	I.	Interest/Discount on Advances/Bills	2,121.04	2,339.61	2,098.90	2,109.72	1857.79	1,760.86
	II.	Income on Investments	1,658.89	1,348.74	1,315.28	1,127.71	936.37	870.35
	III.	Interest on balances with Reserve Bank of India and other interbank lending	107.99	85.47	170.40	249.60	238.02	138.70
	IV	Others	0.00	0.00	0.00	45.86	0.00	1.51
2	OTHER INCOME		**487.83**	**958.45**	**731.29**	**883.56**	**912.85**	**802.90**
	I.	Commission, Exchange and Brokerage	201.38	234.25	287.65	293.21	368.61	394.93
	II.	Profit on sale of investments (net)	102.98	656.99	160.41	295.67	155.54	138.96
	III.	Profit/(Loss) on revaluation of investments (net)	0.00	(103.60)	86.49	0.00	0.00	0.00
	IV.	Profit/(Loss) on sale of land, buildings and other assets (Net)	(0.11)	(12.16)	(43.42)	0.71	(1.14)	(0.69)
	V.	Profit on exchange transactions (net)	30.44	52.87	96.62	107.95	100.89	105.88
	VI.	Income earned by way of dividends etc. from Subsidiaries/ Companies/ Joint Ventures in India	0.00	0.00	0.00	0.00	0.00	0.00
	VII.	Lease Income	133.88	112.97	105.46	82.47	76.17	40.50
	VIII.	Miscellaneous Income	19.26	17.13	38.08	103.55	212.78	123.32
	TOTAL INCOME		**4,375.75**	**4,732.27**	**4,315.87**	**4,416.45**	**3,945.03**	**3,574.32**

(Rs in million)

			Audited Profit & Loss Statement for the Year ended 31st March (as restated)					
			2001	**2002**	**2003**	**2004**	**2005**	**2006**
B	**EXPENDITURE**							
I	**Interest Expended**		**3,018.56**	**2,879.20**	**2,878.18**	**2,568.65**	**2,335.20**	**2,019.53**
	I.	Interest on Deposits	2,739.38	2,677.98	2,681.16	2,245.60	2,052.94	1,768.15
	II.	**Interest on Reserve Bank of India/** Inter-Bank borrowings	**192.41**	**183.44**	**159.61**	**164.22**	**188.55**	**215.01**
	III.	Others	86.77	17.78	37.41	158.83	93.71	36.37
II	Operating Expenses		696.53	797.36	985.73	1297.74	1651.11	1,751.45
	I.	Payments to and provisions for employees	276.74	346.34	423.36	553.69	543.40	517.04
	II.	Rent, Taxes and Lighting	58.39	70.06	87.66	123.60	206.48	218.94
	III.	Printing and Stationery	13.62	18.79	29.83	35.66	33.50	26.17
	IV.	Advertisement and Publicity	13.33	9.60	20.65	41.43	31.09	6.73
	V.	Depreciation on Bank's Properties (net of amount adjusted against Revaluation Reserve)	127.54	144.45	156.96	129.89	126.90	78.70
	VI.	Director's Fees, Allowances and Expenses	1.71	8.14	6.22	6.86	11.85	8.84
	VII.	Auditors' Fees and Expenses	3.49	3.49	4.08	3.17	4.09	2.75
	VIII.	Law Charges	3.29	2.34	4.09	8.38	17.32	9.19
	IX.	Postage,Telegrams,Telephones,etc.	13.08	11.70	24.09	44.10	40.56	40.03
	X.	Repairs and Maintenance	21.25	19.16	26.61	26.99	28.02	32.00
	XI.	Insurance	14.56	12.48	16.04	15.45	28.47	34.30
	XII.	Other Expenditure	149.53	150.81	186.14	308.52	579.43	776.76
TOTAL EXPENDITURE			**3,715.09**	**3,676.56**	**3,863.91**	**3,866.39**	**3,986.31**	**3,770.98**
Operating Profit/(Loss) (before Provision & Contingencies)			**660.66**	**1,055.71**	**451.96**	**550.06**	**(41.28)**	**(196.66)**
Less : Provisions & Contingencies (other than Provision for Tax)			277.74	430.95	593.95	1,070.01	688.61	578.40
Profit/(Loss) Before Tax			*382.92*	*624.76*	*(141.99)*	*(519.95)*	*(729.89)*	*(775.06)*
Provision for Tax			97.50	260.00	(44.20)	(88.10)	0.00	30.82
Net Profit/(Loss) after Tax			285.42	364.76	(97.79)	(431.85)	(729.89)	(805.88)
Net Profit/(Loss) for the year / period ended as per Financial Statements			285.42	364.76	(97.79)	(431.85)	(729.89)	(805.88)
Profit/(Loss) Brought Forward			94.96	80.84	104.88	(336.11)	(945.86)	(1,657.54)
Total			**380.38**	**445.60**	**7.09**	**(767.96)**	**(1675.75)**	**(2,463.42)**

(Rs in million)

	Audited Profit & Loss Statement for the Year ended 31st March (as restated)					
	2001	2002	2003	2004	2005	2006
APPROPRIATIONS TRANSFER TO						
a) Statutory Reserve	92.50	85.50	86.50	44.50	0.00	0.00
b) Capital Reserve	0.00	177.20	35.80	59.10	3.75	0.00
c) Revenue and Other Reserves	150.00	2.50	40.00	0.00	0.00	0.00
d) Investment Fluctuation Reserve	0.00	3.00	102.50	25.00	0.00	(130.50)
e) Dividend (including Dividend Tax)	57.04	72.52	78.40	49.30	0.00	0.00
i) Interim Dividend	25.88	34.50	36.70	0.00	0.00	0.00
ii) Proposed Dividend	25.88	34.50	36.70	43.70	0.00	0.00
iii) Tax on Dividend	5.28	3.52	5.00	5.60	0.00	0.00
Transfer to : Unallocated Profit/(Loss)	**80.84**	**104.88**	**(336.11)**	**(945.86)**	**(1679.50)**	**(2,332.92)**
TOTAL	**380.38**	**445.60**	**7.09**	**(767.96)**	**(1675.75)**	**(2,463.42)**
Break up of Miscellanous Income (*)						
Recovery in Bad Debts w/o	1.57	2.64	3.06	74.67	120.75	79.01
Others	17.69	14.49	35.02	28.88	92.03	44.31
Total Miscellanous Income	**19.26**	**17.13**	**38.08**	**103.55**	**212.78**	**123.32**
(*) Items listed here are generally of recurring nature						
Break-up of Provisions and Contingencies						
Provisions for Non Performing Advances (incl. Lease NPA)	160.76	398.41	221.50	605.75	417.75	544.66
Provisions for Standard Advances	10.03	5.50	7.50	0.00	(10.00)	20.00
Depreciation on Investments	104.49	27.04	265.64	404.76	208.56	11.10
Provision for Restructured Standard Accounts	0.00	0.00	0.00	0.00	5.40	(13.30)
Others	2.46	0.00	99.31	59.50	66.90	15.94
Provisions and Contingencies (other than provision for income tax)	**277.74**	**430.95**	**593.95**	**1070.01**	**688.61**	**578.40**
Provisions for Income Tax	97.50	260.00	(44.20)	(88.10)	0.00	30.82
TOTAL	**375.24**	**690.95**	**549.75**	**981.91**	**688.61**	**609.22**

Summary Statement of Assets and Liabilities as Restated

Annexure II

(Rs in million)

			Audited Balance Sheet for the Year ended 31st March (as restated)					
			2001	**2002**	**2003**	**2004**	**2005**	**2006**
(A)	**Assets**							
	1	Cash in Hand	120.63	164.82	258.91	280.30	312.05	197.99
	2	Balance with RBI	1,432.69	2,488.88	2,172.15	2,488.52	1,899.02	1,726.75
	3	Balance with Banks	981.35	1,160.68	1,607.70	1,198.42	1,373.24	1,082.54
	-	In India	664.33	1,038.68	1,250.43	1,088.12	1,065.12	563.52
	-	Outside India	317.02	122.00	357.27	110.30	308.12	519.02
	4	Money at Call and Short Notice	1,650.00	1,050.00	0.00	0.00	0.00	0.00
	5	Investments	12,544.40	12,081.99	12,197.58	20,594.46	18,333.87	12,919.20
	-	In India	12,544.40	12,081.99	12,197.58	20,594.46	18,333.87	12,919.20
	-	Outside India	0.00	0.00	0.00	0.00	0.00	0.00
	6	Advances	20,504.18	22,560.36	24,681.98	25,100.98	21,518.40	18,673.22
	-	In India	20,504.18	22,560.36	24,681.98	25,100.98	21,518.40	18,673.22
	-	Outside India	0.00	0.00	0.00	0.00	0.00	0.00
	7	Fixed Assets	1,485.11	1,402.24	1,311.86	1,241.64	1,164.00	1,071.50
		Less: Revaluation Reserve	273.75	268.76	263.78	258.79	253.80	248.81
		Net Fixed Assets	1,211.36	1,133.48	1,048.08	982.85	910.20	822.69
	8	Other Assets	904.37	1,134.99	1,555.25	2,104.62	1,916.57	1,746.03
	TOTAL - (A)		**39,348.98**	**41,775.20**	**43,521.65**	**52,750.15**	**46,263.35**	**37,168.42**
(B)	**LIABILITIES**							
	1	Deposits	34,304.86	36,917.58	36,570.94	44,741.78	38,947.64	31,239.96
	a	Demand Deposits	2,005.26	2,740.07	2,724.67	3,663.69	3,437.52	4,053.78
	-	From Banks	58.20	23.83	14.07	18.40	20.01	18.51
	-	From Others	1,947.06	2,716.24	2,710.60	3,645.29	3,417.51	4,035.27
	b	Saving Deposits	2,682.22	2,953.96	3,485.68	4,744.72	5,406.23	5,960.76
	c	Term Deposits	29,617.38	31,223.55	30,360.59	36,333.37	30,103.89	21,225.42
	-	Term Deposits from Banks	8,086.12	8,599.27	7,805.55	11,543.59	7,428.86	3,604.00
	-	Term Deposits from Others	21,531.26	22,624.28	22,555.04	24,789.78	22,675.03	17,621.42
	2	Borrowings	972.18	292.48	2,999.22	2,385.79	1,597.71	1,298.01
	-	In India	972.18	214.41	2,524.37	1,926.76	985.28	856.40
	-	Outside India	0.00	78.07	474.85	459.03	612.43	441.61
	3	Other Liabilities and Provisions	1,232.71	1,433.67	1,432.32	2,084.27	2,394.95	1,577.40
	4	Subordinate Debts	0.00	0.00	660.00	1,660.00	1,660.00	1,660.00
	TOTAL - (B)		**36,509.75**	**38,643.73**	**41,662.48**	**50,871.84**	**44,600.30**	**35,775.37**

(Rs in million)

		Audited Balance Sheet for the Year ended 31st March (as restated)					
		2001	**2002**	**2003**	**2004**	**2005**	**2006**
(C)	**NET WORTH (C= A-B)**	**2,839.23**	**3,131.47**	**1,859.17**	**1,878.31**	**1,663.05**	**1,393.05**
	Represented by :						
(D)	Share Capital	229.73	229.73	281.50	393.58	645.79	761.32
(E)	Share Application Money	0.00	0.00	0.00	260.01	9.17	0.00
(F)	**RESERVES AND SURPLUS**						
	1 Statutory Reserve	592.50	678.00	764.50	809.00	809.00	809.00
	2 Capital Reserve	6.99	184.19	219.99	279.09	282.84	282.84
	3 Revaluation Reserve	273.75	268.76	263.78	258.79	253.80	248.81
	4 Investment Fluctuation Reserve	0.00	3.00	105.50	130.50	130.50	0.00
	5 Revenue and Other Reserves	1,460.00	1,462.50	199.30	21.97	0.00	0.00
	6 Balance of Profit & Loss Account	80.84	104.88	(336.11)	(945.86)	(1,657.54)	(2,332.92)
	7 Share Premium	469.17	469.17	624.49	960.72	1,473.99	1,872.81
	TOTAL	2,883.25	3,170.50	1,841.45	1,514.21	1,292.59	880.54
	Less: Revaluation Reserve	273.75	268.76	263.78	258.79	253.80	248.81
	Less: Deferred Tax Asset	0.00	0.00	0.00	30.70	30.70	0.00
	TOTAL - (F)	**2,609.50**	**2,901.74**	**1,577.67**	**1,224.72**	**1,008.09**	**631.73**
	NET WORTH (D+E+F)	**2,839.23**	**3,131.47**	**1,859.17**	**1,878.31**	**1,663.05**	**1,393.05**
(G)	**Contingent Liabilities**						
	1 Claims against the Bank not acknowledged as debts	258.19	136.60	132.93	576.30	847.90	1,081.60
	2 Liability for partly paid investments	0.00	0.00	0.00	0.00	0.00	0.00
	3 Liability on account of outstanding forward exchange contracts	7,631.10	7,413.55	16,696.86	16,983.69	19,902.22	19,530.64
	4 Guarantees given on behalf of constituents:						
	In India	1,680.13	1,826.73	2,699.39	1,796.81	1,944.49	1,995.98
	Outside India	250.02	756.06	980.70	735.47	1,428.30	1,598.48
	5 Acceptances, Endorsements and Other Obligations	2,325.41	3,996.16	3,789.72	3,119.44	5,469.80	4,088.41
	6 Other items for which the Bank is contingently liable	847.52	1,133.90	4,284.21	2,603.88	6,361.25	1,715.15
	TOTAL (G)	**12,992.37**	**15,263.00**	**28,583.81**	**25,815.59**	**35,953.96**	**30,010.26**
	Bills for Collection	2,815.79	3,304.38	2,256.22	4,552.52	5,076.41	4,766.09

Schedule to Annexures I & II

(Rs. in million)

	Restatement effect for the year ended 31st March					
	2001	2002	2003	2004	2005	2006
INCOME						
Interest/discount on advances/bills	0.00	0.00	(8.10)	8.10	91.90	0.00
Income on investments	0.00	(7.85)	0.00	0.00	(67.39)	0.00
Interest on balances with Reserve Bank of India and other interbank lending	0.00	7.85	0.00	0.00	(24.51)	0.00
Miscellaneous Income	0.00	0.00	(134.59)	0.00	0.00	0.00
EXPENDITURE						
Interest on deposits	0.00	(16.12)	0.00	31.77	0.00	0.00
Interest on Reserve Bank of India/Inter-bank borrowings	0.00	0.00	0.00	(31.77)	0.00	0.00
Payments to and provisions for employees	0.00	(4.30)	0.00	0.00	0.00	0.00
Depreciation on bank's property (net of amount adjusted against Revaluation Reserve)	20.34	21.98	0.00	0.00	0.00	0.00
Insurance	3.71	0.00	0.00	0.00	0.00	0.00
Other expenditure	(3.71)	19.62	(2.40)	2.40	0.00	0.00
PROVISIONS						
Credit	0.00	(32.10)	(161.50)	(442.90)	594.26	42.24
Investment (Non SLR)	(35.20)	35.20	(40.00)	(131.40)	166.90	4.50
Investment (SLR)	0.00	0.00	0.00	(76.30)	76.30	0.00
Others	93.08	0.00	(44.80)	42.20	2.60	0.00
Contingents	0.00	0.00	(51.70)	(7.50)	59.20	0.00
ASSET						
Balances with Banks	(18.30)	0.00	0.00	1,342.30	0.00	0.00
Non SLR Investments	35.27	0.00	0.00	0.00	0.00	0.00
Advances	153.17	0.00	8.10	(1,342.30)	0.00	0.00
Fixed Assets	(160.94)	(63.95)	0.00	0.00	0.00	0.00
Other Assets	18.23	(124.49)	0.00	2.40	0.00	0.00
DTA	0.00	0.00	61.60	0.00	0.00	0.00
Other Assets (NBA)	0.00	0.00	44.80	0.00	0.00	0.00
Investment Provisions Non SLR	0.00	0.00	40.00	171.40	0.00	0.00
Investment Provisions SLR	0.00	0.00	0.00	76.30	0.00	0.00

(Rs. in million)

	Restatement effect for the year ended 31st March					
	2001	2002	2003	2004	2005	2006
LIABILITIES						
Borrowings in India	(153.17)	0.00	0.00	0.00	0.00	0.00
NPA Provisions	0.00	32.10	193.60	636.50	42.24	0.00
DTL	0.00	0.00	(61.60)	0.00	0.00	0.00
Other Liabilities	0.00	0.00	2.40	0.20	4.50	0.00
Contingent provisions	0.00	0.00	51.70	59.20	0.00	0.00
RESERVES & SURPLUS						
Revaluation Reserve	47.52	53.84	0.00	0.00	0.00	0.00
Statutory Reserves	0.00	0.00	0.00	0.00	0.00	0.00
Revenue Reserves	0.00	0.00	0.00	0.00	0.00	0.00
Balance in Profit/Loss	0.00	78.22	102.50	(340.60)	(946.00)	(46.74)
CONTINGENT LIABILITIES						
Acceptances & Endorsements	0.00	2,101.34	0.00	(503.97)	0.00	0.00
BRDS	0.00	500.00	0.00	0.00	0.00	0.00
Claim against Bank	0.00	0.00	0.00	137.40	0.00	0.00
Other Items	0.00	0.00	0.00	1,342.31	0.00	0.00
Other Items	0.00	0.00	0.00	503.97	0.00	0.00
Bills for Collection	0.00	(2,101.34)	0.00	0.00	0.00	0.00

Notes on Adjustments

A. Changes in Accounting Policies, Adjustments Relating to previous years, Audit Qualifications and/or incorrect Accounting Policies, effect of which has been quantified and for which Adjustments have been carried out in the Restated Accounts

1. During the year 2002-2003, the bank had changed its policy of providing depreciation on its fixed assets (other than computers and leased assets) from the Written Down Value Method to the Straight Line Method. The write back of Depreciation out of the policy change – Rs.134.60 million which was recognized in that year, has now been reversed in that year and apportioned to the respective preceding years.

2. Where provision for NPAs, made in a particular year, actually related to a preceding year, the accounts have been restated so as to give the effect of the provision to the respective years to which they pertain.

3. Certain Receivables/ Advances amounting to Rs.1342.30 million, which had been securitized and transferred out during the year 2003-2004 were brought back into the books in the year 2004-2005, pursuant to observations made by the RBI in the inspection report. For the purpose of the restated accounts, the securitization transactions have been reversed in the year 2003-2004. Further, provision for NPA, in respect of these Advances, made during the year 2004-2005 – Rs. 343.20 million, have been transferred to the years 2003-2004 and 2002-2003.

4. Pursuant to the guidelines issued by the Reserve Bank of India on February 1, 2006, relating to Securitisation of Standard Assets (RBI No.2005-06/294 DBOD.No.BP.BC.60/ 21.04.048/2005-06 dated February 1, 2006) the Bank has reclassified an amount of Rs.1546.62 millions as at March 31, 2005 from Investment to Advances.

B. Changes in Accounting Policies, Adjustment Relating to previous years, Audit Qualification and/or incorrect Accounting Policies, effect of which has not been quantified and for which Adjustments have not been carried out in the Restated Accounts of the relevant years.

1. In the preparation of the Restated Balance Sheets and Profit and Loss Accounts for the years i.e. 2000-2001 to 2005-2006, any re-grouping of the figures done in a subsequent year has been taken into consideration. However, in the absence of information, such regrouping could not be extended to the preceding years.

2. During the year 2002-2003 the bank changed the method of accounting for leave encashment from the " Pay as you go " basis to one based on actuarial valuation of the liability. The cumulative under provision of Rs. 41.59 million as at April 1, 2002 had been charged to "Revenue and Other Reserves" in that year in accordance with RBI guidelines.

3. The Bank has adopted FEDAI guidelines in respect of translation of items of income, expenditure, assets and liabilities in foreign currency, which is not in accordance with Accounting Standard (AS) -11 (Accounting for the Effects of Changes in Foreign Currency Rates) issued by the Institute of Chartered Accountants of India (ICAI), as complying with FEDAI guidelines was mandatory as per RBI guidelines.

4. Consequent upon adoption of AS-22 issued by the ICAI, effective April 1, 2002, the Bank had, during the financial year 2002-03, recorded the cumulative net deferred tax liability of Rs. 61.60 million upto 31st March 2002, by charging the same to "Revenue and Other Reserves".

5. Commencing from the year 2003-2004 recoveries effected in doubtful assets have been appropriated against principal amount which, hitherto, was first adjusted against unrealized interest income.

6. From June 2004 onwards, the method for determination of cost for securities sold has been changed from an adhoc basis to weighted average cost basis.

C. OTHERS:

1. During the six consecutive financial years ended 31st March 2006, various guidelines were issued by the Reserve Bank of India on Income Recognition, Assets Classification, Provisioning in respect of Standard Assets / Non-Performing Advances, Classification of Investments, Valuation thereof and treatment of depreciation on Investment / Fixed/ Leased assets. Necessary amendments in the accounting policies have been carried out by the Bank in the relevant years, to be in conformity with the Reserve Bank of India guidelines.
2. No adjustments / restatements have been carried out in respect of the following, notwithstanding the change in the figures of profit before tax on account of restatement
   (a) Provision for tax and deferred tax
   (b) Appropriation to profits
3. Necessary adjustments arising from Auditors qualifications wherever quantifiable and material in respect of previous years have been carried out while preparing the Statements of Profit & Loss and Assets & Liabilities.
4. In respect of disputed income tax demands of earlier years in appeal, the Bank had engaged an independent firm of Chartered Accountants for assessing the strength of the Banks case based on the facts and documents available with the Bank and in light of judicial pronouncements. Based on such assessment, no provision has been made in the books of account as the Bank is of the view that the outcome will be in its favor.

Statement of Cash Flow as Restated

Annexure IV

(Rs. in million)

	Audited for the Year ended 31st March (as restated)					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Cash Flow from Operating Activities						
Net Profit/ (Loss) for the Year/ Period	285.42	364.76	(97.79)	(431.85)	(729.89)	(805.86)
Adjustments for:						
Depreciation on Fixed Assets	127.54	144.45	156.96	129.89	126.90	78.70
Depreciation on Investments	104.49	27.04	265.64	404.76	208.56	11.09
Provision for Income Tax	97.50	260.00	(44.20)	(88.10)	0.00	30.82
Loss/(Profit) on Sale of Fixed Assets	0.11	12.16	43.42	(0.71)	1.14	0.69
Provision for Loan Losses	160.76	398.41	221.50	605.75	423.15	531.35
Provision for Non Banking Assets	0.00	0.00	44.80	0.00	59.30	0.00
Provision for Standard Assets	10.03	5.50	7.50	0.00	(10.00)	20.00
Other Provisions	0.00	0.00	0.00	0.00	0.00	15.93
Adjustments for:						
(Increase)/Decrease in Investments	(1,144.75)	435.38	(381.23)	(8,801.65)	305.42	5412.93
(Increase)/Decrease in Advances	(4,283.62)	(2,454.59)	(3,543.12)	(1,202.08)	4285.11	2317.53
(Increase)/Decrease in Other Assets	(77.17)	(26.62)	(449.25)	(520.87)	128.74	310.02
Increase/(Decrease) in Deposits	6,638.64	2,612.70	(346.63)	8,170.82	(5794.14)	(7707.67)
Increase/(Decrease) in Borrowings	(1,072.42)	(679.68)	2,706.72	(613.42)	(788.09)	(299.70)
Increase/(Decrease) in Other Liabilities & Provisions	69.72	(80.00)	12.07	724.96	369.97	(838.83)
Direct Taxes paid	(80.00)	(204.00)	(60.00)	(15.00)	0.00	(123.49)
Net Cash generated from Operating activities (A)	**836.25**	**815.51**	**(1,463.61)**	**(1,637.50)**	**(1413.83)**	**(1046.49)**
Cash flow from Investing activities						
Purchase of Fixed assets	(119.93)	(91.06)	(187.02)	(162.68)	(91.52)	(60.58)
Proceeds from sale of fixed assets	0.14	1.81	30.75	67.90	36.36	24.84
Net Cash Flow from Investing activities (B)	(119.79)	(89.25)	(156.27)	(94.78)	(55.16)	(35.74)
Cash flow from Financing activities						
Proceeds from issue of Capital	254.61	0.00	207.10	708.32	1135.59	514.36
Proceeds from issue of Tier II Capital	0.00	0.00	660.00	1,000.00	0.00	0.00
Payment of Dividend incl Div Tax	(51.70)	(46.55)	(72.84)	(47.56)	(49.52)	0.00
Refund of Share Application Money	0.00	0.00	0.00	0.00	0.00	(9.17)
Net Cash Flow from Financing activities (C)	**202.91**	**(46.55)**	**794.26**	**1,660.76**	**1086.07**	**505.19**
Net Increase/ (Decrease) in Cash & Cash Equivalent (A+B+C)	**919.37**	**679.71**	**(825.62)**	**(71.52)**	**(382.92)**	**(577.04)**
Cash and Cash equivalent at the Beginning of Year	3,265.30	4,184.67	4,864.38	4,038.76	3967.24	3584.32
Cash and Cash equivalent at the end of Year	4,184.67	4,864.38	4,038.76	3,967.24	3584.32	3007.28

Annexure V

1. **<u>SIGNIFICANT ACCOUNTING POLICIES AS ON MARCH 31, 2006</u>**

1.1 <u>ACCOUNTING CONVENTIONS:</u>

The financial statements have been prepared on a Going Concern concept and on the historical cost basis and in accordance with the generally accepted accounting practices and conform to the statutory provisions and practices prevailing within the banking industry in India, except as otherwise stated.

1.2 <u>INVESTMENTS:</u>

1.2.1 The Investment portfolio comprising of approved securities (predominantly Government Securities) and other securities (Shares, Debentures and Bonds etc.) has been classified at the time of acquisition in accordance with the Reserve Bank of India guidelines under three categories viz. **'Held to Maturity', 'Available for Sale'** and **'Held for Trading'**. For the purposes of disclosure in the Balance Sheet, they are classified under five groups viz. Government Securities, Other Approved Securities, Shares, Debentures & Bonds and Other Investments.

1.2.2. <u>Basis of Classification:</u>

Classification of an Investment is done at the time of acquisition into the following categories:

a. <u>Held to Maturity:</u>

These comprise of investments, which the bank intends to hold till maturity.

b. <u>Held for Trading:</u>

Securities which are held for resale within 90 days from the date of acquisition.

c. <u>Available for Sale</u>

Investments which cannot be classified in the above two categories.

1.2.3 **<u>Transfer of Securities between Categories:</u>**

The transfer/shifting of securities between the three categories of investments is accounted for at the lower of acquisition cost/book value/market value on the date of transfer and depreciation, if any, on such transfer is fully provided for.

1.2.4 **<u>Valuation:</u>**

<u>Held for Trading and Available for Sale categories:</u>

Each scrip in the above two categories is revalued at the market price or fair value in accordance with the Reserve Bank of India guidelines and only the net depreciation of each group for each category is recognized in the Profit and Loss Account.

<u>Held to Maturity</u>:

These are carried at their acquisition cost and are not marked to market. Any premium on acquisition is amortized over the remaining maturity period of the security on a straight-line basis.

1.2.5 Non-performing investments are identified and provision is made as per RBI guidelines.

1.2.6 Brokerage, fees, commission and broken period interest incurred at the time of acquisition of securities, including money market instruments, are recognized as expenses.

1.2.7 Cost of investment is determined on the basis of weighted average cost method.

1.2.8 Profit/Loss on sale of investment in any category is taken to the Profit & Loss Account, except in the case of profit on sale of investment in **'Held to Maturity'** category, where the same is appropriated to Capital Reserves.

1.3 ADVANCES:

1.3.1 In pursuance of guidelines issued by the Reserve Bank of India, advances are classified as Standard, Sub-Standard, Doubtful and Loss Assets and the required provision is made on such advances.

1.3.2 Advances are net of bills rediscounted, claims realised from ECGC, provisions for non- performing advances and unrealized interest held in suspense account.

1.3.3 Any credit facility / investment, where interest and/or installment of principal has remained overdue for more than 90 days, is classified as non-performing asset.

1.4 FIXED ASSETS:

1.4.1 Premises and other fixed assets are stated at historical cost, except those premises which have been revalued, and appreciation, if any, on such revaluation is credited to Revaluation Reserve under Capital Reserves.

1.4.2 Depreciation:

Depreciation on fixed assets, including leased assets, is provided for on the straight line basis at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956, except as mentioned below:

- On Computer Hardware - 33.33% p.a.
- On ATM - 12.50% p.a.
- On Core Banking Software - 12.50% p.a.
- On Application Software & System Development Expenditure - Depending upon estimated useful life between 3-5 years.
- On Hard Furnishing – 25% p.a.
- Depreciation on Revalued Portion of Premises is charged off equally over its residual life.

1.5 RECOGNITION OF INCOME & EXPENDITURE:

1.5.1 Items of income and expenditure are generally accounted on accrual basis, except as otherwise stated.

1.5.2 Interest on non-performing assets other than doubtful assets (including lease assets), to the extent it is realized, is recognized as income. In the case of doubtful assets, recoveries effected are first adjusted towards the principal amount. Income accounted for in the preceding year and remaining unrealized is derecognized in respect of assets classified as NPA during the year.

1.5.3 Commission, brokerage and overdue rent on Safe Deposit Lockers is accounted for on realization.

1.5.4 Lease rentals and finance charges in respect of hire purchase transactions are recognized as income on accrual basis. However, overdue lease rentals and overdue finance charges are accounted as income only upon realization.

1.5.5 Accounting of assets leased out all of which were transacted prior to 01.04.2001, is done as per the Guidance Note of the Institute of Chartered Accountants of India. Provision in respect of Non Performing Assets is made by applying the asset classification norms prescribed by the Reserve Bank of India for advances.

1.5.6 The amount of lease equalization, representing the difference between the annual lease charge and the depreciation provided on leased assets in the books, is adjusted in the Profit & Loss Account, with a corresponding adjustment to the value of leased assets, through a separate Lease Adjustment account.

1.5.7 Interest on matured term deposits, which have not been renewed, is accounted on cash basis.

1.6 FOREIGN EXCHANGE TRANSACTIONS:

Accounting for transactions involving foreign exchange is done in accordance with Accounting Standard-11 (Revised 2003) on "The Effect of Changes in Foreign Exchange Rates" issued by the Institute of Chartered Accountants of India as mentioned below:

a. Items of income and expenditure are accounted for at the exchange rates ruling on the date of the transactions.

b. Foreign currency assets and liabilities, including outstanding forward contracts, acceptances, endorsements and other obligations are translated on the Balance Sheet date at the rates notified by Foreign Exchange Dealers' Association of India (FEDAI), as per the guidelines issued by the Reserve Bank of India. The resultant gain/loss is taken to revenue as per FEDAI guidelines. FCNR/EEFC/Non-position Nostro accounts are translated on the Balance Sheet date at the rates notified by FEDAI.

1.7. NON BANKING ASSETS:

Non Banking Assets acquired in satisfaction of claims are recorded at the fair value on the date of acquisition and provision is made for diminution, if any, as at the Balance Sheet date.

1.8 RETIREMENT BENEFITS OF EMPLOYEES:

a. Provision in respect of future liability for payment of gratuity is made on the basis of actuarial valuation as at the end of the year. Gratuity is funded with the Gratuity Trust duly registered under the provisions of Income tax Act, 1961.

b. Compensation paid to employees who have opted for Voluntary Retirement Scheme (VRS) is amortized over the period over which the benefit is perceived to accrue.

1.9 TAXES ON INCOME:

Income taxes are computed using the tax effect accounting method, where taxes are accrued in the same period in which the related revenue and expenses arise. The differences that result between the profit offered for income taxes and the profit as per the financial statements are identified and thereafter a deferred tax asset or a deferred tax liability is recorded for timing differences, namely the differences that originate in one accounting period and reversed in another, based on the tax effect of the aggregate amount being considered. The tax effect is calculated on the accumulated timing differences at end of accounting period based on prevailing enacted or substantially enacted regulations. Deferred tax assets are recognized only if there is virtual/ reasonable certainty, as the case may be, that they will be realized and are reviewed for appropriateness of the respective carrying values at each balance sheet date.

1.10 IMPAIRMENT OF ASSETS:

Impairment losses (if any) on fixed assets (including revalued assets) are recognized in accordance with the Accounting Standard-28 on "Impairment of Assets" issued by the Institute of Chartered Accountants of India.

1.11 ACCOUNTING FOR PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS:

Provisions are recognised in terms of Accounting Standard-29 on "Provisions, Contingent Liabilities and Contingent Assets" issued by the Institute of Chartered Accountants of India, when there is a present legal or statutory obligation as a result of past events leading to probable outflow of resources, where a reliable estimate can be made to settle the same.

Contingent Liabilities are recognised only when there is a possible obligation arising from past events due to occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Bank, or where any present obligation cannot be measured in terms of future outflow or resources, or where a reliable estimate of the obligation cannot be made. Obligations are assessed on an ongoing basis and only those having a largely probable outflow of resources are provided for.

Contingent Assets are not recognised in the financial statements.

1.12 ACCOUNTING FOR DERIVATIVE CONTRACTS:

Income from derivative transactions classified as hedge are recorded on an accrual basis and these transactions are not marked to market. Derivative transactions, which are not in the nature of hedge are marked to market as per the generally accepted practices prevalent in the industry. Any resultant gain or loss is recognised in the Profit & Loss Account.

1.13 NET PROFIT/(LOSS):

The net profit/(loss) in the Profit and Loss Account is after considering provision for advances, depreciation in the value of investments, provision for taxation and other necessary provisions.

Annexure VI

Notes to Accounts as at March 31, 2006 as restated

1. Share Capital & Reserves:

1.1 Pursuant to the approval of shareholders at Extra Ordinary General Meeting held on November 21, 2005 and in terms of approval obtained from the Reserve Bank of India vide letter dated February 13, 2006, the Bank has issued on February 17, 2006, by way of preferential allotment, 1,15,53,334 equity shares of Rs.10/- each at a premium of Rs.35/- per share.

1.2 Pursuant to the guidelines issued by the Reserve Bank of India, the Bank has transferred the balance in "Investment Fluctuation Reserve (IFR)" of Rs.130.5 millions to "Balance in Profit & Loss Account".

1.3 Capital to Risk Assets Ratio (CRAR):

Particulars	31/03/2006	31/03/2005
a) CRAR (%)	9.66	9.54
b) CRAR - Tier I capital (%)	5.96	5.62
c) CRAR - Tier II Capital (%)	3.70	3.92
d) Percentage of the shareholding of the Government of India in nationalized banks	N.A.	N.A.
e) Amount of subordinated debt raised as Tier-II capital (Rs. in millions)	1,660.00	1,660.00

2. Investments:

2.1 Particulars of Investments and Movement in provision held towards depreciation on Investments:

(Rs. In million)

Particulars	31/03/2006	31/03/2005
(1) Value of Investments:		
(i) Gross Value of Investments	13,004.91	18,417.84
(a) In India	Nil	Nil
(b) Outside India,	85.72	83.97
(ii) Provisions for Depreciation		
(a) In India	Nil	Nil
(b) Outside India,	12,919.20	18,333.87
(iii) Net Value of Investments		
(a) In India	Nil	Nil
(b) Outside India.		
(2) Movement of provisions held towards depreciation on investments:		
(i) Opening balance	83.97	124.80
(ii) Add: Provisions made during the year	12.93	456.20
(iii) Less: Write-off/ write-back of excess provisions during the year	11.18	497.03
(iv) Closing balance	85.72	83.97

2.2 The Book value of Investments held under the three categories, viz. Held to Maturity (HTM), Held for Trading (HFT) and Available for Sale (AFS) are as under:

Category	As at 31/03/2006		As at 31/03/2005	
	Rs. in millions	%	Rs. in millions	%
Held to Maturity	6,367.30	49.29	7,371.50	40.21
Held for Trading	2,884.80	22.33	9,592.20	52.32
Available for Sale	3,667.10	28.38	1,370.17	7.47
Total	**12,919.20**	**100.00**	**18,333.87**	**100.00**

Pursuant to the guidelines issued by the Reserve Bank of India on February 1, 2006, relating to Securitisation of Standard Assets (RBI No.2005-06/294 DBOD.No.BP.BC.60/ 21.04.048/2005-06 dated February 1, 2006) the Bank has reclassified an amount of Rs.1546.62 millions as at March 31, 2005 from Investment to Advances.

2.3 Repo Transactions:

(Rs. in million)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As on 31-03-2006
Securities Sold under Repos	Nil	600.00	8.20	Nil
Securities purchased under Reverse Repos	Nil	5900.00	1359.60	1200.00

2.4 Non-SLR Investments Portfolio:

i. Issuer Composition of Non-SLR investments:

(Rs. in million)

Sr. No.	Issuer	Amount	Extent of Private Placement	Extent of Below Investment grade securities	Extent of Unrated Securities	Extent of Unlisted Securities
1.	PSUs	154.30	-	-	-	-
2.	FIs	1257.00	100.00	-	100.00	100.00
3.	Banks	142.70	9.00	-	52.70	52.70
4.	Private Corporates	328.30	15.97	-	159.70	159.70
5.	Subsidiaries/Joint Ventures	0.00	-	-	-	-
6.	Others	846.00	120.90	-	-	-
7.	Provision held towards Depreciation	(82.40)				
	Total	**2645.90**	**470.60**	**-**	**312.40**	**312.40**

ii. **Non-Performing Non-SLR Investments:**

(Rs. in million)

Particulars	31/03/2006	31/03/2005
Opening Balance	30.00	230.00
Additions during the year	-	-
Reductions during the year	-	200.00
Closing Balance	30.00	30.00
Total provisions held	30.00	30.00

3. Derivatives:

3.1 Forward Rate Agreement/ Interest Rate Swap:

(Rs. in million)

Particulars	31/03/2006	31/03/2005
i) The notional principal of swap agreements	1,250.00	5,974.40
ii) Losses which would be incurred if counterparties failed to fulfil their obligations under the agreements	Nil	Nil
iii) Collateral required by the bank upon entering into swaps	Nil	Nil
iv) Concentration of credit risk arising from the swaps	Nil	
v) The fair value of the swap book	6.50	Nil

3.2 Exchange Traded Interest Rate Derivatives:

(Rs. in million)

S.No.	Particulars	Amount
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise)	Nil
(ii)	Notional principal amount of exchange traded interest rate derivatives outstanding as on 31st March 2006 (instrument-wise)	Nil
(iii)	Notional principal amount of exchange traded interest rate derivatives outstanding and not “highly effective” (instrument-wise)	Nil
(iv)	Mark-to-market value of exchange traded interest rate derivatives outstanding and not “highly effective” (instrument-wise)	Nil

3.3 Disclosures on risk exposure in derivatives:

a) Qualitative Disclosures:

Management of Risk in Derivatives Trading:

The Bank’s market risk department plays a key role in sanctioning of the limits, and laying down the risk assessment and monitoring methods. The policies of the Bank include setting limits upon the notional principle value of product specific gaps, maximum tenor, overall outstanding and also the setting-up of counter party-wise, tenor-wise limits.

All limits are monitored on a daily basis by the Bank's TFIG and Settlements Department. Exposure reports are submitted to both the treasurer as well as the Head-Market Risk and any limit excesses are brought to the notice of the management immediately for further action.

Policies for Hedging Risk:

All transactions undertaken by the Bank for trading purposes are classified under the trading book. All other transactions are classified as a part of the Banking Book. The Banking book includes transactions concluded for the purpose of providing structures to customers on a back to back basis. It also consists of transactions in the nature of hedges based on identification of supporting trades, with appropriate linkages done for matching amounts and tenor within the approved tolerance limits.

b) **Quantitative disclosures:**

(Rs. in millions)

Sr. No	Particulars	Currency Derivatives	Interest Rate Derivatives
1.	Derivatives (notional Principal Amount)		
	(a) For Hedging	425.80	1,000.00
	(b) For Trading	-	250.00
2.	Marked to Market position		
	(a) Asset (+)	-	-
	(b) Liability (-)	-	-
3.	Credit Exposure	0.10	-
4.	Likely Impact of one percentage change in Interest Rate (100*PV01)		
	(a) On hedging derivatives	-	0.10
	(b) On trading derivatives	-	0.10
5.	Maximum and Minimum of 100*PV01 observed during the year		
	(a) On hedging	-	0.10
	(b) On trading	-	0.10

4. Asset Quality:

4.1 Non-Performing Assets (NPAs):

Rs. in Million

	Particulars	31/03/2006	31/03/2005
(i)	Net NPAs to Net Advances (%)	4.50	6.16
(ii)	Movement of NPAs (Gross)		
	(a) Opening balance	3107.50	3458.50
	(b) Additions during the year	635.20	822.60
	(c) Reductions during the year	593.50	1173.60
	(d) Closing balance	3149.20	3107.50
(iii)	Movement of Net NPAs		
	(a) Opening balance	1325.60	1894.40
	(b) Additions during the year	172.40	672.70
	(c) Reductions during the year	658.40	1241.50
	(d) Closing balance	839.60	1325.60
(iv)	Movement of provisions for NPAs (excluding provision on Standard Assets)		
	(a) Opening balance	1711.00	1478.60
	(b) Provisions made during the year	600.00	418.90
	(c) Write-off/ write-back of excess provisions	90.70	186.50
	(d) Closing balance	2220.30	1711.00

4.2 Details of Loan Assets subjected to Restructuring during the year:

(Rs. in million)

	Particulars	31/03/2006	31/03/2005
(i)	Total amount of loan assets subjected to restructuring, rescheduling, renegotiation;	Nil	151.10
	- of which under CDR	Nil	19.80
(ii)	The amount of Standard assets subjected to restructuring, rescheduling, renegotiation;	1.20	132.80
	- of which under CDR	Nil	19.80
(iii)	The amount of Sub-Standard assets subjected to restructuring, rescheduling, renegotiation;	Nil	1.30
	- of which under CDR	Nil	0.00
(iv)	The amount of Doubtful assets subjected to restructuring, rescheduling, renegotiation;	Nil	17.00

4.3 Details of financial assets sold to Securitisation / Reconstruction Company for Asset Reconstruction:

(Rs. in million)

	Particulars	31/03/2006	31/03/2005
(i)	No. of accounts	Nil	Nil
(ii)	Aggregate value (net of provisions) of accounts sold to SC/RC	Nil	Nil
(iii)	Aggregate consideration	Nil	NIl
(iv)	Additional consideration realized in respect of accounts transferred in earlier years	Nil	Nil
(v)	Aggregate gain/loss over net book value.	Nil	Nil

4.4 Provisions on Standard Assets:

(Rs. in million)

Particulars	31/03/2006	31/03/2005
Provisions towards Standard Assets	71.60	51.60

5. Business Ratios:

Particulars	31/03/2006	31/03/2005
Interest Income as a percentage to Working Funds (%)	6.57	6.35
Non-Interest Income as a percentage to Working Funds (%)	1.90	1.91
Operating Profit as a percentage to Working Funds (%)	(0.47)	(0.09)
Return on Assets (%)	(1.91)	(1.53)
Business per employee (Rs. in millions)	39.03	40.23
Profit/ (Loss) per employee (Rs. in millions)	(0.63)	(0.49)

6. Asset Liability Management:

Maturity pattern of certain items of assets and liabilities as of 31/03/2006

(Rs. in million)

Maturity Buckets	Loans and Advances	Investments	Deposits	Borrowings	Foreign Currency Assets	Foreign Currency Liabilities
1 to 14 days	1,914.80	1,595.90	3,573.60	377.30	1,708.90	1,424.30
15 to 28 days	945.50	789.30	1,306.40	178.50	1,407.10	1,408.90
29 days to 3 months	2,827.80	1,286.50	5,445.10	654.90	2,561.20	2,092.70
3 months to 6 months	1,309.00	503.70	4,949.20	87.31	2,669.40	767.60
6 months to 1 year	2,496.50	862.30	3,779.40	0.00	1,297.30	1,088.80
1 year to 3 years	6,083.20	2,032.90	11,567.30	0.00	250.00	250.00
3 years to 5 years	1,388.40	1,340.70	536.00	0.00	0.00	0.00
Above 5 years	1,708.02	4,507.20	82.96	0.00	43.50	0.00
Total	**18,673.22**	**12,919.20**	**31,239.96**	**12,98.01**	**9,937.40**	**7,032.30**

7. **Lending to Sensitive Sector:**

7.1 Exposure to Real Estate Sector

Rs. in Million

	Category	31/03/2006	31/03/2005
a)	*Direct exposure*		
	(i) Residential Mortgages –	1511.90 (*)	Nil
	Lendings fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented; (*) Includes Individual housing loans up to Rs.15 lacs – Rs.78.70 crores)		
	(ii) Commercial Real Estate – Lendings secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.).	826.20	97.00
	(iii) Investments in Mortgage Backed Securities (MBS) and other securitized exposures –		
	a. Residential,	1084.10	1546.62
	b. Commercial Real Estate.	Nil	Nil
	b) Indirect Exposure		
	Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	371.30	1374.50

7.2 Exposure to Capital Market

Rs. in Million

	Particulars	31/03/2006	31/03/2005
(i)	investments made in equity shares,	Nil	Nil
(ii)	investments in bonds/ convertible debentures	Nil	Nil
(iii)	investments in units of equity–oriented mutual funds	Nil	15.00
(iv)	advances against shares to individuals for investment in equity shares (including IPOs/ESOPS), bonds and debentures, units of equity oriented mutual funds	43.40	Nil
(v)	secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers:	303.20	Nil
Total Exposure to Capital Market (i+ii+iii+iv+v)		346.60	15.00
(vi)	Of (v) above, the total finance extended to stockbrokers for margin trading	Nil	Nil

7.3 Risk Category wise Country Exposure

(Rs. in million)

Risk Category*	Exposure (net) as at 31/03/2006	Provision held as at 31/03/2006	Exposure (net) as at 31/03/2005	Provision held as at 31/03/2005
Insignificant	2533.80	Nil	1622.90	Nil
Low	2788.10	Nil	3366.30	Nil
Moderate	340.20	Nil	607.30	Nil
High	178.50	Nil	144.60	Nil
Very High	48.80	Nil	44.80	Nil
Restricted	9.30	Nil	9.00	Nil
Off-credit	Nil	Nil	Nil	Nil
Total	**5898.70**	Nil	**5794.90**	Nil

7.4 Details of Credit exposures where the Bank has exceeded the Prudential Exposure during the year

(Rs. in million)

Name of the party	Normal Permitted Exposure	Exceptional Exposure including additional discretionary limit of 5%	Actual Exposure as on 31/03/2006
Nil (*)			

(*) Prudential Exposure in respect of Shriram Transport Finance Ltd. exceeded on account of merger with Shriram Investments Ltd. during November 2005. Maximum Exposure of Rs.791.50 millions was brought within Rs.530.00 millions (Exceptional Exposure Limit) as on 31/03/2006.

8. Compliance of Accounting Standard read with RBI guidelines:

8.1 There are no material amounts of expenditure/income required to be disclosed as "Prior period" items as per Accounting Standard (AS) -5 on "Net Profit or Loss for the period, Prior Period Items & Changes in Accounting Policies" read with RBI Guidelines.

8.2 During the year, 257 employees have opted for Voluntary Retirement Scheme (VRS) and amount paid towards VRS aggregating to Rs.91.00 million, including incremental liability of Rs.4.90 millions and Rs.5.40 millions arising on account of gratuity and leave encashment obligations respectively in respect of employees opting for VRS, have been amortized over a period of sixty months commencing from 01/05/2005.

8.3 Segment Reporting:

(Rs. in million)

Business Segment	Treasury Operations		Other Banking Operations		Residual Operations		Total	
Particulars	**Current Year**	**Previous Year**	**Current Year**	**Previous Year**	**Current Year**	**Previous Year**	**Current Year**	**Previous Year**
Gross Revenue	1254.60	1524.00	2232.03	2363.63	87.70	57.40	3574.33	3945.03
Result	230.70	295.40	(1119.68)	(1079.89)	83.10	54.60	(805.88)	(729.89)
Unallocated Expenses							0.00	0.00
Operating Profit/ (Loss)							(196.66)	(41.28)
Income Tax (Net)	30.82	0.00						
Extraordinary Profit/ Loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Profit/(Loss)							(805.88)	(729.89)
Other Information:								
Segment Assets	15884.00	22359.60	18715.70	21076.97	0.00	0.00	34599.70	43436.57
Unallocated Assets							2568.72	2826.78
Total Assets							37168.42	46263.35
Segment Liabilities	15167.50	22466.80	17370.46	18078.54	0.00	0.00	32537.96	40545.34
Unallocated Liabilities							4630.46	5718.01
Total Liabilities							**37168.42**	**46263.35**

Part B: Geographic Segments

Since the Bank does not have overseas branches; the entire operations are treated as from Domestic Segment.

8.4 Related party Transactions:

i. Related Party Transactions in terms of AS- 18 on "Related Party Disclosures" issued by the Institute of Chartered Accountants of India are disclosed below:

Related Parties & details of transaction during the year are as under:

<u>Parent</u>

Aga Khan Fund for Economic Development (AKFED)

Amount payable accumulated since earlier year – Rs.1.10 millions (Maximum Balance during the year – Rs.1.10 millions)

Associate

Platinum Jubilee Investments Ltd.

Deposits: Balance as on 31/03/2006 – Rs.15.00 millions (Maximum Balance during the year – Rs.15.70 millions)

Interest paid/accrued on Deposits – Rs.9.10 millions.

Diamond Trust Bank Kenya Ltd.

Borrowings: Balance as on 31/03/2006 – Rs.Nil (Maximum Balance during the year – Rs.133.80 millions)

Interest paid on Borrowings– Rs.2.60 millions.

ii. Details of transactions entered into with the Key Management Personnel of the Bank are as under:

Mr.Gautam Vir – Managing Director (w.e.f. 13/09/2005)

Managerial Remuneration – Rs. 6.28 millions.

8.5 Assets taken on Lease:

In respect of Assets taken under Operating Lease, after 01/04/2001, particulars in respect of future Lease rentals as specified in AS-19 are as under:

(Rs. in million)

Period	31/03/2006	31/03/2005
Not later than one year	52.40	65.50
Later than one year and not later than five years	18.80	71.20
Later than Five years	Nil	Nil
Total	**71.20**	**136.70**

8.6 Deferred Tax:

i) On the grounds of prudence and in accordance with AS–22 on "Accounting for Taxes on Income" issued by the Institute of Chartered Accountants of India, the Bank has recognized deferred tax assets arising only out of timing difference to the extent of deferred tax liabilities; no deferred tax assets have been recognized on accumulated losses.

ii) The composition of Deferred Tax Liabilities (DTL) & Deferred Tax Assets (DTA) as at 31/03/2006 is as under:

(Rs. in million)

Sr.No.	Particulars	DTL	DTA
1.	Depreciation	135.54	Nil
2.	Provision for Loan Losses	Nil	98.94
3.	Provision for Non Banking Assets	Nil	36.60
	Total	**135.54**	**135.54**

8.7 Fixed Assets:

The Bank has ascertained that there is no material impairment of fixed assets in terms of AS-28 on "Impairment of Assets" issued by the Institute of Chartered Accountants of India.

8.8 Provisions, Contingent Liabilities and Contingent Assets:

i. In accordance with AS-29 on "Provisions, Contingent Liabilities and Contingent Assets" issued by the Institute of Chartered Accountants of India, the Bank has carried out financial assessment of the Contingent Liabilities and determination of provision for probable losses.

Movement in Provision for Contingent Liabilities during the year:

(Rs. in million)

Particulars	31/03/2006	31/03/2005
Opening Provision	65.00	Nil
Additions/ (Deductions) made during the year	(65.00)	65.00
Closing Provision	Nil	65.00

ii. Description of Contingent Liabilities:

Sr.No.	Contingent Liability	Brief Description
1.	Claim against the Bank not acknowledged as Debts.	An amount of Rs.1081.60 millions is outstanding as at 31/03/2006 as Claims against the Bank not acknowledged as Debts including Rs.1062.70 millions contingent on account of proceedings pending with Income Tax authorities. Of this, an amount of Rs.283.50 millions, for which relief was granted to the Bank, has been appealed against by the Department. The Bank does not expect the outcome of these proceedings to have an adverse effect on the Bank's financial results.
2.	Liability on account of forward exchange and derivative contracts.	The Bank enters into foreign exchange contracts, currency options, forward rate agreements, currency swaps and interest rate swaps with inter-bank participants on its own account & for customers. The notional amounts that are recorded, as contingent liabilities are amounts used as a benchmark for the calculation of the interest component of such Derivative Contracts.
3.	Guarantees given on behalf of constituents, Acceptances, Endorsements & Others	As a part of its commercial banking activities, the Bank issues Letters of Credit & Guarantees on behalf of its customers.
4.	Other items for which the Bank is contingently liable.	These include: i. Credit enhancements in respect of securitized out loans. ii. Bills rediscounted by the Bank.

9. Other Matters:

9.1 Amount of Provisions made for Income-tax during the year

(Rs. in million)

Particulars	31/03/2006	31/03/2005
Provision for Income Tax	Nil	Nil

9.2 Disclosure of Penalties imposed by RBI

No penalties have been imposed by the Reserve Bank of India on the Bank.

9.3 In the matter of legal proceedings initiated by a shareholder of the bank in the Honorable Supreme Court, challenging the write off of irrecoverable advances of Rs.1200 millions and Rs.177.30 millions against Revenue Reserves in Financial year 2002-2003 and 2003-2004 respectively, the Honorable Supreme Court, has, vide its order dated May 11, 2006, dismissed the appeals filed by the said shareholder In respect of two other cases filed by the same shareholder challenging the write off of irrecoverable advances and investments of Rs 620.95

millions by way of adjustments against Share Premium and charge off of Rs 640.20 millions in year 2004-2005, in view of the favourable decision of the Honorable Supreme Court, the Bank is strongly of the view that the outcome of the said petitions shall also be in its favour.

The same shareholder has also filed a Public Interest Litigation petition in the Bombay High Court, challenging the Bank's Initial Public Offer, proposing to list its shares on Stock Exchanges and to issue shares for raising funds of Rs. 3000 millions (Approx.). The Writ Petition is pending admission and no Interim Injunction is granted.

9.4 Securitisation:

i. As a part of its strategy to grow its Retail Assets portfolio, the Bank has acquired Receivables/ Advances, which, as at 31/03/2006 is Rs.1737.50 millions (Previous Year - Rs.2853.40 millions). These includes amounts invested in Mortgage Backed Securities – Rs.1186.10 millions, hitherto classified as Investments, which have been reclassified as Advances. (Previous Year – RS.1546.60 millions) (refer note 2.2)

ii. During the year, the Bank securitized out loans with a carrying value of Rs.Nil (Previous Year Rs.5399.70 millions), which resulted in a profit of Rs.Nil (Previous Year Profit/ (Loss) - Rs.21.30 millions) disclosed under "Other Income".

9.5 Details of "Provisions & Contingencies" debited to Profit & Loss Account

(Rs. in million)

Particulars	**31/03/2006**	**31/03/2005**
Loan Loss Provisions	545.76	418.85
Provision for Taxation (DTA)	30.70	0.00
Provision for Wealth Tax	0.12	0.00
Depreciation on Investments	11.10	208.56
Write-back of excess Provision for Lease NPAs	(1.10)	(1.10)
Provision for Restructured Advances	(13.30)	5.40
Provision for Non-Banking Assets	0.00	59.30
Provision for Standard Assets	20.00	(10.00)
Provision for Other Assets	15.94	1.80
Provision for Contingencies	0.00	5.80
Total	**609.22**	**688.61**

10. Previous year figures have been regrouped wherever considered necessary.

Annexure VII

Details of Dividend Declared by the Bank

(Rs. in million)

Particulars	**Audited Years ended 31st March**					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Face Value of Equity Shares (Rs. Per Share)	10.00	10.00	10.00	10.00	10.00	10.00
Interim Dividend on Equity Shares	25.89	34.47	36.66	Nil	Nil	Nil
Final Dividend on Equity Shares	25.89	34.47	36.66	43.71	Nil	Nil
Total Dividend on Equity Shares	51.78	68.94	73.32	43.71	Nil	Nil
Dividend rate (%)	30%	30%	30%	15%	N.A.	N.A.
Dividend tax	5.28	3.52	4.7	5.6	N.A.	N.A.

Key Accounting Ratios Restated

	Audited Ratios as at 31st March (as restated)					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Earnings per Share (basic) (Rs.)	16.56	15.88	-4.00	-14.84	-18.53	-12.23
Earnings per Share (diluted) (Rs.)	16.56	15.88	-4.00	-14.83	-18.53	-12.23
Book Value per Share (Rs.)	123.59	136.31	66.04	47.72	25.75	18.30
Return on Average Net Worth	10.99%	12.22%	-3.92%	-23.11%	-41.22%	-52.74%
Net NPA to Net Advances	6.16%	6.76%	9.37%	7.55%	6.16%	4.50%
Interest Income/Average Working Funds	10.84%	10.26%	8.87%	7.80%	6.35%	6.57%
Non Interest Income/Average Working Funds	1.36%	2.61%	1.81%	1.95%	1.91%	1.90%
Return on Assets	0.80%	0.99%	-0.24%	-0.95%	-1.53%	-1.91%
Business per Employee	42.82	44.32	46.16	48.54	40.23	39.03
Net Profit/(Loss) per Employee	0.22	0.27	-0.07	-0.30	-0.49	-0.63
Capital Adequacy Ratio	11.68%	11.49%	9.16%	9.50%	9.54%	9.66%
Tier I	11.00%	10.87%	5.68%	5.66%	5.62%	5.96%
Tier II	0.68%	0.62%	3.48%	3.84%	3.92%	3.70%
Dividend Pay Out Ratio	20.01%	19.88%	-80.18%	-11.42%	0.00%	0.00%

Annexure IX

Capitalisation Statement as on March 31, 2006

(Rs. in million)

Particulars	**Pre Issue**	**Post Issue**
Borrowings:		
Short Term Debt	1298.01	1298.01
Long Term Debt	1660.00	1660.00
Total Debt	**2958.01**	**2958.01**
Shareholders Funds:		
Share Capital	761.32	
Reserves & Surplus	631.74	**
Total Equity	**1393.06**	**
Long Term Debt Equity Ratio	**1.19**	**

Notes:

1) Short Term Debts represents Debts having remaining maturity period of less than 1 year as on 31/3/2006.

2) Reserves & Surplus are after excluding Revaluation Reserve, intangible assets and deferred tax assets.
** As this is an issue by way of book building process, post issue figures are not possible to be ascertained and therefore not given.

Annexure X

Details of Unsecured Liabilities Restated

Rs. in Million

Particulars	**Audited years ended 31st March (as restated)**					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Demand Deposits from Banks	58.20	23.83	14.07	18.40	20.01	18.50
Demand Deposits from Others	1,947.06	2,716.24	2,710.60	3,645.29	3,417.51	4,035.27
Savings Bank Deposits	2,682.22	2,953.96	3,485.68	4,744.72	5,406.23	5,960.75
Term Deposits from Banks	8,086.12	8,599.27	7,805.55	11,543.59	7,428.86	3,604.00
Term Deposits from Others	21,531.26	22,624.28	22,555.04	24,789.78	22,675.03	17,621.41
Unsecured Subordinated Bonds Tier II	0.00	0.00	660.00	1,660.00	1,660.00	1,660.00
Borrowings from Banks other Institutions and Agencies	1.78	0.82	2,000.61	1,839.33	985.28	856.39
Miscellaneous including Borrowings outside India	970.40	291.66	998.61	546.46	612.43	441.60

Annexure XI

Statement of Tax Shelter

(Rs. in million)

For the year ended	Mar-01	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06
Book Profit	**300.25**	**340.47**	**345.31**	**173.56**	**-1629.15**	(852.60)
Income Tax Rate Other than Capital Gains(%)	39.55	35.70	36.75	35.88	36.59	33.66
Capital Gains Rate (%)	20.00	20.00	20.00	20.00	20.00	20.00
Tax at actual rate on Profit	118.01	119.62	126.90	62.20	0.00	0.00
Adjustments:						
Permanent Differences						
i. Interest on Tax Free Bonds	-178.50	-178.90	-92.50	0.00	0.00	0.00
ii. Dividends(exempt from tax)	-31.00	-7.40	-0.20	-42.30	-6.50	(0.30)
iii. Others	-1.30	-24.50	3.70	30.30	21.70	(0.80)
Total (A)	**-210.80**	**-210.80**	**-89.00**	**-12.00**	**15.20**	**(1.10)**
Timing Difference						
i. Difference between Book Depreciation and tax Depreciation	9.70	22.00	25.30	30.20	18.20	(19.50)
ii. Provision for Bad & doubtful Debts/ Written off Accounts	109.50	249.60	-1059.20	-98.80	221.50	465.60
iii. Others	90.00	226.20	-138.60	-136.10	46.00	76.20
Iv Unabsorbed Business Loss and Depreciation	0.00	0.00	0.00	-916.52	-959.80	(1092.50)
Total (B)	**209.20**	**497.80**	**-1172.50**	**-1121.22.**	**-674.10**	**(570.20)**
Net Adjustments(A+B)	-1.60	287.00	-1261.50	-1133.22	-658.90	(571.30)
Tax Savings thereon	-0.63	104.39	-463.60	-406.54	-241.11	(192.30)
Total Taxation	**117.38**	**224.01**	**0.00**	**0.00**	**0.00**	**0.00**

Note:

The income tax liability has been computed as per the Income Tax Act, 1961/ relevant Income Tax returns/ communications sent to the Assessing Officer. However these have not been recast, depending on the assessed liability taking into account appellate orders.

Selected Statistical Information

Average Balance Sheets and Net Interest Margins

(Rs. in million except percentage)

	AVERAGES					
	Year ended March 31,					
		2006			2005	
	Average balance	Interest income/ expense	Avg. yield / cost	Average balance	Interest income/ expense	Avg. yield / cost
Advances	21229.60	1760.86	8.29%	20672.82	1857.79	8.99%
Investments	13217.90	870.35	6.58%	16151.93	936.37	5.80%
Others	4049.70	138.70	3.43%	6375.20	238.03	3.73%
Less: NPAs	3179.20	-	-	3137.50	-	-
Total interest-earning assets	**35318.00**	**2769.91**	**7.84%**	**40062.45**	**3032.18**	**7.57%**
Cash & Current Account	564.10	-	-	446.60	-	-
Fixed & Other assets	3151.40	-	-	4093.50	-	-
Add: NPAs	3179.20	-	-	3137.50	-	-
Total assets	**42212.70**	-	-	**47740.05**	-	-
Deposits	33737.39	1768.15	5.24%	39129.89	2052.94	5.25%
Saving deposits	5471.30	157.80	2.88%	4860.83	136.80	2.81%
Other demand deposits	3323.90	0.00	0.00%	2682.91	0.00	0.00%
Term deposits	24942.20	1610.35	6.46%	31586.15	1916.14	6.07%
Borrowings	3201.20	251.38	7.85%	3904.10	282.26	7.23%
Total interest-bearing liabilities	**36938.59**	**2019.53**	**5.47%**	**43033.98**	**2335.21**	**5.43%**
Capital and reserves	1641.88	-	-	1938.37	-	-
Share Application	0.00	-	-	9.17	-	-
Other liabilities	3632.24	-	-	2758.53	-	-
Total liabilities	**42212.70**			**47740.05**		

Yields Spreads and Margins

The following table sets forth, for the periods indicated the yields, spreads and interest margins on our interest earning assets

	Year ended March 31				
	2002	2003	2004	2005	2006
Average interest earning assets	31007.70	35458.30	39100.40	40062.45	35,318.00
Average interest bearing liabilities	32,329.50	35,582.60	40,321.30	43,033.98	36,938.59
Average total assets	36,765.80	40,391.40	45,308.60	47,740.05	42,212.70
Average interest earning assets as a percentage of average total assets (%)	84.34%	87.79%	86.30%	83.92%	83.67%
Average interest bearing liabilities as a percentage of average liabilities (%)	87.93%	88.09%	88.99%	90.14%	87.51%
Average interest earning assets as a percentage of interest earning liabilities (%)	95.91%	99.65%	96.97%	93.09%	95.61%
Yields (%)	12.17%	10.11%	8.92%	7.57%	7.84%
Cost of funds (%)	8.91%	8.09%	6.37%	5.43%	5.47%
Spread (%)	3.26%	2.02%	2.55%	2.14%	2.38%
Net interest margin (%)	0.29%	0.20%	0.23%	0.17%	0.21%

Return on Equity and Assets

The following table presents selected financial ratios for the periods indicated

(in percentages)

	Year ended March 31				
	2002	2003	2004	2005	2006
Return on average equity	12.22%	-3.92%	-23.11%	-41.22%	-52.74%
Return on average assets	0.99%	-0.24%	-0.95%	-1.53%	-1.91%
Dividend payout ratio	19.88%	-80.18%	-11.42%	0.00%	0.00%
Cost to average assets	1.78%	2.05%	2.58%	3.19%	3.96%
Tier I capital adequacy ratio	10.87%	5.68%	5.66%	5.62%	5.96%
Tier II capital adequacy ratio	0.62%	3.48%	3.84%	3.92%	3.70%
Total capital adequacy ratio	11.49%	9.16%	9.50%	9.54%	9.66%
Net non-performing assets ratio	6.76%	9.37%	7.55%	6.16%	4.50%
Provision as a % of gross non-performing assets	29.18%	25.16%	42.75%	55.06%	70.50%
Average net worth to total average assets	8.12%	6.18%	4.12%	3.71%	3.62%
Book value per share (Rs)	136.31	66.04	47.72	25.75	18.30

The following table sets forth the Maturity Patterns:

(Rs. in million)

Maturity Buckets	Loans and Advances	Investments	Deposits	Borrowings	Foreign Currency Assets	Foreign Currency Liabilities
1 to 14 days	1914.80	1595.90	3573.60	377.30	1708.90	1424.30
15 to 28 days	945.50	789.30	1306.40	178.50	1407.10	1408.90
29 days to 3 months	2827.80	1286.50	5445.10	654.90	2561.20	2092.70
3 months to 6 months	1309.00	503.70	4949.20	87.31	2669.40	767.60
6 months to 1 year	2496.50	862.30	3779.40	0.00	1297.30	1088.80
1 period to 3 years	6083.20	2032.90	11567.30	0.00	250.00	250.00
3 periods to 5 years	1388.40	1340.70	536.00	0.00	0.00	0.00
Above 5 years	1708.02	4507.20	82.96	0.00	43.50	0.00
Total	**18673.22**	**12919.20**	**31239.96**	**1298.01**	**9937.40**	**7032.30**

Funding

Total Deposits

The following table sets forth, as of dates indicated our outstanding deposits and the percentage composition by each category of deposits

(Rs. in million)

Particulars	Year ended March 31				
	2002	**2003**	**2004**	**2005**	**2006**
Demand Deposits from Banks	23.83	14.07	18.40	20.01	18.51
Demand Deposits from Others	2,716.24	2,710.60	3,645.29	3,417.51	4,035.27
Savings Bank Deposits	2,953.96	3,485.68	4,744.72	5,406.23	5,960.76
Term Deposits from Banks	8,599.27	7,805.55	11,543.59	7,428.86	3,604.00
Term Deposits from Others	22,624.28	22,555.04	24,789.78	22,675.03	17,621.42
Total	**36917.58**	**36570.94**	**44741.78**	**38947.64**	**31239.96**

Total Borrowings

The following table sets forth, for the periods indicated our average outstanding borrowings with and without Tier II Bonds

(Rs. in million)

Particulars	**Year ended March 31**				
	2002	**2003**	**2004**	**2005**	**2006**
Unsecured Subordinated Bonds Tier II	0.00	660.00	1,660.00	1,660.00	1,660.00
Borrowings from Banks, other Institutions and Agencies	0.82	2,000.61	1,839.33	985.28	856.39
Miscellaneous including Borrowings outside India	291.66	998.61	546.46	612.43	441.60
Total borrowings	**292.48**	**3659.22**	**4045.79**	**3257.71**	**2957.99**

The following table sets forth our asset liability gap position as on March 31, 2006

Rs. in Million

Outflows (As on 31/03/2006)	Total	1 to 14 days	15 to 28 days	29 days and upto 3 months	Over 3 months and upto 6 months	Over 6 months and upto 1 year	Over 1 year and upto 3 years	Over 3 years and upto 5 years	Over 5 years
1. Capital	76.13	0.00	0.00	0.00	0.00	0.00	0.00	0.00	76.13
2. Reserves & Surplus	88.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	88.06
3. Deposits	3124.00	355.25	130.64	544.51	494.92	391.88	1144.90	53.60	8.30
Current Deposits		58.44	0.00	0.00	0.00	0.00	331.17	0.00	0.00
Savings Bank Deposits	59.61	0.00	0.00	0.00	0.00	536.47	0.00	0.00	
Term Deposits		177.74	90.07	373.89	332.75	388.36	277.26	53.60	8.30
Certificates of Deposits	31.32	0.36	39.70	2.36	0.35	0.00	0.00	0.00	
Inter Bank (Term)		28.14	40.21	130.92	159.81	3.17	0.00	0.00	0.00
4. Borrowings	63.33	33.33	0.00	30.00	0.00	0.00	0.00	0.00	0.00
5. Other Liabilities & Provisions	897.46	138.98	18.11	100.67	199.38	20.85	66.00	82.96	270.51
A. TOTAL OUTFLOWS	4248.98	527.56	148.75	675.18	694.30	412.73	1210.90	136.56	443.00
B. CUMULATIVE OUTFLOWS	4248.98	527.56	676.31	1351.49	2045.79	2458.52	3669.42	3805.98	4248.98
Inflows									
1. Cash	19.80	19.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Balances with RBI	172.68	29.77	6.32	16.22	12.09	12.25	94.00	1.77	0.26
3. Balances with other Banks	108.25	82.68	0.05	0.17	0.12	0.32	10.38	14.51	0.02
4. Investments	1297.49	159.65	78.92	170.04	57.13	94.11	223.06	138.19	376.40
5. Advances (Performing)	1783.35	178.20	84.84	254.86	115.28	219.45	649.81	122.39	158.52
6. NPAs (Advances and Investments) *	317.92	0.00	0.00	0.00	0.00	0.00	0.00	14.27	303.65
7. Fixed Assets	99.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	99.05
8. Other Assets	985.53	123.10	41.10	182.20	150.51	176.81	241.04	24.12	46.65
C. Total Inflows	4784.08	593.21	211.23	623.49	335.12	502.94	1218.29	315.25	984.54
D. Mismatch (C – A)	535.09	65.65	62.48	-51.69	-359.18	90.21	7.39	178.69	541.54
E. Cumulative Mismatch	535.09	65.65	128.13	76.44	-282.73	-192.53	-185.14	-6.45	535.09
F. D as % to A	**12.59**	**12.44**	**42.00**	**-7.66**	**-51.73**	**21.86**	**0.61**	**130.85**	**122.24**

* **Investments** are inclusive of those under REPOS but excluding Reverse REPOS and a portion of HTM securities under other assets

Other Liabilities & Provisions includes Bills payable, Inter office adjustments, Provisions, Unavailed portion of CC/OD, Letter of Credit & Guarantees, REPOS, SWAPS and Interest Payable

Other Assets includes Inter office adjustments, Lease assets, Reverse REPOS, Interest receivable, Line of Credit & Others

Loan Portfolio

The following table sets forth, for the dates indicated, the Bank's loan portfolio classified by product group

(Rs. in million)

	March 31, 2003		March 31, 2004		March 31, 2005		March 31, 2006	
	Amount	%	Amount	%	Amount	%	Amount	%
Bills purchased/ Discounted	3,526.66	14.29	2,217.86	8.84	1,200.05	5.58	1,827.43	9.79
Cash Credit overdrafts and others	7,959.69	32.25	5,308.54	21.15	4,319.97	20.08	3,979.03	21.31
Term Loans	13,195.63	53.46	17,574.58	70.01	15,998.38	74.34	12,866.76	68.90
Total	**24,681.98**	**100.00**	**25,100.98**	**100.00**	**21,518.40**	**100.00**	**18,673.22**	**100.00**

The following table presents our domestic outstanding loans by sector and the proportion of these loans to our outstanding domestic total loans, as of the dates indicated:

(Rs. in million)

	March 31, 2003		March 31, 2004		March 31, 2005		March 31, 2006	
	Amount	%	Amount	%	Amount	%	Amount	%
Domestic								
Corporate and Commercial	21,972.78	89.02	21,278.08	84.77	14,661.37	68.13	10,648.72	57.03
Housing and Retail	796.40	3.23	2,129.70	8.48	5,807.83	26.99	6,977.40	37.37
Agriculture	1,912.80	7.75	1,693.20	6.75	1,049.20	4.88	1,047.10	5.60
Total outstanding loans	**24,681.98**	**100.00**	**25,100.98**	**100.00**	**21,518.40**	**100.00**	**18,673.22**	**100.00**

Concentration of Loans and Credit Substitutes

Top 10 borrowers as on March 31, 2006 :

(Rs. in million)

Sl.No.	Name of the Account	Industry	Total outstanding fund-based exposure
1	Borrower 1	Finance others	426.00
2	Borrower 2	Whole sale trade	356.00
3	Borrower 3	Whole sale trade	350.00
4	Borrower 4	Gems and Jewellary	285.00
5	Borrower 5	Construction-Civil Eng.	283.00
6	Borrower 6	Shipping	272.00
7	Borrower 7	Misc. services	253.00
8	Borrower 8	Education	246.00
9	Borrower 9	Heavy Engineering	234.00
10	Borrower 10	IT & Entertainment	210.00
		Total	**2,915.00**

The following table sets forth all loans and advances to any person(s)/company(ies) in which directors of the issuer company are interested as on March 31, 2006

Name	Amount	Industry	Sector	Exposure Amt. % to total assets	Exposure to N/W %
Cimcoff Distributors	3500000	Wholesale trade	Non-Priority	0.02	0.21
Habibulla A. Merchant	1450000	Retail trade	Non-Priority	0.01	0.09
Total	**4950000**			**0.02**	**0.30**

The following table sets forth for the dates indicated, our 10 largest group exposures (in descending order) as determined by the RBI guidelines, based on the audited accounts as on March 31, 2006

Name of Group/Number	Exposure (Rs. in million)	% of Total Global Exposure	% of Capital Funds	Classification
Group A	856.50	2.96%	32.30	Standard
Group B	811.80	2.80%	30.62	Standard
Group C	490.00	1.69%	18.48	Standard
Group D	445.20	1.54%	16.79	Standard
Group E	325.80	1.13%	12.29	Substandard
Group F	145.50	0.50%	5.49	Substandard
Group G	114.30	0.39%	4.31	Standard
Group H	84.70	0.29%	3.20	Substandard
Group I	80.20	0.28%	3.03	Standard
Group J	56.80	0.20%	2.14	Substandard

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The investor should read the following discussion and analysis of the Bank's financial condition and results of operations together with its financial statements included in this Red Herring Prospectus, along with the section titled "Selected Financial Information" beginning on page 136 and the section titled "Selected Statistical Information" beginning on page 169, which presents important statistical information about the Bank's business. The investor should also read the section titled "Risk Factors" beginning on page X, which discusses a number of factors and contingencies that could impact the Bank's financial condition and results of operations. The following discussion relates to the Bank on a standalone basis and is based on the Bank's restated financial statements, which have been prepared in accordance with Indian GAAP and the RBI guidelines. The following discussion is also based on internally prepared statistical information and on information publicly available from the RBI and other sources.

Introduction

Development Credit Bank Limited is a new private sector bank, which has embarked on a revitalization plan. As part of its revitalization plan, the Bank has in place a new management team and board of directors committed to improving the Bank's business and its balance sheet and financial performance. The Bank is committed to maintaining its position as a cost efficient and customer-focused institution that provides comprehensive banking and related services. The revitalization plan

- emphasizes on prudent risk management;
- addresses the historically high level of NPAs;
- implements a program to reduce the operating expenses;
- focuses management attention to raise capital and improve liquidity to free capital for growth of the advances book and treasury business;
- emphasizes growth of low cost consumer deposit products; and
- focuses on developing the Bank's three core businesses – consumer banking, commercial banking and treasury.

Financial Performance

The Bank has incurred a net loss in each of the last three financial years. In FY 2004, FY 2005 and FY 2006 the Bank's net losses amounted to Rs. 431.85 million, Rs. 729.89 million and Rs. 805.88 million respectively.The Bank's financial performance in the past three fiscal yearshas been adversely impacted by constraints on its capital and the large levels of provisions taken in respect of NPAs.

The Bank's capital adequacy ratio, as at March 31, 2004, March 31, 2005 and March 31, 2006 was 9.50%, 9.54% and 9.66% respectively. The Bank is required to maintain a Tier 1 capital adequacy ratio of 9% by the RBI. Prior to the equity investment of Rs. 520 million in February, 2006, the Bank has relied on its Promoters for equity infusions in the past Constraints on the Bank's capital have restricted its ability to grow its business including its advances book. The Bank's advances have declined during the past three years from Rs. 27,169.1 million as at March 31, 2004 to Rs. 23,450.30 million as at March 31, 2005 and Rs. 20982.80 million as at March 31, 2006. In addition, the Bank's interest income has declined in each of the past five years. This decline in interest income has been primarily due to a combination of lower volumes and declining interest rates.

The Bank's results of operations have also been adversely affected by its provisioning in respect of NPAs. The Bank has had a high historical level of non-performing assets (NPAs) and has been actively recognizing these NPAs, providing for them in its accounts and otherwise managing its NPA exposure. Since FY 2002, the Bank has recognised most of its non-performing assets and as a result the gross non-performing assets have increased from Rs. 2154.50 million as at March 31, 2002, representing 9.09% of gross advances to Rs. 3,149.20 million as at March 31, 2006 representing 15.01% of its gross advances.

The Bank has taken provisions in respect of NPAs of Rs. 605.75 million, Rs. 417.75 million and Rs. 544.66 million in each of FY 2004, FY 2005 and FY 2006 respectively. After provisioning, the Bank's net non-performing assets were Rs. 839.60 million as at March 31, 2006, representing 4.50% of net advances. The Bank's net non-performing assets were Rs. 1,325.60 million as at March 31, 2005, representing 6.16% of net advances, and Rs. 839.60 million as at March 31, 2006, representing 4.50% of net advances. As of March 31, 2006, the Bank's provisions cover 70.50 % of the Bank's gross NPA exposure.

Qualifications in our Restated Financial Statements

The auditor's report in respect of the Bank's restated financial statements is qualified with respect to certain items which have not been restated. See the auditor's report on page 136 of this Red Herring Prospectus.

Factors affecting the Bank's Results of Operations

Revenues

The Bank's revenue, which is referred to herein and in our financial statements as "Income", consists of interest earned and other income.

An important measure of the Bank's performance is reflected in interest earned which comprises of interest/discount on advances/ bills, income on investments, interest on balances with the Reserve Bank of India and other interbank lending and others. The interest earned is impacted by volume of activity and fluctuations in interest rates.

The other income of the Bank consists principally of commission, exchange and brokerage, profit on sale of investments, profit on revaluation of investments, profit on sale of land building and other assets, profit on exchange transactions, income earned by way of dividend etc. from companies, lease income and miscellaneous income.

Expenses

The Bank's expenses, which are referred to herein and in the financial statements as "Expenditure" consists of interest expended and operating expenses

The Bank's interest expended consists of interest on deposits, interest on Reserve Bank of India/Inter bank borrowings and others. The Bank's interest on deposits is affected by fluctuations in interest rates, the extent to which it funds its activities with low-interest or non interest deposits and the extent to which the Bank relies on borrowings.

The Bank's operating expenses consists principally of payments to and provisions for employees, rent taxes and lighting, printing and stationery, advertisement and publicity, depreciation on the Banks property, Directors' fees, allowances and expenses, auditors' fees and expenses, legal fees , postage, telegrams, telephones etc, repairs and maintenance, insurance and other expenditure.

Financial Performance Indicators

The Bank uses a variety of indicators to measure its performance. These indicators are presented in tabular form in the section titled "Selected Statistical Information" on page 169. The Bank's net interest income (or spread) represents its total interest income net of total interest expense. Net interest margin represents the ratio of net interest income to the fortnightly average of total interest earning assets. The Bank calculates average yield on the fortnightly average of advances and average yield on the fortnightly average of investments, as well as the average cost of the fortnightly average of deposits and average cost of the fortnightly average of borrowings. The Bank's cost of funds is the average of the average cost of the fortnightly average of interest bearing liabilities. For the purposes of these averages and ratios only, the interest cost of the unsecured subordinated bonds that the Bank issues for Tier II capital adequacy purposes ("Tier II Bonds") is included in our cost of interest bearing liabilities. In the Bank's financial statements, these bonds are accounted for as "other liabilities and provisions" and their interest cost is accounted for under other interest expenses.

The Indian Economy

The Banks financial condition and results of operations are affected in large measure by general economic conditions prevailing in India. The Indian economy has grown steadily over the past three years. GDP growth was 4.0% in FY 2003, 8.5% in FY 2004, 6.9% in FY 2005. GDP growth in FY 2003 was adversely affected by insufficient rainfall, which contributed to a decrease in agricultural production. GDP growth picked up in FY 2004 primarily due to, among other things, agricultural production recovery, resurgence of the industrial sector and continued growth in the services sector. GDP growth was less in FY 2005 compared with FY 2004 primarily due to a smaller increase in the growth of the agricultural sector.

Industrial growth was 6.2% in FY 2003, 6.5% in FY 2004 and 8.3% in FY 2005. The agricultural sector grew by 5.2% in FY 2003, 9.6% in FY 2004 and 1.1% in FY 2005.

The annual rate of inflation, as measured by variations in the wholesale price index (WPI), on a point-to-point basis was, 6.5% in FY 2003 and 4.6% in FY 2004, 5.10% in FY 2005. It was at 5.9% by April 23, 2005 but declined steadily thereafter to 4.6 per cent by October 8, 2005.

In its Mid-term Review of the Annual Policy Statement for 2005-2006 released on October 25, 2005 the RBI forecast GDP growth for FY 2006 at 7.0-7.5% (up from a forecast of 7.0% in its annual policy 2005-2006 published on April 28, 2005) and has given an inflation rate forecast of 5.0-5.5%. The average exchange rate of the Indian Rupee to one U.S. Dollar was Rs. 48.27 in FY 2003, Rs. 45.83 in FY 2004, Rs. 44.89 in FY 2005 and Rs. 43.69 for the six months ended September 30, 2005. Foreign exchange reserves were US$142.62 billion as of November 4, 2005.

In FY 2003 and 2004, there was a general downward movement in interest rates in India, reflecting local and global economic conditions. Banks have generally followed the direction of interest rates set by the RBI and have adjusted both their deposit rates and lending rates downwards. However, the RBI's main influence is on short term interest rates, with long-term rates being set more by market conditions. During FY 2005, following the general trend of interest rates in the economy, deposit rates in the banking industry also displayed an upward bias. In the six months ended September 30, 2005 interest rates remained stable.

The RBI has maintained a policy of assuring adequate liquidity in the banking system and has generally lowered the rate at which it would lend to Indian banks to ensure that borrowers have access to funding at competitive rates. The RBI's primary motive has been to realign interest rates with the market to facilitate a smooth transition from a government-controlled regime in the early 1990s, when interest rates were heavily regulated, to a market-oriented interest rate regime.

Seasonality of business

Seasonal trends in the Indian economy affect the banking industry and therefore may affect the Bank's business. The period from October to March is the busy period in India for economic activity and accordingly the Bank also may experience high volumes of business during this period. Economic activity in the period from April to September is lower than in the busy period; accordingly, the Bank's business volumes are generally lower during this period.

Critical Accounting Policies

The financial statements have been prepared on a going concern concept and on the historical cost basis and in accordance with the generally accepted accounting practices and conform to the statutory provisions and practices prevailing within the banking industry in India, except as otherwise stated.

Investment portfolio consisting of approved securities (predominantly government securities) and other securities (including shares, debentures and bonds etc.) has been classified at the time of acquisition in accordance with the Reserve Bank of India guidelines under three categories: 'Held to Maturity', 'Available for Sale' and 'Held for Trading'. For the purposes of disclosure in the balance sheet, they are classified under five groups:. government securities, other approved securities, shares, debentures & bonds and other investments.

The transfer/shifting of securities between the three categories of investments is accounted for at the lower of acquisition cost/book value/market value on the date of transfer and the depreciation, if any, on such transfer is fully provided for. In pursuance of guidelines issued by the Reserve Bank of India, advances are classified as standard, sub-standard, doubtful and loss assets and the required provision is made on such advances. Advances are net of bills rediscounted, claims realised from Export Credit Guarantee Corporation, provisions for non- performing advances and unrealized interest held in suspense account. Any credit facility / investment, where interest and/or installment of principal has remained overdue for more than 90 days, is classified as non-performing asset.

Premises and other fixed assets are stated at historical cost, except those premises which have been revalued, and appreciation, if any, on such revaluation is credited to revaluation reserve under capital reserves

Depreciation on fixed assets including leased assets is provided for on the straight line basis at the rates and in the manner prescribed in the schedule XIV of the Companies Act 1956, except as mentioned below:

- On computer hardware - 33.33% p.a.
- On ATM - 12.50% p.a.
- On core banking software - 12.50% p.a.
- On application software & system development expenditure - depending upon estimated useful life between 3-5 years.
- On hard furnishing – 25% p.a.
- Depreciation on Revalued Portion of Premises is charged off equally over its residual life.

Items of income and expenditure are generally accounted on accrual basis, except as otherwise stated.

Interest on non-performing assets other than doubtful assets (including lease assets), to the extent it is realized, is recognized as income. In the case of doubtful assets, recoveries effected are first adjusted towards the principal amount. Income accounted for in the preceding fiscal year and remaining unrealized is derecognized in respect of assets classified as NPA during the fiscal year.

Commission, brokerage and overdue rent on safe deposit lockers is accounted for on realization. Lease rentals and finance charges in respect of hire purchase transactions are recognized as income on accrual basis. However, overdue lease rentals and overdue finance charges are accounted as income only upon realization. Accounting of assets leased out all of which were transacted prior to April 1, 2001, is done as per the Guidance Note of the Institute of Chartered Accountants of India. Provision in respect of Non Performing Assets is made by applying the asset classification norms prescribed by the Reserve Bank of India for advances.

The amount of lease equalization, representing the difference between the annual lease charge and the depreciation provided on leased assets in the books, is adjusted in the profit & loss account, with a corresponding adjustment to the value of leased assets, through a separate lease adjustment account. Interest on matured term deposits, which have not been renewed, is accounted on cash basis.

Accounting for transactions involving foreign exchange is done in accordance with Accounting Standard-11 (Revised 2003) on “The Effect of Changes in Foreign Exchange Rates” issued by the Institute of Chartered Accountants of India as mentioned below:

Items of income and expenditure are accounted for at the exchange rates ruling on the date of the transactions.

Foreign currency assets and liabilities, including outstanding forward contracts, acceptances, endorsements and other obligations are translated on the Balance Sheet date at the rates notified by Foreign Exchange Dealers’ Association of India (FEDAI), as per the guidelines issued by the Reserve Bank of India. The resultant gain/loss is taken to revenue as per FEDAI guidelines. FCNR/EEFC/Non-position Nostro accounts are translated on the Balance Sheet date at the rates notified by FEDAI.

Non banking assets acquired in satisfaction of claims are recorded at the fair value on the date of acquisition and provision is made for diminution, if any, as at the balance sheet date.

Provision in respect of future liability for payment of gratuity is made on the basis of actuarial valuation as at the end of the fiscal year. Gratuity is funded with the Gratuity Trust duly registered under the provisions of Income tax Act, 1961. Compensation paid to employees who have opted for Voluntary Retirement Scheme (VRS) has been amortized over the period of sixty months.

Income taxes are computed using the tax effect accounting method, where taxes are accrued in the same period in which the related revenue and expenses arise. The differences that result between the profit offered for income taxes and the profit as per the financial statements are identified and thereafter a deferred tax asset or a deferred tax liability is recorded for timing differences, namely the differences that originate in one accounting period and reversed in another, based on the tax effect of the aggregate amount being considered. The tax effect is calculated on the accumulated timing differences at end of accounting period based on prevailing enacted or substantially enacted regulations. Deferred tax assets are recognized only if there is virtual/ reasonable certainty, as the case may be, that they will be realized and are reviewed for appropriateness of the respective carrying values at each balance sheet date.

Impairment losses (if any) on fixed assets (including revalued assets) are recognized in accordance with the Accounting Standard-28 on "Impairment of Assets" issued by the Institute of Chartered Accountants of India.

Provisions are recognised in terms of Accounting Standard-29 on "Provisions, Contingent Liabilities and Contingent Assets" issued by the Institute of Chartered Accountants of India, when there is a present legal or statutory obligation as a result of past events leading to probable outflow of resources, where a reliable estimate can be made to settle the same.

Contingent liabilities are recognised only when there is a possible obligation arising from past events due to occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Bank, or where any present obligation cannot be measured in terms of future outflow or resources, or where a reliable estimate of the obligation cannot be made. Obligations are assessed on an ongoing basis and only those having a largely probable outflow of resources are provided for. Contingent assets are not recognised in the financial statements.

The net profit/(loss) in the profit and loss account is after considering provision for advances, depreciation in the value of investments, provision for taxation and other necessary provisions.

Segment Reporting

Business Segments

The Bank's business segment comprises of treasury operations and other banking operations. The following table sets forth our revenues, losses/profits and other items for the fiscal years ended March 31, 2004, 2005 and 2006

(Rs. in million)

	FY ended March 31, 2004		**FY ended March 31, 2005**		**FY ended March 31, 2006**	
	Treasury Operations	**Other Banking Operations**	**Treasury Operations**	**Other Banking Operations**	**Treasury Operations**	**Other Banking Operations**
Gross Revenue	1,680.10	2,736.35	1524.00	2,421.03	1254.60	2319.73
Result	363.80	(795.65)	295.40	(1025.29)	230.70	(1036.58)
Unallocated Expenses	-	-	-	-	-	-
Profit Before Tax	363.80	(883.75)	295.40	(1025.29)	230.70	(1067.40)
Income Tax (Net)	-	(88.10)	-	-	-	(30.82)
Extraordinary Profit/Loss	-	-	-	-	-	-
Net Profit	363.80	(795.65)	295.40	(1025.29)	230.70	(1036.58)

Results of Operations

FY Ended March 31, 2006 compared with the FY Ended March 31, 2005

Income

The Bank's income decreased from Rs. 3945.03 million in FY 2005 to Rs. 3574.32 million in FY 2006 which was a decrease of 9.40%. This was primarily due to a reduction in income from investments from Rs. 936.37 million in FY 2005 to Rs. 870.35 million in FY 2006.

The decrease in the Bank's income was primarily due to a decrease in interest earned from Rs. 3032.18 million in FY 2005 to Rs. 2771.42 million in FY 2006, which was a decrease of 8.60%.

Interest Earned

The following table sets forth the components of the Bank's interest earned:

(Rs. in million)

	Year ended March 31, 2005	Year ended March 31 2006
Interest/discount on advances/bills	1,857.79	1760.86
Income on investments	936.37	870.35
Interest on balances with Reserve Bank of India	238.02	138.70
Others	-	1.51
Total interest earned	**3,032.18**	**2771.42**

Interest earned decreased from Rs. 3032.18 million in FY 2005 to Rs. 2771.42 million in FY 2006, which was a decrease of 8.60%. As a percentage of the Bank's income, interest earned increased from 76.86% in FY 2005 to 77.54% in FY 2006.

The primary components of interest earned include interest/discount on advances/bills, income on investments and interest on balance with Reserve Bank of India and other interbank lending.

Interest/discount on advances and bills decreased from Rs. 1857.79 million in FY 2005 to Rs. 1760.86 million in FY 2006, which was a decrease of 5.22%. As a percentage of the Bank's income, interest/discount on advances and bills increased from 47.09% in FY 2005 to 49.26% in FY 2006. This decrease was mainly due to lower business volumes which was due to capital adequacy constrints on the Bank

Income from investments decreased from Rs. 936.37 million in FY 2005 to Rs. 870.35 million in FY 2006, which was a decrease of 7.05%. As a percentage of the Bank's income, income from investments increased from 23.74% in FY 2005 to 24.35% in FY 2006.

Interest on balances with Reserve Bank of India and other inter banking lending decreased from Rs. 238.02 million in FY 2005 to Rs. 138.70 million in FY 2006, which was a decrease of 41.72. As a percentage of the Bank's income, interest on balances with the Reserve Bank of India and other inter banking lending decreased from 6.03% in FY 2005 to 3.88% in FY 2006. This decrease was due to decrease in funds being deployed in inter bank lending , since advances growth was restricted by capital adequacy constraints.

Other Income

The following table sets forth the components of the Bank's other income

(Rs. in million)

	Year ended March 31 , 2005	Year ended March 31 , 2006
Commission, exchange and brokerage	368.61	394.93
Profit on sale of investments	155.54	138.96
Profit on revaluation of investments	-	-
Profit on sale of land, buildings and other assets	(1.14)	(0.69)
Profit on exchange transactions	100.89	105.88
Income earned by way of dividends etc from subsidiaries/ companies and or joint ventures in India	-	-
Lease Income	76.17	40.50
Miscellaneous Income	212.78	123.32
Total other Income	**912.85**	**802.90**

Our other income decreased from Rs. 912.85 million in FY 2005 to Rs. 802.90 million in FY 2006, which was a decrease of 12.04%. As a percentage of our Income, other income decreased from 23.14% in FY 2005 to 22.46% in FY 2006.

The primary components of other income include commission, exchange and brokerage, profit on sale of investments and profit on exchange transactions.

Commission, exchange and brokerage increased from Rs. 368.61 million in FY 2005 to Rs. 394.93 million in FY 2006, which was an increase of 7.14%. As a percentage of our Income, commission, exchange and brokerage increased from 9.34% in FY 2005 to 11.05% in FY 2006. The increase was mainly due to an increase in retail commission income such as average quarterly balance fees, fees and commission earned for distribution of investment products, and processing fees on the origination of retail advances.

Profit on exchange transactions increased from Rs. 100.89 million in FY 2005 to Rs. 105.88 million in FY 2006, which was an increase of 4.95%. As a percentage of the Bank's income, profit on exchange transactions increased from 2.56% in FY 2005 to 2.96% in FY 2006.

Profit on sale of investments decreased from Rs. 155.54 million in FY 2005 to Rs. 138.96 million in FY 2006, which was a decrease of 10.66. As a percentage of our income, profit on sale of investments decreased from 3.94% in FY 2005 to 3.89% in FY 2006.

Lease income decreased from Rs. 76.17 million in FY 2005 to Rs. 40.50 million in FY 2006, which was a decrease of 46.83%. This was due to reduction of the legacy portfolio. No fresh assets are being added in this business segment.

Miscellaneous Income decreased from Rs. 212.78 million in FY 2005 to Rs. 123.32 million in FY 2006, which was a decrease of 42.04% This decrease was on account of reduced recovery from written off accounts and profit made in previous year from Securitization of Assets.

Expenditure

The primary component of expenditures include interest expended and operating expenses. The Bank's expenditure decreased from Rs. 3986.31 million in FY 2005 to Rs. 3770.98 million in FY 2006 which was a decrease of 5.40%. As a percentage of income, the Bank's expenditure increased from 101.05% in FY 2005 to 105.50% in FY 2006.

Interest Expended

The following table sets forth our components of interest expended

(Rs million)

	Year ended March 31, 2005	Year ended March 31, 2006
Interest on deposits	2,052.94	1,768.15
Interest on Reserve Bank of India/Inter-bank borrowing	188.55	215.01
Others	93.71	36.37
Total interest expended	**2,335.20**	**2,019.53**

Interest expended decreased from Rs. 2335.20 million in FY 2005 to Rs. 2019.53 million in FY 2006, which was a decrease of 13.52%. As a percentage of the Bank's income, interest expended actually decreased from 59.19% in FY 2005 to 56.50% in FY 2006.

This decrease was primarily due to a decrease in interest on deposits from Rs. 2052.94 million in FY 2005 to Rs. 1768.15 million in FY 2006 which was a decrease of 13.87%. As a percentage of the Bank's income, interest on deposits decreased from 52.04% in FY 2005 to 49.47% in FY 2006. This decline in interest expense on deposits was due to a reduction in term deposits from Rs. 38947.64 million in FY 2005 to Rs. 31239.96 million in FY 2006.

Interest on Reserve Bank of India/Inter-bank borrowings increased from Rs. 188.55 million in FY 2005 to Rs. 215.01 million in FY 2006, which was an increase of 14.03%. As a percentage of the Bank's income, interest on Reserve Bank of India/Inter-bank borrowings increased from 4.78% in FY 2005 to 6.02% in FY 2006. This increase was due to the shift in the liability mix away from refinance lines to interbank market. .

Operating Expenses

The following table sets forth our components of operating expenses:

(Rs million)

	Year ended March 31, 2005	Year ended March 31, 2006
Payments to and provisions for employees	543.40	517.04
Rent, taxes and lighting	206.48	218.94
Printing and stationery	33.50	26.17
Advertisement and publicity	31.09	6.73
Depreciation on banks property	126.90	78.70
Directors fees, allowances and expenses	11.85	8.84
Auditors fees and expenses	4.09	2.75
Law charges	17.32	9.19
Postage, telegrams, telephones etc	40.56	40.03
Repairs and maintenance	28.02	32.00
Insurance	28.47	34.30
Other expenditure	579.43	776.76
Total Operating expenses	**1,651.11**	**1751.45**

Operating expenses increased from Rs. 1651.11 million in FY 2005 to Rs. 1751.45 million in FY 2006, which was an increase of 6.08%. As a percentage of the Bank's income, operating expenses increased from 41.85% in FY 2005 to 49.00% in FY 2006. This was primarily due to an increase in other expenditure from Rs. 579.43 million to Rs. 776.76 million in FY 2006.

Expenditure on Rent, taxes and lighting increased from Rs 206.48 million in FY 2005 to Rs. 218.94 million in FY 2006 which was an increase of 6.04%. As a percentage of income, rent taxes and lighting increased from 5.23% in FY 2005 to 6.13% in FY 2006.

Depreciation on Banks properties decreased from Rs. 126.90 million in FY 2005 to Rs. 78.70 million in FY 2006 which was a decrease of 37.98%. As a percentage of income, depreciation on Banks properties decreased from 3.21% in FY 2005 to 2.20% in FY 2006. Reduction was on account of discard of Leased Assets from Books, for which corresponding Lease Equalization Income also reduced.

Advertisement and Publicity decreased from Rs. 31.09 million in FY 2005 to Rs. 6.73 million in FY 2006 which was a decrease of 78.35%. As a percentage of income, Advertisement and Publicity decreased from 0.78% in FY 2005 to 0.18% in FY 2006. Reduction was on account reduction in marketing campaigns by the Bank

Other expenditures increased from Rs 579.43 million in FY 2005 to Rs. 776.76 million in FY 2006, which was an increase of 34.06%. As a percentage of the Bank's income, other expenditure increased from 14.69% in FY 2005 to 21.73% in FY 2006. Increase was on account of accelerated ATM project amortization and increase in premium amortization pertaining to Investments forming part of the Banks' Held to Maturity (HTM) portfolio, due to a significant portion of the portfolio being classified as HTM in October 2004.

Operating Profit

As a result of the foregoing factors, operating loss increased from Rs 41.28 million in FY 2005 to an operating loss of Rs. 196.66 million in the FY, 2006 which was an increase of 376.38%. As a percentage of income, the Bank's operating loss increased from 1.05% in FY 2005 to 5.50% in FY 2006.

Provision and Contingencies

Provision and contingencies decreased from Rs. 688.61million in the year ended March 31, 2005 to Rs. 609.22 million in the year ended March 31, 2006 which was a decrease of 11.52%. As a percentage of the Bank's income, provision and contingencies decreased from 17.46% in the year ended March 31, 2005 to 17.04% in the year ended March 31, 2006. This was primarily due to a decrease in depreciation on investments from Rs. 208.56 million in FY 2005 to Rs. 11.10 million in FY 2006

Rs. in Million

	Year ended March 31, 2005	**Year ended March 31, 2006**
Provisions for Non Performing Advances	417.75	544.66
Provision for Standard Advances	(10.00)	20.00
Provision for Taxation (TDA)	0.00	30.82
Depreciation on Investments	208.56	11.10
Provision for Restructured Standard Accounts	5.40	(13.30)
Others	66.90	15.94
Total Provisions and Contingencies	**688.61**	**609.22**

Net Profit after Tax

Net loss after tax in the year ended March 31, 2005 increased from Rs 729.89 million to a net loss after tax of Rs 805.88 million in the year ended March 31, 2006, which was an increase of 10.41%. As a percentage the Bank's income net loss after tax increased from 18.50% in the year ended March 31, 2005 to 22.54% in the year ended March 31, 2006

FY Ended March 31, 2005 compared with the FY Ended March 31, 2004

Income

The Bank's income decreased from Rs. 4416.45 million in FY 2004 to Rs. 3945.03 million in FY 2005 which was a decrease of 10.67%. This was primarily due to a reduction in volumes of advances, generating higher yielding volumes.

The decrease in the Bank's income was primarily due to a decrease in interest earned from Rs. 3532.89 million in FY 2004 to Rs. 3032.18 million in FY 2005, which was a decrease of 14.17%.

Interest Earned

The following table sets forth the components of the Bank's interest earned:

(Rs. in million)

	Year ended March 31, 2004	Year ended March 31 2005
Interest/discount on advances/bills	2,109.72	1,857.79
Income on investments	1,127.71	936.37
Interest on balances with Reserve Bank of India	249.6	238.02
Others	45.86	-
Total interest earned	**3,532.89**	**3,032.18**

Interest earned decreased from Rs. 3532.89 million in FY 2004 to Rs. 3032.18 million in FY 2005, which was a decrease of 14.17%. As a percentage of the Bank's income, interest earned decreased from 79.99% in FY 2004 to 76.88 % in FY 2005.

The primary components of interest earned include interest/discount on advances/bills, income on investments and interest on balance with Reserve Bank of India and other interbank lending.

Interest/discount on advances and bills decreased from Rs. 2109.72 million in FY 2004 to Rs. 1857.79 million in FY 2005, which was a decrease of 11.94%. As a percentage of the Bank's income, interest/discount on advances and bills decreased from 47.77% in FY 2004 to 47.09% in FY 2005. This decrease was mainly due to lower business volumes, which was due to capital adequacy constraints on the Bank.

Income from investments decreased from Rs. 1127.71 million in FY 2004 to Rs. 936.37 million in FY 2005, which was a decrease of 16.97%. As a percentage of the Bank's income, income from investments decreased from 25.53% in FY 2004 to 23.74% in FY 2005. This was due to a decrease in the portfolio size from Rs.20,590 million in FY 2004 to Rs.19,230 million in FY 2005.

Interest on balances with Reserve Bank of India and other inter banking lending decreased from from Rs. 249.60 thousand in FY 2004 to Rs. 238.02 in FY 2005, which was an decrease of 4.64%. This decrease was due to reduced funds being deployed in inter bank lending,. As a percentage of the Bank's income, balances with the Reserve Bank of India and other inter banking lending increased from 5.65% in FY 2004 to 6.66% in FY 2005.

Other Income

The following table sets forth the components of the Bank's other income

(Rs. in million)

	Year ended March 31, 2004	Year ended March 31, 2005
Commission, exchange and brokerage	293.21	368.61
Profit on sale of investments	295.67	155.54
Profit on revaluation of investments	-	-
Profit on sale of land, buildings and other assets	0.71	(1.14)
Profit on exchange transactions	107.95	100.89
Income earned by way of dividends etc from subsidiaries/companies and or joint ventures in India	-	-
Lease Income	82.47	76.17
Miscellaneous Income	103.55	212.78
Total other Income	**883.56**	**912.85**

Our other income increased from Rs. 883.56 million in FY 2004 to Rs. 912.85 million in FY 2005, which was an increase of 3.32%. As a percentage of our Income, other income increased from 20.01% in FY 2004 to 23.14% in FY 2005.

The primary components of other income include commission, exchange and brokerage, profit on sale of investments and profit on exchange transactions.

Commission, exchange and brokerage increased from Rs. 293.21 million in FY 2004 to Rs. 368.61 million in FY 2005, which was an increase of 25.71%. As a percentage of our Income, commission, exchange and brokerage increased from 6.64% in FY 2004 to 9.34% in FY 2005. The increase was mainly due to an increase in retail commission income such as average quarterly balance fees, fees and commission earned for distribution of investment products, and processing fees on the origination of retail advances.

Profit on exchange transactions decreased from Rs. 107.95 million in FY 2004 to Rs. 100.89 million in FY 2005, which was a decrease of 6.54%. As a percentage of the Bank's income, profit on exchange transactions increased from 2.44% in FY 2004 to 2.56% in FY 2005.

Profit on sale of investments decreased from Rs. 295.67 million in FY 2004 to Rs. 155.54 million in FY 2005, which was a decrease of 47.39%. As a percentage of our income, profit on sale of investments decreased from 6.69% in FY 2004 to 3.94% in FY 2005. This was due to lower volume of securities trading due to adverse market conditions in FY 2005.

Lease income decreased from Rs. 82.47 million in FY 2004 to Rs. 76.17 million in FY 2005, which was a decrease of 7.64%. There was no significant change in lease income other than a reduction due to the continuing run down of the legacy portfolio. No fresh assets are being added in this business segment.

Miscellaneous increased from Rs. 103.55 million in FY 2004 to Rs. 212.78 million in FY 2005, which was an increase of 105.49%. Miscellaneous income has increased due to there being significant recoveries of written off accounts as well as unlocking of value from the securitization of advances during FY 2005.

Expenditure

The primary component of expenditures include interest expended and operating expenses. The Bank's expenditure increased from Rs. 3866.39 million in FY 2004 to Rs. 3986.31 million in FY, 2005 which was an increase of 3.10%. As a percentage of income, the Bank's expenditure increased from 87.55% in FY 2004 to 101.05% in FY 2005.

Interest Expended

The following table sets forth our components of interest expended

(Rs. in million)

	Year ended March 31, 2004	Year ended March 31, 2005
Interest on deposits	2,245.60	2,052.94
Interest on Reserve Bank of India/Inter-bank borrowing	164.22	188.55
Others	158.83	93.71
Total interest expended	**2,568.65**	**2,335.20**

Interest expended decreased from Rs. 2568.65 million in FY, 2004 to Rs.2335.20 million in FY 2005, which was a decrease of 9.09%. As a percentage of the Bank's income, interest expended actually increased from 58.16% in FY 2004 to 59.19% in FY 2005.

This decrease was primarily due to a decrease in interest on deposits from Rs. 2245.60 million in FY 2004 to Rs. 2052.94 million in FY 2005 which was a decrease of 8.58%. As a percentage of the Bank's income, interest on deposits increased from 50.85% in FY 2004 to 52.04% in FY 2005. This declined in interest expense on deposits was due to a reduction in term deposits from Rs.44,740 million in FY 2004 to Rs. 38,940 million in FY 2005 and the cost of deposits declined from 6.2% in FY 2004 to 5.25% in FY 2005.

Interest on Reserve Bank of India/Inter-bank borrowings increased from Rs. 164.22 million in FY 2004 to Rs. 188.55 million in FY 2005, which was an increase of 14.82%. As a percentage of the Bank's income, interest on Reserve Bank of India/Inter-bank borrowings increased from 3.72% in FY 2004 to 4.78% in FY 2005. This increase in interest expense on inter bank borrowing was due to a shift in the liability mix away from refinance lines to the interbank market. Interest on refinance is booked in Other Borrowings.

Operating Expenses

The following table sets forth our components of operating expenses:

(Rs. in million)

	Year ended March 31, 2004	Year ended March 31, 2005
Payments to and provisions for employees	553.69	543.40
Rent, taxes and lighting	123.60	206.48
Printing and stationery	35.66	33.50
Advertisement and publicity	41.43	31.09
Depreciation on banks property	129.89	126.90
Directors fees, allowances and expenses	6.86	11.85
Auditors fees and expenses	3.17	4.09
Law charges	8.38	17.32
Postage, telegrams, telephones etc	44.10	40.56
Repairs and maintenance	26.99	28.02
Insurance	15.45	28.47
Other expenditure	308.52	579.43
Total Operating expenses	**1,297.74**	**1,651.11**

Operating expenses increased from Rs. 1297.74 million in FY 2004 to Rs. 1651.11 million in FY 2005, which was an increase of 27.23%. As a percentage of the Bank's income, operating expenses increased from 29.38% in FY 2004 to 41.85% in FY 2005. This increase in expenses was mainly due to increase in rent taxes and lighting, law charges, insurance, retail asset acquisition cost and amortization of premium on investments.

Expenditure on rent, taxes and lighting from Rs 123.60 million in FY 2004 to Rs. 206.48 million in FY 2005 which was an increase of 67.06%. As a percentage of income, rent taxes and lighting decreased from 2.80% in FY 2004 to 5.23% in FY 2005. This decrease was mainly due to Bank's policy of taking certain assets (primarily premises, ATMs and computers) on lease, which was offset by lower depreciation on fixed assets.

Directors' fees and allowances increased from Rs 6.86 million in FY 2004 to Rs. 11.85 million in FY 2005, which was an increase of 72.77%. As a percentage of income, Directors' fees, allowances and expenses increased from 0.16% in FY 2004 to 0.30% in FY 2005.

Law charges increased from Rs 8.38 million in FY 2004 to Rs. 17.32 million in FY 2005, which was an increase of 106.68%. Law charges have increased due to additional costs incurred in connection with litigation with defaulting borrowers and others including a legal case involving litigation by a shareholder.

Other expenditures increased from Rs 308.52 million in FY 2004 to Rs. 579.43 million in FY 2005, which was an increase of 87.81%. As a percentage of the Bank's income, other expenditure increased from 6.99% in FY 2004 to 14.69% in FY 2005. This was primarily due to additional expenditure for retail loan acquisition of Rs. 72.83 million in FY 2005 (FY2004 Rs 4.67 million) and higher amortization charge of premium on investments of Rs. 179.44 million in FY 2005 (FY 2004 Rs.43.55 million), which was on account of reclassification of significant portion of investments from Available for Sale to Held To Maturity category during October 2004.

Operating Profit

As a result of the foregoing factors, operating profit decreased from Rs 550.06 million in FY 2004 to an operating loss of Rs. 41.28 million in the FY, 2005 which was a decrease of 107.51%. As a percentage of income, the Bank's operating profit was 12.45% in FY 2004 and net loss was 1.05% in FY 2005.

Provisions and Contingencies (other than provisions for tax)

Provisions and contingencies decreased from Rs 1070.01 million in FY 2004 to Rs. 688.61 million in FY 2005 which was a decrease of 35.64%. As a percentage of income, provisions and contingencies decreased from 24.23% in FY 2004 to 17.46% in FY 2005. This was mainly due to increased loan loss provisions in FY 2004.

The following table sets forth the components of the Bank's provisions and contingencies:

(Rs. in million)

	Year ended March 31, 2004	**Year ended March 31, 2005**
Provisions for Non Performing Advances	605.75	417.75
Provision for Standard Advances	-	(10.00)
Depreciation on Investments	404.76	208.56
Provision for Restructured Standard Accounts	-	5.40
Others	59.50	66.90
Total Provisions and Contingencies	**1,070.01**	**688.61**

Net Profit after Tax

As a result of the foregoing factors, the Bank's net loss after tax increased from Rs. 431.85 million in FY 2004 to Rs. 729.89 million in FY 2005, which was a decrease of 69.01%. As a percentage of income, the Bank's net loss after tax increased from 9.78% in FY 2004 to 18.50% in FY 2005.

FY Ended March 31, 2004 compared with the FY Ended March 31, 2003

Income

The Bank's Income increased from Rs. 4315.87 million in FY 2003 to Rs. 4416.45 million in FY 2004 which was an increase of 2.33%. The increase in income was primarily due to an increase in other income from Rs. 731.29 million in FY 2003 to Rs. 883.56 million in FY 2004 which was an increase of 20.82%. As a percentage of income, other income increased from 16.94% in FY 2003 to 20.01% in FY 2004

Interest Earned

The following table sets forth the components of the Bank's interest earned

(Rs. in million)

	Year ended March 31, 2003	Year ended March 31, 2004
Interest/discount on advances/bills	2,098.90	2,109.72
Income on investments	1,315.28	1,127.71
Interest on balances with Reserve Bank of India	170.40	249.60
Others	0.00	45.86
Total interest earned	**3,584.58**	**3,532.89**

The Bank's interest earned decreased from Rs. 3584.58 million in FY 2003 to Rs. 3532.89 million in FY 2004 which was a decrease of 1.44%. As a percentage of income, interest earned decreased from 83.06% in FY 2003 to 79.99% in FY 2004.

Interest/discount on advances and bills increased from Rs. 2098.90 million in FY 2003 to Rs. 2109.72 million in FY 2004, which was an increase of 0.52%. As a percentage of income, interest/discount on advances and bills decreased from 48.63% in FY 2003 to 47.77% in FY 2004.

Income from investments decreased from Rs. 1315.28 million in FY 2003 to Rs. 1127.71 million in FY 2004 which was a decrease of 14.26%. As a percentage of income, income from investments decreased from 30.48% in FY 2003 to 25.53% in FY 2004. This was mainly due to a reduced yield on investments from 9.14% in FY 2004 to 8.16% in FY 2003.

Interest on balances with Reserve Bank of India and other inter banking lending increased from Rs. 170.40 million in FY 2003 to Rs. 249.60 million in FY 2004, which was an increase of 46.48%. As a percentage of the Bank's income, balances with the Reserve Bank of India and other inter banking lending increased from 3.86% in FY 2003 to 6.33% in FY 2004. This increase was primarily due to surplus liquidity being deployed in interbank lending. The average outstanding interbank balance increased from Rs. 311.43 million in FY 2004 to Rs. 513 million in FY 2003.

Other Income

The following table sets forth the components of the Bank's other income:

(Rs. in million)

	Year ended March 31, 2003	Year ended March 31, 2004
Commission, exchange and brokerage	287.65	293.21
Profit on sale of investments	160.41	295.67
Profit on revaluation of investments	86.49	-
Profit on sale of land, buildings and other assets	(43.42)	0.71
Profit on exchange transactions	96.62	107.95
Income earned by way of dividends etc from subsidiaries/companies and or joint ventures in India	-	-
Lease Income	105.46	82.47
Miscellaneous Income	38.08	103.55
Total other Income	**731.29**	**883.56**

Other income increased from Rs. 731.29 million in FY 2003 to Rs. 883.56 million in FY 2004, which was an increase of 20.82%. As a percentage of income, other income increased from 16.94% in FY 2003 to 20.01% in FY 2004. This increase in other income can be mainly attributed to a higher profit from sale of investments.

Commission, exchange and brokerage increased from Rs. 287.65 million in FY 2003 to Rs. 293.21 million in FY 2004, which was an increase of 1.93%. As a percentage of income, commission, exchange and brokerage from investments decreased from 6.67% in FY 2003 to 6.64% in FY 2004.

Profit on sale of investments increased from Rs. 160.41 million in FY 2003 to Rs. 295.67 million in FY 2004, which was an increase of Rs. 84.32%. As a percentage of Income, profit on sale of investments increased from 3.72% in FY 2003 to 6.69% in FY 2004. This increase was due to the sale of high coupon yielding investments in the softer interest rate environment of FY 2004.

Profit on exchange transactions increased from Rs. 96.62 million in FY 2003 to Rs. 107.95 million in FY 2004, which was an increase of 11.72%. As a percentage of income, profit on exchange transactions increased from 2.24% in FY 2003 to 2.44% in FY 2004. This increase was due to higher turnover from the Bank's exchange business.

Lease income decreased from Rs. 105.46 million in FY 2003 to Rs. 82.47 million in FY 2004, which was a decrease of 21.80%. This was due to a reduction from the continuing run down of the legacy portfolio. No fresh assets are being added in this business segment.

Miscellaneous increased from Rs. 38.08 million in FY 2003 to Rs. 103.55 million in FY 2004, which was an increase of 171.93%. Miscellaneous income has increased due to there being recoveries of written off accounts.

Expenditure

The primary component of expenditures include interest expended and operating expenses. The Bank's expenditure increased from Rs. 3863.91 million in FY 2003 to Rs. 3866.39 million in FY, 2004 which was an increase of 0.06%. As a percentage of income, the Bank's expenditure decreased from 89.53% in FY 2003 to 87.55% in FY 2004.

Interest Expended

The following table sets forth our components of the Bank' interest expended

(Rs. in million)

	Year ended March 31, 2003	Year ended March 31, 2004
Interest on deposits	2,681.16	2,245.60
Interest on Reserve Bank of India/Inter-bank borrowing	159.61	164.22
Others	37.41	158.83
Total interest expended	**2,878.18**	**2,568.65**

Interest expended decreased from Rs. 2878.18 million in FY, 2003 to Rs. 2568.65 million in FY 2004, which was a decrease of 10.75%. As a percentage of income, interest expended decreased from 66.69% in FY 2003 to 58.16% in FY 2004.

This decrease was primarily due to a decrease in interest on deposits from Rs. 2681.16 million in FY 2003 to Rs. 2245.60 million in FY 2004, which was a decrease of 16.25%. As a percentage of income, interest on deposits decreased from 62.12% in FY 2003 to 50.85% in FY 2004. This decrease is primarily to the Bank's sourcing of lower cost deposits and repaying older high cost liabilities.

Interest on Reserve Bank of India/Inter bank borrowings increased from Rs. 159.61 million in FY 2003 to Rs.164.22 million in FY 2004, which was an increase of 2.89%. As a percentage of income, interest on Reserve Bank of India increased from 3.70% in FY 2003 to 3.72% in FY 2004.

Others increased from Rs. 37.41 million in FY, 2003 to Rs. 158.83 million in FY 2004, which was a decrease of 324.57%. Interest on other borrowings has increased due to higher volumes. Additionally the Bank issued further subordinated debt during FY 2004.

Operating Expenses

The following table sets forth the components of the Bank's operating expenses:

(Rs. in million)

	Year ended March 31, 2003	Year ended March 31, 2004
Payments to and provisions for employees	423.36	553.69
Rent, taxes and lighting	87.66	123.60
Printing and stationery	29.83	35.66
Advertisement and publicity	20.65	41.43
Depreciation on banks property	156.96	129.89
Directors fees, allowances and expenses	6.22	6.86
Auditors fees and expenses	4.08	3.17
Law charges	4.09	8.38
Postage, telegrams, telephones etc	24.09	44.10
Repairs and maintenance	26.61	26.99
Insurance	16.04	15.45
Other expenditure	186.14	308.52
Total Operating expenses	**985.73**	**1,297.74**

Operating expenses increased from Rs. 985.73 million in FY 2003 to Rs. 1297.74 million in FY 2004 which was an increase of 31.65%. As a percentage of the Bank's income, operating expenses increased from 22.84% in FY 2003 to 29.38% in FY 2004.

Payments to and provision for employees increased from Rs 423.36 million in FY 2003 to Rs. 553.69 million in FY 2004, which was an increase of 30.78%. As a percentage of income, payments to and provision for employees increased from 9.81% in FY 2003 to 12.54% in FY 2004. This was due to an expansion in the Bank's head count in FY 2004.

Rent taxes and lighting also increased from Rs 87.66 million in FY 2003 to Rs. 123.60 million in FY 2004 which was an increase of 40.99%. As a percentage of income, rent taxes and lighting increased from 2.03% in FY 2003 to 2.80% in FY 2004. This was mainly due to the Bank's decision to lease rather than purchase certain infrastructure assets. This increase was partially offset by a lower depreciation charge as the installed base of owned assets declined.

Advertisement and publicity increased from Rs 20.65 million in FY 2003 to Rs. 41.43 million in FY 2004 which was an increase of 100.63%. As a percentage of income advertisement and publicity decreased from 0.48% in FY 2003 to 0.94% in FY 2004. This increase was due to the expenses related to the launch of new retail products.

Other expenditure increased from Rs 186.14 million in FY 2003 to Rs. 308.52 million in FY 2004, which was an increase of 65.75%. As a percentage of income, other expenditure increased from 4.31% in FY 2003 to 6.99% in FY 2004. This increase was mainly due to expenses incurred toward raising of subordinated debt (tier II bonds), the cost of acquisition of retail assets as well as liability products and the amortization of share premium.

Operating Profit

As a result of the foregoing factors, operating profit increased from Rs 451.96 million in FY 2003 to Rs. 550.06 million in the FY, 2004 which was an increase of 21.71%. As a percentage of income, operating profit increased from 10.47% in FY 2003 to 12.45% in FY 2004.

Provisions and Contingencies

Provisions and contingencies increased from Rs 593.95 million in FY 2003 to Rs. 1070.01 million in FY 2004 which was an increase of 80.15%. As a percentage of income, provisions and contingencies increased from 13.76% in FY 2003 to 24.23% in FY 2004. This was mainly due to increased loan loss provisions in FY 2004 and due to increased depreciation on investment portfolio which was due to adverse market conditions in FY 2004.

The following table sets forth the components of the Bank's provisions and contingencies:

(Rs. in million)

	Year ended March 31, 2003	**Year ended March 31, 2004**
Provisions for Non Performing Advances	221.50	605.75
Provision for Standard Advances	7.50	-
Depreciation on Investments	265.64	404.76
Provision for Restructured Standard Accounts	-	-
Others	99.31	59.50
Total Provisions and Contingencies	**593.95**	**1,070.01**

Net Profit after Tax

As a result of the foregoing factors, the Bank's net loss after tax increased from Rs. 97.79 million in FY 2003 to Rs. 431.85 million in FY 2004 which was an increase of 341.59%. As a percentage of income, the Bank's net loss was 2.27% in FY 2003 and 9.78% in FY 2004.

Liquidity and Capital Resources

Cash Flow from Operating Activities

The Bank's net cash from operating activities reflects interest received during the year from advances and investments and other income and non-cash charges such as depreciation and provisions (mainly for non-performing and standard assets) made during the period, as well as adjustments for cash charges consisting primarily of interest on our Tier II bonds (which is included in financing activity).

In addition, the Bank's net cash from operating activities reflects changes in operating assets and liabilities, including investments, advances, deposits and borrowings, as well as other assets and other liabilities.

The Bank's net cash from operating activities was Rs. (1463.61) million, Rs. (1637.50) million, Rs. (1413.83) million and Rs. (1046.49) million for each of FY 2003, FY 2004, FY 2005, and FY 2006 respectively. ,

The Bank's net cash outflows from operating activities in the past three fiscal years reflect the capital constraints on the Bank's business. The Bank has satisfied these outflows from credit lines and other borrowings.

Cash Flow from Investing Activities

The Bank's net cash in investing activities reflects purchase of and proceeds from fixed assets. The Bank's net cash in investing activities was , Rs. (156.27) million, Rs. (94.78) million and Rs. (55.16) million and Rs. (35.74) million for FY 2003, FY 2004 and FY 2005 and FY 2006, respectively,

Cash Flow from Financing Activities

The Bank's net cash used from financing activities reflects proceeds from issue of shares, Tier II Bonds and payment of dividends. The Bank's net cash from financing activities was Rs. 794.26 million, Rs 1660.76 million, Rs. 1086.07 million and Rs. 505.19 million for FY 2003, FY 2004, FY 2005 and FY 2006, respectively.

Capital

The Bank is subject to the capital adequacy requirements of the RBI, which are primarily based on the capital adequacy accord reached by the Basel Committee of the Bank of International Settlements in 1988. The Bank is required to maintain a minimum ratio of total capital to risk adjusted assets as determined by a specified formula of 9.0%, at least half of which must be Tier I capital.

The Bank's regulatory capital and capital adequacy ratios based on its restated financial statements are as follows:

Rs. in Million

	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
Tier 1 Capital	3,128.40	1,736.20	1,747.90	1,505.30	1,372.40
Tier 2 Capital	178.00	1,065.80	1,182.50	1,049.00	849.10
Total Capital	**3,306.40**	**2,802.00**	**2,930.40**	**2,554.30**	**2,222.50**
Total Risk Weighted Assets and Contingents	28,772.20	30,580.50	30,858.80	26,773.30	23,007.40
Tier 1	10.87%	5.68%	5.66%	5.62%	5.96%
Tier 2	0.62%	3.48%	3.84%	3.92%	3.70%
Total Capital Adequacy Ratio	**11.49%**	**9.16%**	**9.50%**	**9.54%**	9.66%
Minimum capital required by the RBI	9.0%	9.0%	9.0%	9.0%	9.0%
Tier 1	10.87%	5.68%	5.66%	5.62%	5.96%
Total Capital Ratio	**11.49%**	**9.16%**	**9.50%**	**9.54%**	9.66%

As shown above, the bank's total capital ratio was 11.49% as of March 31, 2002, 9.16% as of March 31, 2003, 9.50% as of March 31, 2004, 9.54% as of March 31, 2005 and 9.66%% as of March 31, 2006,. The Bank has been able to maintain the required capital adequacy ratio prescribed by RBI. However, capital has been a significant constraint on the Bank's ability to grow its business and, accordingly, capital constraints on the Bank has adversely affected its results of operations and financial condition.

The Bank is consistently reviewing its portfolio mix to maximize return as well as to maintain the required capital adequacy ratio. RBI has also initiated the phased implementation of Basel II norms. Bank has already put in place structure to manage the Market Risk, Credit Risk and Operational risks through ALCO, CRMC and ORCO respectively. As regards Basel II norms on market risk, the capital adequacy on Market Risk of the AFT portfolio has been implemented in March 2005.

Capital adequacy on Credit risk under standardized approach (SA) and on Operational risk under Basic Indicator Approach (BIA) will be implemented with effect from March 2007.

Financial Condition

Assets

The Bank's net assets increased from Rs 1856.17 million in FY 2003 to Rs 1878.31 million in FY 2004, which was an increase of 1.03%. Net assets decreased from Rs 1878.31 million in FY 2004 to Rs 1663.05 million in FY 2005, which was a decrease of 11.46%.

Net assets decreased from from Rs 1663.05 million in FY 2005 to Rs. 1393.05 million in FY 2006, which was a decrease of 16.23%. Reduction was on account of Banks' decision to contract its Balance Sheet size as also derecognition of Deferred Tax Assets and amortisation of ATM Project.

The Bank's Net investments increased from Rs 12197.58 million in FY 2003 to Rs 20594.46 million in FY 2004, which was an increase of 68.84%. Net investments decreased from Rs 20594.46 million in FY 2004 to Rs 18,333.87 million in FY 2005, which was a decrease of 10.98%.

Net investments decreased from Rs. 18,333.87 million in FY 2005 to Rs. 12,919.20 million in FY 2006 which was a decrease of 29.53%. This decrease was primarily due to reduction in the requirement for Statutory Liquidity Ratio due to decrease in Net Demand and Time Liabilities.

The Bank's advances increased from Rs 24681.98 million in FY 2003 to Rs 25100.98 in FY 2004, which was an increase of 1.70%. Advances decreased from Rs 25100.98 million in FY 2004 to Rs 21,518.40 million in FY 2005, which was a decrease of 14.27%.

Advances decreased from Rs 21518.40 million in FY 2005 to Rs.18673.22 million in FY 2006, which was a decrease of 13.22%. This decrease was primarily due to lower business volumes because of capital constraints and higher loan loss provisions

Other assets increased from Rs 1555.25 million in FY 2003 to Rs 2104.62 in FY 2004, which was an increase of 35.32%. Other assets decreased from Rs 2104.62 million in FY 2004 to Rs 1916.57 in FY 2005, which was a decrease of 8.94%.

Other Assets decreased from Rs 1916.57 million in FY 2005 to Rs.1746.03 million in FY 2006, which was a decrease of 8.90%. Reduction was on account of derecognition of Deferred Tax Assets and amortisation of ATM Project.

The Bank's Gross non performing assets increased from Rs 3159.00 million in FY 2003 to Rs 3458.50 million in FY 2004, which was a increase of 9.48%. Gross non performing assets decreased from Rs 3458..50 million in FY 2004 to Rs 3107.50 million in FY 2005, which was a decrease of 10.14%. Gross non performing assets increased from Rs. 3107.50 million in FY 2005 to Rs. 3149.20 in FY 2006 which was an increase of 1.34%

Liabilities

The Bank's total liabilities increased from Rs 41662.48 million in FY 2003 to Rs 50871.84 in FY 2004, which was an increase of 22.10%. Total liabilities decreased from Rs 50871.84 million in FY 2004 to Rs 44600.30 million in FY 2005, which was a decrease of 12.33%.

Total liabilities decreased from Rs 44,600.30 million in FY 2005 to Rs. 35,775.37 million in FY 2006 which was decrease of 19.78%

Contingent Liabilities

The following table sets forth the principal components of the Bank's contingent liabilities:

Rs. in Million

	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
Claims against the Bank not acknowledged as debts	136.60	132.93	576.30	847.90	1,081.60
Liability for party paid investments	-	-	-	-	-
Liability on account of outstanding forward exchange contracts	7,413.55	16,696.86	16,983.69	19,902.22	19,530.64
Guarantees given on behalf of constituents:					
a) India	1,826.73	2,699.39	1,796.81	1,944.49	1,995.98
b) Outside India	756.06	980.70	735.47	1,428.30	1,598.48
Acceptances, Endorsements and other obligations	3,996.16	3,789.72	3,119.44	5,469.80	4,088.41
Other items for which the bank is contingently liable	1,133.90	4,284.21	2,603.88	6,361.25	1,715.15
Total	**15,263.00**	**28,583.81**	**25,815.59**	**35,953.96**	**30,010.26**

The Bank's contingent liability decreased from Rs 28583.81 million in FY 2003 to Rs 25815.59 million in FY 2004, which was a decrease of 9.68%.Contingent liability increased from Rs 25815.59 million in FY 2004 to Rs 35953.96 million in FY 2005, which was an increase of 39.27%. Contingent liability decreased from 35,953.96 million in FY 2005 to Rs. 30,010.26 million in FY 2006 which was a decrease of 16.53%.

Other matters

Unusual or infrequent events and transactions

Other than as more particularly described in "Management's Discussion and Analysis of Financial Condition and Results of Operations", to the Bank's knowledge there are no events that may be described as unusual or infrequent events and transactions.

Significant economic / regulatory changes

Other than as more particularly described in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", to the Bank's knowledge there are no significant economic / regulatory changes that materially affect or are likely to affect the income from continuing operations.

Known trends and uncertainties

Other than as more particularly described in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", to the Bank's knowledge there are no trends or uncertainties that have or had or are expected to have a material adverse impact on revenues or income of the Bank from continuing operations.

Future relationship between costs and income

Other than as more particularly described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, to the Bank’s knowledge there are no known factors which will have a material adverse impact on the operation and finances of the Bank and its subsidiaries, taken as a whole.

Total turnover of each industry segment in which the Bank operates

The Bank considers consumer & commercial banking and investment banking as reportable segments. Consumer & commercial banking comprises of retail and corporate banking business and investment banking comprises of treasury. See “Segment Information” on page 353.

New product or business segment

Other than as more particularly described in “Business” and an, to the Bank’s knowledge there are no new business segments or material new products planned.

Dependence on single or few customers

Other than as more particularly described in “Risk factors - The Bank has high concentration of loans to certain customers and to certain sectors and if a substantial portion of these loans were to become non-performing, the quality of the Bank’s loan portfolio could be adversely affected” on page XIV and “Business - Asset Composition and Classification - Loan Concentration” on page 75 to the Bank’s knowledge it has no dependence on a single or few customers and its business interests are spread across industries and customer segments.

Competitive conditions

The Bank faces competition in all its principal areas of business from Indian and foreign commercial banks, housing finance companies, mutual funds and investment banks. See “Business - Competition” on page 89.

Significant development after March 31, 2006 that may affect our future results of operations

Except as stated elsewhere in this Red Herring Prospectus, to the Bank’s knowledge no circumstances have arisen since the date of the last financial statements as disclosed in this Red Herring Prospectus which materially and adversely affect or are likely to affect, the Bank’s trading or profitability, or the value of its consolidated assets or the ability to pay its material liabilities within the next twelve months. Except as stated elsewhere in this Red Herring Prospectus, there is no subsequent development after the date of the Auditor’s Report which the Bank believes is expected to have a material impact on reserves, profits, earning per share and book value of the Bank.

SECTION 6 : LEGAL AND REGULATORY INFORMATION

Outstanding Litigation and Material Developments

Except as detailed below, there are no outstanding litigation, suits or criminal or civil prosecutions, proceedings or tax liabilities, against the Bank, its Promoter, its Directors or promoter group company that would have a material adverse effect on the Bank's business. There are no defaults, non-payment or overdue of statutory dues, institutional/ bank dues and dues payable to holders of any debentures, bonds and fixed deposits that would have a material adverse effect on the Bank's business. A materiality threshold of Rs. 5 million, where the claims are solely monetary in nature, has been adopted in relation to disclosure of cases pending against the Bank.

Contingent Liability

The following table sets forth the principal components of the Bank's contingent liabilities not provided for as of March 31, 2006

(Rs. in million)

Sl. No.	Contingent Liabilities	As on March 31, 2006
1	Claims against the Bank not acknowledged as debt	1,081.60
2	Liability on account of outstanding forward exchange contracts	19,530.64
3	Guarantees given on behalf of constituents:	
	In India	1995.98
	Outside India	1598.48
4	Acceptances, Endorsements & Other Obligations	4,088.41
5	Other items for which the Bank is contingently liable	1,715.15
	Total	**30,010.26**

For details, please refer to the "Auditor's Report – Contingent Liabilities" on page 196 of this Red Herring Prospectus.

(A) **Criminal Proceedings**

1. The Santacruz police have filed a criminal case (No 1203/P/98) against amongst others the Bank in the Metropolitan Magistrate's Court, Bandra, Mumbai. The case has been registered against the executives and officers of the Bank and the Bank itself alleging that the officers of the Bank opened fraudulent accounts on behalf of several fixed deposits account holders.

(B) **Civil Proceedings**

1. The order dated August 5, 2004 was passed by the High Court of Judicature at Bombay in the Company Petition No. 109 of 2004 filed by the Bank whereby the High Court had confirmed reduction of the share premium account of the Bank to the extent of Rs. 624.48 millions for writing off of NPAs of the Bank to that extent. Against this, Mr. Salim Nanji has filed an Appeal (Appeal No. 553 of 2004) in the High court of Judicature at Bombay. The High Court has, in a Notice of Motion taken out by Mr. Salim Nanji, passed an order dated 2nd November, 2004 stipulating that all acts and actions of the Bank under the impugned order shall be subject to the final decision in the appeal. The High court has directed the Bank not to take any further action of writing off debts. The Bank had, prior to passing of the said order in appeal, completed the action of writing off the said amount in the books of account. The appeal is pending hearing and final disposal. If the final decision is against the Bank, the Bank may have to reverse the write off in its books of accounts and certain tax refunds availed of as a result of the writing off. The matter may come up for hearing in its usual course of time. No specific date of hearing is given in the matter. However, in view of the dismissal of similar matter.

2. A writ petition (W.P.No.2225/2005) has been filed by Mr. Salim Nanji against the Union of India, the RBI and the Bank in the High Court of Judicature at Bombay on August, 26, 2005. The petitioner has filed the petition seeking issuance of an appropriate writ restraining the Bank from writing off NPAs of Rs. 564.1 million and non-performing investments of Rs. 497.1 million, aggregating Rs. 1061.2 million for the financial year ended March 31, 2005. The petitioner also seeks to restrain the Bank from acting in furtherance of the said write-offs. The petitioner has alleged that the write offs have been carried out in violation of the stay orders granted by the Supreme Court and High Court, Bombay in previous proceedings against write offs. If the petition is held against the Bank, the Bank may have to reverse the write off in its books of accounts and also certain tax refunds availed of as a result of the writing off. The Writ Petition has been admitted by the Order of the Hon'ble Bombay High Court passed on January 30, 2006 and it has ordered that the interim order dated September 9, 2005, directing the Bank not to take further action of writing off debts will continue till disposal of the Petition. The matter is scheduled to appear for direction in due course.

3. Mr. Azim A. Charania has filed a writ petition (WP 322/1997) in the High Court of Judicature, Bombay in January, 1997 *inter alia*, to quash and set aside the order dated 16th October, 1996 passed by of the Maharashtra State Co-operative Appellate Court. The Bank was converted from a co-operative society to a joint stock banking company in 1995. The petitioner filed a dispute in the Co-operative Court challenging the said conversion, which was decreed in favour of the petitioner on January 11, 1996. Aggrieved by the said order the Bank filed an Appeal before the Co-operative Appellate Court which set aside the judgment of the lower court and declared the Bank's conversion as valid. The petitioner has filed a writ petition in the High Court seeking the court to set aside the appellate court's order.

4. Mr. Mahrukh A R.Rajabally has filed a civil suit (L.C. 4657/1997) against the Bank on September 8, 1997 in the City Civil Court, Bombay seeking an injunction restraining the Bank, which owns the property where the plaintiff also resides, from carrying out the structural alteration, repairs etc. with respect to the premises without the prior permission of the Municipal Corporation of Greater Mumbai. The matter is still pending.

5. The Municipal Corporation of Greater Mumbai has preferred an appeal (FA St. No. 13749/2003) in the High Court of Judicature at Bombay against an order of the City Civil Court in favour of the Bank. The Bank had purchased certain premises for its Mahim branch and thereafter had carried out certain internal work. The appellant had issued a demolition notice to the Bank. The Bank approached the City Civil Court, which passed an order in favour of the Bank. The appeal has been admitted by the Hon'ble High Court vide order dated June 5, 2006

6. Mr. Chandrakant P. Bhamaria has filed a civil suit (Suit No. 842/2004) in the High Court of Judicature at Bombay on January 31, 2004. The plaintiff and his brother (since deceased) held quarterly income certificates aggregating to Rs. 5,525,000/-, against which the Bank had granted a SOD facility. On the death of the plaintiff's brother in February, 2001, the Bank appropriated the said deposit amount towards its outstanding dues. The plaintiff has challenged the Bank's action of appropriation and has sought that the entire amount be refunded to him. The Bank is yet to file its written statement.

7. Fancy Rehabilitation Trust and another have filed a writ petition (WP 5339 of 2005) in the High Court of Judicature at Bombay on August 12, 2005. The services of the petitioners who provide house keeping services were terminated by the Bank. Aggrieved by the notice of termination the petitioners filed the instant petition challenging the said termination. The petitioners have sought a stay, restraining the Bank from terminating their services.

8. M/s Perfect Engineering Company has filed a special civil application (No. 9244 of 2000) against amongst others the Bank in the High Court of Gujarat, at Ahmedabad in August, 2000. The petitioners, had supplied M/s. Abhishek Vora Offset & Packaging Pvt. Ltd. ("the Purchaser") with certain machinery. The Purchaser had availed of a loan from Gujarat State Financial Corporation, (GSFC) for making payment towards the said purchase.

GSFC issued two pay orders, aggregating Rs. 1,174,000 in the name of the petitioner towards part disbursement of the said loan, and handed over them to the Purchaser. The Purchaser however, did not hand the pay orders to the petitioner and instead encashed it with the Bank, by opening an account in a name identical to the petitioner's. The petitioner has filed the Special Civil Application seeking prosecution of the officer of the Bank guilty of opening the alleged fraudulent account.

9. Mr. B. Raghunandan Kumar has filed a civil suit (OS. No. 232 of 2005) against the Warangal branch of the Bank before the Principal Junior Civil Judge, Warangal on February 22, 2005. The accounts of two minors are maintained in the Bank through their mother, their guardian. The mother had requested the Bank not to pay any amounts from the said accounts to anyone until the said minors attain majority. The petitioner, the father of the minors, has approached the court seeking an order restraining the mother also from accessing the money in the said account. The Court has ordered the Bank to maintain *status quo* and not to pay any sums out of the said accounts.

10. Mr.Jayendra Natwarlal Bhavsar, proprietor of M/s. S. J. Containers has filed an insolvency application (Insolvency application No. 9/2002) in the City Civil Court, Ahmedabad on August 13, 2002 in which the Bank is one of the parties. There is no claim against the Bank. The recovery of the amount of Rs. 0.52 million appears doubtful since the party has declared that his assets would be approximately Rs. 2.5 million as against his total liability of Rs. 9.62 million. The matter is still pending.

11. M/s Sri Madhava Enterprises, has filed a suit (OS No. 586/2005) on November, 21, 2005 before the Principal Senior Civil Judge, Warangal against the State Bank of India, the Bank and Mr. A. Srinivas Reddy. Mr. A. Srinivas Reddy, a customer of Bank's Warangal Branch is alleged to have deposited a cheque of Rs. 0.175 million for collection in the drop box of the said branch. However, the said cheque was not received by the Bank and subsequently it was discovered that the said cheque was encashed at State Bank of India on the same date as was alleged to have been deposited in the Bank's drop box. The plaintiff is seeking payment of the cheque amount with interest from the State Bank of India. The Bank is, however, only a formal and necessary party and no relief is claimed in the suit against the Bank.

12. Mr. Ahmedali G. Kathawala and others have filed a civil suit (Suit No. 22/2001) against the Bank in the High Court of Judicature at Bombay on November 14, 2000 claiming Rs. 76,562,200 with interest @ 24% p.a. The Bank had sold shares pledged by the plaintiff by exercising lien. The plaintiff aggrieved by such action of the Bank has initiated proceedings for the recovery of the suit amount with interest @ 24% p.a. The matter is still pending.

13. M/s Neeljyot Plastics have initiated proceedings (SA 16/2005) against the Bank in the Debt Recovery Tribunal (DRT) III at Bombay on September 1, 2005. The Bank had sold the property of the plaintiff under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. The plaintiff has approached the DRT seeking redressal and also sought a stay in the matter. The DRT III has not granted any stay in SA No. 16/2005.

14. Mr. Ravindra Deshpande has filed a civil suit (M.A.11/2003) against the Bank in the Debt Recovery Tribunal, Aurangabad in 2003 .The plaintiff was the guarantor of M/s Vedant Plast. On non-repayment of Rs. 5,391,214/- by Vedant Plast, the Bank sought to enforce the guarantee. .Mr. Ravindra Deshpande has filed an application with DRT stating that he is not liable for dues of the company as he has resigned from the directorship. The matter is pending in the DRT.

15. Mr. Akbar Ali has filed a civil suit (SPLCS No. 217/1999) against the Bank before the Senior District Civil Judge at Aurangabad during 1999**.** The plaintiff obtained a vehicle loan from the Bank and on closure of vehicle loan all the related documents such as transfer forms etc., were handed over to his relative, Mr. Ummedali Moti, who had the vehicle transferred to a third party. Mr Akbar Ali, the borrower, has filed a suit against his relative Mr. Umed Ali Moti and also against the Bank. The matter is still pending.

16. Mr. Fateh Khan Sarguroh has filed a complaint (No. 119 of 2006) on March 17, 2006 in the Consumer Dispute Redressal Forum, Mumbai Suburban District. The complaint alleges that the Bank had negligently made payments

of 4 cheques purported to be issued by the complainant, aggregating to Rs. 0.15 million allegedly not signed by him.

17. Mr. Anil Kumar Gupta has filed a complaint [Original Complaint no. 4/2005] against the Bank on October 5, 2005 before the Consumer Disputes Redressal Forum, Silvassa. The Complainant had received duplicate copy of a fixed deposit receipt of Rs. 38,755/- in his name and on due date, presented it for payment which the Bank credited to his account. However, later, the Bank realized that the said fixed deposit receipt did not actually belong to the Complainant, but actually belonged to some other customer, with the same name and said amount was debited from the complainant's account. The Complainant is seeking refund of the said amount of Rs. 38,755/- together with interest @ 10% thereon from July 1, 2005.

18. Salim E. Rupani had deposited certain amount with Bank in fictitious names. In the year 1997, Income Tax Department put the said deposits, among others, under prohibitory orders, which were subsequently released by it. On the prohibitory order being lifted, the Bank paid the amount represented by the said deposits to Mr. Salim Rupani, as he claimed ownership in respect of those Depoists, with interest till their respective original maturity dates, after following due procedure. Mr. Salim Rupani had filed a writ petition (No. 2646 of 2004) in the Hon'ble High Court of Bombay claiming interest on the said deposits till the date of payment thereof by the Bank. The writ petition was rejected by the order dated January 27, 2005 passed by the Hon'ble High Court on the ground that writ petition was not a proper remedy to claim interest from the Bank. Mr. Salim Rupani has therefore filed a Suit (L. No. 1412 of 2006) in the Hon'ble Bombay High Court on March 16, 2006, inter alia claiming an amount of interest of Rs. 2,786,818/- allegedly payable by the Bank on the said deposits from the date of payment of deposit amount with further interest thereon till the date of payment. The Bank is yet to file written statement.

19. The Bank has filed a case (O. A. No. 163 of 2005) against the Reminiscent (India) Television Pvt. Ltd. & Ors for recovery of dues. The Bank had also moved an interim application before DRT, Mumbai against H. K. Pujara Builders in the capacity of Garnishee as, the money due and payable by them were part of sale proceeds of property mortgaged to Bank, sold by Reminiscent (India) Television Pvt. Ltd. to H. K. Pujara Builders. Pending the suit the said an interim application for Garnishee Order was allowed vide Order dated March 07, 2006 and H. K. Pujara Builders were directed to deposit an amount of Rs. 2.30 Crores against which Misc. Appeal No. 106 of 2006 has filed by H. K. Pujara Builders against the Bank & Ors on April 12, 2006 for quashing the said Order dated March 7, 2005

20. M/s Goverdhan Saree Centre has filed a writ petition (W. P. 17502 of 2006) on August 23, 2006 before the Hon'ble Andhra Pradesh High Court against the Banking Ombudsman, Hyderabad and the Bank, seeking to suspend the letter issued by the Ombudsman expressing its inability to accede to the request made in a complaint filed by the petitioner. M/s Goverdhan Saree Centre had filed a complaint (464/2005-2006) before the Office of Banking Ombudsman, Hyderabad on May 31, 2005 against the Bank. The account in a name similar to that of the complainant was opened with Bank's Secunderabad Branch. Certain cheques were collected by the Surat branch of the Bank under the "any branch banking" facility offered by the Bank and on realisation, the proceeds were credited to the said account at Secunderabad. The complainant carries on business with the same name at Kanpur. As the complainant did not receive the said DDs, it was found that the same were collected by the Bank. Hence they approached the Surat branch, which had collected them. However, since they do not have any account with DCB, they alleged that DCB has wrongfully collected the said cheques and had asked from the Bank for the amount represented by those DDs. By a letter dated June 19, 2006 addressed to the complainant, the Banking Ombudsman, Hyderabad had expressed its inability to accede to the request made in the complaint.

(C) **Employee proceedings**

1. Development Co-operative Bank Employees Union had filed a writ petition in the Hon'ble Bombay High Court challenging the order dated July 15, 2002 passed by the Learned Industrial Court in the matter of election of their Managing Committee, held in the year 1996. The Bank is made a formal party in the writ petition.

2. Mr. Azim A. Charania has preferred an appeal (Appeal No 691 of 2002 of WP 732 of 2002) on August 13, 2002 against the Bank in the High Court of Judicature at Mumbai. The appellant has preferred the appeal against the Central Government Industrial Tribunal (CGIT) order dated August 2, 2001 upholding the Bank's action in dismissing him for proven misconduct. The appellant was removed form service for various misconducts including willful insubordination, absence without leave for more than 10 consecutive days etc. The appellant has sought reinstatement with back wages.

3. Mr. Rohinton Sidhwa, an ex-employee of the Bank, who resigned from the service of the Bank, has initiated proceedings (LCB/2 of 1999) against the Bank on March 10, 1999 before the Central Government Industrial Tribunal (CGIT), Mumbai. The plaintiff has filed a claim for all eligible dues and for arrears of salary for the period 1993-1996 when a wage revision had occurred. After negotiations with the union, the management reached a settlement on various issues contained in the charter of demands with the representatives of the union and accordingly a memorandum of settlement was signed on March 22, 1997 for the period 1997 to 2000. In terms of the settlement dated March 22, 1997 the parties agreed that the settlement shall apply only to confirmed employees of the Bank who are in permanent employment of the Bank as on the date of signing of the settlement and for those who join the service of the Bank thereafter, from the date of their confirmation in service of the Bank. The matter is still pending.

4. Mr. Ebrahim Naffer has initiated proceedings, (CGIT- 2/110 of 2000) on November 22, 2000 against the Bank before the Central Government Industrial Tribunal (CGIT), Mumbai. The plaintiff was dismissed by the Bank for involvement in fraud. The plaintiff has sought reinstatement with back wages. The matter is still pending.

5. Mr. Salim Jetha has initiated proceedings (CGIT-1/4/2002) on April 4, 2002 against the Bank before the Central Government Industrial Tribunal (CGIT), Mumbai. The plaintiff was dismissed by the Bank for involvement in fraud. The plaintiff has sought the order of dismissal to be set aside and to be reinstated with continuity of service along with damages and costs. The matter is still pending.

6. Mrs. Ratan S. Bhalekar has initiated proceedings (IDA No 19/2002) on January 22, 2002 against the Bank in the Third Labour Court, Pune. The Bank discontinued the casual employment of the applicant. The applicant lodged a case for recovery of arrears and difference of wages. The matter is still pending.

7. Mrs. Ratan S. Bhalekar has initiated proceedings (IDA No 952/2002) on September 29, 2003 against the Bank in the First Labour Court, Pune. The Bank discontinued the casual employment of the applicant. The applicant herein lodged a case to be re-instated and paid appropriate salary as paid to other workers and for arrears. The matter is still pending.

8. Mrs. Rukiya Khatoon has initiated proceedings (CGIT-2/90 of 2002) before the Central Government Industrial Tribunal (CGIT), Mumbai on January 3, 2003. The plaintiff was employed as a daily wage sweeper. The Bank discontinued her services whereupon the plaintiff approached the Central Government Industrial Tribunal (CGIT)and sought employment on the grounds that her dismissal was illegal. Ms. Rukaiya Khatoon was engaged for sweeping the premises of the building and branch for two hours in a day. She was not an employee of the Bank. The plaintiff has sought reinstatement and back wages. The matter is still pending.

9. Ms. Saritha P Reddy has initiated proceedings (Writ Petition No.3921 of 2005) on March 1, 2005 in the High Court of Andhra Pradesh. The petitioner has challenged the termination of her services as being illegal and has sought re-instatement. The matter is still pending.

10. Mr. Suleman Panjwani has initiated proceedings (L.C.I.D No.4 of 2005) on February 15, 2005 in the Central Government Industrial Tribunal (CGIT)cum Labour Court, Andhra Pradesh. The Bank had dismissed the plaintiff for involvement in fraud. The plaintiff has challenged the action of dismissal and has sought reinstatement. The matter is still pending.

11. Mr. Hukumchand Ahari has initiated proceedings (L-12012/13-2006-IR(B-I)) on May 29, 2006 in the Central Government Industrial Tribunal Cum Labour Court, Ahmedabad, Gujrat. The Bank had terminated his services on disciplinary grounds. The plaintiff has challenged the action of termination and has sought reinstatement with back wages and other benefits.

Proceedings before the Banking Ombudsman

1. The Janta Sahakari Bank Ltd., Pune, has filed a complaint (613/2005-2006) before the Office of Banking Ombudsman, Ahmedabad September 21, 2005 against the Bank. The complainant bank allegedly presented 2 cheques on June 27, 2005, but Bank has allegedly wrongly dishonoured & returned the same with remarks "out of date". As a result, the complainant bank could not receive money on the said cheques and had incurred a monetary loss of Rs. 6,095,742. The complainant has claimed the said amount with interest @18% p.a.

2. The Children Welfare Centre has filed a complaint (135/ST/2005-06) before the Office of Banking Ombudsman, Mumbai on June 27, 2005 against the Bank The Bank had entered in to a Leave & Licence Agreement with the complainant in respect of premises occupied by it for one of its branch at Versova. The licence for the said Versova branch premises was for 3 terms of 5 years each aggregating 15 years on a monthly licence fee of Rs. 112,000 for the first term of 5 years with escalation @ 10% for the remaining two terms of 5 years each. The Bank has also advanced to the complainant a loan of Rs. 10 million @ 17.5 % p.a. as per a separate loan agreement and other security documents executed by CWC towards the construction of a school building. The monthly licence fee paid by the bank was agreed to be adjusted towards installments for repayment of the said loan. The complainants disputed the outstanding in the loan account and allege that Rs. 6.72 million was paid to them as advanced rent and only the balance of Rs. 3.28 million was granted as loan. The complainant has also challenged the rate of interest being charged on the loan.

   The complainant has sought

   - that the dues be recalculated on the basis of allegedly original terms agreed to by the parties i.e. by treating Rs. 6.72 million as interest free advance compensation and first five years' rent towards the recovery of this interest free advance and to treat the said advance as fully repaid at the end of 5 years period of bank's occupation of trust's premises;
   - To treat Rs. 3.28 million as the loan component at reasonable rate of interest @ 15% p.a. with no penal interest and the cash deposits made by the trust from time to time as repayment in their loan account;
   - Refund of the excess interest/penal interest charged on the loan of Rs. 3.28 million; and
   - That the Bank should refund any other charges, penal/extra interest levied to the account during the period.

   The Bank has reached a settlement with the complainant. The complainant has written to the Bank stating that they have withdrawn all complaints made to the Banking Ombudsman. Accordingly the Bank has notified the Ombudsman of the same and has requested them to treat the matter as having been closed.

3. M/s Travel Post has filed a Complaint (No. 136/ST/2005) on May 24, 2005 against the Bank before the Banking Ombudsman, Mumbai. The Complainant has claimed refund of Rs. 1.24 million being alleged overcharged interest and penal interest to their account for the period from June, 1996 till August, 2003. The Bank has filed its reply denying its liability to pay the same on various grounds. The Banking Ombudsman has not yet passed any order in the matter.

(D) Tax Proceedings

Assessment Year and Case No.	Tribunal and Place	Date of institution of proceedings	Parties	Nature of litigation	Amt of Tax involved (Rs in million)
Assessment Year 1996-97					
3006/M/01 of 96-97 4892/M/01 of 96-97	Income Tax Appellate Tribunal(ITAT), Mumbai	May 11, 2001, June 20, 2002	Development Credit Bank Vs. Dy.Com of Income Tax, Central Circle-22	1. Disallowance of Depreciation on Leased assets 2. Disallowances such as Club membership fees, Law Charges.	107.8 5.2
3620/M/01 of 96-97	ITAT, Mumbai	May 30, 2001	Dy. Com. of Income Tax, Central Circle-22 Vs. Development Credit Bank ltd	Allowance of Depreciation on Leased assets	32.8
Assessment Year 1997-98					
	ITAT, Mumbai	August 28, 2003	Development Credit Bank Vs. Dy.Com of Income Tax,Central Circle-22	1. Disallowance of Depreciation on Leased assets 2. Treating Capital Receipt as Capital Gain 3. Disallowance of Law Charges, depreciation on compensation	16.7 1.8 1.1
6010/mum/03	ITAT, Mumbai	September 5, 2003	Dy. Com. of Income Tax,Central Circle-22 Vs. Development Credit Bank Ltd.	Allowance of Depreciation on Leased assets	37.2
IT/104/2005-06	Com. of Income Tax (Appeals)-Central IV	April 22, 2005	Development Credit Bank Vs. Dy. Com of Income Tax,Central Circle-22	Against Levy of penalty u/s 271(1) ©: The assessing Officer has levied penalty in respect of Assessment year 1997-98 for furnishing inaccurate particulars in respect of disallowances confirmed by CIT(appeals). However, the Bank is in appeal before ITAT against these dis-allowances. Hence, Bank has appealed before CIT challenging levy of penalty.	06.9

Assessment Year and Case No.	Tribunal and Place	Date of institution of proceedings	Parties	Nature of litigation	Amt of Tax involved (Rs in million)
Assessment Year 1998-99					
	ITAT, Mumbai	August 12, 2004	Development Credit Bank Vs.Dy.Com of Income Tax, Central Circle-22	1. Disallowance of depreciation on Leased assets 2. Disallowance of depreciation on Investments 3. Section 14A-Disallowance of expenses in connection with earning Tax free income. 4. Disallowance of Law charges, Depreciation on compensation	20.5 28.2 21.8 0.3
5814/M/04	ITAT, Mumbai	August 12, 2004	Dy .Com. of Income Tax, Central Circle-22 Vs. Development Credit Bank Ltd.	Allowance of Depreciation on Leased assets	32.8
	Commissioner of Income Tax (Appeals) - Central IV	April 10, 2006	Development Credit Bank Vs.Dy. Com of Income Tax, Central Circle-22	Levy of penalty u/s 271(1). The assessing Officer has levied penalty in respect of Assessment year 1998-99 for furnishing inaccurate particulars in respect of disallowances confirmed by CIT (appeals). However, the Bank is in appeal before ITAT against these disallowances. The Bank has, therefore, appealed before the CIT challenging levy of penalty.	11.8
Assessment Year 1999-00					
	ITAT, Mumbai	December 30, 2004	Development Credit Bank Vs.Dy.Com of Income Tax, Central Circle-22	1. Disallowance of depreciation on Leased assets 2. Disallowance of depreciation on Investments 3. Section 14A-Disallowance of expenses in connection with earning Tax free income. 4. Depreciation on compensation	20.7 11.4 29.5 0.1

Assessment Year and Case No.	Tribunal and Place	Date of institution of proceedings	Parties	Nature of litigation	Amt of Tax involved (Rs in million)
611/M/04	ITAT, Mumbai	December 30, 2004	Dy. Com. of Income Tax,Central Circle-22 Vs. Development Credit Bank Ltd.	Allowance of Depreciation on Leased assets	30.3
	Commissioner of Income Tax (Appeals)-Central IV	April 10, 2006	Development Credit Bank Ltd.Vs. Dy. Com of Income Tax, Central Circle-22	Levy of penalty u/s 271(1): The assessing Officer has levied penalty in respect of Assessment year 1999-2000 for furnishing inaccurate particulars in respect of disallowances confirmed by CIT (appeals). However, the Bank is in appeal before ITAT against these disallowances. The Bank therefore, has appealed before CIT challenging levy of penalty.	20.7
Assessment Year 2000-01					
	ITAT, Mumbai	December 30, 2004	Development Credit Bank Vs.Dy.Com of Income Tax, Central Circle-22	1. Disallowance of depreciation on Leased assets 2. Disallowance of depreciation on Investments 3. Section 14A-Disallowance of expenses in connection with earning Tax free income. 4. Disallowance of Bad Debts written off 5. Depreciation on Compensation	22.7 3.2 95.7 3.9 0.1
9657/M/04	ITAT, Mumbai	December 30, 2004	Dy. Com. of Income Tax, Central Circle-22 Vs. Development Credit Bank Ltd.	Allowance of Depreciation on Leased assets	6.2
	Commissioner of Income Tax (Appeals)-Central IV	April 10, 2006	Development Credit Bank Vs.Dy.Com of Income Tax, Central Circle-22	Levy of penalty u/s 271(1): The assessing Officer has levied penalty in respect of Assessment year 2000-01 for furnishing inaccurate particulars in respect of	17.1

Assessment Year and Case No.	Tribunal and Place	Date of institution of proceedings	Parties	Nature of litigation	Amt of Tax involved (Rs in million)
				disallowances confirmed by CIT (appeals). However, the Bank is in appeal before ITAT against these disallowances. The Bank therefore, has appealed before CIT challenging levy of penalty.	
Assessment Year 2001-02					
	ITAT, Mumbai	December 30, 2004	Development Credit Bank Vs.Dy.Com of Income Tax, Central Circle-22	1. Disallowance of depreciation on Leased assets 2. Disallowance of depreciation on Investments 3. Section 14A- Disallowance of expenses in connection with earning Tax free income. 4. Disallowance of Bad Debts written off 5. Depreciation on Compensation	19.9 1.9 104.8 14.1 0.1
370/mum/05	ITAT, Mumbai	January 17, 2005	Dy .Com. of Income Tax, Central Circle-22 Vs. Development Credit Bank Ltd.	Allowance of Depreciation on Leased assets	4.8
	Commissioner of Income Tax (Appeals)- Central IV	April 10, 2006	Development Credit Bank Ltd.Vs. Dy. Com of Income Tax, Central Circle-22	Levy of penalty u/s 271(1):The assessing Officer has levied penalty in respect of Assessment year 2001-02 for furni-shing inaccurate particulars in respect of disallowances confirmed by CIT (appeals). However, the Bank is in appeal before ITAT against these disallowances. The Bank therefore, has appealed before CIT challenging levy of penalty.	13.3

Assessment Year and Case No.	Tribunal and Place	Date of institution of proceedings	Parties	Nature of litigation	Amt of Tax involved (Rs in million)
Assessment Year 2002-03					
	ITAT, Mumbai	June 2, 2005	Development Credit Bank Vs.Dy.Com of Income Tax, Central Circle-22	1. Disallowance of depreciation on Leased assets 2. Disallowance of depreciation on Investments 3. Section 14A- Disallowance of expenses in connection with earning Tax free income. 4. Disallowance of Bad Debts written off 5. Depreciation on Compensation	12.8 22.9 66.3 33.9 0.1
3979/m/05	ITAT, Mumbai	May 27, 2005	Dy. Com. of Income Tax, Central Circle-22 Vs. Development Credit Bank Ltd.	1. Allowance of Depreciation on Leased assets 2. Allowance of loss on revaluation of Investments	3.3 37.0
	ITAT, Mumbai	December 15, 2005	Development Credit Bank Ltd.Vs Dy. Com of Income Tax, Central Circle-22	Addition of the value of flat used for business purpose to the net wealth of the Bank	0.1
Block Assessment (1987-88 to 06.02.1997) 342/m/02 343/m/02 379/m/ 02390/m/02	ITAT, Mumbai TAT,Mumbai	May 23,2002 June 4,2002	Development Credit BankVs Dy.Com of Income Tax, Central Circle-22 Dy.Com of Income Tax, Central Circle-22 Vs. Development Credit Bank Ltd.	Addition under Section 68 Deletion of Relief granted by CIT (Appeals)	35.6 127.8
Interest Tax:Int. 40/m/03- 96-97 Int.41/m/03-97-98 Int.08/m/05-98-99 Int.09/m/05-99-2000 Int.10/m/05-2000-01	ITAT, Mumbai	October 20, 2003 October 20, 2003 January 17, 2005 January 17, 2005 January 17, 2005	Dy. Com. of Income Tax, Central Circle-22 vs. Development Credit Bank Ltd.	Deletion of Lease Income from Chargeable Interest under the Interest Tax Act	0.4 1.9 0.6 0.2 0.2

Assessment Year and Case No.	Tribunal and Place	Date of institution of proceedings	Parties	Nature of litigation	Amt of Tax involved (Rs in million)
Assessment Year 2003-04					
	Commissioner of Income Tax (Appeals)- Central IV	March 2, 2006	Development Credit Bank Ltd.Vs Dy. Com of Income Tax, Central Circle-22	1. Disallowance of depreciation on leased assets	9.3
				2. Disallowance of depreciation on investments	1.3
				3. Section 14A- Disallowance of expenses in connection with earning Tax free income.	17.8
				4. Disallowance of bad debts written off	74.8
				5. Depreciation on compensation	0.1
Wealth Tax Assessment Year 2003-04					
	Commissioner of Wealth Tax (Appeals)- Central IV	17/03/2006	Development Credit Bank Vs.Dy.Com of Wealth Tax, Central Circle-22	Addition of flat used for the purpose of business to the net wealth	0.1

The following table sets forth the compiled position of claims against the Bank (excluding tax related matters) involving an amount of less than Rs. 5 million, as at September 11, 2006:

Sr. No.	Particulars of category	No. of cases	Issues involved	Amount involved in Rs. million
1	Fraud	6	Suits are filed by various parties who have suffered loss on account of alleged frauds committed by Bank's respective account holders.	2.39
2	Customer Grievances	6	Suits filed for non receipt of foreign exchange remittance, loss of cheque sent for collection, contents of the locker, dishonour of cheque received in inward clearing by the Bank, restraining the Bank from releasing the balance lying in the deceased depositors' account, loss of cheque from the Bank's drop box	4.23
3	Recovery Matters	5	Suit filed by few borrowers requesting the Bank to give time to them for payment of Outstanding loans, dispute over action initiated for recovery of loan by sale of flat which is held as security, etc.	1.77
	Total	**17**		**8.39**

By the Bank

The following table sets forth the compiled position of litigations (excluding tax related matters) initiated by the Bank as at September 11, 2006:

Sr. No.	Nature of Litigation	No. of Cases	Issues involved	Amount involved in Rs. million
1	Property & Premises	4	Matters filed by the Bank against the tenants, BMC etc. for safeguarding Bank Interest.	Not applicable
2	Fraud/Cheating/Forgery	7	Falsification of documents, Loan availed on forged documents, Unlawfully disposing off assets hypothecated to the Bank.	25.39
3	Defamation cases	1	Defamation case filed against an ex-employee of the Bank	Not applicable
4	Cases u/s. 138 of the N. I. Act.	664	Cheque bouncing cases against the Borrowers.	107.55
5	Recovery suits	332	Cases filed against the defaulting borrowers	2409.42
	Total	**1008**		**2542.36**

Litigation against Directors

There are no litigations pending against any of the Directors of the Bank.

Litigation against Promoter / group companies

There are no litigations pending against the Promoter and group companies.

Material Developments

In the opinion of the Board of Directors, save as disclosed in the Red Herring Prospectus, there has not arisen, since the date of the last financial statements disclosed in this Red Herring Prospectus, any circumstances that materially or adversely affect or are likely to affect the profitability of the Bank or its assets or its ability to pay any material liabilities in the next twelve months.

Licenses and Approvals

On the basis of the indicative list of approvals provided below, the Bank can undertake this Issue and the current business activities and no further major approvals from any Government authority/RBI is required to continue these activities. It must be distinctly understood that, in granting these licenses, the GoI and/or RBI does not take any responsibility for the Bank's financial soundness or for the correctness of any of the statements made or opinions expressed in this behalf.

Item	The Bank has received the following approvals that are material to its business:
1	Certificate of Incorporation No. 11-89008 dated May 31, 1995, from the Registrar of Companies, Maharashtra under part IX of the Companies Act
2	License No. Bom. 59 dated May 31, 1995, from the RBI to carry on banking business in India
3	Notification in the Gazette of India Part –III, dated June 5, 1995 by the RBI directing the Bank's inclusion in the second schedule of the Reserve Bank of India Act, 1934.
4	Approval No. CO.FID(II)/9317/10.02.20(7587)/95/96 dated January 1, 1996, from the RBI for issue of 22,50,000 equity shares to AKFED.
5	Letter No. BP1737/21.01.066/2000 dated February 10, 2001 from the RBI advising that it has no objection to the issue of 63,65,400 equity shares to AKFED.
6	Approval No. 3.74 SIA.NFC.95-NRI from the Government of India , Ministry of Industry, dated October 20, 2000, for the issue of 63,65,400 equity shares to AKFED
7	Letter No. DBOD.No.FSC.79/24.01.018/2002-2003 dated August 22, 2002 according in principle approval to DCB acting as a 'corporate agent' to undertake distribution of insurance products on agency basis.
8	License No.947901 dated January 15, 2006 issued by the Insurance Regulatory and Development Authority authorizing the Bank as an corporate insurance agent.
9	Letter No/.DBOD. No.PSBS.400/16.01.132/2002-2003 dated October 4, 2002 advising that it has no objection to the preferential allotment of 51,78,242 equity shares by AKFED.
10	Letter No. EC.CO.FID/5731/10.02.68/2003-2004 dated January 5, 2004 from the RBI advising that it has no objection to AKFED acquiring shares in DCB's rights issue.
11	Letter No. EC.CO.FID/7350/10.02.68/2003-2004 dated March 20, 2004 from the RBI advising that it has no objection to DCB allotting unsubscribed portion of the rights issue to AKFED.
12	Approval No. DBOD.No.PSBS.1039/16.01.132/2004-05 dated March 28, 2005, permitting allotment of 2,51,73,158 equity shares to AKFED.
13	Letter No. DBOD. No.PSBS.1036/16.01.132/2002-2003 dated March 3, 2003 permitting utilization of Rs.1200 million from the "revenue and other Reserves" to write of debts that had turned NPAs.
14	Letter No. DBOD. No.PSBS.989/16.01.132/2003-04 dated March 26, 2004 from the RBI advising that it has no objection to DCB writing-off NPAs of Rs. 250 million.
15	Letter No. DBOD.No.166/08.103.001/2004-2005 dated August 19, 2005, from the RBI approving the appointment of Mr. Nasser Munjee as the part-time non-executive Chairman of the Bank for a period of 3 years.
16	Letter No. DBOD.No.213/08.103.001/2005-2006 dated September 8, 2005, from the RBI approving the appointment of Mr. Gautam Vir Managing Director of the Bank for a period of 3 years.
17	Letter No. DBD.PSBD.493/16.01.132/2005-06 dated November 21, 2005, advising that it has no objection to the Bank amending its capital clause of the Memorandum of Association increasing the authorised capital from Rs. 1000 million to Rs. 1500 million.
18	Approval dated December 21, 1998, from the Commissioner of Income Tax, Central-II, Mumbai for change in name of the Development Co-operative Bank Limited Employee' Provident Fund Trust.

Item	The Bank has received the following approvals that are material to its business:
19	Order of the Commissioner of Income Tax, Central-II, Mumbai, according approval to the Development Credit Bank., Staff Gratuity Fund with effect from April 1, 1999.
20	Registration No. MH/PE/APP/45120/Circle-I/01E/2349/2447 dated March 6, 2001 allotting Code No. MH/45120 under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 with effect from February 25, 2000.
21	Registration No. B-ALC (C) III/35(06)/2006 dated February 2, 2006 issued by the Deputy Chief Labour Commissioner under the Contract Labour (Regulation and Abolition) Act, 1970.
22	Registration No.PT/R/1/1/22/9160 dated July 28, 1975 granted to the Development Co-operative Bank Ltd. under the Maharashtra State Tax on Professions, Trades, Callings and Employments Act, 1975.
23	Certificate of Recognition dated November 7, 2002, from the AMFI enrolling the Bank as a AMFI Registered Mutual Fund Advisor (ARMFA).
24	Registration No. AII 19306 dated July 25, 1995 under the Bombay Shops and Establishments Act, 1948
25	Letter No. PDO/SGL/CIRR/07.01.03/1387/2003-04 dated October 16, 2003 from the RBI according proprietary account no. SG010105.
26	Registration No.2/D-2/03 dated April 15, 1999 from the RBI registering resolution and specimen signature
27	Letter No. PDO/SGL/NDS-MEM/1164/2002-2003 dated September 9, 2002 granting membership to the Negotiated Dealing System and granting membership no. BYA00105
28	Letter No. EC.CO.FMD/683/02.03.129/2001-02 dated February 16, 2002 approving the net overnight open position limit of Rs. 200 million.
29	Letter No. DIT./16.10.Mem.vol.IV/95-96 dated June 28, 2996 from the RBI advising that the SWIFT User Group in India has no objection to DCB becoming a member of the SWIFT in India.
30	Approval No. EC.CO.FMD.630.02.03.132/99-2000 dated May 24, 2000, from the RBI authorising offering cross currency options to corporate clients.
31	Letter DAD/CA/RTGS/2527/2003-2004 dated June 16, 2004 from the RBI granting RTGS membership type 'A'.
32	Letter No. EC.CO.FMD/682/02.03.131/2001-02 dated February 16, 2002 approving an aggregate Gap limit of Rs. 100 million.
33	License No.3/95 dated May 11, 1999 from the RBI authorising the Bank to deal in foreign exchange.
34	Letter No. CCI/MCM/02/1277 dated May 17, 2002 from the Clearing Corporation of India Limited granting membership to the Securities Segment of CCIL.
35	PAN No. AAA CD1461F
36	Service tax registration no. BFS/MUMI/204
37	TAN No. MUMDO4526E
38	SEBI Registration as a category-I merchant banker Registration no. CAT-1-INM00006419 dated October 11, 2004 and valid up to August 31, 2007.
39	SEBI Registration as a Banker to Issue Registration no. INBI 0000086 dated August 19, 2004 and valid up to July 15, 2007.
40	Licence No. 3/95 dated May 11, 1999 authorising the Bank to deal in foreign exchange.
41	Letter No. DBOD.PSBD.243/16.01.132/2005-06 dated July 12,2006, advising that it has no objection to the Bank amending its capital clause of the Memorandum of Association increasing the authorised capital from Rs. 1500 million to Rs. 3000 million

Other Regulatory and Statutory Disclosures

Authority for the Issue

The issue of Equity Shares in this Issue by the Bank has been authorised by the resolution of the Board of Directors passed at their meeting held on October 10, 2005, subject to the approval of shareholders through a special resolution to be passed pursuant to Section 81(1A) of the Companies Act. The shareholders approved the Issue at the general meeting of the shareholders of the Bank held on November 21, 2005 at Mumbai. The Board of Directors approved the Issue through resolution on July 25, 2006.

The Bank has also obtained the approval from RBI vide letters no. DBOD.NO.PSBD. 56544/16.01.132/2005-06 dated January 25, 2006 and no. DBOD.NO.PSBD.6708/ 16.01.132/2005-06 dated February 2, 2006 for the Issue. The listing of shares of the Bank was one of the conditions of the original banking license issued to the Bank (See chapter on History of the Bank on page 111 of this Red Herring Prospectus). RBI while granting the approval for the Issue has stipulated that the shareholding of AKFED should be brought down to 10% by March 31, 2007 and the IPO prospectus should indicate the roadmap for the same. Further, the Bank should ensure compliance with SEBI Guidelines. The reduction in holding of AKFED would be achieved through a combination of fresh issue of equity shares or any convertible instrument by the Bank and/or sell down by AKFED and/or merger. (As on date of this Red Herring Prospectus, there are no such merger plans). Any further issue by the Bank or sale of shares by AKFED would be subject to compliance with SEBI Guidelines (including lock-in requirements). In terms of RBI Circular dated March 20, 2002, the Bank is allowed to freely price the Equity Shares in this Issue based on the BRLMs recommendation.

Prohibition by SEBI / RBI

Neither the Bank, its Directors, the Promoter nor the companies with which the Bank's Directors are associated with as directors or promoters, have been prohibited from accessing or operating in the capital markets under any order or direction passed by SEBI.

Neither the Bank, its Promoter, its Directors nor the Promoter group companies, have been declared as wilful defaulters by RBI or any other governmental authority and there have been no violations of securities laws committed by them in the past or no such proceedings are pending against the Bank or them.

Eligibility for the Issue

As a banking company set up under the Banking Regulation Act, which has received a license from RBI, the Bank is exempt from the eligibility norms specified under clause 2.2 and 2.3 of the SEBI Guidelines to make a public issue of equity shares. The relevant extract of the SEBI Guideline is set out below:

" *2.4 Exemption from Eligibility Norms*

2.4.1 The provisions of clauses 2.2 and 2.3 shall not be applicable in case of;

i) a banking company including a Local Area Bank (hereinafter referred to as Private Sector Banks) set up under sub-section (c) of Section 5 of the Banking Regulation Act, 1949 and which has received license from the Reserve Bank of India. …"

Therefore, the Bank is exempt from the eligibility norms as prescribed under the Guidelines.

Disclaimer Clause

AS REQUIRED, A COPY OF THE RED HERRING PROSPECTUS HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THE RED HERRING PROSPECTUS TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE RED HERRING PROSPECTUS. THE BOOK RUNNING LEAD MANAGERS, [ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED AND JM MORGAN STANLEY PRIVATE LIMITED] HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THE RED HERRING PROSPECTUS ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURES AND INVESTOR PROTECTION) GUIDELINES, 2000 AS FOR THE TIME BEING IN FORCE. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING AN INVESTMENT IN THE PROPOSED ISSUE. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE BANK IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE RED HERRING PROSPECTUS, THE BOOK RUNNING LEAD MANAGERS ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE BANK DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE BOOK RUNNING LEAD MANAGERS, JM MORGAN STANLEY PRIVATE LIMITED AND ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED HAVE FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED AUGUST 9, 2006 IN ACCORDANCE WITH THE SEBI (MERCHANT BANKERS) REGULATIONS, 1992, WHICH READS AS FOLLOWS:

1. **"WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE RED HERRING PROSPECTUS PERTAINING TO THE SAID ISSUE.**
2. **ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE BANK, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE BANK.**
3. **WE CONFIRM THAT:**
   - **THE RED HERRING PROSPECTUS FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;**
   - **ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH;**
   - **THE DISCLOSURES MADE IN THE RED HERRING PROSPECTUS ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE;**
   - **BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE RED HERRING PROSPECTUS ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATIONS ARE VALID;* AND**
   - **WHEN UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS."**

   * JM Morgan Stanley Private Limited registration with SEBI expired on August 15, 2006. The application for renewal of certificate of registration in prescribed Form A was made by JM Morgan Stanley to SEBI three months before expiry of period of certificate on May 15, 2006 as required under Regulation 9(1) of SEBI (Merchant Bankers) Regulations, 1992. The approval of SEBI in this regard is awaited. No communication has been received from SEBI rejecting the said application.

4. **ALL LEGAL REQUIREMENTS PERTAINING TO THE ISSUE WILL BE COMPLIED WITH AT THE TIME OF FILING OF THE RED HERRING PROSPECTUS WITH THE DESIGNATED STOCK EXCHANGE IN ACCORDANCE WITH APPLICABLE LAW, AS ALSO ANY GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, GOI AND ANY OTHER COMPETENT AUTHORITY. ALL LEGAL REQUIREMENTS PERTAINING TO THE ISSUE WILL BE COMPLIED WITH AT THE TIME OF REGISTRATION OF THE PROSPECTUS WITH THE DESIGNATED STOCK EXCHANGE IN ACCORDANCE WITH APPLICABLE LAW, AS ALSO ANY GUIDELINES, INSTRUCTIONS, ETC., ISSUED BY SEBI, GOI AND ANY OTHER COMPETENT AUTHORITY."**

   THE FILING OF THE RED HERRING PROSPECTUS DOES NOT, HOWEVER, ABSOLVE THE BANK FROM ANY LIABILITIES IN THE NATURE OF LIABILITIES UNDER SECTION 63 AND SECTION 68 OF THE COMPANIES ACT OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY AND OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP AT ANY POINT OF TIME, WITH THE BOOK RUNNING, ANY IRREGULARITIES OR LAPSES IN THE RED HERRING PROSPECTUS.

Note:

The Bank, its Directors and the BRLMs accept no responsibility for statements made otherwise than in this Red Herring Prospectus or in any advertisements or any other material issued by or at instance of the above mentioned entities and anyone placing reliance on any other source of information, including the Bank's website, www.dcbl.com, would be doing so at his or her own risk.

The BRLMs accept no responsibility, save to the limited extent as provided in the Memorandum of Understanding entered into among the BRLMs and the Bank dated [●] and the Underwriting Agreement to be entered into among the Underwriters and the Bank.

All information shall be made available by the Bank and the BRLMs to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever including at road show presentations, in research or sales reports or at Bidding centres.

The Bank shall not be liable to the Bidders for any failure in downloading the Bids due to faults in any software/hardware system or otherwise.

Disclaimer in Respect of Jurisdiction

This Issue is being made in India to Persons resident in India (including Indian nationals resident in India), who are majors, HUFs, companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), or trusts under the applicable trust law and who are authorised under their constitution to hold and invest in shares, permitted insurance companies and pension funds and to permitted non residents including FIIs, NRIs and other eligible foreign investors. This Red Herring Prospectus does not, however, constitute an offer to sell or an invitation to subscribe to Equity Shares offered hereby in any other jurisdiction to any Person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any Person into whose possession this Red Herring Prospectus comes is required to inform himself or herself about and to observe, any such restrictions. Any dispute arising out of this Issue will be subject to the jurisdiction of appropriate court(s) in Mumbai, India only.

No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Red Herring Prospectus has been filed with SEBI for observations and SEBI has given its observations. Accordingly, the Equity Shares, may not be offered or sold, directly or indirectly, and this Red Herring Prospectus may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Red Herring Prospectus nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the Bank's affairs from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

The Equity Shares have not been and will not be registered under the US Securities Act of 1933 ("the Securities Act") or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, "U.S. persons" (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares are only being offered and sold outside the United States to certain Persons in offshore transactions in compliance with Regulation S under the Securities Act and the applicable laws of the jurisdictions where those offers and sales occur.

Disclaimer Clause of the BSE

As required, a copy of this Red Herring Prospectus will be submitted to BSE. BSE has given vide its letter dated August 31, 2006, permission to the Bank to use BSE's name in this Red Herring Prospectus as one of the stock exchanges on which the Equity Shares are proposed to be listed. BSE has scrutinised this Red Herring Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Bank. BSE does not in any manner:

1. Warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; or
2. Warrant that this Bank's securities will be listed or will continue to be listed on BSE; or
3. Take any responsibility for the financial or other soundness of this Bank, its promoters, its management or any scheme or project of this Bank;

and it should not for any reason be deemed or construed to mean that this Red Herring Prospectus has been cleared or approved by BSE. Every Person who desires to apply for or otherwise acquires any securities of this Bank may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against BSE whatsoever by reason of any loss which may be suffered by such Person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

Disclaimer Clause of the NSE

As required, a copy of this Red Herring Prospectus will be submitted to NSE. NSE has given in its letter dated September 1, 2006, permission to the Bank to use NSE's name in this Red Herring Prospectus as one of the stock exchanges on which the Equity Shares are proposed to be listed, subject to the Bank fulfilling the various criteria for listing including the one related to paid up capital and market capitalization (i.e. the paid up capital shall not be less than Rs. 100 million and the market capitalization shall not be less than Rs. 250 million at the time of listing). The NSE has scrutinised this Red Herring Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Bank. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed to mean that this Red Herring Prospectus has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; nor does it warrant that the Bank's securities will be listed or will continue to be listed on the NSE; nor does it take any responsibility for the financial or other soundness of the Bank, its management or any scheme or project of this Bank.

Every Person who desires to apply for or otherwise acquires any of the Bank's securities may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against NSE whatsoever by reason of any loss which may be suffered by such Person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

Disclaimer Clause of RBI

A license authorising the Bank to carry on banking business has been obtained from the Reserve Bank of India in terms of Section 22 of the Banking Regulation Act, 1949. It must be distinctly understood, however, that in issuing the license the Reserve Bank of India does not undertake any responsibility for the financial soundness of the Bank or for the correctness of any of the statements made or opinion expressed in this connection.

Filing

A copy of the Red Herring Prospectus has been filed with SEBI at Corporation Finance Department, Ground Floor, Mittal Court, "A" Wing, Nariman Point, Mumbai 400 021.

A copy of the Red Herring Prospectus, along with the documents required to be filed under Section 60B of the Companies Act, will be delivered for registration to the RoC and a copy of the Prospectus to be filed under Section 60 of the Companies Act would be delivered for registration with RoC.

Listing

Applications have been made to the NSE and BSE for permission to deal in and for an official quotation of the Bank's Equity Shares. BSE will be the Designated Stock Exchange.

If the permissions to deal in and for an official quotation of the Equity Shares are not granted by any of the Stock Exchanges mentioned above, the Bank will forthwith repay, without interest, all moneys received from the applicants in pursuance of this Red Herring Prospectus. If such money is not repaid within eight (8) days after the Bank become liable to repay it, i.e., from the date of refusal or within 70 days from the Bid/Issue Closing Date, whichever is earlier, then the Bank, and every Director of the Bank who is an officer in default shall, on and from such expiry of eight (8) days, be liable to repay the money, with interest at the rate of 15.0% per annum on application money, as prescribed under Section 73 of the Companies Act.

The Bank shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges mentioned above are taken within seven (7 working days of finalization of the basis of allocation for the Issue.

Impersonation

Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Companies Act, which is reproduced below:

"Any person who:

(a) *makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or*

(b) *otherwise induces a company to allot, or register any transfer of shares, therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years."*

Consents

Consents in writing of: (a) the Directors, Company Secretary and Compliance Officer, the Auditors, Legal Advisors, the Banker to the Issue and Escrow Collection Bank(s); and (b) Book Running Lead Managers, Syndicate Members and Registrar to the Issue, to act in their respective capacities, have been obtained and shall be filed along with a copy of the Red Herring Prospectus with the SEBI such consents have not been withdrawn up to the time of delivery of this Red Herring Prospectus for registration with the SEBI.

N.M. Raiji & Co., Chartered Accountants, the Bank's Auditors, have given their written consent to the inclusion of their report in the form and context in which it appears in this Red Herring Prospectus and such consent and report has not been withdrawn up to the time of delivery of this Red Herring Prospectus for filing with SEBI.

Expert Opinion

Except as stated elsewhere in this Red Herring Prospectus, the Bank has not obtained any expert opinions.

Expenses of the Issue

The expenses of this Issue include, among others, underwriting and management fees, selling commission, printing and distribution expenses, legal fees, statutory advertisement expenses and listing fees. The estimated Issue expenses are as follows:

Activity	Expenses (in Rs. millions)
Lead management, underwriting commission*	[●]
Registrar's fee	[●]
Advertising and Marketing expenses	[●]
Printing and stationery	[●]
Others (legal fees, listing fees, auditors fees, book building fees etc)	[●]
Total estimated Issue expenses	[●]

* Will be incorporated after finalisation of Issue Price

Fees Payable to the BRLMs, Brokerage and Selling Commission

The total fees payable to the BRLMs including brokerage and selling commission for the Issue will be Rs. [●] which will constitute 3.5% of the Issue size and [●]% of the Issue expense as per the memorandum of understanding executed between the Bank and the BRLMs dated February 5, 2006, a copy of which are available for inspection at the corporate office of the Bank.

Fees Payable to the Registrar to the Issue

The fees payable to the Registrar to the Issue will be as per the MoU entered into between the Bank and the Registrar to the Issue dated January 31, 2006 copies of which is available for inspection at the corporate office of the Bank.

The details of the fees payable to the Registrar to the Issue for processing fee, Validating Data pertaining to Depository option, Over Printing of CAN's / Refund Orders, Preparation of Refund Tape with MICR Nos, Charges for printing Bulk Mailing Register, Data Entry Charges, Scanning of application (full text) and Hosting Investor allotment / non-allotment information on Intime Spectrum Registry Limited website is Rs. 3.80 per application subject to a minimum of Rs. 35,000. In addition Rs. 15,000 would be payable for preparation of basis of allotment and listing application

Adequate funds will be provided to the Registrar to the Issue to enable them to send refund orders or allotment advice by registered post or speed post or under certificate of posting.

Fees Payable to the Escrow Bankers

No fees is payable to the Escrow Bankers/ Bankers to the Issue.

Bidding Period / Issue Period

BID / ISSUE OPENS ON	**SEPTEMBER 29, 2006**
BID / ISSUE CLOSES ON	**OCTOBER 6, 2006**

Bids and any revision in Bids shall be accepted **only between 10 a.m. and 3 p.m**. (Indian Standard Time) during the Bidding Period/Issue Period as mentioned above at the bidding centres mentioned on the Bid cum Application Form except that on the Bid Closing Date, the Bids shall be accepted **only between 10 a.m. and 3 p.m.** (Indian Standard Time) and uploaded till such time as permitted by the BSE and NSE.

The Bank reserves the right to revise the Price Band during the Bidding Period/Issue Period in accordance with SEBI Guidelines. The cap on the Price Band should not be more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of the Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Red Herring Prospectus.

In case of revision in the Price Band, the Bidding Period/Issue Period will be extended for three additional days after revision of Price Band subject to the Bidding Period/Issue Period not exceeding 10 working days. Any revision in the Price Band and the revised Bidding Period/Issue Period, if applicable, will be widely disseminated by notification to BSE and NSE by issuing a press release, and also by indicating the change on the websites of the BRLMs and at the terminals of the Syndicate.

Designated Date and allotment of Equity Shares

(a) The Bank will ensure that the allotment of Equity Shares is done within 15 days of the Bid Closing Date/Issue Closing Date. After the funds are transferred from the Escrow Accounts to the Issue Account on the Designated Date, the Bank would ensure the credit to the successful Bidders depository account within two working days of the date of allotment.

(b) As per SEBI Guidelines, **Equity Shares will be issued and allotment shall be made only in the dematerialised form to the allottees**. Allottees will have the option to re-materialise the Equity Shares, if they so desire, in the manner stated in the Depositories Act.

Letters of allotment or refund orders

The Bank shall give credit to the beneficiary account with Depository Participants within two working days from the date of the allotment of Equity Shares. Applicants residing at 15 centres where clearing houses are managed by the Reserve Bank of India (RBI), will get refunds through ECS only except where applicant is otherwise disclosed as eligible to get refunds through direct credit & RTGS. In case of other applicants, the Bank shall ensure despatch of refund orders, if any, of value up to Rs. 1,500 by "Under Certificate of Posting", and shall dispatch refund orders above Rs. 1,500, if any, by registered post or speed post. Applicants to whom refunds are made through Electronic transfer of funds will be send a letter through ordinary post intimating them about the mode of credit of refund within 15 days of closure of Issue.

The Bank shall ensure despatch of refund orders, if any, by "Under Certificate of Posting" or registered post or speed post or Electronic Clearing Service or Direct Credit or RTGS, as applicable, only at the sole or First Bidder's sole risk within 15 days of the Bid Closing Date/Issue Closing Date, and adequate funds for making refunds to unsuccessful applicants as per the mode(s) disclosed shall be made available to the Registrar to the Issue by the issuer.

In accordance the requirements of the Stock Exchanges and SEBI Guidelines, the Bank undertakes that:

- Allotment shall be made only in dematerialised form within 15 days from the Issue Closing Date;
- Despatch of refund orders shall be done within 15 days from the Issue Closing Date; and

- The Bank shall pay interest at 15.0% per annum (for any delay beyond the 15-day time period as mentioned above), if allotment is not made, refund orders are not despatched and in case where a refund is made through electronic mode, the refund instructions have not been given to the clearing system, and demat credit within the 15-day time prescribed above, provided that the beneficiary particulars relating to such Bidders as given by the Bidders is valid at the time of the upload of the electronic transfer.

The Bank will provide adequate funds required for despatch of refund orders or allotment advice to the Registrar to the Issue.

Refunds will be made by cheques, pay orders or demand drafts drawn on the Escrow Collection Bank(s) and payable at par at places where Bids are received. The bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centres will be payable by the Bidders.

Payment of Refund

The payment of refund, if any, shall be undertaken in the following order of preference:

1. NEFT

   Payment of refund shall be undertaken through NEFT wherever the applicants' bank has been assigned the Indian Financial System Code (IFSC), which can be linked to a Magnetic Ink Character Recognition (MICR) , if any, available to that particular bank branch. IFSC Code will be obtained from the website of RBI as on a date immediately prior to the date of payment of refund, duly mapped with MICR numbers. Wherever the applicants have registered their nine digit MICR number and their bank account number while opening and operating the demat account, the same will be duly mapped with the IFSC Code of that particular bank branch and the payment of refund will be made to the applicants through this method.

2. ECS

   Payment of refund shall be undertaken through ECS for applicants having an account at any of the following fifteen centers: Ahmedabad, Bangalore, Bhubaneshwar, Kolkata, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram. This mode of payment of refunds would be subject to availability of complete bank account details including the MICR code as appearing on a cheque leaf, from the Depositories. One of the methods for payment of refund is through ECS for applicants having a bank account at any of the abovementioned fifteen centers.

3. Direct Credit

   Applicants applying through the web/internet whose service providers opt to have the refund amounts for such applicants being by way of direct disbursement by the service provider through their internal networks, the refund amounts payable to such applicants will be directly handled by the service providers and credited to bank account particulars as registered by the applicant in the demat account being maintained with the service provider. The service provider, based on the information provided by the Registrar, shall carry out the disbursement of the refund amounts to the applicants.

4. RTGS

   Applicants having a bank account at any of the abovementioned fifteen centres and whose refund amount exceeds Rs. 1 million, have the option to receive refund through RTGS. Such eligible applicants who indicate their preference to receive refund through RTGS are required to provide the IFSC code in the Bid-cum-application Form. In the event the same is not provided, refund shall be made through ECS. Charges, if any, levied by the Refund Bank(s) for the same would be borne by such applicant opting for RTGS as a mode of refund. Charges, if any, levied by the applicant's bank receiving the credit would be borne by the applicant.

   Note: We expect that all payments including where refund amounts exceed Rs. 1,000,000 (Rupees One Million) shall be made through NEFT, however in some exceptional circumstances where refund amounts exceed Rs. 1,000,000 (Rupees One Million), refunds may be made through RTGS.

5. For all other applicants, including those who have not updated their bank particulars with the MICR code, the refund orders shall be dispatched under certificate of posting for value up to Rs. 1,500 and through Speed Post/ Registered Post for refund orders of Rs. 1,500 and above. Such refunds will be made by cheques, pay orders or demand drafts drawn on the Escrow Collection Banks and payable at par at places where Bids are received. Bank charges, if any, for cashing such cheques, pay orders or demand drafts at other centers will be payable by the Bidders.

In case of revision in the Price Band, the Bidding/Issue Period shall be extended for three additional days after revision of Price Band. Any revision in the Price Band and the revised Bid/Issue Period, if applicable, will be widely disseminated by notification to the BSE and NSE, by issuing a press release, and by indicating the change on the web site of the BRLM and at the terminals of the Syndicate.

Companies under the Same Management

There are no companies under the same management.

Particulars Regarding Public Issues/ Rights Issue during the Last Five Years

The Bank has not made any public issue during the last five years**.**

The Bank made a rights issue of shares under Section 81 of the Companies Act under which 11,260,148 equity shares of the Bank were offered to the existing shareholders at a premium of Rs.30 per share on the basis of 1 share for every existing 2.5 equity shares in the Bank in 2004 11,255,323 equity shares were issued to the then existing shareholders in the said rights issue.

Promise vs. Performance

This is the initial public Issue of the Bank.

Issues otherwise than for cash

Except as stated in the section titled "Capital Structure" on page 21 of this Red Herring Prospectus, the Bank has not issued any Equity Shares for consideration otherwise than for cash.

Purchase of Property

Except as more particularly stated in the section titled "Objects of the Issue" and there is no property which the Bank has purchased or acquired or proposes to purchase or acquire which is to be paid for wholly, or in part, from the net proceeds of the Issue or the purchase or acquisition of which has not been completed on the date of this Red Herring Prospectus, other than property in respect of which:

- the contracts for the purchase or acquisition were entered into in the ordinary course of the business, and the contracts were not entered into in contemplation of the Issue nor is the Issue contemplated in consequence of the contracts; or
- the amount of the purchase money is not material; or
- disclosure has been made earlier in this Red Herring Prospectus.

Except as stated in the section titled "Related Party Transactions" on page 160 of this Red Herring Prospectus, the Bank has not purchased any property in which any Directors, Promoter or Promoter group companies, have any direct or indirect interest in any payment made thereof.

Servicing Behaviour

There has been no default in payment of statutory dues or of interest or principal in respect of the bank's borrowings or deposits.

Stock Market Data for the Equity Shares

This being the initial public Issue, the Equity Shares are not listed on any stock exchange.

Mechanism for Redressal of Investor Grievances

Investor grievance will be settled expeditiously and satisfactorily by the Bank. The agreement between the Registrar to the Issue and the Bank will provide for retention of records with the Registrar to the Issue for a period of at least six months from the last date of dispatch of letters of allotment, demat credit, refund orders to enable the investors to approach the Registrar to the Issue for redressal of their grievances.

All grievances relating to the Issue may be addressed to the Registrar to the Issue, Intime Spectrum Registry Limited, giving full details such as name, address of the applicant, application number, number of shares applied for, amount paid on application, Depository Participant, and the respective member of the Syndicate or collection centre where the application was submitted.

Disposal of Investor Grievances

The Bank estimates that the average time required by the Bank or the Registrar to the Issue to address routine investor grievances shall be seven days from the date of receipt of the complaint. In case of non-routine complaints and complaints where external agencies are involved, the Bank will seek to redress these complaints as expeditiously as possible.

The Bank has appointed Mr. H.V. Barve, as the Compliance Officer and he may be contacted in case of any pre-Issue or post-Issue-related problems. He can be contacted at the following address:

Mr. H.V. Barve

Development Credit Bank Limited
Corporate office
204, Raheja Centre, Nariman Point
Mumbai- 400 021
Tel: 91-22- 22883166
Fax: 91-22-22876112
E-mail: barve@dcbl.com

Changes in Auditors

There has been no change in the auditors in the last three years, except for the appointment of M/s N.M Raiji & Co. as co-auditors of the Bank for financial year 2004-2005. M/s. N. M. Raiji & Co. were appointed as the sole auditors for the financial year 2005-2006 at the 10th Annual General Meeting held on September 13, 2005 replacing M/s. Habib & Co. as the Bank's auditors.

Capitalisation of Reserves or Profits

Except as stated in the section titled "Capital Structure" on page 21 of this Red Herring Prospectus the Bank has not capitalised its reserves or profits at any time.

Revaluation of Assets

The Bank has not revalued its assets in the past five years.

Commission and Brokerage in previous issues

No commission or brokerage was paid in previous issues.

Financial Indebtness

Details of Tier II Capital of the Bank

Issue Series	Date of Issue	Date of Listing	Amount Outstanding as of March 31, 2006 (in Rs. million)	Date of Repayment	Coupon (%)	Security	Servicing Behaviour
Tier II Series I	March 31, 2003	February 12, 2004	660.00	June 30, 2008	63 months – 8.00% p.a	Unsecured	Regular
Tier II Series II	September 30, 2003	February 12, 2004	180.00 260.00	May 30, 2009 May 30, .2011	68 months - 7.00% p.a. 92 months - 7.30% p.a	Unsecured	Regular
Tier II Series III	March 31, 2004	June 15, 2004	460.00 100.00	June 30, 2010 June 30, 2012	75 months - 7.00% p.a. 99 months - 7.15% p.a	Unsecured	Regular

Details of Borrowings from Banks & Financial Institutions as of March 31, 2006

Sr. No.	Category	Outstanding balance (Rs. in million)	Interest Rate (%)	Tenor
1	Bank	300.00	7.50	3 months
2	Other Institutions & Agencies	249.87	6.50	3 days
3	Bank	133.85	4.90	179 days
4	Bank	133.85	5.01	77 days
5	Bank	131.95	0.59	90 days
6	Bank	89.23	5.10	98 days
7	Bank	87.21	0.59	181 days
8	Other Institutions & Agencies	83.33	7.30	3 years
9	Bank	44.62	4.97	182 days
10	Bank	43.98	0.63	90 days
11	Other Institutions & Agencies	0.13	13.50	15 years
		1298.01		

The Tier II Bonds of the Bank are listed on the BSE

SECTION 7 : ISSUE RELATED INFORMATION

Terms of the Issue

The Equity Shares being offered are subject to the provisions of the Companies Act, Banking Regulation Act, other circulars and guidelines issued by the RBI, the Memorandum and the Articles of Association of the Bank, the terms of the Draft Red Herring Prospectus, the Red Herring Prospectus, the Prospectus, Bid cum Application Form, the Revision Form, the CAN and other terms and conditions as may be incorporated in the allotment advice and other documents/certificates that may be executed in respect of the Issue. The Equity Shares shall also be subject to laws as applicable, guidelines, notifications and regulations relating to the issue of capital and listing and trading of securities issued from time to time by SEBI, the Government, Stock Exchanges, RBI, and/or other authorities, as in force on the date of the Issue and to the extent applicable.

Ranking of Equity Shares

The Equity Shares being offered shall be subject to the provisions of the Companies Act, the Memorandum and the Articles of Association of the Bank and shall rank *pari passu* in all respects with the existing Equity Shares of the Bank including rights in respect of dividend. The Persons in receipt of Allotment will be entitled to dividend or other corporate benefits, if any, declared by the Bank after the date of Allotment. See the section titled "Main Provisions of the Articles of Association" on page 254 of this Red Herring Prospectus.

Face Value and Issue Price

The Equity Shares with a face value of Rs. 10 each are being offered in terms of this Red Herring Prospectus at a total price of Rs. [●] per Equity Share. At any given point of time there shall be only one denomination for the Equity Shares.

The face value of the shares is Rs. 10 and the Floor Price is 2.2 times of the face value and the Cap Price is 2.6 times of the face value.

Rights of the Equity Shareholder

Subject to applicable laws, the Equity Shareholders shall have the following rights:

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting powers, unless prohibited by law. However the power of shareholders to exercise voting rights is subject to certain restrictions. The Banking Regulation Act states that no shareholder of the Bank shall be entitled to exercise voting rights in respect of the shares held by him in a poll in excess of ten percent of the total voting rights of all the shareholders of the Bank. For more information on restrictions on the power of shareholders to exercise voting rights please refer to the section titled "Regulation and Policies - Restriction on Share Capital and Voting Rights" on page 106 of this Red Herring Prospectus;
- Right to vote on a poll either in person or by proxy;
- Right of free transferability, subject to RBI's acknowledgement in the case of transfer or acquisition of the Bank's shares which will increase the aggregate shareholding (both direct or indirect, beneficial or otherwise) of an individual or group to 5% or more of the Bank's total paid up capital. For further details, please refer to the section titled "Regulation and Policies- Ownership Restrictions" on page 103 of this Red Herring Prospectus;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus, if any, on liquidation;
- Such other rights, as may be available to a shareholder of a listed public company under the Companies Act, the Banking Regulation Act and the Memorandum and Articles;

For a detailed description of the main provisions of the Articles and Memorandum of Association dealing, among other things, with voting rights, dividend, forfeiture and lien, transfer and transmission see the section titled "Main Provisions of Articles of Association" on page 254 of this Red Herring Prospectus.

Market Lot and Trading Lot

In terms of Section 68B of the Companies Act, the Equity Shares shall be allotted only in dematerialized form. As per the existing SEBI Guidelines, the trading in the Equity Shares shall only be in dematerialised form for all investors. Since trading of the Equity Shares is in dematerialised form, the tradable lot is one Equity Share. Allotment through this Issue will be done only in electronic form in multiples of one Equity Share subject to a minimum of 250 Equity Share. For details of allocation and allotment, see the section titled "Issue Procedure- Basis for Allotment" on page 228 of this Red Herring Prospectus.

Nomination Facility to the Investor

In the nature of the rights specified in Section 109A of the Companies Act, the sole or first Bidder, along with other joint Bidder, may nominate any one Person in whom, in the event of the death of sole Bidder or in case of joint Bidders, death of all the Bidders, as the case may be, the Equity Shares allotted, if any, shall vest. A Person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the Equity Share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any Person to become entitled to Equity Share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale/transfer/alienation of Equity Share(s) by the Person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at the Head Office of the Bank or at the Registrar and Transfer Agents of the Bank.

In the nature of the rights stated in Section 109B of the Companies Act, any Person who becomes a nominee in the manner stated above, shall upon the production of such evidence as may be required by the Board of Directors, elect either:

- to register himself or herself as the holder of the Equity Shares; or
- to make such transfer of the Equity Shares, as the deceased holder could have made.

Further, the Board of Directors may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the Equity Shares, and if the notice is not complied with, within a period of 90 days, the Board of Directors may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the Equity Shares, until the requirements of the notice have been complied with.

Notwithstanding anything stated above, since the allotment in the Issue will be made only in dematerialised mode, there is no need to make a separate nomination with the Bank. Nominations registered with the respective depository participant of the applicant would prevail. If the investors require to change the nomination, they are requested to inform their respective depository participant.

Minimum Subscription

If the Bank does not receive the minimum subscription of 90% of the Net Issue to the public to the extent of the amount payable on application, including devolvement on Underwriters, if any, within 60 days from the Bid Closing Date, the Bank shall forthwith refund the entire subscription amount received. If there is a delay beyond eight days after the Bank becomes liable to pay the amount (i.e. 60 days from the Bid Closing Date), the Bank shall pay interest prescribed under Section 73 of the Companies Act.

Jurisdiction

Exclusive jurisdiction for the purpose of this Issue is with competent courts/authorities in Mumbai, India.

Subscription by Eligible Non Residents

There is no reservation for any Non-Residents including NRIs, FIIs, foreign venture capital investors registered with SEBI and multilateral and bilateral development financial institutions and such NRIs, FIIs, foreign venture capital investors registered with SEBI and multilateral and bilateral development financial institutions will be treated on the same basis with other categories for the purpose of allocation.

As per RBI regulations, OCBs cannot participate in the Issue.

Application in Issue

Equity Shares being issued through this Red Herring Prospectus can be applied for in the dematerialized form only.

Withdrawal of the Issue

The Bank, in consultation with the BRLMs, reserves the right not to proceed with the Issue at any time including after the Bid Closing Date, without assigning any reason thereof. The Bank had earlier filed the Draft Red Herring Prospectus with SEBI on February 17, 2006. SEBI had given its observations on the same vide their letter number CFD/DIL/ISSUES/66509/2006 dated May 8, 2006. However, thereafter, the Bank did not proceed with the Issue since the capital markets conditions were non conducive for the Issue. Thereafter the Bank again filed the Draft Red Herring Prospectus with SEBI on August 9, 2006. SEBI had given its observations on the same vide letter number CFD/DIL/ISSUES/V/7605/2006 dated September 14, 2006.

Mode of payment of dividend

The Bank will pay dividend, if declared, through cheques payable at par at places where it may deem fit.

Compliance with SEBI Guidelines

The Bank shall comply with all disclosure and accounting norms as may be specified by SEBI from time to time.

Issue Structure

The present Issue of 71,500,000 Equity Shares of Rs. 10/- each at a price of Rs. [•] for cash, aggregating Rs. [•] million is being made through the Book Building Process. The present Issue of 71,500,000 Equity Shares comprises of Net Issue to the public of a minimum of 68,997,500 Equity Shares aggregating Rs. [•] million and a reservation for Eligible Employees of up to 2,502,500 Equity Shares aggregating Rs. [•].

	QIBs	**Non-Institutional Bidders**	**Retail Individual Bidders**	**Employee Reservation Portion**
Number of Equity Shares*	34,498,750 Equity Shres or Net Issue less allocation to Non-Institutional Bidders and Retail Individual Bidders	At least 10,349,625 Equity Shres or Net Issue less allocation to QIB Bidders and Retail Individual Bidders	At least 24,149,125 Equity Shares or Net Issue less allocation to QIB Bidders and Non-Institutional Bidders	Up to 2,502,500 Equity Shares
Percentage of Issue Size available for allocation	50% of Net Issue or Net Issue less allocation to Non - Institutional Bidders and Retail Individual Bidders.	Minimum 15% of Net Issue or Net Issue less allocation to QIB Bidders and Retail Individual Bidders.	Minimum 35% of Net Issue or Net Issue less allocation to QIB Bidders and Non Institutional Bidders.	Up to 3.5% of the Issue Size
Basis of Allocation (subject to compliance with sectoral caps)	Proportionate	Proportionate	Proportionate	Proportionate
Minimum Bid	Such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of 250 Equity Shares thereafter.	Such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of 250 Equity Shares thereafter.	250 Equity Shares and in multiples of 250 Equity Share thereafter.	250 Equity Shares and in multiples of 250 Equity Share thereafter.
Maximum Bid	Such number of Equity Shares not exceeding the Net Issue, subject to applicable limits.	Such number of Equity Shares not exceeding the Net Issue, subject to applicable limits.	Such number of Equity Shares whereby the Bid Amount does not exceed Rs. 100,000.	Such number of Equity Shares where the Bid Amount does not exceed Rs. 100,000 not exceeding the Employee Reservation Portion
Mode of Allotment	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.
Trading Lot	One Equity Share	One Equity Share	One Equity Share	One Equity Share

	QIBs	Non-Institutional Bidders	Retail Individual Bidders	Employee Reservation Portion
Who can Apply	Public financial institutions, as specified in Section 4A of the Companies Act, scheduled commercial banks, mutual funds, foreign institutional investors registered with SEBI, multilateral and bilateral development financial institutions, and State Industrial Development Corporations, permitted insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million in accordance with applicable law.	NRIs, Resident Indian individuals, HUF (in the name of Karta), companies, corporate bodies, scientific institutions societies, trusts and those QIBs whose Bid Amount is less than Rs. 100,000 in value	Individuals (including HUFs, NRIs) applying for Equity Shares such that the Bid Amount does not exceed Rs. 100,000 in value.	Eligible Employees
Terms of Payment	**QIB** Margin Amount **shall be payable** at the time of submission of Bid cum Application Form to the BRLMs. **.	Margin Amount **shall be payable** at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Amount **shall be payable** at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Amount applicable to Eligible Employees shall be payable at the time of submission of Bid cum Application Form to the Syndicate Members
Margin Amount	10% of the Bid Amount	Full Bid Amount on bidding	Full Bid Amount on bidding	Full Bid Amount on bidding

* *Subject to valid Bids being received at or above the Issue Price. Under-subscription in the Employee Reservation Portion would be added back to the Non-institutional Bidder portion and Retail Individual portion in the ratio of 50:50. Under-subscription, if any, in the QIB portion, Non-institutional Bidder portion and Retail Individual Bidder portion would be allowed to be met with spillover from any other portions at the discretion of the Bank in consultation with the BRLMs.*

** *After the Issue Closing Date/Bid Closing Date, depending on the level of subscription, additional Margin Amount, if any, may be called for from the QIBs.*

Bids by QIBs where the Bid Amount equals or exceeds Rs. 100,000 in value shall be submitted only to the BRLMs or Syndicate Members duly appointed by them in this regard.

Allotment in the manner detailed hereinabove shall be subject to the condition that the Non Resident shareholding in the Bank immediately after the Allotment shall not exceed a maximum of 74% of its post Issue paid up capital.

Issue Procedure

Book Building Procedure

The Issue is being made through the 100% Book Building Process wherein up to 50% of the Net Issue to the Public shall be available for allocation on a proportionate basis to QIB Bidders. Further not less than 35% of the Net Issue to the public shall be available for allocation on a proportionate basis to the Retail Individual Bidders and not less than 15% of the Net Issue to the public shall be available for allocation on a proportionate basis to Non-Institutional Bidders, subject to valid Bids being received at or above the Issue Price.

Bidders are required to submit their Bids through the Members of the Syndicate. However, the Bids by QIB shall be submitted only to the BRLMs or Syndicate Members duly appointed by them in this regard. None of the Bids except the Bids from QIBs may be rejected except on the technical grounds listed in this Red Herring Prospectus. The BRLMs or the Syndicate Members may reject a bid by a QIB at the time of acceptance of the Bid and for reasons to be recorded in writing.

Investors should note that Allotment to all successful Bidders will only be in the dematerialised form. Bidders will not have the option of getting Allotment in physical form. **The Equity Shares, on Allotment, shall be traded only in the dematerialised segment of the Stock Exchanges**.

Bid cum Application Form

Bidders shall only use the specified Bid cum Application Form bearing the stamp of a member of the Syndicate for the purpose of making a Bid in terms of this Red Herring Prospectus. The Bidder shall have the option to make a maximum of three Bids in the Bid cum Application Form and such options shall not be considered as multiple Bids. Upon the allocation of Equity Shares, dispatch of the CAN, and filing of the Prospectus with the RoC, the Bid cum Application Form shall be considered as the application form. Upon completing and submitting the Bid cum Application Form to a member of the Syndicate, the Bidder is deemed to have authorised the Bank to make the necessary changes in this Red Herring Prospectus and the Bid cum Application Form as would be required for filing the Prospectus with the RoC and as would be required by RoC after such filing, without prior or subsequent notice of such changes to the Bidder.

The prescribed colour of the Bid cum Application Form for various categories is as follows:

Category	Colour of Bid cum Application Form
Indian public including resident QIBs, Non-Institutional Bidders, Retail Individual Bidders and eligible NRIs applying on a non-repatriation basis	White
Eligible NRIs, Non Resident QIBs, etc. applying on a repatriation basis	Blue
Eligible Employees	Pink

Who can Bid?

- Indian nationals resident in India who are majors, in single or joint names (not more than three);
- Hindu Undivided Families or HUFs, in the individual name of the *Karta*. The Bidder should specify that the Bid is being made in the name of the HUF in the Bid cum Application Form as follows: "Name of Sole or First bidder: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the *Karta*". Bids by HUFs would be considered at par with those from individuals;
- Companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in the Equity Shares;
- Mutual Funds registered with SEBI;
- Indian Financial Institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission, as applicable);

- Venture Capital Funds registered with SEBI subject to compliance with applicable rules, regulations, guidelines and approval in the Issue;
- Foreign Venture Capital Investors registered with SEBI subject to compliance with applicable rules, regulations, guidelines and approval in the Issue;
- State Industrial Development Corporations;
- Trusts registered under the Societies Registration Act, 1860, as amended, or under any other law relating to Trusts and who are authorised under their constitution to hold and invest in equity shares;
- NRIs and FIIs on a repatriation basis or a non-repatriation basis subject to applicable laws;
- Scientific and/or Industrial Research Organisations authorised to invest in equity shares;
- Insurance Companies registered with Insurance Regulatory and Development Authority;
- Provident Funds with minimum corpus of Rs. 250 million and who are authorised under their constitution to hold and invest in equity shares;
- Pension Funds with minimum corpus of Rs. 250 million and who are authorised under their constitution to hold and invest in equity shares; and
- Multilateral and Bilateral Development Financial Institutions.

Pursuant to the existing regulations, OCBs are not eligible to participate in the Issue.

Note: The BRLMs and Syndicate Members shall not be entitled to subscribe to this Issue in any manner except towards fulfilling their underwriting obligation.

Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under applicable law.

Application by Mutual Funds

An eligible Bid by a Mutual Fund shall first be considered for allocation proportionately in the Mutual Fund portion. In the event that the demand is greater than 1,724,938 Equity Shares, allocation shall be made to Mutual Funds proportionately, to the extent of the Mutual Fund portion. The remaining demand by the Mutual Funds shall, as part of the aggregate demand by QIBs, be available for allocation proportionately out of the remainder of the QIB portion, after excluding the allocation in the Mutual Fund portion

As per the current regulations, the following restrictions are applicable for investments by mutual funds:

No mutual fund scheme shall invest more than 10% of its net asset value in the Equity Shares or equity related instruments of any company provided that the limit of 10% shall not be applicable for investments in index funds or sector or industry specific funds. No mutual fund under all its schemes should own more than 10% of any company's paid-up share capital carrying voting rights. These limits would have to be adhered to by the mutual funds for investment in the Equity Shares.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

Application by NRIs

Bid cum application forms have been made available for NRIs at the Corporate Office of the Bank.

NRI applicants may please note that only such applications as are accompanied by payment in free foreign exchange shall be considered for Allotment. The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the form meant for Resident Indians.

Application by FIIs

As per the current regulations, the following restrictions are applicable for investments by FIIs:

The issue of Equity Shares to a single FII should not exceed 10% of the Bank's post-Issue issued capital (i.e., 10% of 147,632,187 Equity Shares of Rs. 10 each) Equity Shares. In respect of an FII investing in the Equity Shares on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of the total issued capital or 5% of the total issued capital in case such sub-account is a foreign corporate or an individual. As of now, in accordance with the decision of the Government of India, being a private sector bank, the aggregate foreign investment in the Bank cannot exceed 74% of the total issued capital. As of now, the aggregate FII holding in the Bank cannot exceed 24% of the total issued capital of the Bank. With the approval of the Board of Directors and the shareholders by way of a special resolution, the aggregate FII holding can go up to 49%.However, as on this date, no such resolution has been recommended to the shareholders of the Bank for adoption.

As per the current regulations, the following restrictions are applicable for SEBI registered Venture Capital Funds and Foreign Venture Capital Investors:

The SEBI (Venture Capital) Regulations, 1996 and the SEBI (Foreign Venture Capital Investor) Regulations, 2000 prescribe investment restrictions on venture capital funds and foreign venture capital investors registered with SEBI. Accordingly, the holding by any individual venture capital fund or foreign venture capital investor registered with SEBI should not exceed 33.33% of the corpus of the venture capital fund/ foreign venture capital investor.

The above information is given for the benefit of the Bidders. The Company and the BRLMs are not liable for any amendments or modification or changes in applicable laws or regulations, which may occur after the date of this Red Herring Prospectus. Bidders are advised to make their independent investigations and ensure that the number of Equity Shares Bid for do not exceed the applicable limits under laws or regulations

Maximum and Minimum Bid Size

(a) **For Retail Individual Bidders:** The Bid must be for a minimum of 250 Equity Shares and in multiples of 250 Equity Share thereafter, so as to ensure that the Bid Amount payable by the Bidder does not exceed Rs. 100,000. In case of revision of Bids, the Retail Individual Bidders have to ensure that the Bid Amount does not exceed Rs. 100,000. In case the Bid Amount is over Rs. 100,000 due to revision of the Bid or revision of the Price Band or on exercise of cut-off option, the Bid would be considered for allocation under the Non Institutional Bidders portion.

(b) **For Non-Institutional Bidders and QIB Bidders**: In case of a Non-Institutional Bidder, the Bid must be for a minimum of such number of Equity Shares such that the Bid Amount exceeds Rs. 100,000 and in multiples of 250 Equity Shares thereafter. In case of a QIB Bidder, the Bid must be for a minimum of such number of Equity Shares such that the Bid Amount is equal to or exceeds Rs. 100,000 and in multiples of 250 Equity Shares thereafter. A Bid cannot be submitted for more than the Net Issue to the public being 68,997,500. However, the maximum Bid by a QIB Bidder should not exceed the investment limits prescribed for them by applicable laws. **Under existing SEBI guidelines, a QIB Bidder cannot withdraw its Bid after the Bid Closing Date/Issue Closing Date.**

In case of revision in Bids, the Non Institutional Bidders, who are individuals, have to ensure that the Bid Amount is greater than Rs. 100,000 for being considered for allocation in the Non Institutional Portion. In case the Bid Amount reduces to Rs. 100,000 or less due to a revision in Bids or revision of the Price Band, Bids by Non Institutional Bidders who are eligible for allocation in the Retail Portion would be considered for allocation under the Retail Portion. Non Institutional Bidders and QIB Bidders are not allowed to Bid at 'cut-off'.

(c) **For Employee Reservation Portion:** The Bid must be for a minimum of 250 Equity Shares and in multiples of 250 Equity Shares thereafter. A single Bid under the Employee Reservation Portion shall not exceed such number of Equity Shares whereby the Bid Amount does not exceed Rs. 100,000.

Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under applicable law or regulation or as specified in this Red Herring Prospectus.

Information for the Bidders

(a) The Bank will file the Red Herring Prospectus with the Registrar of Companies at least three days before the Bid Opening Date/ Issue Opening Date.

(b) The members of the Syndicate will circulate copies of the Red Herring Prospectus along with the Bid cum Application Form to potential investors.

(c) Investors other than QIBs, who are interested in subscribing for the Bank's Equity Shares should approach any of the BRLMs or Syndicate Members or their authorized agent(s) to register their Bid. QIBs interested in subscribing to the Bank's Equity Shares should only approach any of the BRLMs or Syndicate Members duly authorised by them to register their Bid.

(d) Any investor (who is eligible to invest in the Equity Shares according to the terms of this Red Herring Prospectus and applicable law) who would like to obtain the Red Herring Prospectus and/or the Bid cum Application Form can obtain the same from the Corporate Office or from any of the members of the Syndicate.

(e) The Bids should be submitted on the prescribed Bid cum Application Form only. Bid cum Application Forms should bear the stamp of the members of the Syndicate. Bid cum Application Forms which do not bear the stamp of the members of the Syndicate will be rejected.

Method and Process of Bidding

(a) The Bank and the BRLMs shall declare the Bid Opening Date/Issue Opening Date, Bid Closing Date/Issue Closing Date and Price Band at the time of filing the Red Herring Prospectus with the Registrar of Companies and also publish the same in one widely circulated newspaper in English, Hindi and Marathi. The BRLMs and Syndicate Members shall accept Bids from the Bidders during the Issue Period in accordance with the terms of the Syndicate Agreement. QIBs should submit their Bids to BRLMs or Syndicate Members duly appointed by them in this regard. This advertisement, subject to the provisions of Section 66 of the Companies Act, shall be in the form prescribed on Schedule XXA of the SEBI Guidelines.

(b) Investors other than QIBs, who are interested in subscribing for the Equity Shares should approach any of the members of the Syndicate or their authorized agent(s) to register their Bid. QIBs shall register their Bids only through a BRLM/or a Syndicate Member duly appointed by it in this regard.

(c) The Bidding Period shall be a minimum of three working days and not exceed seven working days. In case the Price Band is revised, the revised Price Band and Bidding Period will be published in one widely circulated newspaper in English, Hindi and Marathi and the Bidding Period may be extended, if required, by an additional three days, subject to the total Bidding Period not exceeding ten working days.

(d) Each Bid cum Application Form will give the Bidder the choice to bid for up to three optional prices (for details see the section titled "Issue Procedure-Bids at Different Price Levels" on page 232 of this Red Herring Prospectus) within the Price Band and specify the demand (i.e. the number of Equity Shares Bid for) in each option. The price and demand options submitted by the Bidder in the Bid cum Application Form will be treated as optional demands from the Bidder and will not be cumulated. After determination of the Issue Price, the maximum number of Equity Shares Bid for by a Bidder at or above the Issue Price will be considered for allocation and the rest of the Bid(s), irrespective of the Bid Price, will become automatically invalid.

(e) The Bidder cannot bid on another Bid cum Application Form after Bids on one Bid cum Application Form have been submitted to any member of the Syndicate. Submission of a second Bid cum Application Form to either the same or to another member of the Syndicate may be treated as multiple Bids and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allocation or Allotment of Equity Shares in this Issue. However, the Bidder can revise the Bid through the Revision Form, the procedure for which is detailed under the section titled "Issue Procedure-Build up of the Book and Revision of Bids" on page 235 of this Red Herring Prospectus.

(f) The Syndicate Members will enter each Bid option into the electronic bidding system as a separate Bid and generate a Transaction Registration Slip, ("**TRS**"), for each price and demand option and give the same to the Bidder. Therefore, a Bidder can receive up to three TRSs for each Bid cum Application Form.

(g) During the Bidding Period, Bidders may approach the members of the Syndicate to submit their Bid. Every member of the Syndicate shall accept Bids from all clients / investors who place orders through them and shall have the right to vet the Bids. In case of Bids by QIB, the same shall be submitted only through the BRLMs or Syndicate Members duly appointed by them in this regard.

(i) Along with the Bid cum Application Form, all Bidders will make payment in the manner described under the section titled "Issue Procedure-Terms of Payment and Payment into the Escrow Accounts" on page 248 of this Red Herring Prospectus.

Bids at Different Price Levels

1. The Price Band has been fixed at Rs.22 to Rs.26 per Equity Share each, Rs.22 being the Floor Price and Rs.26 being the Cap Price. The Bidders can bid at any price within the Price Band, in multiples of 250 Equity Shares.

2. In accordance with SEBI Guidelines, the Bank reserves the right to revise the Price Band during the Bidding Period. The cap on the Price Band should not exceed the floor of the Price Band by more than 20%. Subject to compliance with the immediately preceding sentence, the floor of the Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Red Herring Prospectus.

3. In case of revision in the Price Band, the Issue Period will be extended for three additional days after revision of Price Band subject to a maximum of 10 working days. Any revision in the Price Band and the revised Bidding Period/ Issue Period, if applicable, will be widely disseminated by notification to NSE and BSE, by issuing a public notice in one widely circulated newspaper in English, Hindi and Marathi, and also by indicating the change on the websites of the BRLMs and at the bidding terminals of the members of the Syndicate.

4. The Bank in consultation with the BRLMs can finalise the Issue Price within the Price Band in accordance with this clause, without the prior approval of, or intimation, to the Bidders.

5. Bidders can bid at any price within the Price Band. Bidders have to bid for the desired number of Equity Shares at a specific price. Retail Individual Bidders and Bidders in the Employee Reservation Portion applying for a maximum Bid in any of the bidding options not exceeding Rs. 100,000 may bid at Cut-off Price. However, bidding at Cut-off Price is prohibited for QIB Bidders and Non-Institutional Bidders and Bidders in the Employee Reservation portion applying for Bid exceeding Rs.100,000 and such Bids from QIB Bidders and Non Institutional Bidders shall be rejected.

6. Retail Individual Bidders and employees bidding under Employee Reservation Portion who bid at the Cut-off Price agree that they shall purchase the Equity Shares at any price within the Price Band. Retail Individual Bidders and Bidders in Employee Reservation portion not exceeding Rs.100,000 bidding at Cut-off Price shall deposit the Bid Amount based on the Cap Price in the respective Escrow Accounts. In the event the Bid Amount is higher than the subscription amount payable by the Retail Individual Bidders who Bid at Cut-off Price (i.e. the total number of Equity Shares allocated in the Issue multiplied by the Issue Price), the Retail Individual Bidders, who Bid at Cut off Price, shall receive the refund of the excess amounts from the respective Escrow Accounts/refund account(s).

7. In case of an upward revision in the Price Band announced as above, Retail Individual Bidders and Eligible Employees bidding under the Employee Reservation, who had bid at Cut-off Price could either (i) revise their Bid or (ii) make additional payment based on the cap of the revised Price Band (such that the total amount i.e. original Bid Amount plus additional payment does not exceed Rs. 100,000 if the Bidder wants to continue to bid at Cut-off Price), with the Syndicate Member to whom the original Bid was submitted. In case the total amount (i.e. original Bid Amount plus additional payment) exceeds Rs. 100,000, the Bid will be considered for allocation under the Non-Institutional Portion in terms of this Red Herring Prospectus. If, however, the Bidder does not either revise the Bid or make additional

payment and the Issue Price is higher than the cap of the Price Band prior to the revision, the number of Equity Shares Bid for shall be adjusted downwards for the purpose of Allotment, such that the no additional payment would be required from the Bidder and the Bidder is deemed to have approved such revised Bid at Cut-off Price.

8. In case of a downward revision in the Price Band and employees bidding under the Employee Reservation, announced as above, Retail Individual Bidders, who have bid at Cut-off Price could either revise their Bid or the excess amount paid at the time of bidding would be refunded from the respective Escrow Accounts/refund account(s).

9. In the event of any revision in the Price Band, whether upwards or downwards, the minimum application size shall remain 250 Equity Shares irrespective of whether the Bid Amount payable on such minimum application is not in the range of Rs. 5,000 to Rs. 7,000.

Escrow Mechanism

The Bank shall open Escrow Accounts with one or more Escrow Collection Bank in whose favour the Bidders shall make out the cheque or demand draft in respect of his or her Bid and/or revision of the Bid. Cheques or demand drafts received for the full Bid Amount from Bidders in a certain category would be deposited in the respective Escrow Account. The Escrow Collection Bank will act in terms of this Red Herring Prospectus and the Escrow Agreement. The monies in the Escrow Accounts shall be maintained by the Escrow Collection Bank for and on behalf of the Bidders. The Escrow Collection Bank shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On the Designated Date, the Escrow Collection Bank shall transfer the monies from the Escrow Accounts to the Issue Account as per the terms of the Escrow Agreement. Payments of refund to the Bidders shall also be made from the Escrow Accounts/refund account(s) as per the terms of the Escrow Agreement and this Red Herring Prospectus.

The Bidders should note that the escrow mechanism is not prescribed by SEBI and has been established as an arrangement between the Bank, the members of the Syndicate, the Escrow Collection Bank and the Registrar to the Issue to facilitate collections from the Bidders.

Terms of Payment and Payment into the Escrow Accounts

Each Bidder shall provide the applicable Margin Amount, with the submission of the Bid cum Application Form either by drawing a cheque or demand draft for such Margin Amount of his/her Bid in favour of the Escrow Account of the Escrow Collection Bank(s) (for details see the section titled "Issue Procedure-Payment Instructions" on page 242 of this Red Herring Prospectus) and submit the same to the member of the Syndicate to whom the Bid is being submitted. The Bidder may also provide the applicable Margin Amount by way of an electronic transfer of funds through RTGS mechanism or such other similar arrangement. Each QIB shall provide its QIB Margin Amount only to a BRLM. Bid cum Application Forms accompanied by cash shall not be accepted. The Margin Amount based on the Bid Amount has to be paid at the time of submission of the Bid cum Application Form.

The members of the Syndicate shall deposit the cheque or demand draft with the Escrow Collection Bank(s), which will hold the monies for the benefit of the Bidders till the Designated Date. On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds equivalent to the size of the Issue from the Escrow Accounts, as per the terms of the Escrow Agreement, into the Issue Account with the Banker(s) to the Issue. The balance amount after transfer to the Issue Account shall be held for the benefit of the Bidders who are entitled to refunds on the Designated Date, and not later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Bank(s) shall refund all monies to unsuccessful Bidders and also the excess amount paid on bidding, if any, after adjustment for Allotment to the Bidders.

Each category of Bidders, i.e. QIB Bidders, Non-Institutional Bidders, Retail Individual Bidders and permanent employees in the Employee Reservation Portion, would be required to pay their applicable Margin Amount at the time of the submission of the Bid cum Application Form. The Margin Amount payable by each category of Bidders is mentioned in the section titled "Issue Structure" on page 226 of this Red Herring Prospectus. Where the Margin Amount applicable to the Bidder is less than 100% of the Bid Amount, any difference between the amount payable by the Bidder for Equity Shares allocated at the Issue Price and the Margin Amount paid at the time of Bidding, shall be payable by the Bidder not later than the Pay-in-Date.

QIB Bidders will be required to deposit a margin of 10% at the time of submitting of their Bids. After the Issue Closing Date/ Bid Closing Date, the level of subscription in all categories shall be determined. Based on the level of subscription, additional margin money, if any, may be called for from the QIB.

If the payment is not made favouring the appropriate Escrow Account within the time and in the manner stipulated above, the Bid of the Bidder is liable to be rejected. However, if the members of the Syndicate do not waive such payment, the full amount of payment has to be made at the time of submission of the bid form.

Where the Bidder has been allocated lesser number of Equity Shares than he or she had Bid for, the excess amount paid on bidding, if any, after adjustment for allocation, will be refunded to such Bidder within 15 days from the Bid Closing Date/Issue Closing Date, failing which the Bank shall pay interest at 15% per annum for any delay beyond the periods as mentioned above.

In any case, any Allotment would be subject to the condition that Non Resident shareholding in the Bank's post -Issue paid up share capital shall not exceed a maximum of 74% of the Bank's post-Issue paid up share capital.

Electronic Registration of Bids

(a) The Syndicate Members will register the Bids using the on-line facilities of NSE and BSE. There will be at least one on-line connectivity in each city, where a stock exchange is located in India and where Bids are being accepted.

(b) NSE and BSE will offer a screen-based facility for registering Bids for the Issue. This facility will be available on the terminals of the Syndicate Members and their authorised agents during the Bidding Period/Issue Period. Syndicate Members can also set up facilities for off-line electronic registration of Bids subject to the condition that they will subsequently download the off-line data file into the on-line facilities for book building on a regular basis. On the Bid Closing Date/ Issue Closing Date, the Syndicate Members shall upload the Bids till such time as may be permitted by the NSE and BSE.

(c) BSE and NSE will aggregate demand and price for bids registered on their electronic facilities on a regular basis and display graphically the consolidated demand at various price levels. The information can be accessed on BSE's website at "www.bseindia.com" or on NSE's website at www.nseindia.com.

(d) At the time of registering each Bid, the members of the Syndicate shall enter the following details of the investor in the on-line system:

- Name of the investor (Bidders should ensure that the name given in the Bid-cum-Application Form is exactly the same as the name in which the Depository Account is held. In case a the Bid-cum-Application Form is submitted in joint names, investors should ensure that the Depository Account is also held in the same joint names and are in the same sequence in which they appear in the Bid-cum-Application Form);
- Investor Category –Individual, Corporate, FII, NRI or mutual fund, etc.;
- Numbers of Equity Shares Bid for;
- Bid price;
- Bid cum Application Form number;
- Whether payment is made upon submission of Bid cum Application Form;
- Margin Amount; and
- Depository Participant identification no. and client identification no. of the demat account of the Bidder.

(e) A system generated TRS will be given to the Bidder as a proof of the registration of each of the bidding options. **It is the Bidder's responsibility to obtain the TRS from the members of the Syndicate.** The registration of the Bid by the member of the Syndicate does not guarantee that the Equity Shares shall be allocated either by the members of the Syndicate or the Bank.

(f) Such TRS will be non-negotiable and by itself will not create any obligation of any kind.

(g) In case of QIB Bidders, the BRLMs also have the right to accept the Bid or reject it. However, such rejection should be made at the time of receiving the Bid and only after assigning a reason for such rejection. Additionally, Bids would be liable to be rejected on the technical grounds listed in this Red Herring Prospectus.

(h) It is to be distinctly understood that the permission given by NSE and BSE to use their network and software of the Online IPO system should not in any way be deemed or construed to mean that the compliance with various statutory and other requirements by the Bank or the BRLMs are cleared or approved by NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the statutory and other requirements nor does it take any responsibility for the financial or other soundness of the Bank, its management or any scheme or project of the Bank.

(i) It is also to be distinctly understood that the approval given by NSE and BSE should not in any way be deemed or construed that this Red Herring Prospectus has been cleared or approved by the NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; nor does it warrant that the Equity Shares will be listed or will continue to be listed on the NSE and BSE.

Build Up of the Book and Revision of Bids

(a) Bids registered by various Bidders through the Syndicate Members shall be electronically transmitted to the NSE or BSE mainframe on a regular basis.

(b) The book gets built up at various price levels. This information will be available with the BRLMs on a regular basis.

(c) During the Bidding Period, any Bidder who has registered his or her interest in the Equity Shares at a particular price level is free to revise his or her Bid within the Price Band using the printed Revision Form, which is a part of the Bid cum Application Form.

(d) Revisions can be made in both the desired number of Equity Shares and the Bid price by using the Revision Form. Apart from mentioning the revised options in the Revision Form, the Bidder must also mention the details of all the options in his or her Bid cum Application Form or earlier Revision Form. For example, if a Bidder has Bid for three options in the Bid cum Application Form and he is changing only one of the options in the Revision Form, he must still fill the details of the other two options that are not being changed, in the Revision Form unchanged. Incomplete or inaccurate Revision Forms will not be accepted by the members of the Syndicate.

(e) The Bidder can make this revision any number of times during the Bidding Period. However, for any revision(s) in the Bid, the Bidders will have to use the services of the same member of the Syndicate through whom he or she had placed the original Bid. Bidders are advised to retain copies of the blank Revision Form and the revised Bid must be made only in such Revision Form or copies thereof.

(f) Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft for the incremental amount, if any, to be paid on account of the upward revision of the Bid. The excess amount, if any, resulting from downward revision of the Bid would be returned to the Bidder at the time of refund in accordance with the terms of this Red Herring Prospectus. In case of QIB Bidders, the BRLMs shall collect additional payment, if any, in the form of cheque or demand draft for the incremental amount in the QIB Margin Amount, if any, to be paid on account of the upward revision of the Bid at the time of one or more revisions by the QIB Bidders.

(g) When a Bidder revises his or her Bid, he or she shall surrender the earlier TRS and get a revised TRS from the members of the Syndicate. It is the responsibility of the Bidder to request for and obtain the revised TRS, which will act as proof of his or her having revised the previous Bid.

(h) Only Bids that are uploaded to the online IPO system of NSE/BSE shall be considered for allocation/Allotment. In the event of a discrepancy in data between the Bids registered on the online IPO system and the physical Bid cum Application Form, the decision of the Bank in consultation with the BRLMs based on the physical Bid cum Application Form shall be final and binding on all concerned.

Price Discovery and Allocation

(a) After the Bid Closing Date/Issue Closing Date, the BRLMs will analyse the demand generated on the basis of electronic registration of Bids, at various price levels and discuss pricing strategy with the Bank.

(b) The Bank, in consultation with the BRLMs, shall finalise the "Issue Price" and the number of Equity Shares to be allotted in each investor category.

(c) QIB Bidders will be required to deposit a margin of 10% at the time of submitting of their Bids. After the Issue Closing Date/Bid Closing Date, the level of subscription in the various categories shall be determined. Based on the level of subscription, additional margin money, if any, may be called for from the QIB. The QIB shall pay such additional margin money within a period of two days from the date of the letter communicating the request for such additional margin money.

(d) The allocation to all Bidders would be on proportionate basis, in the manner specified in the SEBI Guidelines and subject to sectoral caps. The basis for Allotment would be finalized by the Bank in consultation with Designated Stock Exchange.

(e) Under-subscription in the Employee Reservation Portion would be added back to the Non-institutional Bidder portion and Retail Individual portion in the ratio of [50:50]. Under-subscription, if any, in the QIB portion, Non-institutional Bidder portion and Retail Individual Bidder portion would be allowed to be met with spillover from any other portions at the discretion of the Bank in consultation with the BRLMs

(f) Allocation to Non Residents including FIIs, NRIs, etc applying on repatriation basis will be subject to the terms and conditions stipulated by RBI while granting permission for Allotment of Equity Shares to them.

(g) The BRLMs in consultation with the Bank shall notify the members of the Syndicate of the Issue Price and allocations to their respective Bidders, where the full Bid Amount has not been collected from the Bidders.

(h) The Bank reserves the right to cancel the Issue any time after the Bid Opening Date/Issue Opening Date but before Allotment without assigning any reasons whatsoever.

(i) In terms of SEBI Guidelines, QIB holders shall not be allowed to withdraw their Bid after the Bid Closing Date/Issue Closing Date.

(j) The allotment details shall be put on the website of the Registrar to the Issue.

Allotment to Non Residents including NRIs, FIIs, FVCIs, etc.

Allocation to QIBs, Non Residents, FIIs and NRIs applying on repatriation basis would be subject to the terms and conditions stipulated by RBI .

Signing of Underwriting Agreement and Filing with the Registrar of Companies

(a) The Bank, the BRLMs and the Syndicate Members shall enter into an Underwriting Agreement on finalisation of the Issue Price.

(b) After signing the Underwriting Agreement, the Bank would update and file the updated Red Herring Prospectus with the Registrar of Companies, which then would be termed 'Prospectus'. The Prospectus would have details of the Issue Price, Issue size, underwriting arrangements and would be complete in all material respects.

Advertisement regarding Issue Price and Prospectus

A statutory advertisement will be issued by the Bank after the filing of the Prospectus with the Registrar of Companies. This advertisement, in addition to the information that has to be set out in the statutory advertisement, shall indicate the Issue Price. Any material updates between the date of Red Herring Prospectus and the date of Prospectus will be included in such statutory advertisement.

Issuance of CAN

Subject to the section entitled "Notice to QIBs: Allotment Reconciliation and Revised CANs" as set forth below:

(a) **Upon approval of the Basis of Allotment by the Designated Stock Exchange, the** BRLMs or the Registrar to the Issue shall send to the members of the Syndicate a list of their Bidders who have been allocated Equity Shares in the Issue**. Investors should note that the Bank shall ensure that the demat credit of Equity Shares pursuant to Allotment shall be made on the same date to all investors in this Issue**.

(b) The BRLMs or members of the Syndicate would then send the CAN to their Bidders who have been allocated Equity Shares in the Issue. The dispatch of CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for all the Equity Shares allocated to such Bidder.

(c) Bidders who have been allocated Equity Shares and who have already paid the full Margin Amount for the said Equity Shares into the Escrow Account at the time of bidding shall directly receive the CAN from the Registrar to the Issue subject, however, to realisation of their cheque or demand draft paid into the Escrow Accounts. The dispatch of a CAN shall be a deemed a valid, binding and irrevocable contract for the Bidder.

Notice to QIBs: Allotment Reconciliation and Revised CANs

After the Bid/Issue Closing Date, an electronic book will be prepared by the Registrar on the basis of Bids uploaded on the BSE/ NSE system. Based on the electronic book, QIBs may be sent a CAN, indicating the number of Equity Shares that may be allocated to them. This CAN is subject to the basis of final Allotment, which will be approved by the Designated Stock Exchange and reflected in the reconciled book prepared by the Registrar. Subject to SEBI Guidelines, certain Bid applications may be rejected due to technical reasons, non-receipt of funds, cancellation of cheques, cheque bouncing, incorrect details, etc., and these rejected applications will be reflected in the reconciliation and basis of Allotment as approved by the Designated Stock Exchange. In addition, there are foreign investment limitations applicable to the Company, which may result in a change (including potentially a decrease) in the number of Equity Shares being finally allotted to non-resident investors (including FIIs). As a result, a revised CAN may be sent to QIBs and the allocation of Equity Shares in such revised CAN may be different from that specified in the earlier CAN. QIBs should note that they may be required to pay additional amounts, if any, by the Paying Date specified in the revised CAN, for any increased allocation of Equity Shares. The CAN will constitute the valid, binding and irrevocable contract (subject only to the issue of a revised CAN) for the QIB to pay the entire Issue Price for all the Equity Shares allocated to such QIB. The revised CAN, if issued, will supersede in entirety the earlier CAN.

Designated Date and Allotment of Equity Shares

(a) The Bank will ensure that the Allotment of Equity Shares is done within 15 days of the Bid /Issue Closing Date. After the funds are transferred from the Escrow Account to the Issue Account on the Designated Date, the Bank would ensure the credit to the successful Bidders' depository accounts of the allotted Equity Shares to the allottees within two working days of the date of finalisation of Allotment by the Board of Directors.

(b) As per the SEBI Guidelines, Equity Shares will be issued and allotted only in the dematerialised form to the allottees. Allottees will have the option to re-materialise the Equity Shares so allotted, if they so desire, as per the provisions of the Companies Act and the Depositories Act.

Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be allotted to them pursuant to this Issue.

GENERAL INSTRUCTIONS

Do's:

- Check if you are eligible to apply;
- Read all the instructions carefully and complete the Resident Bid cum Application Form (White in colour) or Non-Resident Bid cum Application Form (Blue in colour) or Employee Reservation Portion Bid cum Application Form (Pink in colour), as the case may be;
- Ensure that the details about Depository Participant and Beneficiary Account are correct as Allotment of Equity Shares will be in the dematerialized form only;
- Ensure that the Bids are submitted at the bidding centres only on forms bearing the stamp of a member of the Syndicate;
- Ensure that you have been given a TRS for all your Bid options;
- Submit revised Bids to the same member of the Syndicate through whom the original Bid was placed and obtain a revised TRS;
- Ensure that the bid is within the Price Band;
- Ensure that you mention your Permanent Account Number (PAN) allotted under the I.T. Act where the maximum Bid for Equity Shares by a Bidder is for a total value of Rs. 50,000 or more and attach a copy of the PAN Card and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating Allotment of PAN along with the application for the purpose of verification of the number, with the Bid cum Application Form. In case you do not have a PAN, ensure that you provide a declaration in Form 60 prescribed under the I.T. Act along with the application;
- Ensure that the name given in the Bid-cum-Application Form is exactly the same as the name in which the Depository Account is held. In case a the Bid-cum-Application Form is submitted in joint names, investors should ensure that the Depository Account is also held in the same joint names and are in the same sequence in which they appear in the Bid-cum-Application Form
- Ensure that the Demographic Details (as defined hereinbelow) are updated, true and correct in all respects;
- QIBs shall submit their Bids only to the BRLMs or Syndicate Members duly appointed by them in this regard.

Don'ts:

- Do not Bid for lower than the minimum Bid size;
- Do not Bid/ revise Bid price to less than the lower end of the price band or higher than the higher end of the Price Band;
- Do not Bid on another Bid cum Application Form after you have submitted a Bid to the members of the Syndicate;
- Do not pay the Bid Amount in cash;
- Do not provide your GIR number instead of your PAN;
- Do not send Bid cum Application Forms by post; instead submit the same to a member of the Syndicate only;
- Do not Bid at Cut-off Price (applicable to QIB Bidders and Non-Institutional Bidders, and for Eligible Employees where the Bid Amount exceeds Rs. 100,000);
- Do not fill up the Bid cum Application Form such that the Equity Shares Bid for exceeds the Issue Size and/or investment limit or maximum number of Equity Shares that can be held under the applicable laws or regulations or maximum amount permissible under the applicable regulations;
- Do not submit Bid accompanied with Stockinvest; and
- Do not submit the Bid without the QIB Margin Amount, in case of a Bid by a QIB.

Instructions for Completing the Bid cum Application Form

Bidders can obtain Bid cum Application Forms and/or Revision Forms from the members of the Syndicate.

Bids and Revisions of Bids

Bids and revisions of Bids must be:

- Made only in the prescribed Bid cum Application Form or Revision Form, as applicable (white colour for Resident Indians and eligible NRIs applying on a non-repatriation basis, blue colour for Non Resident QIBs, NRIs, FIIs, etc. and applying on repatriation basis and pink colour for Bidders under Employee Reservation portion).
- Completed in full, in BLOCK LETTERS in ENGLISH and in accordance with the instructions contained herein, in the Bid cum Application Form or in the Revision Form. Incomplete Bid cum Application Forms or Revision Forms are liable to be rejected.
- The Bids from the Retail Individual Bidders must be for a minimum of 250 Equity Shares and in multiples of 250 thereafter subject to a maximum Bid Amount of Rs. 100,000.
- For Non-Institutional Bidders, Bids must be for a minimum of such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of 250 Equity Shares thereafter. For QIB Bidders, Bid Amount must be a minimum of such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of 250 Equity Shares thereafter. Bids cannot be made for more than the Issue Size. Bidders are advised to ensure that a single Bid from them should not exceed the investment limits or maximum number of Equity Shares that can be held by them under the applicable laws or regulations.
- For Employee Reservation Category, the Bid must be for a minimum of 250 Equity Shares and in multiples of 250 Equity Shares thereafter subject to a maximum of the Employee Reservation Portion being 250 Equity Shares.
- In single name or in joint names (not more than three, and in the same order as their Depository Participant details).
- Thumb impressions and signatures other than in the languages specified in the Eighth Schedule of the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal.

Bids by Eligible Employees

For the purpose of the Employee Reservation Portion, Eligible Employee means permanent employees of the Bank as of the date of the filing of the Red Herring Prospectus, and the Directors of the Bank, who are Indian Nationals, are based in India and are physically present in India on the date of submission of the Bid- cum-Application Form.

Bids under Employee Reservation Portion by Eligible Employees shall be:

- Made only in the prescribed Bid cum Application Form or Revision Form (i.e. pink colour Form).
- Eligible Employees, as defined above, should mention the following at the relevant place in the Bid cum Application Form:

  - Employee Number
- The sole/ first bidder should be an Eligible Employee as defined above.
- Only Eligible Employees would be eligible to apply in this Issue under the Employee Reservation Portion.
- Eligible Employees will have to bid like any other Bidder. Only those Bids, which are received at or above the Issue Price, would be considered for allocation under this category.
- Eligible Employees can apply at Cut-Off. The maximum Bid by an eligible employee should not exceed Rs. 100,000
- Bid/ Application by Eligible Employees can be made also in the "Net Issue to the Public" and such Bids shall not be treated as multiple Bids.

- If the aggregate demand in this category is less than or equal to Rs 100 million at or above the Issue Price, full allocation shall be made to the Eligible Employees to the extent of their demand.
- Undersubscription, if any, in the Employee Reservation Portion, would be added back to Non-Institutional Bidders Portion and Retail Individual Bidders Portion in the ratio of 50:50. In case of under-subscription in the Net Issue, spillover to the extent of under-subscription shall be permitted from the Employee Reservation Portion.
- If the aggregate demand in this category is greater than Rs 100 million at or above the Issue Price, the allocation shall be made on a proportionate basis. For the method of proportionate basis of allocation, refer to para "Basis of Allotment" on page 245 of this Red Herring Prospectus.
- This is not an issue for sale within the United States of any equity shares or any other security of the Bank. Securities of the Bank, including any offering of its equity shares, may not be offered or sold in the United States in the absence of registration under U.S. securities laws or unless exempt from registration under such laws.

Bidder's Bank Details

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository the Bidders bank account details. These bank account details would be printed on the refund order, if any, to be sent to Bidders. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the depository participant. Please note that failure to do so could result in delays in credit of refunds to Bidders at the Bidders sole risk and neither the BRLMs nor the Bank shall have any responsibility and undertake any liability for the same.

Bidder's Depository Account Details

IT IS MANDATORY FOR ALL THE BIDDERS TO GET THEIR EQUITY SHARES IN DEMATERIALISED FORM. ALL BIDDERS SHOULD MENTION THEIR DEPOSITORY PARTICIPANT'S NAME, DEPOSITORY PARTICIPANT IDENTIFICATION NUMBER AND BENEFICIARY ACCOUNT NUMBER IN THE BID CUM APPLICATION FORM. INVESTORS MUST ENSURE THAT THE NAME GIVEN IN THE BID CUM APPLICATION FORM IS EXACTLY THE SAME AS THE NAME IN WHICH THE DEPOSITORY ACCOUNT IS HELD. IN CASE THE BID CUM APPLICATION FORM IS SUBMITTED IN JOINT NAMES, IT SHOULD BE ENSURED THAT THE DEPOSITORY ACCOUNT IS ALSO HELD IN THE SAME JOINT NAMES AND ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE BID CUM APPLICATION FORM.

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository demographic details of the Bidders such as address, bank account details for printing on refund orders and occupation ("Demographic Details"). Hence, Bidders should carefully fill in their Depository Account details in the Bid cum Application Form.

These Demographic Details would be used for all correspondence with the Bidders including mailing of the refund orders/ CANs/Allocation Advice and printing of bank particulars on the refund order and the Demographic Details given by Bidders in the Bid cum Application Form would not be used for these purposes by the Registrar.

Hence, Bidders are advised to update their Demographic Details as provided to their Depository Participants and ensure that they are true and correct.

By signing the Bid cum Application Form, Bidder would have deemed to authorise the depositories to provide, upon request, to the Registrar to the Issue, the required Demographic Details as available on its records.

Refund Orders/Allocation Advice/CANs would be mailed at the address of the Bidder as per the Demographic Details received from the Depositories. Bidders may note that delivery of refund orders/allocation advice/CANs may get delayed if the same once sent to the address obtained from the Depositories are returned undelivered. In such an event, the address and other details given by the Bidder in the Bid cum Application Form would be used only to ensure dispatch of refund orders. Please note that any such delay shall be at the Bidders sole risk and neither the Bank nor the BRLMs shall be liable to compensate the Bidder for any losses caused to the Bidder due to any such delay or liable to pay any interest for such delay.

In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity, then such Bids are liable to be rejected.

Bids under Power of Attorney

In case of Bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the memorandum and articles of association and/or bye laws must be lodged along with the Bid cum Application Form. Failing this, the Bank reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made pursuant to a power of attorney by FIIs, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of their SEBI registration certificate must be lodged along with the Bid cum Application Form. Failing this, the Bank reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made by insurance companies registered with the IRDA, a certified copy of certificate of registration issued by the IRDA must be lodged along with the Bid cum Application Form. Failing this, the Bank reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made by provident funds with minimum corpus of Rs. 250 million (subject to applicable law) and pension funds with minimum corpus of Rs. 250 million, a certified copy of certificate from a chartered accountant certifying the corpus of the provident fund/ pension fund must be lodged along with the Bid cum Application Form. Failing this, the Bank reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

The Bank, in its absolute discretion, reserves the right to relax the above condition of simultaneous lodging of the power of attorney along with the Bid cum Application Form, subject to such terms and conditions that the Bank and the BRLMs may deem fit.

The Bank, in its absolute discretion, reserves the right to permit the holder of the power of attorney to request the Registrar that for the purpose of printing particulars on the refund order and mailing of the refund order/CANs/allocation advice, the Demographic Details given on the Bid cum Application Form should be used (and not those obtained from the Depository of the Bidder). In such cases, the Registrar shall use Demographic Details as given in the Bid cum Application Form instead of those obtained from the depositories.

Bids by NRIs

NRI bidders to comply with the following:

- Individual NRI bidders can obtain the Bid cum Application Forms from the Registrar to the Issue or BRLMs whose addresses are printed on the cover page.
- NRI bidders may please note that only such bids as are accompanied by payment in free foreign exchange shall be considered for Allotment under the NRI category. The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the form meant for resident Indians.

Bids by NRIs and FIIs on a repatriation basis

Bids and revision to Bids must be made:

- On the Bid cum Application Form or the Revision Form, as applicable (blue in color), and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.

- In a single name or joint names (not more than three).
- By FIIs for a minimum of such number of Equity Shares and in multiples of 250 thereafter that the Bid Amount exceeds Rs. 100,000. For further details see section titled "Issue Procedure-Maximum and Minimum Bid Size" on page 230 of this Red Herring Prospectus.
- In the names of individuals, or in the names of FIIs but not in the names of minors, firms or partnerships, foreign nationals (including NRIs) or their nominees, foreign venture capital investors.
- Refunds, dividends and other distributions, if any, will be payable in Rupees only and net of bank charges and/or commission. In case of Bidders who remit money through Rupee drafts purchased abroad, such payments in Rupees will be converted into U.S. Dollars or any other freely convertible currency as may be permitted by RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post or speed post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid cum Application Form. The Bank will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.

It is to be distinctly understood that there is no reservation for NRIs and FIIs and other Non Residents and NRIs and FIIs will be treated on the same basis with other categories for the purpose of allocation.

Payment Instructions

The Bank shall open Escrow Accounts with the Escrow Collection Bank for the collection of the Bid Amounts payable upon submission of the Bid cum Application Form and for amounts payable pursuant to allocation in the Issue.

Each Bidder shall either draw a cheque or demand draft or remit the funds electronically through the RTGS mechanism or such similar arrangements for the amount payable on the Bid and/or on allocation as per the following terms:

(a) Payment into Escrow Account

- The Bidders for whom the applicable Margin Amount is equal to 100% or 10% as the case may be, shall, with the submission of the Bid cum Application Form draw a payment instrument for the Margin Amount in favour of the Escrow Account and submit the same to the members of the Syndicate.
- QIB Bidders will be required to deposit a margin of 10% at the time of submitting of their Bids.
- In case the above Margin Amount paid by the Bidders during the Bidding Period is less than the Issue Price multiplied by the Equity Shares allocated to the Bidder, the balance amount shall be paid by the Bidders into the Escrow Account within the period specified in the CAN which shall be subject to a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs.
- The payment instruments for payment into the Escrow Account should be drawn in favour of:
  - In case of Resident QIB Bidders : **("Escrow Account- DCB- R- QIB")**
  - In case of Resident Retail and Non Institutional Bidders : **("Escrow Account- DCB- R- Non QIB")**
  - In case of Non Resident QIB: **"Escrow Account-DCB-NR- QIB**
  - In case of Non Resident Retail and Non Institutional Bidders applying on a non-repatriation basis**: ("Escrow Account-DCB-NR-Non QIB")**
  - In case of Eligible Employees: **("Escrow Account-DCB-Employees")**

  In case of bids by NRIs applying on a repatriation basis, the payments must be made through Rupee drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in the NRE Accounts or the Foreign Currency Non-Resident Accounts, maintained with banks authorised to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of Non Resident Ordinary (NRO) Account of the Non Resident Bidder bidding on a repatriation basis. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to the NRE Account or the Foreign Currency Non-Resident Account.

In case of Bids by FIIs, the payment should be made out of funds held in Special Rupee Account along with documentary evidence in support of the remittance. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to Special Rupee Account.

- Where a Bidder has been allocated a lesser number of Equity Shares than the Bidder has Bid for, the excess amount, if any, paid on bidding, after adjustment towards the balance amount payable on the Equity Shares allocated, will be refunded to the Bidder from the Escrow Accounts.
- The monies deposited in the Escrow Account will be held for the benefit of the Bidders till the Designated Date.
- On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds from the Escrow Account as per the terms of the Escrow Agreement into the Issue Account with the Banker to the Issue.
- On the Designated Date and no later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Bank(s) shall also refund all amounts payable to unsuccessful Bidders and also the excess amount paid on Bidding after adjusting for allocation to the Bidders

Payments should be made by cheque, or demand draft drawn on any bank (including a Co-operative bank), which is situated at, and is a member of or sub-member of the bankers' clearing house located at the centre where the Bid cum Application Form is submitted. Outstation cheques/bank drafts drawn on banks not participating in the clearing process will not be accepted and applications accompanied by such cheques or bank drafts are liable to be rejected. Cash/ money orders/postal orders will not be accepted.

Submission of Bid cum Application Form

All Bid cum Application Forms or Revision Forms duly completed and accompanied by account payee cheques or drafts for the applicable margin amount shall be submitted to the members of the Syndicate at the time of submission of the Bid.

No separate receipts shall be issued for the margin amount payable on the submission of Bid cum Application Form or Revision Form. However, the collection center of the members of the Syndicate will acknowledge the receipt of the Bid cum Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid cum Application Form for the records of the Bidder.

Other Instructions

Joint Bids in the case of Individuals

Bids may be made in single or joint names (not more than three). In the case of joint Bids, all payments will be made out in favour of the Bidder whose name appears first in the Bid cum Application Form or Revision Form. All communications will be addressed to the First Bidder and will be dispatched to his or her address.

Multiple Bids

A Bidder should submit only one Bid (and not more than one) for the total number of Equity Shares required. Two or more Bids will be deemed to be multiple Bids if the sole or First Bidder is one and the same.

In this regard, the procedures which would be followed by the Registrar to the Issue to detect multiple applications are given below:

1. All applications with the same name and age will be accumulated and taken to a separate process file which would serve as a multiple master.
2. In this master, a check will be carried out for the same PAN. In cases where the PAN is different, the same will be deleted from this master.

3. The Registrar will obtain, from the depositories, details of the applicant's address based on the DP ID and Beneficiary Account Number provided in the Bid-cum-Application Form and create an address master.

4. The addresses of all the applications in the multiple master will be strung from the address master. This involves putting the addresses in a single line after deleting non-alpha and non-numeric characters i.e. commas, full stops, hash etc. Sometimes, the name, the first line of address and pin code will be converted into a string for each application received and a photo match will be carried out amongst all the applications processed. A print-out of the addresses will be taken to check for common names. The applications with same name and same address will be treated as multiple applications.

5. The applications will be scrutinised for DP ID and Beneficiary Account Numbers. In case applications bear the same DP ID and Beneficiary Account Numbers, these will be treated as multiple applications.

6. Subsequent to the aforesaid procedures, a print out of the multiple master will be taken and the applications physically verified to tally signatures as also father's/ husband's names. On completion of this, the applications will be identified as multiple applications.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

The Bank reserves the right to reject, in our absolute discretion, all or any multiple Bids in any or all categories.

PAN

Where Bid(s) is/are for Rs. 50,000 or more, the Bidder or in the case of a Bid in joint names, each of the Bidders, should mention his/her Permanent Account Number (PAN) allotted under the I.T. Act. The copy of the PAN card or PAN allotment letter is required to be submitted along with the Bid Cum Applicatoin Form.. Applications without this information and documents will be considered incomplete and are liable to be rejected. It is to be specifically noted that Bidders should not submit the GIR number instead of the PAN as the Bid is liable to be rejected on this ground. In case the Sole/First Bidder and Joint Bidder(s) is/are not required to obtain PAN, each of the Bidder(s) shall mention "Not Applicable" and in the event that the sole Bidder and/or the joint Bidder(s) have applied for PAN which has not yet been allotted each of the Bidder(s) should mention "Applied for" in the Bid each of the Joint Bidder(s), as the case may be, would be required to submit Form 60 (Form of declaration to be filed by a person who does not have a permanent account number and who enters into any transaction specified in rule 114B), or, Form 61 (form of declaration to be filed by a person who has agricultural income and is not in receipt of any other income chargeable to income tax in respect of transactions specified in rule 114B), as may be applicable, duly filled along with a copy of any one of the following documents in support of the address: (a) Ration Card (b) Passport (c) Driving License (d) Identity Card issued by any institution (e) Copy of the electricity bill or telephone bill showing residential address (f) Any document or communication issued by any authority of the Central Government, State Government or local bodies showing residential address (g) Any other documentary evidence in support of address given in the declaration. It may be noted that Form 60 and Form 61 have been amended vide a notification issued on December 1, 2004 by the Ministry of Finance, Department of Revenue, Central Board of Direct Taxes. All Bidders are requested to furnish, where applicable, the revised Form 60 or 61, as the case may be.

Right to Reject Bids

In case of QIB Bidders, the Bank, in consultation with the BRLMs may reject Bids at the time of acceptance of the bid provided that the reasons for rejecting the same shall be provided to such Bidder in writing. In case of QIB Bidders, Non-Institutional Bidders and Retail Individual Bidders who Bid, the Bank has a right to reject Bids on technical grounds. Consequent refunds shall be made by cheque or pay order or draft and will be sent to the Bidder's address at the Bidder's risk.

Grounds for Technical Rejections

Bidders are advised to note that Bids are liable to be rejected on among others on the following technical grounds:

- Amount paid does not tally with the amount payable for the highest value of Equity Shares Bid for;
- Age of First Bidder not given;
- In case of partnership firms, shares may be registered in the names of the individual partners and no firm as such, shall be entitled to apply;
- Bids by Persons not competent to contract under the Indian Contract Act, 1872, including minors, insane Persons;
- PAN photocopy/ PAN Communication/ Form 61 declaration along with documentary evidence in support of address given in the declaration, not given if Bid is for Rs. 50,000 or more;
- Submission of the GIR number instead of the PAN;
- Bids for lower number of Equity Shares than specified for that category of investors;
- Bids at a price less than lower end of the Price Band;
- Bids at a price more than the higher end of the Price Band;
- Bids at Cut-off Price by Non-Institutional Bidders and QIB Bidders
- Bids for number of Equity Shares, which are not in multiples of 250;
- Bids by eligible employees under Employee Reservation Portion exceeding Rs. 100,000
- Category not ticked;
- Multiple Bids as defined in this Red Herring Prospectus;
- In case of Bid under power of attorney or by limited companies, corporate, trust etc. relevant documents are not submitted;
- Bids accompanied by money order/postal order/cash/ stockinvest
- Signature of sole and /or joint Bidders missing;
- Bid cum Application Forms does not have the stamp of the BRLMs or the Syndicate Members;
- Bid cum Application Forms does not have Bidder's depository account details;
- Bid cum Application Forms are not delivered by the Bidders within the time prescribed as per the Bid cum Application Forms, Bid Opening Date/Issue Opening Date advertisement and this Red Herring Prospectus and as per the instructions in this Red Herring Prospectus and the Bid cum Application Forms;
- In case no corresponding record is available with the Depositories that matches three parameters namely, names of the Bidders (including the order of names of joint holders), the Depositary Participant's identity (DP ID) and the beneficiary's identity;
- Bids for amounts greater than the maximum permissible amounts prescribed by the regulations. See the details regarding the same in the section titled "Issue Procedure–Bids at Different Price Levels" at page 232 of this Red Herring Prospectus;
- Bids by OCBs;
- Bids by employees of the Bank who are not Indian nationals and are not in India on the date of submission of the Bid cum Application form in the Issue;
- Bids by QIBs which are made without the QIB Margin Amount;
- Bids by QIBs are not made to the BRLMs or Syndicate Members duly appointed by them in this regard; and

Basis of Allotment

A. For Retail Individual Bidders

- Bids received from the Retail Individual Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The Allotment to all the successful Retail Individual Bidders will be made at the Issue Price.

- The Net Issue of 68,997,500 Equity Shares less Allotment to Non-Institutional Bidders and QIB Bidders shall be available for Allotment to Retail Individual Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this portion is less than or equal 24,149,125 Equity Shares at or above the Issue Price, full Allotment shall be made to the Retail Individual Bidders to the extent of their demand.
- If the aggregate demand in this category is greater than 24,149,125 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis up to a minimum of 250 Equity Shares and in multiples of one (1) Equity Share thereafter. For the method of proportionate basis of allocation, refer below.

B. For Non-Institutional Bidders

- Bids received from Non-Institutional Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The Allotment to all successful Non-Institutional Bidders will be made at the Issue Price.
- The Net Issue of 68,997,500 Equity Shares less allocation to QIB Bidders and Retail Individual Bidders shall be available for allocation to Non-Institutional Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 10,349,62 Equity Shares at or above the Issue Price, full Allotment shall be made to Non-Institutional Bidders to the extent of their demand.
- In case the aggregate demand in this category is greater than 10,349,625 Equity Shares at or above the Issue Price, allocation shall be made on a proportionate basis up to a minimum of 250 Equity Shares and in multiples of 1 Equity Shares thereafter. For the method of proportionate basis of allocation refer below.

C. For QIB Bidders

- Bids received from the QIB Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allocation to all the QIB Bidders will be made at the Issue Price.
- The Net Issue size less allocation to Non-Institutional Bidders and Retail Individual Bidders shall be available for allocation to QIB Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- Allotment shall be undertaken in the following manner:

(a) In the first instance allocation to Mutual Funds for up to 5% of the QIB Portion shall be determined as follows:

   (i) In the event that Bids from Mutual Fund exceeds 5% of the QIB Portion, allocation to Mutual Funds shall be done on a proportionate basis for up to 5% of the QIB Portion.

   (ii) In the event that the aggregate demand from Mutual Funds is less than 5% of the QIB Portion, then all Mutual Funds shall get full allotment to the extent of valid bids received above the Issue Price.

   (iii) Equity Shares remaining unsubscribed, if any, not allocated to Mutual Funds shall be available to all QIB Bidders as set out in (b) below;

(b) In the second instance allocation to all QIBs shall be determined as follows:

   (i) The number of Equity Shares available for this category shall be the QIB Portion less allocation only to Mutual Funds as calculated in (a) above.

   (ii) The subscription level for this category shall be determined based on the overall subscription in the QIB Portion less allocation only to Mutual Funds as calculated in (a) above.

   (iii) Based on the above, the level of the subscription shall be determined and proportionate allocation to all QIBs including Mutual Funds in this category shall be made.

- The aggregate allocation to QIB Bidders shall be up to 32,773,812 Equity Shares.

D. For Employee Reservation Portion

- Bids received from the Eligible Employees at or above the Issue Price shall be grouped together to determine the total demand under this category. The allocation to all the successful Employees will be made at the Issue Price.
- If the aggregate demand in this category is less than or equal to 2,502,500 Equity Shares at or above the Issue Price, full allocation shall be made to the Employees to the extent of their demand.
- If the aggregate demand in this category is greater than 2,502,500 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis up to a minimum of 250 Equity Shares. For the method of proportionate basis of allocation, refer below.
- Only Eligible Employees are eligible to apply under Employee Reservation Portion.
- Any shortfall in Employee Reservation would be added to Retail Individual Bidders Portion and Non-Institutional Bidders Portion in the ratio of 50:50

Method of proportionate basis of allocation in the QIB, Retail, Non-Institutional and Employee Reservation Portions

Bidders will be categorized according to the number of Equity Shares applied for by them.

(a) The total number of Equity Shares to be allotted to each portion as a whole shall be arrived at on a proportionate basis, being the total number of Equity Shares applied for in that portion (number of Bidders in the portion multiplied by the number of Equity Shares applied for) multiplied by the inverse of the over-subscription ratio.

(b) Number of Equity Shares to be allotted to the successful Bidders will be arrived at on a proportionate basis, being the total number of Equity Shares applied for by each Bidder in that portion multiplied by the inverse of the over-subscription ratio.

(c) If the proportionate Allotment to a Bidder is a number that is more than 250 but is not a multiple of one (which is the market lot), the decimal would be rounded off to the higher whole number if that decimal is 0.5 or higher. If that number is lower than 0.5, it would be rounded off to the lower whole number. Allotment to all Bidders in such categories would be arrived at after such rounding off.

(d) In all Bids where the proportionate Allotment is less than 250 Equity Shares per Bidder, the Allotment shall be made as follows:

- Each successful Bidder shall be Allotted a minimum of 250 Equity Shares; and
- The successful Bidders out of the total Bidders for a portion shall be determined by draw of lots in a manner such that the total number of Equity Shares Allotted in that portion is equal to the number of Equity Shares calculated in accordance with (b) above; and
- Each successful Bidder shall be Allotted a minimum of 250 Equity Shares.

(e) If the Equity Shares allocated on a proportionate basis to any portion are more than the Equity Shares allotted to the Bidders in that portion, the remaining Equity Shares available for Allotment shall be first adjusted against any other portion, where the Equity Shares are not sufficient for proportionate Allotment to the successful Bidders in that portion. The balance Equity Shares, if any, remaining after such adjustment will be added to the portion comprising Bidders applying for minimum number of Equity Shares.

Illustration of Allotment to QIBs and Mutual Funds (“MF”)

Subject to valid Bids being received at or above the Issue Price under subscription in Employee Reservation Portion would be added back to Non-Institutional Bidders Portion and Retail Individual Bidders Portion in the ratio of 50:50. Under Subscription, if any, in QIB Portion, Non-Institutional Portion and Retail Individual Bidder Portion, would be allowed to be met with spillover from any other portions at the discretion of the Bank in consultation with the BRLMs

A. Issue details

Sr. No.	Particulars	Issue details
1	Issue size	100 million Equity Shares
2	Allocation to QIB (50% of the Net Issue)	50 million Equity Shares
	Of which:	
	a. Reservation For Mutual Funds, (5%)	2.5 million Equity Shares
	b. Balance for all QIBs including Mutual Funds	47.5 million Equity Shares
3	Number of QIB applicants	10
4	Number of Equity Shares applied for	250 million Equity Shares

B. Details Of QIB Bids

S. No.	Type of QIB bidders#	No. of shares bid for (in million)
1	A1	25
2	A2	10
3	A3	65
4	A4	25
5	A5	25
6	MF1	20
7	MF2	20
8	MF3	40
9	MF4	10
10	MF5	10
	TOTAL	**250**

 # A1-A5: (QIB Bidders other than Mutual Funds), MF1-MF5 (QIB Bidders which are Mutual Funds)

C. **Details Of Allotment To QIB Bidders/Applicants**

(Number of equity shares in million)

Type of QIB bidders	Shares bid for	Allocation of 2.5 million Equity Shares to MF proportionately (please see note 2 below)	Allocation of balance 47.5 million Equity Shares to QIBs proportionately (please see note 4 below)	Aggregate allocation to MFs
(I)	(II)	(III)	(IV)	(V)
A1	25	0	4.80	0
A2	10	0	1.92	0
A3	65	0	12.48	0
A4	25	0	4.80	0
A5	25	0	4.80	0
MF1	20	0.5	3.74	4.24
MF2	20	0.5	3.74	4.24
MF3	40	1.0	7.48	8.48
MF4	10	0.25	1.87	2.12
MF5	10	0.25	1.87	2.12
	250	**2.5**	**47.5**	**21.2**

Please note:

1. The illustration presumes compliance with the requirements specified in this Red Herring Prospectus in the section titled "Issue Structure" beginning on page 226.
2. Out of 50 million Equity Shares allocated to QIBs, 2.5 million (i.e. 5%) will be allocated on proportionate basis among five Mutual Fund applicants who applied for 100 million shares in the QIB Portion.
3. The balance 47.5 million Equity Shares (i.e. 50 – 2.5 (available for Mutual Funds only)) will be allocated on proportionate basis among 10 QIB Bidders who applied for 250 million shares (including 5 Mutual Fund applicants who applied for 100 million shares).
4. The figures in the fourth column titled "Allocation of balance 47.5 million Equity Shares to QIBs proportionately" in the above illustration are arrived as under :
   - For QIBs other than Mutual Funds (A1 to A5)= Number of Equity Shares Bid for X 47.5 / 247.5
   - For Mutual Funds (MF1 to MF5)= [(No. of shares bid for (i.e in column II of the table above) less Equity Shares allotted (i.e., column III of the table above)] X 47.5/247.5
   - The numerator and denominator for arriving at allocation of 47.5 million Equity Shares to the 10 QIBs are reduced by 2.5 million shares, which have already been allotted to Mutual Funds in the manner specified in column III of the table above.

Equity Shares in Dematerialised Form with NSDL or CDSL

The Allotment of Equity Shares in this Issue shall be only in a de-materialised form, (i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through the electronic mode).

In this context, two agreements have been signed among the Bank, the respective Depositories and the Registrar to the Issue:

- a tripartite agreement dated February 18,2006 with NSDL, the Bank and Intime Spectrum Registry Limited; and
- a tripartite agreement dated February 3,2006 with CDSL, the Bank and Intime Spectrum Registry Limited.

All Bidders can seek Allotment only in dematerialised mode. Bids from any Bidder without relevant details of his or her depository account are liable to be rejected.

- A Bidder applying for Equity Shares must have at least one beneficiary account with either of the Depository Participants of either NSDL or CDSL prior to making the Bid.
- The Bidder must necessarily fill in the details (including the Beneficiary Account Number and Depository Participant's identification number) appearing in the Bid cum Application Form or Revision Form.
- Allotment to a successful Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder.
- Names in the Bid cum Application Form or Revision Form should be identical to those appearing in the account details in the Depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the Depository.
- If incomplete or incorrect details are given under the heading 'Bidders Depository Account Details' in the Bid cum Application Form or Revision Form, it is liable to be rejected.
- The Bidder is responsible for the correctness of his or her Demographic Details given in the Bid cum Application Form vis-à-vis those with his or her Depository Participant.
- It may be noted that Equity Shares in electronic form can be traded only on the stock exchanges having electronic connectivity with NSDL and CDSL. Of the Stock Exchanges where the Bank's Equity Shares are proposed to be listed, only the NSE and the BSE have electronic connectivity with CDSL and NSDL.
- The trading of the Equity Shares of the Bank would be in dematerialised form only for all investors in the demat segment of the respective Stock Exchanges.

Communications

All future communications in connection with Bids made in this Issue should be addressed to the Registrar to the Issue quoting the full name of the sole or First Bidder, Bid cum Application Form number, details of Depository Participant, number of Equity Shares applied for, date of Bid form, name and address of the member of the Syndicate where the Bid was submitted and cheque or draft number and issuing bank thereof.

Impersonation

Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Companies Act, which is reproduced below:

"Any person who:

(a) makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or

(b) otherwise induces a company to allot, or register any transfer of shares, therein to him, or any other person in a fictitious name,

shall be punishable with imprisonment for a term which may extend to five years."

Undertakings by the Bank

The Bank undertakes as follows:

- that the complaints received in respect of this Issue shall be attended to by it expeditiously and satisfactorily;
- that all steps will be taken for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges where the Equity Shares are proposed to be listed within seven working days of finalisation of the basis of allocation;
- that the funds required for dispatch of refund orders or Allotment advice by registered post or speed post shall be made available to the Registrar to the Issue by it;
- that the refund orders or Allotment advice to the successful Bidders shall be dispatched within specified time; and
- that no further issue of Equity Shares shall be made till the Equity Shares offered through the Red Herring Prospectus are listed or until the Bid monies are refunded on account of non-listing, under-subscription etc.

Utilisation of Issue Proceeds

The Board of Directors of the Bank certify that:

1. all monies received out of issue of shares to public shall be transferred to separate bank account other than the bank account referred to in sub-section (3) of section 73 of the Companies Act, 1956;
2. details of all monies utilised out of the issue referred to in sub-item(i) shall be disclosed under an appropriate separate head in the balance sheet of the Bank indicating the purpose for which such monies had been utilised; and
3. details of all unutilised monies out of the issue of shares, if any, referred to in sub-item (i) shall be disclosed under an appropriate separate head in the balance sheet of the Bank indicating the form in which such unutilized monies have been invested.

The Bank shall not have any recourse to the Issue proceeds until the approval for trading the Equity Shares is received from the Stock Exchanges.

Disposal of Applications and Applications Money and Interest in Case of Delay in Despatch of Allotment Letters/ Refund Orders

The Bank shall ensure dispatch of Allotment advice, refunds and give credit to the beneficiary account with Depository Participants and submit the documents pertaining to the Allotment to the Stock Exchanges within 15 days from the Bid/Issue Closing Date.

Refunds shall be made in the manner described in the section titled "Issue Procedure" on page 228 of this Red Herring Prospectus.

For this purpose, the details of bank accounts of applicants would be taken directly from the depositories' database. The Registrar will send the electronic files with the refund data to the Bankers to the Issue and the bankers to the issue shall send the refund files to the RBI system within 15 days from the Bid/ Issue Closing date. A suitable communication shall be sent to the bidders receiving refund through this mode within 15 days of Bid/Issue Closing Date, giving details of the bank where refunds shall be credited along with amount and expected date of electronic credit of refund.

The Bank shall use best efforts to ensure that all steps for completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges where the Equity Shares are proposed to be listed are taken within seven working days of finalization of the basis of Allotment.

In accordance with the Companies Act, the requirements of the Stock Exchanges and the SEBI DIP Guidelines, we further undertake that:

Allotment of Equity Shares will be made only in dematerialized form within 15 days from the Bid/Issue Closing Date;

Refunds will be done within 15 days from the Bid/Issue Closing Date at the sole or First Bidder's sole risk ;and

We shall pay interest at the rate of 15% per annum if the allotment letters/ refund orders have not been despatched to the applicants or if, in a case where the refund or portion thereof is made in electronic manner, the refund instructions have not been given to the clearing system in the disclosed manner within 15 days from Bid/Issue Closing Date.

We will provide adequate funds required for dispatch of refund orders or allotment advice to the Registrar to the Issue.

Refunds will be made by cheques, pay-orders or demand drafts drawn on a bank appointed by us, as an Escrow Collection Bank and payable at par at places where Bids are received except where the refund or portion thereof is made in electronic manner as described above. Bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centers will be payable by the Bidders.

RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES

Foreign investment in Indian securities is regulated through the Industrial Policy, 1991 of the Government of India and FEMA. While the Industrial Policy, 1991 prescribes the limits and the conditions subject to which foreign investment can be made in different sectors of the Indian economy, FEMA regulates the precise manner in which such investment may be made. Under the Industrial Policy, unless specifically restricted, foreign investment is freely permitted in all sectors of the Indian economy up to any extent and without any prior approvals, but the foreign investor is required to follow certain prescribed procedures for making such investment. As per current foreign investment policies, foreign investment in the private banking sector is permitted up to 74% under the automatic route. The aggregate FII holding in a private sector bank cannot exceed 24% of the total issued capital. With the approval of the Board of Directors and the shareholders by way of a special resolution, the aggregate FII holding can go up to 49%. By way of Circular No. 53 dated December 17, 2003, RBI has permitted FIIs to subscribe to shares of an Indian company in a public offer without prior RBI approval, so long as the price of equity shares to be issued is not less than the price at which equity shares are issued to residents.

SECTION 8 : MAIN PROVISIONS OF THE ARTICLES OF ASSOCIATION

CAPITAL AND INCREASE AND REDUCTION OF CAPITAL

Article 4

The Authorised Share Capital of the Company is Rs.3,00,00,00,000/- (Rupees Three Hundred Crore) divided into 30,00,00,000 (Thirty Crore) Equity Shares of Rs.10/- each with power to increase or reduce the Capital of the Company in accordance with the provisions of the Act.

Article 5

The Company in General Meeting may, from time to time, by resolution increase the Capital by the creation of new shares. Such increase to be of such aggregate amount and to be divided into shares of such respective amounts as the resolution shall prescribe. Subject to the provisions of the Act, any shares of the original or increased Capital shall be issued upon such terms and conditions and with such rights and privileges annexed thereto, as the General Meeting resolving upon the creation thereof, shall direct.

Article 6

Whenever the Capital of the Company has been increased under the provisions of these Articles, the Directors shall comply with the provisions of Section 97 of the Act.

Article 7

Except so far as otherwise provided by the conditions of issue of or by these presents, any Capital raised by the creation of new shares shall be considered as part of the existing capital, and shall be subject to the provisions herein contained, with reference to the payment of calls and installments, forfeiture, lien, surrender, transfer, and transmission voting and otherwise.

Article 8

The Company may (subject to the provisions of Sections 78, 80 and 100 to 105 of the Act) from time to time, by resolution, reduce its capital; any Capital Redemption Reserve Account and Share Premium Account in any manner for the time being authorised by law, and, in particular, capital may be paid off on the footing that it may called up again or otherwise. This Article is not to derogate from any power the Company would have if it were omitted.

Article 9

Subject to the provisions of Section 94 of the Act, the Company in General Meeting may, from time to time, sub-divide or consolidate its shares, or any of them, and the resolution whereby any share is sub-divided or consolidated may determine that, as between the holders of the shares resulting from such sub-division or consolidation, one or more of such shares shall have some special advantage as regards dividend, capital or otherwise over or as compared with others or other.

Article10

Subject as aforesaid, the Company in General Meeting may also cancel shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Article 11

Whenever the capital, is divided into different classes of shares, all or any of the rights and privileges attached to each class may, subject to the provisions of Sections 106 and 107 of the Act, be varied with the consent in writing of holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate General Meeting of the holders of the issued shares of that class.

SHARES AND CERTIFICATES

Article 14

1. Where at the time after the expiry of two years from the formation of the Company or at any time after expiry of one year from the allotment of the shares in the company made for the first time after its formation, whichever is earlier, it is proposed to increase the subscribed capital of the company by allotment of the further shares either out of the unissued capital or out of the increased share capital then:

   (a) Such further shares shall be offered to the persons who at the date of the offer, are holders of equity shares of the company , in proportion , as near as circumstances admit, to the capital on those shares at the said date.

   (b) Such offer shall be made by a notice specifying the number of shares offered and giving time not less than thirty days from the date of the offer for acceptance and the offer if not accepted, will be deemed to have been declined.

   (c) The offer aforesaid shall be deemed to include a right exercisable by person concerned to renounce the shares offered to them in favour of any other person and the notice referred to in sub clause (b) hereof shall contain a statement of this right. PROVIDED THAT the Directors may decline, without assigning any reason to allot any shares to any person in whose favour any member may renounce the shares offered to him.

   (d) After expiry of the time specified in the aforesaid notice or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose off them in such manner and to such person(s) as they may think, in their sole discretion, fit.

2. Notwithstanding anything contained in sub-clause (1) thereof, the further shares aforesaid may be offered to any person (whether or not those person include the person referred to in clause (a) of sub- clause (1) hereof) in any manner whatsoever,

   (a) If a special resolution to that effect is passed by the company in general meeting, or

   (b) Where no special resolution is passed, if the vote cast (whether on show of hands or on a poll as the case may be) in favour of the proposal contained in the resolution moved in the general meeting (including the casting vote, if any, of the chairman) by the members who being entitled to do so, vote in person, or where proxies are allowed , by proxy, exceed the votes, if any, cast against the proposal by members, so entitled and voting and the Central Government is satisfied on an application made by the Board of Directors in this behalf that the proposal is the most beneficial to the Company.

3. Nothing in sub-clause (c) of (1) hereof shall be deemed:

   (a) To extend the time within which the offer should be accepted; or

   (b) To authorize any person to exercise the right of renunciation for a second time on the ground that the person in whose favour the renunciation was first made has declined to take the shares comprised in the renunciation.

Article 15

Subject to the provisions of Section 81 of the Act, and these Articles, the shares in the capital of the Company for the time being shall be under the control of the Directors who may issue, allot or otherwise dispose of the same or any of them to such persons, in such proportion and on such terms and conditions and either at a premium or at par or (subject to the compliance with the provision of section 79 of the Act) at a discount and at such time as they may from time to time think fit, and may issue and allot shares in the capital of the Company on payment in full or part of any property sold and transferred or for any services rendered to the Company in the conduct of its business and any shares which may so be allotted may be issued as fully paid up shares and if so issued, shall be deemed to be fully paid shares provided that the option or right to call of shares shall not be given to any person or persons without the sanction of the Company in the general meeting.

Article 16

In addition to and without derogating from the powers for the purpose conferred on the Board under these Articles, the Company in General Meeting may, subject to the provisions of Section 81 of the Act, determine that any shares (whether forming part of the original capital or of any increased capital of the Company) shall be offered to such persons (whether members or not) in such proportion and on such terms and conditions and either (subject to compliance with the provisions of Sections 78 and 79 of the Act) at a premium or at par or at a discount as such General Meeting shall determine and with full power to give any person (whether a member or not) the option to call for or be allotted shares of any class of the Company, either (subject to compliance with the provisions of Sections 78 and 79 of the Act) at a premium or at par or at a discount as such General Meeting shall determine and with full power to give any person (whether a member or not) the option to call for or be allotted shares of any class of the Company, either (subject to compliance with the provisions of Sections 78 and 79 of the Act) at a premium or at par or at a discount such option being exercised at such times and for such consideration as may be directed by such General Meeting or, the Company in General Meeting may make any other provisions whatsoever for the issue, allotment or disposal of any shares.

Article 18

The money (if any) which the Board shall, on the allotment of any share being made by them require or direct to be paid by way of deposit, call or otherwise, in respect of any shares allotted by them shall immediately on the insertion of the name of the allottee in the Register of Members as the name of the holder of such shares, become a debt due to and recoverable by the Company from the allottee thereof, and shall be paid by him accordingly.

UNDERWRITING AND BROKERAGE

Article 25

Subject to the provisions contained in Section 76 and Section 79 of Companies Act, 1956, the Company may payout directly or indirectly by way of commission, brokerage discount or remuneration in any form in respect of any shares issued by it.

Article 26

The Company may on any issue of shares or debentures pay such brokerage as is lawful.

CALLS

Article 27

The Board may, from time to time subject to the terms on which any shares may have been issued and subject to the conditions of allotment, by a resolution passed at a meeting of the Board (and not by circular resolution) make such call as it thinks fit upon the members in respect of all moneys unpaid on the shares held by them respectively, and each member shall pay the amount of every call so made on him to the person or persons and at the times and places appointed by the Board. A call may be made payable by installments.

Article 28

Thirty days' notice in writing of any call shall be given by the Company specifying the time and place of payment, and the person or persons to whom such call shall be paid.

Article 30

A call may be revoked or postponed at the discretion of the Board.

Article 31

The joint-holders of a share, shall jointly and severally be liable to pay all calls made in respect of the share allotted to them.

Article 32

The Board may, from time to time at its discretion, extend the time fixed for the payment of any call, and may extend such time as to all or any of the members for reasons the Board may deem satisfactory but no member shall be entitled to such extension save as a matter of grace and favour.

Article 33

If any member fails to pay any call due from him on the day appointed for payment thereof, or any such extension thereof as aforesaid, he shall be liable to pay interest on the same from the day appointed for the payment thereof to the time of actual payment at such rate as shall from time to time be fixed by the Board, but nothing in this Article shall render it obligatory for the Board to demand or recover any interest from any such member.

Article 34

Any sum, which may by the terms of issue of a share, becomes payable on allotment or at any fixed date, whether on account of the nominal value of the share or by way of premium, shall for the purposes of these Articles be deemed to be a call duly made and payable, on the date on which by the terms of issue the same becomes payable and in case of non-payment, all the relevant provisions of these Articles as to payment of interest and expenses, forfeiture or otherwise, shall apply as if such sum had become payable by virtue of a call duly made and notified.

Article 37

a) The Directors may, if they think fit, subject to provisions of Section 92 of the Act, agree to and receive from any member willing to advance the same whole or any part of the moneys due upon the shares held by him beyond the sums actually called for, and upon the amount so paid or satisfied in advance, or so much thereof as from time to time exceeds the amount of the calls then made upon the shares in respect of which such advance has been made. The Company may pay interest at such rate as the member paying such sum in advance and the directors agree upon, provided that money paid in advance of calls shall not confer a right to participate in profits or dividend. The directors may, at any time, repay the amount so advanced.

   The member shall not be entitled to any voting rights in respect of the monies so paid by him until the same would, but for such payment, become presently payable.

   The provisions of these Articles shall apply mutatis mutandis apply to calls on the debentures of the Company.

b) No member paying any such sum in advance shall be entitled to voting rights in respect of the moneys so paid by him until the same would but for such payment become presently payable.

LIEN

Article 38

The Company shall have a first and paramount lien upon all the shares/debentures (other than fully paid up shares/debentures) registered in the name of each member (whether solely or jointly with others) and upon the proceeds of sale thereof for all monies (whether presently payable or not) called or payable at a fixed time in respect of such shares/debentures and no equitable interest in any share shall be created except upon the footing and condition that this Article shall have full effect, and such lien shall extend to all dividends and bonuses from time to time declared in respect of such shares/debentures. Unless otherwise agreed, the registration of transfer of shares/debentures shall operate as a waiver of the Company's lien, if any, on such shares/ debentures. The directors may at any time declare any such shares/debentures wholly or in part to be exempt from the provisions of this clause.

Article 39

For the purpose of enforcing such lien, the Board may sell the shares subject thereto in such manner as they shall think fit, and for that purpose may cause to be issued a duplicate certificate in respect of such shares and may authorise one of their member to execute a transfer thereof on behalf of and in the name of such member. No sale shall be made until such period as aforesaid shall have arrived, and until notice in writing of the intention to sell shall have been served on such member or his representatives and default shall have been made by him or them in payment, fulfilment, or discharge of such debts, liabilities or engagements for fourteen days after such notice. Upon issue of a duplicate share certificate or certificates, the certificate or certificates originally issued shall stand cancelled and become null and void and of no effect.

FORFEITURE OF SHARES

Article 41

If any member fails to pay any call or installment of a call on or before the day appointed or any extension thereof for the payment of the same, the Board may at any time thereafter during such time as the call of installment remains unpaid, give notice to the member requiring him to pay the same, together with any interest that may have accrued and all expenses that may have been incurred by the Company by reason of such non payment.

Article 42

The notice shall name a day (not being less than thirty days from the date of the notice) and a place or places on and at which such call or installment and such interest thereon at such rate as the Directors shall determine from the day on which such call or installment ought to have been paid and expenses as aforesaid are to be paid. The notice shall also state that in the event of non payment at or before the time, and at the place appointed, the shares in respect of which such call was made or instalment is payable will be liable to be forfeited.

Article 43

If the requirements of any such notice as aforesaid be not complied with, any shares in respect of which such notice has been given may, at any time thereafter, but before payment of all calls or instalments, interest and expenses due in respect thereof, be forfeited by a resolution of the Board to that effect. Such forfeiture shall include all dividends declared or any other monies payable in respect of the forfeited shares and not actually paid before the forfeiture.

Article 44

When any share shall have been so forfeited, notice of the forfeiture shall be given to the member in whose name it stood immediately prior to the forfeiture, and an entry of the forfeiture, with the date thereof, shall forthwith be made in the Register of Members, but no forfeiture shall be in any manner be invalid, by any omission or neglect to give such notice or to make any such entry as aforesaid.

Article 45

Any share so forfeited shall be deemed to be the property of the Company, and the Board may sell, re-allot or otherwise dispose off the same in such manner as it thinks fit.

Article 46

The Board may, at any time before any share so forfeited shall have been sold, reallotted or otherwise disposed of, annul the forfeiture thereof upon such conditions as it thinks fit.

Article 47

A person whose share has been forfeited shall cease to be a member in respect of the forfeited share, but shall notwithstanding, remain liable to pay, and shall forthwith pay to the Company on demand, all calls, or instalments, interest and expenses, owing upon or in respect of such share at the time of the forfeiture, together with interest thereon, from the time of forfeiture until payment, at such rate as the Board may determine and the Board may enforce the payment thereof with or without any deduction or allowance for the value of the shares at the time of forfeiture, but shall not be under any obligation to do so.

Article 48

The forfeiture of a share shall involve extinction, at the time of the forfeiture, of all interest in all claims and demands against the Company, in respect of the share and all other rights incidental to the share except only such of those rights as by these Articles are expressly saved.

Article 49

A declaration in writing that the declarant is a Director or Secretary of the Company and that certain shares in the Company have been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts therein stated as all persons claiming to be entitled to the shares and such declaration, and the receipt of the Company for the consideration, if any, given for the shares on the sale or disposition thereof shall constitute a good title to such shares; and the person to whom any such share is sold shall be registered as the holder of such share and shall not be bound to see to the application of the purchase money, nor shall his title to such share be affected by any irregularity or invalidity in the proceedings in reference to such forfeiture, sale or disposition.

TRANSFER AND TRANSMISSION OF SHARES AND DEBENTURES

Article 54

The instrument of transfer shall be in writing and all provisions of Section 108 of the Companies Act, 1956 and statutory modification thereof for the time being shall be duly complied with in respect of all transfer of shares and registration thereof.

Article 55

Every such instrument of transfer shall be duly stamped and executed both by transferor and the transferee and attested and thereupon delivered to the Company in accordance with the provisions of the Act. The instrument of transfer shall be accompanied by the share certificate or such evidence as the Board may require to prove the title of the transferor and the right to transfer the shares and generally under and subject to such conditions and regulations as the Board may prescribe and every registered instrument of Transfer shall remain in the custody of the Company until destroyed by the order of Board. The transferor shall be deemed to remain the holder of such share until the name of the transferee shall have been entered in the Register of Members in respect thereof.

Article 56A

Any request for transfer of shares by a person/group which would take his/her/its holding to a level of 5% or more or such other percentage of the total paid-up capital of the Company as may be prescribed by Reserve Bank of India from time to time shall be considered only with the prior approval of Reserve Bank of India.

Article 57

The Board shall have power on giving seven days previous notice by advertisement in some newspaper circulating in the district in which the office of the Company is situated to close the transfer books, the Register of Members or Register of Debenture holders at such time or times and for such period or periods, not exceeding thirty days at a time and not exceeding in the aggregate forty-five days in each year, as it may seem expedient.

Article 58

Subject to the provisions of Section 111 of the Act and Section 22A of the Securities Contracts (Regulation) Act, 1956, the Directors may, at their own absolute and uncontrolled discretion and by giving reasons, decline to register or acknowledge any transfer of shares whether fully paid or not and the right of refusal, shall not be affected by circumstances that the proposed transferee is already a member of the Company but in such cases, the Directors shall within one month from the date on which the instrument of transfer was lodged with the Company, send to the transferee and transferor notice of refusal to register such transfer provided that registration of transfer shall not be refused on the ground of the transferor being either alone or jointly with any other person or persons indebted to the Company on any account whatsoever except where the Company has a lien on the shares. Transfer of shares/ debentures in whatever lot shall not be refused.

Article 60

The executors or administrators of a deceased member or holder of a Succession Certificate in respect of the shares of a deceased member (not being one of two or more joint-holders) shall be the only persons recognised by the Company as having any title to the shares registered in the name of such member, and the Company shall not be bound to recognise such executors or administrators or holders of a Succession Certificate unless such executors or administrators or holders shall have first obtained Probate or Letters of Administration or Succession Certificate as the case may be, from a duly constituted Court in the Union of India, PROVIDED THAT in any case where the Board of Directors in its absolute discretion thinks fit, may dispense with production of Probate or letters of Administration or Succession Certificate upon such terms as to indemnity or otherwise as they think fit and may enter the name of the person, who claims to be absolutely entitled to the shares standing in the name of a deceased member, as a member.

Article 61

Any person becoming entitled to any share in consequence of the death, lunacy, bankruptcy or insolvency of any member, or by any lawful means other than by a transfer in accordance with these presents, may, with the consent of the Board of Directors (which they shall not be under any obligation to give) and upon producing such evidence that he sustains the character in respect of which he proposes to act under this article or of his title, as the Directors may require, and upon giving such indemnity as the Directors may require either be registered as member in respect of such shares or elect to have some person nominated by him and approved by the Board of Directors, registered as such member of such shares; provided nevertheless, that if such person shall elect to have his nominee registered he shall testify his election by executing in favour of his nominee an instrument of transfer in accordance with the provisions herein contained and until he does so, he shall not be freed from any liability in respect of such shares. This Article is referred to in these Articles as “the Transmission Article”.

Article 62

The Directors shall have the same right to refuse to register a person entitled by transmission to any shares or his nominee as if he were the transferee named in the case of a transfer of shares presented for registration.

Article 63

A person becoming entitled to a share by reason of the death or insolvency of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the shares, except that he shall not, before being registered as a Member in respect of the shares, be entitled to exercise any right conferred by membership in relation to meetings of the Company: PROVIDED THAT the Directors shall, at any time, give notice requiring any such person to elect either to be registered himself or to transfer the shares, and if the notice is not complied with within ninety days, the Directors may thereafter withhold payment of all dividends, bonuses or other moneys payable in respect of the shares until the requirements of the notice have been complied with.

Article 64

No fees shall be charged for registration of transfer, transmission, probate, Succession Certificate and Letters of administration, Certificate of Death or Marriage, Power of Attorney or similar other document.

BORROWING POWERS

Article 67

Subject to the provisions of Sections 292 and 293 and other applicable provisions of the Act, the BR Act, the Board of Directors may, from time to time at its discretion, by resolution at a meeting of the Board, accept deposits from Members, either in advance of calls or otherwise, and generally raise or borrow or secure the payment of any sum or sums of money for the purpose of the Company. Provided however, where the moneys already borrowed (apart from temporary loans obtained from the Company’s bankers in the ordinary course of business) exceed the aggregate of the paid-up capital of the Company and its free reserves (not being reserves set apart for any specific purpose), the Board shall not borrow such moneys without the consent of the Company in General Meeting.

Article 69

Any debentures, debenture stock or other securities may be issued at a discount, premium or otherwise and may be issued on condition that they shall be convertible into shares of any denomination, and with any privileges and conditions as to redemption, surrender, drawing, allotment of shares and attending (but not voting) at General Meetings, appointment of Directors and otherwise. Debentures with the right to conversion into or allotment of shares shall be issued only with the consent of the Company in General Meeting accorded by a special resolution.

CONVERSION OF SHARES INTO STOCK AND RECONVERSION

Article 72

The Company in General Meeting may convert any paid-up shares into stock and when any shares shall have been converted into stock, the several holders of such stock may thenceforth transfer their respective interest therein, or any part of such interest, in the same manner and subject to the same regulations, as and subject to which shares from which the stock arose might have been transferred, if no such conversion had taken place, or as near thereto as circumstances will admit. The Company may at any time reconvert any stock into paid-up shares of any denomination.

Article 73

The holders of stock shall, according to the amount of stock held by them, have the same rights, privileges and advantages as regards dividends, voting at meetings of the Company, and other matters, as if they held the shares from which the stock arose; but no such privilege or advantage (except participation in the dividends and profits of the Company and in the assets on winding up) shall be conferred by an amount of stock which would not, if existing in shares, have conferred that privilege or advantage.

MEETING OF MEMBERS

Article 74

The Company shall in each year hold a General Meeting as its Annual General Meeting in addition to any other meetings in that year. All General Meetings other than Annual General Meeting shall be called Extraordinary General Meetings. The First Annual General Meeting shall be held within eighteen months from the date of incorporation of the Company and the next Annual General Meeting shall be held within six months after the expiry of each financial year, provided that not more than fifteen months shall lapse between the date of one Annual General Meeting and that of the next. Nothing contained in the foregoing provisions shall be taken as affecting the right conferred upon the Registrar under the provisions of Section 166(1) of the Act to extend the time within which any Annual General Meeting may be held. Every Annual General Meeting shall be called for a time during business hours, on a day that is not a public holiday, and shall be held in the office of the Company or at some other place within the city, town or village in which the office of the Company is situated as the Board may determine and the Notices calling the Meeting shall specify it as the Annual General Meeting. The Company may in anyone Annual General Meeting fix the time for its subsequent Annual General Meetings. Every member of the Company shall be entitled to attend either in person or by proxy and the Auditor of the Company shall be entitled to attend, to be heard at any General Meeting which he attends on any part of the business, which concerns him as Auditor. At every Annual General Meeting of the Company there shall be laid on the table the Directors Report and Audited Statement of Accounts, Auditor's Report (if not already incorporated in the Audited statement of Accounts), the Proxy Register with proxies and the Register of Directors' Shareholdings of which latter Register shall remain open and accessible during the continuance of the meeting to any person having the right to attend the meeting. The Board shall cause to be prepared the Annual Return, Balance Sheet and Profit and Loss Account and forward the same to the Registrar in accordance with Sections 159, 161 and 220 of the Act.

Article 76

Any valid requisition so made by members must state the object or objects of the meeting proposed to be called, and must be signed by the requisitionists and be deposited at the office provided that such requisition may consist of several documents in like form each signed by one or more requisitionists.

Article 77

Upon the receipt of any such requisition, the Board shall forthwith call an Extraordinary General Meeting, and if they do not proceed within twenty one days from the date of the requisition being deposited at the office to cause a meeting to be called on a day not later than forty five days from the date of deposit of the requisition, the requisitionists, or such of their number as represent either a majority in value of the paid-up share capital held by all of them or not less than one tenth of such paid-up share capital of the Company as is referred to in Section 169 (4) of the Act, whichever is less, may themselves call the meeting, but in either case, any meeting so called shall be held within three months from the date of the deposit of the requisition as aforesaid.

Article 79

Twenty-one days notice at the least of every General Meeting, Annual or Extraordinary and by whosoever called, specifying the day, place and hour of meeting, and the general nature of the business to be transacted thereat, shall be given in the manner hereinafter provided, to such persons as are under these Articles entitled to receive notice from the Company. Provided that in the case of an Annual General Meeting with the consent in writing of all the members entitled to vote thereat and in the case of any other meeting, with the consent of members holding not less than 95 percent of such part of the paid-up share capital of the Company as gives a right to vote at the meeting, a meeting may be convened by a shorter notice.

Article 80

In the case of an Annual General Meeting, if any business other than (i) the consideration of Accounts, Balance Sheets and Reports of the Board of Directors and Auditors (ii) the declaration of dividend, (iii) the appointment of Directors in place of those retiring (iv) the appointment of, and fixing of the remuneration of the auditor is to be transacted, in any event there shall be annexed to the notice of the Meeting a statement setting out all material facts concerning each such item of business, including, in particular, the nature of the concern or interest, if any, therein of every Director, and the Manager (if any). Where any such item of special business relates to, or affects any other company, the extent of share-holding, interest in such other company of every Director and the Manager, if any, of the Company shall also be set out in the statement if the extent of such shareholding interest is not less than 20 per cent of the paid-up share capital of that other company. Where any item of business consists of the according of approval to any documents by the meeting, the time and place where the document can be inspected shall be specified in the statement aforesaid.

Article 84

Five Members present in person shall be quorum for a General Meeting.

Article 85

If, at the expiration of half an hour from the time appointed for holding a meeting of the Company, a quorum is not present, the meeting if convened by or upon the requisition of members, shall stand dissolved, but in any other case the meeting shall stand adjourned to the same day in the next week or, if that day is a public holiday, until the next succeeding day which is not a public holiday, at the same time and place, or to such other day and at such other time and place in the city or town in which the Office of the Company is for the time being situated, as the Board may determine, and if at such adjourned meeting a quorum is not present at the expiration of half an hour from the time appointed for holding the meeting, the members present shall be the quorum and may transact the business for which the meeting was called.

Article 90

In the case of an equality of votes, the Chairman shall both on show of hands and at a poll (if any), have a second or a casting vote in addition to the vote or votes to which he may be entitled.

Article 91

If a poll is demanded as aforesaid the same shall, subject to Article 93 be taken at such time (not later than forty eight hours from the time when the demand was made) and place in the city or town in which the Office of the Company is for the time being situated by ballot, as the Chairman shall direct, and either at once or after an interval or adjournment or otherwise, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn at any time by the person or persons who made the demand.

Article 92

Where a poll is to be taken, the Chairman of the meeting shall appoint two scrutineers to scrutinize the votes given on the poll and to report thereon to him. One of the scrutineers so appointed shall always be a member (not being an officer or employee of the Company) present at the meeting, provided such a member is available and willing to be appointed. The Chairman shall have power at any time before the result of the poll is declared to remove a scrutineer from office and fill vacancies in the office of scrutineer arising from such removal or from any other cause.

Article 93

Any poll duly demanded on the election of a Chairman of a meeting or on any question of adjournment shall be taken at the meeting forthwith.

Article 94

The demand for a poll except on the questions of the election of the Chairman and of an adjournment shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll has been demanded.

VOTES OF MEMBERS

Article 95

No member shall be entitled to vote either personally or by proxy, at any General Meeting or Meeting of a class of share-holders, either upon a show of hands or upon a poll in respect of any shares registered in his name on which any calls or other sums presently payable by him have not been paid or, in regard to which the Company has exercised any right of lien.

Article 96

On show of hands every member present in person shall have one vote and on a poll every member shall have voting rights in proportion to his share of paid-up capital of the Company provided that no share-holder shall have more than ten per cent of total voting rights of all the shareholders of the Company, irrespective of the number of shares held by him. But no shareholder shall exercise any voting right in respect of any shares registered in his name on which calls or other sums presently payable by him have not been paid or in regard to which the Company has, and has exercised , any right of lien.

Article 97

On a poll taken at meeting of the Company a member entitled to more than one vote, or his proxy or other person entitled to vote for him, as the case may be, need not, if he votes, use all his votes or cast in the same way all the votes he uses.

Article 99

If there be joint registered holders of any shares, any one of such persons may vote at any meeting or may appoint another person (whether a member or not) as his proxy in respect of such shares, as if he were solely entitled thereto but the proxy so appointed shall not have any right to speak at the meeting , and, if more than one of such joint holders be present at any meeting , that one of the said persons so present whose name stands higher on the Register shall alone be entitled to speak and to vote in respect of such shares, but the other or others of the joint-holders shall be entitled to be present at the meeting. Several executors or administrators of a deceased member in whose name shares stand shall for the purpose of these Articles to be deemed joint holders thereof.

Article 100

Subject to the provisions of these Articles, votes may be given either personally or by proxy. A body corporate being a member may vote either by a proxy or by a representative duly authorised in accordance with Section 187 of the Act, and such representative shall be entitled to exercise the same rights and powers (including the rights to vote by proxy) on behalf of the body corporate which he represents as that body could exercise if it were an individual member.

Article 101

Any person entitled under Article 61, (the Transmission Article) to transfer any shares may vote at any General Meeting in respect thereof, in the same manner, as if he were the registered holder of such shares: provided that, forty eight hours at least before the time of holding the meeting or adjourned meeting, as the case may be, at which he proposes to vote he shall satisfy the Directors of his right to transfer such shares and give such indemnity (if any) as the Directors may require or the Directors shall have previously admitted his right to vote at such meeting in respect thereof.

Article 102

Every Proxy (whether a member or not) shall be appointed in writing under the hand of the appointor or his attorney, or if such appointor is a Corporation under the Common Seal of such Corporation, or be signed by an officer or any attorney duly authorised by it, and any Committee or guardian may appoint such proxy. The proxy so appointed shall not have any right to speak at the meetings.

Article 104

A member present by proxy shall be entitled to vote both on a poll and on a show of hands.

Article 105

The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Office not later than forty eight hours before the time for holding the meeting at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of twelve months from the date of its execution.

Article 107

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the proxy or of any power of attorney under which such proxy was signed, or the transfer of the share in respect of which the vote is given: provided that no intimation in writing of the death or insanity, revocation or transfer shall have been received at the office before the meeting.

Article 108

No objection shall be made to the validity of any vote, except at the meeting or poll at which such vote shall be tendered, and every vote whether given personally or by proxy, not disallowed at such meeting or poll shall be deemed valid for all purposes of such meeting or poll whatsoever.

Article 109

The Chairman of any meeting shall be the sole judge of the validity of every vote tendered at such meeting. The Chairman present at the taking of a poll shall be the sole judge of the validity of every vote tendered at such poll.

DIRECTORS

Article 111

The eligibility and the appointment of directors shall be governed by the provisions of the BR Act.

Article 113

At every Annual General Meeting of the Company, one-third of such of the Directors for the time being as are liable to retire by rotation or if their number is not three or a multiple of three, the number nearest to one third shall retire from office. Provided however that the Chairman of the Company and the Managing Director shall not be liable to retire by rotation.

Article 114

Subject to Section 256 (2) of the Act, the Directors to retire by rotation at every Annual General Meeting shall be those who have been longest in the office since their last appointment, but as between persons who became Directors on the same day, those who are to retire shall, in default of, and subject to any agreement among themselves, be determined by lot.

Article 115

Subject to the provisions of Section l0A (2a) of the BR Act, a retiring Director shall be eligible for re-election.

Article 116

Subject to Sections 258 and 259 of the Act, the Company at the General Meeting at which a Director retires in manner aforesaid may fill up the vacated office by electing a person thereto.

Article 118

Subject to the provisions of Section 258 and Section 259 of the Act, the Company may, by Ordinary Resolution, from time to time, increase or reduce the number of Directors.

Article 119

(1) No person not being a retiring Director, shall be eligible for appointment to the office of Director at any General Meeting unless he or some member intending to propose him has, not less than fourteen days before the meeting left at the office of the Company a notice in writing under his hand signifying his candidature for the office of Director or the intention of such member to propose him as a candidate for that office.

(2) Every person (other than a Director retiring by rotation or otherwise or a person who has left in the office of the Company a notice under Section 257 of the Act signifying his candidature for the office of a Director proposed as a candidate for the office of a Director, shall sign and file with the Company, the consent in writing to act as a Director, if appointed.

(3) A person other than a Director reappointed after retirement by rotation or immediately on the expiry of his term of office, or an Additional or Alternate Director, or a person filling a casual vacancy in the office of a Director under Section 262 of the Act, appointed as a Director or reappointed as an Additional or Alternate Director, immediately on the expiry of his term of office, shall not act as a Director of the Company unless he has within thirty days of his appointment signed and filed with the Registrar his consent in writing to act as such Director.

Article 120

If at any time the Company obtains any loans or any assistance in connection therewith by way of guarantee or otherwise from any person, firm, body corporate, local authority or public body (hereinafter called "the institution") or if at any time the Company issues any shares, debentures and enters into any contract or arrangement with the institution whereby the institution subscribes for or underwrites the issue of the Company's shares or debentures or provides any assistance to the Company in any manner and it is a term of the relative loan, assistance, contract or agreement that the institution shall have the right to appoint one or more Directors to the Board of the Company, then subject to the provisions of Section 255 of the Act and subject to the terms and conditions of such loan, assistance, contract or arrangement the institution shall be entitled to appoint one or more Director or Directors, as the case may be, to the Board of the Company and to remove from office any Director so appointed and to appoint another in his place or in the place of Director so appointed who resigns or otherwise vacates his office. Any such appointment or removal shall be made in writing and shall be served at the office of the Company. The Director or Directors so appointed shall neither be required to hold any qualification share nor be liable to retire by rotation and shall continue in the office for so long as the relative loan, assistance, contract or arrangement, as the case may be subsists.

Article 123

Subject to the provisions of Section 262, 264 and 284 (6) of the Act, and other applicable provisions of the BR Act, the Board shall have power at any time and from time to time to appoint any other qualified person to be a Director to fill a casual vacancy. Any person so appointed shall hold office only up to the date to which the Director in whose place he is appointed would have held office if it had not been vacated by him.

Article 129

(1) Every Director of the Company who is in any way, whether directly or indirectly, concerned or interested in a contract or arrangement, or proposed contract or arrangement, entered into or to be entered into, by or on behalf of the Company, shall disclose the nature of his concern or interest at a meeting of the Board in the manner provided in Section 299 of the Act; provided that:

(2) Nothing in sub-clause (1) of this Article shall apply to any contract or arrangement entered into or to be entered into between the Company and any other company, where any of the Directors of the Company or two or more of the Directors together holds or hold not more than two per cent of the paid-up share capital in the other company.

Article 130

A general notice given to the Board by the Director, to the effect that he is a director or member of a specified body corporate or is a member of a specified firm and is to be regarded as concerned or interested in any contact or arrangement which may, after the date of the notice, be entered into with that body corporate or firm, shall be deemed to be a sufficient disclosure of concern or interest in relation to any contract or arrangement so made. Any such general notice shall expire at the end of the financial year in which it is given but may be renewed for a further period of one financial year at a time by a fresh notice given in the last month of the financial year in which it would have otherwise expired. No such general notice and no renewal thereof, shall be of effect unless it is given at a meeting of the Board or the Director concerned takes reasonable steps to secure that it is brought up and read at the first meeting of the Board after it is given.

Article 131

No director shall, as a Director, take any part in the discussion of, or vote on any contract or arrangement entered into or to be entered into by or on behalf of the Company, if he is in any way, whether directly or indirectly, concerned or interested in such contract or arrangement; nor shall his presence count for the purpose of forming a quorum at the time of any such discussion or vote; and if he does vote, his vote shall be void, provided however, that nothing herein contained shall apply to :-

(a) any contract of indemnity against any loss which the Directors, or anyone or more of them, may suffer by reason of becoming or being sureties or a surety for the Company;

(b) any contract or arrangement entered into or to be entered into with a public company or a private company which is a subsidiary of a public company in which the interest of the Director consists solely:-

i) in his being:-

(a) a Director of such company; and

(b) the holder of not more than shares of such number or value therein as is requisite to qualify him for appointment as a director thereof, he having been nominated as such Director by the company.

OR

ii) in his being a member holding not more than 2% of its paid-up share capital.

Article 132

The Company shall keep a Register in accordance with Section 301 (1) and shall within the time specified in section 301 (2) of the Act enter therein such of the particulars as may be relevant having regard to the application thereto of Section 297 or Section 299 of the Act as the case may be, the Register aforesaid shall also specify, in relation to each Director of the Company the names of the bodies corporate and firms of which notice has been given by him under Section 299. The Register shall be kept at the office of the Company and shall be open to inspection at such office, and extracts may be taken there from and copies thereof may be required by any member of the Company to the same extent in the same manner, and on payment of the same fee as in the case of the Register of Members of the Company and the provisions of Section 163 of the Act shall apply accordingly.

Article 133

A Director may be or become a Director of any company promoted by the Company, or in which it may be interested as a vendor, shareholder, or otherwise, and no such Director shall be accountable for any benefits received as Director or shareholder of such company except in so far as Section 309 (6) or Section 314 of the Act may be applicable.

MANAGING DIRECTOR

Article 137

Subject to the provisions of the Act, the BR Act and these Articles, the Board shall have power to appoint from time to time a Managing Director of the Company for such period and upon such terms and conditions as the Board thinks fit. The Managing Director shall be the Chief Executive Officer of the Company and shall be in charge of the day to day management, control and supervise the affairs of the Company subject to the superintendence of the Board of Directors and further subject to the provisions of Article 138, the Board may by resolution vest in such Managing Director such of the powers hereby vested in the Board generally as it thinks fit, and such powers may be made exercisable for such period or periods and upon such conditions and subject to such restrictions as it may determine provided that none of the powers of the Managing Director shall be conferred upon or exercised by any of the other whole-time Directors appointed under Article 140A.

The remuneration of a Managing Director may be by way of monthly payment, fee for each meeting, or by any or all these modes, not expressly prohibited by the Act.

Article 138

The Managing Director shall not exercise the powers to:

(a) Make calls on share holders in respect of money unpaid on the shares in the Company.

(b) issue debentures;

and except to the extent mentioned in the resolution passed at the Board meeting under section 292 of the Act, shall also not exercise the powers to;

(c) borrow moneys, otherwise than on debentures ;

(d) invest the funds of the Company, and

(e) make loans.

PROCEEDINGS OF THE BOARD OF DIRECTORS

Article 141

The Directors may meet together as a Board for the despatch of business from time to time, and shall so meet atleast once in every three months and atleast four such meetings shall be held in every year. The Directors may adjourn and otherwise regulate their meetings as they think fit.

Article 145

Subject to Section 287 of the Act, the quorum for a meeting of the Board shall be one-third of its total strength, excluding Directors, if any, whose places may be vacant at the time and any fraction contained in that one-third being rounded off as one, or two directors, whichever is higher: PROVIDED THAT where at any time the number of interested Directors exceeds or is equal to two-thirds of the total strength, the number of the remaining Directors, that is to say, the number of Directors who are not interested, (present at the meeting being not less than two), shall be the quorum during such time.

Article 147

Subject to the provisions of Sections 316, 372 (4) and 386 of the Act, questions arising at any meeting shall be decided by a majority of votes, and in case of any equality of votes, the Chairman shall have a second or casting vote.

Article148

Subject to the restrictions contained in Section 292 of the Act, the Board may delegate any of their powers to Committee of the Board consisting of such member or members of its body as it thinks fit and it may, from time to time, revoke and discharge any such Committee of the Board either wholly or in part and either as to persons or purposes, but every Committee of the Board so formed shall in the exercise of the powers so delegated conform to any regulations that may, from time to time, be imposed on it by the Board. All acts done by any such Committee of the Board in conformity with such regulations and in fulfilment of the purposes of their appointment but not otherwise shall have the like force and effect as if done by the Board.

Article 149

With regard to Local Management/Branch Advisory Committee the following provisions shall have effect:

(i) The Board of Directors may from time to time provide for the management of the affairs relating to the Local Branch (outside Greater Bombay) of the Bank/Company, a committee known as Branch Advisory Committee to advise the Board on matters relating to the affairs of the Local Branch, such Committee consisting of such of the members of the Company resident in the local area of the Branch as the Board may determine for the term to be determined by the Board. Such Branch Advisory Committee to be under direct supervision and control of the Board.

(ii) The Board of Directors may fix such remuneration of the members constituting the Branch Advisory Committee as may be deemed fit.

(iii) The Board of Directors may delegate such Branch Advisory Committee any of the powers, authorities and discretions for the time being vested in the Board of Directors. Such delegation may be made on such terms and conditions as the Board may deem fit.

(iv) The Board of Directors may from time to time by the Power of Attorney under Seal appoint any one or more members of the Branch Advisory Committee to be attorney(s) of the Company for such purposes with such powers and authorities and have such period as deemed fit by the Board.

Article 151

No resolution shall be deemed to have been duly passed by the Board or by a Committee thereof by circulation, unless the resolution has been circulated in draft, together with the necessary papers, if any, to all the Directors, or to all the members of the Committee, then in India (not being less in number than the quorum fixed for a meeting of the Board or Committee as the case may be) and to all other Directors or members of the Committee at their usual address in India and has been approved by such of the Directors or members of the Committee as are then in India, or by a majority of such of them, as are entitled to vote on the resolution.

Article 154

The Board may exercise all such powers of the Company and do all such acts and things as are not, by the Act, or any other Act, or by the Memorandum or Articles of the Company, require to be exercised or done by the Company in General Meeting, subject nevertheless to these Articles, to the provisions of the Act, or any other Act and to such regulations or provisions, as may be prescribed by the Company in General Meeting but no regulation made by the Company in General Meeting shall invalidate any prior act of the Board which would have been valid if that regulation had not been made. PROVIDED THAT the Board shall not, except with the consent of the Company in General Meeting: -

a) sell, lease or otherwise dispose of the whole, or substantially the whole, of the undertaking of the Company, or where the Company owns more than one undertaking of the whole, or substantially the whole, of any such undertaking;

b) remit, or give time for the repayment of, any debt due by a Director;

c) invest otherwise than in trust securities, the amount of compensation received by the Company in respect of the compulsory acquisition of any such undertakings as is referred to in clause (a), or of premises or properties used for any such undertaking and without which it cannot be carried on or can be carried on only with difficulty or only after a considerable time;

d) borrow moneys where the moneys to be borrowed, together with the moneys already borrowed by the Company (apart from temporary loans obtained from the Company's bankers in the ordinary course of business), will exceed the aggregate of the paid up capital of the Company and its free reserves that is to say, reserves not set apart for any specific purpose;

e) contribute to charitable and other funds not directly relating to the business of the Company or the welfare of its employees, any amounts the aggregate of which will, in any financial year, exceed fifty thousand rupees, or five percent of the average net profits as determined in accordance with the provisions of Section 349 and 350 of the Act during the three financial years, immediately preceding, whichever is greater.

Article 155

Without prejudice to the General Powers conferred by the last proceeding clause and of other powers conferred by the articles, it is hereby expressly declared that the Directors shall have the following powers that is to say, power: -

(a) to purchase or otherwise acquire for the Company any property, rights or privileges which the Company is authorised to acquire at such price and generally on such terms and conditions as they think fit.

(b) at their discretion to pay for any property, rights or privileges acquired by or services rendered to the Company either wholly or partially in cash or in shares, bonds, debentures, or other securities of the Company and any such shares may be issued either as fully paid up or with such amounts credited as paid up thereon as may be agreed upon; and any such bonds or debentures or other securities may either be specifically charged upon all or any part of the property of the Company or not so charged;

(c) to secure the fulfilment of any contracts or engagements entered into by the Company by mortgage or charge of all or any of the property of the Company or in such other manner as they may think fit;

(d) to nominate and appoint and to remove or suspend, as the Directors deem best for the management of the business of the Company, and to fix salary or remuneration to be paid to them by the Company and to demand from all or any of such persons such securities for the due performance of the duties as to them may seem fit and to establishment or a provident, gratuity or any other fund for their benefit or for any other purpose;

(e) to authorise or empower the Chairman or other officers or employees for the time being of the Company either any one of them or all of them jointly or some of them jointly to exercise and perform all or any of the powers or authorities and duties conferred or Articles of Association subject to such restrictions and conditions if any as the Board may think proper.

(f) to raise or borrow money from time to time by bonds, debentures, or promissory notes or by opening current accounts, or by receiving advances with or without securities mortgaging any lands, buildings, machinery, goods and or other property of the Company or by such other means as the Directors may deem expedient;

(g) to buy, sell and deal in drafts, hundies, bills of exchange, bills of lading, railway receipts, and Government bonds, etc., to negotiate with and secure from any recognised Banks, institutions or corporations cash credits, loans or overdrafts on pledge of Government securities or otherwise;

(h) to draw, accept, endorse, negotiate and sell Bills of Exchange, and other negotiable instruments with or without securities.

(i) to undertake on behalf of the Company the payment of all rents and the performance of all covenants, conditions and agreements contained in or reserved by any lease that may be granted to be assigned to or otherwise acquired by the Company;

(j) to insure or keep insured, if deemed expedient, all or any of the goods, stores, buildings, or other property or any securities of the Company separately or conjointly or for such period and to such extent as the Directors may think proper and to sell, assign, surrender or discontinue any policies of assurance, effected in pursuance of this power and to incur incidental charges thereto;

(k) from time to time to provide for the Management of the affairs of the Company in such manner as they think fit and in particular appoint any person to be Attorney or Agents of the Company with such powers (including the powers to sub-delegate) and upon such terms as may be thought fit;

(l) to pay and to charge to capital account of the Company any item of expenditure which may in fairness be distributed over several years and has been incurred in any one year but the whole amount shall be stated in the Annual Report giving reasons why only a portion of such expenditure is charged against the income of the period for which the accounts are rendered;

(m) to act on behalf of the Company in all matters relating to its customers or other persons.

(n) (i) to deposit in any Bank, they may from time to time approve of, and to invest any funds of the Company not immediately required for the purposes thereof upon such securities other than shares of this Company and in such manner as they may think fit and from time to time vary or realise such investments;

(ii) to make arrangements for the safe custody of the moneys, title deeds, bonds, jewels and other valuable properties of the Company.

(o) to accept from any member so far as may be permissible by law, a surrender of his share or any part thereof on such terms and conditions as shall be agreed upon.

(p) to execute all deeds, agreements, contracts, receipts and other documents, that may be necessary or may be expedient for the purpose of the Company;

(q) to commence, institute, persecute, withdraw, defend, compromise, and refer to arbitration, all such actions and suits as the Directors may think necessary or proper.

(r) to compromise any debt or any claim or to remit in whole or in part at their absolute discretion any claim or debt or to give time to any debtor for repayment of his debts or refer any matter or disputes to arbitration or arrive at any arrangement incidental to any transactions in respect of any claim, right, title or interest in favour of the Company subject to the provisions of section 293 of the Companies Act.

(s) (i) to open and establish branches and agencies for the conduct of the business of the Company from time to time and to appoint Manager or Agent and other employees and to fix their salary or remuneration as the Directors, may think it expedient to do, and to close such Branches or Agencies ;

(ii) to authorise or arrange for the inspection and or checking of the business, investments and or assets or affairs of the Head Office, Branch or Branches, or Agency or Agencies in such manner as the Board of Directors deems fit ;

(t) to grant pensions, allowances, gratuities and bonuses to employees of the Company, their present and future dependents and to support or subscribe to any charitable or other institutions, clubs, societies or funds;

(u) (i) to set aside from time to time out of the net profits of the Company such sums as they think proper and to place the same to anyone or more of the following or other accounts (a) Statutory Reserve Fund; (b) Contingency Fund; (c) Reserve for Bad and Doubtful Debts; (d) Dividend Equalisation Fund and (e) any other funds;

(ii) any fund other than the Statutory Reserve Fund may be applied from time to time in such manner as the Directors shall determine for meeting depreciation or contingencies, or for equalising dividends or for special dividends, or for writing off bad or doubtful debts or claims, or for repairing, improving or maintaining any property of the Company, or for such other purposes as the Directors shall in their absolute discretion think conducive to the interests of the Company;

(iii) the Directors may divide any fund (other than the Statutory Reserve Fund) into such special funds as they think fit, and may consolidate into one fund any special funds or any parts of any special funds into which the fund may have been divided as they think fit, with full power to employ or invest the whole or any part of the assets constituting such funds in the business of the Company or in such other investments as they may think fit, and from time to time deal with or vary such investments and dispose of or utilise all or any part thereof in any manner the Directors may deem fit in their absolute discretion to keep the same separate from the other assets of the Company.

(iv) the Directors may appropriate the Statutory Reserve Fund as may be permitted by law;

(v) to make advances and to lend money and to open cash credits and generally to give credit or deal upon credit with any persons, to such amount upon such terms and conditions as they shall think fit;

(v) Provided however that no Directors shall vote on any question respecting a loan or advance of money or cash credit account or otherwise giving credit to or for the benefit of himself or of the Joint Hindu Family of which he is a member or unregistered company or firm in which such Director is a partner;

(w) for or in relation to any of the matters aforesaid or otherwise for the purpose of the Company to enter into all such negotiations and contracts and rescind and vary all such contracts, and execute and do all such acts, deeds and things in the name and on behalf of the Company as they may consider expedient.

(x) from time to time to make, vary and repeal the Articles for the regulation of the business of the Company, its officers and servants or the employees or any section thereof or for any matter pertaining to the Company;

(y) to pay remuneration including travelling expenses and halting expenses to any Director or Directors or any other person for any service in the interests of the Company rendered by such Director or Directors or such other person;

(z) to propose a dividend and/or bonus etc. to the shareholders to be adopted at the General Meeting.

(aa) to purchase all furniture, utensils and other things necessary for the Company;

(bb) and generally to do, sanction and authorise all such matters and things as may be deemed necessary or expedient to be done, authorised or sanctioned in or about the general business or affairs of the Company or in or about the execution of all or any of the powers hereinbefore conferred on the Directors.

DIVIDENDS

Article 161

a) Subject to the provisions of the BR Act, the profits of the Company, subject to any special rights relating thereto created or authorised to be created by these Articles, and subject to the provisions of these Articles shall be divisible among the members in proportion to the amount of capital paid-up or credited as paid up on the shares held by them respectively.

b) All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid, but if any share is issued on terms providing that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly.

Article 163

No dividend shall be declared or paid otherwise than out of the profits of the financial year arrived at after providing for depreciation in accordance with the provisions of Section 205 of the Act out of the profits of the Company for any previous financial year or years arrived at after providing for depreciation in accordance with these provisions and remaining undistributed or out of both, provided that:

(a) If the Company has not provided for depreciation for any previous financial year or years, it shall, before declaring or paying a dividend for any financial year, provide for such depreciation out of the profits of the financial year or years.

(b) If the Company has incurred any loss in any previous financial year or years, the amount of the loss or any amount which is equal to the amount provided for depreciation for that year or those years whichever is less, shall be set off against the profits of the company for the year for which the dividend is proposed to be declared or paid or against the profits of the Company for any previous financial year or years arrived at in both cases after providing for depreciation in accordance with provisions of sub-section (2) of Section 205 of the Act, or against both.

Article 164

The Board may, from time to time, pay to the Members such interim dividend as in their judgment the position of the Company justifies.

Article 168

No member shall be entitled to receive payment as any interest or dividend in respect of his share or shares, while any money may be due or owing from him to the Company in respect of such share or shares or otherwise howsoever, either alone or jointly with any other person or persons; and the Board may deduct from the interest of dividend payable to any member all sums of money so due from him to the Company.

Article 169

A transfer of shares shall not pass the right to any dividend declared thereon before the registration of the transfer.

Provided that where any instrument of transfer of shares has been delivered to the Company for registration and the transfer of such shares has not been registered by the Company, it shall: -

a) transfer the dividend in relation to such shares to the special account referred to in Section 206A of the Act unless the Company is authorised by the registered holder of such shares in writing to pay such dividend to the transferee specified in such instrument of transfer, and

b) keep in abeyance in relation to such shares any offer of rights shares under clause (a) of sub-section (1) of Section 81 of the Act and any issue of fully paid-up bonus shares in pursuance of sub-section (3) of Section 205 of the Act.

Article 171

Where the Company has declared a dividend but which has not been paid or claimed within 30 days from the date of declaration to any shareholder entitled to the payment of the dividend, the Company shall, within 7 days of the date from expiry of the said period of 30 days, open a special account in that behalf in any scheduled bank called "Unpaid Dividend of ____ Limited" and transfer to the said account, the total amount of dividend which remains unpaid or unclaimed.

Any money transferred to the unpaid dividend account of the company which remains unpaid or unclaimed for a period of seven years from the date of such transfer, shall be transferred by the Company to the Fund established under Sec 205C of the Act.

No unpaid or unclaimed dividend shall be forfeited by the Board before the claim becomes barred by law.

Article 172

Any General Meeting declaring a dividend, may, on the recommendation of the Directors, make a call on the members of such amount as the meeting fixes, but so that the call on each member shall not exceed the dividend payable to him and so that the call be made payable at the same time as the dividend, and the dividend may, if so arranged between the Company and the member, be set off against the calls.

CAPITALIZATION OF RESERVES

Article 174

1) Any General Meeting of the Company may resolve that any amounts standing to the credit of the Share Premium Account or the Capital Redemption Reserve Account or any moneys, investments or other assets forming part of the undivided profits including profits or surplus moneys arising from the realisation and (where permitted by the law) from the appreciation in value of any capital assets of the Company standing to the credit of the General Reserve or any other Reserve or Reserve Fund or any other Fund of the Company or in the hands of the company and available for dividend be capitalised.

   a) by the issue and distribution of shares, as fully paid up and to the extent permitted by the Act, debentures, debenture stock, bonds or other obligations of the Company; or

   b) by crediting shares of the Company, which may have been issued and are not fully paid up, with the whole or any part of the sum remaining unpaid thereon:

   PROVIDED THAT any amounts standing to the credit of the Share Premium Account or the Capital Redemption Reserve Account shall be applied only in crediting the payment of capital on shares to be issued to Members as fully paid bonus shares.

2) Such issue and distribution under sub-clause (l)(a) of this Article and payment to the credit of unpaid share capital under sub-clause (l)(b) of this Article shall be made to among and in favour of the members or any class of them or any of them entitled thereto and in accordance with their respective rights and interests and in proportion to the amount of capital paid up on the shares held by them respectively in respect of which such distribution or payment shall be made, on the footing that such members become entitled thereto as capital.

WINDING UP

Article 189

Subject to the provisions of the Banking Regulation Act, the Liquidator on any winding-up (whether voluntary, under supervision or compulsory) may, with the sanction of a Special Resolution divide among the contributories in specie any part of the assets of the Company and may with the like sanction; vest any part of the assets of the Company in trustees upon such trusts and for the benefit of the contributories as the Liquidator, with the like sanction shall think fit.

INDEMNITY AND RESPONSIBILITY

Article 190

Every Officer or duly authorised agent for the time being of the Company shall be indemnified out of the assets of the Company against all liability incurred by him in defending any proceedings, arising out of his position as an officer or as such agent of the Company whether civil or criminal in which judgement is given in his favour or in which he is acquitted or discharged or in connection with any application under Section 633 of the Act, in which relief is granted to him by the Court.

SECTION 9 : MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following contracts (not being contracts entered into in the ordinary course of business carried on by the Bank or entered into more than two years before the date of this Red Herring Prospectus) which are or may be deemed material have been entered or to be entered into by the Bank. These contracts, copies of which have been attached to the copy of this Red Herring Prospectus, delivered to the Designated Stock Exchange for registration and also the documents for inspection referred to hereunder, may be inspected at the Registered Office of the Bank between 10.00 am to 4.00 pm on working days from the date of this Red Herring Prospectus until the Bid Closing Date/Issue Closing Date.

Material Contracts to the Issue

1. Letters of appointment dated October 25, 2005 to Enam Financial Consultants Private Limited and JM Morgan Stanley Private Limited, from the Bank appointing them as BRLMs.
2. Letter of appointment dated January 11, 2006 for the Registrar to the Issue.
3. Memorandum of Understanding amongst the Bank and the BRLMs dated August 7, 2006.
4. Agreement executed by the Bank and the Registrar to the Issue dated January 31, 2006,

Material Documents

1. Certified true copies of the Memorandum and Articles of Association of the Bank as amended from time to time, Certificate of Incorporation dated May 31, 1995.
2. Shareholders' resolution dated November 21, 2005 in relation to this Issue and other related matters.
3. Resolutions of the Board of Directors dated October 10, 2005 in relation to this Issue and other related matters.
4. Reports of the statutory Auditors dated May 16, 2006 on the Financial Statements prepared as per Indian GAAP and Reports of the statutory Auditors dated January 25, 2006 on the Statement of Tax Benefits as mentioned in this Red Herring Prospectus.
5. Consents of the Auditors being N.M. Raiji and Co., Chartered Accountants, for inclusion of their auditor's report in the form and context in which they appear in this Red Herring Prospectus.
6. General Power of Attorney executed by the Directors of the Bank in favour of Person(s) for signing and making necessary changes to this Red Herring Prospectus and other related documents.
7. Consents of BRLMs, Syndicate Members, Registrar to the Issue, Escrow Collection Bank(s), Banker to the Issue, legal counsel to the Issue, Directors, Company Secretary and Compliance Officer, as referred to, in their respective capacities.
8. Initial listing applications dated August 10,,2006 filed with NSE and BSE, respectively.
9. Tripartite agreement among NSDL, the Bank and Intime Spectrum Registry Limited dated February 18,2006.
10. Tripartite agreement among CDSL, the Bank and Intime Spectrum Registry Limited dated February 3,2006.
11. Due diligence certificate dated August 09, 2006 to SEBI from JM Morgan Stanley Private Limited and Enam Financial Consultants Private Limited.
12. Letters DBOD.NO.PSBD.6544/16.01.132/2005-06 dated January 25, 2006 and DBOD.NO.PSBD.6708/16.01.132/2005-06 dated February 2, 2006 from RBI granting approval for the Issue.
13. In principle listing approval received from NSE and BSE dated September 1, 2006 and August 31, 2006 respectively
14. SEBI observation letter number CFD/DIL/ISSUES/V/76705/2006 dated September 14**,** and the Bank's reply dated September 18, 2006

15. SEBI observation letter number CFD/DIL/ISSUES/V/66509/2006 dated May 8, 2006 towards the Draft Red Herring Prospectus filed with SEBI on February 17, 2006.

16. Agreement dated September 13, 2005 between the Bank and Mr. Gautam Vir, the Managing Director.

17. Development Credit Bank Ltd. 2005 Employee Stock Option Plan.

18. Subscription Agreements dated Februray 15, 2006, between the Bank, the Promoter and each of Khattar Holdings Pte Ltd., HDFC Limited, Amtel Finance Ltd.

Any of the contracts or documents mentioned in this Red Herring Prospectus may be amended or modified at any time if so required in the interest of the Bank or if required by the other parties, without reference to the shareholders subject to compliance of the applicable laws.

DECLARATION

The Directors of the Bank, hereby declare that all relevant provisions of the Companies Act, 1956 and the guidelines issued by the Government or the guidelines issued by the Securities and Exchange Board of India established under Section 3 of the Securities and Exchange Board of India Act, 1992, as the case may be, have been complied with and no statement made in this Red Herring Prospectus is contrary to the provisions of the Companies Act, 1956 or the Securities and Exchange Board of India Act, 1992 or rules made thereunder or guidelines issued, as the case may be. The Directors further certify that all the disclosures in this Red Herring Prospectus are true and correct.

SIGNED BY THE DIRECTORS

Mr. Nasser Munjee, Chairman

Ms. Nasim Devji

Mr. Shabir Kassam

Dr. Vijay Kelkar

Mr. Amin Hasanali Manekia

Mr. R. A. Momin

Mr. A. A. Sabuwala

Mr. Narayan K. Seshadri

Mr. Anuroop Singh

SIGNED BY

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. Gautam Vir

CHIEF FINANCIAL OFFICER

Mr. Adil Kasad

Date: September 20, 2006

Place: Mumbai