**Red Herring Prospectus**
Dated July 11, 2007
100% Book Built Issue

# Central Bank of India

(Central Bank of India was originally incorporated on December 21, 1911 under provisions of the Indian Companies Act, 1882 as "The Central Bank of India Limited" with its head office at Mumbai (then known as Bombay). For details of change in name and head office, see the section titled "History and Certain Corporate Matters" on page 122 of this Red Herring Prospectus).

(Constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 on July 19, 1969)

**Head Office**: Chandermukhi, Nariman Point, Mumbai 400 021
**Tel**: (91 22) 6638 7828; **Fax**: (91 22) 2283 5198
**Contact Person**: S.R. Shukla; **Email**: investors@centralbank.co.in; **Website**: www.centralbankofindia.co.in

**PUBLIC ISSUE OF 80,000,000 EQUITY SHARES OF RS. 10 EACH ("EQUITY SHARES") OF CENTRAL BANK OF INDIA (THE "BANK" OR THE "ISSUER") FOR CASH AT A PRICE OF RS. [●] PER EQUITY SHARE (INCLUDING A SHARE PREMIUM OF RS. [●] PER EQUITY SHARE) AGGREGATING RS. [●] MILLION (THE "ISSUE"). THE ISSUE INCLUDES A RESERVATION OF 4,000,000 EQUITY SHARES OF RS. 10 EACH FOR THE ELIGIBLE EMPLOYEES (THE "EMPLOYEE RESERVATION PORTION"). THE ISSUE LESS THE EMPLOYEE RESERVATION PORTION IS REFERRED TO AS THE "NET ISSUE". THE ISSUE WILL CONSTITUTE 24.68% OF THE PRE ISSUE AND 19.80% OF THE POST ISSUE FULLY DILUTED PAID-UP EQUITY CAPITAL OF THE BANK.**

**PRICE BAND: RS. 85 TO RS. 102 PER EQUITY SHARE OF FACE VALUE RS. 10 EACH.**

**THE FACE VALUE OF THE EQUITY SHARES IS RS. 10. THE ISSUE PRICE IS 8.5 TIMES THE FACE VALUE AT THE LOWER END OF THE PRICE BAND AND 10.20 TIMES THE FACE VALUE AT THE HIGHER END OF THE PRICE BAND**.

In case of revision in the Price Band, the Bidding/Issue Period will be extended for three additional working days after revision of the Price Band, subject to the Bidding/Issue period not exceeding ten working days. Any revision in the Price Band, and the revised Bidding/Issue Period, if applicable, will be widely disseminated by notification to the National Stock Exchange of India Limited (the "**NSE**") and the Bombay Stock Exchange Limited (the "**BSE**"), by issuing a press release, and also by indicating the change on the websites of the Book Running Lead Managers ("**BRLMs**"), and the terminals of the other members of the Syndicate.

In terms of Rule 19(2)(b) of the Securities Contract Regulation Rules, 1957, ("**SCRR**") this being an Issue for less than 25% of the post-Issue capital, the Issue is being made through the 100% Book Building Process wherein at least 60% of the Net Issue shall be Allotted on a proportionate basis to Qualified Institutional Buyers ("**QIBs**"). 5% of the QIB Portion shall be available for allocation to Mutual Funds only and the remaining QIB Portion shall be available for allocation to all the QIB Bidders, including Mutual Funds, subject to valid Bids being received at or above the Issue Price. In addition, in terms of Rule 19(2)(b) of the SCRR, a minimum of two million securities are being offered to the public and the size of the Issue shall aggregate at least Rs. 1,000 million. If at least 60% of the Net Issue cannot be Allotted to QIBs, then the entire application money will be refunded. Further, not less than 10% of the Net Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 30% 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. Further, 4,000,000 Equity Shares shall be available for allocation on a proportionate basis to the Eligible Employees, subject to valid Bids being received at or above the Issue Price.

## RISK IN RELATION TO THE FIRST ISSUE

This being the first public 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 Equity Shares is Rs. 10 and the Issue Price is [●] times the face value**. The Issue Price (as determined by the Bank, in consultation with the BRLMs, on the basis of assessment of market demand for the Equity Shares by way of the book-building process) 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.

## IPO GRADING

This Issue has been rated by Credit Analysis & Research Limited ("**CARE**") as CARE IPO Grade 4 indicating 'above average fundamentals'. For details see the section titled "General Information" on page 7 of this Red Herring Prospectus.

## 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 the contents of this Red Herring Prospectus. Specific attention of the investors is invited to the section titled "Risk Factors" on page xi of this Red Herring Prospectus.

## 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 NSE and the BSE. We have received in-principle approval from the NSE and the BSE for the listing of the Equity Shares pursuant to letters dated June 18, 2007 and June 28, 2007, respectively. The Designated Stock Exchange for the purposes of the Issue shall be the NSE.

| BOOK RUNNING LEAD MANAGERS | | | | | REGISTRAR TO THE ISSUE |
|---|---|---|---|---|---|
| **ICICI SECURITIES LIMITED**<br>ICICI Centre<br>H.T. Parekh Marg<br>Churchgate, Mumbai 400 020<br>Tel: (91 22) 22882460<br>Fax: (91 22) 22826580<br>Email: cbi_ipo@isecltd.com<br>Website: www.icicisecurities.com<br>Registration No.: MB/INM000011179<br>Contact Person: Ratnadeep Acharyya | **CITIGROUP GLOBAL MARKETS INDIA PRIVATE LIMITED**<br>12th Floor, Bakhtawar<br>Nariman Point, Mumbai 400 021<br>Tel: (91 22) 6631 9999<br>Fax: (91 22) 6631 9803<br>Email: cbi.ipo@citi.com<br>Website: www.citibank.co.in<br>Registration No.: MB/INM000010718<br>Contact Person: Amulya Goyal | **ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED**<br>801/802, Dalamal Towers<br>Nariman Point, Mumbai 400 021<br>Tel: (91 22) 66381800<br>Fax: (91 22) 22846824<br>Email: cbiipo@enam.com<br>Website: www.enam.com<br>Registration No.: INM000006856<br>Contact Person: Ashish Kumbhat | **IDBI CAPITAL MARKET SERVICES LIMITED**<br>5th Floor, Mafatlal Centre<br>Nariman Point, Mumbai 400 021<br>Tel: (91 22) 2289 7500<br>Fax: (91 22) 2283 8782<br>Email:centralbank.ipo@idbicapital.com<br>Website: www.idbicapital.com<br>Registration No.: INM000010866<br>Contact Person: Huzefa Sitabkhan | **KOTAK MAHINDRA CAPITAL COMPANY LIMITED**<br>3rd Floor, Bakhtawar, 229<br>Nariman Point, Mumbai 400 021<br>Tel: (91 22) 66341100<br>Fax: (91 22) 22840492<br>Email: centralbank.ipo@kotak.com<br>Website: www.kotak.com<br>Registration No.: INM000008704<br>Contact Person: Chandrakant Bhole | **INTIME SPECTRUM REGISTRY LIMITED**<br>C-13, Pannalal Silk Mills Compound<br>L.B.S. Marg, Bhandup (West)<br>Mumbai 400 078<br>Tel: (91 22) 2596 0320<br>Fax: (91 22) 2596 0328<br>Email: cbiipo@intimespectrum.com<br>Website: www.intimespectrum.com<br>Registration No.: INR000003753<br>Contact Person: Vishwas Attavar |

| ISSUE PROGRAMME | |
|---|---|
| **BID/ISSUE OPENS ON : TUESDAY, JULY 24, 2007** | **BID/ISSUE CLOSES ON : FRIDAY, JULY 27, 2007** |

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## DEFINITIONS AND ABBREVIATIONS

***Bank related terms***

| Term | Description |
|---|---|
| The "Bank" or "our Bank" or "Central Bank" "we" or "our" or "us" | Unless the context otherwise requires, refers to Central Bank of India, a corresponding new bank constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 having its head office at Chandermukhi, Nariman Point, Mumbai 400 021 |
| Associates | The Bank's associates are Indo-Zambia Bank Limited, a joint venture, and the following 11 regional rural banks sponsored by the Bank:<br>1. Ballia Regional Rural Bank;<br>2. Chambal – Gwalior Regional Rural Bank;<br>3. Etawah Regional Rural Bank;<br>4. Hadoti Regional Rural Bank;<br>5. Kosi Regional Rural Bank;<br>6. Ratlam – Mandsaur Regional Rural Bank;<br>7. Satpura Regional Rural Bank;<br>8. Surguja Regional Rural Bank;<br>9. Uttar Bihar Regional Rural Bank;<br>10. Uttarbanga Regional Rural Bank; and<br>11. Vidharbha Regional Rural Bank |
| Board of Directors/Board | The board of directors of the Bank or a committee constituted thereof |
| CMD or Chairperson and Managing Director | The Chairperson and Managing Director of the Bank |
| Constitutional Documents | The Bank Acquisition Act read with the Bank Regulations and the Nationalised Bank Scheme |
| Director(s) | Unless the context otherwise requires, refers to the director(s) of the Bank |
| Head Office | The head office of the Bank being Chandermukhi, Nariman Point, Mumbai 400 021 |
| Promoter | The President of India acting through the MoF, GoI |
| Subsidiaries | The Bank's subsidiaries, namely:<br>1. Cent Bank Home Finance Limited; and<br>2. Centbank Financial and Custodial Services Limited |

***Issue Related Terms***

| Term | Description |
|---|---|
| Allot/ Allotted/Allotment | Unless the context otherwise requires, the allotment of Equity Shares pursuant to this Issue to the successful Bidders |
| Allottee | The successful Bidder to whom the Equity Shares are being/have been Allotted |
| Auditors | D. Rangaswamy & Co., P.R. Mehra & Co., P.L. Tandon & Co., Chhajed & Doshi, J.C. Bhalla & Co. and Murali Associates, the statutory auditors of the Bank |
| Banker(s) to the Issue | Central Bank of India |
| Bid | An indication to make an offer during the Bidding/Issue 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 and payable by the Bidder on submission of the Bid in the Issue |
| Bid cum Application Form | The form in terms of which the Bidder shall make an offer to subscribe to the Equity Shares of our Bank and which will be considered as the application for issue of the Equity Shares pursuant to the terms of this Red Herring Prospectus |

| Term | Description |
|---|---|
| Bidder | Any prospective investor who makes a Bid pursuant to the terms of the Red Herring Prospectus and the Bid cum Application Form |
| Bid/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, a Hindi national newspaper and a Marathi newspaper with wide circulation |
| Bid/Issue Opening Date | The date on which the Syndicate shall start accepting Bids for the Issue, which shall be notified in an English national newspaper, a Hindi national newspaper and a Marathi newspaper with wide circulation |
| Bidding/Issue Period | The period between the Bid/Issue Opening Date and the Bid /Issue Closing Date inclusive of both days and during which prospective Bidders can submit their Bids |
| Bid Price | In respect of each successful Bidder, the Issue Price multiplied by the Equity Shares allocated to a successful Bidder |
| Book Building Process | The book building process 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 ICICI Securities Limited, Citigroup Global Markets India Private Limited, ENAM Financial Consultants Private Limited, IDBI Capital Market Services Limited and Kotak Mahindra Capital Company 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 finalized and above which no Bids will be accepted |
| Citi | Citigroup Global Markets India Private Limited, a company incorporated under the provisions of the Companies Act and having its registered office at 12th Floor, Bakhtawar, Nariman Point, Mumbai 400 021 |
| Cut-Off Price | Any price within the Price Band finalized 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, after the Prospectus is filed with the Designated Stock Exchange, on which the Escrow Collection Banks transfer funds from the Escrow Account(s) to the Issue Account, following which the Board shall Allot Equity Shares to successful Bidders |
| Designated Stock Exchange | The NSE |
| Draft Red Herring Prospectus | The Draft Red Herring Prospectus dated May 19, 2007 filed with SEBI on May 21, 2007, which did not have complete particulars of the price at which the Equity Shares are offered and size of the Issue |
| Eligible Employees | A permanent employee or Director of the Bank who is, on the date of filing the Red Herring Prospectus (i) an Indian National and a person resident in India (as defined under FEMA), and (ii) based in, working and present in India as on the date of submission of the Bid cum Application Form |
| Eligible NRI | NRIs from such jurisdiction outside India where it is not unlawful to make an offer or invitation under the Issue and in relation to whom the Red Herring Prospectus constitutes an offer to sell or an invitation to subscribe to Equity Shares Allotted herein |
| Employee Reservation Portion | The portion of the Issue, being 4,000,000 Equity Shares available for allocation to Eligible Employees |
| Enam | ENAM Financial Consultants Private Limited, a company incorporated under the provisions of the Companies Act and having its registered office at 113, The Stock Exchange Towers, Dalal Street, Fort, Mumbai 400 001 |
| Equity Shares | Equity shares of the Bank of Rs. 10 each, unless otherwise specified in the context thereof |

| Term | Description |
|---|---|
| Escrow Account(s) | Account(s) opened with Escrow Collection Bank(s) and in whose favour the Bidder will issue cheques or drafts in respect of the Bid Amount when submitting a Bid |
| Escrow Agreement | Agreement entered into among the Bank, the Registrar, the Escrow Collection Bank(s), the BRLMs and the Syndicate Members for collection of the Bid Amounts and for remitting refunds, if any, of the amounts collected, to the Bidders |
| Escrow Collection Bank(s) | The bank(s), which are clearing members and registered with SEBI as Banker(s) to the Issue, at which the Escrow Account will be opened, in this Issue comprising Central Bank of India |
| 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 finalized and below which no Bids will be accepted |
| Indian National | As used in the context of the Employee Reservation Portion shall mean, a citizen of India as defined under the Indian Citizenship Act, 1955, as amended, and who is not an NRI |
| IDBI Capital | IDBI Capital Market Services Limited, a company incorporated under the provisions of the Companies Act and having its registered office at 5th Floor, Mafatlal Centre, Nariman Point, Mumbai 400 021 |
| I-SEC | ICICI Securities Limited, a company incorporated under the provisions of the Companies Act and having its registered office at ICICI Centre, H.T. Parekh Marg, Churchgate, Mumbai 400 020. ICICI Securities was earlier known as ICICI Securities Primary Dealership Limited. |
| Issue | Public issue of 80,000,000 Equity Shares. The Issue comprises a Net Issue to the Public of 76,000,000 Equity Shares and a reservation of 4,000,000 Equity Shares for the Eligible Employees |
| Issue Account | An 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 |
| KMCC | Kotak Mahindra Capital Company Limited, a company incorporated under the provisions of the Companies Act and having its registered office at 3rd Floor, Bakhtawar, 229 Nariman Point, Mumbai 400 021 |
| Margin Amount | The amount paid by the Bidder at the time of submission of the Bid, which may be 10% or 100% of the Bid Amount, as applicable |
| Mutual Fund | A mutual fund registered with SEBI under the SEBI (Mutual Funds) Regulations, 1996, as amended |
| Mutual Fund Portion | 5% of the QIB Portion or 2,280,000 Equity Shares available for allocation to Mutual Funds only |
| Net Issue | The Issue less the Employee Reservation Portion |
| Non-Institutional Bidders | All Bidders that are not QIBs or Retail Individual Bidders and have Bid for Equity Shares for an amount more than Rs. 100,000 |
| Non-Institutional Portion | The portion of the Net Issue being not less than 7,600,000 Equity Shares available for allocation to Non-Institutional Bidders |
| Pay-in-Date | The Bid/Issue Closing Date or the last date specified in the CAN sent to the Bidders, as applicable |
| Pay-in-Period | 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/Issue Closing Date, and with respect to QIBs whose Margin Amount is 10% of the Bid Amount, the period commencing on the Bid/Issue Opening Date and extending until the closure of the Pay-in Date, as specified in the CAN |

| Term | Description |
|---|---|
| Preference Shares | Preference shares of the Bank of Rs. 10 each, unless otherwise specified in the context thereof |
| Price Band | The price band with a minimum price (Floor Price) of Rs. 85 and a maximum price (Cap Price) of Rs. 102, including any revisions thereof |
| Pricing Date | The date on which the Bank in consultation with the BRLMs finalizes the Issue Price |
| Prospectus | The Prospectus, filed with the Designated Stock Exchange 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 |
| 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 |
| QIB Margin Amount | An amount representing 10% of the Bid Amount that QIBs are required to pay at the time of submitting their Bid |
| QIB Portion | The portion of the Net Issue being at least 45,600,000 Equity Shares of Rs. 10 each at the Issue Price, to be allotted to QIBs on a proportionate basis |
| Refund Account(s) | Account(s) opened with an Escrow Collection Banks from which refunds if any, of the whole or part of the Bid Amount, shall be made |
| 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 |
| Retail Portion | The portion of the Net Issue to the public of not less than 22,800,000 Equity Shares available for allocation to Retail Individual Bidder(s) |
| Revision Form | The form used by the Bidders to modify the quantity 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 | This red herring prospectus dated July 11, 2007 issued in accordance with the SEBI Guidelines, which will not have complete particulars of the price at which the Equity Shares are offered and the size of the Issue. The Red Herring Prospectus will become a Prospectus upon filing with the Designated Stock Exchange after pricing and allocation |
| Stock Exchanges | The NSE and the BSE |
| 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 | Enam Securities Private Limited and Kotak 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 Underwriters and the Bank to be entered into on or after the Pricing Date |

***Technical and Industry Terms***

| Term | Description |
|---|---|
| ALM | Asset Liability Management |
| ALCO | Asset and Liability Management Committee |
| ARC | Asset Reconstruction Company |

| Term | Description |
|---|---|
| ATMs | Automated Teller Machines |
| Bank Acquisition Act | Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, as amended |
| Bank Regulations | Central Bank of India (Share and Meetings) Regulations, 1998, as amended, which have been made by the Board of Directors in the exercise of powers conferred under section 19 of the Bank Acquisition Act after consultation with the RBI and with previous sanction of the GoI |
| Banking Division | Government of India, Ministry of Finance, Department of Economic Affairs (Banking Division) |
| Banking Regulation Act | The Banking Regulation Act, 1949, as amended |
| BPLR | Benchmark Prime Lending Rate |
| CBS | Core Banking Solutions |
| CDR | Corporate Debt Restructuring |
| CISA | Certified Information Systems Auditor |
| CPs | Commercial Papers |
| CRAR | Capital to Risk weighted Assets Ratio |
| CRR | Cash Reserve Ratio |
| ECS | Electronic Clearing Services |
| IBA | Indian Banks Association |
| IRDA | Insurance Regulatory and Development Authority |
| IT | Information Technology |
| KYC Norms | Know Your Customer norms stipulated by the RBI |
| LC | Letters of Credit |
| LFAR | Long Form Audit Report |
| NPAs | Non-Performing Assets |
| NDS-OM | Negotiated Dealing System -Order Matching |
| OTS | One Time Settlement |
| SARFAESI | Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, as amended |
| SLR | Statutory Liquidity Ratio |
| SME | Small and Medium Enterprises |
| SSI | Small Scale Industries |
| Spread | The difference between the yield on the fortnightly average of interest earning assets and the cost of the fortnightly average of interest bearing liabilities |
| Tier II Bonds | Unsecured, redeemable, non-convertible, subordinated bonds in the nature of promissory notes issued by the Bank for augmenting Tier II capital for capital adequacy purposes |
| 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 periods |
| 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), hybrid debt capital instruments (which combine certain features of both equity and debt securities), investment fluctuation reserves and subordinated debts |

***Conventional and General Terms***

| Term | Description |
|---|---|
| Companies Act | The Companies Act, 1956, as amended |
| Depositories Act | The Depositories Act, 1996, as amended |
| Depository | A body corporate registered under the SEBI (Depositories and Participant) Regulations, 1996, as amended |
| Depository Participant | A depository participant as defined under the Depositories Act |
| FEMA | Foreign Exchange Management Act, 1999, as amended, and the rules and regulations framed thereunder |
| FCNR Account | Foreign Currency Non Resident Account |
| 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 |
| Financial Year /fiscal year/ FY/ Fiscal | Period of twelve months ended March 31 of that particular year, unless otherwise stated |
| FVCI | Foreign Venture Capital Investors, as defined in and registered with SEBI under the SEBI (Foreign Venture Capital Investor) Regulations, 2000, as amended |
| Government/GoI/Central Government | The Government of India |
| I.T. Act | The Income Tax Act, 1961, as amended |
| Indian GAAP | Generally Accepted Accounting Principles in India |
| MoF | Ministry of Finance, Government of India |
| NABARD | National Bank for Agriculture and Rural Development |
| Nationalised Bank Scheme | The Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 notified under section 9 of the Bank Acquisition Act |
| Non Resident | All eligible Bidders, including Eligible NRIs, FIIs registerd with SEBI and FVCIs registered with SEBI, who are not persons resident in India |
| NRE Account | Non Resident External Account |
| NRI/Non Resident Indian | A Person resident outside India, as defined under FEMA, and who is a citizen of India or a Person of Indian Origin and such term as defined under the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, as amended |
| NRO Account | Non Resident Ordinary Account |
| NSDL | National Securities Depository 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, as amended. OCBs are not permitted to invest in this Issue |
| P/E Ratio | Price/Earnings Ratio |
| PSU | Public Sector Undertaking |
| RBI | The Reserve Bank of India |
| Reserve Bank of India Act/ RBI Act | The Reserve Bank of India Act, 1934, as amended |
| RRB | Regional Rural Bank |
| RRB Act | Regional Rural Banks Act, 1976, as amended |
| SEBI Act | The Securities and Exchange Board of India Act, 1992, as amended |
| 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 |

| Term | Description |
| --- | --- |
| SEBI Takeover Regulations | Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 1997, as amended |

***Abbreviations***

| Term | Description |
| --- | --- |
| AS | Accounting Standards as issued by the Institute of Chartered Accountants of India |
| AY | Assessment Year |
| BIFR | Board for Industrial and Financial Reconstruction |
| BSE | The Bombay Stock Exchange Limited |
| CAGR | Compounded Annual Growth Rate |
| CARE | Credit Analysis & Research Limited |
| CDSL | Central Depository Services (India) Limited |
| DIN | Director Identification Number |
| DRT | Debt Recovery Tribunal(s) |
| EPS | Earnings Per Share |
| FIPB | Foreign Investment Promotion Board |
| GIR Number | General Index Registry Number |
| HUF | Hindu Undivided Family |
| MICR | Magnetic Ink Character Recognition |
| NAV | Net Asset Value |
| NBFCs | Non-Banking Finance Companies |
| NEFT | National Electronic Funds Transfer |
| NSDL | National Securities Depository Limited |
| NSE | The National Stock Exchange of India Limited |
| PAT | Profit after tax |
| PBT | Profit before tax |
| PAN | Permanent Account Number |
| RTGS | Real Time Gross Settlement |
| SEBI | The Securities and Exchange Board of India constituted under the Securities and Exchange Board of India Act, 1992, as amended |
| SCRA | The Securities Contract (Regulation) Act, 1956, as amended |
| SCRR | The Securities Contract (Regulation) Rules, 1957, as amended |
| SICA | The Sick Industrial Companies (Special Provisions) Act, 1995, as amended |

## PRESENTATION OF FINANCIAL AND MARKET DATA

### Financial Data

Unless stated otherwise, the financial data in this Red Herring Prospectus is derived from our restated stand-alone financial statements prepared in accordance with Indian GAAP and the SEBI Guidelines included in this Red Herring Prospectus. Our fiscal year commences on April 1 and ends on March 31 of each year. All references to a particular fiscal year are to the twelve-month period ended March 31 of that year. 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.

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 persons not familiar with Indian accounting practices on the financial disclosures presented in this Red Herring Prospectus should accordingly be limited.

### Currency of Presentation

All references to "India" contained in this Red Herring Prospectus are to the Republic of India. All references to "Rupees", "Rs." or "INR" are to Indian Rupees, the official currency of the Republic of India. All references to "U.S.$", "U.S. dollars" or "USD" are to United States Dollars, the official currency of the United States of America. All references to "K" are to Kwacha, the official currency of the Republic of Zambia.

### Industry and Market Data

Unless stated otherwise, industry data used throughout this Red Herring Prospectus has been obtained from RBI 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. Further, the extent to which the market data presented in this Red Herring Prospectus is meaningful depends on the reader's familiarity with, and understanding of, the methodologies used in compiling such data.

## FORWARD-LOOKING STATEMENTS

This Red Herring Prospectus contains certain "forward looking statements". These forward looking statements generally can be identified by 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" or other similiar words or expressions. 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 statements.

Important factors that could cause actual results to differ materially from our expectations include, among others:

- Volatility in interest rates and other market conditions;
- Our ability to reduce or maintain the level of our non-performing advances;
- Implementation of AS-15 relating to accounting of staff pension and gratuity;
- The condition and performance of the "priority sectors" and of any industry or the real estate market in which our loans are concentrated;
- Our ability to restrict the credit losses on large borrowers and group exposures;
- Our ability to maintain our income from treasury operations;
- Our ability to sustain the growth of our retail banking business;
- The ability of the borrowers of our restructured loans to perform as expected; and
- Our ability to successfully implement CBS in a smooth and efficient manner.

For further discussion of factors that could cause our actual results to differ, see the sections titled "Risk Factors", "Our Business", "Management's Discussion and Analysis of Financial and Condition and Results of Operations on a Standalone Basis" and "Management's Discussion and Analysis of Financial and Condition and Results of Operations on a Consolidated Basis" beginning on pages xi, 45, 228 and 254 respectively, of this Red Herring Prospectus. By their nature, certain market 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. Neither the Bank, its Directors, officers, the Book Running Lead Managers, the Syndicate Members nor any of their respective affiliates has any obligation 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 Book Running Lead Managers will ensure that investors in India are informed of material developments until such time as the grant of final listing and trading permission by the Stock Exchanges in respect of the Equity Shares Allotted pursuant to this Issue.

## RISK FACTORS

*An investment in the Equity Shares involves a degree of risk. You should carefully consider all the information in this Red Herring Prospectus, including the risks and uncertainties described below, before making an investment in the Equity Shares. To obtain a complete understanding of the Bank, you should read this section in conjunction with the sections titled "Our Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Standalone Basis" "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Consolidated Basis" and "Selected Statistical Information" beginning on pages 45, 228, 254 and 212 of this Red Herring Prospectus, respectively. If the following risks occur, our business, results of operations and financial condition could suffer, and the price of the Equity Shares and the value of your investment in the Equity Shares could decline.*

*All of the financial data presented in this section are based on the Bank's standalone restated financial statements included in this Red Herring Prospectus or on the data reported to the RBI on the dates indicated unless otherwise noted.*

### Internal Risk Factors and Risks Relating to our Business

***Our results of operations depend to a significant extent on our net interest income, and volatility in interest rates and other market conditions could materially and adversely impact our business, financial condition and results of operations.***

As with most banking institutions, our results of operations depend to a significant extent on our net interest income. In the year ended March 31, 2007, net interest income represented 39.69% of our interest income and 36.87% of our total income. Volatility and changes in market interest rates could affect the interest we earn on our assets differently from the interest we pay on our liabilities. The difference could result in an increase in interest expense relative to interest income leading to a reduction in our net interest income. Accordingly, volatility in interest rates could materially and adversely affect our 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 our business.

Interest rates are sensitive to many factors beyond our control, including the RBI's monetary policy, deregulation of the financial sector in India and domestic and international economic and political conditions. 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 it was raised to 6.00%. Similarly, the repo rate at which banks borrow money from the RBI under liquidity adjustment facility was also increased to 7.75% with effect from March 31, 2007.

Under the RBI regulations, we are required to maintain a minimum specified Statutory Liquidity Ratio, which is presently 25.0% of our net demand and time liabilities in cash and government or other approved securities. As at March 31, 2007, 27.96% of our demand and time liabilities were in government and other approved securities. As at March 31, 2007, 80.69% of our total investments were in government and other approved securities. Yields on these investments, as well as yields on our other interest earning assets, are dependent to a large extent on interest rates. In a rising interest rate environment, especially if the increase was sudden or sharp, we could be materially and adversely affected by the decline in the market value of our 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 at March 31, 2007, 0% of our investments are in the "Held for Trading" category, 35.85% in the "Available for Sale" category and 64.15% in the "Held to Maturity" category. We are required to mark to market securities in the "Available for Sale" and "Held for Trading" categories which may decrease in a given financial period. In respect of securities under the Held to Maturity category, we are required to amortise over the residual maturity period of the security the difference between acquisition cost and face value of the security, wherever the acquisition cost is greater than the face value.

***As at March 31, 2007, we had a Rs. 3,846.60 million floating provision (provision for NPAs over and above the required provisions as per RBI prudential norms). The floating provisions can, as per the extant guidelines of RBI, be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining the Board's approval and with the RBI's prior permission. Until such utilisation, these provisions can be netted off from gross NPAs to arrive at disclosure of net NPAs. Alternatively, they can be treated as part of Tier II Capital within the overall ceiling of 1.25% of total risk-weighted assets.***

We follow RBI prudential norms in respect of income recognition, asset classification and provisioning (including floating provisions). Prior to Fiscal 2007, as per the RBI's prudential norms, we could make a floating provision for NPAs without any restriction on its utilisation. We made a floating provision for NPAs of Rs. 863.50 million in Fiscal 2003 and Rs. 2,786.50 million in Fiscal 2004. In Fiscal 2005, we made a floating provision for NPAs of Rs. 2,040.00 million, which increased the total floating provision for NPAs to Rs. 6,040.00 million as at March 31, 2005. In Fiscal 2006, we utilised Rs. 2,193.40 million of our floating provision for NPAs, leaving our total floating provision for NPAs as Rs. 3,846.60 million as at March 31, 2006 and March 31, 2007.

In Fiscal 2007, the RBI clarified prudential norms with respect to floating provisions for NPAs. As per this clarification, floating provisions should not be used for making specific provisions in respect of non-performing assets or for making regulatory provisions for standard assets. The floating provisions can be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining the Board's approval and with the RBI's prior permission. Until such utilisation, these provisions can be netted off from gross NPAs to arrive at disclosure of net NPAs. Alternatively, they can be treated as part of Tier II Capital within the overall ceiling of 1.25% of total risk-weighted assets.

In view of the above, the floating provision for NPAs has been netted off from the advances and the floating provision for NPAs made in Fiscal 2003, Fiscal 2004 and Fiscal 2005 and the amount of the floating provision utilised in Fiscal 2006 has not been adjusted in our restated financial statement included in this Red Herring Prospectus.

***Any increase in our portfolio of non-performing advances ("NPA") will have a materially adverse effect on our financial condition and results of operations.***

Our gross NPAs were Rs. 25,719.82 million as at March 31, 2007, representing 4.81% of our gross advances and 2.77% of our total assets, and Rs. 26,841.69 million as at March 31, 2006, representing 6.85% of our gross advances and 3.59% of our total assets. Our net NPAs were Rs. 8,784.58 million as at March 31, 2007, representing 1.70% of our net advances and 0.94% of our total assets, and Rs. 9,722.36 million as at March 31, 2006, representing 2.59% of our net advances and 1.30% of our total assets.

As of March 31, 2007, 65.00% of our standard advances were to borrowers that we rated as A++, A+, A, and B+, which are considered by us to be of sound grade (low risk), 19.29% of our rated advances were to be in moderate safety (average risk) grades B and C+, 5.29% of our rated advances were to borrowers that we rate as poor (high risk) grade C, D+ and D. In addition, 10.42% of the standard advances were not rated. Our "C" grade and Below "C" grade borrowers, in particular, could be especially vulnerable if economic conditions worsen or economic growth were slow, which could materially and adversely affect business, results of operations and financial conditions.

We have been able to reduce our net non-performing advances through recoveries, upgrading of NPAs to "performing" categories and provisioning. However, our ability to continue to reduce or contain the level of our gross and net NPAs may be affected by a number of factors that are beyond our control, such as increased competition, a recession in the economy, including in respect of specific industries to which we are exposed, decreases in agricultural production, decline 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 our business may also cause the level of our NPAs to increase. As at March 31, 2007, approximately 36.14% of our gross industrial sector non-performing asset portfolio was concentrated in the following industries: iron and steel; engineering; cotton textiles; other textiles; and chemicals, dyes and paints. These industries together constituted 10.25% of our total funded credit exposure as at March 31, 2007. Although our loan portfolio contains loans to a wide variety of businesses, adverse market conditions in these industries could increase our level of NPAs. Future increases in our NPAs may have a material adverse effect on our business and financial condition. For further details, refer to the section titled "Selected Statistical Information" beginning on page 212 of this Red Herring Prospectus.

***Implementation of AS-15 relating to accounting of staff pension and gratuity may adversely impact our profitability***

We currently calculate staff pension and gratuity liability on the basis of an actuarial valuation; however, the actual payment is made on the basis of an employee's last drawn salary before retirement. Accounting Standard - 15, which deals with accounting for employee benefits including pension and gratuity, has been revised by the ICAI with effect from December 21, 2006. The implementation of this revised accounting standard could lead to higher provisioning requirements of Rs. 6,500 million. This may adversely affect our future profitability by an amount that cannot be quantified.

***We have substantial exposure to the priority sector and certain other sectors and industries and our business could be materially and adversely affected by market and other factors that impact these sectors and industries. In addition, regulations relating to priority sector lending could have a materially adverse impact on our financial condition and result of operations***

We have substantial exposure to loans and advances to agriculture and small-scale industries, which are categorised as "priority sectors". As at the last reporting Friday of March 2007, priority sector credit constituted 43.55% of our net credit, and loans to agricultural and small-scale industry borrowers constituted 17.91% and 6.58%, respectively, of our net credit. We are required to extend at least 18% of the adjusted net bank credit to the agriculture sector and in case of any shortfall, we are required to place the difference between the required lending level and our actual agriculture sector lending in an account with the National Bank for Agriculture and Rural Development under Rural Infrastructure Development Fund scheme, from which we will not be able to earn as much interest as we would from making loans to the agriculture sector. This could have a materially adverse impact on our financial condition and result of operations

Historically, NPAs are higher in priority sector lending compared with non-priority sector lending. As at March 31, 2007, the percentage of our priority sector gross NPAs to total priority sector advances was 7.99%, which was higher than the percentage of total gross NPAs to total gross advances of 4.81%.

The top five industries that are not related to food credit accounted for 24.40% and 18.91% of our funded exposure as at March 31, 2007 and March 31, 2006, respectively. Based on funded exposures as at March 31, 2007, our five largest industry exposures were to the Infrastructure, Petroleum, Engineering, Construction, and Textiles industries and which in the aggregate constituted 24.40% of our total funded exposures in respect of accounts larger than Rs. 10 million. Our aggregate as at March 31, 2007 funded exposure to the top five borrowers in each of these industries together represented 47.14% of our aggregate funded credit exposure to these industries. Market difficulties in these industries could increase our non-performing loans, which may materially and adversely affect our business, results of operations and financial condition.

Furthermore, our exposure to the real estate market in India, including our housing finance loans, constituted 13.24 % of our total advances. As at March 31, 2007, the percentage of NPAs in our real estate industry portfolio was 1.66%. In the Annual Policy Statement for the year 2006-07, RBI has increased the general provisioning requirement on standard advances for residential housing loans beyond Rs. 2 million and commercial real estate loans. RBI has also increased the risk weightage on banks' exposures to commercial real estate to 150% from the level of 125%. The policy change from the RBI requires us to allocate more capital towards advances to the real estate sector, which may lead us to lend selectively, and thereby reduce our exposure to the real estate sector. Any significant downturn in the real estate sector may lead to an increase in non-performing loans, which may materially and adversely affect our results of operations and financial condition.

***We have concentrations of loans to certain customers and to certain groups of customers, which exposes us to risk of credit losses from these customers or groups that could materially and adversely affect our business, results of operations and financial condition.***

As at March 31, 2007, our total funded exposure was Rs. 536,298 million, while our non-funded exposure as at March 31, 2007 was Rs. 43,869 million. Our exposure to the 10 largest borrowers to whom we have made advances in the aggregate accounted for approximately 15.73% of our total gross credit exposure as at March 31, 2007. Our exposure to our largest single borrower (excluding food credit) as at March 31, 2007, accounted for approximately 1.99% of our total gross credit exposure and 19.70% of our capital funds (comprising Tier I and Tier II capital as defined in Indian banking regulations). Our exposure to our largest borrower group (excluding food credit) as at March 31, 2007 accounted for approximately 4.15% of our total gross credit exposure and 41.18% of our capital funds. Credit losses on these large borrowers and group exposures could materially and adversely affect our business, results of operations and financial condition.

***We could be subject to volatility in income from our treasury operations that could materially and adversely impact our financial results.***

Approximately 34.46%, 28.73% and 14.33%, of our total income in Fiscal 2005, Fiscal 2006 and Fiscal 2007, respectively, was derived from our treasury operations. Our treasury operations are vulnerable to changes in interest rates, exchange rates, equity prices and other factors. In particular, if interest rates rise, we may not be able to realise the same level of income from treasury operations as we have in the past. Any decrease in our income from our treasury operations could materially and adversely affect our business if we cannot offset the same by increasing returns on our loan assets.

***We may be unable to sustain the growth rate of our retail banking business.***

We have achieved significant growth in our net advances in recent years. Between March 31, 2003 and March 31, 2007, our net advances grew at a CAGR of 23.52% from Rs. 222,517 million to Rs. 517,955 million. As at March 31, 2007, retail loans represented 10.68% of our total outstanding credit. This compares with 10.39%, 10.89% and 9.37% of our net bank credit as at March 31, 2006, March 31, 2005 and March 31, 2004, respectively. One of our present business strategies reflects continued focus on further growth in this sector. We intend to grow our income from this sector by offering new products and services and by cross-selling to our customers through aggressive marketing. While we anticipate continued demand in this area, our retail portfolio may not grow at the rates we have experienced between Fiscal 2003 and Fiscal 2007, which could materially and adversely affect our business, financial condition and results of operations.

***The failure of our restructured loans to perform as expected or a significant increase in the level of restructured loans in our portfolio could affect our business***

Our net standard assets of Rs. 509,170 million at March 31, 2007 included net restructured standard loans of Rs. 2,638 million, constituting 0.52% of our net standard assets, compared to our net standard assets of Rs. 367,073 million at March 31, 2006 which included net restructured standard loans of Rs. 3,010 million, constituting 0.82% of our net standard assets, at that date. Our borrowers' need to restructure their loans can be attributed to several factors, including increased competition arising from economic liberalisation in India, variable industrial growth, a sharp decline in commodity prices, the high level of debt in the financing of projects and capital structures of companies in India and the high interest rates in the Indian economy during the period in which a large number of projects contracted their borrowings. The failure of these borrowers to perform as expected or a significant increase in the level of restructured loans in our portfolio could materially and adversely affect our business, results of operations and financial condition.

***We may experience delays in enforcing our collateral in the event of borrower defaults on their obligations to us, which may result in an inability to recover the expected value of the collateral.***

We take collateral for a large proportion of our loans, including mortgages, pledges or hypothecation of inventories, receivables and other current assets, and, in some cases, charges on fixed assets and financial assets, such as marketable securities. As at March 31, 2007, 73.55% of our 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 involve protracted proceedings, and the process of enforcing security interests against collateral can be difficult. As a result, it may be difficult and time consuming for us to take control of or liquidate the collateral securing any non-performing loans. Any delays in enforcement could result in a decline in the value of collateral securing our loans, which may decrease the amounts we can recover on the underlying loans.

The Bank is a member of the RBI Corporate Debt Restructuring ("CDR") mechanism. In situations where we have exposure of 25% or less, we could be required to agree to a restructuring of debt, which may be time consuming or require us to reduce interest rates or write-off portions of outstanding amounts, in preference to foreclosure of security or a one-time settlement.

During Fiscal 2007, we had three new assets restructured under CDR and the total amount of loan assets under CDR was Rs. 527 million (funded exposure of Rs. 506 million and non-funded exposure of Rs. 21 million), out of which one is a standard asset and two are sub-standard assets.

Any delay in enforcing collateral in the event of borrower defaults or any inability to realise the full value of collateral security could have a material adverse effect on our results of operations and financial condition.

***As at March 31, 2007, 57.91%* of *our deposits were through fixed term deposits, and if depositors do not roll over deposited funds on maturity or if we are unable to continue to increase our deposits, our business could be materially and adversely affected.***

As at March 31, 2007, term deposits represented 57.91% of our total deposits. Savings deposits and current deposits constituted 31.79% and 10.30%, respectively, of our total deposits as at March 31, 2007.

A portion of our assets have long-term maturity profiles, creating a potential for funding mismatches. As at March 31, 2007, 27.16% of our total assets had a long term maturity profile, which we define as a maturity profile of over five years. In our experience, a substantial portion of our customer deposits have been rolled over on maturity and have been, over time, a stable source of funding. However, in the event that a substantial number of our depositors do not roll over deposited funds on maturity and we are unable to replace those deposits, our liquidity position and business could be materially and adversely affected. If we are unable to maintain or increase our base of low-cost deposits, our overall cost of funds could increase, which could have a material and adverse effect on our business and results of operations.

***Problems in the continued roll-out of our Core Banking Solution could materially and adversely affect our ability to expand our products and services across our branch network.***

We are in the process of implementing our Core Banking Solution ("CBS") and as at March 31, 2007, 324 branches and 29 extension counters were networked under this system, which covered 35.40% of our business (i.e., total gross deposits and advances). This information technology initiative will allow us to increase interconnectivity among our branches and is required to provide many of the products and services we have introduced. CBS will also be necessary to comply with regulatory requirements in the future. We may experience problems in the installation and implementation of our CBS across our branches and extension counters, including problems relating to migration of information, data protection and upgrading existing hardware and software. If we are unable to implement CBS in a smooth and efficient manner and as per schedule, our growth and business may be adversely affected.

***Significant security breaches in our computer systems and network infrastructure could materially and adversely impact our business.***

We depend on our computer systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of our business and operating data. We seek to protect our computer systems and network infrastructure from physical break-ins as well as 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. We have implemented the Internet banking platform and we believe that these concerns will intensify with our increased use of technology and Internet-based resources. To address these issues and to minimise the risk of security breaches, we employ security systems, including firewalls and intrusion detection systems, conduct periodic penetration testing for identification and assessment of potential vulnerabilities and use encryption technology for transmitting and storing critical data such as passwords. However, these systems may not guarantee prevention of frauds, break-ins, damage or failure.

***System failures and calamities could materially and adversely impact our business.***

With the implementation of our CBS and other technology initiatives, the importance of systems technology to our business has increased significantly. Our principal delivery channels include our branches and ATMs. Each of these delivery channels is vulnerable to systems failures or other calamities. Although we currently have the technology and facilities in place to back up our systems and we have established a disaster recovery centre in Hyderabad, any failure in our systems or the occurrence of calamities, accidents and other unexpected events could materially and adversely affect our operations and the quality of our customer service.

We may also be subject to disruptions of our operating systems, arising from events that are wholly or partially beyond our control (including, for example, computer viruses or electrical or telecommunication outages), which may give rise to deterioration in customer service and to loss or liability to us.

***There is operational risk associated with the banking industry which, when realised, may have an adverse impact on our results.***

We are exposed to many types of operational risks, including the risk of fraud or other misconduct by employees, unauthorised transactions by employees or operational errors, such as clerical or record keeping errors. Fraud and other misconduct can be difficult to fully detect and deter. Given our high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, our 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.

We outsource some functions, such as cash handling for our ATMs, to other agencies and are exposed to the risk that they may be unable to fulfil their contractual obligations to us (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that its (or its vendors') business continuity and data security systems prove to be inadequate. We also face the risk that the design of our controls and procedures prove inadequate, or may be circumvented, thereby causing delays in detection or errors in information.

Although we maintain a system of controls designed to keep operational risk at appropriate levels, we have, in the past, suffered some losses from operational risk and there can be no assurance that we will not suffer losses from operational risks in the future. The Bank plans to implement advanced approaches in Basel II norms. For a discussion of how operational risk is managed, see the section "Our Business – Risk Management – Operational Risk" on page 75 of this Red Herring Prospectus.

***Our contingent liabilities could materially and adversely affect our financial condition and results of operations.***

As at March 31, 2007, we had contingent liabilities amounting to Rs. 144,585 million. Contingent liabilities include liability on account of outstanding forward exchange contracts of Rs. 96,547 million, guarantees given on behalf of constituents in and outside India of Rs. 22,650 million, and acceptances, endorsements and other obligations of Rs. 21,219 million. Other contingent liabilities amount to Rs. 626 million. In addition, we have contingent liabilities on account of claims against us not acknowledged as debts of Rs. 3,543 million. For further details, please refer to the section titled "Outstanding Litigation and Material Developments" beginning on page 275 of this Red Herring Prospectus.

If these contingent liabilities materialise, fully or partly, our financial condition and results of operations could be materially and adversely affected.

***We are subject to certain risks relating to the recapitalisation bonds issued by the Government.***

We received a series of recapitalisation bonds with an aggregate face value of Rs. 16,225 million issued by the Government in connection with our Restructuring Plan. These bonds form 8.11% of our non-SLR portfolio and 1.72% of our total investment portfolio as at March 31, 2007. For more information on our restructuring, please see the section titled "History and Certain Corporate Matters–Restructuring Plan". The Government has made timely payments of interest on the bonds. If the Government amends the terms of the bonds, including reducing the interest payable, or converts the bonds into tradable bonds, our results of operations and financial condition may be materially and adversely affected. Additionally, if the bonds are redeemed by the Government, it could have a material and adverse impact on our investment income.

***We have recently restructured our capital base.***

With the permission of the MoF, the Bank restructured its capital base on March 31, 2002, by netting off its aggregate accumulated unabsorbed losses of Rs. 6,813.10 million against its paid up capital. On March 31, 2007, the balance capital of Rs. 11,241.41 million was restructured, to convert Rs. 8,000 million in perpetual non-cumulative preference share capital ("Preference Shares") and Rs. 3,241.41 million in equity share capital. If we are unable to maintain an adequate capital base our financial condition may be adversely affected.

***Our financial statements from Fiscal 2008 may not be comparable with the financial statements for prior periods in respect of segment reporting.***

The RBI has, in terms of its guidelines dated April 18, 2007, directed all scheduled commercial banks to enhance disclosure requirements under segment reporting. Accordingly, from March 31, 2008, we will be required to adopt, for reporting purposes, the business segments of corporate/wholesale banking and retail banking in addition to the existing business segments, namely, treasury and other banking business. Accordingly, the segment reporting in our financial statements from Fiscal 2008 may not be comparable with the segment reporting in our financial statements of prior periods, including the financial statements as appearing in this Red Herring Prospectus.

***We may not meet all the requirements under Clause 49 of the listing agreements with the Stock Exchanges.***

Clause 49 of the listing agreements with the Stock Exchanges requires that the audit committee of the Board should comprise of two-third independent directors and its chairman should be an independent Director. Under Section 9(3)(g) of the Bank Acquisition Act, the GoI may appoint a qualified chartered accountant to the board of directors of nationalized banks, who would also be then the chairman of the audit committee. We have requested the GoI, including by way of a letter dated June 26, 2007, to appoint a qualified chartered accountant to our Board of Directors. The RBI has, in terms of its letter dated July 14, 2005, advised the Bank that the chairman of our Audit Committee should be the GoI nominee Director. The Bank has by its letter dated May 14, 2007 sought directions from the RBI as to whether it should continue to have the GoI Director as the chairman of the Audit Committee or appoint an independent director as the chairman. The RBI has not responded to our letter dated May 14, 2007. The GoI has, by its letter dated July 5, 2007 informed us that a proposal to appoint a qualified chartered accountant to our Board of Directors is under active consideration of the GoI and is likely to be finalized shortly, possibly wihin three months of the date of the letter. We have undertaken to SEBI to diligently pursue with the GoI to appoint a qualified chartered accountant to our Board of Directors within a period of three months from the date of this Red Herring Prospectus, who would then be designated the chairman of the audit committee. So long as the chairman of our Audit Committee is a GoI nominee Director, such Director is not an independent Director, and we may continue to not meet all the requirements under Clause 49 of the listing agreements with the Stock Exchanges.

***Cent Bank Home Finance Limited, one of our Subsidiaries, incurred a loss of Rs. 140.25 million in Fiscal 2005 and any further losses by this subsidiary may adversely affect our financial condition and results of operations on a consolidated basis.***

***Our Subsidiaries are involved in certain legal proceedings, which if determined against them, may have an adverse impact on our financial condition and results of operations on a consolidated basis.***

For details please refer to the section titled "Outstanding Litigation and Material Developments – Cases Against Subsidiaries" on page 284 of this Red Herring Prospectus.

***While the Bank declared dividends in Fiscal 2007, we cannot assure you that the Bank will make dividend payments in each fiscal year. In addition, before we pay any dividends on the Equity Shares, we must first pay the dividend on the Government's Preference Shares***

While the Bank declared dividends in Fiscal 2007, there is no certainty that dividends would be paid in each fiscal year. Before we pay any dividends on the Equity Shares, we must first pay the dividend due on the Preference Shares, the rate of which is the prevailing repo-rate plus 100 basis points. As of November 13, 2006, the date of sanction of the restructuring of our capital, the prevailing repo rate was 7.25%. As of June 30, 2007, the repo rate was 7.75%. Since the coupon rate is benchmarked to the repo rate, any future upward revision in the repo rate will adversely impact the Bank. Taking into account the post tax rate, the effective cost of servicing the preference capital may be more than the Bank's PLR. The Bank has pursuant to a letter dated November 17, 2006 requested the MoF to allocate a fixed coupon rate on the preference capital. As of the date of this Red Herring Prospectus, the MoF has not responded to such letter and the Bank continues to pay interest at the coupon rate of repo-rate plus 100 basis points.

Dividends on the Equity Shares will also depend upon a number of factors, including the Bank's results of operations, earnings, capital requirements and surplus, general financial conditions, contractual restrictions, applicable Indian legal restrictions and other factors considered relevant by the Board.

***We may fail to maintain the minimum capital adequacy requirements stipulated by the RBI.***

We are required by the RBI to maintain a minimum capital adequacy ratio of 9.0% in relation to our total risk-weighted assets. We must maintain this minimum capital adequacy level to support our growth. Our capital adequacy ratio was 10.4% as at March 31, 2007. Although we currently meet the applicable capital adequacy requirements, certain adverse developments could affect our ability to continue to satisfy the capital adequacy requirements, including deterioration in our asset quality, declines in the values of our investments and changes in the minimum capital adequacy requirements. For example, the implementation of the Basel II capital adequacy standards could result in a decline in our capital adequacy ratio. Furthermore, our ability to support and grow our business could be limited by a declining capital adequacy ratio if we are unable to access or have difficulty accessing the capital markets or have difficulty obtaining capital in any other manner. We cannot assure you that we will be able to obtain additional capital on commercially reasonable terms in a timely manner, or at all. If we fail to meet capital adequacy requirements, the RBI may take certain actions, including restricting our lending and investment activities, and the payment of dividends by us. These actions could materially and adversely affect our reputation, results of operations and financial condition.

***In the last 12 months, the Bank has issued Equity Shares at a price which may be lower than the Issue Price.***

With the permission of the MoF, the Bank restructured its capital base on March 31, 2002, by netting off its aggregate accumulated unabsorbed losses of approximately Rs. 6,813.10 million against its paid up capital. Further, on April 26, 2007, the Bank issued 324.14 million equity shares of Rs. 10 each to the Government, which is the Promoter, without the payment of any amount by the Government.

***Implementation of Basel II norms by the RBI may increase our capital requirement and may require additional investment in risk management systems.***

Basel II is the international capital adequacy framework for banks that prescribes capital requirements for credit risk, market risk and operational risk. Our capital requirements are expected to increase when Basel II norms are implemented by the RBI, which take effect on March 31, 2009. We may need to augment our capital base to meet these norms. In preparation for the adoption of the Basel II accord, we have already commenced active measures in terms of risk management systems, and evaluation of capital charges, including for operational risk, and increase in transparency in financial reporting as part of market discipline, as required by the RBI. Credit risk and operational risk management measures, as per Basel II norms, will be implemented as directed by the RBI, on March 31, 2009.

***We are required to maintain cash reserve ratio and statutory liquidity ratio and increases in these requirements could materially and adversely affect our business, financial condition and results of operations.***

As a result of the statutory reserve requirements stipulated by the RBI, we may be more exposed structurally to interest rate risk than banks in many other countries.

Under the RBI's regulations, we are subject to a cash reserve ratio requirement under which we are currently required to keep 6.50% of our net demand and time liabilities in current account with the RBI. The RBI may increase the cash reserve ratio requirement as a monetary policy measure and has done so on numerous occasions. The RBI pays interest, if any, on cash reserve ratio balances in excess of 3% of the prescribed balance. The RBI also changes the interest rate it pays on cash reserve ratio balances from time to time, which impacts banks' short term interest rates. Increases in the cash reserve ratio requirement and/or decreases in the interest paid on eligible cash reserve ratio balances could materially and adversely affect our business, results of operations and financial condition.

In addition, under the RBI's regulations, our liabilities are subject to a statutory liquidity ratio requirement, according to which 25% of our net demand and time liabilities need to be invested in Government securities, state government securities and other approved securities. Increases in the statutory liquidity ratio requirements could materially and adversely affect our business and financial condition and results of operations.

For further details, see the section titled "Management's Discussion and Analysis of Condition and Results of Operations on a Standalone Basis – Introduction – Factors Affecting our Results of Operations – Laws, Rules, Regulations, Guidelines and Norms Applicable to the Banking Industry" on page 230 of this Red Herring Prospectus.

***We are required to make certain provisions and increases in these requirements could materially and adversely affect our business, financial condition and results of operations***

From time to time the RBI changes provisioning requirements. For example, in the RBI's Annual Policy Statement for the year 2006-07, the RBI increased the general provisioning requirement on standard advances for residential housing loans beyond Rs. 2 million and commercial real estate loans. The RBI also increased the risk weightage on banks' exposures to commercial real estate to 150% from the level of 125%. In its Annual Policy Statement for the year 2007-08, the RBI increased requirements for provisioning on standard advances from 1.00% to 2.00% in respect of personal loans, loans and advances qualifying as capital market exposures. Increases in provisioning requirements could materially and adversely affect our business, results of operations and financial condition.

For further details on the regulations and policies applicable to the banking industry, see the section titled "Regulations and Policies" beginning on page 82 of this Red Herring Prospectus.

***There may be possible conflicts of interest between us and our subsidiary, Cent Bank Home Finance Limited, in which we have a 59.5% ownership interest.***

The object clause contained in the memorandum of association of Cent Bank Home Finance Limited, enables it to carry on the business of providing long term finance for the purpose of construction or purchase of residential properties. Currently, Cent Bank Home Finance Limited is engaged in providing housing finance. The Bank may compete with Cent Bank Home Finance Limited for such business. As a result, there may be conflicts of interest between the Bank and Cent Bank Home Finance Limited in addressing business opportunities and strategies.

***We may, or we may be required to, undertake mergers or acquisitions in the future, which may pose management and integration challenges.***

We may make acquisitions and investments to expand our customer base, acquire new service or product offerings or enhance our technical capabilities. In addition, the Government may require us to undertake a merger with another bank, as it has required of other public sector banks in the past. Any such acquisition or merger may not necessarily contribute to our profitability and may require us to assume high levels of debt, NPAs or contingent liabilities as part of such transactions. We also could experience difficulty in combining operations and cultures and may not realise the anticipated synergies or efficiencies from such transactions.

***We are involved in certain legal proceedings that, if determined against us, could have a material adverse impact on us.***

- There are four criminal cases against the Bank. The financial impact of these cases cannot be quantified.
- There are approximately 125 civil cases filed against the Bank before various forums in respect of amounts aggregating approximately Rs. 446.60 million.
- There are 944 labour and employment related claims against the Bank before various forums in respect of which the financial impact cannot be quantified.
- There are approximately 13 complaints against the Bank pending before the Banking Ombudsman in respect of an amount aggregating approximately Rs. 0.81 million.
- There are approximately 159 proceedings against the Bank in respect of its various premises. The financial impact in respect of these proceedings cannot be quantified.
- The Bank has been impleaded as a party in 14 cases in its capacity as debenture trustee in respect of debentures issued by third parties.

For details please refer to the section titled "Outstanding Litigation and Material Developments" on page 275 of this Red Herring Prospectus.

***We are involved in certain income tax cases, which if determined against us could have a material adverse impact on us.***

There are 28 income taxes against the Bank before various forums in respect of tax amounts aggregating approximately Rs. 10,482.84 million. In addition, the income tax department has filed three applications before the Bombay High Court for condonation of delay in respect of filing of appeals against orders of the Income Tax Appellate Tribunal.

There are three interest tax cases against the Bank before various forums in respect of amounts aggregating approximately Rs. 130.41 million and one case in relation to wealth tax in respect of an amount aggregating approximately Rs. 0.47 million.

For details please refer to the section titled "Outstanding Litigation and Material Developments – Tax Cases" on page 277 of this Red Herring Prospectus.

***We depend on the accuracy and completeness of information about customers and counterparties.***

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We may also rely on certain representations as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit, we may assume that a customer's audited financial statements conform to generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our financial condition and results of operations could be negatively affected by relying on financial statements that do not comply with generally accepted accounting principles or other information that is materially misleading.

***If we are not able to renew or maintain our statutory and regulatory permits and approvals required to operate our business, it may have a material and adverse effect on our business, financial condition and results of operations.***

We require certain statutory and regulatory permits and approvals to operate our business. We are yet to receive the following statutory approvals in respect of which applications have been made:

- Application dated November 11, 2006 from the Bank to SEBI seeking renewal of the certificate of Registration dated November 10, 2003 granted by SEBI to the Bank for carrying on activities as bankers to an issue under the SEBI (Bankers to an Issue) Regulations, 1994.

- Application Number 1553996 dated April 30, 2007 for registration of the Bank's logo as a trademark in class 36 under the provisions of the Trade Mark Act, 1999.

In the future, we will be required to renew such permits and approvals and obtain new permits and approvals for our proposed operations. While we believe that we will be able to renew or obtain such permits and approvals as and when required, there can be no assurance that the relevant authorities will issue any of such permits or approvals in the time-frame anticipated by us or at all. Failure by us to renew, maintain or obtain the required permits or approvals, including those set forth above, may result in the interruption of our operations or delay or prevent our expansion plans and may have a material and adverse effect on our business, financial condition and results of operations. For further information, refer to the section titled "Licenses and Approvals" on page 289 of this Red Herring Prospectus.

***We have applied for but are yet to receive a trademark for our logo.***

We have recently filed an application no. 1553996 dated April 30, 2007 with the Trade Marks Registry, Mumbai for registration of our logo as appearing on the cover page of this Red Herring Prospectus under class 36. The registration of any trademark in India is a time consuming process and there can be no assurance that such registration will be granted. We operate in a competitive environment where retention and recognition will be a significant element of our business strategy. Our application may not be allowed or our competitors may challenge the validity or scope of our intellectual property. Unless our trademark is registered we cannot prohibit other persons from using the logo, which may materially and adversely affect our goodwill and business. If we fail to successfully obtain or enforce our trade mark rights with respect to our logo, we may need to change our logo. Any such change could require us to incur additional costs and may adversely impact our reputation, business, financial condition and results of operations.

***On a standalone basis, the Bank has experienced negative cash flows in prior periods.***

For the fiscal years ended March 31, 2003, 2004 and 2006, on a standalone basis, the Bank had a negative cash flow from operating activities of Rs. 9,712.26 million, Rs. 3,542.32 million and Rs. 24,560.25 million. For the fiscal years ended March 31, 2003, 2004, 2005, 2006 and 2007, on a standalone basis, the Bank had a negative cash flow from investing activities of Rs. 702.20 million, Rs. 870.77 million, Rs. 387.38 million, Rs. 353.65 million and 1,122.76 million. For the fiscal years ended March 31, 2005, on a standalone basis, the Bank had a negative cash flow from financing activities of Rs. 2,594.18 million. For further details on our cash flows for the fiscal years ended March 31, 2005, 2006 and 2007, see the section titled "Management's Discussion and Analysis of Condition and Results of Operations on a Standalone Basis-Liquidity and Capital Resources" beginning on page 246 of this Red Herring Prospectus. Any negative cash flows in the future could adversely affect the Bank's liquidity.

***The Government will continue to hold a majority interest in the Bank following the Issue and will therefore be able to determine the outcome of shareholder voting.***

Under Section 9 of the Bank Acquisition Act, the Government has the power to appoint directors on our Board. We have received approval of the Government by its letter No.11/17/2003-BOA dated January 24, 2007 to issue 80 million Equity Shares of face value Rs. 10 in this Issue, subject to the condition that the Government's shareholding will not decrease below 51% of our post-issue share capital. After the completion of the Issue, the Government will own at least 80.2% of our outstanding Equity Shares and will have the right to appoint a majority of our Directors. Consequently, the Government will continue to have a controlling interest in the Bank and will also be able to determine a majority of our Board of Directors. At times, the Government's interests may conflict with our interests or those of our other shareholders. Furthermore, the Bank Acquisition Act provides that no shareholder of the corresponding new bank other than the Government shall be entitled to exercise voting rights in respect of any shares held by such person in excess of 1% of the total voting rights of all the shareholders of the corresponding new bank. Therefore, the outcome of most proposals for corporate action requiring the approval of our shareholders will be controlled by the Government unless and until such time its shareholding is diluted to below a controlling majority.

***Shareholders' percentage holdings may be diluted by additional issuances of equity and any dilution may materially and adversely affect the market price of our Equity Shares.***

We may undertake additional equity offerings to finance future growth or to meet future capital requirements, subject to the changes in the Government regulations with respect to the minimum holding of Government equity in the Bank. Such future issuance of Equity Shares could dilute your percentage holding in our Bank and could materially and adversely affect the market price of our Equity Shares.

***As at March 31, 2007, 380 branches were in premises for which the lease had expired.***

As at March 31, 2007, 380 branches, or 11.90% of our total branches,were in premises for which the lease had expired. As at March 31, 2007, there were 155 cases filed against the Bank by landlords. We cannot assure you that all of the leases will be renewed on similar terms or at all, or that the eviction proceedings will be decided in favour of the Bank.

***The related party disclosures in this document do not include transactions with our Subsidiaries and the RRBs in which we have an interest.***

Pursuant to RBI circular number DBOD.No.BP. BC. 89 /21.04.018/2002-03 dated March 29, 2003 on Guidelines on the Compliance of Accounting Standards by Banks, all nationalised banks are exempt from disclosing the transactions with their subsidiaries and the RRBs sponsored by them. Hence, no such disclosure has been made in this Red Herring Prospectus with respect to our Subsidiaries and the RRBs in which we have an interest. Further, we have not disclosed transactions with our Subsidiaries or the RRBs in our restated financial statements included in this Red Herring Prospectus.

***A significant reduction in our credit rating could materially and adversely affect our business, financial condition and results of operations.***

Our Tier II subordinated bonds are currently rated LAA by ICRA, CARE AA by CARE and AA/Stable by CRISIL. A downgrade in our credit ratings may negatively affect our ability to obtain funds and increase our financing costs by increasing the interest rates of our outstanding debt or the interest rates at which we are able to refinance existing debt or incur new debt, which may materially and adversely affect our business, financial condition and results of operations.

***Any inability to attract and retain talented professionals may materially and adversely impact our business.***

We are dependent on our key personnel. Attracting and retaining talented professionals is a key element of our strategy and we believe it to be a significant source of competitive advantage. Our inability to attract and retain talented professionals or the loss of key management personnel could have a material and adverse impact on our business, our future financial performance and the price of our Equity Shares.

***We may face labour disruptions that may interfere with our operations***

We are exposed to the risk of strikes and other industrial action. As at March 31, 2007, we had 39,055 employees (including part-time employees) on standalone basis, of which 35,930 employees were members of a trade union. In the last 36 months there have two strikes specific to the Bank and six industry-wide strikes. Our employees may participate in strikes, work stoppages and other industrial action in the future. Any such event may have a material adverse effect on our business, financial condition and results of operations. The All India Central Bank Employees' Federation and the All India Central Bank Officers' Association have, by their letter dated April 23, 2007, informed the Bank that the members of those unions will express their protest against the Issue by observing a one day protest strike on the Issue Opening Date.

**External Risk Factors**

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

We compete with public and private sector Indian commercial banks as well as foreign commercial banks. Many of our competitors are large institutions, which may have much larger customer and deposit bases, larger branch networks and more capital than we do. Some of the banks with which we compete may be more flexible and better positioned to take advantage of market opportunities than us. In particular, private banks in India may have operational advantages in implementing new technologies, rationalising branches and recruiting employees through incentive-based compensation.

The Indian 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. The 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 establish wholly owned subsidiaries or convert existing branches into wholly-owned subsidiaries or acquire shares in select Indian private sector banks that are identified by the RBI for restructuring up to the limit of 74%. In the second phase from April 2009, subject to guidelines that will be issued by the 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, we 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 banking industry as a whole, including our Bank, and our future success will depend in large part on our ability to respond in an effective and timely manner to these competitive pressures.

***Banking, compared to other industries, is subject to greater regulation and changes in the regulations that govern us could materially and adversely affect our business.***

Banks in India are subject to detailed supervision and regulation by the RBI. In addition, banks are subject generally to changes in Indian law, as well as to changes in regulation and government policies and accounting principles. Any change in the laws and regulations governing the banking sector could materially and adversely affect the banking sector as a whole, our business, our future financial performance, our shareholders' funds and the price of our Equity Shares, by requiring a restructuring of our activities, increasing costs or others.

There are a number of restrictions under the Bank Acquisition Act, the Bank Regulations, the Nationalised Bank Scheme and various RBI notifications, press notes and circulars that affect our operating flexibility and affect or restrict the rights of investors. These restrictions are different from those normally applying to shareholders of companies incorporated under the Companies Act, and include the following:

- We can increase our paid-up capital only with the consent of the Government and in consultation with the RBI and the shareholding of the Government cannot go below 51% of the paid-up capital.

- The Government has control over policy matters and has the power to caution or prohibit us from entering into any particular transaction or class of transactions.

- Foreign investment is subject to an overall statutory limit of 20% of our paid-up capital. The RBI has fixed a cut-off point at 18% for the purpose of effective monitoring. Once the aggregate net purchases of equity shares of the respective bank by FIIs/NRIs/PIOs reaches the cut-off point, which is 2% below the overall limit of 20%, the RBI cautions all designated bank branches so as not to purchase any more equity shares in the respective bank on behalf of NRIs/PIOs without prior approval of the RBI.

- No shareholder, other than the Government, is entitled to exercise voting rights in respect of any shares held by him in excess of one per cent of the total voting rights of all of our shareholders.

- There are restrictions on payment of dividends and on rights relating to unclaimed dividends.

- Certain restrictions on opening a new place of business and transferring an existing place of business require the approval of the RBI, which may hamper the operational flexibility of the Bank.

- We have to maintain assets in India equivalent to not less than 75% of our net demand and time liabilities in India, which in turn may restrict us from building overseas asset portfolios and exploiting overseas business opportunities.

- There are no provisions requiring us to send compulsory statutory reports to our shareholders prior to a general meeting of the shareholders and our shareholders do not have the right to approve our accounts, the report of our Board of Directors on our activities for the period covered by the accounts and the auditors' report on our accounts. However, we are required by our listing agreements with the Stock Exchanges to send annual reports to our shareholders prior to our annual general meeting.

- The GoI and the RBI have the right to appoint a majority of our Directors and to nominate the chairman of our Audit Committee.

- Rights of minority shareholders statutorily available in the case of a company incorporated under the Companies Act are not available to our shareholders.

Any change in the laws and regulations governing the banking sector in India may materially and adversely affect our business, financial condition and results of operations.

***A slowdown in economic growth in India could cause our business to suffer.***

Our performance and the quality and growth of our assets are necessarily dependent on the health of the overall Indian economy. A slowdown in the Indian economy could materially and adversely affect our business. India's economy could be materially and adversely affected by a general rise in interest rates, weather conditions materially and adversely affecting agriculture, commodity and energy prices or various other factors. In addition, the Indian economy is in a state of transition. The share of the services sector of the economy is rising while that of the industrial, manufacturing and agricultural sectors is declining. It is difficult to gauge the impact of these fundamental economic changes on our business. Any slowdown in the Indian economy or future volatility in global commodity prices could materially and adversely affect our business, financial condition and results of operations.

***We are exposed to certain risks of the Indian financial system and could be impacted by the financial difficulties of other financial institutions in India.***

Along with other banks in India, we are 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 developed countries. India's nationwide credit bureau is still developing, which may affect the quality of information available to us about the credit history of our 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 materially and adversely affect our business, financial condition and results of operations.

***Unlike several developed economies, a nation-wide credit bureau has become operational in India only recently.***

Unlike several developed economies, a nation-wide credit bureau, Credit Information Bureau (India) Limited ("CIBIL"), has become operational in India only recently. CIBIL's database is in the process of evolving and it may be some time before comprehensive information pertaining to the credit history of borrowers, especially individuals and small businesses, is made available to us. Until such time, we may be more susceptible to higher NPAs compared to banks in more developed economies.

***Exchange rate fluctuations may have an impact on our financial condition and results of operations.***

As a financial organization we are exposed to exchange rate risk. We accept dollar deposits and are parties to foreign currency forward contracts. In addition, dividends from our associate Indo-Zambia Bank Limited are paid in foreign currency. Adverse movements in foreign exchange rates may impact our financial condition and results of operations

***A significant change in the Government's economic liberalisation and deregulation policies could materially and adversely affect economic conditions in India and our business, financial condition, results of operations and the price of the Equity Shares.***

Nearly all our assets and customers are located in India. The Government has traditionally exercised and continues to exercise a dominant influence over many aspects of the economy. Its economic policies have had and could continue to have a significant effect on private sector entities, public sector entities, including us, and on market conditions and prices of Indian securities including our Equity Shares. Any significant change in the Government's policies or any political instability in India could materially and adversely affect economic conditions in India and our business, financial condition, results of operations and the price of the Equity Shares.

***Trade deficits could materially and 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 materially and adversely affected.

***Natural calamities could have a negative impact on the Indian economy and cause our business to suffer.***

India has experienced natural calamities such as earthquakes, a tsunami, floods and drought in the past few years. The extent and severity of these natural disasters determines their impact on the Indian economy. For example, as a result of drought conditions in the country during Fiscal 2003, the agricultural sector recorded a negative growth of 5.2%. The monsoons in 2005 and 2006 resulted in floods in a number of rural and urban areas and had an adverse impact on agriculture in certain parts of the country. Furthermore, prolonged spells of abnormal rainfall or other natural calamities could have a negative impact on the Indian economy, materially and adversely affecting our business, financial condition and results of operations.

***Civil unrest, acts of violence including terrorism or war involving India and other countries could materially and adversely affect the financial markets and our business.***

Civil unrest, acts of violence including terrorism or war, may negatively affect the Indian markets where our Equity Shares trade and also materially and adversely affect the worldwide financial markets. These acts may also result in a loss of business confidence, make travel and other services more difficult and ultimately materially and adversely affect our business. Although the governments of India and neighbouring countries have recently been engaged in conciliatory efforts, any deterioration in relations between India and neighbouring countries might result in investor concern about stability in the region, which could materially and adversely affect the price of the Equity Shares.

India has also witnessed civil disturbances in recent years and it is possible that future civil unrest as well as other adverse social, economic and political events in India could have an adverse impact on us. Such incidents could also create a greater perception that investment in Indian companies involves a higher degree of risk and could have an adverse impact on our business, financial condition, results of operations and the price of the Equity Shares.

***Any downgrading of India's debt rating by an international rating agency could have a negative impact on our business.***

Any adverse revisions to India's credit ratings for domestic and international debt by international rating agencies may materially and adversely impact our ability to raise additional financing, and the interest rates and other commercial terms at which such additional financing is available. This could have a material adverse effect on our business and future financial performance our ability to obtain financing for capital expenditures, and the price of the Equity Shares.

***Banks are subject to restrictions on payments of dividends under Indian law.***

Under Section 15 of the Banking Regulation Act, no banking company may pay any dividend on its shares until all its capitalised expenses (including preliminary expenses, organisational expenses, share selling commission, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off. The MoF had granted us an exemption from the provisions of Section 15 of the Banking Regulation Act, subject to formal notification. The Department of Economic Affairs (Banking Division), MoF, GoI has, by its notification dated May 17, 2007, exempted the Bank from the application of section 15(1) of the Banking Regulation Act for a period of five years from the date of the notification. This exemption will permit the Bank to pay dividends, if any, to the shareholders in the Issue without writing off all its capitalized expenses.

***There is no existing market for the Equity Shares, and we do not know if one will develop to provide you with adequate liquidity. We will need final listing and trading approvals from the NSE and the BSE before trading commences. Our stock price may fluctuate after the Issue and as a result, you could lose a significant part or all of your investment.***

Prior to the Issue, there has been no public market for the Equity Shares, and an active trading market on the Indian Stock Exchanges may not develop or be sustained after the Issue. The Issue Price of the Equity Shares may bear no relationship to the market price of the Equity Shares after the Issue. The market price of the Equity Shares after the Issue may be subject to significant fluctuations in response to, among other factors, variations in our operating results, market conditions specific to the banking sector in India, and volatility in the Indian Stock Exchanges and securities markets elsewhere in the world. We will apply to the NSE and the BSE for final listing and trading approvals after the allotment of the Equity Shares in the Issue. There can be no assurance that we will receive such approvals on time, or at all.

**Notes to Risk Factors:**

- The RBI conducts regular inspections of banking companies under the provisions of the Banking Regulation Act. The reports of the RBI are strictly confidential. We are in discussions with the RBI in respect of observations made by the RBI in their reports for prior periods. The RBI does not permit disclosure of its inspection report.

- Public issue of 80,000,000 Equity Shares for cash at a price of Rs. [●] per Equity Share aggregating Rs. [●] million. The Issue comprises Net Issue to the public of 76,000,000 Equity Shares and a reservation for Eligible Employees of 4,000,000 Equity Shares. The maximum bid under Employee Reservation Portion by an Eligible Employee cannot exceed 4,000,000 Equity Shares.

- Net worth of our Bank as at March 31, 2007 was Rs. 33,039.79 million on a standalone basis.

- The book value per Equity Share as of March 31, 2007 was Rs. 77.25 per Equity Share on a standalone basis.

- The average cost of acquisition of Equity Shares by the President of India, our Promoter, acting through the Ministry of Finance is Rs. 10 per Equity Share.

- Refer to the notes to our financial statements relating to related party transactions in the section titled "Related Party Transactions" on page 157 of this Red Herring Prospectus.

- Investors may contact the BRLMs for any complaints, information or clarifications pertaining to the Issue.

- Investors are advised to refer to the sections titled "Standalone Basis for Issue Price" and "Consolidated Basis for Issue Price" on pages 24 and 26, respectively, of this Red Herring Prospectus, before making an investment.

- Investors should note that in case of oversubscription in the Issue, allotment would be made on a proportionate basis to Qualified Institutional Bidders, Retail Individual Bidders, Eligible Employees and Non–Institutional Bidders. The overall Allotment would be subject to ensuring that the Non-Resident shareholding in the post-Issue paid-up share capital of our Bank would not exceed 20%. Refer to the section titled "Issue Information – Other Instructions – Basis of Allotment" on page 332 of this Red Herring Prospectus.

- All information shall be made available by the BRLMs and us 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.

- Trading in equity shares for all investors shall be in dematerialised form only.

- Section 3(2E) of the Bank Acquisition Act provides that no shareholder other than Government shall be entitled to exercise voting rights in respect of any Equity Shares held by him/her in excess of one per cent of the total voting rights all the shareholders of the Bank.

- Except as stated in section titled "Our Management – Interests of Directors" on page 136 of this Red Herring Prospectus, none of our Directors are interested in any advances/facilities that have been provided by us, to their relatives/Persons in which such relatives are interested.

## SUMMARY OF OUR BUSINESS

*The financial figures used in this section, unless otherwise stated, have been derived from the Bank's restated, standalone financial statements and standalone audit reports for the relevant years and the Bank's reporting to the RBI.*

### OVERVIEW

We are a public sector banking institution with branches in 27 States and in three Union Territories in India. According to the RBI's "Report on Trend and Progress of Banking in India, 2005-06" we are the third biggest bank in India based on the number of branches. As at March 31, 2007, we had 3,194 branches, 267 extension counters, 261 ATMs, 34 satellite offices, 17 zonal offices and 78 regional offices. As at March 31, 2007, we had a workforce of 39,055 employees (including part-time employees) serving over 25 million customers

We made a net profit of Rs. 4,980.13 million in Fiscal 2007 and as at March 31, 2007 we had assets of Rs. 925,222.38 million and a net worth of Rs. 33,039.79 million. We have experienced growth in deposits and advances, with deposits growing at a compounded annual rate of 12.78% during the last five fiscal years and net advances growing at a compounded annual rate of 22.29% during the same period.

Central Bank of India was founded on December 21, 1911 by Sir Sorabji Pochkhanawala with Sir Pherozesha Mehta as Chairman. The Bank was nationalised in 1969 along with 13 other major commercial banks and the Bank is currently wholly-owned by the Government of India. After this Issue, the Government of India's shareholding in the Bank will be reduced to 80.20%.

The Bank's main business is taking deposits, lending money and making investments. Our deposit taking and lending business is divided into three main areas: retail, agriculture and corporate.

Our retail banking business provides financial products and services to our retail customers. We provide loans and advances for housing, retail trade, automobiles, consumer durables, education and other personal loans and deposit services, such as current, savings and fixed deposits for our customers.

Our agricultural banking business offers direct financing to farmers for production and investment, as well as indirect financing for infrastructure development and credit to suppliers of agricultural inputs. In consonance with national policies and priorities, we have given considerable thrust to lending to the priority sector, including the agriculture sector.

We provide commercial banking products and services to corporate and commercial customers, including mid-sized and small businesses and government entities. Our loan products include term loans for the acquisition, construction or improvement of assets as well as short-term loans, cash credit, export credit and other working capital financing and bill discounting. We also provide credit substitutes, such as letters of credit and guarantees.

As per RBI guidelines, we are required to lend at least 40% of our net bank credit to the priority sector, which includes a minimum lending of 18% of our adjusted net bank credit to the agriculture sector, and lending to small scale industries, among others.

We also offer a wide range of general banking services to our customers, including: credit cards; debit cards; cash management and remittance services; and collection services. We distribute third party life and non-life insurance policies and mutual funds on an agency basis. In addition, we act as an agent for various state governments and the Government of India on numerous matters including the collection of taxes and the payment of pensions. We also issue traveller's cheques and gift cheques.

We deliver our products and services through our branches, satellite offices, extension counters and ATMs. As at March 31, 2007, our domestic branch network of 3,194 branches comprised 1,341 rural, 759 semi-urban, 575 urban and 519 metropolitan branches. This network includes 144 specialised branches that are engaged in catering specifically for Small Scale Industries (60 branches), International Business (83 branches) and one Integrated Treasury Branch. Additionally there are 29 offices providing specialised services such as Cash Management and Central Clearing.

As at March 31, 2007, the Core Banking Solution ("CBS"), which is a suite of software applications that facilitate centralised operations through a central data base, had been implemented in 324 branches and 29 extension counters, covering approximately 35.40% of our business (i.e., total gross deposits and advances). As at March 31, 2007, 2,250 branches were totally automated branches and 160 were partially automated branches. Those branches together with the branches and extension counters in which our CBS had been implemented, meant approximately 98% of our business had been computerised at the end of Fiscal 2007.

The following table sets forth the geographic distribution of our domestic deposits, advances and branch network as at the end of Fiscal 2005, Fiscal 2006 and Fiscal 2007:

| | As at March 31, 2005 | | | As at March 31, 2006 | | | As at March 31, 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Geographic Distribution** | **Number of branches** | **Deposits (Rs. in million)** | **Advances (Rs. in million)** | **Number of branches** | **Deposits (Rs. in million)** | **Advances (Rs. in million)** | **Number of branches** | **Deposits (Rs. in million)** | **Advances (Rs. in million)** |
| Northern India | 384 | 115,728.10 | 73,693.20 | 385 | 130,456.90 | 97,473.30 | 395 | 163,880.20 | 140,718.60 |
| Eastern India | 791 | 127,906.90 | 35,975.80 | 794 | 137,066.20 | 43,558.10 | 812 | 158,624.00 | 55,284.20 |
| Central India | 853 | 133,941.00 | 47,404.80 | 858 | 149,957.50 | 61,445.50 | 882 | 173,933.20 | 78,079.60 |
| Western India | 705 | 161,917.40 | 89,848.10 | 701 | 171,867.20 | 13,246.60 | 709 | 235,540.90 | 186,906.30. |
| Southern India | 390 | 68,023.35 | 45,460.80 | 391 | 75,478.70 | 56,697.00 | 396 | 95,784.50 | 75,309.70 |
| Total | 3,123 | 607,516.75 | 292,382.7 | 3,129 | 664,826.48 | 393,420.50. | 3,194 | 827,762.77 | 536,298.4 |

Centbank Financial and Custodial Services Limited ("Centbank Financial"), our 100% owned subsidiary, provides various executor and trustee services, including acting as an executor of wills, acting as an administrator of an estate, acting as a trustee under wills and acting as a trustee of numerous types of trusts. As at March 31, 2007, Centbank Financial maintained 1,957 accounts of various categories. For Fiscal 2007, Centbank Financial made a profit after tax of Rs. 1.69 million and as at March 31, 2007, it had net current assets of Rs. 21.93 million.

We have a 59.5% ownership interest in Cent Bank Home Finance Limited, which is involved in housing finance. Cent Bank Home Finance Limited has a network of 12 branches and one extension counter in seven states in India. For Fiscal 2007, Cent Bank Home Finance Limited made a profit after tax of Rs. 50.28 million and as at March 31, 2007, it had net current assets of Rs. 2,532.39 million.

We have one overseas joint venture bank in Zambia, Indo-Zambia Bank Limited, in which we have a 20.0% ownership interest. It has jointly been promoted by Government of Republic of Zambia, Central Bank of India, Bank of India and Bank of Baroda and is involved in banking operations in Zambia.

Additionally, we sponsor 11 Regional Rural Banks ("RRBs") in collaboration with the state governments of Madhya Pradesh, Chhattisgarh, Bihar, Maharashtra Uttar Pradesh and Rajasthan.

On a consolidated basis, we made a net profit of Rs. 5,095.65 million in Fiscal 2007 and as at March 31, 2007 we had assets of Rs. 926,586.69 million and a net worth of Rs. 33,161.08 million.

For more information on Centbank Financial, Cent Bank Home Finance Limited, Indo-Zambia Bank Limited and the 11 RRBs that we sponsor, see the section titled "Our Promoter, Subsidiaries and Associates" beginning on page 142 of this Red Herring Prospectus.

## VISION AND MISSION STATEMENTS

Our vision is to emerge as a strong, vibrant and pro-active bank and to positively contribute to the emerging needs of the economy through harmonization of human, financial and technological resources and effective risk control systems.

Our mission is to:

- transform our customers' banking experience into a fruitful and enjoyable one;
- leverage technology for efficient and effective delivery of all our banking services;
- have a bouquet of products and services tailor-made to meet our customers' aspirations; and
- utilize our pan-India presence to further the Government of India's socio-economic objectives and to further financial inclusion.

## BUSINESS STRATEGIES

"Build a better life around us" is our key business and banking philosophy. Our business strategies are woven around this philosophy. The main elements of our strategies are set forth below:

**Improve customer service by strengthening our IT capabilities and expanding our customers' access to ATMs.**

Technology is a key business driver and enabler in the banking industry. The development of efficient means of reaching our customers and processing transactions fast and error free are key elements of our goal to expand profitability and capitalize on opportunities for organic growth.

We began implementing our CBS in Fiscal 2006 and as at March 31, 2007, CBS had been implemented in 324 branches and 29 extension counters, covering 35.40% of our business (i.e., total gross deposits and advances). We plan to expand significantly the number of branches under CBS so as to cover approximately 80% of our business by the end of Fiscal 2008.

Our other strategies for strengthening our IT capabilities include the introduction of Internet banking services, SMS/mobile banking, tele-banking and customer call centres, all of which are planned to be introduced by the end of Fiscal 2008.

As at March 31, 2007, we had 261 ATMs and we plan to increase our number of ATMs to 500 by the end of Fiscal 2008. We are currently a member of the Cirrus/Maestro network but we are not a member of any shared ATM networks. To increase the number of ATMs that our customers can access, we are also planning to join the VISA network by the end of Fiscal 2008 and are looking at entering into ATM sharing agreements with other banks. In pursuance of financial inclusion of deprived sections of society, we also plan to install Biometric ATMs and Braille and voice enabled ATMs for visual and hearing impaired customers at selected places.

**Accelerate growth in loans and advances to the corporate and retail sectors.**

We plan to increase our credit portfolio by focusing on in increasing our loans and advances to the corporate and retail sectors.

Although we have experienced significant growth in our loans and advances to the corporate sector over the last two fiscal years, with growth of 39.37% and 38.45% in Fiscal 2006 and Fiscal 2007, respectively, our aim is to continue growing our loans and advances by expanding our relationship with large corporates and large public sector organizations and by increasing our funding for infrastructure.

A large number of the top corporates houses in India have long standing banking relations with us. We propose to strengthen our relationship with these top corporates by giving them various facilities at competitive terms and thereby expand business growth.

We also cater to some of the banking requirements of various public sector organizations. Our goal is to leverage these relationships for mutually beneficial business growth.

We will look to expand our funding for infrastructure by, among other things, entering into a tie-up agreement with India Infrastructure Finance Ltd.

We have also identified the retail sector as a key area for increasing our credit portfolio. In Fiscal 2007, loans and advances to the retail sector (which includes housing loans) increased by 40.14% compared with a 28.44% increase in Fiscal 2006. However, as a share to our total loans and advances it represented 10.68% of our total outstanding loans as at March 31, 2007. Our aim is to increase substantially our outstanding loans and advances to this sector by simplifying our current processes, launching new products and services and developing our distribution channels. In addition, we plan to increase our portfolio of housing loans of up to Rs. 2 million by entering into tie-up agreements with reputed builders and property developers.

**Leverage our extensive rural and semi-urban presence to increase growth.**

We have an extensive network of branches through out country with 1,341 rural branches and 759 semi-urban branches as at March 31, 2007. A major portion of our business is derived from these branches. We believe there is lot of potential for garnering business through cross selling of our financial products at competitive costs to our customers. In addition, we believe that the extension of the CBS to more of our rural and semi-urban branches over the coming years will decrease our transaction costs, increase our competitiveness and lead to an increase in our business from rural and semi-urban branches.

**Increase our fee based income and our income from bancassurance products.**

In order to boost our profitability, we are focused on increasing our fee-based income. As part of our strategy to increase fee-based income, we propose to enhance cross selling across different distribution channels.

We currently offer depository services at our Nariman Point, Mumbai branch only. We plan to increase our revenue from depository services by increasing the number of branches that offer the service and by introducing an on-line trading facility for Demat account holders, which will be provided by a third party securities broking house.

Our strategies for increasing fee-based income from foreign exchange transactions include entering into a strategic tie-up agreement with UAE Express Money, which agreement has been executed recently and and with Money Gram, which agreement has been approved by our Board but is yet to be executed.

We have entered into agency agreements with Life Insurance Corporation of India and The New India Assurance Company Limited to distribute their various insurance products, for which we are paid a fee. As at March 31, 2007, all our branches sold insurance products.

In Fiscal 2007, we entered into agreements with UTI Asset Management Company Private Limited and Tata Asset Management Limited for the sale of their mutual fund products, for which we are paid on a commission basis and fee basis, respectively. On May 15, 2007, we entered into an agreement with Franklin Templeton Asset Management (India) Private Limited to distribute units of schemes of Franklin Templeton Mutual Fund, for which we are paid on a fee basis. As at March 31, 2007, 113 branches sold mutual fund products. We plan to increase our revenue from sales of mutual fund products by increasing the number of branches that sell these products and by entering into distribution agreements with more mutual fund houses.

We also plan to increase our income from Government and state government business.

**Increase our low cost deposits, both current and savings accounts, in order to lower our cost of funds**.

Our low cost deposits, both current and savings accounts, constituted 42.09% of our total deposits as at March 31, 2007. Our aim is to increase our total low cost deposits by leveraging our branch network and customer base, particularly in rural and semi urban centres. We also plan to contact holders of non-operative accounts to encourage them to make use of their accounts. In addition, we plan to introduce bill payment and utility payment services through our Internet banking service, which will increase the attractiveness of our savings and current accounts and should lead to an increase in savings and current accounts. Furthermore, our large network at Mandi centres (trading markets) and markets will focus on marketing our current accounts to wholesalers, retailers and traders.

**Reduce our gross NPA levels with a focus on cash recovery and monitoring of Early Alert Signal ("EAS") accounts and Special Mentioned Accounts ("SMA") to prevent slippages. Focus on recovery from written off accounts**.

The reduction and recovery in impaired assets is our key focus area to reduce our NPAs. The share of gross NPAs as a percentage of total advances declined from 12.55% as at March 31, 2004 to 4.81% as at March 31, 2007. Our strategies for reducing our NPAs include improving the quality of credit at the time loans are made by ensuring that our well documented loan sanction policies and procedures are complied, actively monitoring our loans, particularly to SMA and EAS accounts, and reassessing their credit ratings at least once a year or more frequently if required, and using various recovery schemes to reduce our non performing loans. For information on the various recovery schemes we use to reduce our NPAs, please see the section titled "Our Business – NPA Management" on page 66 of this Red Herring Prospectus. In addition, to using recovery schemes, our NPA recovery teams visit rural areas for recovery of small agricultural loans during the harvest season. We also organise recovery camps with help from the Government in order to increase recovery in loans made under Government sponsored schemes and other loans in the priority sector.

We have introduced a target oriented approach to recovery from written off accounts, which has resulted in an increase in recoveries from written off accounts, and we plan to continue our focus on recovery from written off accounts.

## THE ISSUE

| | |
|---|---|
| Equity Shares issued by the Bank................................ | 80,000,000 Equity Shares |
| of which | |
| Employee Reservation Portion..................... | 4,000,000 Equity Shares |
| Net Issue to the Public.................................. | 76,000,000 Equity Shares |
| of which | |
| QIB Portion.................................... | At least 45,600,000 Equity Shares (allocation on a proportionate basis) |
| of which | |
| Mutual Funds.................... | 2,280,000 Equity Shares (allocation on a proportionate basis) |
| Balance for all QIBs including Mutual Funds.... | 43,320,000 Equity Shares (allocation on a proportionate basis) |
| Non-Institutional Portion ................ | Not less than 7,600,000 Equity Shares available for allocation on proportionate basis |
| Retail Portion ................................. | Not less than 22,800,000 Equity Shares available for allocation on proportionate basis |
| Equity Shares outstanding prior to the Issue ............. | 324,141,460 Equity Shares |
| Equity Shares outstanding after the Issue.................... | 404,141,460 Equity Shares |
| Use of proceeds by the Bank ……………………… | See the section titled “Objects of the Issue” on page 22 of this Red Herring Prospectus. |

## GENERAL INFORMATION

**Head Office of the Bank**

**Central Bank of India**
Chandermukhi
Nariman Point
Mumbai 400 021
Tel: (91 22) 6638 7828
Fax: (91 22) 2283 5198
E-Mail: investors@centralbank.co.in
Website: www.centralbankofindia.co.in

**Board of Directors**

Our Board comprises:

| Sr. No. | Name, Designation and DIN | Age | Address |
|---|---|---|---|
| 1. | H.A. Daruwalla<br>*Chairperson and Managing Director*<br>DIN: 00365880 | 58 | A/26, 13th Floor<br>Sterling Apartment, Peddar Road<br>Mumbai 400 026 |
| 2. | K. Subbaraman<br>*Executive Director*<br>DIN: 00366032 | 58 | 163A, Jolly Maker Apartments 1,<br>Cuffe Parade, Colaba<br>Mumbai 400 005 |
| 3. | Albert Tauro<br>*Executive Director*<br>DIN: 01635912 | 56 | 46, 12th Floor, Iris Apartment,<br>Cuffe Parade, Colaba<br>Mumbai 400 005 |
| 4. | P.P. Mitra<br>*GoI Nominee Director*<br>DIN: 01637197 | 51 | E-6/209, Sterling Apartment<br>Charmwood Village<br>Suraj Kumar Road<br>Faridabad 210 009 |
| 5. | M.K. Bhattacharya<br>*RBI Nominee Director*<br>*Independent Director*<br>DIN: 01636466 | 63 | EMP 037/601<br>Thakur Village<br>Kandivili (East)<br>Mumbai 400 101 |
| 6. | Kamal Faruqui<br>*Part-Time Non-Official Director*<br>*Independent Director*<br>DIN: 01039308 | 55 | A-80, Nizamuddin East<br>New Delhi 110 013 |
| 7. | Major (Retd.) Ved Prakash<br>*Part-Time Non-Official Director*<br>*Independent Director*<br>DIN: 01636165 | 68 | 204/1 Neb Valley<br>Sainik Farms, Nab Sarai<br>New Delhi 110 068 |
| 8. | Satya Bahin<br>*Part-Time Non-Official Director*<br>*Independent Director*<br>DIN: 01636221 | 63 | 89, Sector IV<br>Vaishali<br>Ghaziabad<br>Uttar Pradesh 452 018 |
| 9. | Harish Chandhok<br>*Part-Time Non-Official Director* | 62 | 20-21, Manishpuri<br>Saket Extension |

| Sr. No. | Name, Designation and DIN | Age | Address |
|---|---|---|---|
| | *Independent Director*<br>DIN: 01635987 | | Indore 452 003 |
| 10. | Romesh Sabharwal<br>*Part-Time Non-Official Director*<br>*Independent Director*<br>DIN: 01636105 | 44 | A 2/3, M.S. Flats<br>Peshwa Road, Gole Market<br>New Delhi 110 001 |
| 11. | Indu Singh Pawar<br>*Part-Time Non-Official Director*<br>*Independent Director*<br>DIN: 01637142 | 49 | 18A, Shastri Nagar<br>Jammu Tawi 180 004 |
| 12. | C.M. Puri<br>*Workman Employee Director*<br>DIN: 01635938 | 56 | 16-G Sector-8<br>SFS DDA Flats<br>Jasola Vihar<br>New Delhi 110 025 |
| 13. | N.K. Pareek<br>*Officer Employee Director*<br>DIN: 01636033 | 58 | 8/203, Vidhyadhar Nagar<br>Jaipur 302 013 |

For further details in relation to our Board and our Directors please refer to the section titled "Our Management" beginning on page 125 of this Red Herring Prospectus.

**Compliance Officer**
**S.R. Shukla**
Central Bank of India
Chandermukhi
Nariman Point
Mumbai 400 021
Tel: (91 22) 6638 7828
Fax: (91 22) 2283 5198
E-mail: investors@centralbank.co.in

**Company Secretary**
**H.V. Kamdar**
Central Bank of India
Chandermukhi
Nariman Point
Mumbai 400 021
Tel: (91 22) 6638 7600
Fax: (91 22) 2288 0989
E-mail: ipocell@centralbank.co.in

Investors can contact the Compliance Officer in case of any pre-Issue or post-Issue related problems such as non-receipt of letters of Allotment, credit of allotted shares in the respective beneficiary account, refunds, etc.

**Book Running Lead Managers**

**ICICI Securities Limited**
ICICI Centre
H.T. Parekh Marg
Churchgate
Mumbai 400 020
Tel: (91 22) 22882460
Fax: (91 22) 22826580
Email: cbi_ipo@isecltd.com
Website: www.icicisecurities.com
Registration No.: MB/INM000001113
Contact Person: Ratnadeep Acharyya

**Citigroup Global Markets India Private Limited**
12th Floor, Bakhtawar
Nariman Point
Mumbai 400 021
Tel: (91 22) 6631 9999
Fax: (91 22) 6631 9803
Email: cbi.ipo@citi.com
Website: www.citibank.co.in
Registration No.: MB/INM000010718
Contact Person: Amulya Goyal

**ENAM Financial Consultants Private Limited**
801/802, Dalamal Towers
Nariman Point
Mumbai 400 021
Tel: (91 22) 66381800
Fax: (91 22) 22846824
Email: cbiipo@enam.com
Website: www.enam.com
Registration No.: INM000006856
Contact Person: Ashish Kumbhat

**IDBI Capital Market Services Limited**
5th Floor, Mafatlal Centre
Nariman Point
Mumbai 400 021
Tel: (91 22) 2289 7500
Fax: (91 22) 2283 8782
Email: centralbank.ipo@idbicapital.com
Website: www.idbicapital.com
Registration No.: INM000010866
Contact Person: Huzefa Sitabkhan

**Kotak Mahindra Capital Company Limited**
3rd Floor, Bakhtawar, 229
Nariman Point
Mumbai 400 021
Tel: (91 22) 66341100
Fax: (91 22) 22840492
Email: centralbank.ipo@kotak.com
Website: www.kotak.com
Registration No.: INM000008704
Contact Person: Chandrakant Bhole

**Syndicate Members**

**Enam Securities Private Limited**
Khatau Building, 2nd Floor
44B Bank Street
Off Shaheed Bhagat Singh Road, Fort
Mumbai 400 023
Tel: (91 22) 2267 7901
Fax: (91 22) 2266 5613
Email: cbiipo@enam.com
Website: www.enam.com
Registration No. INB230468336 (NSE)
INB010468332 (BSE)
Contact Person: M. Natarajan

**Kotak Securities Limited**
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021
Tel: (91 22) 6634 1100
Fax: (91 22) 6634 3927
Email: umesh.gupta@kotak.com
Website: www.kotak.com
Registration No. INB230808130 (NSE)
INB010808153 (BSE)
Contact Person: Umesh Gupta

***Legal Advisors to the Issue***

**Domestic Legal Counsel to the Bank**
**Amarchand & Mangaldas & Suresh A. Shroff & Co.**
5th Floor, 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 Counsel to the Underwriters**
**Dorsey & Whitney LLP**
21 Wilson Street
London
EC2M 2TD
United Kingdom
Tel: (44 020) 7826 4524
Fax: (44 20) 7588 0555

**Domestic Legal Counsel to the Underwriters**

**S & R Associates**
K 40, Connaught Circus
New Delhi 1100 001
Tel: (91 11) 4289 8000
Fax: (91 11) 4289 8001

**Registrar to the Issue**

**Intime Spectrum Registry Limited**
C-13, Pannalal Silk Mills Compound
L.B.S. Marg, Bhandup (West)
Mumbai 400 078
Tel: (91 22) 2596 0320
Fax: (91 22) 2596 0328
Email: cbiipo@intimespectrum.com
Contact Person: Vishwas Attavar

**Bankers to the Issue and Escrow Collection Banks**

**Central Bank of India**
Nariman Point Branch
Chandermukhi
Nariman Point
Mumbai 400 021
Tel: (91 22) 6636 1907/(91 22) 6636 1907
Fax: (91 22) 2285 2657
E-Mail: rameshnarayan_s@yahoo.com/
veera.mundroina@gmail.com
Website: www.centralbankofindia.co.in
Registration No. INB00000012
Contact Person: Ramesh S./Veera Mundroina

**Auditors**

**D. Rangaswamy & Co.**
Chartered Accountants
R.C. Towers, 2nd Floor
(Old-27), Josier Street
New No. 82, Nungambakkam
Chennai 600 034
Tel: (91 44) 2826 1407
Fax: (91 44) 2820 4716
Email: dr_co@sify.com
Contact Person: B. Ramani

**P.R. Mehra & Co.**
Chartered Accountants
56, Darya Ganj
New Delhi 110 002
Tel: (91 11) 2327 1236
Fax: (91 11) 2328 7390
Email: prmaudit@rediffmail.com
Contact Person: Ashok Malhotra

**P.L. Tandon & Co.**
Chartered Accountants
Westcott Building
1st Floor, The Mall
P.B. No. 113
Kanpur 208 001
Tel: (91 512) 236 6774
Fax: (91 512) 236 9452
Email: pltandon@sancharnet.in
Contact Person: Anil Agarwal

**Chhajed & Doshi**
Chartered Accountants
5/6, Western Prabhadevi Co-op Housing Society
Veer Savarkar Marg
Prabhadevi
Mumbai 400 025
Tel: (91 22) 2437 3464
Fax: (91 22) 2437 4897
Email: cnd@bom5.vsnl.net.in
Contact Person: A.K. Daftary

**J.C. Bhalla & Co.**
Chartered Accountants
B – 5, Sector 6
Noida 201 301
Tel: (91 120) 424 1000

**Murali Associates**
Chartered Accountants
No. 39, Old No. 19
First Main Road
Raja Annamalipuram

| | |
|---|---|
| Fax: (91 120) 424 1007<br>Email: rajeshsethi@jcbhalla.com<br>Contact Person: Rajesh Sethi | Chennai 600 028<br>Tel: (91 44) 2431 2201<br>Fax: (91 44) 2433 4613<br>Email: muraliassociates@eth.net<br>Contact Person: J. Sivasankaran |

**Statement of Inter Se Allocation of Responsibilities for the Issue**

The following table sets forth the distribution of responsibility and coordination for various activities amongst the BRLMs:

| Activities | Responsibility | Co-ordinator |
|---|---|---|
| Capital structuring with the relative components and formalities such as type of instruments, etc. | I-SEC/Citi/Enam/IDBI Capital/KMCC | I-SEC |
| Due diligence of the Bank's operations/ management/ business plans/ legal, etc.<br>Drafting and design of offer document and drafting and approval of all publicity material and advertisement including memorandum containing salient features of the Prospectus. The BRLMs shall ensure compliance with stipulated requirements and completion of prescribed formalities with the Stock Exchanges and SEBI including finalization of the Prospectus and filing with the Stock Exchanges. | I-SEC/Citi/Enam/IDBI Capital/KMCC | I-SEC |
| Appointment of other Intermediaries:<br>(a) Printers<br>(b) Registrar<br>(c) Advertising Agency, and<br>(d) Banker to the Issue | I-SEC/Citi/Enam/IDBI Capital/KMCC | <br>(a) KMCC<br>(b) IDBI Capital<br>(c) Enam<br>(d) I-SEC |
| Domestic institutions/banks/mutual funds marketing strategy:<br>▪ Finalize the list and division of investors for one on one meetings, institutional allocation | I-SEC/Citi/Enam/IDBI Capital/KMCC | KMCC |
| International institutional marketing strategy and Roadshow presentation:<br>▪ Finalize the list and division of investors for one on one meetings, institutional allocation<br>▪ Roadshow Presentation | I-SEC/Citi/Enam/IDBI Capital/KMCC | Citi |
| Retail/Non-institutional marketing strategy which will cover, inter alia,<br>▪ Finalize media, marketing and public relation strategy,<br>▪ Finalize centers for holding conferences for brokers, etc.<br>▪ Finalize collection centers,<br>▪ Follow-up on distribution of publicity and Issue material including form, Prospectus and deciding on the quantum of the Issue material | I-SEC/Citi/Enam/IDBI Capital/KMCC | Enam |
| Branch Training including identification of Branches/centers, Branch training material etc. | I-SEC/Citi/Enam/IDBI Capital/KMCC | Enam |
| Managing the Book, coordination with Stock Exchanges, pricing and allocation to QIB Bidders. | I-SEC/Citi/Enam/IDBI Capital/KMCC | KMCC |
| Post bidding activities including management of Escrow Accounts, co-ordinate non-institutional allocation, intimation of allocation and dispatch of refunds to | I-SEC/Citi/Enam/IDBI Capital/KMCC | IDBI Capital |

| Activities | Responsibility | Co-ordinator |
|---|---|---|
| Bidders, etc. | | |
| The post issue activities of the Issue will involve essential follow up steps, which include finalization of trading and dealing instruments and dispatch of certificates and demat delivery of shares, with the various agencies connected with the work such as Registrars to the Issue, Banker to the Issue and the bank handling refund business. The BRLMs shall be responsible for ensuring that these agencies fulfil their functions and enable them to discharge this responsibility through suitable agreements with the issuer Bank. | I-SEC/Citi/Enam/IDBI Capital/KMCC | IDBI Capital |

**Credit Rating**

As the Issue is of equity shares, a credit rating is not required.

**IPO Grading**

This Issue has been rated by CARE as CARE IPO Grading 4 indicating 'above average fundamentals'. For a description of the rationale furnished by the credit rating agency, please refer to their report which has been included in Material Contracts and Documents for Inspection.

**Monitoring Agency**

We have not appointed a monitoring agency.

**Trustees**

As the Issue is of equity shares, the appointment of trustees is not required.

**Book Building Process**

Book building refers to the process of collection of Bids on the basis of the Red Herring Prospectus within the Price Band. The Issue Price is fixed after the Bid/Issue Closing Date.

The principal parties involved in the Book Building Process are:

- The Bank;
- Book Running Lead Managers;
- Syndicate Members who are intermediaries registered with SEBI or registered as brokers with BSE/NSE and eligible to act as Underwriters. Syndicate Members are appointed by the BRLMs;
- Escrow Collection Bank(s); and
- Registrar to the Issue.

In terms of Rule 19(2)(b) of the Securities Contract Regulation Rules, 1957, this being an Issue for less than 25% of the post-Issue capital, the Issue is being made through the 100% Book Building Process wherein at least 60% of the Net Issue shall be Allotted on a proportionate basis to QIBs. 5% of the QIB portion shall be available for allocation to Mutual Funds only and the remaining QIB portion shall be available for allocation to all the QIB Bidders, including Mutual Funds, subject to valid Bids being received at or above the Issue Price. If at least 60% of the Net Issue cannot be allotted to QIBs, then the entire application money will be refunded. Further, not less than 10% of the Net Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 30% 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. Further, 4,000,000 Equity Shares shall be available for allocation on a proportionate basis to Eligible Employees, subject to valid Bids being received at or above the Issue Price.

In this regard, we have appointed the BRLMs to manage the Issue and to procure subscriptions to the Issue.

**QIBs are not allowed to withdraw their Bid after the Bid/Issue Closing Date. In addition, QIBs are required to pay the QIB Margin Amount, representing 10% of the Bid Amount, upon submission of their Bid and allocation to QIBs will be on a proportionate basis. For details see the section "Issue Structure" on page 308 of this Red Herring Prospectus.**

**The process of Book Building under SEBI Guidelines is subject to change from time to time and investors are advised to make their own judgment about investment through this process prior to making a Bid or Application in the Issue.**

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

Bidders can bid at any price within the price band. For instance, assume 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. A graphical representation of the consolidated demand and price would be made available at the bidding centres during the bidding period. The illustrative book as shown below shows the demand for the shares of the company at various prices and is collated from bids from various investors.

| Bid Quantity | Bid Price (Rs.) | Cumulative Quantity | Subscription |
|---|---|---|---|
| 500 | 24 | 500 | 16.67% |
| 1,000 | 23 | 1,500 | 50.00% |
| 1,500 | 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 number 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 book running lead managers, 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 the respective categories.

**Steps to be taken for bidding:**

- Check eligibility for bidding, see the section titled "Issue Procedure – Who Can Bid?" on page 312 of this Red Herring Prospectus;
- Ensure that the Bidder has an active demat account and the demat account details are correctly mentioned in the Bid cum Application Form;
- SEBI has issued a circular no. MRD/DoP/Cir-05/2007 dated April 27, 2007 requiring that with effect from July 2, 2007, the PAN would be the sole identification number for participants transacting in the securities market, irrespective of the amount of transaction. In case the PAN has not been allotted, mention "Applied for" or "Not Applicable" in the appropriate places and submit Form 60 or Form 61 as the case may be together with permissible documents as proof of address; and
- 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.

**Underwriting Agreement**

After the determination of the Issue Price and allocation of Equity Shares, but prior to filing of the Prospectus with the Designated Stock Exchange, our Bank intends to enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be offered 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 their respective Syndicate Members do not fulfill their underwriting obligations. Pursuant to the terms of the Underwriting Agreement, the obligations of the Underwriters are several and are subject to certain conditions to closing, as specified therein.

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 the Designated Stock Exchange)*

| Name and Address of the Underwriters | Indicative Number of Equity Shares to be Underwritten | Amount Underwritten (Rs. in million) |
|---|---|---|
| **Book Running Lead Managers** | | |
| **ICICI Securities Limited**<br>ICICI Centre<br>H.T. Parekh Marg<br>Churchgate<br>Mumbai 400 020<br>Tel: (91 22) 22882460<br>Fax: (91 22) 22826580<br>Email: cbi_ipo@isecltd.com<br>Website: www.icicisecurities.com<br>Contact Person: Ratnadeep Acharyya | [●] | [●] |
| **Citigroup Global Markets India Private Limited**<br>12th Floor, Bakhtawar<br>Nariman Point<br>Mumbai 400 021<br>Tel: (91 22) 6631 9999<br>Fax: (91 22) 6631 9803<br>Email: cbi.ipo@citi.com<br>Website: www.citibank.co.in<br>Contact Person: Amit Dhingra | [●] | [●] |
| **ENAM Financial Consultants Private Limited**<br>801/802, Dalamal Towers<br>Nariman Point<br>Mumbai 400 021<br>Tel: (91 22) 66381800<br>Fax: (91 22) 22846824<br>Email: cbiipo@enam.com<br>Website: www.enam.com<br>Contact Person: Ashish Kumbhat | [●] | [●] |
| **IDBI Capital Market Services Limited**<br>5th Floor, Mafatlal Centre<br>Nariman Point<br>Mumbai 400 021<br>Tel: (91 22) 2289 7500<br>Fax: (91 22) 2283 8782<br>Email: centralbank.ipo@idbicapital.com<br>Website: www.idbicapital.com<br>Contact Person: Huzefa Sitabkhan | [●] | [●] |

| Name and Address of the Underwriters | Indicative Number of Equity Shares to be Underwritten | Amount Underwritten (Rs. in million) |
|---|---|---|
| **Kotak Mahindra Capital Company Limited**<br>3rd Floor, Bakhtawar, 229<br>Nariman Point<br>Mumbai 400 021<br>Tel: (91 22) 66341100<br>Fax: (91 22) 22840492<br>Email: centralbank.ipo@kotak.com<br>Website: www.kotak.com<br>Contact Person: Chandrakant Bhole | | |
| **Syndicate Members** | | |
| **Enam Securities Private Limited**<br>Khatau Building, 2nd Floor<br>44B Bank Street<br>Off Shaheed Bhagat Singh Road<br>Fort<br>Mumbai 400 023<br>Tel: (91 22) 22677901<br>Fax: (91 22) 22665613<br>Email: cbiipo@enam.com<br>Website: www.enam.com<br>Registration No. INB230468336 (NSE)<br>INB010468332 (BSE)<br>Contact Person: M. Natarajan | [●] | [●] |
| **Kotak Securities Limited**<br>Bakhtawar, 1st Floor<br>229, Nariman Point<br>Mumbai 400 021<br>Tel: (91 22) 6634 1100<br>Fax: (91 22) 6634 3927<br>Email: umesh.gupta@kotak.com<br>Website: www.kotak.com<br>Registration No. INB230808130 (NSE)<br>INB010808153 (BSE)<br>Contact Person: Umesh Gupta | [●] | [●] |

The above-mentioned amount is indicative underwriting and would be finalized after pricing and actual allocation. The above Underwriting Agreement is dated [●] and has been approved by the Board of Directors.

In the opinion of our Board of Directors (based on a certificate given by the Underwriters), 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 or registered as brokers with one or more of the Stock Exchanges.

Allocation among Underwriters may not necessarily be in proportion to their underwriting commitments. Notwithstanding the above table, the Underwriters shall be severally responsible for ensuring payment with respect to Equity Shares allocated to investors procured by them. In the event of any default in payment, 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 amount defaulted.

## CAPITAL STRUCTURE

The share capital of the Bank as of the date of this Red Herring Prospectus is set forth below:

(Rs. in million)

| | | Aggregate Value at nominal value | Aggregate Value at Issue Price |
|---|---|---|---|
| A) | **AUTHORISED SHARE CAPITAL** | | |
| | 1,500,000,000 Equity Shares of Rs. 10 each(1) | 15,000.00 | |
| | 800,000,000 Perpetual Non-cumulative Preference Shares of Rs. 10 each | 8,000.00 | |
| B) | **ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL BEFORE THE ISSUE**(2) | | |
| | 324,141,460 Equity Shares of Rs. 10 each | 3,241.41 | |
| | 800,000,000 Perpetual Non-cumulative Preference Shares of Rs. 10 each | 8,000.00 | |
| C) | **PRESENT ISSUE IN TERMS OF THIS RED HERRING PROSPECTUS**(4) | | |
| | 80,000,000 Equity Shares of Rs. 10 each fully paid up | 800.00 | [●] |
| | *Of which* | | |
| | Employee Reservation Portion: | | |
| | 4,000,000 Equity Shares of Rs. 10 each fully paid up | 40.00 | [●] |
| | Net Issue to the Public: | | |
| | 76,000,000 Equity Shares of Rs. 10 each fully paid up | 760.00 | [●] |
| D) | **EQUITY CAPITAL AFTER THE ISSUE** | | |
| | 404,141,460 Equity Shares of Rs. 10 each fully paid up | 4,041.41 | [●] |
| E) | **SHARE PREMIUM ACCOUNT** | | |
| | Before the Issue | Nil | |
| | After the Issue | [●] | |

(1) The authorised equity share capital of the Bank is Rs. 15,000 million divided into equity shares of Rs. 10 each as per sub-section 2A of Section 3 of the Bank Acquisition Act.

(2) The Board, pursuant to its resolution dated December 20, 2006, approved the restructuring of the equity share capital of the Bank by conversion of an amount aggregating Rs. 8,000 million out of the equity share capital of Rs. 11,241.41 million into perpetual non-cumulative preference share capital, while retaining the balance amount aggregating Rs. 3,241.41 million as equity share capital of the Bank. Pursuant to the approval of the Department of Economic Affairs (Banking Division), MoF, GoI, by its letter dated March 31, 2007, the Board by its resolution dated April 26, 2007, approved the division of the perpetual non-cumulative preference share capital into 800,000,000 perpetual non-cumulative preference shares of Rs. 10 each and 324,141,460 Equity Shares of Rs. 10 each.

(3) Except for this restructuring of the capital as stated in note (2) above, there has been no change to the authorised share capital of the Bank since its nationalisation on July 19, 1969.

(4) The Board authorised a fresh issue of 80,000,000 Equity Shares in an initial public offering pursuant to a resolution passed at its meeting held on April 23, 2007. The Department of Economic Affairs (Banking Division), MoF, GoI, has, by its letter dated January 24, 2007 granted its approval for the present Issue of 80 million Equity Shares. For further details, see the sections titled "Capital Structure – Notes to Capital Structure" below, "Other Regulatory and Statutory Disclosures – Authority for the Issue" on page 293 of this Red Herring Prospectus and "Licenses and Approvals – Approvals for the Issue" beginning on page 289 of this Red Herring Prospectus.

**Notes to Capital Structure**

**1. Share capital history of the Bank since nationalisation on July 19, 1969**:

The table below sets forth the share capital history of the Bank since nationalisation on July 19, 1969:

(Rs. in million)

| Period ended | Increase / (Decrease) | Source | Mode | Paid-up capital |
|---|---|---|---|---|
| At the time of nationalization | | | | 47.51 |
| December 31, 1982 | 25.00 | GoI | Cash | 72.51 |
| December 31, 1985 | 417.40 | GoI | 7.75% Central Government Special Securities | 489.91 |
| December 31, 1986 | 270.00 | GoI | 7.75% Central Government Special Securities | 759.91 |
| March 31, 1988 | 240.00 | GoI | 7.75% Central Government Special Securities | 999.91 |
| March 31, 1989 | 330.00 | GoI | 7.75% Central Government Special Securities | 1,329.91 |
| March 31, 1992 | 500.00 | GoI | 7.75% Central Government Special Securities | 1,829.91 |
| March 31, 1994 | 4,900.00 | GoI | 10% Nationalised Banks Recapitalisation Bonds, 2006 | 6,729.91 |
| March 31, 1995 | 6,324.60 | GoI | 10% Nationalised Banks (Non-transferable) Special Security 2006 | 13,054.51 |
| March 31, 1997 | 5,000 | GoI | 10% Nationalised Banks (Non-transferable) Special Security 2009 | 18,054.51 |

(Rs. in million)

| Period ended | Increase / (Decrease) | Source | Mode | Paid-up capital |
|---|---|---|---|---|
| March 31, 2002 | (6,813.10) | Reduction of capital | Capitalization of accumulated losses | 11,241.41 |
| March 31, 2007 | (8,000)* | Conversion to preference share capital | - | 3,241.41 |

* 800,000,000 perpetual non-cumulative preference shares of Rs. 10 each were allotted to our Promoter, the GoI acting through the President of India. These perpetual non-cumulative preference shares have a floating coupon rate, benchmarked to the repo rate plus 100 basis points per annum, which would be readjusted annually based on the prevailing repo rate. The Bank has, pursuant its letter dated April 7, 2007, sought the approval of the GoI to reset the coupon rate at the repo rate, although such approval has not been received as at the date of this Red Herring Prospectus. The preference shares are outstanding as of the date of this Red Herring Prospectus.

**2. Promoters Contribution and Lock-in**

Pursuant to the SEBI Guidelines, an aggregate of 20% of the fully diluted post-Issue capital of the Bank held by the Promoters shall be locked in for a period of three years from the date of Allotment of Equity Shares in the Issue. Further, pursuant to Clause 4.14.1 of the SEBI Guidelines, the entire Pre-Issue capital, other than that locked in as minimum Promoter's contribution, shall be locked in for a period of one year from the date of Allotment of Equity Shares in the Issue. The Bank's issued share capital consists only of Equity Shares and Preference Shares issued to the GoI on March 31, 2007. Accordingly, these are the only Equity Shares available to calculate Promoter's contribution in terms of Clause 4.6.2 of the SEBI Guidelines. The Department of Economic Affairs (Banking Division), MoF, GoI has, through its letter no. F. No. 11/17/2003-BOA dated May 18, 2007, agreed that 20% of the post-Issue capital held by the GoI shall be locked in for a minimum period of three years from the date of Allotment in the Issue and the remaining equity held by the GoI shall be locked in for a period of one year from the date of Allotment in the Issue.

In terms of clause 4.16.1(b) of the SEBI Guidelines, Equity Shares held by the Promoter may be transferred to and among 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 (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as applicable.

In addition, the Equity Shares subject to lock-in will be transferable subject to compliance with 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 provided a pledge of the Equity Shares is one of the terms of the sanction of the loan and such loan has been granted by the banks or financial institutions for the purpose of financing one or more of the objects of the Issue.

**3. Shareholding Pattern of our Bank**

The table below presents our shareholding pattern before the proposed Issue and as adjusted for the Issue:

| | Pre-Issue | | Post-Issue | |
|---|---|---|---|---|
| | Number of Equity Shares | Percentage of Equity Share capital | Number of Equity Shares | Percentage of Equity Share capital |

| | Pre-Issue | | Post-Issue | |
|---|---|---|---|---|
| | Number of Equity Shares | Percentage of Equity Share capital | Number of Equity Shares | Percentage of Equity Share capital |
| **Promoter** | | | | |
| President of India | 324,141,460 | 100 | 324,141,460 | 80.20 |
| **Sub Total (A)** | 324,141,460 | 100 | 324,141,460 | 80.20 |
| **Eligible Employees* (B)** | - | - | 4,000,000 | 1.00 |
| **Public (pursuant to the Issue) (C)** | - | - | 76,000,000 | 18.80 |
| **Total share capital (A+B+C)** | **324,141,460** | **100** | **404,141,460** | **100** |

* Assuming the Employee Reservation Portion is fully subscribed by the Eligible Employees

**4.** On March 31, 2007, our Bank issued and allotted 800,000,000 perpetual non-cumulative preference shares of Rs. 10 each to our Promoter, the GoI acting through the President of India. These perpetual non-cumulative preference shares have a floating coupon rate, benchmarked to repo rate plus 100 basis points, which would be readjusted annually based on the prevailing repo rate. The Bank has, pursuant to its letter dated April 7, 2007, sought the approval of the GoI to reset the coupon rate at the repo rate, although such approval has not been received as at the date of this Red Herring Prospectus.

**5. Equity Shares held by top shareholders of the Bank**

(a) The top shareholder of the Bank as of the date of filing this Red Herring Prospectus with SEBI and ten days prior to the date of filing this Red Herring Prospectus with SEBI is as follows:

| Sr. No. | Name | Number of Equity Shares | Percentage |
|---|---|---|---|
| 1. | The Government of India, through the President of India | 324,141,460 | 100 |
| | **Total** | **324,141,460** | **100** |

(b) Two years prior to the date of filing this Red Herring Prospectus with SEBI:

Since our paid-up capital was converted into share capital with effect from March 31, 2007, we had no shareholders two years prior to the date of filing this Red Herring Prospectus with SEBI. The President of India held 100% of the paid-up capital of the Bank.

**6.** On March 31, 2007, the Bank restructured its entire paid up capital by conversion of an amount aggregating Rs. 8,000 million out of the equity share capital of Rs. 11,241.41 million into perpetual non-cumulative preference share capital, while retaining the balance amount aggregating Rs. 3,241.41 million as equity share capital of the Bank. To give effect to this restructuring, the Bank issued 324,141,460 Equity Shares of Rs. 10 each to the Promoter, without payment by the Promoter.

**7.** As of the date of this Red Herring Prospectus, none of our Directors or key managerial personnel holds Equity Shares in the Bank.

**8.** The Bank has, by a resolution of its Board, authorised a fresh issue of 80,000,000 Equity Shares in an initial public offering pursuant to a resolution passed at its meeting held on April 23, 2007. The Department of Economic Affairs (Banking Division), Ministry of Finance, Government of India, has, by its letter dated January 24, 2007, granted its approval for the present Issue of 80,000,000 Equity Shares. The Foreign Exchange Department, RBI has, by its letter dated May 24, 2007, approved the issue of Equity Shares to non-residents including NRIs/FIIs up to 20% of the post-Issue paid up capital of the Bank.

**9.** Neither the Promoter nor our Directors have purchased or sold any Equity Shares, directly or indirectly, during a period of six months preceding the date on which this Red Herring Prospectus was filed with SEBI.

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

**11.** We have not raised any bridge loan against the proceeds of this Issue.

**12.** There are no outstanding warrants, options or other financial instruments or rights that may entitle any person to receive any Equity Shares in the Bank.

**13.** In terms of Rule 19(2)(b) of the Securities Contract Regulation Rules, 1957, this being an Issue for less than 25% of the post-Issue capital, the Issue is being made through the 100% Book Building Process wherein at least 60% of the Net Issue shall be Allotted on a proportionate basis to Qualified Institutional Buyers ("QIBs"). 5% of the QIB portion shall be available for allocation to Mutual Funds only and the remaining QIB portion shall be available for allocation to all the QIB Bidders, including Mutual Funds, subject to valid Bids being received at or above the Issue Price. If at least 60% of the Net Issue cannot be allotted to QIBs, then the entire application money will be refunded. Further, not less than 10% of the Net Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 30% 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.

**14.** Further, 5% of the Issue, i.e., 4,000,000 Equity Shares, has been reserved for allocation to Eligible Employees on a proportionate basis, subject to valid Bids being received at or above the Issue Price. Only Eligible Employees, as defined, who are Indian nationals based in India and are physically present in India on the date of submission of the Bid cum Application Form would be eligible to apply in this Issue under the Employee Reservation Portion. Employees, other than as defined, are not eligible to participate in the Employee Reservation Portion. The maximum bid under the Employee Reservation Portion by an Eligible Employee cannot exceed 4,000,000 Equity Shares. If the aggregate demand in the Employee Reservation Portion is greater than 4,000,000 Equity Shares at or above the Issue Price, allocation shall be made on a proportionate basis. Eligible Employees may bid in the Net Issue to the public portion as well and such Bids shall not be treated as multiple Bids. Any under subscription in the Employee Reservation Portion would be treated as part of the Net Issue.

**15.** Under-subscription, if any, in any category other than the QIB Portion, would be met with spill-over from other categories or combination of categories at the discretion of the Bank in consultation with the BRLMs.

**16.** Oversubsciption to the extent of 10% of the Issue can be retained for the purpose of rounding off while finalising the basis of Allotment.

**17.** An investor 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.

**18.** 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 the date of filing the Draft Red Herring Prospectus with SEBI until the Equity Shares offered in this Issue are listed.

**19.** 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 a share split or consolidation of the denomination of Equity Shares or further issue of Equity Shares or securities convertible into or exchangeable, directly or indirectly, for Equity Shares, whether on a preferential basis or otherwise. However, we may enter into joint ventures or acquisitions and we may consider raising additional capital to fund such activity or use our Equity Shares as currency for acquisition or participation in such joint ventures.

**20.** Except as disclosed in this Red Herring Prospectus, we have not issued any Equity Shares out of revaluation reserves or for consideration other than cash.

**21.** Refer to our financial statements relating to related party transactions in the section titled "Related Party Transactions" beginning on page 157 of this Red Herring Prospectus.

**22.** There will be only one denomination of 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.

**23.** Under section 3A of the Bank Acquisition Act, no notice of any trust, express, implied or constructive, shall be entered in the register or be receivable by the Bank. In terms of this section, while trusts could make investment in Equity Shares of the Bank, this could only be in the name of trustees and no details of the trusts would be taken cognisance of by the Bank in its Register of Shareholders.

**24.** Section 3(2E) of the Bank Acquisition Act provides that no shareholder other than the GoI shall be entitled to exercise voting rights in respect of any Equity Shares held by him/her in excess of one per cent of the total voting rights all the shareholders of the Bank.

**25.** As on the date of filing this Red Herring Prospectus, the GoI, through the President of India is our sole shareholder.

## OBJECTS OF THE ISSUE

The objects of the Issue are as follows:

The RBI, which regulates us, requires us to maintain a minimum CRAR of 9.0%, at least half of which should consist of Tier I capital. As per our restated standalone financial statements, our total capital adequacy ratio was 10.40% and our Tier I capital adequacy ratio was 6.32% as of March 31, 2007 compared with 11.03% and 7.19% as of March 31, 2006, respectively.

The RBI has adopted a phased approach to the implementation of the Basel II norms. New capital norms for market risk have been implemented over two years from the year ended March 31, 2005 and norms for credit risk and operational risk are proposed to be implemented with effect from the year ended March 31, 2008. In order to maintain consistency and harmony with international standards, banks have been advised to adopt the Standardised Approach for credit risk mitigation and the Basic Indicator Approach for operational risk mitigation with effect from March 31, 2008. The requirements for Tier I capital and total capital adequacy ratios are expected to increase with the proposed implementation of the Basel II standards.

The objects of the Issue are to augment our capital base to meet the future capital requirements arising out of the implementation of the Basel II standards and the growth in our assets, primarily our loan and investment portfolio due to the growth of the Indian economy and for other general corporate purposes including meeting the expenses of the Issue.

**Requirement and Sources of Funds**

| Requirement of Funds | Rs. In Million* |
|---|---|
| Augment our capital base to meet the future capital requirements arising out of the implementation of the Basel II standards and the growth in our assets, primarily our loan and investment portfolio due to the growth of the Indian economy, and for other general corporate purposes | [•] |
| Issue expenses | [•] |
| **Total** | **[●]** |

*To be incorporated after finalisation of Issue Price

As we are engaged in the business of banking, we are seeking to strengthen our capital base to support the future growth in our assets and comply with the capital adequacy requirements applicable to us. Other general corporate purposes would include development of infrastructure to support our business growth and service our customers.

The net proceeds of the Issue after deducting underwriting and management fees, underwriting commissions, IPO grading expenses and all other Issue related expenses are estimated at Rs. [•] million.

| Sources of Funds | Rs. In Million* |
|---|---|
| Net proceeds of the Issue | [•] |
| **Total** | **[●]** |

*To be incorporated after finalisation of Issue Price

Our Constitutional Documents enable us to undertake our existing activities and the activities for which the funds are being raised by us in the Issue.

**Issue Expenses**

The expenses of this Issue include, among others, underwriting and management fees, printing and distribution expenses, legal fees, statutory advertisement expenses, IPO grading expenses and listing fees. The estimated Issue expenses are as follows:

| Activity | Expense (in Rs. Million)* | % of total Issue expenses* | % of Issue size* |
|---|---|---|---|
| Lead management, underwriting commission | [•] | [•] | [•] |
| Advertising and Marketing expenses | [•] | [•] | [•] |
| Printing and stationery | [•] | [•] | [•] |
| Registrars fee, legal fee, etc. | [•] | [•] | [•] |
| IPO grading expenses | [•] | [•] | [•] |
| Others | [•] | [•] | [•] |
| **Total estimated Issue expenses** | **[●]** | **[●]** | **[●]** |

*To be incorporated after finalisation of Issue Price

In addition to the above, listing fees will be paid by the Bank out of the net proceeds of the Issue.

In terms of section 13 of the Banking Regulation Act, a banking company is prohibited from paying out, directly or indirectly, by way of commission, brokerage, discount or remuneration in any form in respect of any shares issued by it, any amount exceeding in the aggregate 2.5% of the paid up value of the shares. In terms of the approval of the GoI dated January 24, 2007, the Bank's request for exemption from applicability of section 13 of the Banking Regulation Act was approved, subject to a formal notification. The Bank made a further application dated April 20, 2007 to the Department of Economic Affairs (Banking Division), MoF, GoI seeking an exemption from the applicability of section 13. The Department of Economic Affairs (Banking Division), MoF, GoI has, by its notification dated May 17, 2007, exempted the Bank from the application of section 13 of the Banking Regulation Act for a period of five years from the date of the notification. This exemption will permit the Bank to pay out, directly or indirectly, by way of commission, brokerage, discount or remuneration in any form in respect of any shares issued by it, any amount exceeding in the aggregate 2.5% of the paid up value such shares.

## STANDALONE BASIS FOR ISSUE PRICE

The Issue Price will be determined by the Bank in consultation with the BRLMs on the basis of assessment of market demand for the Equity Shares through the Book Building Process. The face value of the Equity Shares is Rs. 10 each and the Issue Price is 8.5 times the face value at the lower end of the Price Band and 10.2 times the face value at the higher end of the Price Band. The financial data presented in this section are based on the Bank's standalone restated financial statements. Investors should also refer to the sections "Risk Factors" and "Financial Statements" on pages xi and 159, respectively, of this Red Herring Prospectus to get a more informed view before making the investment decision.

***Qualitative Factors***

1. We are a public sector banking institution in India and service over 25 million customers across India.

2. As at March 31, 2007, we had 3,194 branches in India spread over 27 states and three union territories.

3. Our advances increased by 38.18% to Rs. 517,954.67 million as at March 31, 2007 from Rs. 374,834.81 million as at March 31, 2006. As at March 31, 2007, housing and retail loans constituted 10.68% of our total outstanding credit.

4. Our total deposits increased by 24.51% from Rs. 664,826.48 million as of March 31, 2006, to Rs. 827,762.77 million as of March 31, 2007.

5. Our net NPAs to net advances ratio declined from 2.59% as of March 31, 2006 to Rs. 1.70% as of March 31, 2007.

***Quantitative Factors***

1. *Earnings Per Share (EPS)*

| Period | EPS (Rs.) | Weight |
|---|---|---|
| Year ended March 31, 2007 | 13.11 | 3 |
| Year ended March 31, 2006 | 5.69 | 2 |
| Year ended March 31, 2005 | 8.77 | 1 |
| **Weighted Average** | 9.913 | |

**The weighted average number of Equity Shares has been considered for calculation of EPS. Previous years' EPS has been calculated by dividing the profit available for equity shareholders in the previous years by the current number of equity shares of the Bank, i.e., 324.14 million shares. The profit available for equity shareholders is calculated as the Net Profit less preference share dividend and tax thereon.**

2. *Price to Earnings (P/E) ratio in relation to Issue Price of Rs. [•]*:

   a. Based on the standalone EPS of Rs. 13.11 for fiscal 2007, the P/E ratio is 6.48 at the lower end of the price band and 7.78 at the higher end of the price band

   b. Based on the standalone weighted average EPS of Rs. 9.913, the P/E ratio is 8.57 at the lower end of the price band and 10.29 at the higher end of the price band

   c. Industry P/E#

      i) Highest: 17.7
      ii) Lowest: 4.9
      iii) Average: 10.4

\# **Source: "Capital Market" Volume XXII/09 dated July 2, 2007 to July 15, 2007 for the category titled 'Banks-Public Sector'.**

3. *Return on Net Worth*

| Period | Return on Net Worth (%) | Weight |
|---|---|---|
| Year ended March 31, 2007 | 15.07 | 3 |
| Year ended March 31, 2006 | 8.77 | 2 |
| Year ended March 31, 2005 | 14.32 | 1 |
| **Weighted Average** | **12.845** | |

**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 our audited restated financial statements.**

4. *Minimum Return on Increased Net Worth Required to maintain pre-Issue EPS.*

The minimum return on increased net worth required to maintain pre-Issue EPS of Rs. 13.11 is 13.31% at the lower end of the price band and 12.87% at the higher end of the price band.

5. *Book Value per Equity Share.*

As of March 31, 2007: Rs. 77.25

After the Issue: Rs. 98.49 at the lower end of the price band and Rs. 101.85 at the higher end of the price band.

Issue Price per Equity Share will be determined on conclusion of the Book Building Process.

6. *Comparison of Accounting Ratios as of March 31, 2007.*

| | EPS (Rs.) | P/E | Return On Average Net Worth (%) | Book Value Per Share (Rs.) |
|---|---|---|---|---|
| **Central Bank** | 13.11 | [•] | 15.07 | 77.25 |
| | | | | |
| **Peer Group** | | | | |
| Bank of Baroda | 26.8 | 10.1 | 12.5 | 235.7 |
| Bank of India | 22.3 | 9.9 | 21.3 | 117.9 |
| Canara Bank | 33.5 | 7.9 | 18.8 | 197.8 |
| Union Bank of India | 16.2 | 8.2 | 19.2 | 93.7 |
| **Peer Group (Simple) Average** | **24.7** | **9.03** | **17.95** | **161.275** |

**Source: "Capital Market" Volume XXII/09 dated July 2, 2007 to July 15, 2007 for the category titled 'Banks-Public Sector'.**

The peer group above has been determined on the basis of listed public-sector banks comparable in size to our Bank whose business portfolio is directly comparable with that of our business.

The Issue Price of Rs. [•] is determined by the Bank, in consultation with the BRLMs, on the basis of assessment of market demand for the Equity Shares through the Book Building Process and is justified based on the above accounting ratios. See the section titled "Risk Factors", "Our Business" and "Financial Statements" on pages xi, 45 and 159 of this Red Herring Prospectus to have a more informed view.

## CONSOLIDATED BASIS FOR ISSUE PRICE

The Issue Price will be determined by the Bank in consultation with the BRLMs on the basis of assessment of market demand for the Equity Shares through the Book Building Process. The face value of the Equity Shares is Rs. 10 each and the Issue Price is 8.5 times the face value at the lower end of the Price Band and 10.2 times the face value at the higher end of the Price Band. The financial data presented in this section, other than in " – Qualititiave Factors", are based on the Bank's consolidated restated financial statements. The financial data presented in " – Qualititiave Factors" are based on the Bank's standalone restated financial statements. Investors should also refer to the sections "Risk Factors" and "Financial Statements" on pages xi and 159, respectively, of this Red Herring Prospectus to get a more informed view before making the investment decision.

***Qualitative Factors***

1. We are a public sector banking institution in India and service over 25 million customers across India.

2. As at March 31, 2007, we had 3,194 branches in India spread over 27 states and 4 union territories.

3. Our advances increased by 38.18% to Rs. 517,954.67 million as at March 31, 2007 from Rs. 374,834.81 million as at March 31, 2006. As at March 31, 2007, housing and retail loans constituted 10.68% of our total outstanding credit.

4. Our total deposits increased by 24.51% from Rs. 664,826.48 million as of March 31, 2006, to Rs. 827,762.77 million as of March 31, 2007.

5. Our net NPAs to net advances ratio declined from 2.59% as of March 31, 2006 to Rs. 1.70% as of March 31, 2007.

***Quantitative Factors***

1. *Earnings Per Share (EPS)*

| **Period** | **EPS (Rs.)** | **Weight** |
|---|---|---|
| Year ended March 31, 2007 | 13.47 | 3 |
| Year ended March 31, 2006 | 5.45 | 2 |
| Year ended March 31, 2005 | 8.84 | 1 |
| **Weighted Average** | **10.025** | |

**The weighted average number of Equity Shares has been considered for calculation of EPS. The weighted average number of Equity Shares has been considered for calculation of EPS. Previous years' EPS has been calculated by dividing the profit available for equity shareholders in the previous years by the current number of equity shares of the Bank, i.e., 324.14 million shares. The profit available for equity shareholders is calculated as the Net Profit less preference share dividend and tax thereon.**

2. *Price to Earnings (P/E) ratio in relation to Issue Price of Rs. [•]*:

   a. Based on the EPS of Rs. 13.47 for fiscal 2007, the P/E ratio is 6.31at the lower end of the price band and 7.57 at the higher end of the price band

   b. Based on the weighted average EPS of Rs. 10.025, the P/E ratio is -8.48 at the lower end of the price band and 10.17 at the higher end of the price band

c. Industry P/E#

i) Highest: 17.7
ii) Lowest: 4.9
iii) Average: 10.4

\# **Source: "Capital Market" Volume XXII/09 dated July 2, 2007 to July 15, 2007 for the Category titled 'Banks-Public Sector'.**

3. *Return on Net Worth*

| Period | Return on Net Worth (%) | Weight |
|---|---|---|
| Year ended March 31, 2007 | 15.44 | 3 |
| Year ended March 31, 2006 | 8.52 | 2 |
| Year ended March 31, 2005 | 14.38 | 1 |
| **Weighted Average** | **12.957** | |

**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 our audited restated financial statements.**

4. Minimum Return on Increased Net Worth Required to maintain pre-Issue EPS.

The minimum return on increased net worth required to maintain pre-Issue EPS of Rs. 13.47 is 13.68 % at the lower end of the price band and 13.22% at the higher end of the price band.

5. Book Value per Equity Share

As of March 31, 2007 is Rs. 77.14

After the Issue: Rs. 98.49 at the lower end of the price band and Rs. 101.85 at the higher end of the price band.

Issue Price per Equity Share will be determined on conclusion of the Book Building Process.

6. Comparison of Accounting Ratios as of March 31, 2007

| | EPS (Rs.) | P/E | Return On Net Worth (%) | Book Value Per Share (Rs.) |
|---|---|---|---|---|
| **Central Bank of India** | 13.11 | [•] | 15.07 | 77.14 |
| | | | | |
| **Peer Group** | | | | |
| Bank of Baroda | 26.8 | 10.1 | 12.5 | 235.7 |
| Bank of India | 22.3 | 9.9 | 21.3 | 117.9 |
| Canara Bank | 33.5 | 7.9 | 18.8 | 197.8 |
| Union Bank of India | 16.2 | 8.2 | 19.2 | 93.7 |
| **Peer Group (Simple) Average** | **24.7** | **9.03** | **17.95** | **161.275** |

**Source: "Capital Market" Volume XXII/09 dated July 2, 2007 to July 15, 2007 for the Category titled 'Banks-Public Sector'.**

The peer group above has been determined on the basis of listed public-sector banks comparable in size with our Bank whose business portfolio is directly comparable with that of our business.

The Issue Price of Rs. [•] is determined by the Bank, in consultation with the BRLMs on the basis of assessment of market demand for the Equity Shares through the Book Building Process and is justified based on the above accounting ratios. See the section titled “Risk Factors”, “Our Business” and “Financial Statements” on pages xi, 45 and 159 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. 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 also be 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.

### UNDER THE INCOME TAX ACT, 1961

All Section references in this Statement of Tax Benefits are to the Income Tax Act, 1961 (the "Income Tax Act") unless stated otherwise.

### To the Bank

### General Tax Benefits

Under the Income Tax Act, the Bank is entitled to various deductions as applicable to an Indian Resident Company. The following are the important beneficial provisions that are presently available to the Bank.

1. Under Section 10(15)(i), income by way of interest, premium on redemption or other payment on securities, bonds, etc. issued by the Government and deposits notified by the Government is exempt from tax, subject to such conditions and limits as may be specified by Government in this behalf.

2. Under Section 10(15)(vii), interest earned on notified bonds issued by a local authority.

3. Under Section 10(34), income earned by way of dividend from another domestic company is exempt from tax in the hands of the Bank.

4. Under Section 10(35), income received in respect of units of a mutual fund specified under Section 10(23D), 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.

5. Under Section 10(38), 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, whereas short-term capital gains are subject to a concessional rate of tax under Section 111A at the rate of 10% (plus applicable surcharge and education cess). However, minimum alternate tax of 10% (plus applicable surcharge and education cess) on 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 tax payable as per normal provision of the Income Tax Act. If the shares or units on which securities transaction tax has been paid are treated as stock-in-trade and their transactions give rise to income liable to tax as profits and gains of business, rebate can be claimed from the income tax payable by the Bank in accordance with provisions of Section 88E towards such securities transaction tax, subject to the maximum of the amount of tax payable on such income.

6. The benefit of exemption from tax under Section 10(38) on long term capital gains, or, concessional rate of tax under Section 111-A 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, 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. Under Section 48, 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. In respect of short term capital gains not chargeable under Section 111-A, the short term capital gains in respect of shares held for a period less than 12 months, is added to total income. The total income, including short term capital gains, is chargeable to tax as per the relevant rate applicable to the bank plus applicable surcharge and education cess.

7. Under 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) to mean a bond issued by any infrastructure capital company or infrastructure capital fund or public sector company on or after June 1, 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 Government in this behalf.

8. Under the provisions of clause (d) of proviso to Section 43(5), an eligible transaction in respect of trading in derivatives referred to in clause (ac) of Section 2 of the 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.

9. Under Section 54EC, 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 subject to maximum of Rs. 5 million per year in any specified long-term asset for the purposes of Section 54EC. If only a portion of the capital gains is so invested, then the exemption would be available proportionately.

**Special Tax Benefits**

The following are the special deductions available to the Bank in computing the Gross Total Income of the Bank:

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

   (i) up to 7.5% of the total income (computed before making any deductions under the said clause and Chapter VI-A); and
   (ii) up to 10% of the aggregate average advances made by the rural branches, if any, of the Bank computed in the prescribed manner.

   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 Government provided that such income is disclosed in the return of income of the Bank under the head "Profits & Gains of Business or Profession".

2. Under Section 36(1)(vii), the amount of any bad debt, or part thereof, written off as irrecoverable in the accounts of the bank for the previous year. However, the amount of the deduction relating to

any such debt or part thereof shall be limited to the amount by which such debt pt part thereof exceeds the credit balance in the provision for bad and doubtful debts account made under Section 36(1)(viia).

3. Under Section 43D, 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

4. Under Section 80LA as amended by SEZ Act, 2005 with effect from February 10, 2006, where the Bank's gross total income, in any previous year, includes income from an Offshore Banking Unit 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, then it shall, subject to the fulfillment of the conditions specified in Section 80LA, 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 is obtained, and after those five years, 50% deduction of such income for the next five consecutive assessment years.

**To the Shareholders of the Bank**

The following are the benefits as per the current tax laws to a shareholder in the Bank. However, in view of the individual nature of the tax consequences, prospective investors are advised to consult his/her/their own tax advisor with respect to the specific tax consequences of his/her/their purchasing Equity Shares in the Issue:

***To all Shareholders***

1. Under Section 10(34), dividends declared, distributed or paid by the Bank are exempt from income tax in the hands of the recipient shareholders. However, the Bank is liable to pay dividend distribution tax at 15% and applicable surcharge and education cess.

2. Under Section 94(7), 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, shall be disallowed to the extent dividend on such shares are claimed as tax exempt by the shareholder.

3. Under Section 54EC, subject to the conditions specified therein, capital gains arising from the transfer of a long-term capital asset (including the Equity Shares) 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 subject to maximum of Rs. 5 million a year 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. Under Section 54F, 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 the equity 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 equity 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.

5. Capital gains arising on transfer of long term capital assets, being equity shares in the Bank, on sale of which securities transaction tax is paid, are exempt under Section 10(38), whereas short-term capital gains are subject to tax under Section 111A 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) on book profit under Section 115JB on such long term capital gains if 10% on their book profit computed as per provisions of Section 115JB is higher than the total income tax payable as per normal provisions of the Income Tax Act. If the shares on which securities transaction tax has been paid are treated as stock-in-trade, and their transactions give rise to income liable to tax as profits and gains of business, rebate can be claimed in accordance with provisions of Section 88E towards such securities transaction tax, subject to the maximum of the amount of tax payable on such income.

6. The benefit of exemption from tax under Section 10(38), on long-term capital gains or, concessional rate of tax under Section 111A, 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, 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. 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.

*To Non-Resident Shareholders in Particular*

The following benefits are available to non-resident shareholders governed by the provisions of Chapter XII-A of the Income Tax Act:

1. Under Section 115-E, where the total income of the shareholder includes dividend (not being dividend referred to in Section 115-O) or long-term capital gains (such transaction is not chargeable to securities transaction tax), then the tax payable by him shall be the aggregate of the amount of income-tax calculated on the income in respect of investment income referred hereinabove at the rate of 20% and the amount of income-tax calculated on the income by way of long-term capital gains referred hereinabove at the rate of 10%.

2. Under Section 115F, where the shareholder having long term capital gains (not exempt under Section 10(38)) arising from the transfer of the equity shares of the Bank has invested within a period of six months after the date of transfer, the whole or any part of the net consideration in specified asset or in any savings certificates referred to in clause (4B) of Section 10 then, such capital gains shall be as under:

    i) where the cost of the new asset is not less than the net consideration in respect of the original asset, the whole of such capital gain shall not be charged under Section 45;

    ii) where the cost of the new asset is less than the net consideration in respect of the original asset, so much of the capital gain as bears to the whole of the capital gain the same proportion as the cost of acquisition of the new asset bears to the net consideration shall not be charged under Section 45.

    iii) under Section 115-H, where a Non-Resident Indian shareholder subsequently becomes assessable as a resident in India in respect of the total income of any subsequent year, he may, at his option, furnish to the assessing officer a declaration in writing along with his return of income under Section 139 for the assessment year for which he is so assessable, to the effect that the provisions of this Chapter XII-A shall continue to apply to him in relation to the income derived from the equity shares of the Bank (in this case would also be a foreign exchange asset) and if he does so, the provisions of the Chapter XII-A shall continue to apply to him in relation to such income for that assessment year and for every subsequent assessment year until the transfer or conversion (otherwise than by transfer) into money of the equity shares of the Bank.

3. Under Section 115-AD, where the total income of a Foreign Institutional Investor ("Foreign Institutional Investor" means such investor as the Government may, by notification in the Official Gazette, specify in this behalf) includes dividend (other than dividends referred to in Section 115-O) received in respect of the equity shares of the Bank, or income by way of short-term or long-term capital gains arising from the transfer of such securities, the income-tax payable shall be the aggregate of:

   i) the amount of income-tax calculated on dividends at the rate of 20%;

   ii) the amount of income-tax calculated on the income by way of short-term capital gains at the rate of 30%. However, the amount of income-tax calculated on the income by way of short-term capital gains referred to in Section 111-A shall be at the rate of 10%; and

   iii) the amount of income-tax calculated on the income (calculated in the specified manner) by way of long term capital gains included in the total income, at the rate of 10%.

   Further, as per Section 196-D, where any dividend income (other than dividends referred to in Section 115-O) is payable to a Foreign Institutional Investor, the person responsible for making the payment shall, at the time of credit of such income to the account of the payee or at the time of payment thereof deduct income-tax thereon at the rate of 20%. However, no deduction of tax shall be made from any income, by way of capital gains arising from the transfer of securities referred to in Section 115-AD, payable to a Foreign Institutional Investor.

   The above provisions will be further subject to benefits under the double taxation avoidance agreement, if any, between India and the country in which the non-resident has fiscal domicile.

***To Mutual Funds***

Under Section 10(23D), any income from investments in the equity 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 Government may, by notification in the Official Gazette, specify in this behalf.

**UNDER THE WEALTH TAX ACT, 1957**

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 the Equity Shares.

# OUR INDUSTRY

The information in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the GoI and its various ministries, the RBI and the Indian Banks' Association and has not been prepared or independently verified by us or any of our advisors. Wherever we have relied on figures published by the RBI, unless stated otherwise, we have relied on the RBI Annual Report, 2005-2006, Trend and Progress of Banking in India 2004-05 and 2005-06, Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks as on December 2006, the RBI's Annual Policy Statements 2007-08 and the Mid-Term Review of the RBI's Annual Policy Statement for 2006-2007. Wherever we have relied on figures published by the Indian Banks' Association, unless stated otherwise, we have relied on Performance Highlights of Public Sector Banks 2005-06 and Indian Banking at a Glance 2006. References herein to "2003-04", "2004-05", "2005-06", etc. refer to the years ended March 31, 2004, March 31, 2005 and March 31, 2006, etc.

## History

The East India Company set up Bank of Bombay in 1720 with the objective of increasing trade. In 1786, the General Bank of India was floated, which claimed limited liability on the shareholders. Subsequently, other banks, viz., the Carnatic Bank (1788), the Madras Bank (1795), the British Bank (1795) and the Asiatic Bank (1804) were established as private institutions. The evolution of the modern commercial banking industry in India can be traced to 1806 with the establishment of the Bank of Calcutta, later renamed to Bank of Bengal in 1809. Three presidency banks were set up in Calcutta, Bombay and Madras. In 1860, the limited liability concept was introduced in banking, resulting in the establishment of joint stock banks. In 1921, the three presidency banks were amalgamated to form the Imperial Bank of India, which took on the role of a commercial bank, a bankers' bank and a banker to the Government. The establishment of the RBI as the central bank of the country in 1935 ended the quasi-central banking role of the Imperial Bank of India. In order to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state sponsored bank taking over the Imperial Bank of India and integrating with it, the former state-owned and state-associate banks. Accordingly, the State Bank of India ("SBI") was constituted in 1955. Subsequently in 1959, the State Bank of India (Subsidiary Bank) Act was passed, enabling the SBI to take over eight former state-associate banks as its subsidiaries. In 1969, 14 private banks were nationalised followed by six private banks in 1980.

Until the 1980s, 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. Bank profitability was low, non-performing assets were comparatively high, capital adequacy was diminished, and operational flexibility was hindered.

The Government's economic reform program, which began in 1991, encompassed the financial sector. The first phase of the reform process began with the implementation of the recommendations of the Committee on the Financial System, i.e., the Narasimham Committee I. This was followed by reports submitted in 1998 by other Committees, such as the second Committee on Banking Sector Reform, i.e., the Narasimham Committee II and the Tarapore Committee on Capital Account Convertibility, and the second phase of reforms relating to capital adequacy requirements, asset classification and provisioning, risk management and merger policies. The deregulation of interest rates, the emergence of a liberalised domestic capital market, and the entry of new private sector banks have progressively intensified the competition among banks.

## Constituents of the Indian Banking Sector

The RBI is the central regulatory and supervisory authority for the Indian banking sector. The Indian banking sector is comprised of 84 scheduled commercial banks of which 28 are public sector banks, 19 old private banks, eight new private banks, 29 foreign banks as on June 30, 2006. In addition, there are 109 regional rural banks and 1,864 urban cooperative banks.

The discussion below presents an overview of the role and activities of the RBI and of participants in the Indian banking sector, with a focus on commercial banks.

***Reserve Bank of India***

The RBI is the central banking and monitoring agency**.** It manages the country's money supply and foreign exchange and also serves as a bank for the Government and for the country's commercial banks. In addition to these traditional central banking roles, the RBI undertakes certain developmental and promotional activities.

As a regulator, the RBI issues guidelines, notifications and circulars in various areas, including exposure norms, income recognition, asset classification, provisioning for non-performing assets, investment valuation and capital adequacy standards for commercial banks.

***Commercial Banks***

Commercial banks in India have traditionally focused on meeting the short-term financial needs of industry, trade and agriculture. They may be categorised as Scheduled Commercial Banks ("SCBs") and non-scheduled commercial banks.

SCBs are banks that are listed in the second schedule to the RBI Act, and may further be classified as public sector banks, private sector banks and foreign banks. SCBs have a presence throughout India, with nearly 66.5 per cent of the bank branches located in rural or semi-urban areas of the country. A large number of these branches belong to the public sector banks.

As on June 30, 2006 there were 109 regional rural banks, 28 public sector banks, 27 private banks, 29 foreign banks and four non-scheduled commercial banks in the country, with a total network of 69,104 branches.

***Public Sector Banks***

Public sector banks make up the largest category of banks in the Indian banking system. There are 28 public sector banks in India. They include the SBI and its seven associate banks and 19 nationalised banks and one other public sector bank. Nationalised banks are governed by the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980. The banks nationalised under the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980 are referred to as "corresponding new banks".

As on June 30, 2006, public sector banks had 47,950 branches and accounted for 71.4 per cent of the aggregate deposits and 70.2 per cent of the gross bank credit outstanding of the SCBs in India.

***Regional Rural Banks***

Regional Rural Banks ("RRBs") were established by the GoI, state governments and sponsoring commercial banks with a view to develop the rural economy. RRBs mainly provide credit to small farmers, artisans, small entrepreneurs and agricultural labourers. There were 109 RRBs as on June 30, 2006, with 14,369 branches and they accounted for 3.20 per cent of aggregate deposits and 2.6 per cent of the gross bank credit outstanding of the SCBs in India.

***Private Sector Banks***

After bank nationalisation was completed in 1969 and 1980, the majority of Indian banks were public sector banks. Some of the 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, the RBI permitted entry by the private sector into the banking system. This resulted in the emergence of nine private sector banks. These banks are collectively known as the "New Private Sector Banks". There are eight New Private Sector Banks operating as on June 30, 2006. In addition, 19 private sector banks existing prior to July 1993 were operating as on June 30, 2006. These are collectively known as the "Old Private Sector Banks". With 6,543 branches, as on June 30, 2006, these banks accounted for 20.0 per cent of aggregate deposits and 20.3 per cent of the gross bank credit outstanding of the SCBs in India.

***Foreign Banks***

As on June 30, 2006, there were 29 foreign banks with 242 branches operating in India and these banks accounted for 5.4 per cent of aggregate deposits and 6.90 per cent of the gross bank credit outstanding of the SCBs in India.

The GoI permits foreign banks to operate through (i) branches; (ii) a wholly owned subsidiary; or (iii) a subsidiary with aggregate foreign investment of up to 74 per cent in a private bank. The foreign direct investment limit in private sector banks is 74 per cent under the automatic route, including investment by FIIs.

***Cooperative Banks***

Cooperative banks cater to the financing needs of agriculture, small industry and self-employed businessmen in urban, semi-urban and rural areas of India. The state land development banks and the primary land development banks provide long-term credit for agriculture. The Banking Regulation (Amendment) and Miscellaneous Provisions Act, 2004, which came into effect from September 24, 2004, specifies that all multi-state co-operative banks are under the supervision and regulation of the RBI. Accordingly, the RBI is currently responsible for the supervision and regulation of urban co-operative societies, the National Bank for Agriculture and Rural Development ("NABARD"), state co-operative banks and district central co-operative banks.

**Banking Sector Trends**

Sustained demand for bank credit has characterised the Indian banking system in the past four years in consonance with the upturn in economic activity. Non-food credit extended by SCBs recorded an average annual growth of 26.1 per cent between 2002-03 and 2005-06, higher than that of 14.5 per cent recorded during the preceding four-year period (1998-99 to 2001-02).

The total advances of SCBs as on March 31, 2006 were Rs. 15,156,680 million, which translates into a growth of 31.98 per cent over the previous year.

The sharp expansion in credit in recent years also reflects, in part, policy initiatives to improve flow of credit to sectors like agriculture. The agricultural credit provided by co-operative banks, commercial banks and RRBs increased by 44 per cent and reached Rs. 1,253,090 million during 2004-05, compared to Rs. 869,810 million during 2003-04. The ground level credit flow to agriculture and allied activities reached Rs.1,574,800 million during 2005-06. Similarly, demand for credit by industry has shown a recovery in the current cyclical upturn. Growth of credit to the industrial sector accelerated from 15.6 per cent during the 1990s to 18.5 per cent between 2002-03 and 2004-05.

Retail loans, which witnessed a growth of over 40.0 per cent in 2004-05 and again in 2005-06, have been the prime driver of the credit growth in recent years. Retail loans as a percentage of gross advances increased from 22.0 per cent in March 2004 to 25.5 per cent in March 2006. Of the components of retail credit, the growth in housing loans was 50.0 per cent in 2004-05 and 34.0 per cent in 2005-06. Banks direct exposure to commercial real estate also more than doubled in the last financial year.

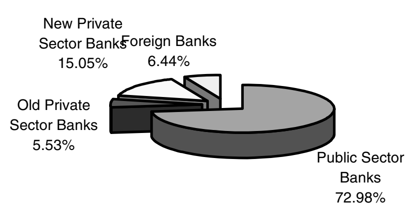
The program of linking self-help groups ("SHGs") with the banking system is an important component of the micro-finance programme in the country. As on March 31, 2006, as many as 1,996,488 (provisional) SHGs were linked to banks and the total credit to SHGs was Rs. 94,950 million. The Union Budget, 2006-07 (the "Budget") has proposed to enhance the annual target of credit linkage to 385,000 SHGs during the year. The Budget also announced a scheme providing short-term credit to farmers at 7 per cent per annum. The Government shall provide a subsidy of 2 per cent on all crop loans extended by banks.

Banks are permitted to use the services of SHGs, non-governmental organisations ("NGOs"), micro-finance institutions ("MFIs") and other civil society organisations ("CSOs") and post offices as intermediaries in providing financial and banking services.

The share of total retail credit in bank credit has increased from 6.4 per cent to 22.5 per cent between 1990 and 2006. The share of agriculture in total credit, which had declined from 15.9 per cent as on March 31, 1990 to 9.6 per cent as on March 31, 2001, has since recovered to 10.8 per cent as on March 31, 2005. The share of industry in total credit has continued to decline, falling to 38.8 per cent as on March 31, 2005 from a peak of 49.1 per cent as on March 31, 1999.

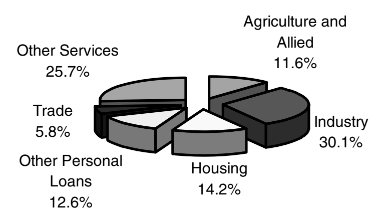
The following charts provide the share of advances among banks in 2005-06 and the incremental bank credit available to various sectors in 2005-06.

***Share of advances among banks in 2005-06***




*Source: IBA, Indian Banking at a Glance 2006*

***Incremental Bank Credit during 2005-06***

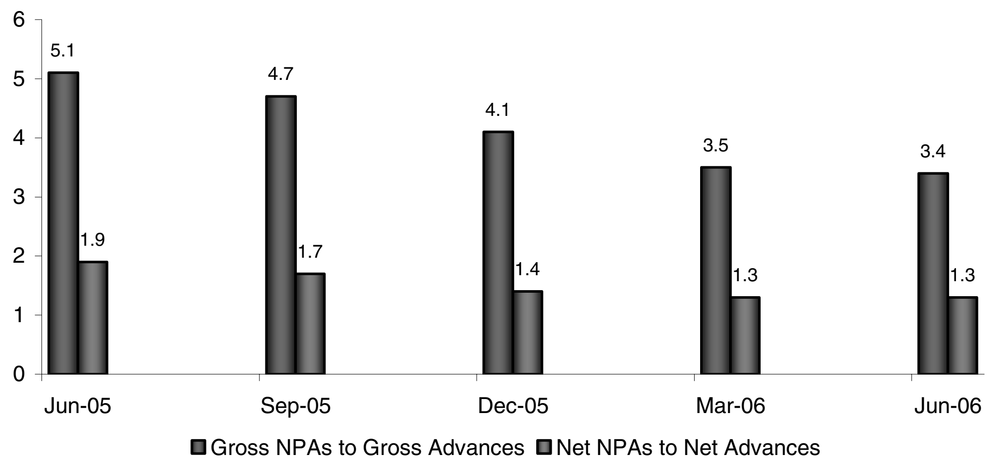



*Source: Reserve Bank Of India Annual Report 2005-06*

***Asset Quality***

The asset quality of SCBs improved during 2005-06, with gross and net NPA ratios reaching historical low levels of 3.5 per cent and 1.3 per cent, respectively, as on March 31, 2006. Robust economic activity and a better recovery climate have facilitated reduction in NPAs in recent years. The following chart shows the NPA ratios for SCBs for each quarter from the quarter ended June 30, 2005 to the quarter ended June 30, 2006.

***NPA Ratios for SCBs***



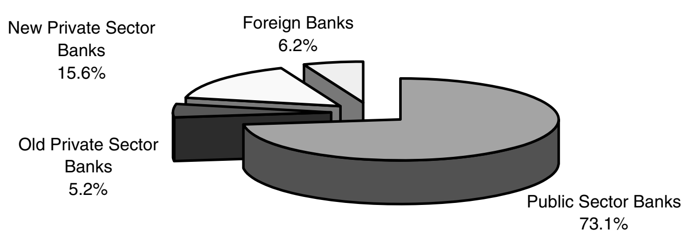

*Source: Reserve Bank Of India Annual Report 2005-06*

***Investments***

Investments by banks comprise two broad categories, namely, Government and other approved securities (SLR investments), and commercial paper, shares, bonds and debentures issued by the corporate sector and public sector undertakings (non-SLR investments). During 2005-06, investment of SCBs decreased by 0.2 per cent as against the increase of 8.1 per cent in the previous year.

The following chart shows investments by each category of banks in 2005-06.

***Banks' Investments in 2005-06***



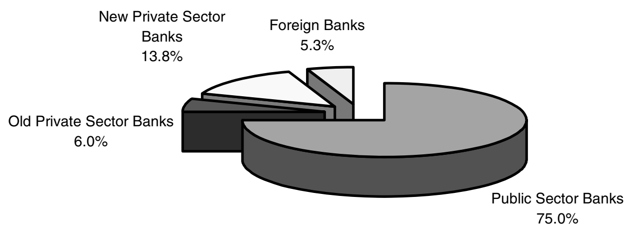

*Source: The RBI, Report on Trend and Progress of Banking in India 2005-06*

***Deposits***

Deposits of SCBs as on March 31, 2006 were Rs. 21,624,740 million, growing at a rate of 17.96 per cent in 2005-06 over 2004-05, compared to a growth of 17.45 per cent in 2004-05 over 2003-04.

The following chart shows the share of deposits by category of banks in 2005-06.

***Share of Deposits in 2005-06***



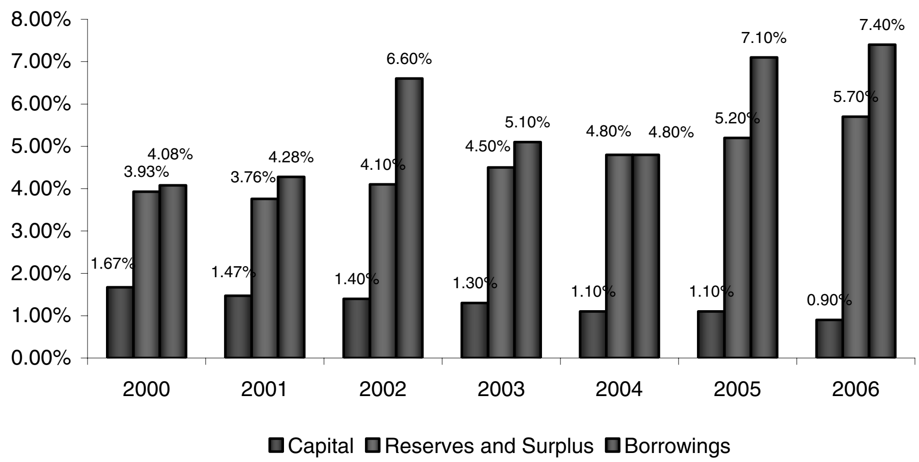

*Source: The RBI, Report on Trend and Progress of Banking in India 2005-06*

***Non Deposit Resources***

Banks have traditionally funded their lending operations with deposits. While deposits continue to be the main source of funding, the relative significance of non-deposit resources like borrowings, retained earnings and capital has increased.

The following chart shows the non-deposit resources of SCBs from 2000 to 2006.

***Non-Deposit Resources of SCBs - Changing Patterns***




(as a percentage of total liabilities/assets)

*Source: The RBI, Report on Trend and Progress of Banking in India 2004-05 and 2005-06*

***Income and profitability***

The total income of SCBs declined from 8.21 per cent of their assets in 2004-05 to 8.03 per cent in 2005-06, as both interest and non-interest income moderated during the year. Total expenditure (as a percentage of total assets), on the other hand, was unchanged from the previous year. As a result, earnings before provisions and taxes (as a percentage of total assets), during 2005-06 were lower than the previous year. However, in view of lower provisions, profits after tax (as a percentage of total assets), at 0.88 per cent during 2005-06 was almost the same as during 2004-05 (0.89 per cent).

Interest income, which is the major source of income, rose sharply by 18.59 per cent during 2005-06 compared to 9.8 per cent (including conversion impact) in 2004-05.

***Capital Adequacy***

The overall CRAR of SCBs at 12.4 per cent as on March 31, 2006 was less than the previous year's level (12.8 per cent). The decline in CRAR during 2005-06 could be attributed to the higher rate of increase in total risk weighted assets compared to the expansion in capital during the year.

***Technology***

Technology is emerging as a key-driver of business in the banking and financial services industry. Banks are developing alternative channels of delivery such as ATMs, telebanking, remote access and Internet banking. Indian banks have been making significant investments in technology. In addition to the computerisation of their front-office operations, the banks have moved towards back-office centralisation. 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. A number of banks have joined together in small clusters to share their ATM networks. There are currently five such ATM network clusters functioning in India. The total number of ATMs installed by the SCBs was 21,147 as on March 31, 2006.

As on April 13, 2007 RTGS connectivity was available in 28,776 branches against 24,425 as on October 23, 2006.

The launch of the pilot project for Cheque Truncation System, which aims at enhancing efficiency in the retail cheque clearing sector, is expected to be implemented in December 2007.

The National Electronic Funds Transfer ("NEFT") system for electronic transfer of funds, which was operationalised on November 1, 2005, is now available at 9,096 branches.

**Recovery/Rehabilitation of Debts**

***Debt Recovery Tribunals (DRTs)***

DRTs have been established under the Recovery of Debts due to Banks and Financial Institutions Act, 1993 for expeditious adjudication and recovery of debts that are owed to banks and financial institutions. Out of 71,399 cases for claims in a an amount of Rs. 1,112,930 million filed with DRTs by the banks, 36,803 cases for claims in a an amount of Rs. 427,920 million have been adjudicated as on March 31, 2006. The amount recovered as on March 31, 2006 through the adjudicated cases was Rs. 149,920 million.

***SARFAESI Act***

The SARFAESI Act passed in Parliament in 2002 gives powers of "seize and desist" to banks. Banks can give a 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. The SARFAESI Act also provides for the establishment of asset reconstruction companies regulated by the RBI to acquire assets from banks and financial institutions. The constitutionality of the SARFAESI Act was challenged in Mardia Chemicals Limited v. Union of India, AIR 2004 SC 2371. The Supreme Court upheld the validity of the SARFAESI Act, except Section 17(2), which it struck down on the ground that the requirement of making a deposit of 75 per cent of the amount claimed at the time of making a petition or an appeal to the DRT in order to challenge the measures taken by the creditor was unreasonable. In addition to the SARFAESI Act several states also have revenue recovery acts and lok adalats.

**Corporate Debt Restructuring ("CDR")**

In order to put in place an institutional mechanism for the restructuring of corporate debt, the RBI has devised a CDR system. The CDR system is a non-statutory, voluntary mechanism based on debtor-creditor and inter-creditor agreements. Multiple banking accounts with an exposure of Rs. 100 million and above may be referred to the CDR Forum.

The total membership of the CDR Forum, as on March 31, 2004 was 60, of which there were 14 FIs, 27 public sector banks and 19 private sector banks.

**Consolidation**

So far, consolidation has been limited to mergers of a few private banks or financially distressed banks. The Government has provided tax breaks aimed at promoting mergers and acquisitions. For instance, Section 72A and Section 72AA of the I.T. Act enable the acquiring entity, which could be a company, a corresponding new bank, a banking company or a specified bank to "carry forward and set-off accumulated losses and unabsorbed depreciation" of the acquired entity, subject to specified conditions being fulfilled.

Public sector banks are also forming certain alliances for cooperation in various areas, e.g., sharing of ATMs, cross-selling products etc.

**Performance Highlights of Public Sector Banks**

Salient features of the operations of public sector banks based on a few important parameters are given below:

***Total Assets*** – The total assets of the public sector banks increased from Rs. 17,739,810 million as on March 31, 2005 to Rs. 20,148,980 million as on March 31, 2006, a growth of 13.6 per cent which was lower than the growth of 20.5 per cent recorded in the previous year.

***Deposits*** – The total deposits mobilized by public sector banks increased from Rs. 14,365,410 million as on March 31, 2005 to Rs. 16,224,810 million as on March 31, 2006, a growth of 12.9 per cent, which was lower than the previous year's growth of 16.8 percent.

***Investments*** – Investments of public sector banks decreased in 2006. In absolute terms, total investments declined from Rs. 6,862,130 million as on March 31, 2005 to Rs. 6,337,410 million as on March 31, 2006, a decline of 7.6 per cent compared to a growth of 9.6 per cent in the previous year.

***Advances*** - The total advances of the public sector banks increased from Rs. 8,542,150 million as on March 31, 2005 to Rs. 11,061,280 million as on March 31, 2006, a growth of 29.5 per cent which was lower than a growth of 34.9 per cent in the previous year.

***NPAs*** - During the year, both gross and net NPA were lower than that of the previous year. Gross NPA declined from Rs. 484,060 million as on March 31, 2005 to Rs. 421,060 million as on March 31, 2006, a decline of 13.0 per cent compared to the previous year's decline of 8.1 per cent.

***Income*** - The total interest income of public sector banks increased from Rs. 1,203,650 million during 2004-05 to Rs. 1,376,140 million in 2005-06, a growth of 14.3 per cent compared to the previous year's growth of 9.9 percent.

***Expenditure*** – The total expenditure (excluding provisions and contingencies) increased from Rs. 1,058,060 million to Rs. 1,218,040 million, a growth of 15.1 per cent compared to 7.6 per cent in the previous year. Interest expenditure increased from Rs. 687,640 million during 2004-05 to Rs. 802,720 million during 2005-06, a growth of 16.7 per cent which was higher than the previous year's growth of 4.6 per cent.

***Profit*** – In absolute terms the total operating profit increased from Rs. 385,150 million during 2004-05 to Rs. 388,960 million during 2005-06. Growth in operating profit of the banks increased marginally from a decline of 1.9 per cent during 2004-05 to a growth of 0.99 per cent during 2005-06.

**(Rs. in million)**

| | **Year ended March 31,** | |
|---|---|---|
| | **2005** | **2006** |
| Deposits | 14,365,405.00 | 16,224,810.90 |
| Investments | 6,862,127.30 | 6,337,405.40 |
| Advances | 8,542,146.70 | 11,061,283.20 |
| Total Assets | 17,739,811.60 | 20,148,983.60 |
| Gross NPA | 484,061.00 | 421,061.10 |
| Net NPA | 169,035.40 | 145,595.90 |
| Interest Income | 1,203,650.50 | 1,376,140.90 |
| Other Income | 242,018.50 | 233,320.00 |
| Total Income | 1,445,669.20 | 1,609,460.80 |
| Expenditure (Excluding provisions and contingencies) | 1,058,060 | 1,218,040 |
| Operating Profit | 385,150 | 388,960 |
| Provisions &Contingencies | 230,730 | 223,575 |
| Net Profit | 154,420 | 165,390 |
| Credit Deposit Ratio | 59.46 | 68.18 |
| Investment Deposit Ratio | 47.77 | 39.06 |
| Spread as per cent of Assets | 2.91 | 2.85 |
| Opr Exp as per cent of Total Expenses | 35.01 | 34.1 |
| Net Profit as per cent of Assets | 0.87 | 0.82 |

*Source: The Indian Banks' Association*

**Competitive position of Public Sector Banks in India**

| **Name of Bank (in alphabetical order)** | **Total Income (Rs. in million)** | **Net Profit/Loss (Rs. in million)** | **Spread as % to Assets** | **Net NPAs to Net Advances (in percentage)** |
|---|---|---|---|---|
| | **2005-06** | **2005-06** | **2005-06** | **2005-06** |
| | | | | |
| Allahabad Bank | 43,739.30 | 7,061.30 | 2.85 | 0.84 |
| Andhra Bank | 31,324.40 | 4,855.00 | 2.87 | 0.24 |
| Bank of Baroda | 82,916.90 | 8,269.60 | 2.84 | 0.87 |
| Bank of India | 82,130.80 | 7,014.40 | 2.34 | 1.49 |
| Bank of Maharashtra | 25,266.90 | 507.90 | 2.71 | 2.03 |
| Canara Bank | 100,890.30 | 13,432.20 | 2.70 | 1.12 |
| Central Bank of India | 59,164.00 | 2,574.20 | 3.19 | 2.59 |
| Corporation Bank | 31,979.30 | 4,444.60 | 3.03 | 0.64 |
| Dena Bank | 22,191.20 | 729.90 | 2.72 | 3.04 |

| Name of Bank (in alphabetical order) | Total Income (Rs. in million) | Net Profit/Loss (Rs. in million) | Spread as % to Assets | Net NPAs to Net Advances (in percentage) |
|---|---|---|---|---|
| | 2005-06 | 2005-06 | 2005-06 | 2005-06 |
| Indian Bank | 38,959.90 | 5,044.80 | 3.17 | 0.79 |
| Indian Overseas Bank | 51,344.90 | 7,833.40 | 3.48 | 0.65 |
| Oriental Bank of Commerce | 46,716.90 | 5,571.60 | 2.72 | 0.49 |
| Punjab & Sind Bank | 14,505.50 | 1,083.30 | 3.31 | 2.43 |
| Punjab National Bank | 108,153.10 | 14,393.10 | 3.21 | 0.29 |
| Syndicate Bank | 46,419.90 | 5,364.90 | 3.08 | 0.86 |
| UCO Bank | 48,183.10 | 1,966.50 | 2.53 | 2.10 |
| Union Bank of India | 64,888.10 | 6,751.80 | 2.66 | 1.56 |
| United Bank of India | 28,169.90 | 2,045.70 | 3.07 | 1.95 |
| Vijaya Bank | 26,807.90 | 1,268.80 | 3.08 | 0.85 |
| State Bank of India (SBI) | 431,836.10 | 44,066.70 | 3.17 | 1.87 |
| State Bank of Bikaner & Jaipur | 23,250.40 | 1,450.30 | 3.61 | 1.18 |
| State Bank of Hyderabad | 33,387.50 | 4,270.40 | 2.69 | 0.36 |
| State Bank of Indore | 15,984.10 | 1,391.10 | 2.61 | 1.83 |
| State Bank of Mysore | 16,933.20 | 2,167.20 | 3.16 | 0.74 |
| State Bank of Patiala | 28,085.80 | 3,031.10 | 2.41 | 0.99 |
| State Bank of Saurashtra | 13,122.70 | 601.20 | 2.90 | 1.16 |
| State Bank of Travancore | 26,497.00 | 2,586.80 | 3.00 | 1.47 |
| IDBI Ltd. | 66,611.70 | 5,608.90 | 0.43 | 1.01 |

*Source: The Indian Banks' Association*

**Recent Policy Developments**

In its Annual Policy Statement 2007-08, the RBI introduced the following key measures:

- The fixed repo rate under the Liquidity Adjustment Facility was increased from 7.0 per cent to 7.75 per cent.

- Currently, the interest rate ceiling on FCNR (B) deposits of all maturities has been fixed at LIBOR/SWAP rates for the corresponding maturities minus 25 basis points for the respective foreign currencies. In view of the prevailing monetary conditions, RBI proposed to reduce, with immediate effect, the interest rate ceiling on FCNR (B) deposits by 50 basis points, i.e., to Libor minus 75 basis points.

- Currently, the interest rate ceiling on Non-Resident (External) Rupee Account ("NR(E)RA") for one to three years maturity should not exceed 50 basis points above LIBOR/SWAP rates for U.S. dollar of corresponding maturity. In view of the prevailing monetary conditions, RBI proposed to reduce, with immediate effect, the interest rate ceiling on NR(E)RA deposits by 50 basis points, i.e., to LIBOR/SWAP rates.

- The Reserve Bank has taken several initiatives to provide a more conducive environment for the conduct of foreign exchange business to provide prompt and efficient customer service by progressively liberalising foreign exchange related transactions, removing restrictions, simplifying procedures and by rationalization of overseas investments.

- The prudential limit on credit and non-credit facilities extended by banks to Indian joint ventures /wholly owned subsidiaries incorporate outside India was enhanced from 10 per cent to 20 per cent of unimpaired capital funds (Tier I and Tier II capital) of the bank with a view to facilitating the expansion of Indian corporates' business abroad.

- Structural and developmental measures for deepening and widening the government securities market were adopted.

- To improve the credit delivery mechanism and make available basic banking services to the wider sections of society and to ensure development of the rural-agrarian economy by improving credit flow to agriculture and other segments of priority sector, strengthening of the rural financial infrastructure and promoting financial inclusion, financial literacy and credit counselling.

- Further, amalgamation and merger of RRBs was implemented reducing the total number of RRBs from 196 to 96.

- The pilot project for cheque truncation, which aims at enhancing efficiency in the retail cheque clearing sector, is expected to be implemented in December 2007.

- The proposed National Settlement System ("NSS") which aims at settling clearing positions of various clearing houses centrally, is expected to be introduced during 2007-2008.

- As part of financial inclusion, the State Level/Union Territory Bankers' Committee (SLBC/ UTLBC) of convenor banks in all States/Union Territories were advised to undertake an evaluation of the progress made in the selected districts in each State / Union Territory where these scheme were implemented for achieving 100 per cent financial inclusion by providing "no frills" accounts and general purpose credit cards.

- The RBI waived processing fees on banks for both electronic clearing services ("ECS") and electronic fund transfers ("EFT") transactions as well as for the RTGS and the NEFT transactions up to March 31, 2007 with a view to promoting electronic transactions. The RBI would continue with the waiver of processing fees to banks in order to further promote electronic transactions system, until the retail operations are taken over by the National Payments Corporation of India (NPCI). Accordingly, processing fees for transactions relating to RTGS, ECS, EFT and NEFT has been waived up to March 31, 2008.

- As part of the gradual process of financial sector liberalisation in India, it is proposed to introduce credit derivatives in a calibrated manner to permit banks and primary dealers to begin transacting in single-entity credit default swaps (CDS).

- Other measures which are proposed to be implemented during 2007-08 include: mandating all inter-bank transactions for settlement only through the RTGS mode; review of the norms relating to membership of the Indian Financial Network to facilitate larger participation in electronic payment based message transfers; effecting the settlements arrived at by the Clearing Corporation of India Limited. (CCIL) and the major stock exchanges National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) as RTGS batch settlements; implementation of the National Settlement System (NSS) for processing the clearing settlements of the major clearing houses as RTGS batch settlement; implementation of the National Electronic Funds Transfer (NEFT) for greater coverage and reach for the common man; gradual upward revision of the per-transaction limit for customer based transactions to a level of Rs.100 million; and migration of Government-based payment and receipt transactions to electronic means.

# OUR BUSINESS

*The financial figures used in this section, unless otherwise stated, have been derived from the Bank's restated standalone financial statements and standalone audit reports for the relevant years and the Bank's reporting to the RBI.*

## OVERVIEW

We are a public sector banking institution with branches in 27 States and in three Union Territories in India. According to the RBI's "Report on Trend and Progress of Banking in India, 2005-06" we are the third biggest bank in India based on the number of branches. As at March 31, 2007, we had 3,194 branches, 267 extension counters, 261 ATMs, 34 satellite offices, 17 zonal offices and 78 regional offices. As at March 31, 2007, we had a workforce of 39,055 employees (including part-time employees) serving over 25 million customers.

We made a net profit of Rs. 4,980.13 million in Fiscal 2007 and as at March 31, 2007 we had assets of Rs. 925,222.38 million and a net worth of Rs. 33,039.79 million. We have experienced growth in deposits and advances, with deposits growing at a compounded annual rate of 12.78% during the last five fiscal years and net advances growing at a compounded annual rate of 22.29% during the same period.

Central Bank of India was founded on December 21, 1911 by Sir Sorabji Pochkhanawala with Sir Pherozesha Mehta as Chairman. The Bank was nationalised in 1969 along with 13 other major commercial banks and the Bank is currently wholly-owned by the Government of India. After this Issue, the Government of India's shareholding in the Bank will be reduced to 80.20%.

The Bank's main business is taking deposits, lending money and making investments. Our deposit taking and lending business is divided into three main areas: retail, agriculture and corporate.

Our retail banking business provides financial products and services to our retail customers. We provide loans and advances for housing, retail trade, automobiles, consumer durables, education and other personal loans and deposit services, such as current, savings and fixed deposits for our customers.

Our agricultural banking business offers direct financing to farmers for production and investment, as well as indirect financing for infrastructure development and credit to suppliers of agricultural inputs. In consonance with national policies and priorities, we have given considerable thrust to lending to the priority sector, including the agriculture sector.

We provide commercial banking products and services to corporate and commercial customers, including mid-sized and small businesses and government entities. Our loan products include term loans for the acquisition, construction or improvement of assets as well as short-term loans, cash credit, export credit and other working capital financing and bill discounting. We also provide credit substitutes, such as letters of credit and guarantees.

As per RBI guidelines, we are required to lend at least 40% of our net bank credit to the priority sector, which includes a minimum lending of 18% of our adjusted net bank credit to the agriculture sector, and lending to small scale industries, among others.

We also offer a wide range of general banking services to our customers, including: credit cards; debit cards; cash management and remittance services; and collection services. We distribute third party life and non-life insurance policies and mutual funds on an agency basis. In addition, we act as an agent for various state governments and the Government of India on numerous matters including the collection of taxes and the payment of pensions. We also issue traveller's cheques and gift cheques.

We deliver our products and services through our branches, satellite offices, extension counters and ATMs. As at March 31, 2007, our domestic branch network of 3,194 branches comprised 1,341 rural, 759 semi-urban, 575 urban and 519 metropolitan branches. This network includes 144 specialised branches that are engaged in catering specifically for small scale industries (60 branches), international business (83 branches) and 1 integrated treasury branch. Additionally there are 29 offices providing specialised services such as cash management and central clearing.

As at March 31, 2007, the Core Banking Solution ("CBS"), which is a suite of software applications that facilitate centralised operations through a central data base, had been implemented in 324 branches and 29 extension counters, covering approximately 35.40% of our business (i.e., total gross deposits and advances). As at March 31, 2007, 2,250 branches were totally automated branches and 160 were partially automated branches. Those branches together with the branches and extension counters in which our CBS had been implemented, meant approximately 98% of our business had been computerised at the end of Fiscal 2007.

The following table sets forth the geographic distribution of our domestic deposits, advances and branch network as at the end of Fiscal 2005, Fiscal 2006 and Fiscal 2007:

| | As at March 31, 2005 | | | As at March 31, 2006 | | | As at March 31, 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Geographic Distribution** | **Number of branches** | **Deposits (Rs. in million)** | **Advances (Rs. in million)** | **Number of branches** | **Deposits (Rs. in million)** | **Advances (Rs. in million)** | **Number of branches** | **Deposits (Rs. in million)** | **Advances (Rs. in million)** |
| Northern India | 384 | 115,728.10 | 73,693.20 | 385 | 130,456.90 | 97,473.30 | 395 | 163,880.20 | 140,718.60 |
| Eastern India | 791 | 127,906.90 | 35,975.80 | 794 | 137,066.20 | 43,558.10 | 812 | 158,624.00 | 55,284.20 |
| Central India | 853 | 133,941.00 | 47,404.80 | 858 | 149,957.50 | 61,445.50 | 882 | 173,933.20 | 78,079.60 |
| Western India | 705 | 161,917.40 | 89,848.10 | 701 | 171,867.20 | 13,246.60 | 709 | 235,540.90 | 186,906.30. |
| Southern India | 390 | 68,023.35 | 45,460.80 | 391 | 75,478.70 | 56,697.00 | 396 | 95,784.50 | 75,309.70 |
| Total | 3,123 | 607,516.75 | 292,382.7 | 3,129 | 664,826.48 | 393,420.50. | 3,194 | 827,762.77 | 536,298.4 |

Centbank Financial and Custodial Services Limited ("Centbank Financial"), our 100% owned subsidiary, provides various executor and trustee services, including acting as an executor of wills, acting as an administrator of an estate, acting as a trustee under wills and acting as a trustee of numerous types of trusts. As at March 31, 2007, Centbank Financial maintained 1,957 accounts of various categories. For Fiscal 2007, Centbank Financial made a profit after tax of Rs. 1.69 million and as at March 31, 2007, it had net current assets of Rs. 21.93 million.

We have a 59.5% ownership interest in Cent Bank Home Finance Limited, which is involved in housing finance. Cent Bank Home Finance Limited has a network of 12 branches and one extension counter in seven states in India. For Fiscal 2007, Cent Bank Home Finance Limited made a profit after tax of Rs. 50.28 million and as at March 31, 2007, it had net current assets of Rs. 2,532.39 million.

We have one overseas joint venture bank in Zambia, Indo-Zambia Bank Limited, in which we have a 20.0% ownership interest. It has jointly been promoted by Government of Republic of Zambia, Central Bank of India, Bank of India and Bank of Baroda and is involved in banking operations in Zambia.

Additionally, we sponsor 11 Regional Rural Banks ("RRBs") in collaboration with the state governments of Madhya Pradesh, Chattisgarh, Bihar, Maharashtra Uttar Pradesh and Rajasthan.

On a consolidated basis, we made a net profit of Rs. 5,095.65 million in Fiscal 2007 and as at March 31, 2007 we had assets of Rs. 926,586.69 million and a net worth of Rs. 33,161.08 million.

For more information on Centbank Financial, Cent Bank Home Finance Limited, Indo-Zambia Bank Limited and the 11 sponsored RRBs that we sponsor, see the section titled "Our Promoter, Subsidiaries and Associates" beginning on page 142 of this Red Herring Prospectus.

## VISION AND MISSION STATEMENTS

Our vision is to emerge as a strong, vibrant and pro-active bank and to positively contribute to the emerging needs of the economy through harmonization of human, financial and technological resources and effective risk control systems.

Our mission is to:

- transform our customers' banking experience into a fruitful and enjoyable one;
- leverage technology for efficient and effective delivery of all our banking services;
- have a bouquet of products and services tailor-made to meet our customers' aspirations; and
- utilize our pan-India presence to further the Government of India's socio-economic objectives and to further financial inclusion.

## BUSINESS STRATEGIES

"Build a better life around us" is our key business and banking philosophy. Our business strategies are woven around this philosophy. The main elements of our strategies are set forth below:

**Improve customer service by strengthening our IT capabilities and expanding our customers' access to ATMs.**

Technology is a key business driver and enabler in the banking industry. The development of efficient means of reaching our customers and processing transactions fast and error free are key elements of our goal to expand profitability and capitalize on opportunities for organic growth.

We began implementing our CBS in Fiscal 2006 and as at March 31, 2007, CBS had been implemented in 324 branches and 29 extension counters, covering 35.40% of our business (i.e., total gross deposits and advances). We plan to expand significantly the number of branches under CBS so as to cover approximately 80% of our business by the end of Fiscal 2008.

Our other strategies for strengthening our IT capabilities include the introduction of Internet banking services, SMS/mobile banking, tele-banking and customer call centres, all of which are planned to be introduced by the end of Fiscal 2008.

As at March 31, 2007, we had 261 ATMs and we plan to increase our number of ATMs to 500 by the end of Fiscal 2008. We are currently a member of the Cirrus/Maestro network but we are not a member of any shared ATM networks. To increase the number of ATMs that our customers can access, we are also planning to join the VISA network by the end of Fiscal 2008 and are looking at entering into ATM sharing agreements with other banks. In pursuance of financial inclusion of deprived sections of society, we also plan to install Biometric ATMs and Braille and voice enabled ATMs for visual and hearing impaired customers at selected places.

**Accelerate growth in loans and advances to the corporate and retail sectors.**

We plan to increase our credit portfolio by focusing on in increasing our loans and advances to the corporate and retail sectors.

Although we have experienced significant growth in our loans and advances to the corporate sector over the last two fiscal years, with growth of 39.37% and 38.45% in Fiscal 2006 and Fiscal 2007, respectively, our aim is to continue growing our loans and advances by expanding our relationship with large corporates and large public sector organizations and by increasing our funding for infrastructure.

A large number of the top corporates houses in India have long standing banking relations with us. We propose to strengthen our relationship with these top corporates by giving them various facilities at competitive terms and thereby expand business growth.

We also cater to some of the banking requirements of various public sector organizations. Our goal is to leverage these relationships for mutually beneficial business growth.

We will look to expand our funding for infrastructure by, among other things, entering into a tie-up agreement with India Infrastructure Finance Ltd.

We have also identified the retail sector as a key area for increasing our credit portfolio. In Fiscal 2007, loans and advances to the retail sector (which includes housing loans) increased by 40.14% compared with a 28.44% increase in Fiscal 2006. However, as a share to our total loans and advances it represented 10.68% of our total outstanding loans as at March 31, 2007. Our aim is to increase substantially our outstanding loans and advances to this sector by simplifying our current processes, launching new products and services and developing our distribution channels. In addition, we plan to increase our portfolio of housing loans of up to Rs. 2 million by entering into tie-up agreements with reputed builders and property developers.

**Leverage our extensive rural and semi-urban presence to increase growth.**

We have an extensive network of branches through out country with 1,341 rural branches and 759 semi-urban branches as at March 31, 2007. A major portion of our business is derived from these branches. We believe there is lot of potential for garnering business through cross selling of our financial products at competitive costs to our customers. In addition, we believe that the extension of the CBS to more of our rural and semi-urban branches over the coming years will decrease our transaction costs, increase our competitiveness and lead to an increase in our business from rural and semi-urban branches.

**Increase our fee based income and our income from bancassurance products.**

In order to boost our profitability, we are focused on increasing our fee-based income. As part of our strategy to increase fee-based income, we propose to enhance cross selling across different distribution channels.

We currently offer depository services at our Nariman Point, Mumbai branch only. We plan to increase our revenue from depository services by increasing the number of branches that offer the service and by introducing an on-line trading facility for demat account holders, which will be provided by a third party securities broking house.

Our strategies for increasing fee-based income from foreign exchange transactions include entering into a strategic tie-up agreement with UAE Express Money, which agreement has been excuted recently and with Money Gram, which agreement has been approved by our Board but is yet to be executed.

We have entered into agency agreements with Life Insurance Corporation of India and The New India Assurance Company Limited to distribute their various insurance products, for which we are paid a fee. As at March 31, 2007, all our branches sold insurance products.

In Fiscal 2007, we entered into agreements with UTI Asset Management Company Private Limited and Tata Asset Management Limited for the sale of their mutual fund products, for which we are paid on a commission basis and fee basis, respectively. On May 15, 2007, we entered into an agreement with Franklin Templeton Asset Management (India) Private Limited to distribute units of schemes of Franklin Templeton Mutual Fund, for which we are paid on a fee basis. As at March 31, 2007, 113 branches sold mutual fund products. We plan to increase our revenue from sales of mutual fund products by increasing the number of branches that sell these products and by entering into distribution agreements with more mutual fund houses.

We also plan to increase our income from Government and state government business.

**Increase our low cost deposits, both current and savings accounts, in order to lower our cost of funds**.

Our low cost deposits, both current and savings accounts, constituted 42.09% of our total deposits as at March 31, 2007. Our aim is to increase our total low cost deposits by leveraging our branch network and customer base, particularly in rural and semi urban centres. We also plan to contact holders of non-operative accounts to encourage them to make use of their accounts. In addition, we plan to introduce bill payment and utility payment services through our Internet banking service, which will increase the attractiveness of our savings and current accounts and should lead to an increase in savings and current accounts. Furthermore, our large network at Mandi centres (trading markets) and markets will focus on marketing our current accounts to wholesalers, retailers and traders.

**Reduce our gross NPA levels with a focus on cash recovery and monitoring of Early Alert Signal accounts and Special Mentioned Accounts to prevent slippages. Focus on recovery from written off accounts**.

The reduction and recovery in impaired assets is our key focus area to reduce our NPAs. The share of gross NPAs as a percentage of total advances declined from 12.55% as at March 31, 2004 to 4.81% as at March 31, 2007. Our strategies for reducing our NPAs include improving the quality of credit at the time loans are made by ensuring that our well documented loan sanction policies and procedures are complied, actively monitoring our loans, particularly to SMA and EAS accounts, and reassessing their credit ratings at least once a year or more frequently if required, and using various recovery schemes to reduce our non performing loans. For information on the various recovery schemes we use to reduce our NPAs, please see the section titled "NPA Management" in this section on page 66 of this Red Herring Prospectus. In addition, to using recovery schemes, our NPA recovery teams visit rural areas for recovery of small agricultural loans during the harvest season. We also organise recovery camps with help from the Government in order to increase recovery in loans made under Government sponsored schemes and other loans in the priority sector.

We have introduced a target oriented approach to recovery from written off accounts, which has resulted in an increase in recoveries from written off accounts, and we plan to continue our focus on recovery from written off accounts.

## LENDING OPERATIONS

We had total outstanding loans amounting to Rs. 536,298.46 million as at March 31, 2007, an increase of 36.32% compared with Rs. 393,420.48 million as at March 31, 2006, which was 34.56% higher than the Rs. 292,382.72 million total outstanding loans as at March 31, 2005. Our loan portfolio consists of domestic loans only. The following tables present our outstanding loans by business sector and the proportion of these loans to our outstanding total loans as at March 31, 2005, March 31, 2006 and March 31, 2007.

(Rs. in million)

| | March 31, 2005 | | March 31, 2006 | | March 31, 2007 | |
|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % |
| Corporate and Commercial | 207,368.82 | 70.92% | 289,020.20 | 73.46% | 400,110.34 | 74.61% |
| Housing and Retail | 31,826.70 | 10.89% | 40,877.38 | 10.39% | 57,285.40 | 10.68% |
| Agriculture | 53,187.20 | 18.19% | 63,522.90 | 16.15% | 78,902.71 | 14.71% |
| **Total Outstanding Loans** | **292,382.72** | **100.00%** | **393,420.48** | **100.00%** | **536,298.46** | **100.00%** |

## CORPORATE BANKING

Our products for corporate customers include term loans and advances for the creation or improvement of assets and also working capital funding. We also provide finance to corporates through the syndication of loans done by various financial institutions. We also offer fee-based services, such as cash management and remittance services.

In order to give focused attention to corporate clients, we have set up specialised corporate branch in Mumbai, which exclusively caters to the credit requirements of corporate clients. This branch directly report to our corporate office to reduce our response time to loan applications.

### Loans and Advances

As at March 31, 2007, loans and advances (i.e., funded advances) to corporate and commercial customers amounted to Rs. 400,110.34 million, compared with Rs. 289,020.20 million as at March 31, 2006, representing year-on-year growth of 38.44%. The table below sets forth our loans and advances (i.e., funded advances) by product type and as a percentage of total funded advances to corporate customers as at March 31, 2005, March 31, 2006 and March 31, 2007.

| | As at March 31, 2005 | | As at March 31, 2006 | | As at March 31, 2007 | |
|---|---|---|---|---|---|---|
| **Product Type** | **Amount outstanding in Rs. million(1)** | **% of total outstanding to corporate loans and funded advances** | **Amount outstanding in Rs. million(1)** | **% of total outstanding to corporate loans and funded advances** | **Amount outstanding in Rs. million(1)** | **% of total outstanding to corporate loans and funded advances** |
| Term loans | 83,768.00 | 40.40 | 133,122.20 | 46.06 | 224,476.30 | 56.10 |
| Cash credit and other working capital facilities(2) | 68,886.60 | 33.22 | 69,760.40 | 24.14 | 65,242.70 | 16.31 |
| FCNR (B) Loan | 1,817.20 | 0.88 | 933.00 | 0.32 | 749.80 | 0.19 |
| Export credit | 10,937.90 | 5.27 | 12,403.70 | 4.29 | 18,220.80 | 4.55 |
| Others | 41,959.14 | 20.23 | 72,800.90 | 25.19 | 91420.74 | 22.85 |
| **Total Funded Advances** | **207,368.82** | **100.00** | **289,020.20** | **100.00** | **400,110.34** | **100.00** |

(1) Rounded to the nearest one hundred thousand Rupees.

(2) Cash credit and other working capital facilities includes import finance.

The table below sets forth our non-funded advances by product type and as a percentage of total non-funded advances to corporate customers as at March 31, 2005, March 31, 2006 and March 31, 2007.

| | As at March 31, 2005 | | As at March 31, 2006 | | As at March 31, 2007 | |
|---|---|---|---|---|---|---|
| **Product Type** | **Amount outstanding in Rs. million(1)** | **% of total outstanding to corporate loans and non-funded advances** | **Amount outstanding in Rs. million(1)** | **% of total outstanding to corporate loans and non-funded advances** | **Amount outstanding in Rs. million(1)** | **% of total outstanding to corporate loans and non-funded advances** |
| Letters of credit | 13,600.4 | 47.72 | 13,841.7 | 46.15 | 17,595.0 | 52.96 |
| Guarantees | 14,902.2 | 52.28 | 16,151.6 | 53.85 | 15,628.5 | 47.04 |
| **Total Non-Funded Advances** | **28,502.6** | **100.00** | **29,993.3** | **100.00** | **33,223.5** | **100.00** |

(1) Rounded to the nearest one hundred thousand Rupees.

We offer the following range of loan and advance products to assist our corporate customers in meeting their financial needs:

***Term Loans***

Our term loans primarily finance the creation and improvement of assets, including project finance. These loans are typically secured by the project assets and personal property financed, as well as by other assets of the borrower wherever required. Repayment is made in instalments over the loan period.

***Cash Credit and Other Working Capital Facilities***

Cash credit facilities are the most common form of working capital financing in India. We offer revolving credit facilities secured by working capital assets, such as inventory and receivables. We may take additional security in the form of liens on fixed assets, including mortgages of immovable property, pledges or hypothecation of marketable securities and personal guarantees. We also provide overdrafts, working capital demand loans, working capital term loans and bill discounting facilities to our corporate and commercial borrowers.

***Foreign Currency Loans***

We provide loan facilities in foreign currencies to our customers. Foreign currency-denominated loans in India are granted out of the Bank's FCNR (B) funds, pursuant to RBI guidelines.

***Export Credit***

We offer both pre and post-shipment credit to Indian exporters through Rupee denominated loans as well as foreign currency loans in India. Foreign currency loans are extended out of our FCNR (B) funds. We also have access to U.S. dollar denominated funds through syndicated loans and other foreign currency loans.

***Import Finance***

We provide various types of credit facilities and other services to importers in their import business. The various facilities provided include collecting import bills, establishing import letters of credit, arranging short-term foreign currency loans through our correspondent banks and issuing guarantees on behalf of importers.

***Letters of Credit***

We provide letter of credit facilities, with our fee varying with the term of the facility and the amount drawn down. Letter of credit facilities are often partially or fully secured by assets, including cash deposits, documents of title to goods, stocks and receivables. These facilities are generally provided as part of a package of working capital financing products or term loans.

***Guarantees***

We issue guarantees on behalf of our customers to guarantee their financial and performance obligations. These are generally secured by account indemnities, counter guarantees and/or a fixed or floating charge on the assets of the borrower, including cash deposits.

Under this sector, we also lend to small and medium sized enterprises and small scale industries.

Small and medium sized enterprises are manufacturing, processing and servicing businesses with between Rs. 10 million and Rs. 100 million invested in plant and machinery ("SMEs"). As at March 31, 2007, we had an outstanding loan portfolio of Rs. 65,170 million in this sector, compared with Rs. 54,080 million as at March 31, 2006, representing year-on-year growth of 20.51%.

Small scale industries are defined as manufacturing, processing and servicing businesses with up to Rs. 10 million (or in certain specified industries up to Rs. 50 million) invested in plant and machinery ("SSIs"). As at March 31, 2007, we had an outstanding loan portfolio of Rs. 30,069.6 million in this segment, compared with Rs. 26,044.8 million as at March 31, 2006, representing year-on-year growth of 15.45%. Along with the standard corporate and commercial services described above, we offer the Laghu Udhyami Credit Card exclusively to SSIs. The Laghu Udhyami Credit Card is a working capital facility for three years.

**RETAIL BANKING**

Retail banking is one of our core business activities. We are focused on providing our retail customers with quick and convenient service. Our retail banking services include:

- Retail loans, including housing loans, education loans, trade loans, mortgage loans and personal loan schemes;
- Credit cards;
- Debit cards;
- Travellers' cheques; and
- Gift cheques.

**Loans and Advances**

We have identified the growth of our loans and advances to the retail sector as a priority initiative for the past few years. Our total outstanding retail loans were Rs. 57,285.40 million as at March 31, 2007, which represented 10.68% of our total outstanding loans and advances as at that date, compared with Rs. 40,877.38 million as at March 31, 2006, which represented 10.39% of our total outstanding loans and advances as at that date. The following table classifies our outstanding retail loans advances by category of loans as at March 31, 2005, March 31, 2006 and March 31, 2007.

| | **As at March 31, 2005** | | **As at March 31, 2006** | | **As at March 31, 2007** | |
|---|---|---|---|---|---|---|
| Scheme | **Amount outstanding in Rs. million[1]** | **% of total outstanding to retail loans and advances** | **Amount outstanding in Rs. million[1]** | **% of total outstanding to retail loans and advances** | **Amount outstanding in Rs. million[1]** | **% of total outstanding to retail loans and advances** |
| Housing Finance Scheme | 15,525.1 | 48.78 | 19,668.0 | 48.11 | 28,686.5 | 50.1 |
| Cent | 4,341.6 | 13.64 | 5,764.30 | 14.10 | 7,901.7 | 13.8 |

| | As at March 31, 2005 | | As at March 31, 2006 | | As at March 31, 2007 | |
|---|---|---|---|---|---|---|
| Scheme | **Amount outstanding in Rs. million(1)** | **% of total outstanding to retail loans and advances** | **Amount outstanding in Rs. million(1)** | **% of total outstanding to retail loans and advances** | **Amount outstanding in Rs. million(1)** | **% of total outstanding to retail loans and advances** |
| Trade | | | | | | |
| Cent Buy | 4,822.6 | 15.15 | 5,561.4 | 13.61 | 6,584.5 | 11.5 |
| Cent Vidyarthi | 1,712.7 | 5.38 | 2,437.4 | 5.96 | 3,707.0 | 6.5 |
| Cent Vyapari | 1,127.4 | 3.54 | 1,240.1 | 3.03 | 1,625.6 | 2.8 |
| Cent Mortgage | 1,133.5 | 3.56 | 1,416.3 | 3.46 | 2,077.7 | 3.6 |
| Others | 3,163.8 | 9.94 | 4,789.9 | 11.72 | 6,702.4 | 11.7 |
| **Total** | **31,826.7** | **100.00** | **40,877.4** | **100.00** | **57,285.4** | **100.00** |

(1) Rounded to the nearest hundred thousand Rupees.

The following is a description of our principal retail loan products and our other retail loan products:

***Housing Finance Scheme***

This scheme provides loans to individuals for the construction of houses and flats, acquiring new or existing houses and flats, the extension of existing houses and the repair, renovation or alteration of existing houses and flats. The maximum loan amount under this scheme varies depending upon the income and repaying capacity of a borrower.

***Cent Trade***

This scheme provides an overdraft limit of up to Rs. 5 million against the mortgage of property for all types of traders, including retailers, distributors and commission agents.

***Cent Buy***

This scheme provides term loans of up to Rs. 200,000 for consumer durables, including furniture and household fixtures, against hypothecation of the goods.

***Cent Vivah***

Under this scheme, we provide loans of up to Rs. 200,000 for covering expenses relating to weddings.

***Centvidyarthi***

This scheme for educational loans provides financial assistance on reasonable terms to the poor and needy to undertake basic education and to students to pursue higher education in India and abroad. The aim of the scheme is to ensure that deserving or meritorious students are provided the opportunity to pursue education financial support.  Under this scheme, collateral is not required for loans of up to Rs. 400,000.

***Cent Vyapari***

Under this scheme, we provide cash credit facilities of up to Rs. 2 million to small and medium traders, including retailers and distributors, through our urban and semi-urban branches.

***Cent Mortgage***

Under this scheme, we offer term loans up to Rs. 5 million for any non-speculative purpose against the mortgage of property situated in metropolitan, urban or semi urban centres having a value of twice the loan amount. These loans are repayable in 60 monthly instalments.

***Cent Vehicle***

Under this scheme, we make loans of up to Rs. 1 million to purchase two wheelers and four wheelers solely for personal use. Under this scheme, finance can also be extended for the purchase of second hand cars that are no older than three years and have an expected residual life of at least 10 years.

***Personal Loans to Employees of Corporate Clients***

Under this scheme, we make personal loans of up to Rs. 200,000 to permanent employees of large corporate clients as well as other reputed companies do not have credit limits with us. These loans are for meeting the personal or domestic expenses of the borrower and are subject to a personal guarantee.

***Personal Loans to Employees other than Corporate Clients***

Under this scheme, we make personal loans of up to Rs. 200,000 to permanent employees of railways, government institutions, the Government of India, state governments, schools, hospitals or any other permanent employee drawing a salary through one of our branches. These loans are for meeting the personal or domestic expenses of the borrower and are subject to a personal guarantee.

***Personal Loans to Teachers***

Under this scheme, we make personal loans of up to Rs. 200,000 to teachers and employees of other educational institutions whose salary is paid into an account at one of our branches.

***Loans to Pensioners Drawing a Pension at One of our Branches***

Under this scheme, we make personal loans of up to Rs. 50,000 to pensioners drawing their pension from one of our branches.

*Cent Suvidha*

Under this scheme, we provide loans to salaried employees, whose salaries have been routed through savings accounts of our branches at least for one year, for personal expenses. The quantum of loan depends on net salary of the borrower, subject to a maximum loan amount of Rs. 20,000.

***Cent School***

Under this scheme, we provide loans to parents and guardians for financing the education of their children at school level from 8th to 10th standard. The loan amounts are need-based, with a maximum of Rs. 30,000 per loan.

***Cent Liquid***

This scheme provides loans of up to Rs. 2 million to individuals who own shares or debentures in Demat form for meetings contingencies and needs of a personal nature or for subscribing to rights or new issues of shares or debentures against the security of existing shares and debentures.

***Cent Computer Loan***

Under this scheme, we provide loans to finance up to 75% of the cost of a computer and related accessories, subject to a maximum loan amount of Rs. 100,000.

*Cent Jewel*

Under this scheme, we provide loans to finance up to 80% of the cost of jewellery of reputed brands purchased by women, subject to a maximum loan amount of Rs. 100,000.

***Cent Safar***

Under this scheme, we provide term loans to salaried employees, professionals, self employed persons and etc., for their domestic and international tours organized by recognized tour operators and travel agents. The quantum of the loan depends upon the income of the borrower, subject to a maximum loan amount of Rs. 200,000 and Rs. 500,000 for domestic and international tours, respectively.

***Cent Home Loan Plus***

Under this scheme, we provide loans to existing borrowers under the Housing Finance Scheme for home refurbishment, renovation, as well as the purchase of furniture. The quantum of the loan depends on the value of the property already mortgaged under the Housing Scheme at the time of the loan sanction or the present value, whichever is lower, subject to a maximum loan amount of Rs. 500,000.

***Cent Multipurpose***

This scheme is designed to enable borrowers to avail a Cent Buy or personal loan along with a Housing Finance Scheme loan on certain concessions in the rate of interest and processing charges.

***Loans against Future Rent Receivables***

Under the Cent Rentals scheme we offer loans against future rent receivables. We offer term loans up to 80% of future rent receivables for a maximum period of five years depending upon the remaining lease period.

**Golden Jubilee Rural Housing Finance Scheme**

This scheme provides credit facilities to people in rural areas (where the population is less than 50,000 as per the 1991 census) for the construction, renovation or purchase of a house. This scheme is available at all our rural and semi-urban branches.

***Cent Kalyani***

This scheme is specially designed to offer loans and credit facilities to women entrepreneurs and to women working in a profession.

**AGRICULTURE SECTOR**

According to Ministry of Statistical and Program Implementation, 21.04% of India's GDP was derived from agriculture in December 2006. In view of the importance of agriculture in India's economy, a sizable share of our total lending is allocated to this sector. As at March 31, 2007, we had an outstanding loan portfolio of Rs. 78,902.71 million in the agriculture sector, compared with Rs. 63,522.90 million as at March 31, 2006, representing year-on-year growth of 24.21%.

The table below sets forth the number of accounts and the amount loaned for some of our major schemes for the agriculture sector as at March 31, 2005, March 31, 2006 and March 31, 2007:

| | As at March 31, 2005 | | As at March 31, 2006 | | As at March 31, 2007 | |
|---|---|---|---|---|---|---|
| **Scheme** | **Number of Accounts** | **Amount in Rs. million** | **Number of Accounts** | **Amount in Rs. million** | **Number of Accounts** | **Amount in Rs. million** |
| Central Kisan Credit Card | 544,754 | 16,420.0 | 682,212 | 21,730.0 | 873,262 | 30,634.2 |
| Self Help Groups: | | | | | | |
| Credit linkage | 38,844 | 2,300.7 | 46,165 | 2,472.0 | 57,155 | 2,723.4 |
| Credit linkages to women groups | 34,950 | 1,849.4 | 41,090 | 2,196.5 | 50,987 | 2,438.0 |
| Swarna Jayanti Gram Swarojgar Yojana: | | | | | | |
| Individual | 52,799 | 818.3 | 56,327 | 900.7 | 67,449 | 1,440.9 |
| Groups | 3,569 | 415.2 | 4,355 | 497.3 | 9,977 | 1,242.8 |
| Farm mechanism loans | 39,612 | 7,987.0 | 42,859 | 8,371.2 | 44,144 | 8,605.3 |
| Minor irrigation loans | 62,595 | 2,511.0 | 67,176 | 2,993.8 | 77,291 | 3,418.4 |
| Horticulture/ Plantation loans | 4,221 | 897.9 | 5,136 | 1,043.7 | 6,034 | 1,113.8 |
| Loans for agriculture and allied activities: | | | | | | |
| Dairy and poultry | 77,819 | 3,464.1 | 88,561 | 4,120.7 | 104,218 | 4,335.6 |
| Fishery and aquaculture | 3,062 | 249.2 | 3,210 | 271.5 | 3,497 | 292.2 |
| Other allied activities | 30,286 | 1,100.7 | 30,435 | 1,467.3 | 41,591 | 1,902.7 |

We offer a wide variety of products and schemes under agricultural financial services, including both direct and indirect advances. We have various area-specific schemes suitable to different agro-climatic conditions and agricultural practices, including the provision of credit for the cultivation of sugar cane under tie-up arrangements with sugar mills, short term credit for seasonal agricultural operations against security of gold ornaments, and working capital limits to allied activities of agriculture. We provide credit facilities to farmers for the purchase of wheelers and four wheelers. We also lend money to small and marginal farmers for the purchase of agricultural land. In addition, we provide farmers with credit facilities for the rescheduling and rephasing of existing loans if they are unable to repay their existing loans due to various reasons, including natural calamities.

Set forth below are details of our main products aimed at our agricultural customers.

***Central Kisan Credit Card***

This scheme provides farmers with cash credit and term loans. This scheme also has an in-built provision for post-harvest expenditure and consumption needs.

***Loans to Self Help Groups***

Self help groups are unregistered groups of less than 20 people from a homogenous class (generally from the rural poor and mainly women). We provide credit in bulk directly to self help groups, which in turn on-lend money to their members on terms agreed mutually among the members. The quantum of credit is linked to the savings mobilised by the group. The savings to credit ratio may vary from 1:1 to 1:4 based on our assessment of a group's repayment capabilities.

***Swarna Jayanti Gram Swarozgar Yojana ("SGSY")***

The Ministry of Rural Development, Government of India launched SGSY in 1999. SGSY replaced the following schemes: Integrated Rural Development Programme; Training of Rural youth for Self Employment; Development of Women and Children in Rural Areas; Supply of Improved Tool Kits to Rural Artisans; Ganga Kalyan Yojana; and the Million Wells Scheme. The objective of SGSY is the upliftment of families whose total income is below the poverty line (i.e., Rs. 11200 per annum) by providing them income generating assets through a mix of bank credit and government subsidy. The size of a loan under SGSY depends on the nature of the project. The subsidy is a grant given by the Government through the District Rural Development Agency and is equal to a certain percentage, which varies according to the recipient of the loan, of the original loan amount, which subsidy reduces the amount borrowed. The percentage is 25% for small farmers, 33.3% for marginal farmers and agricultural labourers and 50% for persons in the Scheduled Castes or Scheduled Tribes or physically handicapped persons. Only the reduced loan amount with interest is repayable to the Bank and the borrower is not required to repay the amount equal to the subsidy.

***Horticulture and Plantation***

We extend credit facilities to farmers to raise various horticulture crops (fruit trees), plantation (teas, coffee, rubber, spices, etc.), vegetables and floriculture through term loans and cash credit facilities. Since fruits, vegetables and flowers are perishable commodities, a substantial amount of the funds lent are used to improve basic infrastructure such as cold storage, pre-cooling plants, rural go-downs, etc.

***Advances against Warehouse Receipts***

We provide advances to farmers against warehouse receipts for agricultural produce. The purpose of these loans is to prevent the distress sale of the produce and to enable the farmers to get the market price for the produce. These loans are extended against warehouse receipts issued by the Central Warehousing Corporation, state warehousing corporations and private godowns/cold storages financed by us.

***Financing for Setting up of Agri-clinics and Agri-business Centres***

This scheme is aimed at providing employment to graduates in agriculture and related subjects by providing input supplies and services to needy farmers at an affordable cost. The maximum ceiling for the cost of the project by an individual is fixed at Rs. 1 million and for a group at Rs. 5 million. NABARD has issued guidelines for providing capital and interest subsidies to all entrepreneurs who set up their centres with the help of bank credit.

***Farm Mechanisation Loans***

To encourage farm mechanization, we have entered into memoranda of understanding with 12 major tractor manufacturing companies for the retail financing of tractors and accessories on concessional terms and conditions.

***Minor Irrigation Loans***

Under this scheme we extend term loans for various developmental activities such as the deepening of wells, the digging of bore wells, the purchase and replacement of old pump sets, and the installation of drip irrigation and sprinkler irrigation systems.

***Loans for Agriculture and Allied Activities***

We provide loans for different developmental activities related to agriculture such as the construction of rural godowns and cold storage facilities, the development of marketing infrastructure under NABARD approved schemes, and the establishment of dairy units, poultry units and fisheries.

**BANK'S PERFORMANCE UNDER PRIORITY SECTOR CREDIT**

The RBI's guidelines state that banks should extend at least 40% of their adjusted net bank credit to the priority sector, which includes the agriculture sector and the SSI sector, among others. In addition, under the RBI guidelines, banks should extend 18% of their adjusted net bank credit to the agriculture sector and in case of any shortfall, they are required to place the difference between the required lending level and the actual agriculture sector lending in an account with the National Bank for Agriculture and Rural Development under Rural Infrastructure Development Fund scheme, from which they will not be able to earn as much interest as they would have made from making loans to the agriculture sector.

We are required to report our priority sector lending figures to the RBI as at the last Friday of each month. The following table presents data on our outstanding priority sector lending, including as a percentage of our total net bank credit, as at the last Friday of the months indicated. As such, the amounts in the table below may differ from the amounts set forth in our balance sheet, which are calculated as at March 31 of each year.

| | March 2005 | | March 2006 | | March 2007 | |
|---|---|---|---|---|---|---|
| | **Amount in Rs. Million** | **% of Net Bank Credit** | **Amount in Rs. million** | **% of Net Bank Credit** | **Amount in Rs. million** | **% of Net Bank Credit** |
| Agriculture Credit | 59,046.60 | 20.50 | 68,656.20 | 17.74 | 92,518.90 | 17.91 |
| SSI Credit | 27,993.50 | 9.72 | 30,574.60 | 7.90 | 33,977.10 | 6.58 |
| Other Priority Sector Credit(1) | 58,223.00 | 20.21 | 79,742.90 | 20.60 | 98,461.60 | 19.06 |
| **Total Priority Sector Credit** | **145,263.10** | **50.43** | **178,973.70** | **46.24** | **224,957.60** | **43.55** |

(1) Includes loans to transport operators, retail traders, professionals, the self-employed, small business enterprises, advances granted under Differential Rate of Interest (DRI) and advances to the weaker sections of society for their consumption needs and the construction of houses and tenements.

**DEPOSITS**

Our deposits are broadly classified into current (also known as demand) deposits, savings deposits and term (also known as time) deposits as follows:

- Current deposits are non-interest bearing;
- Savings deposits are deposits that accrue interest at a fixed rate set by the RBI (currently 3.5%) and upon which cheques can be drawn; and
- Term deposits are deposits on which interest is paid, either on maturity or at stipulated intervals depending upon the deposit scheme under which the money is placed. Term deposits include:
    - Fixed deposits on which a fixed rate of interest is paid at fixed, regular intervals;

- Re-investment deposits, under which the interest is compounded quarterly and paid on maturity, along with the principal amount of the deposit; and

- Recurring deposits, under which a fixed amount is deposited at regular intervals for a fixed term and the repayment of principal and interest is made at the end of the term.

The average cost (interest expense divided by average of fortnightly balances) of savings deposits was 3.08% in Fiscal 2005, 3.08% in Fiscal 2006 and 3.13% in Fiscal 2007. The average cost of term deposits was 6.57% in Fiscal 2005, 6.40% in Fiscal 2006 and 7.01% in Fiscal 2007. Demand deposits do not bear interest, and are therefore carried at zero cost. The following table sets forth, as at the dates indicated our outstanding deposits and the percentage composition by each category of deposits.

(Rs. in million, except for percentages)

| | As at March 31,2005 | | As at March 31,2006 | | As at March 31, 2007 | |
|---|---|---|---|---|---|---|
| | Balance outstanding | % of total | Balance outstanding | % of total | Balance outstanding | % of total |
| **Current (demand) deposits** | **61,386.65** | **10.10%** | **76,307.63** | **11.48%** | **85,255.64** | **10.30%** |
| From banks | 2,058.81 | 0.34% | 2,912.98 | 0.44% | 1,854.13 | 0.24% |
| From others | 59,327.84 | 9.77% | 73,394.65 | 11.04% | 83,401.51 | 10.08% |
| **Savings deposits** | **203,271.17** | **33.46%** | **234,802.28** | **35.32%** | **263,122.40** | **31.79%** |
| **Term deposits** | **342,858.93** | **56.44%** | **353,716.57** | **53.20%** | **479,384.73** | **57.91%** |
| From banks | 17,815.27 | 2.93% | 18,825.89 | 2.83% | 17,680.27 | 2.14% |
| From others | 325,043.66 | 53.50% | 334,890.68 | 50.37% | 461,704.46 | 55.78% |
| **Total deposits** | **607,516.75** | **100.00%** | **664,826.48** | **100.00%** | **827,762.77** | **100.00%** |

**Deposit Products**

***Money Multiplier Deposit Certificate***

This is a savings scheme to meet children's education needs, future travel plans and other contingencies that arise unexpectedly. The interest is calculated on a quarterly compounding basis and repaid along with the principal amount on maturity. The minimum deposit amount is Rs. 100 and in multiples of Rs. 100 thereafter. The deposit period is a minimum period of six months up to a maximum of 120 months.

***Monthly Interest Deposit Receipt***

This scheme provides depositors with monthly interest earnings, without reducing the principal amount. This scheme is targeted at customers that make monthly payments for items such as electricity bills, telephone bills, insurance premiums and school fees. The minimum deposit amount is Rs. 5,000 and in multiples of Rs. 1,000 thereafter. The deposit period is a minimum period of 12 months up to a maximum of 120 months.

***Quarterly Interest Deposit Receipt***

This scheme provides depositors with quarterly interest without affecting the principal amount. Quarterly payments are made in cash or credited to a savings or current account as desired by the depositor. The scheme is targeted at customers who need money for various purposes at predetermined intervals. The minimum deposit amount is Rs. 5,000 and in multiples of Rs. 1,000 thereafter. The deposit period is a minimum of 12 months up to a maximum of 120 months.

***Cent Uttam Deposit Scheme***

This scheme offers depositors the benefit of easy liquidity and high returns. It is a flexible scheme, which allows the depositor to withdraw a part of the deposit amount as and when required, up to a maximum of 10 times. Withdrawals are treated as a premature payment and attract interest. Accounts can be opened with a minimum of Rs. 5,000 and in multiples of Rs. 1,000 thereafter for a period of 30 days to 120 months.

***Recurring Deposit Scheme***

This scheme is targeted at persons who are salaried or receive other regular income. A deposit can be opened for any period from six months to 120 months. Repayment with accumulated interest will be effected 30 days/one month after the last instalment has been paid or on the expiry of the period for which the deposit was accepted, whichever is later.

***Central's Senior Citizen Deposit Scheme***

This scheme is a fixed deposit scheme specifically meant for senior citizens (i.e., individuals over the age of 60 years). The scheme provides an incentive by way of additional interest, over and above the normal rate of interest, on any of our existing term deposits and is available on fresh deposits as well as renewals of maturing deposits. The minimum deposit period is 15 days and the maximum deposit period is 120 months.

***Central's Flexi Yield Deposit Scheme***

Under this scheme, depositors can avail of a floating rate of interest benchmarked to the bank rate. This scheme is available for deposits of Rs. 100,000 or more for a term of one year to 10 years.

***Cent Bachat Khata***

The broad features of this scheme are a minimum balance of Rs. 50, no service charges for non maintenance of the minimum balance, 50 withdrawals per year free of charge and one chequebook per year free of charge. Total credits in a year should not exceed Rs. 100,000 and balance in the account should not exceed Rs. 50,000 in all accounts taken together. Interest is paid at the savings bank rate which was 3.5% as at March 31, 2007.

***Cent Tax Saving Deposit***

This deposit scheme is available to an individual or a Hindu Undivided Family ("HUF") who is an income tax assessee with a permanent account number at the Bank. The minimum deposit is Rs. 100 or multiples thereof up to a maximum of Rs. 100,000 in a financial year. Deposits may be in the form of monthly interest deposits, quarterly interest deposits or reinvestment plan (cumulative). Investments under this scheme are eligible for deduction from income up to a maximum of Rs. 100,000 in a financial year. However, the interest accrued or paid in such deposit is taxable and subject to tax deducted at source as per existing rules.

***Current Account***

Current (demand) accounts can be opened in the names of individuals (singly or jointly), proprietary concerns, partnerships and companies. There is a prescribed minimum balance on this type of account and the account is operated by cheque. No interest is payable on this type of account and there is no restriction on the number of transactions.

## TREASURY OPERATIONS

Our Treasury Department manages our treasury operations on a day-to-day basis subject to oversight by our Funds and Investment Committee and ultimately by our Board of Directors. Through our treasury operations, we manage our funds, invest in debt and equity products and maintain required regulatory reserves. We also run a proprietary trading book in debt, equity and foreign exchange within the framework of our treasury policy. Our treasury operations also include a range of products and services for corporate and commercial customers, such as forward contracts, currency swaps and foreign exchange products and services.

The following table sets forth, as at the dates indicated, the allocation of our net investment portfolio:

| | March 31, 2005 | | March 31, 2006 | | March 31, 2007 | |
|---|---|---|---|---|---|---|
| **Securities** | **Rs. in million** | **%** | **Rs. in million** | **%** | **Rs. in Million** | **%** |
| **SLR** | | | | | | |
| Government Securities | 225,500.19 | 73.13 | 215,012.58 | 75.08 | 209,083.20 | 75.37 |
| Other Approved Securities | 9,884.64 | 3.21 | 9,360.49 | 3.27 | 8,378.84 | 3.02 |
| **Sub total** | **235,384.83** | | **224,373.07** | | **217,462.04** | |
| **Non-SLR** | | | | | | |
| Subsidiaries and Joint Ventures | 120.00 | 0.04 | 120.00 | 0.04 | 120.00 | 0.04 |
| Debentures and Bonds | 51,535.83 | 16.71 | 39,187.64 | 13.68 | 35,477.65 | 12.79 |
| Re-cap bonds (including Special Securities ) | 17,982 | 5.83 | 17,982 | 6.28 | 6,757.40 | 2.44 |
| Shares | 1,865.54 | 0.61 | 2,055.47 | 0.72 | 3,126.50 | 1.13 |
| Others(1) | 1,452.76 | 0.47 | 2,666.16 | 0.93 | 14,468.74 | 5.21 |
| **Sub total** | **72,956.13** | | **62,011.27** | | **59,950.29** | |
| **Total** | **308,340.96** | **100** | **286,384.34** | **100** | **277,412.33** | **100** |

(1) UTI shares, commercial paper and units of mutual funds.

The following table sets forth, as at the dates indicated, the category wise allocation of our investment portfolio:

| | March 31, 2005 | | March 31, 2006 | | March 31, 2007 | |
|---|---|---|---|---|---|---|
| **Securities** | **Rs. in million** | **%** | **Rs. in million** | **%** | **Rs. in million** | **%** |
| Held to Maturity | 117,917.60 | 37.82 | 148,696.06 | 50.14 | 186,262.40 | 64.15 |
| Available for Sale | 193,908.98 | 62.18 | 147,835.59 | 49.86 | 104,115.01 | 35.85 |
| Held for Trading | - | - | - | - | - | - |
| **Total** | **311,826.58** | **100** | **296,531.65** | **100** | **290,377.41** | **100** |

For details on how we categorise our investment portfolio, see the section titled "Regulations and Policies–Banks' Investment Classification and Valuation Norms" on page 112 of this Red Herring Prospectus.

**GENERAL BANKING SERVICES**

We offer a wide range of general banking services to our retail, corporate and agricultural customers, including those services described below.

**Credit Cards and Debit Cards**

We have two different brands of credit cards: Centralcard Electronic and Centralcard.

Centralcard Electronic is a Master Card designed for use only at electronic terminals. In addition to the domestic Central Card Electronic, we also have a Global Electronic Card, which is accepted through Master Card eligible electronic terminals across the world.

Centralcard can be used at both electronic and non-electronic terminals. It can be issued as either a Master Card or a Visa Card if it is to be used in India and Nepal only or as a Master Card if it is to be used overseas as well.

Our debit card is a convenient and secure way for our customers to access their accounts globally from ATMs affiliated to the Maestro/Cirrus network and to purchase goods and services globally from merchant establishments affiliated to the Maestro/Cirrus network.

Our credit card and debit card base has increased to 206,022 as on March 31, 2007 from 141,569 as on March 31, 2006 registering a growth of 45.52%.

We earn income from our credit card and debit card operations through:

- Joining fees for Centralcard and annual subscription fees for both Centralcard Electronic and Centralcard;
- Interchange fees;
- Interest charges on credit card balances;
- Handling charges on cash advances through ATMs; and
- Interest on advances to cover future payments owed to merchant establishments that accept VISA credit cards and Master Card credit and debit cards.

**Cash Management Services and Remittances**

As at March 31, 2007, we had nine branches in nine cities rendering cash management service ("CMS") to corporate clients, including correspondent banks, for managing their receivables and payments across the country.

We offer three different quick cheque collection services for outstation cheques. Our CENTINSTANT service offers the credit of cheques drawn on 345 locations on the next business day after a cheque is deposited. Our CENTEXPRESS service offers collection of cheques drawn on 110 major metro and urban locations with assured credit on the fourth day after a cheque is deposited. Our CENTQCC service offers the fast collection of outstation cheques drawn on 345 locations with assured credit on the seventh day after a cheque is deposited. All three of these services provide our customers with enhanced liquidity and better cash management.

We offer local cheque collection services. As at March 31, 2007, we offered this service for local cheques deposited at 300 specified locations.

We offer payment services for demand drafts issued by correspondent banks. As at March 31, 2007, this service was available at 575 locations. We also offer payment services for dividend warrants and interest warrants issued by correspondent banks and corporate clients. As at March 31, 2007, we offered this service in 300 locations.

Our income from cash management and remittance services was Rs. 107.13 million, Rs. 147.12 million and Rs. 177.62 million in Fiscal 2005, Fiscal 2006 and Fiscal 2007, respectively.

## Depository Services

We introduced our depository services in May 2005. We are registered as a participant with the CDSL. Through our depository service scheme, our customers at of our Nariman Point branch are able to hold securities in dematerialised (or "demat") form. We earn fees for maintaining the accounts as a depository participant of CDSL, as well as for related services. In Fiscal 2007, our income from depository services was negligible.

## Government Business

We earned commission of Rs. 279.30 million in Fiscal 2007 from providing services to the Government and various state governments compared with Rs. 183.90 million in Fiscal 2006, an increase of 51.87%. We offer the following government services:

### *Collection of Taxes*

As at March 31, 2007, 461 branches were authorized to collect direct taxes, including income tax, corporation tax, banking cash transaction tax and fringe benefits tax. All of these branches participate in the RBI's On-Line Tax Accounting System. In addition, 210 branches were authorized to collect central excise, service tax and customs duty in the states of Maharashtra, Chattisgarh, Uttar Pradesh and Madhya Pradesh. We are also authorized to collect state sales tax (VAT) in the state of Maharashtra.

### *Distribution of Deposit Products of the Government of India*

We are authorized to distribute RBI Bonds and as at March 31, 2007, we distributed RBI Bonds through 43 branches. As at March 31, 2007, 216 branches handled public provident fund accounts and Senior Citizens Savings Schemes Accounts of the Government.

### *Ministerial Accounts*

We are accredited to handle the accounts of the Ministry of Commerce and Textile and the Ministry of Consumer Affairs and Food Processing. As at March 31, 2007, 69 branches collected revenue for the Ministry of Railways, 62 branches collected revenue for the Department of Posts and 144 branches collected fee proceeds on behalf of the Director General of Foreign Trade.

### *Payment of Pensions*

We are authorized to make pension payments to Central Civil pensioners, Railway, Defence and Telecom pensioners and pensioners of various state governments.

## Non-Resident Indian Financial Services

We actively seek banking business from Non-Resident Indians ("NRIs") by offering different types of accounts and various services to NRIs, including:

- Non resident ordinary account;
- Non resident (external) Rupee account;
- Foreign currency non resident account in U.S. dollars, Pound Sterling, Euros, Japanese Yen, Canadian dollars and Australian dollars; and
- Resident foreign currency account, in accordance with RBI Guidelines.

We also offer various products for facilitating remittances from NRIs to India. We also offer NRI investment and foreign exchange advisory services. Our NRI branches and foreign exchange authorised branches offer advisory services on matters relating to interest rates and exchange rate movement of various currencies and investment avenues under various deposit schemes to NRI clients.

### Merchant Banking Services

We have a licence to provide project and debt and equity issue advisory services, debt and equity issue management services and act as bankers to the issue. Although we act as bankers to the issue, we do not currently provide project and debt and equity issue advisory services or debt and equity issue management services.

### Others

We issue travellers' cheques and gift cheques.

## FOREIGN EXCHANGE OPERATIONS

We undertake foreign exchange transactions for our customers. The foreign exchange contracts arise out of spot and forward foreign exchange transactions entered into with corporate and non-corporate customers and counter-party banks for the purpose of hedging and trading. We derive exchange income from the spread between buying and selling rates. Our income from our foreign exchange operations was Rs. 1,539.4 million, Rs. 1,657.5 million and Rs. 2,020.0 million for Fiscal 2005, Fiscal 2006 and Fiscal 2007, respectively.

We have 83 branches that are authorised to conduct foreign exchange operations across India. We maintain 29 nostro accounts in various foreign currencies with different correspondent banks to facilitate our foreign exchange business.

## DISTRIBUTION OF THIRD PARTY PRODUCTS

### Bancassurance

With a view to provide "one stop banking" to our customers, we distribute life insurance products and general insurance products through our branches. We have entered into agency agreements with Life Insurance Corporation of India and the New India Assurance Company Limited to distribute their various insurance products, for which we are paid a commission. The staff involved in selling these insurance products have been authorised by the Insurance Regulatory & Development Authority (IRDA) to act as specified persons for selling insurance products. Our income from bancassurance business was Rs. 4.32 million, Rs. 23.26 million and Rs. 60.90 million for Fiscal 2005, Fiscal 2006 and Fiscal 2007, respectively.

### Mutual Funds

In Fiscal 2007, we entered into distribution agreements with UTI Mutual Fund and Tata Mutual Fund for the sale of their mutual fund products, for which we receive a brokerage. On May 15, 2007, we entered into an agreement with Franklin Templeton Asset Management (India) Private Limited to distribute units of schemes of Franklin Templeton Mutual Fund, for which we are paid fees. As at March 31, 2007, 113 branches sold mutual fund products. We began selling mutual funds in Fiscal 2007 and our income from the same was Rs. 3.03 million for Fiscal 2007.

## DELIVERY CHANNELS AND ACCESSIBILITY

Our customers in metropolitan and rural areas can access a range of delivery methods to take advantage of our products and services. These include access to physical branches, extension counters and satellite offices. Round the clock access to select banking services are offered through ATMs. Our internet banking service is currently under test running prior to its formal launch to the public, which is expected to be before the end of June 2007. We also plan to introduce SMS banking, mobile banking and tele-banking by the end of May 2007 and a customer call centre by the end of September 2007.

As at March 31, 2007, we had 261 ATMs. We do not currently have ATM sharing arrangements with any other banks but our ATM card holders and debit card holders can access those ATMs worldwide which accept Maestro cards.

**TECHNOLOGY**

As at March 31, 2007, we had 2,250 branches under total branch automation and 160 under partial branch automation. We have also implemented CBS in 324 branches and 29 extension counters. Our branches under total and partial branch automation together with our CBS branches and extension counters, meant approximately 98% of our business was computerised as at March 31, 2007.

The CBS is a scalable and robust application using Oracle RDBMS that has the capability to provide services through multiple delivery channels. The CBS comprises the following applications: core applications from FNS Australia; general ledger from Oracle corporation; trade finance (Eximbills) from China Systems; Government business (Channel G) from Innova Soft; phone banking and call centre from Nortel; SMS banking from Jatayu; Enterprise Management Solution from Computer Associates; Single sign on and two factor authentication from Novell; and credit appraisal, management information, anti money laundering, treasury management and internet banking from Tata Consultancy Services Limited ("TCS"). A bilingual facility (English and Hindi) in the CBS is planned for implementation in Fiscal 2008.

We appointed TCS as the total solution provider for our CBS as well as for network integration and maintenance. The system integration, coordination and implementation for the CBS at our branches was carried out initially by TCS and then through our in-house expertise under the supervision of TCS and Ernst & Young, who were appointed as consultants for the implementation of CBS.

We have set up a dedicated primary data centre in Belapur and a secondary (disaster recovery) centre in Hyderabad, which is in the final stages of implementation.

We have implemented several RBI-led technology projects designed to facilitate greater inter-bank connectivity and speedier clearing and settlement. As at March 31, 2007, we have implemented Real Time Gross Settlement ("RTGS") in 117 locations, Structured Financial Messaging System ("SFMS") in 121 locations and National Electronic Funds Transfer ("NEFT") in 111 locations. We plan to extend RTGS, SFMS and NEFT to all of our CBS branches during June 2007. We are also in the process of implementing a cheque truncation system, which is an imaged based-clearing system, on a pilot basis in Delhi.

The Public Debt Office – Negotiated Dealing System (PDO-NDS), the Centralised Fund Management System (CFMS), RTGS, SFMS and NEFT are running live at our Payment Gateway.

As at March 31, 2007, an Online Tax Accounting System (OLTAS) had been implemented at 461branches, an Excise and Service Tax Payment Module had been implemented at 210 branches and MCA 21, the Ministry of Company Affair's programme for the filing of tax returns on the internet, had been implemented in 33 branches across the country, in all our regional and zonal offices and in our central office. Integrated Currency Chest Operations and Management Systems (ICCOMS) had been implemented in all 109 currency chests and 16 link offices as at March 31, 2007.

We are currently in the process of implementing integrated treasury management system.

***Connectivity Infrastructure***

We have set up a Wide Area Network ("WAN") exclusively for the Bank. As at March 31, 2007, our central office, 17 zonal offices, 78 regional offices, 71 major branches and 16 non-business offices/quick cheque collection centres were connected to the WAN. In addition, 1,840 branches are connected to the

WAN through a remote access server.

Our bank-wide corporate networking connected 900 branches as at March 31, 2007.

Live application services like payment gateway, human resource management services, centralized accounting system and mail messaging solution are accessible through WAN and secured through firewalls. We have a corporate Local Area Network ("LAN") at our central office. The LAN facility is used along with our WAN infrastructure for our intranet applications.

Our offsite ATMs and ATMs installed in distributed branches run on V-SATs (very small aperture terminals, which are earthbound stations used in satellite communications of data, voice and video signals), numbering 190 locations as at March 31, 2007. We also had 13 V-SATs in use out of which eight are used for debit card and ATM operations and the remaining five for other network oriented projects.

***System Controls***

We have initiated suitable control measures to protect our IT assets. We have set up a state-of-the-art data centre in Belapur with access monitored using bio-metric technology. We have set up a disaster recovery centre in Hyderabad, which is in the final stages of implementation. Our information technology security policy takes into account our CBS implementation and our ATM network and we are in the process of formulating a suitable Disaster Recovery and Business Continuity Policy. An Information Systems Audit of our CBS, ATM and our internet banking (penetration test and ethical hacking) was completed between January and March 2007. We have built in redundancy into our critical network infrastructure like our CBS and ATMs. We also have in place appropriate provisions for backing-up data at offsite locations in case of loss at a primary location.

## NPA MANAGEMENT

We initially address NPAs in economically viable and technically feasible accounts by rephrasing, restructuring and rehabilitating them. From April 1, 2002 to March 31, 2007, NPAs aggregating Rs. 4,892 million have been upgraded after recovering overdue amounts.

We have seven asset recovery cells that are focused exclusively on the recovery of NPAs and they closely monitor the recovery of suit filed cases at Debt Recovery Tribunals (DRT) and civil courts. We have referred 10,442 cases involving a sum of Rs. 594 million to "Lok Adalats", of which 6,330 cases have been settled with a credit outlay of Rs. 462 million. An aggregate amount of Rs. 189 million has been recovered in 5,464 accounts through March 31, 2007 out of the cases decided by Lok Adalats.

We utilize the RBI's revised guidelines for One Time Settlement ("OTS") and Out-of-court Settlement ("OCS") of debts and senior level executives are empowered to take decisions for making such settlements. We have recovered an aggregate sum of Rs. 7,290.20 million from April 1, 2002 to March 31, 2007 by implementing various OTS schemes designed exclusively to address different segments, such as small and marginal farmers, small loan borrowers and SME entrepreneurs.

We utilize the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) as an effective tool for NPA recovery. We have issued 8,138 notices and taken possession of the properties in 1,626 accounts under the SARFAESI Act. Out of the 356 sale notices issued, properties have been auctioned in 204 accounts. Measures undertaken under the SARFAESI Act have fetched a total recovery of Rs. 3,988 million.

With these initiatives, our gross NPAs have fallen to Rs. 25,719.82 million as at March 31, 2007 from Rs. 32,434.65 million as at March 31, 2003. The table below sets forth the mode of reduction of NPAs adopted by bank for the last five years ending March 31, 2007:

**(Rs. in million)**

| | **Fiscal 2003** | **Fiscal 2004** | **Fiscal 2005** | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|---|---|---|
| Cash Recovery | 3,062 | 3,362 | 3,632 | 3,821 | 4,596 |
| Upgradation | 1,061 | 412 | 1,642 | 724 | 1,062 |
| Write Off | 4,192 | 5,691 | 5,831 | 2,150 | 3,543 |
| **Total** | **8,315** | **9,465** | **11,105** | **6,695** | **9,201** |

In order to help stop the fresh generation of NPAs, we actively monitor our loans, particularly to early alert signal accounts and special mentioned accounts, and reassess their credit ratings once a year or more frequently if they are at risk. In addition, we maintain internal policy guidelines concerning exposure to individual industries and concentration of loans.

***Restructuring, Rescheduling and Renegotiation of Loans***

The restructuring, rescheduling or renegotiation of the terms of a loan agreement may take place at any of the following stages:

(i) Before commencement of commercial production;

(ii) After commencement of commercial production, but before the assets have been classified as sub-standard; or

(iii) After commencement of commercial production and after the assets have been classified as sub-standard.

Regardless of which of these three stages restructuring/rescheduling/renegotiation occurs in, all possible features of a restructuring package remain components of a restructuring package. Each restructuring package will be tailored to a particular restructuring/rescheduling/renegotiation.

Restructuring/rescheduling/renegotiation occurs with all types of credit facilities, including facilities with working capital limits and facilities extended to industrial units, provided that such facilities are fully secured by tangible assets. However, these guidelines are not applied to restructuring/rescheduling/renegotiation of credit facilities extended to traders because trading only involves buying and selling of commodities and does not involve the problems associated with manufactured units such as bottlenecks in commercial production and time and cost escalation, etc.

Restructuring/rescheduling/renegotiation is never tailored to have a retrospective effect.

The asset classification status determined by the competent authority as of the date of approval of the restructured package is relevant to determining the asset classification status of the account after restructuring/rescheduling/ renegotiation.

Repeated restructure/reschdulement/renegotitation is not permitted unless there are very strong and valid reasons that warrant such repeated restructuring/rescheduling/renegotiation. Restructuring in all cases is based on viability parameters.

For information on assets restructured during the last five fiscal years, see the section titled "Selected Statistical Information" beginning on page 212 of this Red Herring Prospectus.

***Recovery from Written Off Accounts***

In order to improve our profitability, we have also made concerted efforts to make recoveries from written off accounts. The table below sets forth our recovery from written off accounts for each of the last five fiscal years ended March 31, 2007.

**(Rs. in million)**

| | Fiscal 2003 | Fiscal 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 |
|---|---|---|---|---|---|
| Amount recovered from written off accounts | 447.35 | 464.22 | 1,185.45 | 540 | 1,633.30 |

## RISK MANAGEMENT

Our comprehensive risk management system comprises policies, procedures, organisational structures and control systems for the identification, measurement, monitoring and control of various risks. Our risk management policy documents are in line with RBI requirements and have evolved over time to meet the changing needs of our business.

Our Board of Directors has the overall responsibility of establishing the Bank's strategic risk philosophy and a management structure capable of implementing our integrated risk management framework. We have established a Board-level Risk Management Committee that devises our integrated risk management policies and strategies, which contain our various risk exposure levels, and monitors our overall risk management. The Board approves and regularly reviews our risk management policies and sets limits by assessing our risk appetite and our risk-bearing capacity.

The three main risk exposures we face are credit risk, market risk and operational risk. We have constituted separate sub-committees, the Credit Policy Committee, the Asset-Liability Committee ("ALCO") and the Operational Risk Management Committee, all of which are comprised of senior management and are tasked with overseeing the risk management functions relating to risks in a focused manner.

The Credit Risk Management Department and the Operational Risk Management Department (collectively, the "Risk Management Departments") provide support functions to the Credit Policy Committee and the Operational Risk Management Committee, respectively, through analysis of risks, reporting of risk positions and making recommendations as to the level and degree of risks to be assumed. The Risk Management Departments are supervised by a General Manager. The Risk Management Departments have the responsibility of identifying, measuring and monitoring the various risks faced by us in their respective areas, assisting in developing policies and verifying the models that are used for risk measurement in their respective areas and reviewing developments in risk management techniques in their respective areas from time to time. We also have a Loan Review Cell, which examines compliance with our credit sanction and post-sanction processes and procedures.

The ALCO is assisted by the Asset-Liability Management Cell at our central office, which collects and analyzes the data required for the asset-liability management process. The Planning and Development Department and the Credit Policy Department provide systems support to help the ALCO make decisions on pricing deposits and advances. Our Treasury Department's mid office assesses the market risk of our investment portfolio and reports these risks to the ALCO.

### Credit Risk

Managing credit risk is at the core of all banking activity. We define credit risk as the possibility of losses associated with the diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to the inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement or other financial transactions.

Credit risk related to lending is addressed by our Credit Risk Policy and Loan Policy while credit risk related to trading and settlement are addressed through our Investment Policy.

*Credit Risk in Lending*

Our philosophy on credit risk in lending is articulated in our various policies on credit risk management, including the Credit Risk Policy and the Loan Policy, which detail the guidelines for all instruments of credit risk management and required procedures and processes for managing problem loans. Our policies are reviewed periodically and are in line with applicable RBI guidelines.

*Credit Approval Process*

We adopt stringent standards of appraisal for proposed advances. The various levels of authorities are vested with discretionary powers to sanction credit limits. Detailed guidelines have been formulated to appraise, sanction and monitor credit proposals. Credit limits sanctioned by one layer of authority are reviewed by the next higher layer authority and any comments or observations of the higher authority are taken up for rectification. We provide our officers with both in-house and third party training so that they can appraise credit proposals in an efficient and skilful manner.

*Risk Rating*

Standard borrowal accounts with exposure of Rs. 200,000 and above are brought under the purview of our credit risk rating framework, which involves giving a credit rating based on five broad parameters: financial risk; industry risk; management risk; business risk; and the past conduct of the borrower.

Boston Consultancy Group (BCG) and CRISIL have helped us to establish our risk rating tools. We have in place dynamic credit rating tools for the risk rating of large corporates, SMEs, non-banking financial institutions ("NBFCs"), and Greenfield projects. We utilize the services of CRISINFAC to help rate industry risk. In addition, we have developed a rule-based lending model for retail loans, which is under a trial phase before its implementation throughout the Bank.

We have adopted credit risk ratings in a 9-point scale in our internal models. Variations in the rating of borrowers over time indicate changes in credit quality. We have implemented processes to capture changes in borrowers' credit ratingschanges in credit quality.

*Risk Pricing*

Risk return pricing is a fundamental tenet of risk management. In accordance with an RBI directive, in Fiscal 2004, we introduced the concept of a single Benchmark Prime Lending Rate ("BPLR"). All advances, except fixed interest-bearing loans such as home loans, are now linked to BPLR. In respect of loans repayable in instalments beyond three years, a term premium of 0.5% is added. The pricing for an advance, other than for a fixed interest-bearing loan, is done on the basis of the credit rating given to the borrower using our credit rating system.

In accordance with the RBI's guidelines, we are required to migrate to a scientific system of pricing credit, with a bearing on the expected probability of default. However, the probability of default can be derived only from the past behaviour of the loan portfolio for at least five to seven years. We currently have approximately four years of data on our loan portfolio.

*Mitigating Strategies*

We have a system for monitoring the overall composition and quality of our loan portfolios. Where a borrower is in a high risk credit grade, our risk mitigating strategies include credit exposure ceilings, higher margins, obtaining additional collateral, obtaining additional personal or corporate guarantees and stringent monitoring.

*Credit Exposure Limits*

Credit exposure limits are prudential measures mandated by the RBI aimed at improving risk management and avoiding concentration of credit risks. Credit exposure limits are set in relation to single and group borrowers, unsecured borrowers, countries, and with respect to individual industry and sectors. There is also a substantial exposure cap. We have set our own credit exposure limits based on the guidelines for substantial exposure limits set by the RBI. As per the RBI's guidelines, the credit exposure ceiling is fixed in relation to our capital funds under capital adequacy standards (Tier I and Tier II capital).

*Single and Group Borrowers*

| **Borrowers** | **Normal Circumstances (% of capital funds of the Bank)** | **Exceptional Circumstances[(1)] (% of capital funds of the Bank)** |
|---|---|---|
| Single Borrower | 15% | 20% |
| Single Borrower for Infrastructure | 20% | 25% |
| Group Borrower | 40% | 45% |
| Group Borrower for Infrastructure | 50% | 55% |

(1) Exceptional exposures may be considered with the approval of the Board subject to making appropriate disclosures in the notes to accounts of our financial statements, with the prior written consent from the borrower.

The exposure limits described above are not applicable to existing or additional facilities granted to sick or weak industrial units under a rehabilitation package nor are they applicable to borrowers to whom limits are sanctioned by the RBI directly with respect to food credit.

*Substantial Exposure Cap*

In its guidelines on risk management systems, the RBI advised banks that the substantial exposure limit (*i.e.*, the sum total of exposures assumed in respect of those single borrowers enjoying credit facilities in excess of either 10% or 15% of capital funds) may be fixed at 600% to 800% of capital funds depending upon the degree of concentration risk to which a bank is exposed. Our aggregate substantial exposure limit is set at 600% of our capital funds as set forth in the previous year’s balance sheet. For the purposes of calculating our substantial exposure limits, we include all single borrowers with an exposure of 10% or more of capital funds.

*Exposure to Individual Industries and Sectors*

| **Industry/Sector** | **Maximum exposure as a % of total advances** |
|---|---|
| Cement | 1.00 |
| Chemicals, dyes, paints, drugs & pharmaceuticals | 4.00 |
| Housing/Construction | 10.00 |
| Cotton & other textiles | 6.50 |
| Engineering & electronics | 6.00 |
| Food processing | 2.50 |
| Gems and jewellery | 1.00 |
| Iron and steel | 4.00 |
| Jute | 1.00 |
| Leasing and hire purchase | 1.00 |
| NBFC | 2.00 |
| Leather and leather products | 0.50 |
| Oil refinery | 3.50 |
| Other metal and metal product | 3.00 |
| Paper and paper products | 1.50 |
| Personal consumer loan | 2.00 |
| Petrochemicals | 1.50 |
| Rubber and Rubber Products | 1.00 |
| Shares, debentures and bonds | 1.00 |
| Sugar | 3.00 |
| Tea | 1.00 |
| Trading | 10.00 |
| Vegetable oils (including Vanaspati) | 2.00 |
| Mining | 0.50 |
| Tobacco and tobacco products | 0.50 |
| Automobiles (four wheeler) | 1.50 |
| Computer software (information and technology industries) | 2.00 |
| Services | 5.00 |
| Real estate | 10.00 |
| Infrastructure (electricity generation and transmission, road, port and telecom) | 20.00 |
| Other industries(1) | 10.00 |

(1) Includes loans for two wheelers/three wheelers and loans to the fertilizer, and the tourism and hotel industries.

Our policy with respect to sector-wise exposure ceilings is set forth below.

| Sector | *Exposure Ceilings* |
|---|---|
| Sensitive Sectors: | |
| - Commodity Sector | 0% of total outstanding advances as at the end of the previous year. |
| - Capital Markets | 5% of total outstanding advances as at the end of the previous year. |
| - Real Estate<br>(a) Home Loan and other structured Loan Products<br>(b) Other Real Estate Exposure | <br>(a) 15% of the total advances as on previous year-end.<br>(b) 10% of the total advances as on previous year-end. |

There is no maximum exposure cap for agriculture and other priority sectors. In respect of food credit, allotment is made by the RBI based on the business of each bank, and as such no maximum exposure cap is fixed.

*Unsecured Exposure*

Unsecured exposure, as defined by the RBI, is an exposure where the realizable value of the security is not more than 10% of the outstanding exposure when the advance is made. Our policy is to limit our total unsecured advances, excluding certain exempted categories (namely, low risk-weighted advances to the Government of India, state governments, banks, financial institutions, which are guaranteed by them, and high-rated advances), to 20% or less of total outstanding advances as of the previous year.

*Country Exposure*

The RBI guidelines require formulation of a Country Risk Management Policy only where a bank's net funded exposure overseas is 1% or more of its total assets. Our aggregate exposure for all countries outside India amounted to Rs. 9,450 million as at March 31, 2007, which was less than 1% of our total assets of Rs. 929,068.98 million as at that date. We have not as yet implemented country wise exposure limits.

For more information on the RBI's credit exposure limits, see the section "Regulations and Policies–Credit Exposure Limits" on page 110 of this Red Herring Prospectus".

***Portfolio Management***

We have a system in place for the identification of credit weaknesses. We have established guidelines for tracking early warning signals of credit weaknesses and for the surveillance and monitoring approach to be adopted at various stages of our lending operations.

We evaluate our loan portfolio quality by tracking the migration of borrowers from one rating scale to another in various industries and business segments. A report on changes in credit quality is prepared every six months and reviewed by the Risk Management Committee.

***Loan Review Mechanism***

The Loan Review Cell examines the compliance with extant sanction and post-sanction processes and procedures laid down by the Bank from time to time. The Loan Review Cell helps us to improve the quality of our credit portfolio by detecting early warning signals and suggesting remedial measures and providing our senior management with information on credit administration, including the credit sanction process, risk evaluation and post-sanction follow up.

### *Recovery Policy*

A large number of our loans are secured by collateral or supported by guarantees. Our trade and commercial loans are secured by a charge over inventory or receivables. Longer-term loans are usually secured by a charge over fixed assets. Our larger retail loans are secured by collaterals or guarantees. Our retail loans are generally secured, made against delivery of post-dated cheques or debited to an account maintained with us in which the debtor's employer directly deposits their salary. In India, the bouncing of cheques is a criminal offence. Although we take collateral, we are not always able to realise its full value in a default situation.

We have a comprehensive Recovery Policy and Policy on Restructuring of Accounts & Rehabilitation of Sick units, which cover the restructuring and rescheduling of loans, OTS, corporate debt restructuring ("CDR") mechanism, seizure and disposal of assets under the SARFAESI Act, and the filing of suits and enforcement of decrees.

### *Credit Risk in Investments*

In addition to market risks, there is also a significant magnitude of credit risk in investments in non-SLR securities. Proposals for such investments are subject to the same degree of credit risk analysis as any loan proposal.

## Market Risk

Market risk is the possibility of loss caused by changes in market variables such as interest rates, foreign exchange rates, equity prices and commodity prices. The primary risk that arises for us as a financial intermediary is interest rate risk resulting from our asset-liability management activities.

In order to deal with the above risk issues, we have put in place an Asset-Liability Management ("ALM") Policy and an Investment Policy.

Our ALCO is responsible for balance sheet planning from a risk-return perspective and strategic management of liquidity risk and interest rate risk. ALCO's responsibilities broadly include the following:

- Implementation of ALM on an on-going basis.
- Monitoring our market risk levels.
- Moving our treasury operations to an integrated approach.
- Monitoring the structure of our balance sheet in light of the RBI's capital adequacy norms.
- Articulating our current interest rate view and devising business strategies such as product pricing for deposits and advances.
- Developing new products and services such as derivatives.

Our market risks are essentially managed by our Treasury Department, which is responsible for our treasury operations. The Treasury Department has clear-cut demarcations between its front office functions, mid office functions and back office functions. The mid office is responsible for the model and implementation of the Bank's interest rate risk management system. It is independent from our business units and reports directly to our senior management and also to the ALCO.

### *Interest Rate Risk*

Interest rate risk refers to the potential impact on our net interest income and net interest margin caused by unexpected changes in market interest rates. Our approach towards management of interest rate risk varies with the segmentation of the balance sheet, depending on whether the interest rate risk is in the trading book or banking book. The management of interest rate risk in our trading book is covered in our

Investment Policy, while interest rate risk in our banking book is covered in our ALM Policy. Both of those policies spell out in detail the tools for interest rate risk measurement, prudential limit setting and the monitoring thereof.

***Interest Rate Risk in the Banking Book***

The earnings or economic value changes are the main focus of the banking book. We currently have in place measurement systems to assess the effect of rate changes on both earnings and economic value such as gap analysis for addressing changes in net interest income and duration gap analysis for addressing changes in economic value.

***Liquidity Risk***

Liquidity is the ability to efficiently accommodate deposit and other liability decreases, as well as, fund asset portfolio growth and the possible funding of off-balance sheet items. The purpose of liquidity management is to ensure sufficient cash flow to meet all our financial commitments and to enable us to capitalise on opportunities for business expansion.

Our liquidity risk management system includes:

- Analysis of liquidity by tracking cash flow mismatches.
- Establishment of limits for mismatches and cumulative gaps for all other time buckets, limits for prudential liquidity ratios and monitoring the same on a fortnightly basis as per the RBI's requirements.
- Measuring and managing our net funding requirements by the use of a maturity ladder and the calculation of cumulative surplus or deficit of funds at different maturity dates, as recommended by the RBI.
- Estimating the liquidity profile on a dynamic basis by giving due recognition to seasonal patterns of deposits and loans and the potential liquidity needs for meeting loan commitments.
- Undertaking variance analysis at periodical intervals to validate the assumptions and fine tune the same.

***Foreign Exchange Risk***

Foreign exchange rate risk is the risk that we may suffer losses as a result of adverse foreign exchange movements during a period in which we have an open position, either spot or forward or a combination of both in an individual currency. Foreign exchange rate risk can arise out of changes on foreign exchange spot and forward rates. Foreign exchange open positions are managed through limits fixed at the individual currency level as well as aggregate currencies as follows: (a) Intra-day limit; (b) overnight limit; and (c) stop loss limits for our trading book.

Maximum deal size limits for proprietary transactions have been fixed with respect to spot deals and swap deals.

Foreign exchange forward rate risk caused due to gaps or mismatches in the merchant trading transactions and the corresponding cover operations in respect of maturities and quantum is managed by individual gap limits, aggregate gap limits and by assessing the value at risk on a daily basis. Foreign exchange sensitive gaps are measured using the value at risk model developed by Foreign Exchange Dealers' Association of India (FEDAI) and is monitored on a daily basis. Besides setting appropriate limits for both open positions and gaps, we monitor our foreign risk exposures through maturity pattern statements and interest rate sensitivity statements, which have to be prepared and submitted to the RBI on a monthly basis.

### *Price Risk*

The assets in our trading book are held primarily for generating profit on short-term differences between prices and yields. As such, price risk is our prime concern with respect to our trading book. Our Investment Policy deals with price risk and lays down cut and stop-loss limits for the trading book and also sets forth the exposure norms as prescribed by the RBI. As required by the RBI, dealings per broker are subject to a 5% ceiling of our annual turnover and we have set transaction exposure limits for individual brokers as well as per transaction counterparty limits. Our front office is responsible for ensuring that those limits are not exceeded. For information on the RBI's prescribed equity exposure norms, see the section titled "Regulations and Policies–Regulations relating to Investments and Capital Market Exposure Limits" on page 111 of this Red Herring Prospectus.

## Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic, reputation and systemic risks. Broadly, the main areas of operational risk can be divided between, people, process and systems and external events.

Recognising the importance attached to the management of operational risk, we have adopted an Operational Risk Management Policy and institutionalised a comprehensive operational risk management framework with (a) organisational structures for the management of operational risk, (b) strategies, policies and procedures for operational risk management, and (c) processes for identifying, assessing, quantifying, managing, mitigating, monitoring and reporting of operational risk. We manage our operational risk by integrating the operational risk management systems into day-to-day management processes and adopting various risk mitigating strategies such as taking out insurance policies, wherever feasible and based on cost-benefit analysis.

The Operational Risk Management Committee oversees and guides the operational risk management functions.

Operational loss events are identified and monitored by analysing each occurrence and the nature and cause of such loss. We have identified risk indicators that provide early warning signals. Functional departments evolve action plans to address issues and adopt suitable risk mitigation actions. We have adopted an Information Technology Security Policy, which includes a Business Continuity and Disaster Management Plan for the mitigation of operational risk.

We have comprehensive internal control systems in place covering the following major components:

- Defined control activities at every business level;
- Appropriate segregation of duties among personnel;
- Adequate and comprehensive internal financial, operational and compliance data;
- Reliable information systems covering all significant activities of the Bank; and
- Effective channels of communication.

In Fiscal 2007, we began collecting data on all operational losses over Rs. 10,000 on a quarterly basis. We are in the process of collecting data on all operational losses over Rs. 10,000 for the period April 1, 2001 to March 31, 2006, which will cover at least 95% of our operational losses in that period, to enable us to scientifically measure our operational risks. We expect to have completed this project by the end of Fiscal 2009.

### *Internal Inspections and Audits*

We supplement our internal controls with an effective internal audit function that independently evaluates the control systems within the Bank. Internal audit is a part of the ongoing monitoring of our system of internal controls, which provides an independent assessment of the adequacy of, and compliance with, our established policies and procedures. Our Board of Directors through its Audit Committee is responsible for ensuring that the scope and frequency of our audit programme is appropriate to our risk exposure.

During Fiscal 2007, regular inspections were conducted at 2,998 branches. A concurrent external audit was conducted at 618 branches, covering 67% of our business (i.e., total gross advances and deposits) against the RBI's stipulation of 50% of our business. In addition to the regular inspections, as required by the RBI, we carried out a risk assessment of 2950 branches under a risk-based internal audit, covering 98% of our business. Out of these 2,950 4branches, 335 were categorised as low risk, 1,425 were categorised as medium risk, 1,257 were categorised as high risk, 105 were categorised very high risk, and three branches were categorised as extremely high risk.

During Fiscal 2007, we carried out a proprietary and system audit of 71 controlling offices.

As per the RBI's directive, all treasury transactions are subjected to concurrent audit either by our internal auditors or a by a firm of chartered accountants and a report on those audits is placed before the CMD on a monthly basis. In addition, our currency chests are subject to quarterly inspections.

### *Legal and Regulatory Risks*

Legal and regulatory risks include exposure to fines, penalties or punitive damages resulting from supervisory actions or failure to comply with laws and regulations. Legal risk also arises when there is a possibility that we will be unable to enforce a contract or our legal rights are adversely affected. We seek to manage legal and regulatory risks through:

- Standardised loan documentation, which is prepared with the help of solicitors;
- Use of forms, formats and stationery that are clear as to the rights and obligations between the parties concerned;
- Standardisation of the list of documents to be obtained for various transactions;
- Registration of our legal rights and charges within the prescribed time with the relevant authorities;
- Prompt attendance and, where appropriate, settlement of all legal matters pertaining to us; and
- Compliance with customer confidentiality rules and KYC rules.

## Basel-II Requirements

The requirements of Basel II are the international capital adequacy framework for banks. These requirements affect the management of all three principal categories of risk. We have performed a comprehensive self-assessment exercise spanning all the risk areas and have developed a road map to move towards implementation of Basel II, as per the RBI's guidelines.

In particular, Basel II provides for minimum capital requirements for credit risk and operational risk in addition to the previous requirement of minimum capital only for market risk. Basel II sets out three broad approaches for computing the capital charge. In increasing order of risk sensitivity and sophistication, these approaches are: Basic Indicator Approach; Standardized Approach; and the Advanced Measurement Approach.

The RBI in its Draft Guidelines on the implementation of new capital adequacy framework advised that, at a minimum, banks had to implement the Basic Indicator Approach with effect from March 31, 2007 with a parallel run from April 1, 2006. We have adopted the Standardised Approach for both credit risk and market and the Basic Indicator Approach for operational risk. We plan to move all three risks to the Advanced Approach by the beginning of Fiscal 2009.

Based on the RBI's draft guidelines on the new capital adequacy framework, the capital requirements have been calculated as at December 31, 2006 on a parallel basis. Our capital to risk weighted assets ratio ("CRAR") position as at March 31, 2007 under the different approaches is given below

(Rs. in million)

| **Particulars** | **Risk Weighted Assets** | |
|---|---|---|
| | **Basel I (Existing)** | **Basel II (New framework)** |
| Credit Risk | 435,051 | 450,000 |
| Market Risk | 85,127 | 85,127 |
| Operational Risk | 0 | 50,212 |
| Interest Rate Risk in Banking Book | 0 | 0 |
| Grand Total | 520,178 | 585,339 |
| Total Capital | 54,117 | 54,117 |
| CRAR | 10.40% | 9.25% |

Minimum capital allocation (9%) is given below:

**(Rs. in million)**

| **Minimum Capital Required (9%)** | **Basel I (Existing)** | **Basel II (New framework)** |
|---|---|---|
| Credit Risk | 39,154 | 40,500 |
| Market Risk | 7,661 | 7,661 |
| Operational Risk | 0 | 4,519 |
| Total | 46,815 | 52,680 |
| Under Pillar II | 0 | 0 |
| Grand Total | 46,815 | 52,680 |

## CUSTOMER CARE AND RELATIONSHIP MANAGEMENT

As directed by the RBI, we have constituted a Standing Committee on Customer Service, chaired by our Chairperson and Managing Director.

We have introduced a number of marketing and customer service initiatives in order to maintain a high standard of customer service:

### *Citizens' Charter*

We have a citizens' charter in place that outlines our code of conduct in relation to our customers. This document is available at our branches and on our website.

### *Customer Education Material*

We have created a range of materials in booklet and brochure format that outline the salient features of our products and delivery channels.

### *Customer Complaints*

We have a customer complaint management system in place that allows us to log complaints and to address them promptly and efficiently. During Fiscal 2007 we received 1,618 complaints. Concerted efforts have been made to redress the complaints at the earliest. 176 complaints were pending as on March 31, 2007. which is receiving our constant attention for redressal. We have also adopted the standard code of "Banking

Code and Standards Board of India" ("BCSBI"), detailing the various products of the Bank, charges levied, grievances redressal mechanism, etc. This has been also displayed on the Bank's website. A copy of the BCSBI is also available at all the branches.

***Fair Practice Code***

We have adopted the comprehensive Fair Practice Code drafted by the IBA and intended to be followed by the entire banking system in dealing with individual customers. Important characteristics of the code include standards for fair banking practices. Copies of the Fair Practice Code are available at our branches.

## CORPORATE AND SOCIAL RESPONSIBILITY

We recently started two Rural Development and Self Employment Training Institutes - one at Kota and another at Muzaffarpur - for training persons in rural areas to undertake various banking activities.

We have selected 48 villages under our Model Village Scheme where we will pay for facilities for education, health and sanitation, which will be organized by involving various Government agencies.

## LEAD BANK RESPONSIBILITY

The RBI has assigned us with "lead bank" responsibility in 48 districts, which are located in the economically backward areas of Madhya Pradesh (18 districts), Bihar (10 districts), Maharashtra (seven districts), Uttar Pradesh (five districts), West Bengal (three districts), Rajasthan (three Districts) and Chhattisgarh (two districts). We also have "lead bank" responsibility for the state of Madhya Pradesh and are the Convenor of the State Level Bankers' Committee for that state. Our assigned lead bank responsibilities are discharged by maintaining inter-institutional coordination in the preparation and implementation of various development programmes in each district.

## FINANCIAL INCLUSION

With a view to make basic banking services available to a vast section of society, in April 2006 we introduced a no-frills savings deposit account called Cent Bachat Khata. The broad features of the product are a minimum balance of Rs. 50, no service charges for non-maintenance of the minimum balance, 50 withdrawals per year free of charge and one chequebook per year free of charge. Interest is paid at the savings bank rate. Know your customer norms have been simplified for customers opening an account under this scheme.

## HUMAN RESOURCES

As at March 31, 2007, we had 39,055 employees (including part-time employees) on a standalone basis. The following table sets forth the number of our employees as at the dates indicated:

| | March 31, 2005 | March 31, 2006 | March 31, 2007 |
|---|---:|---:|---:|
| Officers | 12,236 | 11,805 | 12,437 |
| Clerks | 17,134 | 16,860 | 15,596 |
| Sub Staff | 8,933 | 8,576 | 8,194 |
| PTSK* | 2,917 | 2,883 | 2,828 |
| **Total** | **41,220** | **40,124** | **39,055** |

* Part Time Safai Karmachari

On consolidated basis, we had 36,248 employees as on March 31, 2007.

*Training and Employee Development*

Our human resources policy focuses on improving the skill level of our employees in different functional areas. In order to improve the our senior management's skills we send them to various development programmes designed by reputed institutes such as MDI Gurgaon, Federation of Indian Chambers of Commerce and Industry and Confederation of Indian Industry. We also send our officers for various programmes conducted at banking institutes in India such as National Institute of Bank Management, Bankers Training College, College of Agriculture Banking, Bankers Institute of Rural Development and National Institute of Rural Development. In addition, we send our officers and executives overseas to attend courses on management development and specific functional areas.

Our apex training college in Mumbai, named Sir Sorabjee Pochkhanawala Bankers Training College, is a full-fledged state of the art training college. We also have an officer's training college in Bhopal and another in Kolkata and nine staff training centres in nine different cities. Computer labs attached to each of our staff training centres facilitate the conduct of IT and CBS related training. Various manuals and guidebooks have been released for the benefit of our staff. A CBS Helpdesk is available on our intranet, which can be viewed by staff at all our CBS branches.

We also encourage our staff to increase their skills by reimbursing their fees if they pass certain courses conducted by Indian Institute of Banking & Finance.

*Recruitment*

The recruitment plan to meet our long-term manpower requirements is aimed at attracting the best available talent. Besides the general recruitment of banking officers, our recruitment strategy includes lateral recruitment of specialist officers and campus recruitment at reputed business schools. Our current recruitment plan is to add around 1,130 officers in Fiscal 2008 to different disciplines and fields of expertise.

*Staff Welfare*

The salaries and benefits payable to our employees are in terms of the industry level bi-partite settlement between the employee/workmen unions and the IBA. The present industry wage and salary settlement covering employees in public sector banks was signed on June 2, 2005 covering the period from November 2002 to October 2007. Bonuses are paid in accordance with the Payment of Bonus Act, 1965, as amended.

We provide various welfare benefits for our employees, including: subsidised canteen facilities; reimbursement of college fees and school fees; reimbursement of certain medical expenses; and subsidized holiday homes and transit homes. We also make ex-gratia payments to widows of former employees who retired prior to 1986.

*M/s RAMCO Systems' Advanced Integrated Human Resources Software*

In Fiscal 2004, we implemented M/s RAMCO Systems' advanced integrated human resources software package to computerize our major human resources functional operations. This robust software improves the operational efficiency in our human resources systems and streamlines our internal human resources processes.

## COMPETITION

We face intense competition in all our main business areas. Our primary competitors are other large public sector banks, new private sector banks, cooperative banks and foreign banks.

### *Corporate and Commercial Banking*

Our principal competitors in wholesale banking are public and new private sector banks as well as foreign banks. In commercial banking, the large public sector banks have traditionally been the market leaders, with the focus of foreign banks being multinational companies and Indian corporations with cross-border financing requirements including trade, transactional and foreign exchange services. In contrast, large public sector banks have established extensive branch networks and large local currency funding capabilities.

### *Retail Banking*

In retail banking, our principal competitors are the public sector banks, as well as existing and new private sector banks, foreign banks and cooperative banks that offer retail loan products. Other public sector banks like us have large deposit bases and extensive branch networks, including the State Bank of India Group. Although foreign banks have a small market penetration, they have a significant presence among non-resident Indians and also compete for non-branch based products such as auto loans and credit cards. Private sector and foreign banks compete through a wider product range offering and greater technological sophistication. Cooperative banks compete on the basis of their regional strengths and proximity to the customer.

In particular, we face significant competition primarily from private sector banks and, to a lesser degree, from other public sector banks in the housing, auto and personal loan segments.

### *Agriculture and Priority Segments*

In the agriculture and priority segments, our principal competitors are the large public sector banks, RRBs and cooperative banks. This is due to the extensive physical presence of public sector banks and RRBs, throughout India via their large branch networks and their focus on agriculture and priority sectors.

### *Treasury*

In our treasury services for corporate and business clients, we compete principally with foreign banks in foreign exchange and derivatives trading, as well as other public sector and private banks in the foreign exchange and money markets business.

## SYSTEMS AND PROCEDURES

We have adopted certain policies and procedures for our day-to-day functioning. The corporate directives are periodically brought to the notice of the branches and staff through circulars. These circulars are also posted on our intranet for ready reference by our staff. In addition, a quarterly synopsis of these circulars is issued to staff members.

We prepare manuals on various subjects such as deposits, agriculture, collection and remittance as reference material for branch-level employees, which are revised periodically. These manuals define the jobs to be carried out for the various activities described therein. The prescribed systems and procedures are subject to audit checks during inspection.

We have appointed Ernst & Young to study our existing operating practices and, keeping in view the capability of the CBS software, suggest changes in processes, procedures and work flows that would help us to attain our objectives of enhanced operational efficiency, timely service delivery and thereby, improved customer satisfaction.

## SECURITY

We have a security mechanism synergized with our operational risk management. We have instituted modern security systems to protect our assets, confidential information and property. We train our staff on security procedures and awareness on a regular basis.

**PROPERTIES**

Our head office (central office) is located at Chandermukhi, Nariman Point, Mumbai, India 400 021. We own eight and a half of the 17 floors in this building. The table below sets forth the number of different properties we owned and leased on standalone basis as at March 31, 2007:

| Property Type | Owned | Leased |
|---|---|---|
| Head office | 1 (8.5 floors) | - |
| Zonal offices | 11 | 5 |
| Regional offices | 10 | 68 |
| Branches | 34 | 3,160 |
| Other offices | 10 | 81 |
| Residential property | 598 | 1 |
| Vacant sites | 7 | - |
| **Total** | **671** | **3,315** |

As at March 31, 2007, 380 of our branches, or 0.12% of our total branches, were in premises where the lease had expired and we are in the process of negotiating a new lease. As at March 31, 2007, there are 155 cases filed against the Bank by landlords. However, we cannot assure these expired leased will be renewed on similar terms or at all, or that the eviction proceedings will be decided in favour of the Bank. For details, see the section titled "Outstanding Litigation and Material Developments" on page 275 of this Red Herring Prospectus.

**INSURANCE**

We maintain various insurance policies. We believe our insurance coverage is appropriate to protect us from material loss in light of the activities we conduct.

## REGULATIONS AND POLICIES

The main legislation governing commercial banks, the Banking Regulation Act, applies to public sector banks like Central Bank of India only to a limited extent. Sections 34A, 36AD and section 51 of the Banking Regulation Act are applicable to corresponding new banks constituted under the Bank Acquisition Act. In turn, section 51 of the Banking Regulation Act makes some of its sections applicable to corresponding new banks.

The Bank, as a corresponding new bank, is governed primarily by the provisions of the Bank Acquisition Act, 1970. The Nationalised Bank Scheme and the Bank Regulations also govern our operations.

Other important laws include the Reserve Bank of India Act, 1934. Additionally, the RBI, from time to time, issues guidelines, regulations, policies, notifications, press releases, circulars, etc. to be followed by us and supervises our compliance with these guidelines.

Like all corresponding new banks, we are regulated and supervised by the RBI. The RBI requires us to furnish statements, information and certain details relating to our business. It has issued guidelines on several matters including recognition of income, classification of assets, valuation of investments, maintenance of capital adequacy and provisioning for impaired assets. The RBI has set up a Board for Financial Supervision ("BFS"), under the chairmanship of the Governor of the RBI. The primary objective of the BFS is to undertake consolidated supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies. The appointment of the auditors of banks is subject to the approval of the RBI.

The Companies Act does not apply to us and therefore there are important differences in the rights that are available to a shareholder under the Companies Act and the rights available to a shareholder of a corresponding new bank. The table provided below summarises these differences.

***Comparative Table of Rights of Shareholders under Companies Act, 1956 and under Bank Regulations, Banking Regulation Act, Bank Acquisition Act and Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, as applicable to Corresponding New Banks***

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| 38 | Not to be bound by an alteration made in the memorandum of association/articles of association after the date of becoming a member, so far as the alteration requires him to subscribe for more shares, or increases his liability to contribute to the share capital, or otherwise to pay money to the company. | No corresponding provision. | |
| 39 | To require a company to send within seven days of the requisition, a copy of each of the following documents as in force for the time being: (a) the Memorandum of Association; (b) the Articles of Association; and (c) every | No corresponding provision. | |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | agreement and every resolution referred to in section 192, if in so far as they have not been embodied in the memorandum or articles. | | |
| 49 | To inspect the register of investments and to petition the Central Government if the inspection is refused. | No corresponding provision. | |
| 53 | To be served with a document by the company. | Regulation 46 | Regulation 46: Service of a notice or document to shareholders<br><br>(i) The Bank may serve a notice or a document on any shareholder either personally, or by ordinary post at his registered address or if he has no registered address in India, at the address, if any, within India. |
| 62 | To sue directors, promoters or persons who have authorised the issue of the prospectus for loss or damage suffered by reason of any untrue statement included in the prospectus. | No corresponding provision. | |
| 71 | To avoid irregular allotment of shares/debentures. | No corresponding provision. | |
| 73 | To obtain repayment of the application money/excess application money. | No corresponding provision. | |
| 81 | Rights in relation to rights issue and preferential allotment. | No corresponding provision. | |
| 84 | To receive a share certificate and obtain a duplicate if the original lost or damaged. | Regulations 14 and 15 | Issue of share certificates and issue procedure of duplicate share certificates detailed. |
| 87 | Voting rights on a poll in proportion to the share of the paid-up equity capital of the company. | Regulation 61 and 68 Sections 3(2BBA)(a) and 3(2E) | Regulation 61: Voting at general meetings<br><br>(i) At any general meeting, a resolution put to the vote of the meeting shall, unless a poll is demanded, be decided on a show of hands.<br>(ii) Save as otherwise provided |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | in the Act every matter submitted to a general meeting shall be decided by a majority of votes. |
| | | | (iii) Unless a poll is demanded under sub-regulation (i), a declaration by the Chairman of the meeting that a resolution on show on hands has or has not been carried either unanimously or by a particular majority and an entry to that effect in the books containing the minutes of the proceedings, shall be conclusive evidence of the fact without proof of the number or proporation of the votes cast in favour of, or against, such resolution. |
| | | | (iv) Before or on the declaration of the result of the voting on any resolution on a show of hands, a poll may be ordered to be taken by the chairman of the meeting of his own motion, and shall be ordered to be taken by him on a demand made in that behalf by any shareholder or shareholders present in person or by proxy and holding shares in Central Bank of India which confer a power to vote on the resolution not being less than one fifth of the total voting power in respect of the resolution. |
| | | | (v) The demand for a poll may be withdrawn at any tie by the person or persons who have made the demand |
| | | | (vi) A poll demanded on a question of adjournment or election of chairman of the meeting shall be taken forthwith. |
| | | | (vii) A poll demanded on any other question shall be taken at such time not being later than forty-eight hours from |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | the time when such demand was made as the chairman of the meeting may direct.<br>(viii) The decision of the chairman of the meeting as to the qualification of any person to vote, and also in the case of poll, as to the number of votes any person is competent to exercise shall be final.<br><br>Regulation 68:<br>(i) Determination of Voting Rights. Subject to the provisions contained in Section 3(2E) of the Act, each shareholder who has been registered as a shareholder on the date of closure of the register prior to the date of a general meeting shall, at such meeting, have one vote on show of hands and in case of a poll, shall have one vote for each share held by him.<br>(ii) Subject to the provisions contained in Section 3(2E) of the Act, every shareholder entitled to vote as aforesaid who, not being a company, is present in person or by proxy or who being a company is present by a duly authorised representative, or by proxy shall have one vote on a show of hands and in case of a poll shall have one vote for each share held by him as stated hereinabove in subregulation (i)<br>(iii) Shareholders of the Bank entitled to attend and vote at a general meeting shall be entitled to appoint another person (whether a shareholder or not) as his proxy to attend and vote instead of himself, but a proxy so appointed shall not have any right to speak at the meeting. |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | Section 3(2BBA)(a)<br>A corresponding new bank may from time to time and after any paid-up capital him been raised by public issue or preferential allotment or private placement under clause (c) of sub-section (2B), by resolution passed at an annual general meeting of the shareholders entitled to vote, voting in person, or, where proxies are allowed, by proxy, and the votes cast in favour of the resolution are not less than three times the number of the votes, if any, cast against the resolution by the shareholders so entitled and voting, reduce its paid-up capital in any way.<br><br>Section 3(2E)<br>No shareholder of the corresponding new bank, other than the central Government, shall be entitled to exercise voting rights in respect of any shares held by him in excess of one per cent of the total voting rights of all the shareholders of the corresponding new bank.<br>Provided that the shareholder holding any preference share capital in the corresponding new bank shall, in respect of such capital, have a right to vote only on resolutions placed before such corresponding new bank which directly affects the rights attached to his preference shares<br>Provided further that no preference shareholder shall be entitled to exercise voting rights in respect of preference shares held by him in excess of one per cent of the total voting rights of all the shareholders holding preference share capital only |
| (91) | To have calls on shares on a uniform basis on all the shares falling under the same class. | Regulation 22 | Regulation 22: Calls on shares<br>The Board may, from time to time, make such calls as it thinks fit upon the shareholders in respect of all moneys remaining unpaid on the shares held by them, which are by the conditions of allotment not made payable at fixed times, and each shareholder shall pay the amount of every call so made on him to the |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | person and at the time and place appointed by the Board. A call may be made payable by instalments. |
| 94 | To consolidate all or any of its share capital into shares of larger amount and to subdivide its shares into shares of smaller amount. | Regulation 16 | Regulation 16: Consolidation and sub-division of shares<br>On a written application made by the shareholder(s), the board or the committee designated by it may consolidate or sub-divide the shares submitted to it for consolidation/ sub-division as the case may be and issue new certificate(s) in lieu thereof on payment to the bank of its costs, charges and expenses of and incidental to the matter. |
| 99 | Right to determine that uncalled share capital shall be capable of being called only upon winding up. | No corresponding provision. | |
| 106 | To consent to the variation of rights attached to the shares. | No corresponding provision. | |
| 107 | To apply to the National Company Law Tribunal to have the variation of rights cancelled if no consent is given. | No corresponding provision. | |
| 108 | To transfer shares held in the company. | Regulations 3, 17, 18 and 19 Section 3(2D) | Regulation 3: Nature of Shares<br>The shares of the bank shall be movable property, transferable in the manner provided under these regulations.<br><br>Section 3(2D)<br>The shares of every corresponding new bank not held by the central Government shall be freely transferable:<br><br>Provided that no individual or company resident outside India or any company incorporated under any law not in force in India of any branch of such company, whether resident outside India or not, shall at any time hold or acquire by transfer or otherwise shares of the corresponding new bank so that such investment in aggregate exceed the percentage, not being more than twenty per cent of the |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | paid-up capital as may be specified by the central Government by notification in the Official Gazette. |
| 110 | To apply for the registration of transfer of shares. | Regulations 18 and 19 | Regulation 18: Power to suspend transfers<br>The board or the committee designated by the board shall not register any transfer during any period in which the register is closed.<br><br>Regulation 19: Board's right to refuse registration of transfer of shares<br><br>(i) The board or committee may refuse transfer of any shares in the name of the transferee on any one or more of the following grounds, and on no other grounds:<br><br>a. the transfer of shares is in contravention of the provisions of the Act or regulations made thereunder or any other law or that any other requirement under the law relating to registration of such transfer has not been complied with;<br><br>b. the transfer of shares, in the opinion of the board, is prejudicial to the interests of the bank or to public interest;<br><br>c. the transfer of shares is prohibited by an order of court, tribunal or any other authority under any law for the time being in force;<br><br>d. an individual or a company resident outside India or any company incorporated |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | under any law not in force in India or any branch of such company, whether resident outside India or not, will on the transfer being allowed, hold or acquire as a result thereof, shares of the bank and such investment in the aggregate will exceed the percentage being more than 20% of the paid up capital or as may be prescribed by the central government by notification in the official gazette.<br>(ii) The board or the committee shall, after the instrument of transfer of shares of the bank is lodged with it for the purpose of registration of such transfer, form its opinion as to whether such registration ought or ought not to be refused on any of the grounds referred to in sub-regulation (i):<br>a. if it has formed the opinion that such registration ought not to be so refused, effect such registration; and<br>b. if it has formed the opinion that such registration ought to be refused on any of the grounds mentioned above intimate the same to the transferor and the transferee by notice in writing giving reasons for such refusal within 60 days from the receipt of the transfer form. |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| 111, 111A | To make a petition to the National Company Law Tribunal against refusal by the company for the registration of transfer of shares or rectification of the register of members. | No corresponding provision. | |
| 113 | To have the share certificate delivered within the time limit stipulated. | Regulation 17 | Regulation 17<br>Unless the transfer of shares is refused under regulation 19, the share certificate duly transferred shall be delivered to the transferee within sixty days of the date of lodging the instrument of transfer. |
| 113 | To serve on the company a notice, requiring it to make good any default in delivering share/ debenture/ stock certificates. | No corresponding provision. | |
| 113 | To apply to the Central Government in the event of the company's failure to make good any default as above. | No corresponding provision. | |
| 117A | To inspect debenture trust deed and obtain a copy thereof. | No corresponding provision. | |
| 118 | To request the company to forward a copy of a debenture trust deed. | No corresponding provision. | |
| 118 | To apply to the Central Government to direct the company to forward a copy of the debenture trust deed forthwith. | No corresponding provision. | |
| 134 | To file with the Registrar of Companies the particulars of a charge created by the company, as a person interested therein. | No corresponding provision. | |
| 141 | To apply to the Central Government for the rectification of the register of charges as an interested party. | No corresponding provision. | |
| 144 | To inspect the copies of instruments creating charge. | No corresponding provision. | |
| 144 | To apply to the Central | No | |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | Government for compelling inspection of the copies and the register aforesaid, in case of refusal by the company. | corresponding provision. | |
| 163 | To inspect, to obtain copies of the register of members or register of debenture holders and copies of annual returns together with the copies of certificates and documents required to be annexed thereto. | Regulations 11 and 5<br>Section 3 (2F) | Share register maintained under Regulation 5 and Section 3(2F)<br><br>Regulation 11: Inspection of Register<br>(i) The register shall, except when closed under Regulation 12, be open to inspection, free of charge, at the place where it is maintained during business hours, subject to such reasonable restrictions as the board may impose, but that not less than two hours in each working day be allowed for inspection<br>(iii) Notwithstanding anything contained in sub-regulation (ii), any duly authorised officer of the Government shall have the right to make a copy of any entry in the register or be furnished a copy of the register or any part thereof. |
| 163 | To apply to the central Government for compelling inspection of the registers of shareholders and debenture-holders and annual returns. | No corresponding provision. | |
| 165 | To receive a copy of the statutory report and to attend the statutory meeting. | No corresponding provision. | |
| 165 | To discuss at the statutory meeting, any matter relating to the formation of the company or arising out of the statutory report, without giving a previous notice therefore. | No corresponding provision. | |
| 165 | To have accessible, a list of members with details, during the continuation of the statutory meeting. | No corresponding provision. | |
| 166, 169 | To attend the annual general meeting and extra-ordinary general meeting. | Regulation 60 | Regulation 60: Persons entitled to attend general meetings<br><br>(i) All directors and all shareholders of the Bank shall, subject to the provisions of sub-regulation |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | (ii), be entitled to attend a general meeting.<br><br>(i) A shareholder (not being the central government) or a director, attending a general meeting shall for the purpose of identification and to determine his voting rights, be required to sign and deliver to the bank a form to be specified by the chairman containing the particulars relating to:<br><br>(a) his full name and registered address;<br><br>(b) the distinctive numbers of his shares;<br><br>(c) whether he is entitled to vote and the number of votes to which he is entitled in person or by proxy or as a duly authorised representative. |
| 169 | To requisition an extra-ordinary general meeting. | Regulation 57 | Regulation 57: Extraordinary General Meeting<br><br>(i) The chairman and managing director or in his absence the executive director of the bank or in his absence the executive director of the bank or in his absence any one of the directors of the bank may convene an extra-ordinary general meeting of shareholders, if so directed by the board, or on a requisition for such a meeting having been received either from the central government or from other shareholders holding shares carrying, in the aggregate not less than |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | ten percent of the total voting rights of all shareholders.<br><br>(ii) The requisition referred in sub-regulation (i) shall state the purpose for which the extra ordinary general meeting is required to be convened, but may consist of several documents in like form each signed by one or more of the requisitionists.<br><br>(iii) Where two or more persons hold any shares jointly, the requisition or a notice calling a meeting signed by one or some of them shall, for the purpose of this regulation have the same force and affect as if it had been signed by all of them.<br><br>(iv) The time, date and place of the extra ordinary general meeting shall be decided by the board:<br><br>Provided that the extraordinary general meeting convened on the requisition by the central government or other shareholder shall be convened not later than 45 days of the receipt of the requisition.<br><br>(v) If the chairman and managing director or in his absence the executive director, as the case may be, does not convene a meeting as required by sub-regulation (i), within the period stipulated in the proviso to sub-regulation (iv), the meeting may be called by the requisitionist themselves within three months from the date of the requisition:<br><br>Provided that nothing in this |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
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| | | | sub-regulation shall be deemed to prevent a meeting duly convened before the expiry of the period of three months aforesaid, from being adjourned to some day after the expiry of that period.<br><br>(vi) A meeting called under sub-regulation (v) by the requisitionist shall be called in the same manner, as nearly as possible as that in which the other general meetings are called by the board. |
| 169 | To hold an extra-ordinary general meeting if the board of directors fails to convene a meeting on the requisition, within the time limit stipulated. | Regulation 49 | |
| 169 | To have reimbursed, the expenses incurred for convening/ holding the extra-ordinary general meeting, on failure of the board as aforesaid. | No corresponding provision. | |
| 171,172 | To receive a notice of every general meeting. | Regulation 56 | Regulation 56: Notice convening an Annual General Meeting<br><br>(i) A notice convening an annual general meeting of the shareholders signed by the Chairman and Managing Director or Executive Director or any officer not below the rank of Scale VII or Company Secretary of Central Bank of India shall be published at least twenty-one clear days before the meeting in not less than two daily newspapers having wide circulation in India.<br><br>(ii) Every such notice shall state the time and date of such meeting, and also the business that shall be transacted at that meeting. |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | (iii) The time and date of such meeting shall be as specified by the Board. The meeting shall be held at the place of head office of Central Bank of India. |
| 173 | To have the notice of a general meeting annexed with an explanatory statement. | No corresponding provision. | |
| 174 | To be counted for the purpose of constituting a quorum at a general meeting. | Regulation 58 | Regulation 58: Quorum of general meeting<br>No business shall be transacted at any meeting of the shareholders unless a quorum of at least five shareholders entitled to vote at such meeting in person are present at the commencement of such business. |
| 176 | To appoint a proxy to attend and vote at a general meeting of a company. | Regulations 60 | Shareholders can attend and vote personally and through proxy. |
| 176 | To inspect the proxies lodged with the company in the manner specified. | No corresponding provision. | |
| 179 | To demand a poll and to withdraw the demand in the manner laid down in this section at a general meeting of the company. | Regulation 61(i) | Regulation 61 (i): Voting at general meetings<br>At any general meeting, a resolution put to the vote of the meeting shall, unless a poll is demanded be decided on a show of hands. |
| 182 | Not to be prohibited from exercising the voting right on the ground that the shares or other interest in the company has not been held for any specified period or on any other ground than the one specified in Section 181. | No corresponding provision. | |
| 183 | To use votes on a poll differently, for or against the resolution. | No corresponding provision. | |
| 184 | To be appointed as a scrutineer at a poll. | Regulation 61A | Regulation 61A: Scrutineers at a Poll<br>Of the two scrutineers appointed under this regulation one shall always be a shareholder (not being an officer or employee of the bank) present at the meeting; provided that such a |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | shareholder is available and willing to be appointed. |
| 186 | To apply to the National Company Law Tribunal to order a general meeting other than annual general meeting, to be called. | No corresponding provision. | |
| 187 | To be represented at a general meeting of a company (if the member to be represented, is a company). | Regulation 69(i) | Regulation 69(i): Voting by duly authorised representative – A shareholder, being the central Government or a company, may by a resolution authorise any of its officials or any other person to act as its representative at any general meeting of the shareholders and the person so authorised shall be entitiled to exercise th same powers on behalf of the Central Government or company which he represents, as if he were an individual shareholder of the Central Bank of India. The authorisation so given may be in favour of two persons in the alternative and in such a case any one of such persons may act as the duly authorised representative of the central Government / company. |
| 187A | To be represented at a general meeting of a company (if the member to be represented, is the President or Governor of a State). | Regulation 61(i) | Same as above |
| 188 | To have a resolution to be proposed at a general meeting to be circulated amongst members of the company. | No corresponding provision. | |
| 190 | To give a special notice to the company in respect of the resolutions requiring special notice. | No corresponding provision. | |
| 190 | To be given a notice of a resolution requiring special notice. | No corresponding provision. | |
| 196 | To inspect and be furnished with a copy of the minutes of any general meeting. | Regulation 62 | Regulation 62: Minutes of general meetings –<br><br>(i) The bank shall cause the minutes of all proceedings to be maintained in the books kept for the purpose. |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | (ii) On written request made by a shareholder for inspection of the minute book or for a copy of the minute of a specified meeting, the bank shall allow the inspection or furnish the copy of the minute, as the case may be. |
| 196 | To apply to the Central Government for inspection of the minutes books or to be furnished with a copy of minutes of the general meeting. | No corresponding provision. | |
| 203 | To apply to the Court/ National Company Law Tribunal to restrain fraudulent persons from managing companies. | No corresponding provision. | |
| 205A, 205B | To claim any dividend which remains unpaid or unclaimed. | Section 10B | Section 10B: Transfer of unpaid or unclaimed dividend to Unpaid Dividend Account:<br><br>(1) Where after the commencement of the Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Act 2006, a dividend has been declared by a corresponding new bank but has not been paid or claimed within thirty days from the date of declaration, to, or by, any shareholder entitled to the payment of the dividend, the corresponding new bank shall, within seven days from the date of the expiry of such period of thirty days, transfer the total amount of dividend which remains unpaid or unclaimed within the said period of thirty days, to a special accout to be called "Unpaid Dividend Account"<br><br>(2) Any money transferred to the Unpaid Dividend Account of a corresponding new bank in pursuance of this section which remains unpaid or unclaimed for a period of seven years from the |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | date of such transfer, shall be transferred by the corresponding new bank to the Investor Education and Protection Fund established under sub-section (1) of section 205C of the Companies Act 1956. |
| 206 | To receive dividend declared. | No corresponding provision. | |
| 206A | To have the dividend transferred to the special account where the transfer of shares has not been registered by the company. | No corresponding provision. | |
| 206A | To have any rights shares or bonus shares kept in abeyance in relation to the shares, the registration of transfer of which has not been registered by the company. | No corresponding provision. | |
| 210 | To require the balance sheet and profit and loss account to be laid before the company at every annual general meeting | Section 10A(2) | Section 10A(2): Annual general meeting<br><br>The shareholders present at an annual general meeting shall be entitled to discuss, approve and adopt the balance-sheet and the profit and loss account of the corresponding new bank made up to the previous 31st day of March, the report of the board of directors on the working and activities of the corresponding new bank for the period covered by the accounts and the auditor's report on the balance-sheet and accounts. |
| 219 | To receive 21 days before the date of the annual general meeting, copies of the balance sheet, profit and loss account, directors' report, auditor's report and other documents. | No corresponding provision. | |
| 219 | To require a company to furnish the full accounts where the company has sent abridged accounts. | No corresponding provision. | |
| 224 | To nominate a person for the appointment as auditor of the company if the first auditors are removed at a general | No corresponding provision. | |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | meeting. | | |
| 225 | To give a special notice for a resolution appointing as auditor, person other that the retiring auditor or providing expressly that a retiring auditor shall not be re-appointed. | No corresponding provision. | |
| 227 | To be reported upon the accounts, balance sheet, profit and loss account, etc by the auditors of the company. | Section 30(2), Banking Regulation Act, 1949. | The auditor shall discharge the duties and be subject to the liabilities imposed on auditors of companies by Section 227 of the Companies Act, 1956.<br><br>This provision is applicable to corresponding new banks by virtue of the provisions of Section 51 of the Banking Regulation Act. |
| 230 | To inspect the auditors' report at the general meeting where it is laid. | Section 10 A | |
| 250 | To apply to the National Company Law Tribunal to impose restrictions on shares, debentures or to prohibit transfer thereof in certain cases. | No corresponding provision. | |
| 257 | To stand for election for directorship at a general meeting. | Section 9(3)<br><br>Regulation 63 | Regulation 63: Directors to be elected at general meeting -<br><br>(i) A director under clause (i) of sub-section (3) of Section 9 of the Act shall be elected by the shareholders on the register, other than the central Government, from amongst themselves in the general meeting of the bank. |
| 257 | To give notice to the company for proposing a resolution at a general meeting to have himself or any other person elected as a director. | Regulation 65 | Regulation 65: Nomination of candidates for election<br><br>(i) No nomination of a candidate for election as a director shall be valid unless,<br><br>a. he is a shareholder holding not less than 100 (one hundred) shares in the bank;<br><br>b. he is on the last date |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | for receipt of nomination, not disqualified to be a director under the Act or under the Scheme;<br><br>c. he has paid all calls in respect of the shares of the bank held by him, whether alone or jointly with others, on or before the last date fixed for the payment of the call;<br><br>d. nomination is in writing signed by at least one hundred shareholders entitled to elect directors under the Act or by their duly constituted attorney, provided that a nomination by a shareholder who is a company may be made by a resolution of the directors of the said company and where it is so made, a copy of the resolution certified to be a true copy by the Chairman of the meeting at which it was passed shall be despatched to the head office of Central Bank of India and such copy shall be deemed to be a nomination on behalf of the company.<br><br>(ii) No nomination shall be valid unless it is received with all the connected documents complete in all respects and received, at the Head Office |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | | | of the bank on a working day not less than fourteen days before the date fixed for the meeting. |
| 257 | To be informed of the candidature for directorship or the intention of a member to propose such person for directorship. | No corresponding provision. | |
| 265 | To vote for appointing a director by the proportional representation system. | No corresponding provision. | |
| 284 | To give a special notice to the company proposing a resolution at a general meeting for removal of a director and appointment of a person as director in place of the removed director. | Clause 11A | Clause 11-A: Removal from office of an elected director<br>The shareholders other than the Central Government, may, by a resolution passed by majority of the votes of such shareholders holding in the aggregate not less than one half of the share capital held by all such shareholders, remove any director elected by the shareholders and elect in his stead another person to fill the vacancy. |
| 301 | To inspect, to take copies of the register of contracts, etc kept under this Section. | No corresponding provision. | |
| 302 | To receive an abstract of the terms of the contract or variation thereof, in respect of the appointment of manager or managing director, in which any director is interested. | No corresponding provision. | |
| 304 | To inspect the register of directors. | No corresponding provision. | |
| 304 | To apply to the Central Government/ National Company Law Tribunal for compelling inspection of the aforesaid register, if it is refused by the company. To inspect the register kept by the registrar under this Section. | No corresponding provision. | |
| 307 | To inspect at the registered office, the register of | No corresponding | |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | directors' shareholdings. | provision. | |
| 307 | To apply to the Central Government/ National Company Law Tribunal for compelling inspection of the aforesaid register, if refused by the company. | No corresponding provision. | |
| 391 | To apply to the National Company Law Tribunal to call a meeting of the creditors or of the members in case compromise or arrangement is proposed with its creditors or members. | No corresponding provision. | |
| 391 | To agree to any compromise or arrangement at a special meeting called for that purpose. | No corresponding provision. | |
| 391 | To have disclosed in the notice of the special meeting referred to above, the particulars notified in sub-s (1) of this Section. | No corresponding provision. | |
| 393 | To be furnished by the company, with a copy of the statement setting forth the terms of the compromise or arrangement proposed and explaining its effect where the notice of the meeting is given by an advertisement. | No corresponding provision. | |
| 393 | To be offered the same terms as offered to all holders of shares of that class, whose transfer is involved if the member is a dissenting member. | No corresponding provision. | |
| 395 | Of dissenting shareholders, where a scheme or contract involving the transfer of shares to another company has been approved by at least nine-tenths in value of the shares whose transfer is involved, to receive a notice within two months of such approval of the transferee's desire to acquire shares of the dissenting shareholders. | No corresponding provision. | |
| 395 | To require the transferee company to acquire the shares | No corresponding | |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
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| | in question within three months of giving the notice. | provision. | |
| 395 | To have a copy of the notice transmitted to the transferor company together with an instrument of transfer and within one month of the date of registration be informed of the fact of registration, and of the receipt of amount or other consideration. | No corresponding provision. | |
| 396 | To have as nearly as may be, the same interests in or rights against the company resulting from the amalgamation, as he had in the company in which he was originally a member, and to receive compensation in case such interests or rights are reduced. | No corresponding provision. | |
| 396 | If aggrieved by any assessment of compensation, to prefer an appeal to the National Company Law Tribunal. | No corresponding provision. | |
| 397, 398 | To apply to the National Company Law Tribunal if he is of the opinion that the affairs of the company are being conducted in a manner prejudicial to the public interest or in a manner oppressive to any member. | No corresponding provision. | |
| 408 | To apply to the National Company Law Tribunal for appointment of nominee director, to safeguard the interests of the company or its shareholders or the public interests. | No corresponding provision. | |
| 433 | To resolve along with other members, at a general meeting, by a special resolution that the company be wound-up by the National Company Law Tribunal. | No corresponding provision. | |
| 439 | To petition the National Company Law Tribunal for winding-up the company. | No corresponding provision. | |
| 440 | To present winding-up petition where company is | No corresponding | |

| Section of Companies Act | Rights available to shareholders of a company | Corresponding Provision* | Rights available to shareholders of a Corresponding New Bank |
|---|---|---|---|
| | being wound-up voluntarily or subject to court's supervision. | provision. | |
| 490 | To appoint one or more liquidators in the case of voluntary liquidation, and to fix the remuneration if any, to be paid to the liquidator. | No corresponding provision. | |
| 492 | To fill the vacancy occurred by the death, resignation or otherwise in the office of the liquidator appointed by the company, in a general meeting and convene a general meeting for this purpose. | No corresponding provision. | |
| 511 | To have distributed to himself on the winding-up, the assets of the company according to his rights and interests in the company. | No corresponding provision. | |
| 545 | To have the opportunity of making a statement in writing to the registrar and being heard thereon, in case he is being prosecuted as a delinquent member. | No corresponding provision. | |
| 621 | To make a complaint in a court regarding offence under the Companies Act. | No corresponding provision. | |

*Please note the following for the above table:

1. All references to **Sections** are references to Sections of the Bank Acquisition Act, except where otherwise specified.

2. All references to **Regulations** are references to provisions of Central Bank of India (Shares and Meetings) Regulations, 1998.

3. All references to **Clauses** are references to provisions of the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970.

4. The above rights are in addition to the rights that may be available to the shareholders, present as well as prospective, under the listing agreements that we have entered into with the Stock Exchanges.

***Licensing of Corresponding New Banks***

Section 22 of the Banking Regulation Act, which requires a licence to be obtained from the RBI in order to carry out banking business in India, applies only to banking companies, and not to corresponding new banks. Accordingly, the Bank does not require a licence in order to carry out banking activities.

***Regulations relating to the Opening of Branches***

Banks are required to obtain licences from the RBI to open new branches. Permission is granted based on factors such as overall financial position of the bank, the history of the banking company, the general character of its management, the adequacy of its capital structure, profitability and public interest. The RBI may cancel the licence for violations of the conditions under which it was granted. It is left to the judgment of the individual banks to assess the needs for opening additional branches.

***Capital Adequacy Requirements***

We are subject to the capital adequacy requirements of the RBI, which are based on the guidelines of the Basel Committee on Banking Regulations and Supervisory Practices, 1988. With a view to adopting the Basel Committee framework on capital adequacy norms which takes into account the elements of risk in various types of assets in the balance sheet as well as off-balance sheet business and also to strengthen the capital base of banks, RBI decided in April 1992 to introduce a risk asset ratio system for banks (including foreign banks) in India as a capital adequacy measure. This requires us 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, i.e. the core capital (ordinary shares), provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital, Innovative Perpetual Debt Instruments (IPDI) eligible for inclusion as Tier I Capital, perpetual non-cumulative preference shares eligible for inclusion as Tier I and reserves consisting of any statutory reserves, disclosed 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. A bank's deferred tax asset is to be treated as an intangible asset and deducted from its Tier I capital.

Tier II capital comprises the 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.

With a view to enable the building up of adequate reserves to guard against any possible reversal of the interest rate environment in the future due to unexpected developments, the RBI has 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 from fiscal 2001. 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. Though investment fluctuation reserve is also considered in the general provision for Tier II, the same is not subjected to the ceiling of 1.25% of risk-weighted assets. In terms of RBI Mid-Term Review of Annual Policy for the year 2005-06, banks are permitted to treat Investment Fluctuation Reserve (IFR) as part of Tier-I capital, if they maintain capital of at least 9% in respect of investment under 'Held for Trading' and 'Available for sale'.

Risk adjusted assets and off-balance sheet items considered for determining the capital adequacy ratio are the weighted aggregate of funded and non-funded exposures. Degrees of credit risk expressed as percentage weights are 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. All foreign exchange and gold open position limits carry a 100.0% risk weight. As per the RBI circular dated June 24, 2004 to cover market risk, capital has to be calculated in respect of the entire investments portfolio over and above the risk weight for credit risk.

As per regulatory requirements, banks have to maintain a capital to risk asset ratio of 9.0%. However, as per RBI guidelines issued in September 2002, in addition to other conditions to be complied with for declaration of dividend without approval of RBI, capital to risk asset ratio must also be maintained at 9.0%.

***Asset Classification and Provisioning***

In April 1992, the RBI issued formal guidelines on income recognition, asset classification, provisioning standards and valuation of investments applicable to banks, applicable from the financial year 1992-93, which are revised from time to time.

As per these guidelines, the basis of treating various credit facilities as non-performing are set forth below.

**Non-Performing Assets**

An advance is a non-performing asset where:

- interest and/or installment of principal remained overdue for a period of more than 90 days in respect of a term loan;

- the account remained "out-of-order" for a period of more than 90 days in respect of an overdraft or cash credit (if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power or there are no credits continuously for 90 days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period, then such accounts are treated as "out of order");

- the bill remained overdue for a period of more than 90 days in case of bills purchased and discounted;

With effect from September 30, 2004, a loan granted for short duration crops will be treated as a non-performing asset, if the installment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long duration crops will be treated as a non-performing asset, if the installment of principal or interest thereon remains overdue for one crop season (crops with crop season longer than one year are long duration crops, and crops, which are not long duration crops are treated as short duration crops); and

- any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Once the account has been classified as a non-performing asset, the unrealised interest and other income already debited to the account is derecognised and further interest is not recognised or credited to the income account unless collected.

**Asset Classification**

Non-performing assets are classified as described below:

- Sub-Standard Assets: Assets that are non-performing assets for a period not exceeding 18 months. With effect from March 31, 2005, a sub-standard asset is one, which has remained as an NPA for a period less than or equal to 12 months.

- Doubtful Assets: Assets that are non-performing assets for more than 18 months. With effect from March 31, 2005, an asset is classified as doubtful if it remains in the sub-standard category for 12 months.

- Loss Assets: Assets on which losses have been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been fully written off.

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 RBI had issued separate guidelines for restructured assets under the corporate debt restructuring mechanism and under other mechanisms. A fully secured standard asset can be restructured by reschedulement of principal repayments 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 apply to sub-standard assets, and to doubtful assets, in the case of restructuring of assets under the corporate debt restructuring mechanism. The sub-standard accounts which have been subjected to restructuring, whether in respect of principal instalment or interest amount, 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.

**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: A general provision for standard assets at the following revised rates is made for the outstanding loan portfolio:

  (a) direct advances to agricultural and SME sectors at 0.25%;

  (b) (i) exposure to personal loans, loans and advances qualifying as capital market exposure/outstanding credit card receivables, real estate loans at 2% of the total outstanding (excluding residential housing loans); (ii) exposure to non-deposit taking systemically important non-banking financial companies at 2% of the total outstanding; and (iii) residential housing loans beyond Rs. 2 million at 1% of the total outstanding; and

  (c) all other standard advances not included in (a) and (b) at 0.40%.

  In order to ensure that the above additional general provisioning on standard advances in specific sectors as per (b) above are made in a smooth and non-disruptive, the RBI has permitted Banks to phase in the additional provisioning requirement over fiscal 2007 as under:

  i) 0.70% for the half year ending September 30, 2006;

  ii) 0.85% for the quarter ending December 31, 2006; and

  iii) 1.00% for the year ending March 31, 2007.

- Sub-Standard Assets: A general provision of 10.0% on total outstanding should be made. The unsecured exposures which are identified as sub-standard would attract additional provision of 10%, i.e. a total of 20% on the outstanding balance.

- Doubtful Assets: A 100.0% provision/write-off of the unsecured portion of advances, which are not covered by realizable value of the security. In cases where there is a secured portion of the asset, depending upon the period for which the asset remains doubtful, a 20.0% to 100.0% provision is required to be made against the secured asset as follows:

  - Up to one year: 20.0% provision
  - One to three years: 30.0% provision

– More than three years:

1. In respect of outstanding stock of non-performing assets as on March 31, 2004: 50.0% provision, which has become 60 % with effect from March 31, 2005, 75 % with effect from March 31, 2006 and 100 per cent with effect from March 31, 2007.

2. In respect of assets, which have been doubtful for over three years on or after April 1, 2004, provision has been raised to 100% with effect from March 31, 2005.

- Loss Assets: The entire asset is required to be written off or provided for.

While the provisions indicated above are mandatory, banks are encouraged to make higher provisions over and above the mandatory level.

However, the RBI has clarified that 'floating provisions' cannot be reversed by credit to the profit and loss account of the bank. They can be used only for contingencies under 'extra-ordinary circumstances' for making specific provisions in impaired accounts, after obtaining the approval of the bank's board and with prior permission of the RBI. The 'extra-ordinary circumstances' are losses which do not arise in the normal course of business and are exceptional and non-recurring in nature, such as civil unrest, collapse of currency, natural calamities and general melt-down in markets.

***Regulations relating to Making Loans***

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

- The RBI has prescribed norms for bank lending to non-bank financial companies and financing of public sector disinvestment.

- The banks should charge interest on loans/advances/cash credits/overdrafts or any other financial accommodation granted/provided/renewed by them or discount usance bills in accordance with the directives on interest rates on advances issued by RBI from time to time. Banks are free to determine their own lending rates but each bank must declare its benchmark prime lending rate as approved by its board of directors. Benchmark prime lending rate is determined on the basis of various parameters, which inter alia, include actual cost of funds, operating expenses, a minimum margin to cover the regulatory requirement of provisioning, capital charge and profit margin. Each bank should also indicate the maximum spread over the benchmark prime lending rate for all credit exposures other than retail loans over Rs. 200,000. The interest charged by banks on advances up to Rs. 200,000 to any one entity (other than most retail loans) must not exceed the benchmark prime lending rate. Banks are also given freedom to lend at a rate below the prime lending rate in respect of creditworthy borrowers and exporters on the basis of a transparent and objective policy approved by their boards. Interest rates for certain categories of advances are regulated by the RBI. Banks are also free to stipulate lending rates without reference to their own benchmark prime lending rates in respect of certain specified categories of loans.

- In terms of Section 20(1) of the Banking Regulation Act, a bank cannot grant any loans and advances on the security of its own shares. A bank is also 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, 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 the RBI may specify by general or special order as not being a loan or advance for the purpose of such Section.

Legislation introduced in the Indian Parliament to amend the Banking Regulation Act has proposed to 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

There are guidelines on loans secured by shares, debentures and bonds, money market mutual funds, fixed deposits receipts issued by other banks, gold/silver bullion etc. in respect of amount, margin requirement and purpose.

***Regulations relating to Sale of Assets to Asset Reconstruction Companies***

The Securitisation Act provides for sale of financial assets by banks and financial institutions to asset reconstruction companies. The RBI 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. A bank may sell a standard asset only where the asset is under a consortium or multiple banking arrangements. Asset must be classified as NPAs in the books of other banks/FIs. At least 75% by value of the asset is classified as a non-performing asset in the books of other banks or FIs and at least 75% by value of the banks and FIs in the consortium or multiple banking arrangement must agree to the sale of the asset. 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 realisation. 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% 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. Any loss on sale must be charged to the profit and loss account, but any gains must be used for meeting losses on sale of other financial assets. For computing capital adequacy, a credit risk weight of 100 % and a market risk weight of 2.5% is applied to instruments received by banks as consideration for sale of financial assets to asset reconstruction companies.

***Directed Lending***

**Priority Sector Lending**

The RBI requires commercial banks to lend a certain percentage of their net bank credit to specific sectors (known as priority sectors), such as agriculture, small-scale industry, small businesses and housing finance. Total priority sector advances should be 40.0% of adjusted net bank credit with agricultural advances required to be 18.0% of adjusted net bank credit, advances to weaker sections required to be 10.0% of adjusted net bank credit and 1.0% of the previous year’s total advances is required to be lent under the “Differential Rate of Interest” scheme. Domestic scheduled commercial banks having shortfall in lending to agriculture sector are allocated amounts for contribution to the Rural Infrastructure Development Fund established by the National Bank for Agricultural and Rural Development. Any shortfall by foreign banks in the amount required to be lent to the priority sectors may be required to be deposited with the Small Industries Development Bank of India.

The RBI requires banks to make advances towards housing finance. This can be in the form of home loans to individuals or subscription to the debentures and bonds of the National Housing Bank and housing development institutions recognised by the Government of India.

The RBI also periodically issues instructions/directives to banks with regard to providing credit facilities to minority communities.

**Export Credit**

The RBI also requires foreign 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 foreign bank's adjusted net bank credit is required to be in the form of export credit. Export credit is not a part of the priority sector for domestic commercial banks. We provide 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 RBI 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 set by the RBI are as follows:

- Credit exposure ceiling for a single borrower shall not exceed 15.0% of capital funds. Group exposure limit is 40.0% of capital funds. In case of financing for infrastructure projects, the single borrower exposure limit 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. Capital funds are the total capital as defined under capital adequacy standards (Tier I and Tier II capital).

- A bank may, in exceptional circumstances, with the approval of its board of directors, consider enhancement of the exposure over the above specified limits, up to a further 5% of capital funds. Such additional exposure can be taken, subject to the consent of the borrower to disclose their names in a bank's balance sheet.

- Exposure shall include credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and other similar commitments) as well as certain types of investments in companies. The sanctioned limits or outstandings, whichever are higher, are considered for arriving at the exposure limit. Non-fund exposures are to be reckoned at 100% of the limit or outstandings, whichever is higher.

Credit exposure is the aggregate of:

- all types of funded and non-funded credit limits; and
- facilities extended by way of equipment leasing, hire purchase finance and factoring services.

Investment exposure comprises the following elements:

- investments in shares and debentures of companies acquired through direct subscription, devolvement arising out of underwriting obligations or purchase from secondary markets or on conversion of debt into equity;
- investments in public sector undertaking bonds through direct subscription, devolvement arising out of underwriting obligations or purchase made in the secondary market;
- investments in commercial papers issued by corporate bodies or public sector undertakings;
- investments in debentures, bonds, security receipts and, pass through certificates issued by a securitisation or reconstruction company. However, initially, since only a few securitisation and reconstruction companies are being set up, banks will be allowed to exceed prudential exposure on account of such investments on a case-to-case basis;

- bank loan for financing promoters' contribution towards equity capital of new companies;
- bridge loan against equity flows/issues; and
- financing of initial public offerings.

To ensure that exposures are evenly distributed, the RBI requires banks to fix internal limits of exposure to specific sectors. These limits are subject to periodic review by the banks.

***Regulations relating to Investments and Capital Market Exposure Limits***

There are no limits on the amount of investments by banks in non-convertible debt instruments. However, credit exposure limits specified by the RBI in respect of lending to individual borrowers and borrower groups also apply in respect of these investments.

Pursuant to the RBI 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 outstanding domestic advances (including commercial paper) at March 31 of the previous fiscal 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.

The Bank's investment in the following instruments, which are issued by other banks and are eligible for capital status for the investee bank, should not exceed 10 per cent of the investing bank's capital funds (Tier I plus Tier II): (a) equity shares; (b) preference shares eligible for capital status; (c) subordinated debt instruments; (d) hybrid debt capital instruments; and (e) any other instrument approved as in the nature of capital.

In December 2003, the RBI issued guidelines on investments by banks in non-SLR 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-SLR 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-SLR securities may not exceed 10.0% of its total investment in non-SLR securities as at the end of the preceding fiscal year. With effect from January 1, 2005, only banks whose investments in unlisted non SLR securities are within the prudential limits prescribed in the above guidelines may make fresh investments in such securities and upto the prudential limits.

In February 2004, the RBI issued guidelines to regulate investments in non-SLR debt securities by RRBs in the primary and secondary markets. All non-SLR debt securities (other than commercial paper and certificate of deposits) invested by RRBs should be of original maturity of less than one year. RRBs are also prohibited from investing in unrated debt securities, unlisted securities and unlisted shares of All-India Financial Institutions. RRBs are further required to undertake due diligence in respect of investments in all such securities and subject all their investment proposals relating to non-SLR securities to credit appraisal on par with their credit proposals. Each RRB is required to fix a prudential limit for its total investment in non-SLR securities subject to existing limits prescribed by the RBI.

***Consolidated Supervision Guidelines***

In fiscal 2003, the RBI issued guidelines for consolidated accounting and consolidated supervision for banks. These guidelines became effective April 1, 2002, and the principal features thereof are:

- Banks are required to prepare consolidated financial statements intended for public disclosure.

- Banks are required to submit to the RBI, 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 total on-balance sheet assets (excluding intangible assets and accumulated assets). Within the total limit, investment in shares, convertible bonds and debentures and units of equity-oriented mutual funds should not exceed 10.0% of the Bank's consolidated net worth.

***Banks' Investment Classification and Valuation Norms***

The salient features of the RBI's guidelines on investment classification and valuation 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. Banks should decide the category of investment at the time of acquisition.
- Held to Maturity investments compulsorily include (a) recapitalisation bonds received from the GoI, (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 recapitalisation bonds, investment in subsidiaries and joint ventures and debentures.
- Profit on sale of investments in this category should be first taken to the profit and loss account and thereafter be appropriated to the capital reserve account. Loss on sale will be recognised in the profit and loss account.
- 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 with the approval of the Board / ALCO.
- Profit or loss on the sale of investments in both Held for Trading and Available for Sale categories is taken in the profit and loss account.
- 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. 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 has permitted banks to transfer additional securities to the held to maturity category as a one time measure during fiscal 2005, in addition to the transfer permitted under the earlier guidelines. The transfer would 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 amortized cost if acquired at a premium over the face value.

Securities classified as Available for Sale or Held for Trading 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 realised 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 lower of the redemption value of the security receipts / pass-through certificates, and the net book value of the financial asset.

***Restrictions on Investments in a Single Company***

No bank may hold shares in any company, whether as owner or as pledgee or mortgagee, exceeding the lower of 30.0% of the paid up share capital of that company and 30.0% of its own paid up share capital and reserves, whichever is less, except as statutorily provided.

***Limit on Transactions through Individual Brokers***

Guidelines issued by the RBI 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 RBI specifies that not more than 5.0% of the total transactions in securities through empanelled brokers can be transacted through one broker. If for any reason this limit is breached, the RBI has stipulated that the board of directors of the bank concerned should be informed on a half-yearly basis of such occurrences.

*Restriction on Short-Selling*

The RBI permits intra-day short selling of Government securities by banks provided the banks have adequate risk management systems and also provided that they have an internal policy in place. The Mid-Term Review of the Annual Policy Statement for the year 2006–07 proposes that SCBs will be allowed to cover their short positions within an extended period of five trading days. As this arrangement may result in carrying short positions across settlement cycles, the participants will be permitted to deliver a shorted security by borrowing it through the repo market.

***Regulations Relating to Deposits***

The RBI has permitted banks to independently determine rates of interest offered on term deposits. Banks are not permitted to pay interest on current account deposits. Further, banks may only pay interest of 3.5% per annum on savings deposits. In respect of savings and time deposits accepted from employees, we are permitted by the RBI 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 and a maximum maturity of 10 years. Time deposits from NRIs denominated in foreign currency have a minimum maturity of one year and a maximum maturity of five years.

The RBI 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.

- 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.

- The RBI has stipulated that from April 25, 2007, interest on NRE deposits should not exceed LIBOR/swap rate of corresponding maturity.

***Deposit Insurance***

Demand and time deposits of up to Rs. 100,000 accepted by Indian banks have to be compulsorily insured with the Deposit Insurance and Credit Guarantee Corporation, a wholly-owned subsidiary of the RBI. 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.

***Regulations relating to Knowing the Customer and Anti-Money Laundering***

The RBI has issued several guidelines relating to identification of depositors and has advised banks to put in place systems and procedures to control financial frauds, identify money laundering and suspicious activities, and monitor high value cash transactions. The RBI has also issued guidelines from time to time advising banks to be vigilant while opening accounts for new customers to prevent misuse of the banking system for perpetration of frauds.

The RBI requires banks to open accounts only after verifying the identity of customers as to their name, residence and other details to ensure that the customer is opening the account in his own name. To open an account, a prospective customer is required to be introduced by an existing customer who has had an account with the bank for at least six months and has satisfactorily conducted that account, or a well-known person in the local area where the prospective customer resides.

If the prospective customer does not have an introducer, the prospective customer is required to submit documents such as the prospective customer's identity card, passport or details of bank accounts with other banks. It must be made incumbent upon such prospective customer to provide sufficient proof of his antecedents before the account is allowed to be opened.

The Prevention of Money Laundering Act, 2002 has been passed by Indian Parliament and has received the assent of the President of India on January 17, 2003. The Act seeks to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering and for incidental and connected matters.

***Legal Reserve Requirements***

**Cash Reserve Ratio**

A banking company such as ours is required to maintain a specified percentage of its demand and time liabilities, excluding inter-bank deposits, by way of balance in current account with the RBI. The cash reserve ratio is 6.50% of the demand and time liabilities with effect from April 28, 2007.

Paid up capital, reserves, credit balance in the profit and loss account of the bank, amount availed of as refinance from the RBI, and apex financial institutions, provision for income tax in excess of the actual estimated liabilities, amounts received from the DICGC / ECGC / Court Receiver, amounts received from insurance companies on ad hoc settlement of claims pending judgment of the Court, liabilities arising on account of utilisation of limits under Bankers Acceptance Facility (BAF) and specified inter bank term deposits/term borrowing liabilities are excluded from the calculation of the cash reserve ratio.

The RBI pays no interest on the CRR balances maintained by scheduled commercial banks with effect from March 31, 2007.

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 banking company such as ours is required to maintain a specified minimum percentage of its net demand and time liabilities by way of liquid assets like cash, gold or unencumbered approved securities. The percentage of this liquidity ratio is fixed by the RBI from time to time, and it can be a maximum of 40.0% pursuant to Section 24 of the Banking Regulation Act. At present, the RBI requires banking companies to maintain a liquidity ratio of 25.0%.

***Regulations on Asset Liability Management***

At present, the RBI'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 and behaviour studies that may be conducted by banks. These statements have to be submitted to the RBI on a monthly basis. The RBI 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 RBI 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. On the basis of RBI's direction, the Bank has fixed limits for mismatches as a percentage to outflows and cumulative mismatches for all the other time buckets and the Board of Directors have approved of these limits. In case of interest rate sensitivity, our Bank has set limits for cumulative mismatches upto one year to earning assets and individual bucket wise limits as a ratio of rate sensitive liabilities.

***Foreign Currency Dealership***

The RBI has granted us a full-fledged authorised dealers' license to deal in foreign exchange through our designated branches.

Our foreign exchange operations are subject to the guidelines specified by the RBI under the Foreign Exchange Management Act, 1999. As an authorised dealer, we are required to enrol 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 us, are required to determine their limits on open positions and maturity gaps in accordance with the RBI's guidelines and these limits are approved by the RBI. Further, we are permitted to hedge foreign currency loan exposures of Indian corporations in the form of interest rate swaps, options, currency swaps and forward rate agreements, subject to certain conditions.

***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.

***Restriction on Transfer of Shares***

For public sector banks the RBI monitors the ceilings on FII/NRI/PIO investments on a daily basis. For effective monitoring the RBI has fixed cut off points lower than the actual ceilings which is 18% for public sector banks. Once the aggregate net purchase of equity shares reaches the cut off points, further acquisition of equity shares by FIIs/NRIs/PIOs requires approval of the RBI. However, the Non Resident Shareholding cannot exceed 20% of the paid up capital of the bank in terms of Section 3 of the Bank Acquisition Act.

In addition, the provisions of the SEBI Takeover Regulations apply and must be complied with.

***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. For further details, please see "History and Certain Corporate Matters – Main Objects of the Bank" on page 122 of this Red Herring Prospectus.

***Reserve Fund***

Any bank incorporated in India is required to create a reserve fund to which it must transfer not less than 20% 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 RBI within 21 days of such appropriation, explaining the circumstances leading to such appropriation. The GoI may, on the recommendation of the RBI, exempt a bank from the requirements relating to reserve fund.

***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, underwriting commission, brokerage, amounts of losses and any other item of expenditure not represented by tangible assets) have been completely written off. The GoI may exempt banks from this provision by issuing a notification on the recommendation of the RBI.

Further, as per RBI guidelines on payment of dividend, only those banks which comply with the following minimum prudential requirements are eligible to declare dividend with the prior approval of the RBI:

- Capital to risk asset ratio of at least 9% for the preceding two accounting years and for the accounting year for which it proposes to declare dividend.
- Net non-performing assets of less than 7%. In case any bank does not meet the above CRAR norm, but is having a CRAR of at least 9% for the accounting year for which it proposes to declare a dividend, it would be eligible to declare a dividend provided its net NPA ratio is less than 5%.
- The dividend pay out ratio does not exceed 40%.
- The proposed dividend is payable out of the current year's profit.
- The financial statements pertaining to the financial year for which the bank is declaring a dividend should be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year.
- Compliance with restrictions as to payment of dividends and the setting up of a reserve fund as per Sections 15 and 17 of the Banking Regulation Act, 1949.

A bank failing to meet the above eligibility criteria cannot declare dividends.

***Restriction on Share Capital and Voting Rights***

Public sector banks can issue equity shares as per the SEBI Guidelines.

The paid up capital of corresponding new banks may be increased by such amounts as the board of directors of the corresponding new bank may, after consultation with the RBI and with the previous sanction of the central government, raise by public issue or preferential allotment or private placement, of equity shares or preference shares in such manner as may be prescribed, provided that the central government's shareholding does not fall below 51% of the paid up capital of the bank.

No shareholder of the corresponding new bank, other than the central government, shall be entitled to exercise voting rights in respect of any shares held by them in excess of one percent of the total voting rights of all the shareholders of the corresponding new bank.

Further, a preference share-holder may vote only on resolutions which directly affect rights attached to his preference shares.

***Regulatory Reporting and Examination Procedures***

The RBI is empowered under Section 27(2) of the Banking Regulation Act to inspect a bank. In 1995, RBI introduced a system of off-site monitoring and surveillance, with the primary objective of monitoring the financial condition of banks in between on-site examinations. The RBI monitors prudential parameters at quarterly intervals. To this end and to enable off-site monitoring and surveillance by the RBI, banks are required to report to the RBI on aspects such as:

- assets, liabilities and off-balance sheet exposures;
- risk weighting of these exposures, the capital base and the capital adequacy ratio;
- unaudited operating results for each quarter;
- asset quality;
- concentration of exposures;
- connected and related lending and the profile of ownership, control and management;
- ownership, control and management;
- structural liquidity and interest rate sensitivity;
- subsidiaries, associates and joint ventures;
- consolidated accounts and related financial information;
- information on risk based supervision;
- analysis of balance sheet; and
- other prudential parameters.

The RBI also conducts periodic 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. We are subject to the on-site inspection by the RBI at yearly intervals. The inspection report, along with the report on actions taken by us, has to be placed before our Board of Directors. On approval by the Board of Directors, we are required to submit the report on actions taken by us to the RBI. The RBI also discusses the report with the management team including the Chairman and Managing Director and the Executive Director.

The RBI also conducts on-site supervision of circle offices and other selected branches with respect to their general operations and foreign exchange related transactions.

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

Directors on the Board of Directors of our Bank are appointed by the Central Government in terms of Section 9 of the Bank Acquisition Act. The Chairman and Managing Director and Executive Director (wholetime directors) are appointed by the Central Government in consultation with the RBI. At present, a maximum of four whole time directors may be so appointed. The other Directors nominated/ appointed by the Central Government include one director possessing necessary expertise and experience in matters relating to regulation or supervision of commercial banks, an official of the GoI and one Director representing the non-workmen employees of the Bank. Further, a specified number of Directors are elected by the shareholders. The wholetime Directors appointed by the Central Government and the officials of the Central Government who serve as the nominee directors of the Central Government and RBI cannot be a director of any other corresponding new bank. Further, a person is ineligible for appointment as a director unless he has fit and proper status based on track record, integrity and other such criteria to be notified by the RBI. The RBI also has the power to appoint an additional director if it is of the opinion that it is necessary to do so in the interests of banking policy or of the bank concerned or its depositors or in the public interest.

For the text of Section 9 of the Bank Acquisition Act, see the section titled "Main Provisions of Constitutional Documents" on page 342 of this Red Herring Prospectus.

The remuneration paid to Directors is determined by the Central Government in consultation with the RBI.

***Penalties***

The RBI may impose penalties on banks and their 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.

***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 RBI 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.

***Subsidiaries and other investments***

A bank requires the prior permission of RBI to incorporate a subsidiary. A bank is required to maintain an "arms' length" relationship in respect of its subsidiaries and in respect of mutual funds sponsored by it 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 our clients through them when we ourselves are not able or are not permitted to do so.

***Restriction on Creation of Floating Charge***

Prior approval of the RBI is required for creating floating charge on our undertaking or our property.

***Maintenance of Records***

We are required to maintain our books, records and registers as per the Banking Companies (Period of Preservation of Records) Rules, 1985. These rules specify that banks shall preserve in good order, certain books, accounts and documents (such as cheque book registers) relating to a period of not less than five years immediately preceding the current calendar year; and certain other books, accounts and documents (such as stock and share registers) relating to period of not less than eight years immediately preceding the current calendar year.

***Secrecy Obligations***

Under Section 13 of the Bank Acquisition Act, our Bank is statutorily bound to maintain secrecy about the affairs of its constituents, except in circumstances in which it is, in accordance with law or practices and usages customary among bankers, necessary or appropriate for the bank to divulge such information.

Our obligations relating to maintaining secrecy arise out of common law principles governing our relationship with our customers. We 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 we need to disclose information in our interest; and
- where disclosure is made with the express or implied consent of the customer.

We are required to comply with the above in furnishing any information to any parties. We are also required to disclose information if ordered to do so by a court. The RBI may, in the public interest, publish the information obtained from the bank. Under the provisions of the Banker's Books Evidence Act, 1891 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. The RBI has directed banks to incorporate consent clauses in loan agreements to enable disclosure of borrower information to credit bureaus.

***Regulations governing Offshore Banking Units***

The Government and the RBI 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:

- Permission of the RBI is required for setting up offshore banking units.
- No separate assigned capital is required. However, the parent bank is required to provide a minimum of U.S.$ 10 million to its offshore banking unit.
- Offshore banking units are exempt from CRR requirements.
- Banks are required to maintain the SLR. However, the RBI may exempt a bank's offshore banking unit from SLR 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 under the existing exchange control regulations to invest/maintain foreign currency accounts abroad.
- All prudential norms applicable to overseas branches of Indian banks apply to offshore banking units. The offshore banking units are also required to follow the best international practice of 90 days' payment delinquency norm for income recognition, asset classification and provisioning.
- Offshore banking units are required to adopt liquidity and interest rate risk management policies prescribed by the RBI 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 operate and maintain balance sheets only in foreign currency and are not allowed to deal in Indian rupees except for having a special rupee account out of the convertible funds in order to meet their daily expenses. These branches are prohibited from participating in the domestic call, notice, term etc. money market and payment system.
- 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.
- A bank cannot borrow from its offshore banking unit.
- The exposures of an offshore banking unit in the domestic tariff area should not exceed 25% of its total liabilities as at the close of business of the previous working day, at any point of time.

### *Regulations and Guidelines of SEBI*

SEBI was established to protect the interests of public investors in securities and to promote the development of, and to regulate, the Indian securities market. We are subject to SEBI regulations for our equity and debt capital issuances, as well as our banker to the issue, custodial and depositary participant activities. These regulations provide for our registration with the SEBI for each of these activities, functions and responsibilities. We are required to adhere to a code of conduct applicable for these activities.

### *Foreign Ownership Restrictions*

Foreign investment in our Bank, as a corresponding new bank, is regulated by the provisions of the Bank Acquisition Act. Under Section 3(2D), foreign investment in corresponding new banks is subject to an overall statutory limit of 20% of the paid up capital. The aggregate investment within the 20% limit may be prescribed by the GoI by a notification. For public sector banks, the RBI monitors the ceilings on Non Resident investments on a daily basis. For effective monitoring, the RBI has fixed cut off points lower than the actual ceilings which is 18% for public sector banks. Once the aggregate net purchase of equity shares reaches the cut off points, further acquisition of equity shares by Non Residents to the ceiling of 20% requires approval of the RBI, beyond which Non Residents are not allowed to acquire shares.

### *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, we are 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 have 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 it, 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 Sick Industrial Companies Act, 1985 has been repealed by the Sick Industrial Companies (Special Provisions) Repeal Act, 2004 ("SICA Repeal Act"). However, the SICA Repeal Act, which is due to come into force on a date to be notified by the central government in the official gazette, has not yet been notified. On the repeal becoming effective, the provisions of the Companies Act will apply in relation to sick companies, under which the reference must be made to the National Company Law Tribunal, and not the Board for Industrial and Financial Reconstruction.

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.

### *Regulations Governing Insurance Companies*

Subsidiaries offering life insurance and non-life insurance are 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, 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 IRDA has issued detailed guidelines for the licensing of entities to act as corporate agents or composite corporate agents for selling insurance products. The guidelines stipulate that soliciting or procuring insurance business as a corporate agent should be contained in the constitutional documents of the entity as one of its main objects. The guidelines further provide that the personnel of the entity should possess the prescribed qualifications and should not suffer from any disqualifications under the Insurance Act, 1938.

***Regulations Governing our International Business***

Our international business operations would be governed by regulations in the countries in which we have a presence. We are required to obtain a license from the concerned regional office of the RBI prior to setting up overseas subsidiaries, offshore branches, and representative offices abroad. Further, approval from the foreign regulatory authority is also required prior to undertaking such banking operations. The Bank has applied to the RBI for permission to open representative offices abroad, in Dubai, Singapore and Hong Kong.

***The RRB Act, 1976***

RRBs are established under the RRB Act, 1976 by the GoI at the instance of a sponsor bank. The GoI may also issue notifications specifying the local limits within which a given RRB shall operate. The sponsor bank shall subscribe to the share capital of the RRB, train personnel and provide managerial and financial assistance to the RRB during the first five years of its operations.

The RRB Act, 1976 stipulates the limit of the paid-up capital of an RRB and further stipulates that the shares shall always be fully paid up shares of one hundred rupees each. 50% of such shares shall be subscribed to by the GoI, 15% by the concerned state government and 35% by the sponsor bank. The issued capital can be changed by the board of directors of the RRB (with the prior approval of the GoI) after consultation with NABARD, the concerned state government and the sponsor bank.

The RRB Act, 1976 further requires that the board of directors shall consist of the following:

- a chairman-appointed by the sponsor bank;
- two directors, nominated by GoI, who are not officers of GoI, the concerned state government, RBI, NABARD, sponsor bank or any other bank;
- one Director to be nominated by the RBI, such person being an officer of the RBI;
- one director to be nominated by NABARD, such person being an officer of NABARD;
- two directors to be nominated by the sponsor bank, such person being an officer of the sponsor bank; and
- two directors to be nominated by the concerned state government, who are officers of the concerned State Government.

Every RRB shall carry on the business of banking as defined in Section 5(b) of the Banking Regulation Act and may engage in one or more forms of business specified in Section 6(1) of the Banking Regulation Act.

Every RRB shall prepare an annual report within three months from the date of closure of the accounting year or such further period, not exceeding three months, as may be permitted by the RBI. Such annual report shall be sent to all of its shareholders.

RRBs are not eligible to get tax benefits in terms of section 80P of the I.T. Act from the assessment year 2007-2008. Further, the GoI is empowered to give directions to the RRBs and the RRBs shall have to obey and follow such directions.

## HISTORY AND CERTAIN CORPORATE MATTERS

Central Bank of India was incorporated on December 21, 1911 under the Indian Companies Act, 1882 as "The Central Bank of India Limited". The Head Office of the Bank was set up at Esplanade Road, Fort, Mumbai (then known as Bombay) which was subsequently shifted to its present location at Chandermukhi, Nariman Point, Mumbai 400 021.

***Pre Nationalisation***

The Bank commenced business as "The Central Bank of India Limited" at Mumbai. The Central Bank Executor and Trustee Company Limited (later renamed as Centbank Financial and Custodial Services Limited) was incorporated as a Subsidiary of the Bank on May 1, 1929 to undertake the trustee and executor business and act as executors, administrators and trustees.

***Post Nationalisation***

The Bank was nationalised on July 19, 1969. After nationalisation, the Bank was renamed Central Bank of India. Apna Ghar Vitta Nigam Limited (later renamed as Cent Bank Home Finance Limited) was incorporated as a Subsidiary of the Bank on May 7, 1991 to provide long term finance for the purchase or construction of houses in India.

***Main Objects of the Bank***

Section 3(5) of the Bank Acquisition Act states as follows:

"*Every corresponding new bank shall carry on and transact the business of banking as defined in clause (b) of section 5 of the Banking Regulation Act, 1949 (10 of 1949) and may engage in one or more of the other forms of business specified in sub-section (1) of section 6 of that Act."*

Section 5(b) of the Banking Regulation Act reads as follows:

"*'banking' means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.*"

Section 6(1) of the Banking Regulation Act reads as follows:

*"Form and business in which banking companies may engage*

*(1) In addition to the business of banking, a banking company may engage in any one or more of the following forms of business, namely—*

*(a) the borrowing, raising, or taking up of money; the lending or advancing of money either upon or without security; the drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundis, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments and securities whether transferable or negotiable or not; the granting and issuing of letters of credit, traveller's cheques and circular notes; the buying, selling and dealing in bullion and specie; the buying and selling of foreign exchange including foreign bank notes; the acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds; the purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or others, the negotiating of loans and advances; the receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise; the providing of safe deposit vaults; the collecting and transmitting of money and securities;*

(b) *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;*

(c) *contracting for public and private loans and negotiating and issuing the same;*

(d) *the 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 debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue;*

(e) *carrying on and transacting every kind of guarantee and indemnity business;*

(f) *managing, selling and realising any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims;*

(g) *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;*

(h) *undertaking and executing trusts;*

(i) *undertaking the administration of estates as executor, trustee or otherwise;*

(j) *establishing and supporting or aiding in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the company or the dependents or connections of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent objects or for any exhibition or for any public, general or useful object;*

(k) *the acquisition, construction, maintenance and alteration of any building or works necessary or convenient for the purposes of the company;*

(l) *selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with all or any part of the property and rights of the company;*

(m) *acquiring and undertaking the whole or any part of the business of any person or company, when such business is of a nature enumerated or described in this sub- section;*

(n) *doing all such other things as are incidental or conducive to the promotion or advancement of the business of the company;*

(o) *any other form of business which the Central Government may, by notification in the Official Gazette, specify as a form of business in which it is lawful for a banking company to engage."*

Section 3 (7) of Chapter II of the Bank Acquisition Act provides for the Bank to act as an Agent of the RBI.

(1) *The Bank shall, if so required by the Reserve Bank of India, act as agent of the Reserve Bank at all places in India where it has a branch for:*

*(d)* *Paying, receiving, collecting and remitting money, bullion and securities on behalf of the Government of India.*

*(e)* *Undertaking and transacting any other business which the Reserve Bank may from time to time entrust to it.*

*(2)* *The terms and conditions on which any such agency business shall be carried on by the corresponding new Bank on behalf of the Reserve Bank shall be such as may be agreed upon.*

*(4)* *The corresponding new Bank may transact any business or perform any function entrusted to it under Clause (I) by itself or through any agent approved by the Reserve Bank.*

***Changes in Memorandum of Association***

We do not have any articles or memorandum of association as we are a "corresponding new bank" under the provisions of the Bank Acquisition Act.

***Key Milestones***

| | |
|---|---|
| 1929 | The Central Bank Executor and Trustee Company Limited was incorporated as a Subsidiary of the Bank |
| 1969 | The Bank was nationalized |
| 1984 | Our joint venture, Indo-Zambia Bank Limited was incorporated |
| 1991 | Apna Ghar Vitta Nigam Limited was incorporated as a Subsidiary of the Bank |
| 2007 | The Bank restructured its entire paid up capital by conversion of an amount aggregating Rs. 8,000 million out of the equity share capital of Rs. 11,241.40 million into perpetual non-cumulative preference share capital, while retaining the balance amount aggregating Rs. 3,241.41 million as equity share capital of the Bank |

***Strategic or Financial Partners***

We do not have any strategic or financial partners.

## OUR MANAGEMENT

The following table sets forth details of our Board of Directors as of the date of filing this Red Herring Prospectus with SEBI:

| Sl. No. | Name, Father's Name, Designation, DIN, Residential Address, Occupation | Nationality | Age | Other Directorships |
|---|---|---|---|---|
| 1. | H.A. Daruwalla<br>(D/o Ardeshir Daruwalla)<br><br>*Chairperson and Managing Director*<br><br>DIN: 00365880<br><br>A/26, 13th Floor<br>Sterling Apartment, Peddar Road<br>Mumbai 400 026.<br><br>*Professional Banker*<br><br>Term: From June 30, 2005 up to December 31, 2008 (the date of her attaining the age of superannuation) or until further orders from the GoI, whichever is earlier. | Indian | 58 | 1. Agriculture Finance Corporation;<br>2. Cent Bank Home Finance Limited;<br>3. Cent Bank Financial and Custodial Services Limited; and<br>4. Indo-Zambia Bank Limited. |
| 2. | K. Subbaraman<br>(S/o K.S. Krishnan)<br><br>*Executive Director*<br><br>DIN: 00366032<br><br>163A, Jolly Maker Apartments 1,<br>Cuffe Parade, Colaba<br>Mumbai 400 005.<br><br>*Professional banker*<br><br>Term: From the date of his taking charge up to September 30, 2008 (the date of his attaining the age of superannuation) or until further orders from the GoI, whichever is earlier. | Indian | 58 | 1. Cent Bank Home Finance Limited;<br>2. Cent Bank Financial and Custodial Services Limited; and<br>3. Infrastructure Leasing and Financial Services Limited. |
| 3. | Albert Tauro<br>(S/o Pascal Tauro)<br><br>*Executive Director*<br><br>DIN: 01635912<br><br>46, 12th Floor, Iris Apartment,<br>Cuffe Parade, Colaba<br>Mumbai 400 005 | Indian | 56 | Nil |

| Sl. No. | Name, Father's Name, Designation, DIN, Residential Address, Occupation | Nationality | Age | Other Directorships |
|---|---|---|---|---|
| | *Professional banker*<br><br>Term: From the date of his taking charge up to March 31, 2011 (the date of his attaining the age of superannuation) or until further orders from the GoI, whichever is earlier. | | | |
| 3. | P.P. Mitra<br>(S/o A.K. Mitra)<br><br>*GoI Nominee Director*<br><br>DIN: 01637197<br><br>E-6/209, Sterling Apartment<br>Charmwood Village<br>Suraj Kumar Road<br>Faridabad 210 009.<br><br>*Joint Secretary, Ministry of Finance (Banking Division), GoI*<br><br>Term: From February 7, 2006 until further orders from the GoI. | Indian | 51 | Nil |
| 4. | M.K. Bhattacharya<br>(S/o S.C. Bhattacharya)<br><br>*RBI Nominee Director*<br>*Independent Director*<br><br>DIN: 01636466<br><br>EMP 037/601<br>Thakur Village<br>Kandivili (East)<br>Mumbai 400 101.<br><br>*Retired employee of the RBI*<br><br>Term: From February 27, 2007 until further orders. | Indian | 63 | Nil |
| 5. | Kamal Faruqui<br>(S/o Nafees Ahmed Faruqui)<br><br>*Part-Time Non-Official Director*<br>*Independent Director*<br><br>DIN: 01039308<br><br>A-80, Nizamuddin East<br>New Delhi 110 013.<br><br>*Chartered Accountant* | Indian | 55 | 1. Indian Publications Limited; and<br>2. Worldwide Professionals Limited. |

| Sl. No. | Name, Father's Name, Designation, DIN, Residential Address, Occupation | Nationality | Age | Other Directorships |
|---|---|---|---|---|
| | Term: For a period of three years from September 16, 2005 or until his successor is nominated, whichever is earlier. | | | |
| 6. | Major (Retd.) Ved Prakash<br>(S/o Ram Lal)<br><br>*Part-Time Non-Official Director*<br>*Independent Director*<br><br>DIN: 01636165<br><br>204/1 Neb Valley<br>Sainik Farms, Nab Sarai<br>New Delhi 110 068.<br><br>*Ex-service personnel*<br><br>Term: For a period of three years from October 6, 2005 or until his successor is nominated, whichever is earlier. | Indian | 68 | Nil |
| 7. | Satya Bahin<br>(D/o Baldev Prasad)<br><br>*Part-Time Non-Official Director*<br>*Independent Director*<br><br>DIN: 01636221<br><br>89, Sector IV<br>Vaishali<br>Ghaziabad<br>Uttar Pradesh 452 018.<br><br>*Social worker*<br><br>Term: For a period of three years from November 10, 2005 or until her successor is nominated, whichever is earlier. | Indian | 62 | Nil |
| 8. | Harish Chandhok<br><br>*Part-Time Non-Official Director*<br>*Independent Director*<br><br>DIN: 01635987<br><br>20-21, Manishpuri<br>Saket Extension<br>Indore 452 003. | Indian | 62 | 1. J.B.B. Enterprises Limited. |

| Sl. No. | Name, Father's Name, Designation, DIN, Residential Address, Occupation | Nationality | Age | Other Directorships |
|---|---|---|---|---|
| | *Businessman*<br><br>Term: For a period of three years from November 10, 2005 or until his successor is nominated, whichever is earlier. | | | |
| 9. | Romesh Sabharwal<br>(S/o B.M. Sabharwal)<br><br>*Part-Time Non-Official Director*<br>*Independent Director*<br><br>DIN: 01636105<br><br>A 2/3, M.S. Flats<br>Peshwa Road, Gole Market<br>New Delhi 110 001.<br><br>*Businessman*<br><br>Term: For a period of three years from March 3, 2006 or until his successor is nominated, whichever is earlier. | Indian | 44 | Nil |
| 10. | Indu Singh Pawar<br>(S/o Gandharb Singh Bhawadwal)<br><br>*Part-Time Non-Official Director*<br>*Independent Director*<br><br>DIN: 01637142<br><br>18A, Shastri Nagar<br>Jammu Tawi180004.<br><br>*Social worker*<br><br>Term: For a period of three years from January 2, 2007 or until her successor is nominated or until further orders from the GoI, whichever is the earliest. | Indian | 49 | Nil |
| 11. | C.M. Puri<br>(S/o N.L. Puri)<br><br>*Workman Employee Director*<br><br>DIN: 01635938<br><br>16-G Sector-8<br>SFS DDA Flats<br>Jasola Vihar<br>New Delhi 110 025. | Indian | 56 | Nil |

| Sl. No. | Name, Father's Name, Designation, DIN, Residential Address, Occupation | Nationality | Age | Other Directorships |
|---|---|---|---|---|
| | *Bank employee*<br><br>Term: For a period of three years from September 5, 2003 and thereafter until his successor is nominated or till he ceases to be a workman employee of the Bank, or until further orders of the GoI, whichever is earliest. | | | |
| 12. | N.K. Pareek<br>(S/o Banshi Dhar Pareek)<br><br>*Officer Employee Director*<br><br>DIN: 01636033<br><br>8/203, Vidhyadhar Nagar<br>Jaipur 302 013.<br><br>*Bank employee*<br><br>Term: For a period of three years from August 10, 2006 or until his successor is nominated or till he ceases to be an officer employee of the Bank, whichever is earliest. | Indian | 58 | Nil |

**Brief biographies of our Directors**

**H.A. Daruwalla**, Chairperson and Managing Director, aged 58 years, was appointed as the Chairperson and Managing Director of our Bank on June 30, 2005. She holds a bachelor's degree in commerce from the Mumbai University. She is an associate member of the Institute of Chartered Accountants of India and has completed CAIIB. H.A. Daruwalla has previously worked with Union Bank of India and has been the executive director of Oriental Bank of Commerce. She has also been a director of Maharashtra Industrial and Technical Consultancy Organisation Limited. She has been awarded the "Achiever's Award" by the Mancherji Edalji Joshi Memorial Trust, the "Women Achievers 2006" award by the Women Graduates Union, the "Woman of the Year Award 2006" from the Zonta Club of Bombay III and the "Award for Finance and Banking 2005" from the Ladies Wing of Indian Merchants' Chamber.

**K. Subbaraman**, Executive Director, aged 58 years, was appointed as the Executive Director of our Bank on February 2, 2006. He holds a bachelor's degree in engineering from the Osmania University, Hyderabad and a post-graduate diploma in industrial management from the Indian Institute of Science, Bangalore. He is a Certified Associate of the Institute of Banking and Finance and an Associate of the Chartered Institute of Bankers, London. K. Subbaraman has previously worked with the Bank of India as a general manager.

**Albert Tauro**, Executive Director, aged 56 years, was appointed as the Executive Director of our Bank on June 6, 2007. He holds a master's degree in commerce from the Bombay University and has completed CAIIB. He has previously worked with Canara Bank as a general manager. He has been a member of the IBA working group on Basel II and the IBA committee on Banking Standards and Codes.

**P.P. Mitra**, aged 51 years, was nominated by the GoI to our Board on February 7, 2006. He holds a master's degree in economics from the Calcutta University and a bachelor's degree in law from the Delhi University. He is the Joint Secretary to the Ministry of Finance (Banking Division), GoI.

**M.K. Bhattacharya**, aged 63 years, was nominated by the RBI to our Board on February 27, 2007. He holds a masters degree in commerce from the Calcutta University and has completed CAIIB. He has previously worked as the regional manager and the chief general manager of the RBI and has been a director on the boards of directors of Canara Bank and Assam Financial Corporation.

**Kamal Faruqui**, aged 55 years, was appointed as a part-time non-official Director of our Bank on September 16, 2005. He holds a bachelor's degree in commerce from the Delhi University. He is an associate member of the Institute of Chartered Accountants of India. He is a practicing chartered accountant.

**Major (Retd.) Ved Prakash**, aged 68 years, was appointed as a part-time non-official Director of our Bank on October 6, 2005. He holds a master's degree in arts from the Osmania University. He was formerly an officer in the Indian Army.

**Satya Bahin**, aged 62 years, was appointed as a part-time non-official Director of our Bank on November 10, 2005. She holds a master's degree in sociology from the Agra University. She is a social worker.

**Harish Chandhok**, aged 62 years, was appointed as a part-time non-official Director of our Bank on November 10, 2005. He holds a bachelor's degree in engineering from the Indore University. He is a businessman.

**Romesh Sabharwal**, aged 44 years, was appointed as a part-time non-official Director of our Bank on March 3, 2006. He holds a bachelor's degree in arts from the Sikkim Municipal University and a diploma in engineering from the Bombay University. He is a businessman.

**Indu Singh Pawar**, aged 49 years, was appointed as a part-time non-official director of our Bank on January 2, 2007. She holds a bachelor's degree in science and a bachelor's degree in law from the Jammu University. She is a social worker.

**C.M. Puri**, aged 56 years, was appointed as the workman employee director of our Bank on September 5, 2003. He holds a bachelor's degree in science from the Delhi University and is a junior associate of the Indian Institute of Bankers. He is a workman employee of the Bank.

**N.K. Pareek**, aged 58 years, was appointed as the officer employee director of our Bank on August 10, 2006. He holds a master's degree in commerce and a bachelor's degree in law from the Rajasthan University. He has completed CAIIB. He is an officer employee of the Bank.

**Remuneration of Directors**

**H.A. Daruwalla, Chairperson and Managing Director**

*Salary and dearness pay*: H.A. Daruwalla is entitled to a salary of Rs. 24,050 per month and dearness pay at the rate of 50% of the basic pay as remuneration during her term as the Chairperson and Managing Director.

*Other perquisites and benefits*: In addition to the above, H.A. Daruwalla is entitled to certain perquisites including entertainment allowance up to a ceiling of Rs. 6,000 per annum, increment every 12 months, residential accommodation, use of an official car, conveyance and traveling allowance for travel by air, leave and leave travel concession, provident fund, medical benefits and gratuity.

**K. Subbaramanm, Executive Director**

*Salary and dearness pay*: K. Subbaraman is entitled to a salary of Rs. 22,050 per month and dearness pay at the rate of 50% of the basic pay as remuneration during his term as the Executive Director.

*Other perquisites and benefits*: In addition to the above, K. Subbaraman is entitled to certain perquisites including entertainment allowance up to a ceiling of Rs. 6,000 per annum, increment every 12 months, residential accommodation, use of an official car, conveyance and traveling allowance for travel by air, leave and leave travel concession, provident fund, medical benefits and gratuity.

**Albert Tauro, Executive Director**

Albert Tauro is entitled to a salary in the pay scale of Rs. 22,050 – 500 – 24,050 per month. The notification of the MoF, GoI in terms of clause 8(2) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 fixing the salary, allowances fees, perquisites and other conditions of appointment of Albert Tauro has not yet been issued.

**Sitting Fees**

The sitting fee payable to our Directors is Rs. 5,000 per meeting for attending Board meetings and Rs. 2,500 per meeting for attending meetings of the committees of the Board.

**Payment or other benefit to officers of our Bank**

Except as stated in this 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 our officers except the normal remuneration for services rendered as Directors, officers or employees of the Bank.

**Corporate Governance**

The Board has 13 directors, of which three are executive Directors, two are whole-time workman and officer Directors, one is a nominee of the GoI and seven are independent Directors. The Chairman of the Board is an executive Director. The Bank has complied with the requirements of corporate governance, as applicable or otherwise as disclosed below, in respect of constituting committees of the Board as given below:

**Committees of the Board**

We have constituted the following committees of the Board of Directors:

1. Audit Committee;
2. Shareholders'/Investors' Grievance Committee;
3. Management Committee;
4. Risk Management Committee;
5. Vigilance Committee;
6. Committee of the Board for Monitoring of Large Value Fraud;
7. Customer Service Committee; and
8. Supervisory Committee of the Board for Monitoring of Information Technology Projects.

The Board of Directors has not constituted a remuneration committee as the remuneration of Directors is determined by the GoI and is guided by the guidelines of the GoI in this regard.

**1. Audit Committee**

The Audit Committee was originally constituted on August 20, 1994. The Audit Committee was reconstituted in terms of the resolution of the Board of Directors dated April 23, 2007 and its terms of reference were expanded to include the following:

- Providing direction as well as overseeing the operation of the total audit function of the Bank, which includes the organization, operationalization and quality control of internal audit and inspection within the Bank and follow-up on the statutory/external audit of the Bank and inspections of the RBI;

- Reviewing, in respect of internal audit, the internal inspection/audit function in the Bank, with specific focus on the follow-up on inter-branch adjustment accounts, unreconciled long outstanding entries in inter-bank accounts and nostro accounts, arrears in balancing of books at various branches, frauds and all other major areas of house-keeping;

- Obtaining and reviewing half yearly reports from the compliance officers appointed in the Bank in terms of the instructions of the RBI;

- Following-up, in respect of statutory audits, on all the issues raised in the Long Form Audit Report and interacting with the external auditors before finalization of the annual/semi-annual financial accounts and reports;

- Reviewing regularly the accounts, accounting policies and disclosures;

- Reviewing the major accounting entries based on exercise of judgment by management and reviewing any significant adjustments arising out of the audit;

- Reviewing qualifications in the draft audit report;

- Establishing and reviewing the scope of the independent audit including the observations of the auditors and reviewing the quarterly, half-yearly and annual financial statements before submission to the Board;

- To have post-audit discussions with the auditors to ascertain any area of concern;

- Establishing the scope and scope and frequency of internal audit, reviewing the findings of the internal auditors and ensuring the adequacy or internal control systems;

- To look into the reasons for substantial defaults in the payment to depositors, debenture holders, shareholders and creditors;

- Compliance with the Stock Exchanges' legal requirements concerning financial statements, to the extent applicable;

- To look into any related party transactions, i.e., transactions of the Bank of a material nature, with promoters or management, their subsidiaries or relatives, etc., that may have potential conflict with the interests of the Bank at large; and

- Such other matters as may from time to time be required by any statutory, contractual or regulatory requirements to be attended to by the Audit Committee.

The Audit Committee comprises P.P. Mitra, (Chairman), K. Subbaraman, M.K. Bhattacharya, Kamal Faruqui, Major (Retd.) Ved Prakash and Harish Chandhok. The RBI has, in terms of its letter dated July 14, 2005 advised the Bank that the chairman of our Audit Committee should be the GoI nominee Director. Clause 49 of the listing agreements with the Stock Exchanges requires that the audit committee of the Board should comprise of two-third independent directors and its chairman should be an independent Director. Under Section 9(3)(g) of the Bank Acquisition Act, the GoI may appoint a qualified chartered accountant to the board of directors of nationalized banks, who would also be then the chairman of the audit committee. We have requested the GoI, including by way of a letter dated June 26, 2007, to appoint a qualified chartered accountant to our

Board of Directors. The RBI has, in terms of its letter dated July 14, 2005, advised the Bank that the chairman of our Audit Committee should be the GoI nominee Director. The Bank has by its letter dated May 14, 2007 sought directions from the RBI as to whether it should continue to have the GoI Director as the chairman of the Audit Committee or appoint an independent director as the chairman. The RBI has not responded to our letter dated May 14, 2007. The GoI has, by its letter dated July 5, 2007 informed us that a proposal to appoint a qualified chartered accountant to our Board of Directors is under active consideration of the GoI and is likely to be finalized shortly, possibly wihin three months of the date of the letter. We have undertaken to SEBI to diligently pursue with the GoI to appoint a qualified chartered accountant to our Board of Directors within a period of three months from the date of this Red Herring Prospectus, who would then be designated the chairman of the audit committee. So long as the chairman of our Audit Committee is a GoI nominee Director, such Director is not an independent Director, and we may continue to not meet all the requirements under Clause 49 of the listing agreements with the Stock Exchanges. The Compliance Officer is the secretary of the Audit Committee. The Audit Committee met six times during fiscal 2007 and twice during the current fiscal.

**2. Shareholders'/Investors' Grievance Committee**

The Shareholders'/Investors' Grievance Committee was constituted on April 23, 2007 to look into the redressal of shareholders' and investors' complaints, including but not limited to, transfer of Equity Shares, non-receipt of balance sheet, non-receipt of dividends, and any other grievance that a shareholder or investor of the Bank may have against the Bank. The Shareholders'/Investors' Grievance Committee comprises Major (Retd.) Ved Prakash (Chairman), Harish Chandhok and K. Subbaraman.

**3. Management Committee**

The Management Committee was constituted on September 8, 1990 and exercises such powers of the Board, including the powers with regard to credit proposals, as may be delegated to it by the Board with the approval of the GoI, which approval is given by the GoI after consultation with the RBI. The Management Committee may exercise all the powers vested in the Board in respect of:

- Sanctioning of credit proposals (funded and non-funded);
- Loan compromise/write-off proposals;
- Proposals for approval of capital and revenue expenditure;
- Proposals relating to acquisition and hiring of premises including deviation from norms for acquisition and hiring of premises;
- Filing of suits/appeals, defending them, etc;
- Investments in government and other approved securities, shares and debentures of companies, including underwriting;
- Donations; and
- Any other matter referred to the Management Committee by the Board.

The Management Committee comprises H.A. Daruwalla, K. Subbaraman, P.P. Mitra, M.K. Bhattacharya, C.M. Puri and Indu Singh Pawar. The Management Committee met 21 times during fiscal 2007 and five times during the current fiscal.

**4. Risk Management Committee**

The Risk Management Committee was constituted on January 18, 2003. The functions of the Risk Management Committee include the following:

- To take both long term and short term view of risks faced by the Bank;
- Keeping the long term interest and implication in mind, to articulate and proactively update the risk philosophy of the Bank;
- To review, from an operational perspective, the risk profile of the Bank and issue instructions/guidelines to appropriate entities to better manage risk;
- To be the apex committee for convergence of various risk management efforts and policy guidelines and to provide broad direction on articulating the risk management philosophy of the Bank and also review the risk profile of the Bank and provide guidelines.
- To take an integrated view of the risk the Bank is willing to take and provide broad directions for indicating the risk appetite of the Bank;
- To review the credit risk management policies to ensure that they are compatible with the risk philosophies and risk preferences.
- Creating and building organization-wide awareness and appreciation of risk management policies.
- To review periodically the policies and guiding principles for managing the Bank's operational risk and also to review periodically information to monitor compliance with the policies;
- Creating awareness and appreciation of asset liability management issues through the Bank by issuing appropriate guidelines in the areas of balance sheet structure, funding structure, pricing and corporate planning so as to maintain the Bank's desired risk preferences and balance sheet profile;
- To review periodically the instructional mechanism that is put in place for attending to the functions of risk management and risk based supervision; and
- To devise the policy and strategy for integrated risk management containing various risk exposures of the Bank including credit risk.

The Risk Management Committee comprises H.A. Daruwalla, K. Subbaraman, P.P. Mitra, M.K. Bhattacharya, Indu Singh Pawar and Kamal Faruqui. The Risk Management Committee met four times during fiscal 2007 and once during the current fiscal.

**5. Vigilance Committee**

The Vigilance Committee was constituted on January 12, 1991. The major functions of the Vigilance Committee include the following:

- To monitor and review all cases of vigilance complaints and disposal thereof;
- To review all disciplinary action cases and departmental inquiries on stage-wise and age-wise basis, i.e., inquiries yet to commence, inquiries in progress, inquiries concluded and final orders in the process of approval/approved;

- To review punishments awarded in the departmental enquiries cases;
- To review stage-wise and age-wise cases of suspensions;
- To review regular cases registered by the Central Bureau of Investigation;
- To review prosecution cases launched by the Central Bureau of Investigation; and
- To review preventive vigilance measures.

The Vigilance Committee comprises H.A. Daruwalla, P.P. Mitra and M.K. Bhattacharya while K. Subbaraman and the chief vigilance officer of the Bank are invitees. This committee met four times during fiscal 2007.

**6. Committee of the Board for Monitoring of Large Value Fraud**

The Committee of the Board for Monitoring of Large Value Fraud was constituted on March 14, 2004. The major functions of this committee are to monitor and review all frauds of Rs. 10 million and above so as to:

- Identify the systemic lacunae, if any, that facilitate the perpetration of the fraud and to put in place measures to address the same;
- Identify the reasons for delay in detection, if any, reporting to the top management of the Bank and the RBI;
- Monitor progress of Central Bureau of Investigation/police investigation and recovery position;
- Ensure that staff accountability is examined at all levels in all the cases of frauds and staff side action, if required, is completed without loss of time;
- Review the efficacy of the remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls; and
- Put in place other measures as may be considered relevant to strengthen preventive measures against frauds.

The Committee of the Board for Monitoring of Large Value Fraud comprises H.A. Daruwalla, K. Subbaraman, P.P. Mitra, Satya Bahin and Romesh Sabharwal. The committee of the Board for Monitoring of Large Value Fraud met three times during fiscal 2007 and once during the current fiscal.

**7. Customer Service Committee**

The Customer Service Committee was constituted on August 24, 2004. The functions of the Customer Service Committee include the following:

- To bring about ongoing improvements in the quality of customer service provided by the Bank;
- To ensure compliance with the recommendations of the Committee on Procedures and Performance Audit on Public Services in Banks; and

- To initiate innovative measures for enhancing the quality of customer service and improving the level of customer satisfaction for all categories of clientele at all levels.

The Customer Service Committee comprises K. Subbaraman, M.K. Bhattacharya, Kamal Faruqui and Romesh Sabharwal. The Committee met four times during fiscal 2007 and once during the current fiscal.

**8. Supervisory Committee of the Board for Monitoring of Information Technology Projects**

The Supervisory Committee of the Board for Monitoring of Information Technology Projects was constituted on October 27, 2005. The function of this committee is to monitor all the information technology projects being implemented in the Bank or to be implemented in the Bank in the future. The Supervisory Committee of the Board for Monitoring of Information Technology Projects comprises H.A. Daruwalla, K. Subbaraman, M.K. Bhattacharya and Kamal Faruqui. The committee met four times during fiscal 2007 and once during the current fiscal.

**Interests 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 our Constitutional Documents and notifications by RBI affixing their remuneration. The Directors will be interested to the extent of remuneration paid to them for services rendered by them as officers or employees of the Bank. All our Directors may also be deemed to be interested to the extent of Equity Shares, if any, that may be subscribed for and allotted to them, out of the present Issue in terms of this Red Herring Prospectus and also to the extent of dividend payable to them and other distributions in respect of the said Equity Shares.

None of our Directors are interested in any advances or facilities that have been provided by the Bank to their relatives or persons in which such relatives are interested, except as set forth below:

| Name of Director | Nature of interest | Amount (in Rs.) |
|---|---|---|
| C.M. Puri | Loan against provident fund | 71,126.00 |
| | Vehicle loan | 45,560.00 |
| | Overdraft | 146,353.00 |
| N.K. Pareek | Housing loan | 247,783.00 |
| | Vehicle loan | 143,510.00 |
| | Overdraft | 55,129.00 |

**Borrowing Powers of our Directors**

Under our Constitutional Documents, the Directors do not have any borrowing powers and all borrowings by the Bank are typically approved by the Board of Directors.

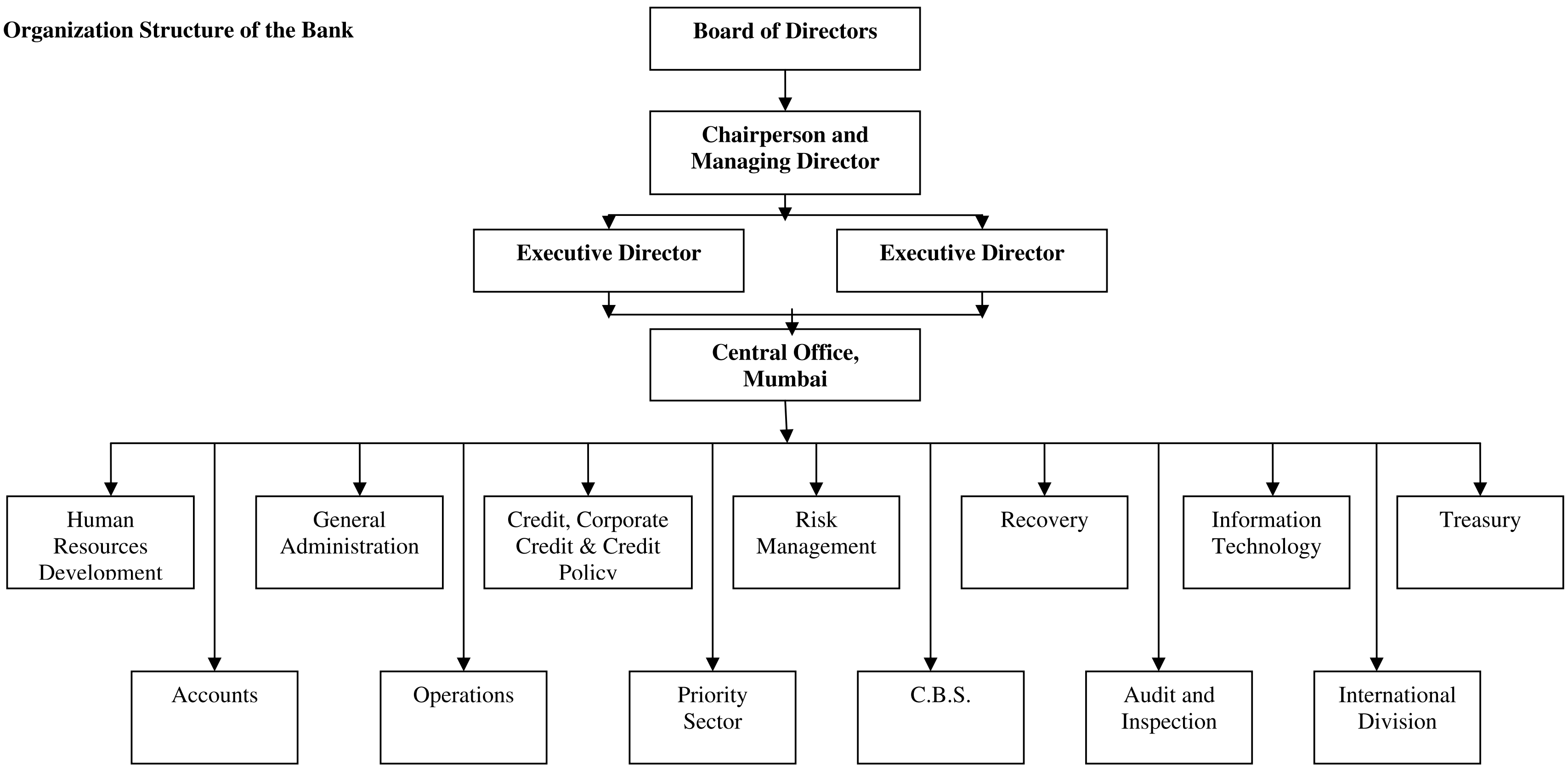
**Changes in our Board of Directors during the last three years**

The changes in our Board of Directors during the last three years are as follows:

| Name | Date of Appointment | Date of Cessation | Reason |
|---|---|---|---|
| C.M. Puri | September 5, 2003 | - | Appointed as workman employee Director |
| R. Gandhi | June 11, 2002 | January 9, 2004 | Term completed |
| Anupam Das Gupta | July 14, 2003 | March 24, 2004 | Term completed |
| N.K. Mohanty | February 22, 2002 | April 2, 2004 | Resigned |

| Name | Date of Appointment | Date of Cessation | Reason |
|---|---|---|---|
| Y.P. Mone | August 28, 2001 | August 27, 2004 | Term completed |
| S.S. Bhandari | December 20, 2001 | December 19, 2004 | Term completed |
| V.M. Bhutani | February 6, 2002 | February 5, 2005 | Term completed |
| | | | |
| Dr. Dalbir Singh | July 17, 2000 | June 30, 2005 | Term completed |
| V.N. Saxena | January 22, 2001 | June 30, 2005 | Term completed |
| Yogendra Singh | June 12, 2002 | June 11, 2005 | Term completed |
| Deepak Singh | June 12, 2002 | June 11, 2005 | Term completed |
| S.N. Mehta | June 12, 2002 | June 11, 2005 | Term completed |
| H.A. Daruwalla | June 30, 2005 | - | Appointed as Chairperson and Managing Director |
| Kamal Faruqui | September 16, 2005 | - | Appointed as part time non official Director |
| Major (Retd.) Ved Prakash | October 6, 2005 | - | Appointed as part time non official Director |
| Satya Bahin | November 10, 2005 | - | Appointed as part time non official Director |
| Harish Chandhok | November 10, 2005 | - | Appointed as part time non official Director |
| K. Subbaraman | February 2, 2006 | - | Appointed as Executive Director |
| U.K. Sinha | March 25, 2004 | February 6, 2006 | Term completed |
| P.P. Mitra | February 7, 2006 | - | Nominated by the GoI as Director |
| Romesh Sabharwal | March 3, 2006 | - | Appointed as part time non official Director |
| R.C. Agarwal | June 18, 2003 | June 17, 2006 | Term completed |
| N.K. Pareek | August 10, 2006 | - | Appointed as officer employee Director |
| K.C. Mahapatra | January 9, 2004 | February 26, 2007 | Term completed |
| M.K. Bhattacharya | February 27, 2007 | - | Appointed as RBI nominee Director |
| Albert Tauro | June 6, 2007 | - | Appointed as the Executive Director |

**Organization Structure of the Bank**




The field level set up of the Bank consists of 16 zones controlling 78 regions having a total branch network of 3,194 branches.*

** As at March 31, 2007*

**Key Managerial Personnel of our Bank**

**Ghanshyam Gupta**, General Manager, aged 58 years, joined our Bank on January 24, 1973. He holds a bachelor's degree in commerce from the Delhi University. He is a fellow member of the Institute of Chartered Accountants of India and completed CAIIB. He has been in charge of recovery and credit management, the Bank's credit card department and the operations department. Presently, he is in charge of the priority sector. He is also in charge of the implementation of the Bank's official language policy. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.56 million.

**Suresh Southekal**, General Manager, aged 58 years, joined our Bank on January 8, 1973. He holds a bachelor's degree in commerce from the Bangalore University. He is an associate member of the Institute of Chartered Accountants of India. He has been in charge of the international banking, planning and development accounts functions in our Bank and, presently, heads the credit and credit policy department. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.52 million.

**K.K. Gupta**, General Manager, aged 59 years, joined our Bank on October 11, 1967. He holds a bachelor's degree in arts from the Punjab University, a post-graduate diploma in bank management from the National Institute of Bank Management and diplomas in financial management and import and export from the Indian Institute of Banking and Finance. He has also completed CAIIB. He has been in charge of the Delhi and Mumbai Metropolitan zones of our Bank. Presently, he oversees the loan review mechanism function of our Bank. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.54 million.

**R.P. Sharma**, General Manager, aged 57 years, joined our Bank on September 14, 1970. He holds a master's degree in agriculture from the Agra University. He has been in charge of the Chandigarh and Bhopal zones of our Bank and presently heads the Delhi zone. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.54 million.

**S.G. Nadgonde**, General Manager, aged 59 years, joined our Bank on May 16, 1969. He holds a bachelor's degree in agriculture from the Indore University and has completed CAIIB. He has been in charge of the Lucknow zone of our Bank and presently heads our Kolkata zone. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.47 million.

**Abhijit Ghosh**, General Manager, aged 57 years, joined our Bank on October 18, 1972. He holds a master's degree in arts from the Delhi University. He has in the past been on deputation to the Central Vigilance Commission for a period of five years. He has also been in charge of the human resources development department of the Bank. Presently, he is in charge of the new initiatives department of our Bank. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.46 million.

**G.P. Chitnis**, General Manager, aged 57 years, joined our Bank on September 1, 1970. He holds a master's degree in agriculture from the Mahatma Phule Agriculture University, Rahuri, a bachelor's degree in law from the Pune University and a diploma in computer management from the Pune University. He has worked in the new initiatives department of our Bank and is presently in charge of the department of information technology, the risk management department and the human resources management department of our Bank. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.54 million.

**N. Narayanan**, General Manager, aged 58 years, joined our Bank on December 14, 1972. He holds a bachelor's degree in commerce from the Madras University. He is a fellow member of the Institute of Chartered Accountants of India and has completed CAIIB. He has been in charge of the Raipur zone of our Bank and has headed the internal audit and house keeping department of our Bank. Presently, he heads the Bank's credit card department and the operations department. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.48 million.

**R.N. Vadivelu**, General Manager, aged 58 years, joined our Bank on April 15, 1968. He holds a bachelor's degree in science and a diploma in commerce from the Madras University. He is a member of the Institute of Credit Management, London and a certified associate of the International Finance Corporation, Washington. He has completed CAIIB. He is presently in charge of the international division and the treasury department of our Bank. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.48 million.

**R. Natarajan**, General Manager, aged 59 years, joined our Bank on August 11, 1969. He holds a bachelor's degree in commerce from the Delhi University and has completed CAIIB. He is presently in charge of the accounts, planning & development and recovery departments of our Bank. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.46 million.

**H.K. Vesuna**, General Manager, aged 54 years, joined our Bank on June 1, 1977. He holds a master's degree in commerce and bachelor's degree in law from the Gujarat University. He has completed CAIIB and is an associate of the Institute of Bankers, London. He has been in charge of our Mumbai main branch and is presently in charge of the credit portfolio of our Bank. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.46 million.

**K.A. Somayajulu**, General Manager, aged 54 years, joined our Bank on December 11, 1971. He holds a bachelor's degree in commerce from the Andhra Unversity and has completed CAIIB-I. He has been in charge of our Hyderabad zone and presently heads our Chennai zone. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.56 million.

**V.P. Sathe**, General Manager, aged 58 years, joined our Bank on Feburary 17, 1969. He holds a bachelor's degree in arts from the Pune University. He has been in charge of our Lucknow zone and is presently in charge of the audit, inspection and housekeeping departments of our Bank. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.48 million.

**S.M. Deshpande**, General Manager, aged 59 years, joined our Bank on July 2, 1968. He holds a master's degree in commerce from the Pune University. He has been in charge of our Nagpur and Pune zones and presently heads our Mumbai Metropolitan zone. The gross salary paid to him in fiscal 2007 was approximately Rs. 0.46 million

All the key managerial personnel listed above are the permanent employees of the Bank as on the date of this Red Herring Prospectus.

**Changes in our key managerial personnel during the last three years**

The changes in the key managerial personnel in the last three years are set forth in the table below:

| Name | Date of becoming key managerial personnel | Date of cessation | Reason for change |
|---|---|---|---|
| Madan Balkrishna Khurjekar | July 4, 1998 | June 30, 2004 | Superannuation |
| Subbarao Peteti | May 3, 1999 | August 27, 2004 | Appointed as the executive director of Punjab & Sind Bank |
| P.R. Subramanian | July 4, 1998 | October 31, 2004 | Superannuation |
| Sujit Chandra Bandyopadhyay | May 28, 2001 | November 30, 2004 | Superannuation |
| Mahesh Chander Julka | December 1, 2003 | November 30, 2004 | Superannuation |
| R.P. Sharma | December 1, 2004 | - | Promoted |
| Pukh Raj Sethi | February 13, 1997 | January 31, 2005 | Superannuation |
| Kuppuswamy Balachandran | July 1, 2004 | March 31, 2005 | Superannuation |
| Martin Marcelin Lopez | May 28, 2001 | July 31, 2005 | Superannuation |

| Name | Date of becoming key managerial personnel | Date of cessation | Reason for change |
|---|---|---|---|
| S.G. Nadgonde | January 17, 2006 | - | Promoted |
| Abhijit Ghosh | January 17, 2006 | - | Promoted |
| | | | |
| G.P. Chitnis | January 17, 2006 | - | Promoted |
| Kailasam Raghuram | May 3, 1999 | March 31, 2006 | Appointed as the executive director of Punjab National Bank |
| Susobhan Dasgupta | March 29, 2000 | April 30, 2006 | Superannuation |
| S.R. Krishanan | May 3, 1999 | August 31, 2006 | Superannuation |
| Sarwan Kumar Gupta | March 1, 1997 | August 31, 2006 | Superannuation |
| M. Raghunandan Mallya | December 1, 2003 | September 30, 2006 | Superannuation |
| N. Narayanan | July 19, 2006 | - | Promoted |
| R.N. Vadivelu | July 19, 2006 | - | Promoted |
| R. Natarajan | July 19, 2006 | - | Promoted |
| R.S. Krishnan | January 17, 2006 | April 13, 2007 | Voluntary retirement |
| R.K. Kalia | December 1, 2004 | April 30, 2007 | Superannuation |
| T.R. Gopalan | July 19, 2006 | April 30, 2007 | Superannuation |
| H.K. Vesuna | June 19, 2007 | - | Promoted |
| K.A. Somayajulu | June 19, 2007 | - | Promoted |
| V.P. Sathe | June 19, 2007 | - | Promoted |
| S.M. Deshpande | June 19, 2007 | - | Promoted |
| Birendra Singh | November 1, 2004 | June 30, 2007 | Superannuation |

Other than the above changes, there have been no changes to the key managerial personnel of the Bank that are not in the normal course of employment.

**Bonus or profit sharing plan of the key managerial personnel**

There is no bonus or profit sharing plan for our key managerial personnel. There is no employee stock option scheme or employee stock purchase scheme for any our employees or Directors.

**Interest of key managerial personnel**

The key managerial personnel of our Bank do not have any interest in our Bank other than to the extent of the remuneration or benefits to which they are entitled to as per their terms of appointment and reimbursement of expenses incurred by them during the ordinary course of business. None of our key managerial personnel have been paid any consideration of any nature by the Bank, other than their remuneration. All our key managerial personnel may also be deemed to be interested to the extent of Equity Shares, if any, that may be subscribed for and allotted to them, out of the present Issue in terms of this Red Herring Prospectus and also to the extent of any dividend payable to them and other distributions in respect of the said Equity Shares.

As of the date of this Red Herring Prospectus, none of our Directors or key managerial personnel holds any Equity Shares.

# OUR PROMOTER, SUBSIDIARIES AND ASSOCIATES

***Promoter***

Our Promoter is the President of India, acting through the Department of Economic Affairs (Banking Division), MoF, GoI, which holds 100% of the pre-Issue paid up equity share capital of our Bank and will hold 80.20% of the fully diluted post-Issue paid up equity share capital of our Bank.

***Our Subsidiaries***

Our Bank has the following two Subsidiaries:

1. Cent Bank Home Finance Limited; and
2. Centbank Financial and Custodial Services Limited.

**1. Cent Bank Home Finance Limited**

Cent Bank Home Finance Limited was incorporated on May 7, 1991 as Apna Ghar Vitta Nigam Limited. Its name was changed to Cent Bank Home Finance Limited with effect from June 19, 1992. Cent Bank Home Finance Limited is a housing finance institution registered with the National Housing Bank and is engaged in the business of providing long term finance for the purchase or construction of houses in India.

The registered office of the company is at:

Central Bank of India Building
9, Arera Hills, Mother Teresa Road
Bhopal 462 011.

As at June 30, 2007, the directors of Cent Bank Home Finance Limited were:

1. H.A. Daruwalla, Central Bank of India nominee;
2. P. Joy Mathew, Central Bank of India nominee;
3. K. Subbaraman, Central Bank of India nominee;
4. G. Gupta, Central Bank of India nominee;
5. A. Ghosh, Central Bank of India nominee;
6. N. Narayanan, Central Bank of India nominee;
7. R.P. Tripathi, Central Bank of India nominee;
8. P.K. Kaul, National Housing Bank nominee;
9. Rajesh Sharma, Housing and Urban Development Corporation ("HUDCO") nominee; and
10. Vijay Jain, UTI nominee.

H.A. Daruwalla is the chairperson of the board of directors and P. Joy Mathew is the managing director of Cent Bank Home Finance Limited.

The shareholding pattern of Cent Bank Home Finance Limited, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Central Bank of India | 1,190,000 | 59.50 |
| 2. | National Housing Bank | 320,000 | 16.00 |
| 3. | Unit Trust of India | 320,000 | 16.00 |
| 4. | HUDCO | 170,000 | 8.50 |
| | **Total** | **2,000,000** | **100** |

There has been no change in the capital structure of Cent Bank Home Finance Limited in the six months preceding the filing of this Red Herring Prospectus with SEBI.

Summary audited financial statements

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | March 31, 2007 | March 31, 2006 | March 31, 2005 |
| Capital | 200.00 | 200.00 | 200.00 |
| Reserves & surplus* | 198.80 | 148.52 | 86.16 |
| Total income | 282.25 | 331.53 | 334.51 |
| Total expenditure | 233.41 | 312.52 | 474.76 |
| Profit after tax | 50.28 | 62.36 | (140.25) |
| Earnings per share (Rs.)# | 25.14 | 31.18 | (70.87) |
| Net asset value/Book value per share (Rs.) # | 160.26 | 139.41 | 114.46 |

* *Excluding revaluation reserves*
\# *Face value of Rs. 100 each*

The equity shares of Cent Bank Home Finance Limited are not listed on any stock exchange. Cent Bank Home Finance Limited has not completed any public or rights issue in the preceding three years. The provisions of SICA are not applicable to Cent Bank Home Finance Limited. Cent Bank Home Finance Limited is not under winding up and does not have negative net worth.

**2. Centbank Financial and Custodial Services Limited**

Centbank Financial and Custodial Services Limited was incorporated on May 1, 1929 as The Central Bank Executor and Trustee Company Limited. Its name was changed to Centbank Financial and Custodial Services Limited with effect from February 9, 1996. It is engaged in the trustee and executor business and acts as executors, administrators and trustees and undertakes and executes private and public trusts, including, religious and charitable trusts.

The registered office of the company is at:

Central Bank of India – MMO Building, 6th Floor
55, Mahatma Gandhi Road
Fort, Mumbai 400 001.

As at June 30, 2007, the directors of Centbank Financial and Custodial Services Limited are:

1. H.A. Daruwalla, Central Bank of India nominee;
2. K. Subbaraman, Central Bank of India nominee;
3. G. Gupta, Central Bank of India nominee;
4. S.S. Suresh, Central Bank of India nominee; and
5. R.N. Vadivelu, Central Bank of India nominee.

H.A. Daruwalla is the chairperson of the board of directors and the managing director of Centbank Financial and Custodial Services Limited.

The shareholding pattern of Centbank Financial and Custodial Services Limited, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 1. | Central Bank of India* | 2,000 | 100 |

* *Seven equity shares are jointly held by seven individuals along with Central Bank of India, in respect of which the beneficial interest vests with the Bank.*

There has been no change in the capital structure of Centbank Financial and Custodial Services Limited in the six months preceding the filing of this Red Herring Prospectus with SEBI.

Summary audited financial statements

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | **March 31, 2007** | **March 31, 2006** | **March 31, 2005** |
| Capital | 1.00 | 1.00 | 1.00 |
| Reserves & surplus* | 23.42 | 21.74 | 20.44 |
| Total income | 4.46 | 3.67 | 4.92 |
| Total expenditure | 2.01 | 1.99 | 2.05 |
| Profit after tax | 1.68 | 1.30 | 2.87 |
| Earnings per share (Rs.)# | 840.00 | 649.00 | 1,236.00 |
| Net asset value/Book value per share (Rs.) # | 12,210.00 | 11,368.29 | 10,718.99 |

* *Excluding revaluation reserves*

\# *Face value of Rs. 1,000 each of which Rs. 500 have been called and paid-up per equity share*

The equity shares of Centbank Financial and Custodial Services Limited are not listed on any stock exchange. Centbank Financial and Custodial Services Limited has not completed any public or rights issue in the preceding three years. The provisions of SICA are not applicable to Centbank Financial and Custodial Services Limited. Centbank Financial and Custodial Services Limited is not under winding up and does not have negative net worth.

***Common Pursuits***

One of our Subsidiaries, Cent Bank Home Finance Limited, is engaged in providing housing finance. Except as aforesaid, there are no common pursuits that our Subsidiaries have with us.

***Our Associates***

Our Associates include Indo-Zambia Bank Limited, a joint venture and eleven regional rural banks sponsored by our Bank.

The details of our joint venture, Indo-Zambia Bank Limited, are given below:

**Indo-Zambia Bank Limited**

Indo-Zambia Bank Limited was incorporated on October 19, 1984 under the laws of the Republic of Zambia. It carries out banking activities.

The registered office of Indo-Zambia Bank Limited is at:

Cairo Road, P.O. Box No. 35411
Lusaka, Zambia.

As at June 30, 2007, the directors of Indo-Zambia Bank Limited were:

1. O.Y. Moyo, Chairperson;
2. C. Patro, Managing Director;

3. H.A. Daruwalla;
4. K.R. Kamath;
5. D. Malik;
6. A. Kumar; and
7. E.S.S. Nebwe.

The shareholding pattern of Indo-Zambia Bank Limited, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Bank of Baroda | 2,000,000 | 20 |
| 2. | Bank of India | 2,000,000 | 20 |
| 3. | Central Bank of India | 2,000,000 | 20 |
| 4. | Government of the Republic of Zambia | 4,000,000 | 40 |
| | **Total** | **10,000,000** | **100** |

<u>Summary audited financial statements</u>

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | March 31, 2007 | March 31, 2006 | March 31, 2005 |
| Capital | 102.28 | 67.49 | 46.54 |
| Reserves & surplus* | 1,076.56 | 1,265.38 | 715.09 |
| Total income | 741.18 | 885.07 | 464.24 |
| Total expenditure | 511.02 | 595.92 | 364.84 |
| Profit after tax | 230.16 | 289.15 | 99.40 |
| Earnings per share (Rs.)# | 2,250.29 | 4,284.65 | 1,334.26 |
| Net asset value/Book value per share (Rs.) # | 11,525.52 | 19,750.45 | 16,365.80 |

* *Excluding revaluation reserves*
\# *Face value of K1000 each*

The RRB Act provides for the incorporation, regulation and functioning of the RRBs with a view to develop the rural economy. In order to provide banking services in rural areas in pursuance of GoI policies, our Bank has sponsored the following RRBs:

1. Ballia Regional Rural Bank;
2. Chambal – Gwalior Regional Rural Bank;
3. Etawah Regional Rural Bank;
4. Hadoti Regional Rural Bank;
5. Kosi Regional Rural Bank;
6. Ratlam – Mandsaur Regional Rural Bank;
7. Satpura Regional Rural Bank;
8. Surguja Regional Rural Bank;
9. Uttar Bihar Regional Rural Bank;
10. Uttarbanga Regional Rural Bank; and
11. Vidharbha Regional Rural Bank.

The RRB Act stipulates the limit of paid-up capital of an RRB and further stipulates that 50 per cent of such capital would be contributed by the GoI, 35 per cent by the sponsor bank and 15 per cent by the relevant state government. Each of the RRBs is governed independently by a board of directors comprising the following directors appointed in accordance with the RRB Act:

1. Chairman, who will be appointed by the sponsor bank;
2. One director, who is an officer of the RBI and nominated by RBI;

3. One director, who is an officer of the NABARD and nominated by the NABARD;
4. Two directors who are not officers of the GoI, the state government, the RBI, the NABARD, the sponsor bank or any other bank, and nominated by the GoI;
5. Two directors, who are officers of the relevant state government and nominated by the relevant state government; and
6. Two directors, who are officers of the sponsor bank and nominated by the sponsor bank.

The details of the RRBs sponsored by the Bank are given below:

**1. Ballia Regional Rural Bank**

Ballia Regional Rural Bank was formed on December 25, 1976. The operational area of Ballia Regional Rural Bank covers the districts of Ballia and Mau (one block, namely, Ratanpura) in Uttar Pradesh and it has 87 branches.

The head office of Ballia Regional Rural Bank is at:

Indira Market
Ballia
Uttar Pradesh 277 001.

As at June 30, 2007, the directors of Ballia Regional Rural Bank were:

1. P.K. Anand, Chairman;
2. S.K. Mishra, Central Bank of India nominee;
3. Sirdhari Ram, RBI nominee;
4. Bishwajit Majumdar, NABARD nominee;
5. Dr. Kedar Prasad, Government of Uttar Pradesh nominee;
6. A.K. Shrivastava, Government of Uttar Pradesh nominee;
7. Shiv Bhushan Tiwari, GoI nominee; and
8. Capt. (Retd.) Indradeo Raj Kumar, GoI nominee.

The shareholding pattern of Ballia Regional Rural Bank, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Government of India | 50,000 | 50 |
| 2. | Central Bank of India | 35,000 | 35 |
| 3. | Government of Uttar Pradesh | 15,000 | 15 |
| | **Total** | **100,000** | **100** |

<u>Summary audited financial statements</u>

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | March 31, 2007 | March 31, 2006 | March 31, 2005 |
| Capital | 188.74 | 188.74 | 188.74 |
| Reserves * | 146.57 | 103.72 | 85.90 |
| Total income | 407.42 | 340.42 | 326.22 |
| Total expenditure | 364.56 | 322.60 | 318.38 |
| Profit after tax | 42.85 | 17.82 | 7.84 |
| Earnings per share (Rs.)# | 428.00 | 178.00 | 78.00 |
| Net asset value/Book value per share (Rs.) # | 3,766.00 | 3,109.00 | 2,002.00 |

* *Excluding revaluation reserves*
\# *Face value of Rs. 100 each*

## 2. Chambal – Gwalior Regional Rural Bank

Chambal – Gwalior Regional Rural Bank was formed on July 1, 2006 pursuant to the merger of Chambal Regional Rural Bank and Gwalior Datia Regional Rural Bank in terms of the notification of the GoI dated July 1, 2006. The operational area of Chambal – Gwalior Regional Rural Bank covers the districts of Bhind, Morena, Sheopur, Gwalior and Datia in Madhya Pradesh and it has 59 branches.

The head office of Chambal – Gwalior Regional Rural Bank is at:

Adarsh Colony Marg
Schinde Ki Chawani, Gwalior
Madhya Pradesh 474 001.

As at June 30, 2007, the directors of Chambal – Gwalior Regional Rural Bank were:

1. S. Sahasranam, Chairman;
2. R.P. Tripathi, Central Bank of India nominee;
3. R.K. Puri, Central Bank of India nominee;
4. N.W. Nafday, NABARD nominee;
5. S.K. Negi, RBI nominee;
6. Dr. Komal Singh, Government of Madhya Pradesh nominee; and
7. R.K. Mishra, Government of Madhya Pradesh nominee.

The shareholding pattern of Chambal – Gwalior Regional Rural Bank, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Government of India | 100,000 | 50 |
| 2. | Central Bank of India | 70,000 | 35 |
| 3. | Government of Madhya Pradesh | 30,000 | 15 |
| | **Total** | **200,000** | **100** |

<u>Summary audited financial statements</u>

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | **March 31, 2007** | **March 31, 2006** | **March 31, 2005** |
| Capital | 163.87 | 163.87 | 163.87 |
| Reserves* | - | - | 7.62 |
| Total income | 293.39 | 281.99 | 322.45 |
| Total expenditure | 315.19 | 251.01 | 297.95 |
| Profit after tax | (21.80) | 30.98 | 24.51 |
| Earnings per share (Rs.)# | - | 155.00 | 122.00 |
| Net asset value/Book value per share (Rs.) # | 682.50 | 1,080.00 | 857.50 |

* *Excluding revaluation reserves*
\# *Face value of Rs. 100 each*

## 3. Etawah Regional Rural Bank

Etawah Regional Rural Bank was formed on March 18, 1980. The operational area of Etawah Regional Rural Bank covers the districts of Etawah and Auraiya in Uttar Pradesh and it has 50 branches.

The head office of Etawah Regional Rural Bank is at:

123 'A', Shiv Niwas
Civil Lines, Etawah
Uttar Pradesh 206 001.

As at June 30, 2007, the directors of Etawah Regional Rural Bank were:

1. A.P. Dwivedi, Chairman;
2. Sharda Pandey, GoI nominee;
3. S. Nagrath, RBI nominee;
4. F.X.L. Runda, NABARD nominee;
5. Ramkrishan, Government of Uttar Pradesh nominee;
6. N.K.S. Chauhan, Government of Uttar Pradesh nominee;
7. U. Krishnamurti, Central Bank of India nominee; and
8. J.C. Chaudhary, Central Bank of India nominee.

The shareholding pattern of Etawah Regional Rural Bank, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Government of India | 50,000 | 50 |
| 2. | Central Bank of India | 35,000 | 35 |
| 3. | Government of Uttar Pradesh | 15,000 | 15 |
| | **Total** | 100,000 | **100** |

<u>Summary audited financial statements</u>

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | **March 31, 2007** | **March 31, 2006** | **March 31, 2005** |
| Capital | 146.39 | 146.39 | 146.39 |
| Reserves * | - | - | - |
| Total income | 186.49 | 160.31 | 152.47 |
| Total expenditure | 168.68 | 147.40 | 138.55 |
| Profit after tax | 17.81 | 12.91 | 13.92 |
| Earnings per share (Rs.)# | 178.00 | 129.00 | 139.00 |
| Net asset value/Book value per share (Rs.) # | 975.00 | 748.00 | 629.00 |

* *Excluding revaluation reserves*
\# *Face value of Rs. 100 each*

## 4. Hadoti Regional Rural Bank

Hadoti Regional Rural Bank was formed on October 14, 1982. The operational area of Hadoti Regional Rural Bank covers the districts of Kota, Baran and Jhalawar in Rajasthan and it has 81 branches.

The head office of Hadoti Regional Rural Bank is at:

9 A-B, Jhalawar Road
Kota
Rajasthan 324 007.

As at June 30, 2007, the directors of Hadoti Regional Rural Bank were:

1. Deepak Bhatt, Chairman;
2. D.L. Gupta, GoI nominee;
3. P.N. Vijay, GoI nominee;
4. A.K. Bhargave, RBI nominee;
5. R.B. Phanda, NABARD nominee;
6. Y.K. Shukla, Central Bank of India nominee;
7. M.P. Haridas, Central Bank of India nominee;
8. Ram Prasad, Government of Rajasthan nominee; and
9. R.D. Meena, Government of Rajasthan nominee.

The shareholding pattern of Hadoti Regional Rural Bank, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Government of India | 50,000 | 50 |
| 2. | Central Bank of India | 35,000 | 35 |
| 3. | Government of Rajasthan | 15,000 | 15 |
| | **Total** | 100,000 | **100** |

Summary audited financial statements

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | March 31, 2007 | March 31, 2006 | March 31, 2005 |
| Capital | 70.03 | 70.03 | 70.03 |
| Reserves* | - | - | 10.13 |
| Total income | 391.88 | 347.88 | 322.30 |
| Total expenditure | 319.68 | 286.20 | 282.25 |
| Profit after tax | 72.20 | 61.68 | 40.05 |
| Earnings per share (Rs.)# | 722.00 | 617.00 | 400.00 |
| Net asset value/Book value per share (Rs.) # | 31.00 | - | - |

* *Excluding revaluation reserves*
\# *Face value of Rs. 100 each*

**5. Kosi Regional Rural Bank**

Kosi Regional Rural Bank was formed on December 23, 1976. The operational area of Kosi Regional Rural Bank covers the districts of Purnea, Supaul, Kishanganj, Araria, Madhepura, Katihar and Saharsa in Bihar and it has 164 branches.

The head office of Kosi Regional Rural Bank is at:

Kosi Colony
Srinagar Hata, Purnea
Bihar 854 301.

As at June 30, 2007, the directors of Kosi Regional Rural Bank were:

1. B. Mondal, Chairman;
2. N.K. Choudhary, GoI nominee;
3. V.N. Gupta, GoI nominee;
4. A.K. Lal, RBI nominee;
5. S.K. Kakrani, NABARD nominee;
6. P.C. Srivastava , Central Bank of India nominee;
7. A.K. Sabharbal, Central Bank of India nominee;
8. B.K. Thakur, Government of Bihar, nominee; and
9. A. Priyadarshi, Government of Bihar nominee.

The shareholding pattern of Kosi Regional Rural Bank, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Government of India | 50,000 | 50 |
| 2. | Central Bank of India | 35,000 | 35 |
| 3. | Government of Bihar | 15,000 | 15 |
| | **Total** | **100,000** | **100** |

Summary audited financial statements

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | **March 31, 2007** | **March 31, 2006** | **March 31, 2005** |
| Capital | 153.36 | 153.36 | 153.36 |
| Reserves* | 44.57 | 29.70 | 16.26 |
| Total income | 734.02 | 570.21 | 474.29 |
| Total expenditure | 523.69 | 418.86 | 443.13 |
| Profit after tax | 210.33 | 151.35 | 31.16 |
| Earnings per share (Rs.)# | 2,103.00 | 1,513.00 | 312.00 |
| Net asset value/Book value per share (Rs.) # | - | - | - |

* *Excluding revaluation reserves*

\# *Face value of Rs. 100 each*

## 6. Ratlam – Mandsaur Regional Rural Bank

Ratlam – Mandsaur Regional Rural Bank was formed on November 14, 1983. The operational area of Ratlam – Mandsaur Regional Rural Bank covers the districts of Ratlam, Mandsaur and Neemuch in Madhya Pradesh and it has 40 branches.

The head office of Ratlam – Mandsaur Regional Rural Bank is at:

Red Cross Building, First Floor
Mandsaur
Madhya Pradesh 458 001.

As at June 30, 2007, the directors of Ratlam – Mandsaur Regional Rural Bank were:

1. S.K. Sharma, Chairman;
2. Kanhyalal Chaudhary, GoI nominee;

3. Gajraj Jain, GoI nominee;
4. R.C. Gaur, Central Bank of India nominee;
5. D.L. Khanijo, Central Bank of India nominee;
6. Narayan Patidar, Government of Madhya Pradesh nominee;
7. V.S. Rawat, Government of Madhya Pradesh nominee;
8. N.K. Negi, RBI nominee; and
9. Shailendra Gupta, NABARD nominee.

The shareholding pattern of Ratlam – Mandsaur Regional Rural Bank, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Government of India | 50,000 | 50 |
| 2. | Central Bank of India | 35,000 | 35 |
| 3. | Government of Madhya Pradesh | 15,000 | 15 |
| | **Total** | **100,000** | **100** |

Summary audited financial statements

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | March 31, 2007 | March 31, 2006 | March 31, 2005 |
| Capital | 73.85 | 73.85 | 73.85 |
| Reserves* | 132.70 | 93.38 | 68.46 |
| Total income | 208.55 | 161.63 | 156.54 |
| Total expenditure | 165.43 | 136.21 | 114.44 |
| Profit after tax | 43.12 | 25.42 | 42.10 |
| Earnings per share (Rs.)# | 431.00 | 254.00 | 421.00 |
| Net asset value/Book value per share (Rs.) # | 2,065.00 | 1,672.00 | 1,423.00 |

* *Excluding revaluation reserves*
\# *Face value of Rs. 100 each*

**7. Satpura Regional Rural Bank**

Satpura Regional Rural Bank was formed on June 1, 2006 pursuant to the merger of Hoshangabad Regional Rural Bank, Chhindwara – Seoni Regional Rural Bank, Mandla – Balaghat Regional Rural Bank and Shahdol Regional Rural Bank in terms of the GoI notification dated June 1, 2006. The operational area of Satpura Regional Rural Bank covers the districts of Hoshangabad, Raisen, Harda, Mandla, Balaghat, Dindori, Chhindwara, Seoni, Shahdol, Umaria, Baitul and Anupur in Madhya Pradesh and it has 237 branches.

The head office of Satpura Regional Rural Bank is at:

800/19, South Civil Lines
Chhindwara
Madhya Pradesh 480 001.

As at June 30, 2007, the directors of Satpura Regional Rural Bank were:

1. K.K. Singh, Chairman;
2. P.C. Tiwari, Central Bank of India nominee;
3. Shailendra Joshi, Central Bank of India nominee;

4. K. Sayeed Ali, NABARD nominee;
5. S.K. Dwivedi, RBI nominee;
6. Anil Srivastava, Government of Madhya Pradesh nominee;
7. J.C. Jatiya, Government of Madhya Pradesh nominee;
8. Kunji Lal Paradkar, GoI nominee; and
9. Basori Singh Masram, GoI nominee.

The shareholding pattern of Satpura Regional Rural Bank, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Government of India | 200,000 | 50 |
| 2. | Central Bank of India | 140,000 | 35 |
| 3. | Government of Madhya Pradesh | 60,000 | 15 |
| | **Total** | **400,000** | **100** |

<u>Summary audited financial statements</u>

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | March 31, 2007 | March 31, 2006 | March 31, 2005 |
| Capital | 551.83 | 551.83 | 551.83 |
| Reserves* | - | 1.23 | 1.23 |
| Total income | 1,070.94 | 912.15 | 814.57 |
| Total expenditure | 947.35 | 791.13 | 744.37 |
| Profit after tax | 123.59 | 121.02 | 70.20 |
| Earnings per share (Rs.)# | 336.00 | 302.00 | 176.00 |
| Net asset value/Book value per share (Rs.) # | 334.50 | - | - |

* *Excluding revaluation reserves*
\# *Face value of Rs. 100 each*

**8. Surguja Regional Rural Bank**

Surguja Regional Rural Bank was formed on October 24, 1979. The operational area of Surguja Regional Rural Bank covers the districts of Surguja and Korea in Chhattisgarh and it has 83 branches.

As at June 30, 2007, the head office of Surguja Regional Rural Bank is at:

Vivek Complex, Sangam Chowk
Ambikapur
Chhattisgarh 497 001.

The directors of Surguja Regional Rural Bank are:

1. V.K. Gupta, Chairman;
2. G.L. Makhijani, RBI nominee;
3. Mohammad Zahiruddin, NABARD nominee;
4. Shailendra Joshi, Central Bank of India nominee;
5. C.M. Shrivastava, Central Bank of India nominee;
6. Manoj Kumar Pingua, Government of Chhattisgarh nominee;
7. Shahla Nigar, Government of Chhattisgarh nominee;
8. Krishna Rajwade, GoI nominee; and

9. Arun Kumar Choubey, GoI nominee.

The shareholding pattern of Surguja Regional Rural Bank, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Government of India | 50,000 | 50 |
| 2. | Central Bank of India | 35,000 | 35 |
| 3. | Government of Chhattisgarh | 15,000 | 15 |
| | **Total** | **100,000** | **100** |

Summary audited financial statements

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | March 31, 2007 | March 31, 2006 | March 31, 2005 |
| Capital | 73.39 | 73.39 | 73.39 |
| Reserves* | 7.01 | 5.08 | 3.07 |
| Total income | 357.50 | 372.30 | 278.16 |
| Total expenditure | 285.03 | 230.69 | 198.84 |
| Profit after tax | 72.47 | 141.61 | 79.32 |
| Earnings per share (Rs.)# | 725.00 | 1,416.00 | 793.00 |
| Net asset value/Book value per share (Rs.) # | 804.00 | 785.00 | 765.00 |

* *Excluding revaluation reserves*

\# *Face value of Rs. 100 each*

## 9. Uttar Bihar Regional Rural Bank

Uttar Bihar Regional Rural Bank was formed on March 1, 2006 pursuant to the merger of Champaran Regional Rural Bank, Vaishali Regional Rural Bank, Madhubani Regional Rural Bank, Mithila Regional Rural Bank, Saran Regional Rural Bank, Gopalganj Regional Rural Bank and Siwan Regional Rural Bank. The operational area of Uttar Bihar Regional Rural Bank covers the districts of Muzaffarpur, Vaishali, Sitamarhi, Sheohar, Madhubani, Darbhanga, Gopalganj, Saran, Siwan, East Champaran and West Champaran in Bihar and it has 677 branches.

The head office of Uttar Bihar Regional Rural Bank is at:

Sharma Complex, Kalambagh Chowk
Muzaffarpur
Bihar 842 001.

As at June 30, 2007, the directors of Uttar Bihar Regional Rural Bank are:

1. A.B. Jog, Chairman;
2. T.K. Chakraborty, RBI nominee;
3. S.P. Bhandare, NABARD nominee;
4. M.K. Sinha, Central Bank of India nominee;
5. V. Kapoor, Central Bank of India nominee;
6. B.K. Thakur, Government of Bihar nominee; and
7. C. Lalsawta, Government of Bihar nominee.

The shareholding pattern of Uttar Bihar Regional Rural Bank, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Government of India | 350,000 | 50 |
| 2. | Central Bank of India | 245,000 | 35 |
| 3. | Government of Bihar | 105,000 | 15 |
| | **Total** | **700,000** | **100** |

Summary audited financial statements

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | **March 31, 2007** | **March 31, 2006** | **March 31, 2005** |
| Capital | 565.40 | 565.40 | 565.40 |
| Reserves* | - | - | - |
| Total income | 1,972.13 | 1,691.18 | 1,641.30 |
| Total expenditure | 2,150.36 | 2,057.78 | 1,959.40 |
| Profit after tax | (178.23) | (366.60) | (318.10) |
| Earnings per share (Rs.)# | - | - | - |
| Net asset value/Book value per share (Rs.) # | - | - | - |

* *Excluding revaluation reserves*

\# *Face value of Rs. 100 each*

**10. Uttarbanga Regional Rural Bank**

Uttarbanga Regional Rural Bank was formed on March 7, 1977. The operational area of Uttarbanga Regional Rural Bank covers the districts of Coochbehar, Darjeeling and Jalpaiguri in West Bengal and it has 114 branches.

The head office of Uttarbanga Regional Rural Bank is at:

Sunity Road
Coochbehar
West Bengal 736 101.

As at June 30, 2007, the directors of Uttarbanga Regional Rural Bank are:

1. K.P. Malhotra, Chairman;
2. S.G. Nadgonde, Central Bank of India nominee;
3. P.C. Tiwari, Central Bank of India nominee;
4. S.K. Pal, NABARD nominee;
5. Rajkumar Das, RBI nominee;
6. G. Namchu, Government of West Bengal nominee; and
7. P. Mahapatra, Government of West Bengal nominee.

The shareholding pattern of Uttarbanga Regional Rural Bank, as at June 30, 2007, as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Government of India | 50,000 | 50 |
| 2. | Central Bank of India | 35,000 | 35 |
| 3. | Government of West Bengal | 15,000 | 15 |
| | **Total** | **100,000** | **100** |

Summary audited financial statements

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | March 31, 2007 | March 31, 2006 | March 31, 2005 |
| Capital | 109.23 | 109.23 | 109.23 |
| Reserves* | - | - | - |
| Total income | 626.15 | 525.24 | 503.66 |
| Total expenditure | 579.17 | 515.00 | 468.50 |
| Profit after tax | 46.98 | 10.24 | 35.16 |
| Earnings per share (Rs.)# | 470.00 | 102.00 | 352.00 |
| Net asset value/Book value per share (Rs.) # | - | - | - |

* *Excluding revaluation reserves*

\# *Face value of Rs. 100 each*

## 11. Vidharbha Regional Rural Bank

Vidharbha Regional Rural Bank was formed on September 12, 2005 pursuant to the merger of Akola Regional Rural Bank, Buldana Regional Rural Bank and Yavatmal Regional Rural Bank in terms of the GoI notification dated September 12, 2005. The operational area of Vidharbha Regional Rural Bank covers the districts of Akola, Washim, Yavatmal and Buldana in Maharashtra and it has 94 branches.

The head office of Vidharbha Regional Rural Bank is at:

"Swanand", Oke Marg
Jatharpeth, Akola
Maharashtra 444 005.

The directors of Vidharbha Regional Rural Bank are:

1. C.S. Hanagodimath, Chairman;
2. C.S. Khanna, Central Bank of India nominee;
3. S.S. Chauhan, Central Bank of India nominee;
4. V.N. Dangar, RBI nominee;
5. S.M. Sahastrabhudhe, NABARD nominee; and
6. B.A. Shaikh, Government of Maharashtra nominee.

The shareholding pattern of Vidharbha Regional Rural Bank, as at June 30, 2007, is as under:

| Sl. No. | Shareholder | Number of shares | Shareholding (%) |
|---|---|---|---|
| 1. | Government of India | 150,000 | 50 |
| 2. | Central Bank of India | 105,000 | 35 |
| 3. | Government of West Bengal | 45,000 | 15 |
| | **Total** | **300,000** | **100** |

Summary audited financial statements

(Rs. in million except per share data)

| Particulars | For the year ended | | |
|---|---|---|---|
| | March 31, 2007 | March 31, 2006 | March 31, 2005 |
| Capital | 177.60 | 177.60 | 177.60 |

| | | | |
|---|---|---|---|
| Reserves* | 66.70 | 3.00 | - |
| Total income | 429.40 | 152.10 | 274.40 |
| Total expenditure | 338.00 | 145.40 | 265.20 |
| Profit after tax | 91.40 | 6.70 | 9.20 |
| Earnings per share (Rs.)# | 212.00 | 22.00 | 31.00 |
| Net asset value/Book value per share (Rs.) # | 814.33 | 602.00 | 567.00 |

* *Excluding revaluation reserves*

\# *Face value of Rs. 100 each*

## RELATED PARTY TRANSACTIONS

1. The Related party transactions are as under:

   (a) Remuneration to Key Management Personnel are as under:

(Rs. in Million)

| Name of the Party | *Designation* | For the year ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | | **2003** | **2004** | **2005** | **2006** | **2007** |
| Dr. Dalbir Singh | C.M.D. | 0.55 | 0.56 | 0.61 | 0.16 | - |
| Mr. V.N. Saxena | E.D. | 0.50 | 0.50 | 0.56 | 0.15 | - |
| Mr. K. Subbaraman | E.D. | - | - | - | - | 0.60 |
| Ms. H.A. Daruwalla | C.M.D. | - | - | - | 0.63 | 0.60 |
| | | **1.05** | **1.06** | **1.16** | **0.94** | **1.20** |

   (b) The transactions with Subsidiaries and Associates have not been disclosed in view of Para 9 of AS-18 – Related Party Disclosure, which exempts state controlled enterprises from making any disclosure pertaining to their transactions with other related parties that are also state controlled.

2. The Subsidiaries and Associates as on March 31, 2007 are as under:

**(a) Subsidiaries –**

i) Cent Bank Home Finance Limited.
ii) Cent Bank Financial & Custodial Services Limited.

**(b) Associates -**

**(I) Regional Rural Banks –**

i) Satpura Kshetriya Gramin Bank, Chhindwara.
ii) Ratlam-Mandsaur Kshetriya Gramin Bank, Mandsaur.
iii) Chambal –Gwalior Kshetriya Gramin Bank, Gwalior.
iv) Surguja Kshetriya Gramin Bank, Ambikapur.
v) Kosi Kshetriya Gramin Bank, Purnea.
vi) Uttar Bihar Kshetriya Gramin Bank, Muzzaffarpur.
vii) Vidharbha Kshetriya Gramin Bank, Akola.
viii) Ballia Kshetriya Gramin Bank, Ballia.
ix) Etawah Kshetriya Gramin Bank, Etawah.
x) Hadoti Kshetriya Gramin Bank, Kota.
xi) Uttarbanga Kshetriya Gramin Bank, Cooch Behar.

**(II)** Indo – Zambia Bank Limited.

## DIVIDEND POLICY

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, underwriting commission, brokerage, amounts of losses and any other item of expenditure not represented by tangible assets) have been completely written off. The GoI may exempt banks from this provision by issuing a notification on the recommendation of the RBI. The Bank has made an application dated April 20, 2007 to the Department of Economic Affairs (Banking Division), MoF, GoI seeking an exemption from the applicability of Section 15. In terms of the approval of the GoI dated January 24, 2007, the Bank's request for exemption from applicability of Sections 15 of the Banking Regulation Act has been approved, subject to a formal notification. The Department of Economic Affairs (Banking Division), MoF, GoI has, by its notification dated May 17, 2007, exempted the Bank from the application of section 15 of the Banking Regulation Act for a period of five years from the date of the notification. This exemption will permit the Bank to pay dividends, if any, to the shareholders in the Issue without writing off all its capitalized expenses. However, before we pay any dividends on the Equity Shares, we must first pay the dividend due on the Preference Shares, the rate of which is the prevailing repo-rate plus 100 basis points. As of November 13, 2006, the date of sanction of the restructuring of our capital, the prevailing repo rate was 7.25%. As of June 30, 2007, the repo rate was 7.75%. For further details, see the sections titled "Risk Factors" and "Regulations and Policies–Restrictions on Payment of Dividends" on pages xi and 116, respectively, of this Red Herring Prospectus.

The dividends declared by our Bank during the last five years have been presented below.

in Rs. million

| **Class of shares** | **For the year ended March 31** | | | | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** |
| Equity Shares Face value Rs./share | N.A. | N.A. | N.A. | N.A. | N.A. |
| **Capital fully owned by the GoI** | | | | | |
| Share Capital | 11,241.41 | 11,241.41 | 11,241.41 | 11,241.41 | - |
| Equity Capital | - | - | - | - | 3,241.41 |
| Preference Capital (Perpetual non-cumulative) | - | - | - | - | 8,000 |
| **Final Dividend:** | | | | | |
| Per share Rs. | N.A. | N.A. | N.A. | N.A. | - |
| Share Capital | 150.00 | 350.00 | 350.00 | 500.00 | - |
| Equity Capital | - | - | - | - | 994.10 |
| Preference Capital | - | - | - | - | 1.90 |

However, the amounts as dividends in the past are not necessarily indicative of our dividend amounts, if any, or our dividend policy, in the future. Future dividends will depend on our revenues, profits, cash flow, financial condition, capital requirements and other factors.

## FINANCIAL STATEMENTS

## AUDITORS' REPORT

To
The Board of Directors,
Central Bank of India,
Chandermukhi,
Nariman Point,
MUMBAI

Dear Sirs,

1) We have examined the attached financial information of Central Bank of India (the "Bank") and the consolidated financial information of the Bank and its subsidiaries and associates (as a Group), prepared in terms of the requirements of Paragraph B, Part II of Schedule II to the Companies Act, 1956 (the "Act") and the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 as amended to date ("SEBI Guidelines") in connection with the proposed issue of equity shares of the Bank.

2) This information has been extracted by the Bank's management from the Bank's standalone and consolidated financial statements for the years ended March 31, 2003, 2004, 2005, 2006 and 2007. The audit for the year ended March 31, 2007 was conducted by us. The audit for the other financial years was conducted by the auditors, as mentioned herein below, and accordingly reliance has been placed on the financial information examined by them for the said years.

| **Year ended March 31,** | **Name of Auditors** |
|---|---|
| 2003 | V K Dhingra & Co., Khanna & Annadhanam, M. Anandam & Co., Loonker & Co, Jain & Associates and S. Ghose & Co. |
| 2004 | Loonker & Co, Jain & Associates, S. Ghose & Co, D. Rangaswamy & Co, P R Mehra & Co. and P L Tandon & Co. |
| 2005 | Loonker & Co, Jain & Associates, S. Ghose & Co, D. Rangaswamy & Co., P R Mehra & Co. and P L Tandon & Co. |
| 2006 | Jain & Associates, S. Ghose & Co, D. Rangaswamy & Co, P R Mehra & Co, P L Tandon & Co. and Chhajed & Doshi |

3) We have also examined the financial information of the Bank for the years ended March 31, 2003, 2004, 2005, 2006 and 2007 prepared for the purpose of inclusion in the offering documents.

The presentation and preparation of this financial information is the responsibility of the Bank's management. The financial information for the above periods was examined to the extent practicable, for the purpose of audit of financial information in accordance with the Auditing and Assurance Standards issued by the Institute of Chartered Accountants of India. Those Standards require that we plan and perform our audit to obtain reasonable assurance, whether the financial information under examination is free of material misstatement.

Based on the above, we report that in our opinion and according to the information and explanations given to us, we have found the same to be correct and the same have been accordingly used in the financial information appropriately.

4) In accordance with the requirements of Paragraph B of Part II of Schedule II to the Act, the SEBI Guidelines, we further report that:

a) The Restated Summary Statement of Assets and Liabilities of the Bank on a standalone basis, including as at March 31, 2003, 2004, 2005 and 2006 examined and reported upon by the respective auditors, on which reliance has been placed by us, and as at March 31, 2007 examined by us, as set out in Annexure A to this report, are after making adjustments and regrouping as in our opinion were appropriate and are to be read with the Accounting Policies and Notes thereon *subject to non- adjustment of certain matters as stated in the said Annexure*

b) The Restated Summary Statement of Profit and Loss of the Bank, on a standalone basis including for the years ended 2003, 2004, 2005 and 2006 examined by the respective auditors and who have submitted their report on which reliance has been placed by us, and for the year ended March 31, 2007 examined by us, as set out in Annexure A to this report, are after making adjustments and regrouping as in our opinion were appropriate and are to be read with the Accounting Policies and Notes thereon *subject to non-adjustment of certain matters as stated in the said Annexure*

c) The Annexure A as referred to in the above paragraphs consists of the following:

1. Summary Statement of Profit and Loss as restated (Annexure AI)
2. Summary Statement of Assets and Liabilities as restated (Annexure AII)
3. Statement of Cash Flows as restated (Annexure AIII)
4. Significant Accounting Policies for the year ended March 31, 2007 (Annexure AIV)
5. Notes to adjustments carried out (Annexure AV)
6. Notes to adjustments not carried out (Annexure AVI)
7. Material Notes on accounts (Annexure AVII)
8. Related Party transactions (Annexure A VIII)
9. Segment Reporting (Annexure AIX)

d) We report that the dividends declared by the Bank for the five financial years ended March 31, 2003 to 2007 are set out in Annexure B.

e) In accordance with the SEBI Guidelines, Annexures C (I, II, III) and D (I, II, III) are attached containing summary of financial statements of the Bank's subsidiaries, Cent Bank Home Finance Limited and Centbank Financial & Custodial Services Limited, for the years ended March 31, 2003, 2004, 2005, 2006 and 2007.

f) The holdings of the Bank in each of the above subsidiaries are set out below:

| **Name of the Subsidiary** | **Percentage of holding as at March 31** | | | | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006s** | **2007** |
| Cent Bank Home Finance Limited | 64.67% | 59.50% | 59.50% | 59.50% | 59.50% |
| Centbank Financial & Custodial Services Limited | 100% | 100% | 100% | 100% | 100% |

g) The summary of financial statements of the following subsidiaries as per Annexures C (I, II, III) and D (I, II, III) is prepared based on the financial statements audited by their respective auditors as mentioned below:

| **Name of the Subsidiary** | **For the year ended March 31,** | **Name of Auditor** |
|---|---|---|
| Cent Bank Home Finance Limited | 2003, 2004 and 2005<br><br>2006 and 2007 | Dinesh Singhal & Co.<br><br>Manohar Lal Jain & Co. |
| Centbank Financial & Custodial Services Limited | 2003, 2004 and 2005<br><br>2006 and 2007 | Desai & Porwal<br><br>P.D.Dalal & Co. |

h) Summary Statement of Consolidated Assets and Liabilities, Profit and Loss, Cash Flow Statement, Significant Accounting Policies, Contingent Liabilities and material notes on the Consolidated Financial Statements of the Bank and its subsidiaries and associates (as a group) for the years ended March 31, 2003, 2004, 2005, 2006 and 2007 is given in Annexure E – I, II, III, IV, which is based on the audited financial statements of those years.

The Bank did not prepare the Consolidated Cash Flow Statement for the year ended March 31, 2003 since the relevant Accounting Standard was not applicable in that year and hence the same is not set out in the report.

We have not carried out any audit or adjustments to the same. However, we have compared the financial information in Annexure E I, II, III, IV with the Bank's Consolidated Financial Statements.

i) We have also examined the following financial information relating to the Bank on a standalone basis proposed to be included in the offer document in connection with the proposed issue of equity shares of the Bank, as prepared and approved by the Bank and annexed to this report;

1. Summary of Accounting Ratios based on the adjusted profit relating to earnings per share, net asset value and return on net worth as set out in Annexure F.
2. Capitalisation Statement as at March 31, 2007 of the Bank as set out in Annexure G.
3. Statement of Borrowings as set out in Annexure H.
4. Statement of Tax Shelter as set out in Annexure I.

5) This report is intended solely for use of the management and for inclusion in the offer document in connection with the proposed issue of equity shares of the Bank. Our report should not be used, referred to or distributed for any other purpose without our prior written consent.

6) This report should neither in any way be construed as a re-issuance or redrafting of any of the previous Audit Reports issued by us or by other firms of Chartered Accountants nor construed as a new opinion on any financial statements referred to herein.

| | | |
|---|---|---|
| For D. Rangaswamy & Co<br>Chartered Accountants | For P. R. Mehra & Co<br>Chartered Accountants | For P. L. Tandon & Co<br>Chartered Accountants |
| (B. Ramani) | (Ashok Malhotra) | (P. P. Singh) |

| | | |
|---|---|---|
| Partner<br>M.No.19603 | Partner<br>M.No.82648 | Partner<br>M.No.72754 |
| For Chhajed & Doshi<br>Chartered Accountants | For J. C. Bhalla &Co<br>Chartered Accountants | For Murali Associates<br>Chartered Accountants |
| (D. P. Thakkar )<br>Partner<br>M.No.7070 | (Rajesh Sethi)<br>Partner<br>M.No.85669 | (P. Nitish)<br>Partner<br>M.No. 24736 |

Place: Mumbai
Date: 9th July 2007

## ANNEXURE AI

## SUMMARY STATEMENT OF PROFIT AND LOSS RESTATED

**(Rs. in Million)**

| | | For the Year Ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | | **2003** | **2004** | **2005** | **2006** | **2007** |
| A | **INCOME** | | | | | |
| **1.** | **Interest Earned** | **50729.95** | **50637.19** | **52048.76** | **53855.85** | **62342.13** |
| 1.1 | Interest and discount on advances/ bills | 22333.08 | 21879.20 | 22413.41 | 25897.88 | 36608.45 |
| 1.2 | Income on investments | 25391.05 | 26574.90 | 26740.83 | 25611.78 | 22649.89 |
| 1.3 | Interest on balance with RBI and other Inter-Bank lending | 2172.82 | 1925.12 | 1945.64 | 1854.37 | 2142.39 |
| 1.4 | Interest on income tax refunds | 833.00 | 257.97 | 948.69 | 491.82 | 941.40 |
| 1.5 | Others | 0.00 | 0.00 | 0.19 | 0.00 | 0.00 |
| **2** | **OTHER INCOME** | **5535.44** | **9642.90** | **9201.32** | **5308.18** | **4756.52** |
| 2.1 | Commission, exchange and brokerage | 2859.24 | 2978.32 | 2952.46 | 3028.24 | 3504.83 |
| 2.2 | Profit on sale of investments (Net) | 2420.60 | 6180.54 | 5878.51 | 1836.59 | 1362.20 |
| 2.3 | Profit/Loss on revaluation of investments | -332.08 | -255.10 | -187.39 | -204.26 | -861.73 |
| 2.4 | Profit/Loss on sale of land and buildings and other assets (Net) | 0.30 | -3.32 | -3.17 | -1.11 | -2.90 |
| 2.5 | Profit on exchange transactions (Net) | 336.97 | 229.05 | 283.51 | 260.88 | 431.01 |
| 2.6 | Income earned by dividends etc. from subsidiaries and Associates abroad/ in India | 14.04 | 3.43 | 10.32 | 6.30 | 16.45 |
| 2.7 | Miscellaneous income | 236.37 | 509.98 | 267.08 | 381.54 | 306.66 |
| | | | | | | |
| | **TOTAL INCOME** | **56265.39** | **60280.09** | **61250.08** | **59164.03** | **67098.65** |
| B | **EXPENDITURE** | | | | | |
| 1 | **Interest Expended** | **31755.70** | **29415.30** | **28299.35** | **30055.15** | **37597.88** |
| 1.1 | Interest on deposits | 30241.92 | 27837.05 | 27030.38 | 28799.15 | 35708.12 |
| 1.2 | Interest on RBI and Inter-Bank borrowings | 34.41 | 48.60 | 27.13 | 131.11 | 237.69 |
| 1.3 | Others | 1479.37 | 1529.65 | 1241.84 | 1124.89 | 1652.07 |
| **2** | **Operating expenses** | **15271.19** | **15575.48** | **16859.03** | **17162.20** | **16843.58** |
| 2.1 | Payment to and provision for Employees | 11866.55 | 11834.75 | 12775.62 | 12757.38 | 11754.15 |
| 2.2 | Rent, Taxes and Lighting | 746.44 | 840.05 | 943.06 | 1001.11 | 1090.00 |
| 2.3 | Printing and Stationery | 143.62 | 175.09 | 157.68 | 162.51 | 166.07 |
| 2.4 | Advertisement and publicity | 54.68 | 69.27 | 70.37 | 77.87 | 60.10 |
| 2.5 | Depreciation on Bank's properties (net of amounts adjusted against revaluation reserve) | 494.18 | 563.31 | 531.68 | 509.01 | 649.99 |
| 2.6 | Directors' Fees, allowances and expenses | 3.42 | 5.99 | 5.35 | 5.26 | 4.52 |
| 2.7 | Auditors' fees and expenses | 87.05 | 116.17 | 131.13 | 138.84 | 137.40 |
| 2.8 | Law charges | 73.81 | 111.28 | 109.85 | 95.15 | 92.49 |
| 2.9 | Postage, telegrams, telephones, etc. | 45.46 | 60.89 | 59.28 | 58.81 | 107.74 |
| 2.10 | Repairs and maintenance | 175.63 | 205.55 | 236.21 | 251.63 | 338.55 |
| 2.11 | Insurance | 237.44 | 242.37 | 410.56 | 572.88 | 643.84 |
| 2.12 | Other expenditure | 1342.91 | 1350.76 | 1428.24 | 1531.75 | 1798.73 |
| | **TOTAL EXPENDITURE** | **47026.89** | **44990.78** | **45158.38** | **47217.35** | **54441.46** |
| | **Operating Profit (before provisions and contingencies)** | **9238.50** | **15289.31** | **16091.70** | **11946.68** | **12657.19** |
| | Less: provisions and contingencies (other than provision for tax) | 4786.23 | 6547.43 | 10195.48 | 8187.40 | 5704.10 |
| | **Profit before Tax** | **4452.27** | **8741.88** | **5896.22** | **3759.28** | **6953.09** |
| | Less: Provision for Tax | 1397.10 | 2560.80 | 2322.14 | 1185.10 | 1972.96 |
| | **Net Profit after Tax** | **3055.17** | **6181.08** | **3574.08** | **2574.18** | **4980.13** |
| | Add: Profit brought forward | 0.79 | 0.00 | 694.15 | 41.06 | 1.23 |
| | **Profit available for Appropriation** | **3055.96** | **6181.08** | **4268.23** | **2615.24** | **4981.36** |

(Rs. in Million)

| | | For the Year Ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | | **2003** | **2004** | **2005** | **2006** | **2007** |
| | **APPROPRIATIONS: TRANSFER TO** | | | | | |
| a) | Statutory Reserve | 763.79 | 1545.27 | 893.52 | 772.25 | 1245.03 |
| b) | Investment Reserve | 60.26 | 80.29 | 303.90 | 574.41 | 24.84 |
| c) | Revenue and other Reserves | 651.59 | 0.00 | 600.00 | 8421.10 | 2400.00 |
| d) | Investment Fluctuation Reserve | 1350.00 | 3366.53 | 1930.66 | -7801.10 | 0.00 |
| e) | Staff Welfare Fund | 61.10 | 100.00 | 100.00 | 77.22 | 120.00 |
| f) | Dividend on Equity Capital | 150.00 | 350.00 | 350.00 | 500.00 | 994.10 |
| g) | Dividend on Preference Capital | 0.00 | 0.00 | 0.00 | 0.00 | 1.90 |
| h) | Tax on Dividend | 19.22 | 44.84 | 49.09 | 70.13 | 167.63 |
| | Balance carried over to Balance Sheet | 0.00 | 694.15 | 41.06 | 1.23 | 27.86 |
| | **TOTAL** | **3055.96** | **6181.08** | **4268.23** | **2615.24** | **4981.36** |

(Rs. in Million)

| | | For the Year Ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | | **2003** | **2004** | **2005** | **2006** | **2007** |
| | **Break-up of Miscellaneous Income** | | | | | |
| a) | Recurring in nature | 236.37 | 243.72 | 267.08 | 274.51 | 306.66 |
| b) | Non-recurring in nature | - | 266.26 | - | 107.03 | - |
| | **Total Miscellaneous Income** | **236.37** | **509.98** | **267.08** | **381.54** | **306.66** |

(Rs. in Million)

| | | For the Year Ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | | **2003** | **2004** | **2005** | **2006** | **2007** |
| | **Break-up of Provisions and Contingencies (other than provision for tax)** | | | | | |
| a) | Provision for Standard Advances | 50.41 | 51.80 | 122.60 | 689.00 | 1222.10 |
| b) | Provision for Non Performing Advances | 4751.20 | 6894.15 | 7172.03 | 1200.00 | 3265.90 |
| c) | Recovery in written off Accounts | -447.35 | -464.22 | -1185.45 | -540.00 | -1633.30 |
| d) | Provision for Depreciation on Investments | 308.22 | -3.80 | 3598.10 | 6889.20 | 2378.10 |
| f) | Other Provisions | 123.75 | 69.50 | 488.20 | -50.80 | 471.30 |
| | **Total** | **4786.23** | **6547.43** | **10195.48** | **8187.40** | **5704.10** |

## ANNEXURE AII

# SUMMARY STATEMENT OF ASSETS AND LIABILITIES RESTATED

(Rs. in million)

| Sr. No. | | For the Year Ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | | 2003 | 2004 | 2005 | 2006 | 2007 |
| | | | | | | |
| (A) | **ASSETS** | | | | | |
| 1 | Cash in Hand | 5184.67 | 4634.70 | 4927.16 | 5291.82 | 7384.83 |
| 2 | Balance with RBI | 31725.52 | 29650.84 | 50790.89 | 28536.79 | 47351.85 |
| 3 | Balance with Banks | | | | | |
| | - In India | 15462.17 | 12820.00 | 10275.56 | 11250.30 | 8578.59 |
| | - Outside India | 1764.33 | 1365.12 | 3035.72 | 2861.98 | 6034.13 |
| 4 | Money at call and Short notice | 0.00 | 2350.00 | 1500.00 | 0.00 | 18779.45 |
| 5 | Investments | | | | | |
| | - In India | 260446.94 | 314044.66 | 308340.96 | 286384.34 | 277412.33 |
| | - Outside India | 6.59 | 6.59 | 6.59 | 6.59 | 6.59 |
| 6 | **Advances** | | | | | |
| | - In India | 222517.45 | 228041.05 | 272773.19 | 374834.81 | 517954.67 |
| | - Outside India | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 7 | Fixed Assets | 7523.15 | 7765.55 | 7521.67 | 7248.36 | 7672.70 |
| | Less: Revaluation Reserve | 5584.42 | 5403.81 | 5235.69 | 5076.37 | 4858.46 |
| | **Net Fixed Assets** | **1938.73** | **2361.74** | **2285.98** | **2171.99** | **2814.24** |
| 8 | **Other Assets** | 26420.77 | 32775.03 | 26787.20 | 30395.42 | 38905.70 |
| | Less: Deferred Tax Asset (DTA). | 1209.10 | 1719.70 | 2456.40 | 0.00 | 0.00 |
| | Other Assets excluding DTA | **25211.67** | **31055.33** | **24330.80** | **30395.42** | **38905.70** |
| | **TOTAL - (A)** | **564258.07** | **626330.03** | **678266.85** | **741734.04** | **925222.38** |
| | | | | | | |
| (B) | **LIABILITIES** | | | | | |
| 1 | **DEPOSITS** | | | | | |
| | Demand Deposits | | | | | |
| | - From Banks | 2679.84 | 2215.51 | 2058.81 | 2912.98 | 1854.13 |
| | - From Others | 52306.27 | 59739.73 | 59327.84 | 73394.65 | 83401.51 |
| 2 | Saving Deposits | 154051.01 | 179956.98 | 203271.17 | 234802.28 | 263122.40 |
| 3 | Term Deposits from Banks | 24697.38 | 21869.60 | 17815.27 | 18825.89 | 17680.27 |
| | Term Deposits from Others | 277916.69 | 295304.18 | 325043.66 | 334890.68 | 461704.46 |
| 4 | **Borrowings** | | | | | |
| | - In India | 1469.91 | 1079.65 | 1396.87 | 3108.13 | 7820.11 |
| | - Outside India | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 5 | Other Liabilities and Provisions | 22290.85 | 29442.63 | 31293.18 | 26521.54 | 32172.71 |
| | Deferred Tax Liability | | | | 1052.60 | 2545.00 |
| 6 | Subordinate Debts | 11400.00 | 14100.00 | 13100.00 | 16882.00 | 21882.00 |
| | **TOTAL - (B)** | **546811.95** | **603708.28** | **653306.80** | **712390.75** | **892182.59** |
| | | | | | | |
| (C) | **NET WORTH (C=A-B)** | **17446.12** | **22621.75** | **24960.05** | **29343.29** | **33039.79** |
| | | | | | | |
| | **Represented by:** | | | | | |
| (D) | Share Capital | 11241.41 | 11241.41 | 11241.41 | 11241.41 | 0.00 |
| (D-1) | Equity Capital | 0.00 | 0.00 | 0.00 | 0.00 | 3241.41 |
| (E) | Preference Capital | 0.00 | 0.00 | 0.00 | 0.00 | 8000.00 |
| (F) | **RESERVES AND SURPLUS** | | | | | |
| 1 | Statutory Reserve | 1921.11 | 3466.38 | 4359.90 | 5132.16 | 6377.19 |
| 2 | Investment Reserve | 685.61 | 765.89 | 1069.79 | 1644.20 | 1669.04 |
| 3 | Revaluation Reserve | 5584.42 | 5403.81 | 5235.69 | 5076.37 | 4858.46 |
| 4 | Investment Fluctuation Reserve | 2503.90 | 5870.43 | 7801.10 | 0.00 | 0.00 |
| 5 | Revenue and Other Reserve | 2303.19 | 2303.19 | 2903.19 | 11324.29 | 13724.29 |
| 6 | Deferred Tax Reserve | | | | | |
| 7 | Balance of Profit and Loss Account | 0.00 | 694.15 | 41.06 | 1.23 | 27.86 |
| 8 | Share Premium | | | | | |
| | **TOTAL** | 12998.23 | 18503.85 | 21410.73 | 23178.25 | 26656.84 |
| | Less: Revaluation Reserve | 5584.42 | 5403.81 | 5235.69 | 5076.37 | 4858.46 |
| | Less: Deferred Tax Asset/ Liability | 1209.10 | 1719.70 | 2456.40 | 0.00 | 0.00 |
| | **TOTAL - (F)** | **6204.71** | **11380.34** | **13718.64** | **18101.88** | **21798.38** |

| | | | | | | |
|---|---|---|---|---|---|---|
| | **NET WORTH (D+D-1+E+F)** | **17446.12** | **22621.75** | **24960.05** | **29343.29** | **33039.79** |

(Rs. in Million)

| **Sr. No.** | | **For the Year Ended March 31,** | | | | |
|---|---|---|---|---|---|---|
| | | **2003** | **2004** | **2005** | **2006** | **2007** |
| **(G)** | **Contingent Liabilities** | | | | | |
| 1 | Claims against the Bank not acknowledged as debts | 2864.31 | 2016.19 | 4811.24 | 4998.67 | 3543.16 |
| 2 | Liability for partly paid investments | 49.68 | 43.23 | 62.96 | 258.36 | 618.48 |
| 3 | Liability on account of outstanding forward exchange contracts | 92002.93 | 77264.79 | 81429.53 | 112095.16 | 96547.02 |
| 4 | Guarantees given on behalf of constituents: | | | | | |
| | -In India | 15207.75 | 16246.20 | 17449.71 | 19866.47 | 20994.38 |
| | -Outside India | 3141.27 | 3451.42 | 2419.89 | 2882.39 | 1655.22 |
| 5 | Acceptances, Endorsements and other Obligations | 15562.64 | 15263.51 | 15384.87 | 16077.91 | 21219.38 |
| 6 | Other items for which the Bank is contingently liable | 497.29 | 53.62 | 18.69 | 7.32 | 6.86 |
| | **TOTAL - (G)** | **129325.87** | **114338.96** | **121576.89** | **156186.28** | **144584.50** |
| | Bills for collection | 16192.13 | 20488.34 | 23938.71 | 20943.47 | 23274.40 |

## ANNEXURE AIII

# CASH FLOW STATEMENT

(Rs. in Million)

| | | For the Year Ended March 31, | | | | |
|---|---|---|---|---|---|---|
| **Sr. No.** | **Particulars** | **2003** | **2004** | **2005** | **2006** | **2007** |
| **A** | **CASH FLOW FROM OPERATING ACTIVITIES** | | | | | |
| | Interest received during the year from advances, investments etc. | 50729.95 | 50637.19 | 52048.77 | 53855.85 | 62342.13 |
| | Other Income | 5521.39 | 9639.47 | 9191.00 | 5301.88 | 4740.06 |
| | **Less:** Interest paid on deposits, borrowings etc. (excluding subordinated debts) | 30408.00 | 27981.58 | 27100.00 | 28997.70 | 36031.61 |
| | Operating Expenses including Provisions & Contingencies | 20057.41 | 22122.91 | 27054.51 | 25349.60 | 22547.68 |
| | **Add:** Adjustment for Depreciation | 473.39 | 451.19 | 473.45 | 473.94 | 496.97 |
| I | Cash Profit generated from operating activities (before tax) | **6259.32** | **10623.36** | **7558.71** | **5284.37** | **8999.87** |
| | Less: Taxes Paid | 1397.10 | 2560.80 | 2322.14 | 1185.10 | 1972.96 |
| | Cash Profit generated from operating activities (after tax) | **4862.22** | **8062.56** | **5236.57** | **4099.27** | **7026.91** |
| II | Cash flow from Operating Assets and Liabilities | | | | | |
| | Increase/Decrease in Deposits | 40277.36 | 47434.82 | 48430.72 | 57309.74 | 162936.29 |
| | Increase/Decrease in Borrowings | -800.81 | -390.25 | 317.21 | 1711.27 | 4711.98 |
| | Increase /Decrease in Other Liabilities | 581.23 | 6826.13 | 1746.35 | -3967.31 | 6430.08 |
| | Increase /Decrease in Advances | -9642.37 | -5523.61 | -44732.14 | 102061.62 | 143119.86 |
| | Increase / Decrease in Investments | -49455.43 | -53597.71 | 5703.70 | 21956.62 | 8972.00 |
| | Increase / Decrease in Other Assets | 4465.54 | -6354.26 | 5987.83 | -3608.22 | -8510.28 |
| | Cash flow from Operating Assets and Liabilities | **-14574.48** | **-11604.88** | **17453.67** | **-28659.52** | **31420.21** |
| | **NET CASH FLOW FROM OPERATING ACTIVITIES** | **-9712.26** | **-3542.32** | **22690.24** | **-24560.25** | **38447.12** |
| | | | | | | |
| **B** | **CASH FLOW FROM INVESTING ACTIVITIES** | | | | | |
| | Sale / Disposal of Fixed Assets | 127.02 | 236.56 | 150.85 | 97.10 | 234.52 |
| | Purchase of Fixed Assets | -843.27 | -1110.76 | -548.54 | -457.05 | -1373.74 |
| | Income earned by way of Dividend etc. from subsidiaries and associates | 14.05 | 3.43 | 10.32 | 6.30 | 16.46 |
| | **NET CASH FLOW FROM INVESTING ACTIVITIES** | **-702.20** | **-870.77** | **-387.38** | **-353.65** | **-1122.76** |
| | | | | | | |
| **C** | **CASH FLOW FROM FINANCING ACTIVITIES** | | | | | |
| | Proceeds / Redemption of Subordinated Debts Tier II Capital | 2000.00 | 2700.00 | -1000.00 | 3782.00 | 5000.00 |
| | Dividend paid to Government of India | 0.00 | -150.00 | -350.00 | -350.00 | -500.00 |
| | Tax on Dividend Distributed | 0.00 | -19.22 | -44.84 | -49.09 | -70.13 |
| | Interest on Subordinated Debt | -1347.70 | -1433.72 | -1199.34 | -1057.45 | -1566.27 |
| | **NET CASH FLOW FROM FINANCING ACTIVITIES** | **652.30** | **1097.06** | **-2594.18** | **2325.46** | **2863.60** |
| | | | | | | |
| **D** | **Net increase in cash & cash equivalents (A + B + C) or (F - E)** | **-9762.16** | **-3316.03** | **19708.68** | **-22588.44** | **40187.96** |
| | | | | | | |
| **E** | **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | | | | |
| | Cash and Bank Balance with RBI | 30541.22 | 36910.19 | 34285.53 | 55718.05 | 33828.61 |
| | Balance with Banks and Money at Call and Short Notice | 33357.62 | 17226.49 | 16535.12 | 14811.28 | 14112.28 |
| | **Net cash and cash equivalents at the beginning of the year** | **63898.84** | **54136.68** | **50820.65** | **70529.33** | **47940.89** |
| | | | | | | |
| **F** | **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | | | | |
| | Cash and Bank Balance with RBI | 36910.19 | 34285.53 | 55718.05 | 33828.61 | 54736.68 |
| | Balance with Banks and Money at Call and Short Notice | 17226.49 | 16535.12 | 14811.28 | 14112.28 | 33392.17 |
| | **Net cash and cash equivalents at the end of the year** | **54136.68** | **50820.65** | **70529.33** | **47940.89** | **88128.85** |

**ANNEXURE AIV**

## SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED MARCH 31, 2007

### 1. Accounting Conventions:

The financial statements are prepared on the historical cost basis except as modified by the Revaluation of Premises and conform to the statutory provisions and prevailing practices within the banking industry in India.

### 2. Transactions involving Foreign Exchange:

2.1 Monetary assets and liabilities in foreign currencies are translated at the Exchange Rates prevailing at the year end as notified by Foreign Exchange Dealers' Association of India (FEDAl) and the resultant Profit/ Loss is recognised in the Profit and Loss Account.

2.2 Income and Expenditure items are translated at the exchange rates ruling on the respective date of transactions.

2.3 Guarantees, Letters of Credit, Acceptances, Endorsements, and other obligations in Foreign Currencies are translated at year-end rates notified by FEDAl.

2.4 Outstanding Forward Contracts are translated at the year-end rates notified by FEDAI and the resultant profit/loss is recognized in the Profit and Loss Account.

### 3. Investments:

3.1.1 In accordance with the guidelines issued by Reserve Bank of India, investments are classified into "Held to Maturity", "Held for Trading" and "Available for Sale" categories. However, for disclosure in the Balance Sheet, investments are classified under the following heads:

i) Government Securities
ii) Other Approved Securities
iii) Shares
iv) Debentures and Bonds
v) Investments in Subsidiaries and sponsored institutions and
vi) Others (UTI Shares, Commercial Papers and units of Mutual Funds.)

3.2 **Basis of Classification:**

Classification of an Investment is done at the time of purchase into the following categories:

i) <u>Held to Maturity</u>

These comprise of investments, the bank intends to hold on till maturity.

ii) <u>Held for Trading</u>

Securities which are principally held for resale within 90 days from the date of purchase.

iii) <u>Available for Sale</u>

Investments that cannot be classified in the above categories.

3.3 **Transfer of Securities between Categories:**

The transfer/shifting of securities between the three categories of investments is accounted at the lower of acquisition cost/book value or market value on the date of the transfer. The depreciation, if any, on such transfer is fully provided for.

3.4 **Valuation:**

**a) Held to Maturity:**

The investments classified under this category are valued at acquisition cost. The excess of acquisition cost/book value over the face value is amortised over the remaining period of maturity.

**b) Held for Trading:**

Investments under this category are valued at monthly intervals at market rates, wherever available, or as per the prices declared by FIMMDA. The net depreciation under each classification is provided for, without adjusting the book value of the securities and net appreciation, if any, is ignored.

c) **Available for Sale**

Investments under this category are marked to market, scrip-wise, at quarterly intervals as under:

| | | | |
|---|---|---|---|
| i) | Central Government Securities | At market price as per quotation put out by a stock exchange/ Fixed Income Money Market and Derivatives Association of India (FIMMDA)/Primary Dealers Association of India (PDAI). | |
| ii) | State Government Securities, Securities Guaranteed by Central/ State Government, PSU Bonds | On appropriate yield to maturity basis. | |
| iii) | Treasury Bills/ Certificates of Deposits/ Commercial Paper | At carrying cost. | |
| iv) | Equity Shares | a) Quoted: | At market price. |
| | | b) Unquoted: | At book value per share if the latest (not more than one year old) balance sheet is available or Re.1.00 per company if the latest balance sheet is not available. |
| v) | Preference Shares | a) Quoted: | At market price. |
| | | b) Unquoted: | On appropriate yield to maturity. |
| vi) | Debentures and Bonds | a) Quoted: | At market price. |
| | | b) Unquoted: | On appropriate yield to maturity. |

vii) Mutual Funds | a) Quoted: At market price.

b) Unquoted: At repurchase price or net asset value (where repurchase price is not available).

The net depreciation in each classification of securities is provided for while the net appreciation in each classification of securities is ignored.

3.5 **Determination of Cost**:

The cost of investments is determined on the basis of the 'Weighted Average Cost' method.

3.6 **Income Recognition**:

i) The profit or loss on sale/redemption of investments is taken to the Profit and Loss Account. However, in case of profit on sale/redemption of investments from 'Held to Maturity' category, an equivalent amount is appropriated to the 'Capital Reserve'.

ii) In respect of securities included in any of the three categories of investments where interest/ principal is in arrears, for more than 90 days, income is not reckoned and appropriate provision for the depreciation in the value of the investments is made, as per prudential norms applicable to non-performing advances. Debentures/bonds in the nature of advances are subjected to usual prudential norms applicable to advances.

iii) State Government guaranteed exposures are classified as Sub Standard/Doubtful/Loss, as the case may be if interest and/or principal or any other amount due to the Bank remains overdue for more than 90 days and necessary provisions are made as per the Reserve Bank of India's prudential norms.

iv) Brokerage, incentive, front-end fees etc., received on the purchase of securities are reduced from the cost of investments.

v) Expenses such as brokerage, fees, commission or taxes incurred at the time of acquisition of securities is charged to revenue.

vi) The broken period interest on sale or purchase of securities is treated as revenue.

4. Advances:

4.1 Advances are classified as Standard, Sub-Standard, Doubtful or Loss Assets and provisions required in respect thereof are made as per the prudential norms prescribed by the Reserve Bank of India.

4.2 Recoveries against non-performing assets (NPAs) are first appropriated towards interest. However, recovery in suit filed, decreed accounts and compromise cases is first appropriated towards principal or as per the terms of decree/settlement.

4.3 Advances are shown net of provisions (including floating provision), unrealized interest and amount recovered from borrowers held in sundries and amount recovered from CGTSI/ECGC. Provision for standard assets is included in 'Other Liabilities and Provisions – Others'.

**5. Fixed Assets/Depreciation:**

5.1 Fixed assets (other than computers which are depreciated on the 'Straight Line Method') are depreciated under 'Written Down Value Method' at the following rates:

| | | |
|---|---|---|
| i) | Premises | At varying rates based on estimated life |
| ii) | Furniture, lifts, safe vaults | 10% |
| iii) | Vehicles | 20% |
| iv) | Air conditioners, coolers, typewriters etc. | 15% |
| v) | Computers including systems software | 33.33% |

5.2 In the case of assets that have been revalued, the depreciation is provided on the revalued amount and the incremental depreciation attributable to the revalued amount is adjusted to the 'Revaluation Reserve'.

5.3 Depreciation on additions to assets made upto September 30, is provided for the full year and on additions made thereafter is provided for the half year. No depreciation is provided on assets sold before September 30 and depreciation is provided for the half year for assets sold after September 30

5.4 The cost of leasehold land is amortised over the period of the lease. In the case of revaluation, the difference between the original cost and revalued amount is amortised over the remaining period of the lease and is adjusted to the 'Revaluation Reserve'.

5.5 Where it is not possible to segregate the cost of land and premises, depreciation is charged on the composite cost.

**6. Staff Benefits:**

6.1 Annual contribution to Gratuity and Pension Funds are determined on the basis of an actuarial valuation. The contribution to Pension Fund is made under a defined benefit scheme.

6.2 The liability for earned leave is provided for on the basis of an actuarial valuation.

6.3 In respect of employees who have opted for Provident Fund Scheme, a matching contribution is made.

**7. Recognition of Income and Expenditure:**

7.1 Income/Expenditure is generally accounted for on accrual basis, unless otherwise stated.

7.2 Income on NPAs is accounted for as per the prudential norms prescribed by the Reserve Bank of India.

7.3 In accordance with the guidelines issued by the Reserve Bank of India, prior period disclosures are made in respect of any item, which exceeds one percent of the total income/total expenditure.

7.4. Provision for interest payable on overdue deposits is made on an overall basis assuming an average maturity period of 15 days at the corresponding interest rate.

**8. Income Tax:**

The provision for tax for the year comprises current tax liability computed in accordance with the applicable tax laws and the deferred tax, which recognizes timing differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets are not recognized unless there is ‘virtual certainty’ that sufficient future taxable income will be available against which such deferred tax assets will be realized.

**ANNEXURE AV**

**NOTES TO ADJUSTMENTS CARRIED OUT IN THE STATEMENT OF PROFIT AND LOSS AND ASSETS AND LIABILITIES**

Necessary adjustments wherever quantifiable and material in respect of the relevant years have been carried out while preparing the Statements of Profit and Loss and Assets and Liabilities (Annexure AI and AII).

**ANNEXURE AVI**

## NOTES TO ADJUSTMENTS NOT CARRIED OUT IN THE STATEMENT OF PROFIT AND LOSS AND ASSETS AND LIABILITIES

1. Reserve Bank of India (RBI) has issued various guidelines on Income Recognition, Asset Classification, Provisioning in respect of Standard Assets/Non-Performing Advances/Other Assets, Creation and utilization of floating provisions, Classification of Investments, Valuation thereof, Treatment of Depreciation on Investments and amortization of Voluntary Retirement Scheme expenditure. The Bank has carried out necessary amendments in its accounting policies in the relevant years to be in conformity with the said RBI guidelines.

2. The effect of adjustments arising from reconciliation of inter-branch accounts which include transactions relating to drafts paid without advice, clearing differences etc. and differences between General and Subsidiary ledgers etc. could not be carried out, the consequential impact of which is not ascertainable.

3. The Bank has adopted the FEDAI guidelines regarding conversion of foreign currency transactions for the years ended March 31, 2003, 2004, 2005, 2006 and 2007. However, for the years ended March 31, 2003 and 2004, the FEDAI guidelines were not in accordance with the Accounting Standard 11 issued by the Institute of Chartered Accountants of India.

**ANNEXURE AVII**

## MATERIAL NOTES ON ACCOUNTS

**YEAR ENDED MARCH 31, 2003:**

**1. Balancing of Books/Reconciliation:**

Reconciliation of Inter branch accounts, which include transactions relating to drafts paid without advice, clearing differences, etc., is in progress. Substantial progress has been made towards reconciliation and clearance of old entries and the efforts are continuing to clear these entries. The impact of the adjustments that may arise on reconciliation/clearance of outstanding entries in various accounts is not ascertainable.

**2. Income Tax/Deferred Tax:**

2.1 Claims against the Bank not acknowledged as debts - include Income Tax and Interest Tax demands aggregating to Rs. 2084.90 million (previous year Rs.1297.00 million) which are disputed in appeals/references and have not been provided for. The Bank is hopeful that the demands will be set aside by the appellate authorities based on past decisions/opinion of the tax advisors/experts. The current year tax provision of Rs.360.00 million has also been made on this basis. The Income Tax Department has, however, adjusted an equivalent amount out of refunds due to the Bank and the amount is included under Other Assets - Tax paid in advance/ tax deducted at source (Net of provisions).

2.2 The Bank has complied with Accounting Standard- 22 "Accounting for Taxes on Income" issued by the Institute of Chartered Accountants of India, from the current year. The Bank has recorded a net deferred tax asset of Rs.2245.40 million up to March 31, 2002 by credit to 'Revenue and other Reserves' in accordance with the transitional provisions of the Accounting Standard.

**3. Advances/Provisions:**

The Reserve Bank of India has advised the banks to make additional provision for the transition to 90 days norm for identification of NPAs with effect from March 31, 2004. The Bank has made an adhoc provision of Rs.396.00 million (including Rs.230.00 million in the previous year) in this respect and the same has been included under 'Other Liabilities - Others'. Additionally, the Bank has also made a floating provision of Rs.1213.50 million (including Rs.350.00 million in the previous year) over and above the normal provision in respect of accounts identified as NPAs as per prudential norms and this has been netted against advances.

**4. Staff Welfare Fund:**

During the year, the Bank has debited to the Staff Welfare Fund Rs.49.00 million (previous year Rs.14.00 million) on account of various expenses incurred towards staff welfare in addition to Rs.20.50 million debited to the Profit & Loss Account. Rs.61.10 million (previous year Rs.49.00 million) has been appropriated out of the current year's net profit towards Staff Welfare Fund.

**5. Voluntary Retirement Scheme:**

The Bank had implemented Voluntary Retirement Scheme (VRS) in March 2001. The amount of ex-gratia and excess of terminal benefits towards gratuity and pension over the funded liability determined on actuarial basis was treated as `Deferred Revenue Expenditure', and is being amortised over 5 years. During the year Rs.1656.40 million (previous year Rs.1622.00 million) has been charged to the Profit and Loss Account. The balance of Rs.4022.80 million (previous year Rs.5679.20 million) treated as "Deferred Revenue Expenditure" has been included under `Other Assets - Others'.

**6. Staff Benefits:**

From the current year the Bank has changed the basis of accounting of leave encashment from 'Cash' to 'Accrual'. Accumulated liability up to March 31, 2002 amounting to Rs.600.00 million has been debited to 'Revenue and Other Reserves' and Rs.100.00 million being the liability for current year has been charged to Profit and Loss Account resulting in profit for the year being lower by Rs.100.00 million.

**YEAR ENDED MARCH 31, 2004:**

**1. Balancing of Books/Reconciliation:**

Reconciliation of Inter Branch Accounts, which include transactions relating to drafts paid without advice, clearing differences, etc., is in progress. Substantial progress has been made towards reconciliation and clearance of old entries and the efforts are continuing to clear these entries. Balancing of subsidiary ledgers and reconciliation with General Ledger are in progress at some branches. The consequential impact of this is not ascertainable.

**2. Income Tax/Deferred Tax:**

Other Assets includes Rs.2117.30 million (previous year Rs.2509.40 million) towards disputed Income Tax/Interest Tax paid by the Bank/adjusted by the authorities. The provision for taxation is not considered necessary by the Bank in respect of above disputed demands based on various judicial decisions on such disputed issues duly supported by expert opinion.

**3. Advances/Provisions:**

The Bank holds a floating provision of Rs.4000.00 million (previous year Rs.1213.50 million) over and above the normal provision in respect of accounts identified as NPA as per prudential norms and this has been netted off against advances.

**4. Voluntary Retirement Scheme:**

The Bank had implemented Voluntary Retirement Scheme (VRS) in March 2001. The amount of ex-gratia and excess of terminal benefits towards gratuity and pension over the funded liability determined on actuarial basis was treated as 'Deferred Revenue Expenditure', and is being amortised over 5 years. During the year Rs.1656.40 million (previous year Rs.1656.40 million) has been charged to the Profit and Loss Account. The balance of Rs.2366.40 million (previous year Rs.4022.80 million) treated as "Deferred Revenue Expenditure" has been included under 'Other Assets – Others'.

**5. Provision for Wage Revision:**

Bank has made an adhoc provision of Rs.780.00 million towards wage revision pending settlement.

**<u>YEAR ENDED MARCH 31, 2005:</u>**

**1. Balancing of Books/Reconciliation:**

Reconciliation of Inter Branch Accounts, which include transactions relating to drafts paid without advice, clearing differences, etc., is in progress. Balancing of Subsidiary Ledgers with General Ledger are in progress at some branches. The consequential impact of this is not ascertainable.

**2. Income Tax/Deferred Tax:**

Other Assets include Rs.4934.30 million (previous year Rs.2117.30 million) towards disputed Income Tax/ Interest Tax paid by the Bank/ adjusted by the authorities. Provision for taxation is not considered necessary by the Bank in respect of above disputed demands based on various judicial decisions on such disputed issues duly supported by expert opinion.

**3. Advances/Provisions:**

3.1 Consequent to the reduction in the time frame for Classification of Doubtful Advances from Sub Standard pursuant to amended Prudential Norms, the Bank has recognized full provision thereon instead of a phased manner.

3.2 The Bank holds a floating provision of Rs.6040.00 million (previous year Rs.4000.00 million) over and above the normal provision in respect of accounts identified as NPA as per Prudential Norms and this has been netted off against advances.

**4 Voluntary Retirement Scheme:**

The Bank had implemented Voluntary Retirement Scheme (VRS) in March 2001. The amount of ex-gratia and excess of terminal benefits towards gratuity and pension over the funded liability determined on actuarial basis was treated as 'Deferred Revenue Expenditure', and is being amortised over 5 years. During the year Rs.1656.20 million (previous year Rs.1656.40 million) has been charged to the Profit and Loss Account. The balance of Rs.710.20 million (previous year Rs.2366.40 million) treated as "Deferred Revenue Expenditure" has been included under 'Other Assets – Others'.

**5 Provision for Wage Revision:**

Bank is holding an Adhoc Provision of Rs.2063.70 million, which includes Rs.780.00 million of the previous year towards Wage Revision.

**YEAR ENDED MARCH 31, 2006:**

1. **Balancing of Books/Reconciliation:**

   Reconciliation of Inter-Branch Accounts is in progress. Balancing of Subsidiary Ledgers and reconciliation with General Ledger are also in progress at some branches. Pending final clearance of the above, the overall impact, if any, on the accounts, in the opinion of the management will not be significant.

2. **Income Tax/Deferred Tax:**

   Other Assets includes Rs.5629.60 million (previous year Rs.4934.30 million) towards disputed Income Tax paid by the Bank/adjusted by the authorities. Provision for taxation is not considered necessary by the Bank in respect of above disputed demands based on various judicial decisions/ counsel's opinion on such disputed issues.

3. **Advances/Provisions:**

   The Bank holds a floating provision of Rs.3846.60 million (previous year Rs.6040.00 million) over and above the normal provision in respect of accounts identified as NPA as per prudential norms and this has been netted off against advances.

4. **Voluntary Retirement Scheme:**

   The Bank had implemented Voluntary Retirement Scheme (VRS) in March 2001. The amount of ex-gratia and excess of terminal benefits towards gratuity and pension over the funded liability determined on actuarial basis was treated as 'Deferred Revenue Expenditure', and is being amortised over 5 years. During the year, the balance amount of Rs.710.20 million (previous year Rs.1656.20 million) has been charged to the Profit and Loss Account.

**YEAR ENDED MARCH 31, 2007:**

**1.** During the current year, Capital of the Bank has been restructured as per the directives of the Government of India, by converting an amount of Rs.8000.00 million into perpetual Non Cumulative Preference Share Capital carrying dividend at Repo rate plus 100 basis points and retaining balance of Rs.3241.41 million as Equity Capital.

**2. Balancing of Books/Reconciliation:**

Reconciliation of Inter-Branch Accounts is in progress. Balancing of Subsidiary Ledgers and reconciliation with General Ledger is also in progress at some branches. Pending final clearance of the above, the overall impact, if any, on the accounts, in the opinion of the management will not be significant.

**3. Income Tax/Deferred Tax:**

Provision for Income Tax for the year is arrived at after due consideration of various judicial decisions on certain disputed issues.

Other Assets includes Rs.6376.50 million (previous year Rs.5629.60 million) towards disputed Income Tax paid by the Bank/adjusted by the authorities. Provision for taxation is not considered necessary by the Bank in respect of above disputed demands based on various judicial decisions/ counsels' opinion on such disputed issues.

Out of Rs.6376.50 million of tax paid under dispute, tax disputes relating to various Assessment Years, amounting to Rs.68.30 million have been decided by the Appellate authorities in favour of the Bank. The appeal effect for the same is pending.

**4. Premises:**

4.1 Certain premises include cost of land, where cost of land could not be ascertained.

4.2 Premises owned by the Bank include properties costing Rs.184.50 million revalued at Rs.1359.70 million for which registration formalities are in progress.

4.0 Certain premises of the Bank were last revalued to reflect the market value on 31.3.1998 and the appreciation amounting to Rs.3618.10 million was credited to the 'Revaluation Reserve'. Depreciation of Rs.143.60 million (previous year Rs.159.30 million) and deduction of Rs.74.30 million (net) due to demolition of certain residential premises on revalued portion are adjusted against the Revaluation Reserve.

## 5. Investments:

5.1 Gross investments of the Bank have been classified into three categories as under:

| | *As at March 31, 2007* | *As at March 31, 2006* |
|---|---|---|
| *Held to Maturity*<br>(excluding 5.27% (previous year 6.85%) in exempted category) | *58.88%* | *43.29%* |
| *Held for Trading* | *Nil* | *Nil* |
| *Available for Sale* | *35.85%* | *49.86%* |

5.2 In terms of the Guidelines of Reserve Bank of India, the profit of Rs.24.80 million (previous year Rs.574.00 million) on sale/ redemption of investments in the "Held to Maturity" category has been appropriated to the Investment Reserve.

## 6. Advances/Provisions:

6.1 Advances to units which have become sick including those under nursing/rehabilitation/ restructuring programme and other advances classified as doubtful/loss assets have been considered secured/ recoverable to the extent of estimated realizable value of securities carrying first or second charge based on valuers' assessment of properties/ assets mortgaged to the Bank and other data available with the Bank.

6.2 The Bank holds a floating provision of Rs.3846.60 million (previous year Rs.3846.60 million) over and above the normal provision in respect of accounts identified as NPA as per prudential norms and this has been netted off against advances.

## 7. Investments:

**(Rs. in million)**

| Items | | | | As at March 31, 2007 | As at March 31,.2006 |
|---|---|---|---|---|---|
| **1)** | **Value of Investments** | | | | |
| | i) | Gross Value of Investments | | | |
| | | a) | In India | 290370.82 | 296525.06 |
| | | b) | Outside India | 6.59 | 6.59 |
| | ii) | Provisions for Depreciation | | | |
| | | a) | In India | 12958.49 | 10140.72 |
| | | b) | Outside India | - | - |
| | iii) | Net Value of Investments | | | |
| | | a) | In India | 277412.33 | 286384.34 |
| | | b) | Outside India | 6.59 | 6.59 |
| **2)** | **Movement of Provisions held towards depreciation on Investments.** | | | | |

| | | | | |
|---|---|---|---|---|
| | i) | Opening balance | 10580.40 | 3691.20 |
| | ii) | Add: Provisions made during the year | 2378.10 | 6889.20 |
| | iii) | Closing balance | 12958.50 | 10580.40 |

## 8. Non SLR Investment Portfolio:

Issuer wise composition of non SLR investments as at March 31, 2007:

**(Rs. in million)**

| No. | Issuer | Amount | Extent of Private Placement | Extent of 'Below Investment Grade' Securities | Extent of 'Unrated' Securities | Extent of 'Unlisted' Securities |
|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| i) | PSUs | 16978.10 | 15140.00 | 50.00 | 121.30 | 1907.50 |
| ii) | FIs | 6368.50 | 6011.20 | 1663.70 | 682.10 | 2945.70 |
| iii) | Banks | 5349.90 | 4671.30 | Nil | 10.00 | 895.00 |
| iv) | Private Corporates | 8246.20 | 5244.90 | 9.00 | 216.50 | 1183.00 |
| v) | Subsidiaries/ Joint Ventures | 126.60 | 126.60 | - | 126.60 | 126.60 |
| vi) | Others | 17402.70 | 9231.80 | - | 16145.40 | 9448.70 |
| vii) | Provision held towards depreciation | 1564.20 | - | - | - | - |
| | **Total** | **52907.80** | **40425.80** | **1722.70** | **17301.90** | **16506.50** |

Amounts reported under Columns 4, 5, 6 and 7 are not mutually exclusive.

## 9. Non Performing Non-SLR Investments:

*(Including matured investments)*

(Rs. in million)

| Particulars | As at March 31, 2007 | As at March 31, 2006 |
|---|---|---|
| Opening Balance | 1198.10 | 862.60 |
| Additions during the year | 175.10 | 546.90 |
| Reductions during the year | 457.80 | 211.40 |
| Closing balance | 915.40 | 1198.10 |
| Total provisions held | 570.40 | 669.80 |

## 10. Asset Quality

*(i) Non Performing Assets*

**(Rs. in million)**

| Items | | | As at March 31, 2007 | As at March 31, 2006 |
|---|---|---|---|---|
| **i)** | **Net NPAs to Net Advances (%)** | | 1.70% | 2.59% |
| **ii)** | **Movement of NPAs (Gross)** | | | |
| | a) | Opening balance | 26841.69 | 26214.04 |
| | b) | Additions during the year | 8066.45 | 7321.45 |
| | c) | Reduction during the year | 9188.32 | 6693.80 |
| | d) | Closing balance | 25719.82 | 26841.69 |
| **iii)** | **Movement of Net NPAs** | | | |
| | a) | Opening balance | 9722.36 | 8141.76 |
| | b) | Additions during the year | 4743.61 | 6584.05 |
| | c) | Reduction during the year | 5681.39 | 5003.45 |
| | d) | Closing balance | 8784.58 | 9722.36 |
| **iv)** | **Movement of Provisions for Net NPAs (excluding provisions on Standard Assets)** | | | |
| | a) | Opening balance | 16912.07 | 17942.42 |
| | b) | Provisions made during the year | 3265.90 | 660.00 |
| | c) | Write off/ write back of excess provisions | 3506.90 | 1690.35 |
| | d) | Closing balance | 16671.07 | 16912.07 |

(ii) Details of Loan Assets subjected to Restructuring:

(a)

**(Rs. in million)**

| | Item | For the Year Ended March 31, | |
|---|---|---|---|
| | | **2007** | **2006** |
| I. | Total amount of loan assets subjected to restructuring, rescheduling, renegotiation: | **3875.90** | 3560.60 |
| | **Of which under CDR–** No. of Accounts - 3 (Previous year – 4) Amount of Sacrifice | 505.60<br>291.30 | 1413.40<br>- |
| II. | The amount of Standard Assets subjected to restructuring, rescheduling, renegotiation: | 2637.50 | 3009.70 |
| | **Of which under CDR -** No. of Accounts - 1 (Previous year – 2) Amount of Sacrifice | 182.40<br>3.40 | 1055.90<br>- |
| III. | The amount of Sub-Standard Assets subjected to restructuring, rescheduling, renegotiation: | 1238.40 | 505.00 |
| | **Of which under CDR** - No. of Accounts - 2 (Previous year – 1) Amount of Sacrifice | 323.20<br>288.00 | 311.60<br>- |
| IV. | The amount of Doubtful Assets subjected to restructuring, rescheduling, renegotiation: | -- | 45.90 |
| | **Of which under CDR -** No. of Accounts (Previous year – 1) Amount of Sacrifice | --<br>-- | 45.90<br>- |

(b) During the year, 5 Standard Accounts under SME were subjected to restructuring and the balance outstanding as at March 31, 2007 was Rs.12.60 million.

c.) **Asset Liability Management**

**Maturity pattern of certain items of assets and liabilities as at March 31, 2007:**

(Rs. in million)

| | **1 to 14 days** | **15 to 28 days** | **29 days to 3 mths** | **Over 3 mth & up to 6 mths** | **Over 6 mth & up to 1 year** | **Over 1 year & upto 3 years** | **Over 3 years & upto 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Deposits | 17090 | 13950 | 32440 | 74240 | 95270 | 292670 | 158930 | 136210 | 820800 |
| Advances | 16030 | 8750 | 30790 | 51310 | 40860 | 242800 | 62900 | 62190 | 515630 |
| Investments | 490 | 5010 | 6890 | 3420 | 3940 | 42630 | 40640 | 174400 | 277420 |
| Borrowings | 7110 | - | - | 150 | 130 | 360 | 70 | - | 7820 |
| Foreign Currency Assets | 2830 | 120 | 3210 | 1270 | 40 | 20 | - | - | 7490 |
| Foreign Currency Liabilities | 2410 | 180 | 270 | 560 | 1080 | 1900 | 2060 | - | 8460 |

*Notes:*

1 *The above maturity pattern has been compiled on the basis of the information received from branches, apportionment made at Head Office on the basis of behavioural trend and other adjustments wherever considered necessary.*

2 *The figures in the case of foreign currency assets and liabilities are after revaluation at the year-end FEDAI rates.*

## d.) Lending to Sensitive Sector:

## (i) Exposure to Real Estate Sector:

(Rs. in million)

| Category | | As at March 31, 2007 | As at March 31, 2006 |
|---|---|---|---|
| a) | Direct Exposure | | |
| | (i) Residential Mortgages - (including Rs.22600.40 million (previous year Rs.17533.10 million) of individual Housing Loan upto Rs.1.5 million) | 25458.80 | 19210.20 |
| | (ii) Commercial Real Estate - | 9875.00 | 1976.80 |
| | (iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures – | 223.20 | 344.70 |
| | a. Residential, | 223.20 | 344.70 |
| | b. Commercial Real Estate. | - | - |
| b) | Indirect Exposure<br>Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs). | 35666.60 | 20256.10 |

## (ii) Exposure to Capital Markets:

(Rs. in million)

| Items | | As at March 31, 2007 | As at March 31, 2006 |
|---|---|---|---|
| (i) | Investments made in equity shares | 2269.40 | 3053.30 |
| (ii) | Investments in convertible bonds / convertible debentures | 0.00 | 0.00 |
| (iii) | Investments in units of equity-oriented mutual funds, Contribution to – Venture Capital Funds | 1980.00 | 920.70 |
| (iv) | Advances against shares to individuals for investment in equity shares (including IPOs/ESOPS), bonds and debentures, unit of equity oriented mutual funds | 128.30 | 42.20 |
| (v) | Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers. | 282.50 | 266.30 |
| | **Total Exposure to Capital Market** (I + ii + iii + iv + v) | 4660.20 | 4282.50 |
| (vi) | Of (v) above, the total finance extended to stockbrokers for margin trading | - | - |

## 11. Accounting Standard 22 –Accounting for Taxes on Income

The Bank has recognized Deferred Tax Assets/ Liabilities. The major components of Deferred Tax Assets and Deferred Tax Liabilities as at March 31, 2007 and 2006 are as under:

**(Rs. in million)**

| | **As at** *March 31, 2007* | **As at** *March 31, 2006* |
|---|---|---|
| **Deferred Tax Asset:** | | |
| Provision for NPAs | 2679.00 | 3254.90 |
| Provision for Leave Encashment | 555.40 | 454.40 |
| Provision for Pension and Gratuity | 121.20 | 168.30 |
| Total (A): | **3355.60** | **3877.60** |
| **Deferred Tax Liabilities:** | | |
| **Depreciation on Fixed Assets** | 117.80 | 133.20 |
| **Interest accrued but not due on Investments** | 2015.90 | 2224.90 |
| Depreciation on Investments | 3766.90 | 2572.10 |
| **Total (B):** | **5900.60** | **4930.20** |
| **Net Deferred Tax Liability (A) – (B)** | 2545.00 | 1052.60 |

**ANNEXURE AVIII**

## RELATED PARTY TRANSACTIONS

1. The Related party transactions are as under:

   (a) The remuneration to key management personnel for the years ended March 31, 2003, 2004, 2005, 2006 and 2007 are as under:

(Rs. in Million)

| Name of the Party | Designation | For the year ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | | 2003 | 2004 | 2005 | 2006 | 2007 |
| Dr. Dalbir Singh | C.M.D. | 0.55 | 0.56 | 0.57 | 0.16 | - |
| Mr. V.N. Saxena | E.D. | 0.50 | 0.50 | 0.59 | 0.15 | - |
| Mr. K. Subbaraman | E.D. | - | - | - | - | 0.60 |
| Ms. H.A. Daruwalla | C.M.D. | - | - | - | 0.63 | 0.60 |
| | | 1.05 | 1.06 | 1.16 | 0.94 | 1.20 |

   (b) The transactions with Subsidiaries and Associates have not been disclosed in view of Paragraph 9 of AS-18 – Related Party Disclosure, which exempts state controlled enterprises from making any disclosure pertaining to their transactions with other related parties that are also state controlled.

2. The Subsidiaries and Associates as at March 31, 2007 are as under:

   **(a) Subsidiaries –**
   i) Cent Bank Home Finance Limited.
   ii) Cent Bank Financial & Custodial Services Limited

   **(b) Associates -**
   **(I) Regional Rural Banks –**

   i) Satpura Kshetriya Gramin Bank, Chhindwara.
   ii) Ratlam-Mandsaur Kshetriya Gramin Bank, Mandsaur.
   iii) Chambal –Gwalior Kshetriya Gramin Bank, Gwalior.
   iv) Surguja Kshetriya Gramin Bank, Ambikapur.
   v) Kosi Kshetriya Gramin Bank, Purnea.
   vi) Uttar Bihar Kshetriya Gramin Bank, Muzzaffarpur.
   vii) Vidharbha Kshetriya Gramin Bank, Akola.
   viii) Ballia Kshetriya Gramin Bank, Ballia.
   ix) Etawah Kshetriya Gramin Bank, Etawah.
   x) Hadoti Kshetriya Gramin Bank, Kota.
   xi) Uttarbanga Kshetriya Gramin Bank, Cooch Behar.

   **(II)** Indo–Zambia Bank Limited

## ANNEXURE AIX

# SEGMENT REPORTING

## Business Segments

(Rs. in Million)

| Sr. No. | Particulars | For the Year Ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | | **2003** | **2004** | **2005** | **2006** | **2007** |
| **1** | **Segment Revenue** | | | | | |
| a) | Treasury Operations | 16320.00 | 20679.40 | 21108.30 | 16996.30 | 9618.10 |
| b) | Other Banking Operations | 39110.00 | 39346.00 | 39196.10 | 41677.00 | 56542.00 |
| | **Total** | **55430.00** | **60025.40** | **60304.40** | **58673.30** | **66160.10** |
| | | | | | | |
| **2** | **Segment Results** | | | | | |
| a) | Treasury Operations | 3250.00 | 6174.90 | 6814.20 | 7753.50 | 1738.50 |
| b) | Other Banking Operations | 5500.00 | 10653.50 | 10208.40 | 5515.90 | 12003.20 |
| | **Total** | **8750.00** | **16828.40** | **17022.60** | **13269.40** | **13741.70** |
| | Unallocated expenditure/ (Income) | (488.50) | 1539.09 | 930.90 | 1322.72 | 1084.51 |
| | Profit before Tax | 9238.50 | 15289.31 | 16091.70 | 11946.68 | 12657.19 |
| | Provision for Tax | 1397.10 | 2560.80 | 2322.14 | 1185.10 | 1972.96 |
| | Provisions | 4786.23 | 6547.43 | 10195.48 | 8187.50 | 5704.10 |
| | Net Profit | 3055.17 | 6181.08 | 3574.08 | 2574.08 | 4980.13 |
| | | | | | | |
| **3** | **Other information** | | | | | |
| | **Segment Assets** | | | | | |
| a) | Treasury Operations | 162400.00 | 210521.70 | 186074.10 | 148407.30 | 129586.70 |
| b) | Other Banking Operations | 396750.00 | 406643.50 | 479934.90 | 578149.70 | 778919.10 |
| | **Total** | **559150.00** | **617165.20** | **666009.00** | **726557.00** | **908505.80** |
| | Unallocated Assets | 11901.59 | 16288.34 | 19949.94 | 20253.41 | 21575.04 |
| | **Total** | **571051.59** | **633453.54** | **685958.94** | **746810.41** | **930080.84** |
| | **Segment Liabilities** | | | | | |
| a) | Treasury Operations | 12050.00 | 2851.10 | 151.40 | 2112.80 | 7018.90 |
| b) | Other Banking Operations | 553160.00 | 586757.10 | 639556.30 | 692748.60 | 860025.10 |
| | **Total** | **565210.00** | **589608.20** | **639707.70** | **694861.40** | **867044.00** |
| | Unallocated Liabilities | 5841.59 | 43845.34 | 46251.24 | 51949.01 | 63036.84 |
| | **Total** | **571051.59** | **633453.54** | **685958.94** | **746810.41** | **930080.84** |

**ANNEXURE B**

## STATEMENT OF DIVIDENDS DECLARED BY THE BANK

(Rs. in Million unless otherwise stated)

| Class of Shares | For the Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** |
| Equity Shares Face Value (Rs./ Share) | N.A. | N.A. | N.A. | N.A. | N.A. |
| Capital fully owned by Central Government | | | | | |
| Share Capital | 11241.41 | 11241.41 | 11241.41 | 11241.41 | - |
| Equity Capital | - | - | - | - | 3241.41 |
| Preference Capital (Perpetual non- cumulative) | - | - | - | - | 8000.00 |
| **Final Dividend:** | | | | | |
| Per share Rs. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Share Capital | 150.00 | 350.00 | 350.00 | 500.00 | - |
| Equity Capital | - | - | - | - | 994.10 |
| Preference Capital | - | - | - | - | 1.90 |
| Tax on Dividend | 19.22 | 44.84 | 49.09 | 70.13 | 167.63 |

*Notes:*

1. *During the current year, the Capital of the Bank has been restructured as per the directives of the Government of India, by converting an amount of Rs.8000.00 million into perpetual Non Cumulative Preference Share Capital on March 31, 2007 carrying a dividend at Repo rate plus 100 basis points and retaining the balance of Rs.3241.41 million as Equity Capital.*

2. *Board of Directors of the Bank sub-divided the Equity Capital of the Bank into 324.14 million equity shares of Rs.10 each on April 26, 2007.*

ANNEXURE CI

## CENT BANK HOME FINANCE LIMITED

## SUMMARY STATEMENT OF ASSETS AND LIABILITIES

**(Rs. in Million)**

| | Financial Year ended 31st March | | | | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** |
| **Sources of Funds:** | | | | | |
| Share Capital | 184.00 | 200.00 | 200.00 | 200.00 | 200.00 |
| Reserves and Surplus | 216.85 | 229.27 | 86.16 | 148.52 | 198.80 |
| Secured Loans | 1904.46 | 2354.75 | 2282.66 | 2135.87 | 1934.29 |
| Unsecured Loans | 908.35 | 785.96 | 648.01 | 467.47 | 225.57 |
| Deferred Tax Liability | 0.00 | 0.00 | 1.55 | 1.98 | 1.86 |
| | | | | | |
| **TOTAL** | **3213.66** | **3569.98** | **3218.38** | **2953.84** | **2560.52** |
| | | | | | |
| **Application of Funds:** | | | | | |
| | | | | | |
| Fixed Assets: | | | | | |
| Gross Block | 12.30 | 13.26 | 13.54 | 13.84 | 14.02 |
| Less: Depreciation | 4.07 | 5.27 | 6.42 | 7.59 | 8.76 |
| Net Block | 8.23 | 7.99 | 7.12 | 6.25 | 5.26 |
| | | | | | |
| Investments | 48.98 | 42.10 | 36.65 | 25.37 | 22.87 |
| | | | | | |
| Current Assets, Loans & Advances | | | | | |
| Interest Accrued on Investments | 13.42 | 2.01 | 4.57 | 4.42 | 1.19 |
| Balance with Banks | 116.28 | 97.40 | 85.85 | 87.28 | 107.89 |
| Loans and Advances | 3133.94 | 3586.84 | 3623.40 | 3245.09 | 2855.42 |
| | | | | | |
| Total | 3263.64 | 3686.25 | 3713.82 | 3336.79 | 2964.50 |
| **Less:** | | | | | |
| Current Liabilities and Provisions | | | | | |
| Current Liabilities | 26.18 | 61.59 | 274.08 | 198.98 | 229.80 |
| Provisions | 82.79 | 104.59 | 265.13 | 215.59 | 202.31 |
| Total | 108.97 | 166.18 | 539.21 | 414.57 | 432.11 |
| Net Current Assets | 3154.67 | 3520.07 | 3174.61 | 2922.22 | 2532.39 |
| Deferred Revenue Expenditure | 1.78 | 0.00 | 0.00 | 0.00 | 0.00 |
| Deferred Taxation | 0.00 | -0.18 | 0.00 | 0.00 | 0.00 |
| **Total** | **3213.66** | **3569.98** | **3218.38** | **2953.84** | **2560.52** |

## ANNEXURE C II

## CENT BANK HOME FINANCE LIMITED

## SUMMARY STATEMENT OF PROFIT AND LOSS

**(Rs. in million)**

| | **Financial Year ended 31st March** | | | | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** |
| **INCOME** | | | | | |
| Interest on Housing Loans | 354.67 | 340.50 | 305.89 | 304.39 | 267.29 |
| Interest on Investments | 5.39 | 4.71 | 3.88 | 2.52 | 1.86 |
| Interest on Bank Deposits | 6.48 | 4.04 | 3.52 | 2.84 | 1.51 |
| Interest on Demand Loans Against Fixed Deposits | 0.64 | 0.61 | 0.50 | 0.43 | 0.89 |
| Fee and Other charges | 31.33 | 36.67 | 20.05 | 21.27 | 10.65 |
| Other Income | 0.02 | 0.19 | 0.66 | 0.08 | 0.05 |
| **Total Income** | **398.53** | **386.72** | **334.50** | **331.53** | **282.25** |
| | | | | | |
| **EXPENDITURE** | | | | | |
| Interest on Term Loans from Central Bank of India | 35.67 | 34.48 | 46.45 | 60.24 | 58.50 |
| Interest on Fixed Deposits | 98.14 | 90.53 | 73.72 | 54.37 | 29.07 |
| Interest on Refinance from NHB | 138.88 | 162.91 | 149.73 | 123.30 | 104.37 |
| Bank Interest and Commission | 0.91 | 0.29 | 0.70 | 0.21 | 0.17 |
| Interest on Bank Overdraft | 0.00 | 0.00 | 0.00 | 6.23 | 6.58 |
| Staff Expenses | 6.44 | 9.24 | 12.09 | 15.35 | 12.94 |
| Rent, Rates & Taxes | 1.21 | 1.20 | 1.02 | 1.19 | 1.21 |
| Repair and Maintenance | 0.00 | 0.04 | 0.36 | 0.41 | 0.41 |
| Vehicle Running & Maintenance | 0.08 | 0.11 | 0.06 | 0.15 | 0.16 |
| Office Maintenance | 2.09 | 2.40 | 2.58 | 4.46 | 3.00 |
| Electricity & Water Charges | 0.35 | 0.48 | 0.57 | 0.52 | 0.49 |
| Insurance | 0.03 | 0.00 | 1.40 | 2.21 | 2.35 |
| Travelling and Conveyance | 0.96 | 1.43 | 1.78 | 1.72 | 1.32 |
| Printing & Stationery | 0.64 | 0.65 | 0.72 | 0.69 | 0.56 |
| Communication Expenses | 1.21 | 1.48 | 1.64 | 1.84 | 1.16 |
| Advertisements | 0.61 | 0.50 | 0.63 | 0.20 | 0.41 |
| General Office Expenses | 0.68 | 0.76 | 0.91 | 0.69 | 0.86 |
| Auditors Remuneration | 0.03 | 0.36 | 0.22 | 0.19 | 0.28 |
| Professional/ Legal & Other Certification Charges | 0.55 | 2.05 | 1.41 | 1.53 | 0.95 |
| Depreciation on Fixed Assets | 1.12 | 1.20 | 1.21 | 1.17 | 1.19 |
| Misc. Expenses/ other expenses | 3.92 | 5.06 | 1.46 | 1.09 | 0.49 |
| Provision for NPA | 40.88 | 31.31 | 176.09 | 0.00 | 0.00 |
| Bad Debts Written Off | 0.00 | 0.00 | 0.00 | 34.76 | 6.94 |
| **TOTAL EXPENDITURE** | **334.40** | **346.48** | **474.75** | **312.52** | **233.41** |
| | | | | | |
| **Profit (Loss) Before Tax** | **64.13** | **40.24** | **-140.25** | **19.01** | **48.84** |
| Reversal of Provision for NPA | 0 | 0 | 0 | 49.54 | 13.28 |
| Provision for Taxation | -14.00 | -7.50 | 0.00 | -5.34 | -9.84 |
| Deferred Tax Liability | 0.00 | -0.18 | -1.37 | -0.44 | 0.12 |
| Short Provision for Earlier Years | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Prior Period Expenses | 1.34 | -4.59 | -1.49 | -0.41 | -2.12 |
| **Profit After Tax** | **51.47** | **27.97** | **-143.11** | **62.36** | **50.28** |
| Balance Brought Forward | 26.92 | 27.13 | 11.55 | 0.44 | 25.30 |
| **Amount available for Appropriation** | **78.39** | **55.10** | **-131.56** | **62.80** | **75.58** |
| Reserve U/S 36(1)(viii) | 25.50 | 18.00 | -92.00 | 27.50 | 24.60 |
| General Reserve | 5.00 | 10.00 | -40.00 | 10.00 | 50.98 |
| Proposed Dividend | 18.40 | 13.78 | 0.00 | 0.00 | 0.00 |
| Tax on Dividend | 2.36 | 1.77 | 0.00 | 0.00 | 0.00 |
| **Balance Carried to Balance Sheet** | **27.13** | **11.55** | **0.44** | **25.30** | **0.00** |

**ANNEXURE CIII**

## CENT BANK HOME FINANCE LIMITED

## SUMMARY STATEMENT OF CASH FLOW

(Rs. in Million)

| | | Financial year ended March 31 | | | | |
|---|---|---|---|---|---|---|
| | | 2003 | 2004 | 2005 | 2006 | 2007 |
| A | **CASH FLOW FROM OPERATING ACTIVITIES** | | | | | |
| | NET PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS | 64.13 | 40.24 | -140.25 | 68.55 | 62.12 |
| | | | | | | |
| | ADJUSTMENTS FOR: | | | | | |
| | - Depreciation | 1.12 | 1.20 | 1.15 | 1.17 | 1.18 |
| | - Interest on long term Investments | -5.39 | -4.71 | -3.88 | -2.52 | -1.86 |
| | - Provision for NPA/ reversal | 40.89 | 31.31 | 176.09 | -49.54 | -13.28 |
| | - Assets W/off | 0.00 | 0.00 | 0.09 | 0.00 | 0.00 |
| | - Bad debts written off | 0.00 | 0.00 | 0.00 | 34.76 | 6.94 |
| | | | | | | |
| | OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES | 100.75 | 68.04 | 33.20 | 52.42 | 55.10 |
| | | | | | | |
| | Current Assets | -4.19 | 5.26 | -6.57 | -6.50 | -3.08 |
| | Loans and Advances | -452.14 | -444.96 | -83.63 | 350.23 | 389.02 |
| | Current Liabilities | 8.52 | 31.11 | 263.22 | -75.10 | 30.82 |
| | Previous year Adjustments | 1.44 | -4.59 | -1.49 | -0.41 | -2.13 |
| | | | | | | |
| | CASH GENERATED FROM OPERATIONS | -345.62 | -345.14 | 204.73 | 320.64 | 469.73 |
| | | | | | | |
| | Direct Taxes Paid | -14.00 | -7.50 | 0.00 | -5.35 | -9.84 |
| | | | | | | |
| | NET CASH GENERATED FROM OPERATIONS ( A ) | -359.62 | -352.64 | 204.73 | 315.29 | 459.89 |
| | | | | | | |
| B | CASH FLOW FROM INVESTING ACTIVITIES | | | | | |
| | | | | | | |
| | Purchase of fixed assets | -2.44 | -0.96 | -0.36 | -0.30 | -0.18 |
| | Investments | 3.07 | 6.88 | 5.76 | 11.28 | 2.50 |
| | Interest on Investments | 5.39 | 4.71 | 3.88 | 2.52 | 1.86 |
| | | | | | | |
| | NET CASH USED IN INVESTING ACTIVITIES ( B ) | 6.02 | 10.63 | 9.27 | 13.50 | 4.18 |
| C | CASH FLOW FROM FINANCING ACTIVITIES | | | | | |
| | Increase in Share capital | 0.00 | 16.00 | 0.00 | 0.00 | 0.00 |
| | Long term Borrowings ( net of repayments) | 380.74 | 327.90 | -210.04 | -327.33 | -443.47 |
| | Dividend ( Including Dividend Tax) | -13.40 | -20.76 | -15.55 | 0.00 | 0.00 |
| | | | | | | |
| | NET CASH FROM FINANCING ACTIVITIES (C) | 367.34 | 323.14 | -225.59 | -327.33 | -443.47 |
| | NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS A+B+C | 13.74 | -18.87 | -11.59 | 1.46 | 20.60 |
| | | | | | | |
| D | OPENING BALANCE OF CASH AND CASH EQUIVALENTS 'D' | 102.54 | 116.28 | 97.41 | 85.82 | 87.28 |
| | | | | | | |
| E | CLOSING BALANCE OF CASH AND CASH EQUIVALENTS 'E' | 116.28 | 97.41 | 85.82 | 87.28 | 107.88 |

**ANNEXURE D I**

## CENTBANK FINANCIAL & CUSTODIAL SERVICES LIMITED

## SUMMARY STATEMENT OF ASSETS AND LIABILITIES

(Rs. in Million)

| | Financial Year ended 31st March | | | | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** |
| **Sources of Funds:** | | | | | |
| Share Capital | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Reserves and Surplus | 17.36 | 17.97 | 20.44 | 21.74 | 23.42 |
| Deferred Tax Liability | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | | | | | |
| **TOTAL** | **18.36** | **18.97** | **21.44** | **22.74** | **24.42** |
| | | | | | |
| **Application of Funds:** | | | | | |
| | | | | | |
| Fixed Assets: | | | | | |
| Gross Block | 1.52 | 1.52 | 1.52 | 1.52 | 1.52 |
| Less: Depreciation | 1.48 | 1.49 | 1.49 | 1.49 | 1.50 |
| Net Block | 0.04 | 0.03 | 0.03 | 0.03 | 0.02 |
| | | | | | |
| Investments | 7.44 | 7.45 | 2.48 | 2.47 | 2.47 |
| | | | | | |
| Current Assets, Loans & Advances | | | | | |
| Interest Accrued on Investments | 0.40 | 0.44 | 0.38 | 0.58 | 0.52 |
| Balance with Banks | 39.22 | 36.31 | 43.55 | 42.67 | 112.35 |
| Loans and Advances | 0.72 | 0.65 | 0.61 | 0.62 | 0.95 |
| | | | | | |
| Total | 40.34 | 37.40 | 44.54 | 43.87 | 113.82 |
| **Less:** | | | | | |
| Current Liabilities and Provisions | | | | | |
| Current Liabilities | 28.94 | 25.44 | 25.08 | 23.25 | 91.12 |
| Provisions | 0.52 | 0.47 | 0.53 | 0.38 | 0.77 |
| Total | 29.46 | 25.91 | 25.61 | 23.63 | 91.89 |
| Net Current Assets | 10.88 | 11.49 | 18.93 | 20.24 | 21.93 |
| | | | | | |
| **Total** | **18.36** | **18.97** | **21.44** | **22.74** | **24.42** |

**ANNEXURE D II**

## CENTBANK FINANCIAL & CUSTODIAL SERVICES LIMITED

## SUMMARY STATEMENT OF PROFIT AND LOSS ACCOUNT

(Rs. in Million)

| | Financial Year ended 31st March | | | | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** |
| **Income** | | | | | |
| Operating Income | 1.57 | 1.93 | 2.33 | 1.93 | 2.97 |
| Investing Income | 1.04 | 1.01 | 0.98 | 1.30 | 1.49 |
| Other Income | 0.01 | 0.01 | 1.61 | 0.44 | 0.00 |
| | | | | | |
| **Total** | **2.62** | **2.95** | **4.92** | **3.67** | **4.46** |
| | | | | | |
| **Expenditure** | | | | | |
| | | | | | |
| Operating & Other Expenses | 2.19 | 2.21 | 2.05 | 1.99 | 2.01 |
| Depreciation | 0.01 | 0.01 | 0.00 | 0 | 0.01 |
| | | | | | |
| Profit Before Tax | 0.42 | 0.73 | 2.87 | 1.68 | 2.44 |
| Provision for Taxation | 0.13 | 0.13 | 0.40 | 0.38 | 0.76 |
| Deferred Tax Liability | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| Short Provision for Earlier Years | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| | | | | | |
| **Profit After Tax** | **0.27** | **0.60** | **2.47** | **1.30** | **1.68** |
| Balance Brought Forward | 11.55 | 11.82 | 12.42 | 14.89 | 16.19 |
| | | | | | |
| **Balance Carried to Balance Sheet** | **11.82** | **12.42** | **14.89** | **16.19** | **1.87** |

**ANNEXURE D III**

## CENTBANK FINANCIAL & CUSTODIAL SERVICES LIMITED

## SUMMARY STATEMENT OF CASH FLOW

(Rs. in Million)

| | Financial Year ended 31st March | | | | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** |
| **A. Cash flow from operating activities:** | | | | | |
| **Net Profit as per Profit and Loss account** | 0.42 | 0.73 | 2.87 | 1.68 | 2.44 |
| Adjustments for: | | | | | |
| Depreciation on fixed assets | 0.01 | 0.01 | 0.00 | 0.00 | 0.01 |
| **Sub total** | 0.43 | 0.74 | 2.87 | 1.68 | 2.45 |
| Adjustments for: | | | | | |
| (Increase)/Decrease in investments | 0.00 | (0.01) | 4.98 | 0.01 | 0.00 |
| (Increase)/Decrease in other assets | 0.38 | 0.03 | 0.11 | (0.20) | (0.28) |
| Increase/(Decrease) in other liabilities and provisions | 8.80 | (3.54) | (0.32) | (1.98) | 68.28 |
| Direct taxes paid (net of refund) | (0.14) | (0.13) | (0.40) | (0.38) | (0.77) |
| **Net cash from operating activities** | 9.47 | (2.91) | 7.24 | (0.87) | 69.68 |
| | | | | | |
| **B. Cash flow from investing activities** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | | | | | |
| **C. Cash flow from financing activities:** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | | | | | |
| **Net increase in cash & cash equivalents A+B+C** | 9.47 | (2.91) | 7.24 | (0.87) | 69.68 |
| Cash and cash equivalents-Opening | 29.74 | 39.21 | 36.30 | 43.54 | 42.67 |
| Cash and cash equivalents-Closing | 39.21 | 36.30 | 43.54 | 42.67 | 112.35 |

## ANNEXURE E I

## SUMMARY STATEMENT OF CONSOLIDATED ASSETS AND LIABILITIES

(Rs. in million)

| Sr. No. | | For the Year Ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | | **2003** | **2004** | **2005** | **2006** | **2007** |
| **(A)** | **ASSETS** | | | | | |
| 1 | Cash in Hand | 5206.06 | 4644.90 | 4930.10 | 5293.60 | 7390.80 |
| 2 | Balance with RBI | 31725.52 | 29650.84 | 50790.89 | 28536.79 | 47351.85 |
| 3 | Balance with Banks | | | | | |
| | - In India | 6432.96 | 12820.01 | 10275.56 | 11250.30 | 8578.59 |
| | - Outside India | 1764.33 | 1365.12 | 3035.72 | 2861.98 | 6034.13 |
| 4 | Money at call and Short notice | 0.00 | 2350.00 | 1500.00 | 0.00 | 18779.45 |
| 5 | Investments | | | | | |
| | - In India | 259950.30 | 313647.70 | 308035.24 | 285853.14 | 276885.55 |
| | - Outside India | 105.81 | 136.38 | 152.33 | 266.57 | 208.56 |
| 6 | **Advances** | | | | | |
| | - In India | 234174.03 | 230828.74 | 275206.01 | 376835.95 | 519547.94 |
| | - Outside India | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 7 | Fixed Assets | 7531.42 | 7773.57 | 7527.63 | 7254.62 | 7677.21 |
| | Less: Revaluation Reserve | 5584.42 | 5403.81 | 5235.69 | 5076.37 | 4858.46 |
| | **Net Fixed Assets** | 1947.00 | 2369.76 | 2291.94 | 2178.25 | 2818.75 |
| 8 | Other Assets | 26427.45 | 32786.52 | 26805.19 | 30419.80 | 38933.06 |
| | Goodwill | 47.26 | 58.01 | 58.01 | 58.01 | 58.01 |
| | **TOTAL - (A)** | **567780.72** | **630657.98** | **683080.99** | **743554.39** | **926586.69** |
| | | | | | | |
| **(B)** | **LIABILITIES** | | | | | |
| 1 | **Deposits** | | | | | |
| | Demand Deposits | | | | | |
| | - From Banks | 2679.84 | 2215.51 | 2058.81 | 2912.98 | 1854.13 |
| | - From Others | 52227.59 | 59677.36 | 59289.27 | 73329.98 | 83312.46 |
| 2 | Saving Deposits | 154051.01 | 179956.99 | 203271.17 | 234802.28 | 263122.40 |
| 3 | Term Deposits from Banks | 24697.38 | 21869.60 | 17815.27 | 18825.89 | 17680.27 |
| | Term Deposits from Others | 278815.14 | 296029.00 | 325623.22 | 335312.00 | 461889.58 |
| 4 | **Borrowings** | | | | | |
| | - In India | 2882.27 | 2733.17 | 2910.71 | 4413.32 | 8927.26 |
| | - Outside India | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 5 | Other Liabilities and Provisions | 22348.41 | 29529.82 | 31437.48 | 27634.51 | 34757.51 |
| 6 | Subordinate Debts | 11400.00 | 14100.00 | 13100.00 | 16882.00 | 21882.00 |
| | **TOTAL - (B)** | **549101.64** | **606111.45** | **655505.93** | **714112.96** | **893425.61** |
| | | | | | | |
| **(C)** | **NET WORTH (C=A-B)** | **18679.08** | **24546.53** | **27575.06** | **29441.43** | **33161.08** |
| | | | | | | |
| | **Represented by:** | | | | | |
| (D) | Share Capital | 11241.41 | 11241.41 | 11241.41 | 11241.41 | 11241.41 |
| (E) | Minorities Interest | 148.94 | 180.15 | 112.57 | 128.11 | 157.50 |
| (F) | **Reserves and Surplus** | | | | | |
| 1 | Statutory Reserve | 2024.41 | 3572.30 | 4406.20 | 5186.31 | 6455.94 |
| 2 | Investment Reserve | 685.61 | 765.89 | 1069.79 | 1644.20 | 1669.04 |
| 3 | Investment Fluctuation Reserve | 2503.90 | 5870.43 | 7801.10 | 0.00 | 0.00 |
| 4 | Revenue and Other Reserve | 2328.13 | 2332.58 | 2908.78 | 11332.73 | 13250.53 |
| 5 | Balance of Profit and Loss Account | 118.81 | 955.90 | 407.34 | 280.80 | 386.66 |
| 6 | Provision for diminution in the value of investments | -372.13 | -372.13 | -372.13 | -372.13 | 0.00 |
| | **TOTAL - (F)** | 7288.73 | 13124.97 | 16221.08 | 18071.91 | 21762.17 |
| | **NET WORTH (D+E+F)** | **18679.08** | **24546.53** | **27575.06** | **29441.43** | **33161.08** |

## ANNEXURE E II

## SUMMARY STATEMENT OF CONSOLIDATED PROFIT AND LOSS

(Rs. in Million)

| | | For the Year Ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | | **2003** | **2004** | **2005** | **2006** | **2007** |
| A | **INCOME** | | | | | |
| **1** | **Interest Earned** | **51067.40** | **50962.50** | **52321.58** | **54096.73** | **62545.76** |
| 1.1 | Interest & Discount on advances/ bills | 23332.46 | 22195.83 | 22682.16 | 26136.08 | 36809.16 |
| 1.2 | Income on Investments | 25402.00 | 26579.97 | 26744.89 | 25614.46 | 22651.75 |
| 1.3 | Interest on balance with RBI and other Inter-Bank Lending | 1498.39 | 1928.73 | 1945.64 | 1854.37 | 2143.45 |
| 1.4 | Others | 834.55 | 257.97 | 948.89 | 491.82 | 941.40 |
| **2** | **Other Income** | **5553.57** | **9663.87** | **9207.61** | **5325.17** | **4753.51** |
| 2.1 | Commission, Exchange and Brokerage | 2879.04 | 2991.60 | 2960.30 | 3030.17 | 3507.24 |
| 2.2 | Profit on sale of investments (Net) | 0.29 | 6180.55 | 5880.12 | 1836.99 | 1362.20 |
| 2.3 | Profit/(Loss) on Revaluation of investments | 336.97 | (255.10) | (187.39) | (204.26) | (861.73) |
| 2.4 | Profit/(Loss) on sale of land and buildings and other assets (Net) | 2420.60 | (3.32) | (3.18) | (1.11) | (2.90) |
| 2.5 | Profit/(Loss) on exchange transactions (Net) | (332.08) | 229.05 | 283.51 | 260.88 | 431.01 |
| 2.6 | Miscellaneous Income | 248.75 | 521.09 | 274.25 | 402.50 | 317.69 |
| | **Total Income** | **56620.97** | **60626.37** | **61529.19** | **59421.90** | **67299.27** |
| B | **EXPENDITURE** | | | | | |
| 1 | **Interest Expended** | **31991.70** | **29668.37** | **28521.47** | **30228.73** | **37726.95** |
| 1.1 | Interest on Deposits | 30339.03 | 27926.62 | 27102.56 | 28849.49 | 35734.35 |
| 1.2 | Interest on RBI and Inter-Bank Borrowings | 34.41 | 212.10 | 177.07 | 254.35 | 340.54 |
| 1.3 | Others | 1618.26 | 1529.65 | 1241.84 | 1124.89 | 1652.06 |
| **2** | **Operating Expenses** | **15293.51** | **15604.70** | **16890.29** | **17197.09** | **16876.22** |
| 2.1 | Payment to and provision for Employees | 11874.79 | 11845.79 | 12788.88 | 12773.71 | 11769.88 |
| 2.2 | Rent, Taxes and Lighting | 748.11 | 841.82 | 945.30 | 1003.46 | 1092.12 |
| 2.3 | Printing and Stationery | 144.29 | 175.78 | 158.46 | 163.24 | 166.68 |
| 2.4 | Advertisement and publicity | 55.29 | 70.26 | 71.00 | 78.09 | 60.52 |
| 2.5 | Depreciation on properties (net of amounts adjusted against revaluation reserve) | 495.40 | 566.29 | 534.07 | 509.50 | 651.94 |
| 2.6 | Directors' Fees, Allowances and Expenses | 3.42 | 6.37 | 5.35 | 5.27 | 4.52 |
| 2.7 | Auditors' Fees and Expenses | 87.21 | 116.44 | 131.25 | 139.06 | 137.72 |
| 2.8 | Law Charges | 74.36 | 113.39 | 111.26 | 96.62 | 93.44 |
| 2.9 | Postage, Telegrams, Telephones, etc. | 46.44 | 62.40 | 60.88 | 60.65 | 108.91 |
| 2.10 | Repairs and Maintenance | 177.76 | 208.12 | 239.00 | 256.60 | 342.14 |
| 2.11 | Insurance | 238.31 | 242.38 | 412.07 | 575.20 | 646.19 |
| 2.12 | Other Expenditure | 1348.13 | 1355.66 | 1432.77 | 1535.69 | 1802.16 |
| | **Total Expenditure** | **47285.21** | **45273.07** | **45411.76** | **47425.82** | **54603.17** |
| | **Gross Profit (before Provisions and Contingencies)** | **9335.76** | **15353.30** | **16117.43** | **11996.08** | **12696.10** |
| | Less: Provisions and Contingencies | 6238.35 | 9147.08 | 12702.50 | 9391.86 | 7658.17 |
| | **Profit After Provisions and Contingencies** | **3097.41** | **6206.22** | **3414.93** | **2604.22** | **5037.93** |
| | Add: Share of Earnings/(Losses) in Associates | 85.54 | 151.30 | 118.99 | (93.82) | 87.11 |
| | (Less)/Add: Minorities' Interest | (18.18) | (11.32) | 61.28 | (12.22) | (29.39) |
| | Add: Profit brought forward | 29.73 | 113.28 | 955.89 | 407.34 | 280.79 |
| | **Profit Available for Appropriation** | **3194.50** | **6459.48** | **4551.09** | **2905.52** | **5376.44** |
| | **APPROPRIATIONS** | | | | | |
| a) | Statutory Reserve | 780.29 | 1555.98 | 833.90 | 780.11 | 1269.63 |
| b) | Investment Reserve | 60.26 | 80.29 | 303.90 | 574.40 | 24.84 |
| c) | Staff Welfare Fund | 61.10 | 100.00 | 100.00 | 77.22 | 120.00 |
| d) | Investment Fluctuation Reserve | 1350.00 | 3366.53 | 1930.66 | (7801.10) | 0.00 |
| e) | Proposed payment to GOI Dividend including Tax | 169.22 | 394.84 | 399.09 | 570.13 | 1163.63 |
| f) | Revenue Reserves | 654.82 | 5.95 | 576.20 | 8423.96 | 2411.69 |
| | Balance carried over to Balance Sheet | 118.81 | 955.89 | 407.34 | 280.80 | 386.65 |
| | **TOTAL** | **3194.50** | **6459.48** | **4551.09** | **2905.52** | **5376.44** |

ANNEXURE E III

## SUMMARY STATEMENT OF CONSOLIDATED CASH FLOW

(Rs. in Million)

| Sr. No. | Particulars | For the Year Ended March 31, 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| A | **CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| | Interest received during the year from advances, investments etc. | 50962.50 | 52321.58 | 54096.73 | 62545.76 |
| | Other Income | 9819.82 | 9322.41 | 5229.48 | 4710.97 |
| | Less: Interest paid on deposits, borrowings etc. (excluding subordinated debts) | 28234.65 | 27322.13 | 29171.28 | 36160.68 |
| | Operating Expenses including Provisions & Contingencies | 22183.64 | 27268.88 | 25398.16 | 22550.83 |
| | Add: Adjustment for Depreciation | 452.39 | 475.78 | 473.93 | 498.90 |
| I | Cash Profit generated from operating activities (before tax) | **10816.42** | **7528.76** | **5230.70** | **9044.12** |
| | Less: Taxes Paid | 2568.13 | 2323.90 | 1190.79 | 1983.56 |
| | Cash Profit generated from operating activities (after tax) | 8248.29 | 5204.86 | 4039.91 | 7060.56 |
| II | Cash flow from Operating Assets and Liabilities | | | | |
| | Increase/Decrease in Deposits | 47277.50 | 48309.27 | 57125.40 | 162675.7 |
| | Increase/Decrease in Borrowings | -149.10 | 177.54 | 1502.61 | 4513.94 |
| | Increase/Decrease in Other Liabilities | 7081.41 | 1807.66 | -3880.19 | 7003.00 |
| | (Increase)/Decrease in Advances | 3345.29 | -44377.26 | -101629.94 | -142711.99 |
| | (Increase)/Decrease in Investments | -53738.72 | 5596.52 | 22067.85 | 9025.60 |
| | (Increase)/Decrease in Other Assets | -6359.07 | 5981.34 | -3614.62 | -8513.26 |
| | Cash flow from Operating Assets and Liabilities | -2542.68 | 17495.06 | -28428.88 | 31992.99 |
| | **Net cash flow from operating activities** | **5705.61** | **22699.92** | **-24388.97** | **39053.55** |
| | | | | | |
| B | **CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| | Sale/Disposal of Fixed Assets | 233.24 | 147.75 | 96.38 | 231.62 |
| | Purchase of Fixed Assets | -1111.72 | -548.9 | -457.73 | -1373.92 |
| | Income earned by way of dividends | 3.43 | 1.07 | 6.30 | 10.8 |
| | **Net cash flow from investing activities** | **-875.05** | **-400.08** | **-355.05** | **-1131.50** |
| | | | | | |
| C | **CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| | Proceeds/Redemption of Subordinated Debts Tier II Capital | 2700.00 | -1000.00 | 3782.00 | 5000.00 |
| | Dividend paid to Government of India | -350.00 | -350.00 | -500.00 | -996.00 |
| | Tax on Dividend Distributed | -44.84 | -49.09 | -70.13 | -167.63 |
| | Interest on Subordinated Debt | -1433.72 | -1199.34 | -1057.45 | -1566.27 |
| | **Net cash flow from financing activities** | **871.44** | **-2598.43** | **2154.42** | **2270.10** |
| | | | | | |
| D | **NET INCREASE IN CASH & CASH EQUIVALENTS (A + B + C)** | **5702.00** | **19701.41** | **-22589.60** | **40192.15** |
| | | | | | |
| E | **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | | | |
| | Cash and Bank Balance with RBI | 36931.58 | 34295.74 | 55720.99 | 33830.39 |
| | Balance with Banks and Money at Call and Short Notice | 8197.28 | 16535.12 | 14811.28 | 14112.28 |
| | **Net cash and cash equivalents at the beginning of the year** | **45128.86** | **50830.86** | **70532.27** | **47942.67** |
| | | | | | |
| F | **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | | | |
| | Cash and Bank Balance with RBI | 34295.74 | 55720.99 | 33830.39 | 54742.65 |
| | Balance with Banks and Money at Call and Short Notice | 16535.12 | 14811.28 | 14112.28 | 33392.17 |
| | **Net cash and cash equivalents at the end of the year** | **50830.86** | **70532.27** | **47942.67** | **88134.82** |
| | | | | | |

**ANNEXURE EIV**

**SIGNIFICANT ACCOUNTING POLICIES, CONTINGENT LIABILITIES AND MATERIAL NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS**

## I. SIGNIFICANT ACCOUNTING POLICIES:

## A. THE PARENT BANK

### 1. Accounting Conventions:

The Financial Statements are prepared on the historical cost basis except as modified by the Revaluation of Premises and conform to the Statutory provisions and prevailing practices within the banking industry in India.

### 2. Transactions involving Foreign Exchange:

2.1 Monetary Assets and Liabilities in Foreign Currencies are translated at the Exchange Rates prevailing at the year-end as notified by FEDAl and the resultant Profit/ Loss is recognised in Profit and Loss Account.

2.2 Income and Expenditure items are translated at the exchange rates ruling on the respective date of transactions.

2.3 Guarantees, Letters of Credit, Acceptances, Endorsements, and other obligations in Foreign Currencies are translated at year-end rates notified by FEDAl.

2.4 Outstanding Forward Contracts are translated at the year-end rates notified by FEDAI and the resultant profit/loss is recognized in Profit and Loss Account.

### 3. Investments:

3.1 In accordance with the guidelines issued by Reserve Bank of India, Investments are classified into " Held to Maturity", "Held for Trading" and "Available for Sale" categories. However, for disclosure in the Balance Sheet, investments are classified under the following heads:

i) Government Securities
ii) Other Approved Securities
iii) Shares
iv) Debentures and Bonds
v) Investments in Subsidiaries and sponsored institutions and
vi) Others (UTI Shares, Commercial Papers and units of Mutual Funds.)

3.2 **Basis of Classification:**

Classification of an Investment is done at the time of purchase into the following categories:

i) <u>Held to Maturity</u>
These comprise of investments, the bank intends to hold on till maturity.

ii) <u>Held for Trading</u>
Securities, which are principally held for resale within 90 days from the date of purchase.

iii) <u>Available for Sale</u>

Investments that cannot be classified in the above categories.

3.3 **Transfer of Securities between Categories:**

The transfer/shifting of securities between the three categories of investments is accounted at the lower of acquisition cost/book value or market value on the date of the transfer. The depreciation, if any, on such transfer is fully provided for.

3.4 **Valuation:**

**a) Held to Maturity:**

The investments classified under this category are valued at acquisition cost. The excess of acquisition cost/book value over the face value is amortised over the remaining period of maturity.

**b) Held for Trading:**

Investments under this category are valued at monthly intervals at market rates, wherever available, or as per the prices declared by FIMMDA. The net depreciation under each classification is provided for, without adjusting the book value of the securities and net appreciation, if any, is ignored.

**c) Available for sale:**

Investments under this category are marked to market, scrip-wise, at quarterly intervals as under:

| | |
|---|---|
| i) Central Government Securities | At market price as per quotation put out by Stock Exchange/FIMMDA/PDAI. |
| ii) State Government Securities, Securities Guaranteed by Central/ State Government, PSU Bonds | On appropriate yield to maturity basis. |
| iii) Treasury Bills/Certificates of Deposits/Commercial Paper/ Investment in RRBs | At carrying cost. |
| iv) Equity Share | a) Quoted: At market price.<br>b) Unquoted: At book value per share, if latest (Not than one year old.) Balance Sheet is available, or Re.1.00 per company if latest Balance Sheet is not available. |
| v) Preference Share | a) Quoted: At market price.<br>b) Unquoted: On appropriate yield to maturity. |
| vi) Debentures and Bonds | a) Quoted: At market price. |

| | |
|---|---|
| | b) Unquoted: On appropriate yield to maturity. |
| vii) Mutual Fund | a) Quoted: At market price. |
| | b) Unquoted: At repurchase price or Net Asset Value (where repurchase price is not available) |

The net depreciation in each classification of securities is provided for while the net appreciation in each classification of securities is ignored.

3.5 **Determination of Cost:**

Cost of investments is determined on the basis of Weighted Average Cost method.

3.6 **Income Recognition:**

i) The Profit or loss on sale/redemption of investments is taken to the Profit and Loss Account. However, in case of profit on sale/redemption of investments from 'Held to Maturity' category, an equivalent amount is appropriated to the 'Capital Reserve'.

ii) In respect of securities included in any of the three categories of investments where interest/ principal is in arrears, for more than 90 days, income is not reckoned and appropriate provision for the depreciation in the value of the investments is made, as per prudential norms applicable to non-performing advances. Debentures/Bonds in the nature of advances are subjected to usual prudential norms applicable to advances.

iii) State Government guaranteed exposures is classified as Sub Standard/Doubtful/Loss, as the case may be if interest and/ or principal or any other amount due to the Bank remains overdue for more than 90 days and necessary provisions are made as per the prudential norms prescribed by the Reserve Bank of India.

iv) Brokerage, incentive, front-end fees etc., received on purchase of securities are reduced from the cost of investments.

v) Expenses such as brokerage, fees, commission or taxes incurred at the time of acquisition of securities is charged to revenue.

vi) The broken period interest on sale or purchase of securities is treated as revenue item.

**4. Advances:**

**4.1** Advances are classified as Standard, Sub-Standard, Doubtful or Loss Assets and Provisions required in respect thereof are made as per the prudential norms prescribed by the Reserve Bank of India.

**4.2** Recoveries against non-performing assets (NPAs) are first appropriated towards interest. However, recovery in suit filed, decreed accounts and compromise cases, is first appropriated towards principal or as per the terms of decree/settlement.

**4.3** Advances are shown net of provisions (including floating provision), Unrealised Interest and amount recovered from borrowers held in Sundries and amount recovered from CGTSI/ ECGC. For Standard Assets, provision of 0.25% for direct advances to Agricultural, SSI and Small &

Medium Enterprises (SME) sectors and 0.40% for other advances is included in 'Other Liabilities and Provisions - Others'.

**5. Fixed Assets/Depreciation:**

**5.1** Fixed Assets (other than computers which are depreciated on Straight Line Method) are depreciated under 'Written Down Value Method' at the following rates:

| | | |
|---|---|---|
| i) | Premises | At varying rates based on estimated life |
| ii) | Furniture, Lifts, Safe Vaults | 10% |
| iii) | Vehicles | 20% |
| iv) | Air conditioners, Coolers, Typewriters etc. | 15% |
| v) | Computers | 33.33% |

**5.2** In the case of assets, which have been revalued, the depreciation is provided on the revalued amount and the incremental depreciation attributable to the revalued amount is adjusted to the 'Revaluation Reserve'.

**5.3** Depreciation on additions to assets, made upto 30$^{th}$ September is provided for the full year and on additions made thereafter, is provided for the half year. No depreciation is provided on assets sold before 30$^{th}$ September and depreciation is provided for the half year for assets sold after 30$^{th}$ September.

**5.4** Cost of leasehold land is amortised over the period of lease. In the case of revaluation, the difference between the original cost and revalued amount is amortised over the remaining period of the lease and is adjusted to the 'Revaluation Reserve'.

**5.5** Where it is not possible to segregate the cost of Land and Premises, Depreciation is charged on the composite cost.

**6. Staff Benefits:**

**6.1** Annual contribution to Gratuity and Pension Funds are determined on the basis of actuarial valuation. The contribution to Pension Fund is made under a defined benefit scheme.

**6.2** The liability for earned leave is provided for on the basis of actuarial valuation.

**6.3** In respect of employees who have opted for Provident Fund Scheme, a matching contribution is made.

**6.4** Expenditure relating to ex-gratia, additional liabilities of Gratuity and Pension incurred under Voluntary Retirement Scheme has been treated as 'Deferred Revenue Expenditure' to be written off evenly over a period of 5 years from the year in which the expenditure is incurred.

**7. Recognition of Income and Expenditure:**

**7.1** Items of income and expenditure are generally accounted for on accrual basis unless otherwise stated.

**7.2** Income on NPA is accounted for as per the Prudential Norms prescribed by the Reserve Bank of India.

**7.3** In accordance with the guidelines issued by the Reserve Bank of India, prior period disclosures are made in respect of any item, which exceeds one percent of the total income/total expenditure.

**7.4**. Provision for interest payable on overdue deposits is made on an overall basis assuming an average maturity period of 15 days at the corresponding interest rate.

**8. Income Tax:**

The provision for tax for the year comprises of current tax liability computed in accordance with the applicable tax laws and the deferred tax which recognizes, timing differences between taxable income and accounting income that originate in one period and capable of reversal in one or more subsequent periods. Deferred tax assets are not recognized unless there is 'virtual certainty' that sufficient future taxable income will be available against which such deferred tax assets will be realized.

B. SUBSIDIARIES

**1. Revenue Recognition**

In case of Cent Bank Home Finance Limited, repayment of housing loans is by way of equated monthly installments (EMI) comprising of principal and interest. Interest is calculated on the outstanding balance at the beginning of the Financial Year. EMIs commence once the entire loan is disbursed. Pending commencement of EMIs, pre-EMI interest is payable every month.

In line with the guidelines issued by National Housing Bank (NHB), income on performing assets is recognized on accrual basis and on non performing assets on realization basis. Credits in non-performing assets are appropriated first towards interest and thereafter towards the principal. Penal interest has been recognized on receipt basis.

**2. Investments**

Investments are considered long term in nature and accounted for at cost.

**3. Provision on Housing Loans**

In case of Cent Bank Home Finance Limited, provision on housing loans have been arrived at in accordance with National Housing Bank guidelines and directives.

**4. Depreciation**

Depreciation has been provided on the "Straight Line Method" at the rates prescribed in Schedule XIV to the Companies Act, 1956.

**5. Retirement Benefits**

Cent Bank Home Finance Limited makes regular contribution to a Provident Fund. Gratuity amount has been set aside on an actuarial basis and invested in Group Gratuity Scheme of the Life Insurance Corporation of India.

## II. CONTINGENT LIABILITIES:

(Rs. in Million)

| | | As at March 31, | | | | |
|---|---|---|---|---|---|---|
| | | **2003** | **2004** | **2005** | **2006** | **2007** |
| i) | Claims against the Group not acknowledged as debts | 2864.31 | 2016.19 | 4811.24 | 4998.67 | 3580.94 |
| ii) | Liability for partly paid investments | 49.68 | 43.23 | 62.96 | 258.36 | 618.48 |
| iii) | Liability on account of outstanding forward exchange contracts | 92002.93 | 77264.79 | 81429.53 | 112095.16 | 96547.03 |
| iv) | Guarantees given on behalf of constituents | 18349.02 | 19697.62 | 19869.61 | 22748.85 | 22649.60 |
| v) | Acceptances, Endorsements and Other Obligations | 15562.64 | 15263.51 | 15384.86 | 16077.91 | 21219.38 |
| vi) | Other item for which the Group is contingently liable | 497.29 | 53.63 | 18.69 | 7.33 | 6.86 |
| | Total | 129325.87 | 114338.97 | 121576.89 | 156186.28 | 144622.29 |

## III. MATERIAL NOTES ON ACCOUNTS:

**1.** During the year 2006-07, the capital of Central Bank of India (the Parent Bank) has been restructured as per the directives of the Government of India, by converting an amount of Rs.8000 million into perpetual Non Cumulative Preference Share Capital carrying a dividend at the Repo rate plus 100 basis points and retaining the balance of Rs.3241.41 Million as Equity Capital.

**2. Basis of Consolidation:**

2.1 The Consolidated Financial Statements have been prepared in accordance with Accounting Standard - 21 (AS-21) "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India and guidelines issued by the Reserve Bank of India in respect thereof. The financial statements of the Indo-Zambia Bank Limited, an Associate, have been prepared in accordance with the International Accounting Standards.

2.2 The Consolidated Financial Statements of the Group have been prepared based on line-by-line consolidation of the financial statements of the Bank and its subsidiaries by adding together like items of assets, liabilities, income and expenses after eliminating intra-group balances and intra-group transactions and unrealized profit/loss.

2.3 Investments in Associates have been accounted for in the Consolidated Financial Statements under the Equity Method as per Accounting Standard 23 (AS-23) "Accounting for Investments in Associates in Consolidated Financial Statements" and guidelines issued by Reserve Bank of India in respect thereof.

2.4 The Consolidated Financial Statements comprise the financial statements of Central Bank of India (the Parent Bank), its two subsidiaries and Associates consisting of 11 Regional Rural Banks (RRBs) in the year ended March 31, 2007, 15 RRBs in the year ended March 31, 2006 and 23 RRBs in each of the years ended March 31, 2003, 2004 and 2005 sponsored by the Parent Bank and Indo-Zambia Bank Limited (collectively referred to as "the Group") as per details given below:

| Name of Subsidiary /associate | | Country of Incorporation | Ownership interest as at 31st March | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2003 | 2004 | 2005 | 2006 | 2007 |
| Cent Bank Home Finance Limited | Subsidiary | India | 64.67% | 59.50% | 59.50% | 59.50% | 59.50% |
| Cent Bank Custodian & Financial services Limited | Subsidiary | India | 100% | 100% | 100% | 100% | 100% |
| Regional rural banks (RRBs) | Associates | India | 35% in respect of each RRB | 35% in respect of each RRB | 35% in respect of each RRB | 35% in respect of each RRB | 35% in respect of each RRB |
| No of RRBs | | | 23 | 23 | 23 | 15* | 11* |
| Indo Zambia Bank | Associates | Zambia | 20% | 20% | 20% | 20% | 20% |

*In the year 2005-06, ten RRBs have been merged and two new entities were created. In 2006-07, six RRBs have been merged and two new entities were created.

2.5 In the preparation of Consolidated Financial Statements in some of the cases, different accounting policies for like transactions have been followed in respect of associates for which appropriate adjustments have not been made nor the amounts quantified in the absence of necessary information. Material items in respect of which different accounting policies have been adopted are:

2.5.1 Associates

- Accounting for depreciation on fixed assets;
- Accounting of certain expenses on cash basis;
- Interest on overdue/matured term deposits;
- Incentive/Commission received on purchase of investments;
- Broken period interest on purchase of investments being capitalized.

2.6 Minority interest in the net assets of the subsidiary, Cent Bank Home Finance Limited, consists of:
(i) the amount of equity attributable to minorities, and
(ii) the minorities' share of movements in equity since the day on which parent-subsidiary relationship came into existence.

2.7 In the case of Cent Bank Home Finance Limited, goodwill has been calculated at the end of each financial year in which further investment have been made by the Parent Bank irrespective of the actual date of investment as required by AS-21 due to practical difficulties.

2.8 In view of the practical difficulties, it has not been possible to calculate the goodwill or capital reserve at the time of investment in Associates made on different dates as required by AS-23.

## 3. Segment Reporting

3.1 The Parent Bank has recognized Treasury Operations and Other Banking Operations as the business reporting segments. There are no geographical reporting segments.

(Rs. in million)

| Sr. No. | *Particulars* | For the year ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | | **2003** | **2004** | **2005** | **2006** | **2007** |
| **1** | **Segment Revenue** | | | | | |
| a) | Treasury Operations | 16310 | 20640 | 21100 | 16993 | 9602 |
| b) | Other Banking Operations | 39470 | 39740 | 39480 | 41938 | 56761 |
| | **Total** | **55780** | **60380** | **60580** | **58931** | **66363** |
| **2** | **Segment Results** | | | | | |
| a) | Treasury Operations | 3250 | 6330 | 6810 | 4392 | 1722 |
| b) | Other Banking Operations | 5605 | 9327 | 10238 | 8935 | 12059 |
| | **Total** | **8855** | **15657** | **17048** | **13327** | **13781** |
| | Unallocated Expenditure/ (Income) | 480 | -300 | -930 | -1324 | -1085 |
| | Profit before Tax | 9335 | 15357 | 16118 | 12003 | 12696 |
| | Provision for Tax | 1410 | 2570 | 2320 | 1191 | 1973 |
| | Provisions | 4828 | 6577 | 10382 | 8201 | 5685 |
| | Net Profit | 3097 | 6210 | 3416 | 2611 | 5038 |
| **3** | **Other information** | | | | | |
| | **Segment Assets** | | | | | |
| a) | Treasury Operations | 161950 | 229460 | 185920 | 148141 | 129391 |
| b) | Other Banking Operations | 399465 | 392602 | 482367 | 580153 | 780478 |
| | **Total** | **561415** | **622062** | **668287** | **728294** | **909869** |
| | Unallocated Assets | 11950 | 14000 | 20030 | 20337 | 21576 |
| | **Total** | **573365** | **636062** | **688317** | **748631** | **931445** |
| | **Segment Liabilities** | | | | | |
| a) | Treasury Operations | 11680 | 15740 | 150 | 2113 | 7019 |
| b) | Other Banking Operations | 555655 | 606662 | 641797 | 694441 | 861389 |
| | **Total** | **567335** | **622402** | **641947** | **696554** | **868408** |
| | Unallocated Liabilities | 6030 | 13660 | 46370 | 52077 | 63037 |
| | **Total** | **573365** | **636062** | **688317** | **748631** | **931445** |

3.2 Treasury Operations include dealing in Government and other Securities, Money Market Operations and Forex Operations.

3.3 Other Banking Operations consist of Corporate Banking, Retail Banking, Personal and Commercial Banking, Cash Management Services, Deposits, investments in Government Securities maintained under SLR and allied services such as Credit Cards/ Debit Cards.

### 3.4 Pricing of Inter Segmental transfers

Other Banking Operations is a primary resource mobilizing unit and the Treasury Operations segment compensates the former for funds lent to it taking into consideration the average funds used.

### 3.5 Allocations of Costs

a) Expenses directly attributable to particular segment are allocated to the relative segment.
b) Expenses not directly attributable to specific segment are allocated in proportion to the funds employed.

**ANNEXURE F**

## SUMMARY OF ACCOUNTING RATIOS ON A STANDALONE BASIS

**(Rs. in million except otherwise stated)**

| | For the Year ended March 31, | | | | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** |
| **Earnings per Share** | | | | | |
| Net Profit | 3055.17 | 6181.08 | 3574.08 | 2574.18 | 4980.13 |
| Less: Preference Share Dividend & Tax thereon | 722.00 | 722.00 | 730.00 | 730.00 | 730.00 |
| Profit available for Equity Share Holders | 2333.17 | 5459.08 | 2844.08 | 1844.18 | 4250.13 |
| Number of Equity Shares (No. in million) | 324.14 | 324.14 | 324.14 | 324.14 | 324.14 |
| Earning per Share (Rs.) | 7.20 | 16.84 | 8.77 | 5.69 | 13.11 |
| **Net Asset Value** | | | | | |
| Share Capital | 11241.41 | 11241.41 | 11241.41 | 11241.41 | 11241.41 |
| Add: Reserve and Surplus | 12998.23 | 18503.85 | 21410.73 | 23178.25 | 26656.84 |
| Less: (Revaluation Reserve) | (5584.42) | (5403.81) | (5235.69) | (5076.37) | (4858.46) |
| Less: Deferred Tax Assets | (1209.10) | (1719.70) | (2456.40) | -- | -- |
| **Net Worth** | **17446.12** | **22621.75** | **24960.05** | **29343.29** | **33039.79** |
| Less: Preference Share Capital | 8000.00 | 8000.00 | 8000.00 | 8000.00 | 8000.00 |
| Adjusted Net Worth for Equity Holders | 9446.12 | 14621.75 | 16960.05 | 21343.29 | 25039.79 |
| **Return on Net Worth (%)** | **17.51%** | **27.32%** | **14..32%** | **8.77%** | **15.07%** |
| No. of Shares (in million) | 324.14 | 324.14 | 324.14 | 324.14 | 324.14 |
| **Book Value per Share (NAV) (in Rs.)** | **29.14** | **45.10** | **52.32** | **65.85** | **77.25** |

***Notes:***

*i) Capital of the Bank has been restructured as per the directives of the Government of India, by converting an amount of Rs.8000.00 million into perpetual Non Cumulative Preference Share Capital on March 31, 2007 carrying a dividend at the Repo rate plus 100 basis points and retaining the balance of Rs.3241.41 million as Equity Capital.*

*ii) Conversion to Preference Share Capital amounting to Rs. 8000 million as at March 31, 2007 has been given effect to for all the five financial years to arrive at Earnings per Share (EPS) and Book Value per Share. Accordingly, dividend on Preference Share Capital at 8% and tax thereon has been reduced from the Net Profit for calculating the profit available to Equity Share holders in all the five financial years to arrive at EPS.*

*iii) Board of Directors of the Bank sub-divided the Equity Capital of the Bank into 324.14 million Equity shares of Rs.10 each on April 26, 2007, which has been given effect to in all the five financial years to arrive at Earning per Share and Book Value per Share.*

*iv)) As per the guidelines of Reserve Bank of India, unamortized expenditure on Voluntary Retirement Scheme is not to be subtracted while computing the amount of Tier I capital in Capital Adequacy. A similar principle has been applied while calculating the Net Asset Value and Net Worth.*

## KEY FINANCIAL INDICATORS ON A STANDALONE, UNRESTATED BASIS

(In Percentage unless otherwise stated)

| Sr. No. | Particulars | For the Year Ended March 31, 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| 1 | Interest Income / Average Working Funds (AWF) | 9.67 | 8.94 | 8.28 | 7.78 | 7.77 |
| 2 | Interest expenses / AWF | 6.05 | 5.19 | 4.50 | 4.34 | 4.68 |
| 3 | Interest spread / AWF | 3.62 | 3.75 | 3.78 | 3.44 | 3.08 |
| 4 | Non-Interest Income / AWF | 1.06 | 1.70 | 1.46 | 0.77 | 0.59 |
| 5 | Operating expenses / AWF | 0.65 | 0.66 | 0.65 | 0.64 | 0.63 |
| 6 | Cost Income Ratio | 62.31 | 50.46 | 51.16 | 58.96 | 57.10 |
| 7 | Gross (Operating) profit / AWF | 1.76 | 2.70 | 2.56 | 1.73 | 1.58 |
| 8 | Net profit / AWF | 0.58 | 1.09 | 0.57 | 0.37 | 0.62 |
| 9 | Return on Assets | 0.54 | 0.98 | 0.53 | 0.35 | 0.54 |
| 10 | Return on Average Assets | 0.58 | 1.09 | 0.57 | 0.37 | 0.62 |
| 11 | Yield on Advances | 10.28 | 9.68 | 8.81 | 8.40 | 8.52 |
| 12 | Cost of Deposits | 6.42 | 5.48 | 4.79 | 4.66 | 4.98 |
| 13 | Dividend payout Ratio (including Corporate Dividend Tax) | 1.51 | 3.51 | 3.55 | 5.07 | 10.38 |
| 14 | Credit – Deposit Ratio | 46.79 | 44.06 | 48.13 | 58.95 | 64.62 |
| 15 | Credit + Non SLR Investment (Excluding Investments in Subsidiaries) — Deposit Ratio | 61.95 | 57.75 | 60.12 | 68.36 | 72.05 |
| 16 | Capital Adequacy Ratio | 10.51 | 12.43 | 12.15 | 11.03 | 10.40 |
| | Tier – I | 5.66 | 6.23 | 6.08 | 7.19 | 6.32 |
| | Tier – II | 4.85 | 6.2 | 6.07 | 3.84 | 4.08 |
| 17 | Employees (number) | 39330 | 38933 | 38303 | 37241 | 36227 |
| 18 | Branches (number) | 3117 | 3130 | 3128 | 3129 | 3194 |
| 19 | Business per employee (Rs. in million) | 19.10 | 20.70 | 23.50 | 28.38 | 37.61 |
| 20 | Average Business per employee (Rs in million) | 16.79 | 18.15 | 20.69 | 24.05 | 30.39 |
| 21 | Gross Profit per employee (Rs. in million) | 0.234 | 0.391 | 0.418 | 0.317 | 0.344 |
| 22 | Net Profit per employee (Rs. in million) | 0.077 | 0.158 | 0.093 | 0.068 | 0.135 |
| 23 | Business per branch (Rs. in million) | 220.70 | 234.50 | 261.60 | 295.90 | 426.50 |
| 24 | Gross Profit per branch (Rs. in million) | 2.96 | 4.88 | 5.14 | 3.82 | 3.96 |
| 25 | Net Profit per branch (Rs. in million) | 0.98 | 1.98 | 1.14 | 0.82 | 1.56 |

Adjustments related to restatement have not been incorporated in the above statement.

| Definition of Key Ratios | |
|---|---|
| Credit Deposit Ratio | Total Advances / Total Deposits |
| Average Working Funds (AWF) | Total Average of monthly total assets as per Form X |
| Interest Spread/AWF % | Net Interest earned / AWF |
| Gross Profit / AWF % | Profit before Provisions and Contingencies/AWF |
| Net Profit/AWF% | Net Profit/AWF |
| Operating Expenses/ AWF % | Non Interest Expenditure/AWF |
| Cost of Deposits % | Interest Expended/Average Deposit as per Form X |
| Yield on Investments % | Interest earned on Investments/Average Investments as Per Form X |
| Yield on Advances % | Interest earned on Advances/Average Advances as per Form X |
| Return on Average Net Worth % | Net Profit/Average of Opening and closing Net Worth |
| Business per employee (Rs. in Million) | Total Deposits excluding Bank Deposit + Total Advances/ Employees Strength |
| Gross Profit per Employee (Rs. in Million) | Profit prior to Provisions and contingencies/ Employees Strength |
| Business per Branch (Rs. in Million) | Total Deposits + Total Advances/No. of Branches |
| Gross Profit per Branch (Rs. in Million) | Profit prior to Provisions and contingencies/ No. of Branches. |

**ANNEXURE G**

## CAPITALISATION STATEMENT

(Rs. in million)

| Borrowings: | March 31, 2007 | Post Issue |
|---|---|---|
| Short term debt | 8927.38 | 8927.38 |
| Long term debt | 20774.72 | 20774.72 |
| Total debt | 29702.10 | 29702.10 |
| **Shareholders' funds** | | |
| Equity Share Capital | 3241.41 | 4041.41 |
| Preference Share Capital | 8000.00 | 8000.00 |
| Share Premium | - | ** |
| Reserves and Surplus | 21798.38 | ** |
| Total Shareholders' funds | 33039.79 | ** |
| Long term debt equity ratio | 0.83 | ** |

*Notes:*

*i) Reserves and Surplus are after excluding the Revaluation Reserve and Deferred Tax Assets/ Liabilities.*

*ii) **As the proposed issue is by way of book building process, post issue figures are not possible to be ascertained and therefore not given.*

**ANNEXURE H**

## STATEMENT OF BORROWINGS ON A STANDALONE BASIS

(Rs. in million)

| *Statement of Borrowings* | For the Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** |
| Reserve Bank of India -Export Refinance | - | - | - | - | 3000.00 |
| Other Banks | 60.42 | 68.84 | 130.76 | 118.68 | 114.75 |
| IDBI Refinance | 64.78 | 72.43 | 94.79 | 86.62 | 90.03 |
| SIDBI Refinance | 4.94 | 4.09 | 3.81 | 3.64 | 4.06 |
| NABARD Refinance | 1339.77 | 934.29 | 1167.50 | 900.26 | 614.99 |
| NHB Refinance | | | | | |
| Other Institutions/ Agencies (CBLO) | - | - | - | 1998.93 | 3996.27 |
| Borrowings Outside India | - | - | - | - | - |
| Sub Total | 1469.91 | 1079.65 | 1396.86 | 3108.13 | 7820.10 |
| Tier II Bonds | | | | | |
| Subordinated Debts | 11400.00 | 14100.00 | 13100.00 | 16882.00 | 21882.00 |
| Total | **12869.91** | **15179.65** | **14496.86** | **19990.13** | **29702.10** |

## ANNEXURE I

## TAX SHELTER STATEMENT ON A STANDALONE BASIS

(Rs in million, except percentages)

| | For the Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** |
| Tax Rate | 36.75% | 35.88% | 35.88% | 33.66% | 33.66% |
| Income Tax as per Tax return | 4.14 | 1226.07 | 607.43 | 235.46 | 721.84 |
| Adjustments | | | | | |
| *Permanent Differences* | | | | | |
| Dividend | 0.00 | (132.41) | (141.81) | (110.74) | (140.55) |
| Income exempt under section 10 of the Act * | (1720.03) | (1225.33) | (793.32) | (913.53) | (56.39) |
| Income from House property – net | (0.41) | (0.47) | (0.23) | (4.46) | (5.00) |
| Profit / Loss on sale of Fixed assets | (0.29) | 3.33 | 3.18 | 1.11 | 2.90 |
| Other Disallowable expenditure | 2.57 | 3.47 | 45.34 | 22.97 | 31.69 |
| Allowable expenditure not debited to P&L | (49.00) | (57.92) | (81.57) | (86.52) | (80.81) |
| Wealth Tax | 0.80 | 1.40 | (3.16) | 0.10 | 1.96 |
| Other contingencies | 340.19 | 121.31 | 828.54 | 638.29 | 1696.90 |
| Interest on IT Refund withdrawn | 0.00 | 0.00 | (95.73) | (166.61) | 0.00 |
| Provision for Taxation | 1396.30 | 2559.40 | 2325.30 | 1185.00 | 1971.00 |
| | | | | | |
| **TOTAL (A)** | **(29.87)** | **1272.78** | **2086.54** | **565.61** | **3421.70** |
| | | | | | |
| Timing Difference | | | | | |
| Depreciation on Fixed Assets | (73.27) | (117.78) | (89.17) | 102.57 | (10.28) |
| Depreciation on Investments | 637.33 | 251.07 | (7857.91) | (227.80) | (2685.36) |
| Net Provision for Bad & doubtful Debts | (1018.18) | (1447.70) | (803.71) | (1147.73) | (2996.27) |
| Deduction under section 35DDA of the Act | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Disallowance under section 43B & 40(a) (ia) of the Act | 2136.07 | 988.91 | 322.58 | 682.75 | 247.15 |
| Interest on Government Securities | (950.00) | (250.00) | (430.00) | (990.00) | (620.90) |
| **TOTAL (B)** | **731.94** | **(575.50)** | **(8858.20)** | **(1580.21)** | **(6065.65)** |
| **Total (A+B)** | **702.07** | **697.28** | **(6771.66)** | **(1014.60)** | **(2643.95)** |
| **Tax Saving thereon** | **-** | **-** | **2429.33** | **341.52** | **889.95** |

Tax saving is computed based on the returns filed except for the year ended March 31, 2007, which is based on provisional computation of income.

* All references to sections are to the Income-Tax Act, 1961.

## SELECTED STATISTICAL INFORMATION

*The following information should be read together with our financial statements included in this Red Herring Prospectus as well as the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Standalone Basis." The amounts presented in this section are based on our financial statements prepared in accordance with Indian GAAP and internally generated statistical data. These amounts do not give effect to the adjustment to our net profits as a result of the restatement of our unconsolidated financial statements in connection with this Issue.*

### Average Balance Sheet and Net Interest Margin

The table below presents the average balances for interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of the average yields and cost for each period. The average balance is the fortnightly average of balances outstanding, as reported to the RBI in Form A. The average yield on average interest-earning assets is the ratio of interest income to average interest-earning assets. The average cost on average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. The average balances in the table below include gross non-performing assets.

(Rs. in million, except percentages)

| | Fiscal 2005 | | | Fiscal 2006 | | | Fiscal 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Average Balance** | **Interest Income/ Expense** | **Average Yield/ Cost** | **Average Balance** | **Interest Income/ Expense** | **Average Yield/ Cost** | **Average Balance** | **Interest Income/ Expense** | **Average Yield/ Cost** |
| **Assets:** | | | | | | | | | |
| Advances | 253,614.70 | 22,413.41 | 8.84% | 308,894.90 | 25,897.88 | 8.38% | 424,740.80 | 36,608.45 | 8.62% |
| Investments | 314,903.40 | 26,740.83 | 8.49% | 313,512.20 | 25,611.78 | 8.17% | 288,421.00 | 22,649.89 | 7.85% |
| Others | 49,280.00 | 2,894.52 | 5.87% | 55.958.00 | 2,346.19 | 4.19% | 68,910.50 | 3,083.79 | 4.48% |
| **Total interest earning assets** | 617,798.10 | 52,048.76 | 8.42% | 678,365.10 | 53,855.85 | 7.94 % | 782,072.30 | 62,342.13 | 7.97% |
| Fixed assets | 7,768.80 | - | - | 7,459.80 | - | - | 7,631.70 | - | - |
| Other assets | 8631.80 | - | - | 11,651.31 | - | - | 18,392.20 | - | - |
| **Gross total assets** | **634,198.70** | **52,048.76** | **8.21%** | **697,476.20** | **53,855.85** | **7.72%** | **807,826.20** | **62,342.13** | **7.72%** |
| **Less: Revaluation reserves** | **5,361.80** | | | **5,189.20** | | | **5,036.60** | | |
| **Net total assets** | **628,836.90** | **52,048.76** | **8.28%** | **692,287.00** | **53,855.85** | **7.78%** | **802,789.60** | **62,342.13** | **7.77%** |
| **Liabilities:** | | | | | | | | | |
| Deposits | 564,109.20 | 27,030.38 | 4.79% | 618,171.02 | 28,799.15 | 4.66% | 711,977.80 | 35,708.12 | 5.02% |
| **Of which** | | | | | | | | | |
| Demand deposits | 52,341.40 | 14.31 | 0.03% | 57,410.40 | 3.65 | 0.01% | 65,155.30 | - | - |
| Savings deposits | 189,198.20 | 5,831.72 | 3.08% | 213,473.60 | 6,581.54 | 3.08% | 247,890.00 | 7,751.63 | 3.13% |
| Term deposits | 322,569.60 | 21,184.35 | 6.57% | 347,287.20 | 22,213.96 | 6.40% | 398,932.50 | 27,956.49 | 7.01% |
| Borrowings | 14,412.05 | 1,268.97 | 8.80% | 15,559.18 | 1,256.00 | 8.07% | 22,935.65 | 1,889.76 | 8.24% |
| **Of which** | | | | | | | | | |
| Unsecured subordinated bonds ("Tier II bonds") | 12,446.35 | 1,109.97 | 8.92% | 11,861.08 | 973.40 | 8.21% | 18,997.65 | 1,566.27 | 8.24% |
| Other borrowings | 1,965.70 | 159.00 | 8.09% | 3,698.10 | 282.60 | 7.64% | 3,938.00 | 323.48 | 8.21% |
| **Total interest bearing liabilities** | **578,521.25** | **28,299.35** | **4.89%** | **633,730. 38** | **30,055.15** | **4.74%** | **734,913.45** | **37,597.88** | **5.12%** |
| Capital and reserves (1) | 31,198.70 | - | - | 33,535.85 | - | - | 36,158.90 | - | - |
| Other Liabilities | 24,478.75 | - | - | 30,209.97 | - | - | 36,753.85 | - | - |
| **Total liabilities** | **634,198.70** | **28,299.35** | **4.46%** | **697,476.20** | **30,055.15** | **4.31%** | **807,826.20** | **37,597.88** | **4.65%** |
| **Net interest income** | | **23,749.19** | | | **23,800.72** | | | **24,744.25** | |
| **Net Interest Margin (2)** | | **3.84%** | | | **3.51%** | | | **3.16%** | |

1. Capital and Reserve = Average of Opening and Closing Equity Capital + Reserves and Surplus.
2. Net Interest Margin = Net interest Income / Average Interest Earning Assets

### Analysis of Changes in Interest Income and Interest Expense Volume and Rate Analysis

The following table sets forth, for the periods indicated, the allocation of the changes in our interest income and interest expense between average volume and changes in average rates. The changes in net interest income between periods have been reflected as attributed either to volume or rate changes. For the purposes of this table, changes that are due to both volume and rate have been allocated solely to changes in rate.

(Rs. in million)

| | Fiscal 2005 vs. Fiscal 2004 | | | Fiscal 2006 vs. Fiscal 2005 | | | Fiscal 2007 vs. Fiscal 2006 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Net change in interest income or expense** | **Change due to change in average volume** | **Change due to change in average rate** | **Net change in interest income or expense** | **Change due to change in average volume** | **Change due to change in average rate** | **Net change in interest income or expense** | **Change due to change in average volume** | **Change due to change in average rate** |
| **Interest income:** | | | | | | | | | |
| Advances | 534.21 | 2,680.33 | -2,146.12 | 3,484.49 | 4,885.43 | -1,400.94 | 10,710.54 | 9,172.58 | 997.96 |
| Investments | 165.93 | 3,276.62 | -3,110.69 | -1,129.03 | -118.14 | -1,010.89 | -2,961.91 | -2,049.78 | -912.13 |
| Others | 711.43 | 253.92 | 457.51 | -548.42 | 392.24 | -940.66 | 737.70 | 543.05 | 194.65 |
| **Total interest earning assets** | **1,411.57** | **6,210.87** | **-4,787.05** | **1,807.04** | **5,159.54** | **-3,352.50** | **8,486.33** | **8,205.85** | **280.48** |
| **Interest expense** | | | | | | | | | |
| Deposits | -806.67 | 2,781.03 | -3,587.70 | 1,768.77 | 2,377.39 | -608.62 | 6,908.97 | 4,359.79 | 2,549.18 |
| **Of which** | | | | | | | | | |
| Demand deposits | -5.97 | 2.33 | -8.28 | -10.66 | -0.71 | -9.95 | -3.65 | 2.87 | -6.52 |
| Savings deposits | 824.70 | 774.33 | 50.37 | 749.82 | 754.80 | -4.98 | 1,170.09 | 1,053.47 | 116.62 |
| Term deposits | -1,625.42 | 2004.37 | -3,629.79 | 1,029.61 | 1,623.30 | -593.69 | 5,742.53 | 3,303.45 | 2,439.08 |
| Borrowings | -309.28 | -98.88 | -210.40 | -12.97 | 88.00 | -100.97 | 633.75 | 604.01 | 29.74 |
| **Of which** | | | | | | | | | |
| Unsecured Subordinated Bond | -233.40 | -37.13 | -192.27 | -136.50 | -52.19 | -84.31 | 592.87 | 585.67 | 7.20 |
| Other borrowings | -75.88 | -61.75 | -14.13 | 123.53 | 140.19 | -16.66 | 40.88 | 18.33 | 22.55 |
| **Total interest bearing liabilities** | **-1,115.95** | **2,682.15** | **-3,798.10** | **1,755.80** | **2,465.39** | **-709.59** | **7,542.72** | **4,963.80** | **2,578.92** |
| **Net interest income** | **2,527.52** | **3,528.72** | **-988.95** | **51.24** | **2,694.14** | **-2,642.90** | **943.61** | **3,242.05** | **-2,298.44** |

## Yields, Spreads and Margins

The following table sets forth, for the periods indicated the yields, spreads and interest margins on our interest-earning assets.

(Rs. in million, except percentages)

| | | Fiscal | | | | |
|---|---|---|---|---|---|---|
| | | 2003 | 2004 | 2005 | 2006 | 2007 |
| 1 | Interest income | 50,729.95 | 50,637.19 | 52,048.76 | 53,855.85 | 62,342.13 |
| 1(a) | Of which Interest Income on Rupee Assets | 50,729.95 | 50,637.19 | 52,048.76 | 53,855.85 | 62,342.13 |
| 2 | Average interest-earning assets | 509,176.80 | 550,419.90 | 617,798.10 | 678,365.10 | 782,072.30 |
| 2(a) | Of which Average Interest earning Rupee Assets | 509,176.80 | 550,419.90 | 617,798.10 | 678,365.10 | 782,072.30 |
| 3 | Interest expense | 31,755.70 | 29,415.30 | 28,299.35 | 30,055.15 | 37,597.87 |
| 3(a) | Of which interest expenses on Rupee Liabilities | 31,755.70 | 29,415.30 | 28,299.35 | 30,055.15 | 37,597.87 |
| 4 | Average interest-bearing liabilities | 483,192.24 | 522,781.15 | 578,521.25 | 633,730.38 | 734,913.45 |
| 4(a) | Of which Average Interest Bearing Rupee Liabilities | 483,192.42 | 522,781.15 | 578,521.25 | 633,730.38 | 734,913.45 |
| 5 | **Net interest income (1-3)** | 18,974.25 | 21,221.85 | 23,749.41 | 23,800.70 | 24,744.25 |
| 6 | Average total assets | 524,541.30 | 566,307.50 | 628,836.90 | 692,287.00 | 802,789.60 |
| 7 | Average interest-earning assets as a percentage of average total assets (2/6) | 97.07% | 97.19% | 98.24% | 97.99% | 97.42% |
| 8 | Average interest-bearing liabilities as a percentage of average total assets (4/6) | 92.12% | 92.31% | 92.00% | 91.54% | 91.54% |
| 9 | Average interest-earning assets as a percentage of average interest- bearing liabilities (2/4) | 105.38% | 105.29% | 106.79% | 107.04% | 106.42% |
| 10 | Average interest-earning rupee assets as a percentage of average interest- bearing rupee liabilities [2(a)]/[4(a)] | 105.38% | 105.29% | 106.79% | 107.04% | 106.42% |
| 11 | Yield (1/2) | 9.96% | 9.20% | 8.42% | 7.94% | 7.97% |
| | Of which Yield on Rupee Interest Earning Assets [1(a)]/[2(a)] | 9.96% | 9.20% | 8.42% | 7.94% | 7.97% |
| 12 | Cost (3/4) | 6.57% | 5.63% | 4.89% | 4.74% | 5.12% |
| | Of which cost of Rupee Interest bearing Liabilities [3(a)]/[4(a)] | 6.57% | 5.63% | 4.89% | 4.74% | 5.12% |
| 13 | Spread (11 - 12) | 3.39% | 3.57% | 3.54% | 3.20% | 2.86% |
| 14 | Net interest margin (5/2) | 3.73% | 3.86% | 3.84% | 3.51% | 3.16% |

## Returns on Equity and Assets

The following table presents selected financial ratios for the periods indicated.

(Rs. in million, except for percentages)

| | Fiscal | | | | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Net profit after tax | 3,055.17 | 6,181.08 | 3,574.08 | 2,574.18 | 4,980.13 |
| Average total assets | 524,541.30 | 566,307.50 | 628,836.90 | 692,287.00 | 802,789.60 |
| Average shareholders' funds | 11,241.41 | 11,241.41 | 11,241.41 | 11,241.41 | 11,241.41 |
| Net profit after tax as a percentage of average total assets | 0.58% | 1.09% | 0.57% | 0.37% | 0.62% |
| Net profit after tax as a percentage of average shareholders' funds | 27.18% | 54.99% | 31.79% | 22.90% | 44.30% |
| Average shareholders' funds as a percentage of average total assets | 2.14% | 1.99% | 1.79% | 1.62% | 1.40% |

The following table sets forth as at March 31, 2007, an analysis of the residual maturity profile of our investments in coupon-bearing securities. The amounts indicate the book value (i.e., the acquisition cost) of the securities and are gross of depreciation.

(Rs. in million, except for percentages)

| | As at March 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Up to one year | One to five years | Five to ten years | More than ten years | Total | |
| | Amount | Amount | Amount | Amount | Amount | Yield |
| Government and other approved securities (excluding recap/special bonds) | 8,674.28 | 57,573.33 | 105,208.13 | 56,457.54 | 227,913.28 | 7.55 |
| Other debt securities (including recap/ special bonds) | 6,674.19 | 24,400.74 | 9,184.84 | 5,136.57 | 45,396.34 | 8.88 |
| Total coupon-bearing securities | 15,348.47 | 81,974.07 | 114,392.97 | 61,594.11 | 273,309.62 | |
| Total market value of coupon-bearing securities | 15,148.34 | 80,655.59 | 114,053.05 | 61,540.54 | 271,397.52 | |

## Funding

Our funding operations are designed to optimize the cost of funding and effective liquidity management. The primary source of funding is deposits raised from our customers.

*Total Deposits*

The average cost (interest expense divided by average of fortnightly balances) of savings deposits was 3.08% in Fiscal 2005, 3.08% in Fiscal 2006 and 3.13% in Fiscal 2007. The average cost of term deposits was 6.57% in Fiscal 2005, 6.40% in Fiscal 2006 and 7.01% in Fiscal 2007. Demand deposits do not bear interest, and are therefore carried at zero cost. The following table sets forth, as at the dates indicated our outstanding deposits and the percentage composition by each category of deposits.

(Rs. in million, except for percentages)

| | As at March 31,2005 | | As at March 31,2006 | | As at March 31, 2007 | |
|---|---|---|---|---|---|---|
| | Balance outstanding | % of total | Balance outstanding | % of total | Balance outstanding | % of total |
| **Demand deposits** | **61,386.65** | **10.10%** | **76,307.63** | **11.48%** | **85,255.64** | **10.30%** |
| From Banks | 2,058.81 | 0.34% | 2,912.98 | 0.44% | 1,854.13 | 0.24% |
| From Others | 59,327.84 | 9.77% | 73,394.65 | 11.04% | 83,401.51 | 10.08% |
| **Savings deposits** | **203,271.17** | **33.46%** | **234,802.28** | **35.32%** | **263,122.40** | **31.79%** |
| **Term deposits** | **342,858.93** | **56.44%** | **353,716.57** | **53.20%** | **479,384.73** | **57.91%** |
| From banks | 17,815.27 | 2.93% | 18,825.89 | 2.83% | 17,680.27 | 2.14% |
| From Others | 325,043.66 | 53.50% | 334,890.68 | 50.37% | 461,704.46 | 55.78% |
| **Total deposits** | **607,516.75** | **100.00%** | **664,826.48** | **100.00%** | **827,762.77** | **100.00%** |

## Total Borrowings

The following table sets forth, for the periods indicated our average outstanding borrowings with and without Tier II Bonds.

**(Rs. in million, except for percentages)**

| | Fiscal 2005 | | | Fiscal 2006 | | | Fiscal 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average balance | Interest Expense | Average cost | Average balance | Interest Expense | Average cost | Average balance | Interest Expense | Average cost |
| Borrowings (excluding Tier II Bonds) | 1,965. 70 | 159.07 | 8.09% | 3,698.10 | 282.60 | 7.64% | 3,938.00 | 323.48 | 8.21% |
| Tier II Bonds | 12,446.35 | 1,109.90 | 8.92% | 11,861.08 | 973.40 | 8.21% | 18,997.00 | 1,566.27 | 8.24% |
| **Total borrowings** | 14,412.05. | 1,268.97 | 8.80% | 15,559.18 | 1,256.00 | 8.07% | 22,935.65 | 1,889.75 | 8.24% |

## Asset-Liability Gap

The Board has set the following prudential limits for our asset-liability gap positions for the periods (buckets) indicated:

**(in percentages)**

| | 1 to 14 days | 15 to 28 days | 29 days to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 3 years | Over 3 years to 5 years | Over 5 years |
|---|---|---|---|---|---|---|---|---|
| **Asset/Liability Gap** | -20% | -20% | -30% | -30% | -30% | -40% | -30% | -30% |

The cumulative asset/liability gap should not exceed 40% of the cumulative outflow.

As per the RBI's guidelines, if a negative gap exceeds the prudential limit of 20% of outflows in the 1-14 days and 15-28 days buckets, the gap is financed from market borrowings (call/term), bills rediscounting, repos and deployment of foreign currency resources after conversion into Indian Rupees (unswapped foreign currency funds). If a negative gap exceeds the prudential limits in the other buckets, the excess of the first two buckets (1-14 days and 15-28 days) is transferred to meet the gap in the respective buckets.

The following table sets forth our asset-liability gap position as at March 31, 2005.

**(Rs. in million, except for percentages)**

| | **1 to 14 days** | **15 to 28 days** | **29 days to 3 months** | **Over 3 months to 6 months** | **Over 6 months to 1 year** | **Over 1 year to 3 years** | **Over 3 years to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **OUTFLOWS** | | | | | | | | | |
| Capital | - | - | - | - | - | - | - | 11,241.40 | 11,241.40 |
| Reserves & Surplus | - | - | - | - | - | - | - | 21,646.40 | 21,646.40 |
| Deposits | 10,015.40 | 10,594.20 | 19,447.00 | 34,563.80 | 36,771.00 | 171,475.30 | 106,787.40 | 209,779.10 | 599,433.20 |
| Borrowings | 223.20 | 54.60 | 0.40 | 186.60 | 321.60 | 404.10 | 95.10 | 111.40 | 1,397.00 |
| Other Liabilities & Provisions | 23,767.10 | 458.80 | 544.70 | 858.80 | 1,085.40 | 16,764.90 | 3,747.30 | 6,198.00 | 53,425.00 |
| Line of Credit committed | 1,000.00 | | | | | | | | 1,000.00 |
| Unavailed portion of Cash Credit/Overdraft/Demand Loan component of Working Capital | 3,188.90 | 82.90 | 1,089.60 | 929.40 | 625.90 | 1,049.00 | - | - | 6,965.70 |
| Letters of Credit/Guarantee likely to be invoked | 533.60 | 153.70 | 750.40 | 820.00 | 2,548.10 | 1,287.90 | 328.70 | 91.90 | 6,514.30 |
| Bills rediscounted | 18.80 | - | - | - | - | - | - | - | 18.80 |
| **Swaps (Buy/Sell) Maturing Forwards** | 3,032.50 | 4,247.10 | 12,062.40 | 5,747.20 | 4,268.30 | - | - | - | 29,357.50 |
| Interest Payable | 8.20 | - | - | - | - | - | - | - | 8.20 |
| **A. Total Outflows** | **41,787.70** | **15,591.30** | **33,894.50** | **43,105.80** | **45,620.30** | **190,981.20** | **110,958.50** | **249,068.20** | **731,007.50** |
| **B. Cumulative Outflows** | **41,787.70** | **57,379.00** | **91,273.50** | **134,379.00** | **179,999.60** | **370,980.80** | **481,939.30** | **731,007.50** | **731,007.50** |
| **INFLOWS** | | | | | | | | | |
| Cash | 4,927.20 | - | - | - | - | - | - | - | 4,927.20 |
| Balance with RBI | 200.60 | 1,657.10 | 873.50 | 1,590.60 | 2,831.30 | 3,017.80 | 14,571.40 | 26,048.60 | 50,790.90 |
| Balance with Other Banks | 11,760.50 | - | - | - | - | 15.00 | - | - | 11,775.50 |
| Investments (Performing) | 597.50 | 2,353.50 | 6,956.00 | 6,554.40 | 11,213.90 | 45,073.10 | 47,370.90 | 186,916.50 | 307,035.80 |
| Advances (Performing) | 1 2,751.70 | 7,215.20 | 10,809.50 | 18,681.50 | 17,123.00 | 151,800.80 | 20,577.40 | 24,123.80 | 263,082.90 |
| Net NPAs | - | - | - | - | - | - | 6,769.80 | 4,232.20 | 11,002.00 |
| Fixed Assets | - | - | - | - | - | - | - | 7,521.70 | 7,521.70 |
| Other Assets | 23,732.10 | 1,264.30 | 483.00 | 397.30 | 540.70 | 1,414.30 | 117.40 | 506.60 | 28,455.70 |
| Swaps (Sell/Buy)/ Maturing forwards | 4,759.00 | 4,570.70 | 12,188.30 | 6,801.80 | 4,347.20 | - | - | - | 32,667.00 |
| Interest Receivable | 28.10 | 98.90 | 1,406.70 | 4,542.10 | 1,447.50 | 141.20 | - | - | 7,664.50 |
| Export Refinance from RBI | 1,470.00 | - | - | - | - | - | - | - | 1,470.00 |
| **C. Total Inflows** | **60,226.70** | **17,159.70** | **32,717.00** | **38,567.70** | **37,503.60** | **201,462.20** | **89,406.90** | **249,349.40** | **7,2639.93** |
| D. Asset /Liability Gap (C-A) | 18,439.00 | 1,568.40 | -1,177.50 | -4,538.10 | -8,116.70 | 10,481.00 | -21,551.60 | 281.20 | (4,614.3) |
| E % Asset Liability Gap (D as a % of A) | 44.13% | 10.06% | -3.47% | -10.53% | -17.79% | 5.49% | -19.42% | 0.11% | -0.63% |
| F. Cumulative Asset Liability Gap (D Cumulative) | 18,439.00 | 20,007.40 | 18,829.90 | 14,291.80 | 6,175.10 | 16,656.10 | -4,895.50 | -4,614.30 | (4,614.3) |
| G. % Cumulative Asset/ Liability Gap (F as a % of B) | 44.13% | 34.87% | 20.63% | 10.63% | 3.43% | 4.49% | -1.02% | -0.63% | -0.63% |

The following table sets forth our asset-liability gap position as at March 31, 2006.

**(Rs. in million, except for percentages)**

| | **1 to 14 days** | **15 to 28 days** | **29days to 3 months** | **Over 3 months to 6 months** | **Over 6 months to 1 year** | **Over 1 year to 3 years** | **Over 3 years to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **OUTFLOWS** | | | | | | | | | |
| Capital | - | - | - | - | - | - | - | 11,241.40 | 11,241.40 |
| Reserves & Surplus | - | - | - | - | - | - | - | 23,825.60 | 23,825.60 |
| Deposits | 14,994.30 | 12,117.90 | 24,554.70 | 33,007.60 | 61,636.40 | 204,478.80 | 142,456.20 | 164,507.50 | 657,753.40 |
| Borrowings | 2,220.30 | 3.40 | 13.30 | 145.50 | 2.80 | 506.70 | 153.20 | 62.90 | 3,108.10 |
| Other Liabilities & Provisions | 12,741.70 | 759.20 | 3,064.10 | 493.30 | 545.10 | 11,613.90 | 6,196.10 | 8,386.10 | 43,799.50 |
| Line of Credit committed | 1,000.00 | | | | | | | | 1,000.00 |
| Unavailed portion of Cash Credit/Overdraft/Demand Loan component of Working Capital | 8,795.40 | 783.10 | 79.20 | 573.90 | 913.80 | 1,663.80 | - | 3.90 | 12,813.10 |
| Letters of Credit/Guarantee likely to be invoked | 591.20 | 496.10 | 403.60 | 4,095.80 | 2,021.30 | 1,569.10 | 33.50 | 1,477.70 | 10,688.30 |
| Bills rediscounted | 18.80 | - | - | - | - | - | - | - | 18.80 |
| **Swaps (Buy/Sell) Maturing Forwards** | 3,042.40 | 7,624.60 | 6,820.30 | 12,865.60 | 1,450.10 | - | - | - | 31,803.00 |
| Interest Payable | 9.30 | - | - | - | - | - | - | - | 9.30 |
| **A. Total Outflows** | **43,413.40** | **21,784.30** | **34,935.20** | **51,181.70** | **66,569.50** | **219,832.30** | **148,839.40** | **209,505.10** | **796,060.90** |
| **B. Cumulative Outflows** | **43,413.40** | **65,197.70** | **100,132.90** | **151,314.60** | **217,884.10** | **437,716.40** | **586,555.80** | **796,060.90** | **796,060.90** |
| **INFLOWS** | | | | | | | | | |
| Cash | 5,291.80 | - | - | - | - | - | - | - | 5,291.80 |
| Balance with RBI | 1,062.90 | 1,013.10 | 501.10 | 1,067.20 | 1,322.30 | 2,459.90 | 8,475.10 | 12,635.10 | 28,536.70 |
| Balance with Other Banks | 11,235.30 | - | - | - | - | 15.00 | - | - | 11,250.30 |
| Investments (Performing) | 8,817.60 | 1,485.20 | 6,951.90 | 1,829.70 | 16,152.20 | 35,923.00 | 44,967.20 | 170,264.50 | 286,391.30 |
| Advances (Performing) | 13,432.80 | 6401.90 | 19,037.80 | 31,551.80 | 22,621.50 | 203,187.60 | 32,506.20 | 36,372.80 | 365,112.40 |
| Net NPAs | - | - | - | - | - | - | 5,276.20 | 4,446.20 | 9,722.40 |
| Fixed Assets | | | | | | | | 7,248.40 | 7,248.40 |
| Other Assets | 16,107.80 | 816.50 | 551.70 | 4,454.60 | 264.20 | 1,365.20 | 63.00 | 144.80 | 23,767.80 |
| Swaps (Sell/Buy)/ Maturing forwards | 3,772.20 | 8,443.30 | 7,884.80 | 13,699.90 | 768.80 | - | - | - | 34,569.00 |
| Interest Receivable | 6,627.50 | - | - | - | - | - | - | - | 6,627.50 |
| Export Refinance from RBI | 2,300.00 | - | - | - | - | - | - | - | 2,300.00 |
| **C. Total Inflows** | **68,647.90** | **18,160.00** | **34,927.30** | **52,603.20** | **41,129.00** | **242,950.70** | **91,287.70** | **231,111.80** | **780,817.60** |
| D. Asset /Liability Gap (C-A) | 25,234.50 | -3,624.30 | -7.90 | 1,421.50 | -25,440.50 | 23,118.40 | -57,551.70 | 21,606.70 | -15,243.30 |
| E % Asset Liability Gap (D as a % of A) | 58.13% | -16.64% | -0.02% | 2.78% | -38.22% | 10.52% | -38.67% | 10.31% | -1.91% |
| F. Cumulative Asset Liability Gap (D Cumulative) | 25,234.50 | 21,610.20 | 21,602.30 | 23,023.80 | -2,416.70 | 20,701.70 | -36,850.00 | -15,243.30 | -15,243.30 |
| G. % Cumulative Asset/ Liability Gap (F as a % of B) | 58.13% | 33.15% | 20.57% | 15.22% | -1.11% | 4.73% | -6.28% | -1.91% | -1.91% |

The following tables set forth our asset-liability gap position as at March 31, 2007.

**(Rs. in million, except for percentages)**

| | 1 to 14 days | 15 to 28 days | 29 days to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 3 years | Over 3 years to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|
| **OUTFLOWS** | | | | | | | | | |
| Capital | - | - | - | - | - | - | - | 11,241.40 | 11,241.40 |
| Reserves & Surplus | - | - | - | - | - | - | - | 26,656.80 | 26,656.80 |
| Deposits | 17,093.40 | 13,946.10 | 32,436.40 | 74,235.90 | 95,274.10 | 292,675.30 | 158,929.40 | 136,205.50 | 820,796.10 |
| Borrowings | 7,111.00 | | | 144.30 | 128.20 | 363.00 | 73.60 | - | 7,820.10 |
| Other Liabilities & Provisions | 13,822.20 | 1,290.60 | 4,270.60 | 1,662.50 | 1,893.10 | 13,204.90 | 3,984.90 | 16,462.00 | 56,590.80 |
| Line of Credit committed | 3,000.00 | - | - | - | - | - | - | - | 3,000.00 |
| Unavailed portion of Cash Credit/Overdraft/Demand Loan component of Working Capital | 1,960.20 | 123.20 | 319.20 | 846.80 | 2,019.70 | - | - | - | 5,269.10 |
| Letters of Credit/Guarantee likely to be invoked | 5,820.80 | 34.70 | 148.30 | 415.90 | 3,666.20 | 1,839.10 | 8.30 | 123.40 | 12,056.70 |
| Bills rediscounted | - | - | - | - | - | - | - | - | - |
| **Swaps (Buy/Sell) Maturing Forwards** | 9,227.80 | 1,932.90 | 10,668.40 | 13,790.90 | 11,626.80 | - | - | - | 47,246.80 |
| Interest Payable | 9.00 | - | - | - | - | - | - | - | 9.00 |
| **A. Total Outflows** | **58,044.40** | **17,327.50** | **47,842.90** | **91,096.30** | **114,608.10** | **308,082.30** | **162,996.20** | **190,689.10** | **990,686.80** |
| **B. Cumulative Outflows** | 58,044.40 | 75,371.90 | 123,214.80 | 214,311.10 | 328,919.20 | 637,001.50 | 799,997.70 | 990,686.80 | **990,686.80** |
| **INFLOWS** | | | | | | | | | |
| Cash | 7,384.80 | - | - | - | - | - | - | - | 7,384.80 |
| Balance with RBI | 1,728.30 | 1,633.80 | 763.50 | 1,813.60 | 3,969.10 | 5,082.90 | 15,951.00 | 16,409.70 | 47,351.90 |
| Balance with Other Banks | 27,058.00 | | | | | 300.00 | | | 27,358.00 |
| Investments (Performing) | 492.20 | 5,013.90 | 6,887.60 | 3,417.40 | 3,937.40 | 42,625.90 | 40,640.50 | 174,404.00 | 277,418.90 |
| Advances (Performing) | 16,250.60 | 8,872.60 | 31,445.50 | 52,576.10 | 40,896.80 | 242,817.50 | 57,461.50 | 58,849.40 | 509,170.00 |
| Net NPAs | - | - | - | - | - | - | 5,445.20 | 3,339.40 | 8,784.60 |
| Fixed Assets | | | | | | | | 7,672.70 | 7,672.70 |
| Other Assets | 18,002.60 | 2,083.40 | 2,335.20 | 1,867.90 | 1,834.10 | 588.80 | 36.70 | 6,156.80 | 32,905.50 |
| Swaps (Sell/Buy)/ Maturing forwards | 13,441.60 | 1,841.40 | 12,487.90 | 15,722.50 | 11,556.80 | - | - | - | 55,050.20 |
| Interest Receivable | 6,000.10 | - | - | - | - | - | - | - | 6,000.10 |
| Export Refinance from RBI | 3,116.40 | - | - | - | - | - | - | - | 3,116.40 |
| **C. Total Inflows** | **93,474.60** | **19,445.10** | **5,3919.70** | **75,397.50** | **62,194.20** | **291,415.10** | **119,534.90** | **266,832.00** | **982,213.10** |
| D. Asset /Liability Gap (C-A) | 35,430.20 | 2,117.60 | 6,076.80 | -15,698.80 | -52,413.90 | -16,667.20 | -43,461.30 | 76,142.90 | -8,473.70 |
| E % Asset Liability Gap (D as a % of A) | 61.04% | 12.22% | 12.70% | -17.23% | -45.73% | -5.41% | -26.66% | 39.93% | -0.86% |
| F. Cumulative Asset Liability Gap (D Cumulative) | 35,430.20 | 37,547.80 | 43,624.60 | 27,925.80 | -24,488.10 | -41,155.30 | -84,616.60 | -8,473.70 | -8,473.70 |
| G. % Cumulative Asset/ Liability Gap (F as a % of B) | 61.04% | 49.82% | 35.41% | 13.03% | -7.45% | -6.46% | -10.58% | -0.86% | -0.86% |

*Assumptions made in respect of the Asset Liability Management Gap Statement*

1. Capital Reserves and Surplus have been shown in over five years bucket.

2. Both Savings bank deposits and Current Account have been distributed in various time buckets on the basis of behavioral studies on volatility and core portion of these deposits.

3. In case of term deposits, the maturity pattern has been taken on the basis of data received from the branches. The Term Deposits have been segregated into retail deposits and wholesale deposits. The retail deposits are bifurcated as per behavioral analysis, i.e., considering the roll over of retail terms at 75% and the wholesale deposits are bifurcated as per actual maturity.

4. Borrowings have been allocated as per actual re-payment schedule.

5. In case of bills payable, the core portion has been shown in 1-3 years time bucket and the remaining portion has been shown in 1-14 days time bucket.

6. Subordinate debts have been distributed as per the actual repayment schedule.

7. Cash has been shown in 1-14 days time bucket.

8. Call lending/Term deposits with banks and others have been shown in respective maturity time buckets as per actual maturity profile.

9. In case of current deposits with banks, volatile portion has been shown in 1-14 days time bucket, while the remaining portions have been shown in 1-3 years time bucket.

10. In respect of Investments, SLR Portion is classified as per the maturity profile of DTL. Excess SLR Portion is distributed in the first buckets. Other Investments have been distributed in various time buckets as per actual maturity.

11. In case of Cash credit/Overdraft draft the core and volatile portion has been determined on the basis of Behavioral Studies

12. In case of bills purchased and discounted and term loans, the maturity period has been taken on the basis of data collected from branches.

13. Substandard NPAs have been distributed in 3-5 years and Doubtful Category in over 5 years time bucket.

14. Fixed assets have been shown in the over 5 years time bucket.

**Loan Portfolio**

As at March 31, 2007, our total outstanding loan portfolio was Rs. 536,298.46 million. The following table sets forth, for the dated indicated, our loan portfolio classified by product group.

**(Rs. in million, except percentages)**

| | March 31, 2005 | | March 31, 2006 | | March 31, 2007 | |
|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % |
| Bills Purchased/ Discounted | 9,364.78 | 3.20% | 13,245.30 | 3.37% | 10,604.69 | 1.98% |
| Cash Credit, Overdrafts and others | 132,483.11 | 45.31% | 154,543.88 | 39.28% | 205,013.29 | 38.23% |
| Term Loans | 150,534.83 | 51.49% | 225,631.30 | 57.35% | 320,680.48 | 59.80% |
| Total | **292,382.72** | **100.00%** | **393,420.48** | **100.00%** | **536,298.46** | **100.00%** |

The following table presents our outstanding loans by sector and the proportion of these loans to our outstanding total loans, as at the dates indicated:

**(Rs. in million, except percentages)**

| | March 31, 2005 | | March 31, 2006 | | March 31, 2007 | |
|---|---|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| Corporate and Commercial | 207,368.82 | 70.92% | 289,020.20 | 73.46% | 400,110.34 | 74.61% |
| Housing and Retail | 31,826.70 | 10.89% | 40,877.38 | 10.39% | 57,285.40 | 10.68% |
| Agriculture | 53,187.20 | 18.19% | 63,522.90 | 16.15% | 78,902.71 | 14.71% |
| **Total Outstanding Loans** | **292,382.72** | **100.00%** | **393,420.48** | **100.00%** | **536,298.46** | **100.00%** |

The following table sets forth, for the dates indicated, our 10 largest single exposures in descending order as determined by the RBI guidelines, which includes funded exposure, non funded exposure along with adjustments if any, which ever is higher.

**(Rs. in million, except percentage)**

| | March 31, 2006 | | | | March 31, 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ***Borrower*** | **Exposure** | **% of Total outstanding exposure** | **% of capital funds** | **Classification** | **Borrower** | **Exposure** | **% of Total outstanding exposure** | **% of capital funds** | **Classification** |
| Borrower 1 | 8,387.60 | 2.13 | 18.72 | Standard | Borrower 1 | 10,663.30 | 1.99 | 19.70 | Standard |
| Borrower 2 | 7,863.00 | 2.00 | 17.55 | Standard | Borrower 2 | 8,920.00 | 1.66 | 16.48 | Standard |
| Borrower 3 | 6,770.50 | 1.72 | 15.11 | Standard | Borrower 3 | 8,888.70 | 1.66 | 16.42 | Standard |
| Borrower 4 | 6,720.00 | 1.71 | 15.00 | Standard | Borrower 4 | 8,869.70 | 1.65 | 16.39 | Standard |
| Borrower 5 | 6,640.20 | 1.69 | 14.82 | Standard | Borrower 5 | 8,715.00 | 1.63 | 16.10 | Standard |
| Borrower 6 | 5,720.60 | 1.45 | 12.77 | Standard | Borrower 6 | 8,583.40 | 1.60 | 15.86 | Standard |
| Borrower 7 | 5,582.00 | 1.42 | 12.46 | Standard | Borrower 7 | 7,943.50 | 1.48 | 14.68 | Standard |
| Borrower 8 | 5,382.10 | 1.37 | 12.01 | Standard | Borrower 8 | 7,788.20 | 1.45 | 14,39 | Standard |
| Borrower 9 | 5,306.80 | 1.35 | 11.84 | Standard | Borrower 9 | 7,134.10 | 1.33 | 13.18 | Standard |
| Borrower 10 | 5,057.10 | 1.29 | 11.29 | Standard | Borrower 10 | 6,850.00 | 1.28 | 12.66 | Standard |

The following table sets forth, for the dates indicated, our 10 largest group exposures in descending order as determined by the RBI guidelines, which includes funded exposure, non funded exposure along with adjustments if any, which ever is higher.

**(Rs. in million, except percentage)**

| | March 31, 2006 | | | | March 31, 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Group** | **Exposure** | **% of Total outstanding exposure** | **% of capital funds** | **Classification** | **Group** | **Exposure** | **% of Total outstanding exposure** | **% of capital funds** | **Classification** |
| Group 1 | 14,513.90 | 3.69 | 32.39% | Standard | Group 1 | 22,284.60 | 4.15 | 41.18 | Standard |
| Group 2 | 9,398.60 | 2.39 | 20.97% | Standard | Group 2 | 13,888.70 | 2.59 | 25.66 | Standard |
| Group 3 | 7,175.00 | 1.82 | 16.01% | Standard | Group 3 | 12,680.20 | 2.36 | 23.43 | Standard |
| Group 4 | 7,147.10 | 1.81 | 15.95% | Standard | Group 4 | 12,454.90 | 2.32 | 23.01 | Standard |
| Group 5 | 6,770.00 | 1.72 | 15.11% | Standard | Group 5 | 11,855.00 | 2.21 | 21.91 | Standard |
| Group 6 | 5,875.10 | 1.49 | 13.11% | Standard | Group 6 | 9,805.70 | 1.83 | 18.12 | Standard |
| Group 7 | 5,657.60 | 1.44 | 12.63% | Standard | Group 7 | 9,247.70 | 1.72 | 17.09 | Standard |
| Group 8 | 5,429.00 | 1.38 | 12.12% | Standard | Group 8 | 9,070.00 | 1.69 | 16.76 | Standard |
| Group 9 | 5,130.00 | 1.30 | 11.45% | Standard | Group 9 | 8,147.00 | 1.52 | 15.05 | Standard |
| Group 10 | 4,219.30 | 1.07 | 9.42% | Standard | Group 10 | 7,048.70 | 1.31 | 13.02 | Standard |

The following table sets forth, as at March 31, 2007, the total outstanding of top ten customers in the industry as a percentage of the total outstanding to the industry:

(Rs. in million, except percentages)

| Industry | Funded Outstanding | Funded Outstanding to top 10 companies in the Industry | Funded Outstanding to top 10 companies as a % of outstanding to the Industry |
|---|---|---|---|
| Coal | 192.80 | 46.60 | 24.17% |
| Mining | 353.70 | 135.80 | 38.39% |
| Iron & Steel | 11,443.80 | 6,457.20 | 56.42% |
| Other Metal & Metal Products | 4,240.30 | 2,470.90 | 58.27% |
| All Engineering | 17,885.50 | 6,587.50 | 36.83% |
| Textiles | 14,630.60 | 5,149.60 | 35.19% |
| Sugar | 4,156.50 | 3,863.30 | 92.95% |
| Tea | 1,492.10 | 1,091.30 | 73.14% |
| Food Processing | 4,989.70 | 1,740.80 | 34.89% |
| Vegetable Oils (including Vanaspati) | 3,867.50 | 3,811.40 | 98.54% |
| Tobacco & Tobacco Products | 446.40 | 330.20 | 73.97% |
| Paper & Paper Products | 1,540.50 | 773.10 | 50.18% |
| Rubber & Rubber Products | 1,045.80 | 254.80 | 24.36% |
| Chemicals, Dyes, Paints, Drugs & Pharmaceuticals | 11,276.90 | 4,689.50 | 41.59% |
| Cement | 1,253.60 | 1,015.70 | 81.02% |
| Leather & Leather Products | 622.90 | 324.90 | 52.16% |
| Gems & Jewellery | 3,755.80 | 2,976.60 | 79.25% |
| Construction | 12,261.10 | 6,675.70 | 54.45% |
| Petroleum | 21,602.30 | 19,206.60 | 88.91% |
| Automobiles, including Trucks | 7,915.70 | 3,221.70 | 40.70% |
| Computer Software | 331.60 | 126.10 | 38.02% |
| Infrastructure | 54,627.30 | 37,147.80 | 68.00% |
| Other Industries | 59,824.90 | 10,924.80 | 18.26% |
| **Total** | **239,757.30** | | |

### Security

The table below shows the amount of our net advances as at March 31, 2005, 2006 and 2007 that are secured or covered by guarantees or unsecured.

### Classification of Net Advances

**(Rs. in million, except percentages)**

| | As at March 31, 2005 | | As at March 31, 2006 | | As at March 31, 2007 | |
|---|---|---|---|---|---|---|
| | Amount | % of advances | Amount | % of advances | Amount | % of advances |
| Secured by tangible assets (including advances against book debts) | 225,629.36 | 82.72% | 278,052.69 | 74.18% | 380,949.62 | 73.55% |
| Covered by bank or Government guarantees | 12,663.17 | 4.64% | 38,029.85 | 10.15% | 36,811.83 | 7.11% |
| Unsecured | 34,480.66 | 12.64% | 58,752.27 | 15.67% | 100,193.22 | 19.34% |
| **Total** | **272,773.19** | **100.00%** | **374,834.81** | **100.00%** | **517,954.67** | **100.00%** |

### Non-Performing Assets

As at March 31, 2007, our gross non-performing assets as a percentage of gross advances was 4.81% and our net non-performing assets as a percentage of net advances was 1.70%. We define net NPAs as gross NPAs less our loan loss provision, Deposit Insurance and Credit Guarantee Corporation/Export Credit Guarantee Corporation (DICGC/ECGC) claims received and held and any partial payments received and held. We have made such provisions for 61.16% of our gross non-performing loans. As at March 31, 2007**,** 7.99% of our gross priority sector advances were classified as NPAs.

The following table set forth, as at the dates indicated, information about our non-performing loan portfolio:

### Gross NPA to Net NPA Movement

**(Rs. in million, except percentages)**

| | As at March 31, 2003 | | | As at March 31, 2004 | | | As at March 31, 2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Amount | NPAs | NPAs as % of Advances | Amount | NPAs | NPAs as % of Advances | Amount | NPAs | NPAs as % of Advances |
| **Gross Advances** | 239,410.04 | 32,434.65 | 13.55 | 246,324.86 | 30,919.15 | 12.55 | 292,382.72 | 27,634.37 | |
| Less: | | | | | | | | | |
| Interest in suspense | 104.33 | 104.33 | | 87.08 | 87.08 | | 72.29 | 72.29 | |
| URI | 1,731.89 | 1,647.22 | | 1,475.56 | 1,402.32 | | 1,464.96 | 1,348.04 | |
| Closing Gross Advances | 237,573.82 | 30,683.10 | 12.92 | 244,762.22 | 29,429.75 | 12.02 | 290,845.47 | 26,214.04 | 9.01 |
| DICGC | 47.94 | 47.94 | | 35.18 | 35.18 | | 52.06 | 52.06 | |
| Sundry Deposits | 92.64 | 92.64 | | 94.23 | 94.23 | | 76.01 | 76.01 | |
| Provisions (as per RBI) | 13,702.28 | 13,702.28 | | 12,591.75 | 12,591.75 | | 11,904.21 | 11,904.21 | |
| Other Adjustments | - | - | | - | - | | - | - | |
| Floating provision | 1,213.51 | 1,213.51 | | 4,000.00 | 4,000.00 | | 6,040.00 | 6,040.00 | |
| Total deduction | 15,056.37 | 15,056.37 | | 16,721.16 | 16,721.16 | | 18,072.28 | 18,072.28 | |
| Net advance for net-NPA % | 222,517.45 | 15,626.73 | 7.02 | 228,041.06 | 12,708.59 | 5.57 | 272,773.19 | 8,141.76 | 2.98 |

### Gross NPA to Net NPA Movement

**(Rs. in million, except percentages)**

| | As at March 31, 2006 | | | As at March 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Amount | NPAs | NPAs as % of Advances | Amount | NPAs | NPAs as % of Advances |
| **Gross Advances** | 393,420.48 | 28,194.94 | | 536,298.46 | 27,060.80 | |
| Less: | | | | | | |
| Interest in suspense | 62.03 | 62.03 | | 36.72 | 36.72 | |
| URI | 1,404.31 | 1,291.22 | | 1,371.84 | 1,304.26 | |
| Closing Gross Advances | 391,954.14 | 26,841.69 | 6.85 | 534,889.90 | 25,719.82 | 4.81 |
| DICGC | 123.00 | 123.00 | | 136.40 | 136.40 | |
| Sundry Deposits | 84.26 | 84.26 | | 127.77 | 127.77 | |
| Provisions (as per RBI) | 13,065.44 | 13,065.44 | | 12,824.44 | 12,824.44 | |
| Other Adjustments | - | - | | - | - | |
| Floating provision | 3,846.63 | 3,846.63 | | 3,846.63 | 3,846.63 | |
| Total deduction | 17,119.33 | 17,119.33 | | 16,935.24 | 16,935.24 | |
| Net advance for net-NPA % | 374,834.81 | 9,722.36 | 2.59 | 517,954.66 | 8,784.58 | 1.70 |

### Classification of Assets

We classify and account for our assets in accordance with the RBI guidelines. Under these guidelines, term loans are regarded as non-performing if any amount of interest or principal remains overdue for more than 90 days; overdrafts and cash credits are regarded as non-performing if the account balance remains out of order for a period of 90 days; and bills are regarded as non-performing if the account remains overdue for more than 90 days. Prior to fiscal 2004, these assets were deemed non-performing if the irregularity continued for 180 days. Prior periods have not been restated to reflect this. In respect of agricultural loans, the loan is classified as non-performing if any installment of principal or interest thereon remains overdue for two crop seasons for short duration crops or one crop season for long duration crops. Crops with a crop season longer than one year are long duration crops, and other crops are treated as short duration crops.

Our assets are classified as described below:

| | |
|---|---|
| Standard assets | Assets that do not disclose any problems or which do not carry more than the normal risk attached to the business of the borrower. |

| | |
|---|---|
| Sub-standard assets | Assets that are non-performing for a period not exceeding 12 months (or 18 months for Fiscal 2004 and prior periods). |
| Doubtful assets | Assets that are non-performing for more than 12 months (or 18 months for Fiscal 2004 and prior periods). |
| Loss assets | Assets (i) with identified losses or (ii) that are considered uncollectible. |

The following table provides a break down of our gross advances as at the dates indicated.

**Break up of Gross Advances (Global)**

**(Rs. in million, except percentages)**

| | March 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| **Asset Classification** | | | | | | | | | | |
| Standard Assets | 206,975.40 | 86.45% | 215,405.71 | 87.45% | 264,748.35 | 90.55% | 365,225.54 | 92.83% | 509,237.65 | 94.95% |
| Non-Performing Assets | 32,434.64 | 13.55% | 30,919.15 | 12.55% | 27,634.37 | 9.45% | 28,194.94 | 7.17% | 27,060.80 | 5.05% |
| *Of which:* | | | | | | | | | | |
| Sub-standard Assets | 8,636.71 | 3.61% | 8,523.96 | 3.46% | 6,041.16 | 2.07% | 6,094.33 | 1.55% | 6,288.75 | 1.17% |
| Doubtful Assets | 21,674.15 | 9.05% | 20,466.50 | 8.31% | 19,089.06 | 6.53% | 21,014.96 | 5.34% | 19,441.96 | 3.63% |
| Loss Assets | 2,123.78 | 0.89% | 1,928.69 | 0.78% | 2,504.15 | 0.86% | 1,085.65 | 0.28% | 1,330.09 | 0.25% |
| **Total Loan Assets** | **239,410.04** | | **246,324.86** | | **292,382.72** | | **393,420.48** | | **536,298.46** | |

## Restructured Assets

The RBI has separate guidelines for restructured assets. A fully secured standard asset can be restructured by rescheduling the principal or interest payments, 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 provided for to the extent of the sacrifice involved. Similar guidelines apply to sub-standard assets. Sub-standard assets which have been restructured, whether in respect of principal or interest payments, are eligible to be upgraded to the "Standard Assets" category only after a specified period, which is 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.

In order to create an institutional mechanism for the restructuring of corporate debt, the RBI has also created a corporate debt restructuring (CDR) system in 2001. The objective of this framework is to provide a more timely and transparent mechanism for the restructuring of corporate debts of viable entities facing financial difficulties. This system has led to the approval of restructuring program for a large number of companies, which has resulted in an increase in the level of restructured assets in the Indian financial system, including an increase in our restructured assets.

Following table presents our assets restructured during the periods indicated:

**(Rs. in million, except percentages)**

| | Fiscal | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| **CDR Restructured Assets** | | | |
| Standard Assets | 1,882.50 | 1,055.90 | 182.40 |
| Sub-standard Assets | - | 311.60 | 323.20 |
| Doubtful Assets | 686.00 | 45.90 | - |
| Loss Assets | - | - | - |

| | Fiscal | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| ***Total CDR Restructured Assets*** | **2,568.50** | **1,413.40** | **505.60** |
| **<u>Other Restructured Assets</u>** | | | |
| Standard Assets | 2,525.60 | 1,953.80 | 2,455.10 |
| Sub-standard Assets | 118.50 | 193.40 | 915.20 |
| Doubtful Assets | | | |
| **Total other Restructured Assets** | **2,644.10** | **2,147.20** | **3,370.30** |
| **Total Restructured Assets** | **5,212.60** | **3,560.60** | **3,875.90** |

## Provisioning and Write-offs

### Provision Movement

**(Rs. in million)**

| | Fiscal | | | | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Opening Balance | 14,487.99 | 14,915.79 | 16,591.75 | 17,942.42 | 16,912.07 |
| Add: Provisions made during the year (including floating provisions) | 4,137.80 | 6,880.00 | 5,986.62 | 660.00 | 3,265.93 |
| Less: Write off /write back during the year | 3,710.00 | 5,204.04 | 4,635.95 | 1,690.35 | 3,506.93 |
| Closing Balance | 14,915.79 | 16,591.75 | 17,942.42 | 16,912.07 | 16,671.07 |

Once loan accounts are identified as non-performing, interest and other fees charged in the account, if uncollected, are suspended. In compliance with regulations governing the presentation of financial information by banks, we report non-performing assets net of cumulative provision and interest suspended in our financial statements.

In accordance with the RBI guidelines, interest income from advances for NPAs is recognized upon realization, rather than on an accrual basis as with all other assets. Recovery in respect of non-performing advances is allocated first toward interest and thereafter against principal.

### Industry wise Analysis of Gross Non-Performing Assets

The following table sets forth, as at the dates indicated, the classification of our gross non-performing assets.

**(Rs. in million, except percentages)**

| Industry | March 31, 2003 | | | March 31, 2004 | | | March 31, 2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| | NPAs | % NPAs to total Ind. O/s. | Provision | NPAs | % NPAs to total Ind O/s | Provision | NPAs | % NPAs to total Ind. O/s | Provision |
| Coal | 54.90 | 18.63% | 23.70 | 48.02 | 15.19% | 19.50 | 2.40 | 0.66% | 0.70 |
| Mining | 11.40 | 49.78% | 2.20 | 75.49 | 39.90% | 39.40 | 63.40 | 49.07% | 34.10 |
| Iron & Steel | 3,085.97 | 42.20% | 1,842.20 | 3,278.74 | 49.65% | 2,108.74 | 1,833.30 | 23.30% | 841.90 |
| Metals & Metal Products | 852.15 | 31.67% | 405.00 | 805.18 | 27.64% | 375.29 | 606.00 | 18.44% | 182.60 |
| All Engineering | 1,620.68 | 20.13% | 673.47 | 2,083.52 | 21.64% | 1,131.59 | 1643.60 | 15.13% | 732.90 |
| Electricity | 274.40 | 8.55% | 50.82 | 168.22 | 3.49% | 73.10 | 193.70 | 2.79% | 125.80 |
| Textiles | 2056.85 | | 840.97 | 2335.29 | | 1265.65 | 1993.90 | | 894.80 |
| *Of which* | | | | | | | | | |
| Cotton Textiles | 901.25 | 42.96% | 346.68 | 1,149.70 | 21.80% | 629.47 | 901.40 | 15.60% | 386.20 |
| Jute Textiles | 91.90 | 2.73% | 12.40 | 180.30 | 5.51% | 86.00 | 112.50 | 28.87% | 55.40 |
| Other Textiles | 1,063.70 | 30.94% | 481.89 | 1,005.29 | 21.43% | 550.18 | 980.00 | 21.14% | 453.20 |
| Sugar | 154.08 | 4.28% | 74.70 | 155.06 | 5.65% | 72.10 | 124.80 | 3.57% | 46.10 |
| Tea | 91.00 | 15.66% | 25.60 | 125.65 | 10.46% | 33.56 | 127.10 | 9.12% | 54.40 |
| Food Processing | 632.23 | 28.42% | 121.48 | 553.15 | 11.42% | 257.53 | 536.70 | 12.59% | 207.30 |
| Vegetable Oils (incl. Vanaspati) | 275.55 | 12.04% | 93.65 | 386.29 | 12.79% | 161.17 | 224.30 | 10.24% | 70.40 |
| Tobacco & Tobacco Products | - | - | - | 2.28 | 0.73% | 0.72 | 3.20 | 0.96% | 1.20 |
| Paper & Paper Products | 483.10 | 19.10% | 128.76 | 369.70 | 19.41% | 219.80 | 330.30 | 17.19% | 144.20 |
| Rubber & Rubber Products | 169.42 | 28.33% | 99.87 | 309.81 | 46.77% | 194.50 | 97.70 | 13.45% | 40.90 |

| Industry | March 31, 2003 | | | March 31, 2004 | | | March 31, 2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| | NPAs | % NPAs to total Ind. O/s. | Provision | NPAs | % NPAs to total Ind O/s | Provision | NPAs | % NPAs to total Ind. O/s | Provision |
| Chemicals, Dyes, Paints, Drugs, Pharmaceuticals | 953.94 | 15.21% | 257.02 | 1,453.60 | 17.13% | 541.23 | 1,015.50 | 13.09% | 360.80 |
| Cement | 592.61 | 72.42% | 253.00 | 394.70 | 40.42% | 279.18 | 353.00 | 34.44% | 275.50 |
| Leather & Leather Products | 89.09 | 17.21% | 36.96 | 115.81 | 19.73% | 35.18 | 88.60 | 13.23% | 31.90 |
| Gems & Jewellery | 28.59 | 1.99% | 6.70 | 17.06 | 0.61% | 3.98 | 14.10 | 0.51% | 1.80 |
| Construction | 190.18 | 29.06% | 67.02 | 134.88 | 9.86% | 41.10 | 101.50 | 6.93% | 28.30 |
| Petroleum | 22.20 | 0.94% | 9.03 | 93.33 | 3.15% | 67.20 | 454.70 | 13.99% | 67.50 |
| Automobiles, including Trucks | 72.50 | 17.32% | 28.56 | 117.52 | 5.61% | 56.65 | 135.70 | 4.84% | 52.50 |
| Computer Software | 158.91 | 19.41% | 39.83 | 53.28 | 24.25% | 11.50 | 32.50 | 20.06% | 8.90 |
| Infrastructure | 110.72 | 0.65% | 14.38 | 11.63 | 0.07% | 1.17 | 41.60 | 0.20% | 8.30 |
| Other Industries | 4,546.53 | 14.41% | 1,884.32 | 4,800.65 | 12.47% | 2,618.38 | 3,285.00 | 9.35% | 1,362.10 |
| **Total** | **16,527.00** | | **6,979.24** | **17,888.86** | | **9,608.22** | **13,302.60** | | **5,574.90** |

### Industry wise Analysis of Gross Non-Performing Assets

The following table sets forth, as at the dates indicated, the classification of our gross non-performing assets.

**(Rs. in million, except percentages)**

| Industry | March 31, 2006 | | | March 31, 2007 | | |
|---|---|---|---|---|---|---|
| | NPAs | %NPAs to total Ind. O/s. | Provision | NPAs | %NPAs to total Ind. O/s | Provisio n |
| Coal | 25.10 | 23.46% | 4.50 | 13.10 | 6.97% | 7.40 |
| Mining | 71.60 | 29.14% | 37.20 | 17.50 | 4.94% | 15.40 |
| Iron & Steel | 1,611.70 | 15.61% | 901.00 | 694.60 | 6.06% | 443.70 |
| Metals & Metal Products | 398.10 | 9.89% | 180.50 | 313.30 | 7.38% | 162.60 |
| All Engineering | 1,499.80 | 12.50% | 741.20 | 1,074.10 | 6.00% | 696.90 |
| Electricity | 92.90 | 0.64% | 67.70 | 161.50 | 0.72% | 137.10 |
| Textiles | 2020.80 | | 879.80 | 1285.10 | | 707.80 |
| *Of which* | | | | | | |
| Cotton textiles | 761.40 | 11.29% | 290.90 | 679.60 | 7.28% | 418.90 |
| Jute Textiles | 108.70 | 29.47% | 49.90 | 81.90 | 54.13% | 40.50 |
| Other Textiles | 1,150.70 | 29.02% | 539.00 | 523.60 | 10.15% | 248.40 |
| Sugar | 95.70 | 3.38% | 36.10 | 59.70 | 1.43% | 23.60 |
| Tea | 189.50 | 9.31% | 48.50 | 282.70 | 72.09% | 62.00 |
| Food Processing | 467.00 | 14.95% | 221.60 | 449.10 | 84.89% | 177.70 |
| Vegetable Oils (including Vanaspati) | 199.00 | 5.79% | 70.30 | 171.30 | 4.42% | 86.70 |
| Tobacco & Tobacco Products | 2.00 | 0.54% | 0.50 | 13.60 | 3.04% | 2.90 |
| Paper & Paper Products | 376.90 | 22.18% | 152.20 | 268.50 | 17.42% | 161.00 |
| Rubber & Rubber Products | 87.30 | 12.60% | 43.50 | 119.20 | 11.39% | 84.50 |
| Chemicals, Dyes, Paints, Drugs and Pharmaceuticals | 852.90 | 11.10% | 346.50 | 645.70 | 5.72% | 287.20 |
| Cement | 292.40 | 48.59% | 276.50 | 259.60 | 20.70% | 247.30 |
| Leather & Leather Products | 86.90 | 10.74% | 28.90 | 113.60 | 18.23% | 55.00 |
| Gems & Jewellery | 11.40 | 0.39% | 1.80 | 37.60 | 1.00% | 27.40 |
| Construction | 88.60 | 2.64% | 32.90 | 96.90 | 0.79% | 53.70 |
| Petroleum | 439.10 | 9.74% | 102.00 | 477.10 | 2.20% | 384.60 |
| Automobiles, including Trucks | 68.00 | 1.51% | 28.90 | 57.40 | 0.72% | 27.20 |
| Computer Software | 158.20 | 149.10 % | 9.60 | 25.40 | 7.65% | 14.30 |

| Industry | March 31, 2006 | | | March 31, 2007 | | |
|---|---|---|---|---|---|---|
| | **NPAs** | **%NPAs to total Ind. O/s.** | **Provision** | **NPAs** | **%NPAs to total Ind. O/s** | **Provision** |
| Infrastructure | 64.20 | 0.24% | 15.90 | 354.60 | 0.64% | 95.70 |
| Other Industries | 3,794.60 | 11.73% | 2,596.50 | 3,017.40 | 8.00% | 1,319.30 |
| **Total** | **12,993.70** | | **6,824.10** | **10,008.60** | | **5,281.00** |

The following table sets forth our 10 largest gross non-performing assets as at March 31, 2007. Together, these borrowers constitute 10.86% of our gross NPAs as at March 31, 2007.

**(Rs. in million)**

| | Gross NPA | De-recognized Income | Provision | Net NPA | Realisable value of collateral | Industry |
|---|---|---|---|---|---|---|
| Borrower 1 | 818.29 | 104.78 | 389.37 | 324.14 | 445.80 | Fertilizer |
| Borrower 2 | 386.60 | 5.81 | 114.24 | 266.56 | 845.50 | Gas Transportation |
| Borrower 3 | 274.47 | - | 54.88 | 219.59 | 420.00 | Gas Pipeline |
| Borrower 4 | 274.01 | - | 82.30 | 191.70 | 305.60 | Parent Breeding |
| Borrower 5 | 226.65 | - | 226.66 | 0.00 | 259.99 | Cements |
| Borrower 6 | 224.56 | - | 224.56 | 0.00 | 1,361.80 | Steel |
| Borrower 7 | 183.43 | - | 16.34 | 167.09 | 135.50 | Export of Gems & jewellery |
| Borrower 8 | 155.84 | - | 36.38 | 119.46 | 189.79 | Mfg of Aluminum Composite panels |
| Borrower 9 | 126.50 | 19.49 | 12.13 | 94.88 | 180.87 | Fishing |
| Borrower 10 | 124.07 | - | 50.49 | 73.58 | 435.60 | Advance for construction of market yard. |
| **Total** | **2,794.42** | **130.08** | **1,207.35** | **1,457.00** | **4,580.45** | |

### Interest in Suspense

Interest in suspense is the interest due on non-performing loans that has not been recognized in our books of accounts. The following table sets forth, as at the dates indicated, the cumulative amount of interest in suspense on existing non-performing loans.

**(Rs. in million)**

| | As at March 31, | | | | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** |
| Interest in Suspense | 104.33 | 87.08 | 72.29 | 62.03 | 36.72 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION ON A STANDALONE BASIS

*You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements included in this Red Herring Prospectus, along with the section titled "Selected Statistical Information" beginning on page 212 of this Red Herring Prospectus, which presents important statistical information about the Bank's business. You should also read the section titled "Risk Factors" beginning on page xi of this Red Herring Prospectus, which discusses a number of factors and contingencies that could impact our financial condition and results of operations. This discussion also contains forward looking statements and you should refer to the section "Forward-Looking Statements" on page x of this Red Herring Prospectus. The following discussion relates to the Bank on a standalone basis and is based on our restated financial statements, which have been prepared in accordance with Indian GAAP, the guidelines issued by the RBI and the SEBI Guidelines. The following discussion is also based on internally prepared statistical information and on information publicly available from the RBI and other sources.*

### Introduction

***Overview***

We are a public sector banking institution with branches in 27 States and in three Union Territories in India. According to the RBI's "Report on Trend and Progress of Banking in India, 2005-06" we are the third biggest bank in India based on the number of branches. As at March 31, 2007, we had 3,194 branches and a workforce of 39,055 employees (including part-time employees) serving over 25 million customers.

Our main business is taking deposits, lending money and making investments. Our deposit taking and lending business is divided into three main areas: retail, agriculture and corporate.

We also offer a wide range of general banking services to our customers, including: credit cards; debit cards; cash management and remittance services; and collection services. We distribute third party life and non-life insurance policies and mutual funds on an agency basis. In addition, we act as an agent for various state governments and the Government of India on numerous matters, including the collection of taxes and the payment of pensions. We also issue traveller's cheques and gift cheques.

***Revenue***

Our revenue, which is referred to herein and in our financial statements as our total income, consists of interest income and other income.

Interest income consists of interest on advances (including discounts on bills) and income on investments. Income on investments consists of interest and dividends from securities and other investments. We also earn interest income from inter-bank loans, deposits that we keep with the RBI and other banks, including foreign banks in various currencies (primarily in U.S. dollars). Our securities portfolio consists primarily of Government and state government securities. We meet SLR requirements through investments in these and other approved securities. We also hold debentures and bonds issued by public sector undertakings and other corporations, commercial paper, equity shares and mutual fund units. Our interest income is primarily affected by fluctuations in interest rates as well as the volume of activity and to a lesser extent by fluctuations in exchange rates.

Our other income consists principally of fee-based income, such as commission, exchange and brokerage income, net profit on sale of investments and gains or losses on foreign exchange transactions, and miscellaneous income, including recovery of bad debts previously written off (which is transferred to provisions and contingencies and is not shown in the miscellaneous income line item in our statement of profit and loss), incidental charges and sundry charges. Fee-based income includes charges for services, such as cash management services and credit-related transactional services, service charges and processing fees chargeable on customers' accounts and fees for remittance services, documentary credits, letters of credit and issuance of guarantees. It also includes income from our treasury activities, service charges on credit cards and debit cards, and commission on Demat services and distribution of insurance and mutual funds products, and turnover commission on Government and state government transactions. We also receive dividends from subsidiaries and associates.

***Expenses***

Our interest expense consists of the interest on deposits as well as borrowings. Our interest expense is affected by increases or decreases in interest rates, deposit mix and volumes.

Our non-interest expense consists principally of operating expenses, including expenses for wages and employee benefits, rent and related expenses, such as electricity charges paid on premises, depreciation on fixed assets, insurance, repairs and maintenance, printing and stationery, advertising and publicity, directors' fees and expenses, auditors' fees and expenses, postage and telecommunications and other expenses, including consultants' fees and expenses. Our provisioning for non-performing assets, depreciation and provision on investments and income tax are included in our expenses for provisions and contingencies and do not affect our operating profit.

***Financial Performance Indicators***

We use a variety of indicators to measure our performance. These indicators are presented in a tabular form in the section titled "Selected Statistical Information" beginning on page 212 of this Red Herring Prospectus. Our net interest income (or Spread) represents our total interest income net of total interest expense. Net interest margin represents the ratio of net interest income to the average working funds. We calculate (1) the average yield on the average of advances, (2) the average yield on the average of investments, (3) the average cost on the average of deposits, and (4) the average cost on the average of borrowings. Our cost of funds is the average of the average cost of the average of interest bearing liabilities. For the purposes of these averages and ratios only, the interest cost of the unsecured subordinated bonds that we issued under Tier II ("Tier II Bonds") for capital adequacy purposes is included in our cost of interest bearing liabilities. In our financial statements, these bonds are accounted for as "subordinate debts" and their interest cost is accounted for under "other interest expenses".

***Factors Affecting our Results of Operations***

*The Indian Economy*

Our financial condition and results of operations are influenced largely by general economic conditions prevailing in India. The Indian economy has grown steadily over the past three fiscal years. GDP growth was 7.5% in Fiscal 2005, 9.0% in Fiscal 2006 and 9.4% in Fiscal 2007. The real GDP growth in Fiscal 2007 was contributed to by sustained accelerated growth in the industry and services sector notwithstanding slow growth in the agriculture sector.

Industrial growth was 8.4%, 8.0% and 10.9% in Fiscal 2005, 2006 and 2007, respectively. The annual rate of inflation, as measured by variations in the wholesale price index ("WPI"), on a point-to-point basis, was 5.3% in Fiscal 2005, 4.5% in Fiscal 2006 and 5.7% in Fiscal 2007.

In its Annual Policy Statement for 2007-2008, the RBI forecast GDP growth at around 8.50% for Fiscal 2008 and has given an inflation rate forecast of 5.00%.

The average exchange rate of the Indian Rupee to one U.S. dollar was Rs. 44.89 in Fiscal 2005, Rs. 44.31 in Fiscal 2006 and Rs. 46.07 for Fiscal 2007. The Indian Rupee has been recently appreciating against the U.S. dollar and as at May 9, 2007 the exchange rate was Rs. 40.91, as per the RBI. The foreign exchange reserves were U.S.$199.2 billion as at March 30, 2007 and U.S.$203.10 billion as at April 13, 2007.

Financial markets experienced over-all stable conditions during the greater part of Fiscal 2007, albeit with some volatility in the latter half of Fiscal 2007, amidst liquidity constraints and the subsequent firming of interest rates in all segments. The economy exhibited some symptoms of overheating in a few sectors like the real estate sector in the context of high growth of the economy and the channeling of more credit to the sensitive sectors. Pursuing the "Dear Money" policy, the RBI tightened liquidity in the banking industry through a series of increases in the cash reserve ratio ("CRR") from 5.00% in December 2006 to 6.50% in April 2007. The repo rate was increased on several occasions from 7.00% in July 2006 to 7.75% in March 2007, signaling the upward revision of interest rates. Following the general upward trend of interest rates, deposit rates and lending rates in the banking industry also displayed an upward movement in the third and fourth quarters of Fiscal 2007.

Our business is affected by seasonal trends in the Indian economy that affect the overall banking industry. The period from October to March is the busy period in India for economic activity and, accordingly, we generally experience higher volumes of business during this period. From April to September, when economic activity typically decreases, our business volumes experience a corresponding decrease.

*Interest Rates*

The following table sets forth the bank rate, repo rate, reverse repo rate and the prime lending rates for five major banks as at the dates indicated.

**(As percentages)**

| As at | Bank rate | Repo rate | Reverse Repo rate | Prime Lending rates for 5 major banks |
|---|---|---|---|---|
| March 31, 2005 | 6.00 | 6.00 | 4.75 | 10.25-10.75 |
| March 31, 2006 | 6.00 | 6.50 | 5.50 | 10.25-10.75 |
| March 31, 2007 | 6.00 | 7.75 | 6.00 | 12.25-12.50 |

*Source: Reserve Bank of India statistical data.*

*Laws, Rules, Regulations, Guidelines and Norms Applicable to the Banking Industry*

Banks in India are subject to detailed supervision and regulation by the RBI. In addition, banks are subject generally to changes in Indian law, as well as to changes in regulation and government policies and accounting principles. Any change in the laws, rules, regulations, guidelines or norms applicable to the banking industry could materially and adversely affect our business, results of operations and financial condition.

The more material regulations that have an influence on our financial condition and results of operations are discussed below.

*Statutory Liquidity Ratio Requirements*

Under the RBI's regulations, our liabilities are subject to a statutory liquidity ratio requirement, according to which 25% of our net demand and time liabilities need to be invested in Government securities, state government securities and other approved securities. Increases in the statutory liquidity ratio requirements could materially and adversely affect our business, results of operations and financial condition.

*Cash Reserve Ratio Requirements*

We are required to comply with the RBI's stipulated cash reserve ratio, which has to be kept in our account with the RBI as a percentage of our net demand and time liabilities. The RBI uses the cash reserve ratio as a tool to manage the liquidity in the banking system. An increase or decrease in the cash reserve ratio will therefore decrease or increase, respectively, our funds available for deployment in either lending or investment. Any increase in the cash reserve ratio requirement could materially and adversely affect our business, results of operations and financial condition.

The RBI pays interest, if any, on cash reserve ratio balances in excess of 3% of the prescribed balance. The RBI also changes the interest rate it pays on cash reserve ratio balances from time to time, which impacts banks' short term interest rates. For example, when the RBI decreases the interest rate payable on eligible cash reserve ratio balances, we would need to increase our lending rates in order to maintain our net interest margin. However, we may not always increase our lending rates if doing so would adversely impact on our competitiveness in the market for lending. Therefore, decreases in the interest paid on eligible cash reserve ratio balances could materially and adversely affect our business, results of operations and financial condition.

Set forth below is a table showing the cash reserve ratio requirement, eligible cash reserve ratio balances earning interest and the rate of interest paid on eligible balances between and as at the dates indicated.

**(in percentages)**

| **As at** | **Cash Reserve Ratio** | **Eligible CRR earning interest** | **Interest rate** |
|---|---|---|---|
| March 31, 2005 | 5.00 | 2.00 | 3.50 |
| March 31, 2006 | 5.00 | 2.00 | 3.50 up to December 8, 2006 and 2.00 thereafter |
| December 23, 2006 | 5.25 | 2.25 | 2.00 |
| January 6, 2007 | 5.50 | 2.50 | 2.00 |
| February 17, 2007 | 5.75 | 2.75 | 1.00 |
| March 3, 2007 | 6.00 | 3.00 | 1.00 to March 31, 2007 and Nil thereafter |
| April 14, 2007 | 6.25 | - | Nil |
| April 28, 2007 | 6.50 | - | Nil |

*Source: Reserve Bank of India statistical data.*

*Capital Adequacy Requirements*

We are required by the RBI to maintain a minimum capital adequacy ratio of 9.0% in relation to our total risk-weighted assets. We must maintain this minimum capital adequacy level to support our growth. Our capital adequacy ratio was 10.4% as at March 31, 2007. In April 2007, the RBI issued final guidelines for the implementation of a revised Basel-II capital adequacy framework that would be March 31, 2009 for us. The guidelines for the capital adequacy framework include an increase in the minimum Tier-1 capital adequacy ratio from 4.5% to 6.0% and, the introduction of capital for operational risk as per Basel II. Further, the risk weight for consumer credit and residential mortgages will continue to remain at 125.0% and 75.0% (risk weights for residential mortgage loans of less than Rs. 2.0 million with loan-to-value ratio of less than 75.0% would be 50.0%). The capital adequacy norms stipulate a capital charge on undrawn commitments. The norms also increase the risk-weightage for domestic corporates (for loans greater than Rs. 100.0 million) without a solicited external rating to 150.0% in a phased manner as compared to 100% currently. Similarly, non-resident corporates (for loans greater than Rs. 100.0 million) without a rating from an international rating agency would attract 150.0% risk weightage in a phased manner compared to 100% currently. Implementation of Basel II norms by the RBI may increase our capital requirement and may require additional investment in risk management systems.

*Provisioning Requirements*

From time to time the RBI changes provisioning requirements. For example, in the RBI's Annual Policy Statement for the year 2006-07, the RBI increased the general provisioning requirement on standard advances for residential housing loans beyond Rs. 2 million and commercial real estate loans. The RBI also increased the risk weightage on banks' exposures to commercial real estate to 150% from the level of 125%. In its Annual Policy Statement for the year 2007-08, the RBI increased requirements for provisioning on standard advances from 1.00% to 2.00% in respect of personal loans, loans and advances qualifying as capital market exposures. Increases in provisioning requirements, including those to be introduced by the RBI for implementation of the Basel II norms, could materially and adversely affect our business, results of operations and financial condition.

For further details on the regulations and policies applicable to the banking industry, see the section titled "Regulations and Policies" beginning on page 82 of this Red Herring Prospectus.

**Changes in Accounting Policies**

***Floating Provisions for NPAs***

We follow the RBI's prudential norms for provisions for NPAs (including floating provisions for NPAs). Prior to Fiscal 2007, floating provisions for NPAs could be made over and above the required provisions as per the RBI's prudential norms, without any restriction on their utilisation. We made a floating provision for NPAs of Rs. 863.50 million in Fiscal 2003 and Rs. 2,786.50 million in Fiscal 2004. In Fiscal 2005, we made a floating provision for NPAs of Rs. 2,040.00 million, which increased the total floating provision for NPAs to Rs. 6,040 million as at March 31, 2005. In Fiscal 2006, we utilised Rs. 2,193.40 million of our floating provision for NPAs, leaving our total floating provision for NPAs as Rs. 3,846.60 million as at March 31, 2006 and March 31, 2007.

In Fiscal 2007, the RBI clarified the prudential norms with respect to floating provisions. As per the clarification on these prudential norms, floating provisions should not be used for making specific provisions in respect of non-performing assets or for making regulatory provisions for standard assets. The floating provisions can be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining the Board's approval and with the RBI's prior permission.

In Fiscal 2007, the RBI revised the norms in respect of floating provisions. Accordingly, the floating provisions can no longer be reversed by credit to the profit and loss account. They can only be utilised for making specific provisions in extraordinary circumstances as mentioned above. Until such utilisation, these provisions can be netted off from gross NPAs to arrive at disclosure of net NPAs. Alternatively, they can be treated as part of Tier II Capital within the overall ceiling of 1.25% of total risk-weighted assets.

In view of the above, the floating provision for NPAs has been netted off from the advances and the floating provision for NPAs made in Fiscal 2003, Fiscal 2004 and Fiscal 2005 and the amount of the floating provision utilised in Fiscal 2006 has not been adjusted in our restated financial statement included in this Red Herring Prospectus.

We make comprehensive disclosures on floating provisions in the "notes on accounts" to the balance sheet on (a) the opening balance in the floating provisions account, (b) the quantum of floating provisions made in the accounting year, (c) the purpose and amount of draw down made during the accounting year, and (d) the closing balance in the floating provisions account.

***Implementation of AS-15 Relating to Accounting of Staff Pension and Gratuity***

Wye currently calculate staff pension and gratuity liability on the basis of an actuarial valuation; however, the actual payment is made on the basis of an employee's last drawn salary before retirement. Accounting Standard - 15, which deals with accounting for employee benefits including pension and gratuity, has been revised by the ICAI with effect from December 21, 2006. The implementation of this revised accounting standard could lead to higher provisioning requirements of Rs. 6,500 million. This may adversely affect our future profitability by an amount that cannot be quantified.

## Significant Accounting Policies

### *Accounting Conventions*

The financial statements are prepared on the historical cost basis except as modified by the revaluation of premises and conform to the statutory provisions and prevailing practices within the banking industry in India.

### *Transactions Involving Foreign Exchange*

Monetary assets and liabilities in foreign currencies are translated at the exchange rates prevailing at the year end as notified by Foreign Exchange Dealers' Association of India ("FEDAI") and the resultant profit or loss is recognised in the Profit and Loss Account.

Income and expenditure items are translated at the exchange rates prevailing on the respective date of transactions. Guarantees, letters of credit, acceptances, endorsements, and other obligations in foreign currencies are translated at year end rates notified by FEDAI.

Outstanding forward contracts are translated at the year end rates notified by FEDAI and the resultant profit/loss is recognized in the Profit and Loss Account.

### *Investments*

In accordance with the guidelines issued by Reserve Bank of India, investments are classified into "Held to Maturity", "Held for Trading" and "Available for Sale" categories. However, for disclosure in the balance sheet, investments are classified under the following heads: government securities; other approved securities; shares; debentures and bonds; investments in subsidiaries and sponsored institutions; and others (UTI shares, commercial papers and units of mutual funds).

The classification of an investment is done at the time of its purchase into one the following categories: Held to Maturity - these comprise of investments, the bank intends to hold on until maturity; Held for Trading - securities which are principally held for resale within 90 days from the date of purchase; and Available for Sale - investments that cannot be classified in either of the above categories.

The transfer/shifting of securities between the three categories of investments is accounted at the lower of acquisition cost/book value or market value on the date of the transfer. The depreciation, if any, on such transfer is fully provided for.

Investments under the Held to Maturity category are valued at acquisition cost. The excess of acquisition cost/book value over the face value is amortised over the remaining period of maturity.
Investments under the Available for Sale category are marked to market, scrip-wise, at quarterly intervals as under:

| | |
|---|---|
| Central government securities | At market price as per quotation put out by Stock Exchange/Fixed Income Money Market and Derivatives Association of India ("FIMMDA") /Primary Dealers Association of India ("PDAI"). |
| State government securities, securities guaranteed by central / state government, PSU bonds; preference shares – unquoted; and debentures and bonds – unquoted | On appropriate yield to maturity basis. |
| Treasury bills/ certificates of deposits/ commercial paper | At carrying cost. |
| Equity shares – quoted; preference shares – quoted; | At market price. |

| | |
|---|---|
| and debentures and bonds – quoted; and mutual funds – quoted | |
| Equity shares – unquoted | At book value per share, if latest (not more than one year old) balance sheet is available, or Re.1.00 per company if the latest balance sheet is not available. |
| Mutual funds – unquoted | At repurchase price or net asset value (where the repurchase price is not available). |

The net depreciation in each classification of securities is provided for, while the net appreciation in each classification of securities is ignored.

Investments under the Held for Trading category are valued at monthly intervals at market rates, wherever available, or as per the prices declared by FIMMDA. The net depreciation under each classification is provided for, without adjusting the book value of the securities and net appreciation, if any, is ignored.

The cost of investments is determined on the basis of the "weighted average cost" method.
The profit or loss on sale/redemption of investments is taken to the Profit and Loss Account. However, in the case of profit on sale/redemption of investments from the Held to Maturity category, an equivalent amount is appropriated to the capital reserve.

In respect of securities included in any of the three categories of investments where interest/ principal is in arrears for more than 90 days, income is not recognised and an appropriate provision for the depreciation in the value of the investments is made, as per prudential norms applicable to non-performing advances. Debentures/Bonds in the nature of advances are subjected to usual prudential norms applicable to advances. State government guaranteed exposures are classified as sub standard/doubtful/loss, as the case may be, if interest and/or principal or any other amount due to the Bank remains overdue for more than 90 days, and necessary provisions are made as per the RBI's prudential norms.

Brokerage, incentive, front-end fees, and other fees received on the purchase of securities are reduced from the cost of investments.

Expenses such as brokerage, fees, commission or taxes incurred at the time of acquisition of securities are charged to revenue.

The broken period interest on sale or purchase of securities is treated as revenue.

***Advances***

We follow the RBI's prudential norms with respect to asset classification and provisioning, including floating provisions (i.e., provisions made in excess of the requirement as per norms for NPAs).

Advances are classified as Standard, Sub-Standard, Doubtful or Loss Assets. Provisions required in respect thereof are made as per the prudential norms prescribed by the RBI.

Recoveries against NPAs are first appropriated towards interest. However, recovery in suit filed, decreed accounts and compromise cases is first appropriated towards principal or as per the terms of the decree/settlement.

Advances are shown net of provisions (including floating provision), unrealised interest and amount recovered from borrowers held in sundries and amount recovered from Credit Guarantee Fund Trust for Small Industries (CGTSI) and Export Credit & Guarantee Corporation Limited (ECGC). Provision for Standard Assets is included in "Other Liabilities and Provisions- Others".

***Fixed Assets/Depreciation***

Fixed assets (other than computers, which are depreciated on the "straight line" method) are depreciated under "written down value" method at the following rates:

| | |
|---|---|
| Premises | At varying rates based on estimated life |
| Furniture, lifts, safe vaults | 10% |
| Vehicles | 20% |
| Air conditioners, coolers, typewriters, etc. | 15% |
| Computers, including systems software | 33.33% |

In the case of assets that have been revalued, the depreciation is provided on the revalued amount and the incremental depreciation attributable to the revalued amount is adjusted to the 'Revaluation Reserve'.

Depreciation on additions to assets made up to September 30 is provided for the full year and on additions made thereafter is provided for the half year. No depreciation is provided on assets sold before September 30 and depreciation is provided for the half year for assets sold after September 30.

The cost of leasehold land is amortised over the period of the lease. In the case of revaluation, the difference between the original cost and revalued amount is amortised over the remaining period of the lease and is adjusted to the "revaluation reserve".

Where it is not possible to segregate the cost of land and premises, depreciation is charged on the composite cost.

***Staff Benefits***

Annual contributions to gratuity and pension funds are determined on the basis of an actuarial valuation. The contribution to pension fund is made under a defined benefit scheme.

The liability for earned leave is provided for on the basis of actuarial valuation.

In respect of employees who have opted for the Provident Fund Scheme, a matching contribution is made.

***Recognition of Income and Expenditure***

Income and expenditure are generally accounted for on an accrual basis, unless otherwise stated.

Income on NPAs is accounted for as per the prudential norms prescribed by the RBI.

In accordance with the guidelines issued by the RBI, prior period disclosures are made in respect of any item which exceeds one percent of the total income/total expenditure.

Provision for interest payable on overdue deposits is made on an overall basis assuming an average maturity period of 15 days at the corresponding interest rate.

***Income Tax***

The provision for tax for the year comprises current tax liability computed in accordance with the applicable tax laws and the deferred tax, which recognizes timing differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets are not recognized unless there is 'virtual certainty' that sufficient future taxable income will be available against which such deferred tax assets will be realized

**Segment Reporting**

In accordance with RBI guidelines on compliance with Accounting Standard 17 – "Segment Reporting" issued by the Institute of Chartered Accountants of India, we have recognised treasury operations and other banking operations as our two business reporting segments. Treasury operations include dealing in government and other securities, money market operations and foreign exchange operations. Other banking operations consist of corporate banking, retail banking, personal and commercial banking, cash management services, deposits, investments in government securities maintained under SLR requirements and allied services such as credit cards and debit cards. As we currently do not have any branches outside India, we do not have any geographic reporting segments.

For Fiscal 2007, revenue from our other banking operations and treasury operations contributed Rs. 56,542.00 million and Rs. 9,618.10 million or 84.27% and 14.33% of our total income, respectively. Set forth below is a table showing our revenue from our other banking operations and treasury operations and unallocated revenue as well as total income for Fiscal 2005, Fiscal 2006 and Fiscal 2007. The segment revenue reported below represents revenue from external customers.

***(Rs. in million)***

| | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 |
|---|---|---|---|
| Other Banking Operations | 39,196.10 | 41,677.00 | 56,542.00 |
| Treasury Operations | 21,108.30 | 16,996.30 | 9,618.10 |
| Unallocated | 945.68 | 490.73 | 938.55 |
| **Total Income** | 61,250.08 | 59,164.03 | 67,098.65 |

**Results of Operations**

***Year ended March 31, 2007 Compared with the Year ended March 31, 2006***

Our total income increased by 13.41% from Rs. 59,164.03 million in Fiscal 2006 to Rs. 67,098.65 million in Fiscal 2007 and our total expenditure increased by 15.30% from Rs. 47,217.36 million in Fiscal 2006 to Rs. 54,441.44 million in Fiscal 2007. Our operating profit increased by 5.95% from Rs. 11,946.68 million in Fiscal 2006 to Rs. 12,657.19 million in Fiscal 2007. Our net profit after tax increased by 93.46%, from Rs. 2,574.18 million in Fiscal 2006 to Rs. 4,980.13 million in Fiscal 2007.

Our total income was higher in Fiscal 2007 mainly on account of a 41.36% increase in interest earned on advances (including discounts on bills) from Rs. 25,897.88 million in Fiscal 2006 to Rs. 36,608.45 million in Fiscal 2007. This was partially offset by our income on investments declining by 11.56%, from Rs. 25,611.78 million in Fiscal 2006 to Rs. 22,649.89 million in Fiscal 2007 mainly due to a decrease in the average of gross investments from Rs. 313,512.20 million in Fiscal 2006 to Rs. 288,421.00 million and a decrease in average yield from 8.17% in Fiscal 2006 to 7.85% in Fiscal 2007.

Our net profit after tax was higher in Fiscal 2007 mainly due to 43.51% decrease in provisions and contingencies, from Rs. 8,187.40 million in Fiscal 2006 to Rs. 5,704.10 million in Fiscal 2007. The decrease in provisions and contingencies was mainly due to a 65.48% decrease in our provisioning for depreciation on investments, from Rs. 6,889.20 million in Fiscal 2006 to Rs. 2,378.10 million in Fiscal 2007, and a 202.46% increase in our recovery in written off accounts, from Rs. 540.00 million in Fiscal 2006 to Rs. 1,633.30 million in Fiscal 2007, which was partially offset by the fact that we did not utilise any amount out of our floating provisions for our NPAs in Fiscal 2007, whereas in Fiscal 2006 we utilised Rs. 2,193.40 million out of our floating provisions for NPAs.

*Net Interest Income*

Our net interest income increased by 3.96% from Rs. 23,800.70 million in Fiscal 2006 to Rs. 24,744.25 million in Fiscal 2007. The following table sets forth the components of our net interest income:

**(Rs. in million)**

| | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|
| Total interest income | 53,855.85 | 62,342.13 |
| Total interest expense | 30,055.15 | 37,597.88 |
| **Net interest income** | 23,800.70 | 24,744.25 |

*Interest Income*

The following table sets forth the components of our interest income:

**(Rs. in million)**

| | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|
| Interest on advances and discount on bills | 25,897.88 | 36,608.45 |
| Income on investment | 25,611.78 | 22,649.89 |
| Interest on balance with the RBI and other inter-bank lending | 1,854.37 | 2,142.39 |
| Interest on income tax refunds | 491.82 | 941.40 |
| Others | - | - |
| **Total interest income** | 53,855.85 | 62,342.13 |

Interest on advances and discount on bills increased by 41.36%, from Rs. 25,897.88 million in Fiscal 2006 to Rs. 36,608.45 million in Fiscal 2007, reflecting a 37.50% increase in average advances from Rs. 308,894.90 million in Fiscal 2006 to Rs. 424,740.80 million in Fiscal 2007. This was augmented by an increase in the average yield on advances from 8.38% in Fiscal 2006 to 8.62% in Fiscal 2007. The increase in average yield on advances was primarily due to a 40.14% increase in housing and retail advances and a 33.27% increase in SME advances, which are higher yielding advances, and an increase in the interest rate on lending to corporates. An increase in NPA recovery from Rs. 3,820.00 million in Fiscal 2006 to Rs. 4,590.00 million in Fiscal 2007 also contributed to the increase in yield on advances.

Income from investments decreased by 11.56% from Rs. 25,611.78 million in Fiscal 2006 to Rs. 22,649.89 million in Fiscal 2007. Our average volume of investments decreased by 8.00% from Rs. 313,512.20 million in Fiscal 2006 to Rs. 288,421.00 million in Fiscal 2007. In addition, the average yield on our investments decreased from 8.17% in Fiscal 2006 to 7.85% in Fiscal 2007, principally due to the redemption of higher coupon securities and the purchase of securities with a lower interest rate than the average in the previous fiscal year.

Interest on balances with RBI is the interest paid on our required cash reserve ratio balance. Interest on other inter-bank lending includes interest on call and term lending and interest on repo lending. Interest on balances with the RBI and other inter-bank lending increased by 15.53%, from Rs. 1,854.37 million in Fiscal 2006 to Rs. 2,142.39 million in Fiscal 2007. This increase was principally due to a 56.97% increase in interest on call and term lending, from Rs. 692.63 million in Fiscal 2006 to Rs. 1,087.19 million in Fiscal 2007. This increase was due to an increase in the average amount of call and term lending from Rs. 11,185.40 million in Fiscal 2006 to Rs. 17,282.20 million in Fiscal 2007 and an increase in the average yield from 6.19% in Fiscal 2006 to 6.29% in Fiscal 2007. The increase in interest on call and term lending was partially offset by a 15.07% decrease in interest on repo lending, from Rs. 738.90 million in Fiscal 2006 to Rs. 627.60 million in Fiscal 2007. This decrease was primarily due to a decrease in the average yield from 7.00% in Fiscal 2006 to 4.09% in Fiscal 2007, partially offset by an increase in the average amount of repo lending from Rs. 10,557.30 million in Fiscal 2006 to Rs. 15,362.90 million in Fiscal 2007.

*Interest Expense*

The following table sets forth the components of our interest expense:

**(Rs. in million)**

| | Fiscal 2006 | Fiscal 2007 |
|---|---|---|
| Interest on deposits | 28,799.15 | 35,708.12 |
| Interest on RBI and inter-bank borrowings | 131.11 | 237.69 |
| Others | 1,124.89 | 1,652.07 |
| **Total interest expended** | **30,055.15** | **37,597.88** |

Our interest expense increased by 25.10%, from Rs. 30,055.15 million in Fiscal 2006 to Rs. 37,597.88 million in Fiscal 2007. This increase was principally due to an increase in the average cost of funds from 4.74% in Fiscal 2006 to 5.12% in Fiscal 2007, which resulted from an increase in the average cost of deposits from 4.66% in Fiscal 2006 to 5.02% in Fiscal 2007. This increase was due to re-pricing of deposits offered during the period as a result of increased competition in the market for deposits to address the increasing demand for credit. Our average deposits increased from Rs. 618,171.20 million in Fiscal 2006 to Rs. 711,977.80 million in Fiscal 2007. Deposits contributed 89.29% and 88.69% of our average working funds in Fiscal 2006 and Fiscal 2007, respectively.

The average cost of borrowings increased from 8.07% in Fiscal 2006 to 8.24% in Fiscal 2007 and our average borrowings increased by Rs 7376.47 million in Fiscal 2007 compared with Fiscal 2006. The average cost of borrowings increased due to a general increase in interest rates in India.

Our interest expense on RBI and other inter-bank borrowings increased by 81.29% from Rs. 131.11 million in Fiscal 2006 to Rs. 237.69 million in Fiscal 2007 primarily due to an increase of Rs. 106.58 million in the cost of inter-bank borrowings. The cost of inter-bank borrowings increased due to an increase of Rs. 240.00 million in the average amount of inter-bank borrowings and an increase in the average interest rate from 7.64% in Fiscal 2006 to 8.21% in Fiscal 2007. The increase in the average inter-bank interest rate was due to increased competition among banks for funds to meet their short-term liquidity, especially in the second half of the fiscal year.

Our other interest expense, which consists mainly of interest on Tier II Bonds, increased by 46.87%, from Rs. 1,124.89 million in Fiscal 2006 to Rs. 1,652.06 million in Fiscal 2007. This increase was mainly due to 60.17% increase in interest on Tier II Bonds due to a Rs. 7,136.57 million increase in average outstanding Tier II Bonds

*Other Income*

Our other income decreased by 10.39%, from Rs. 5,308.18 million in Fiscal 2006 to Rs. 4,756.52 million in Fiscal 2007. The following table sets forth the components of our other income.

**(Rs. in million)**

| | Fiscal 2006 | Fiscal 2007 |
|---|---|---|
| Commission, exchange and brokerage | 3,028.24 | 3,504.83 |
| Profit on sale of investments (Net) | 1,836.59 | 1,362.2 |
| Profit/(Loss) on revaluation of investments (Net) | (204.26) | (861.73) |
| Profit/(Loss) on sale of land, building and other assets (Net) | (1.11) | (2.9) |
| Profit on exchange transactions (Net) | 260.88 | 431.01 |
| Income earned by way of dividends from Subsidiaries and Associates in India | 6.30 | 16.45 |
| Miscellaneous income | 381.54 | 306.66 |
| **Total other income** | **5,308.18** | **4,756.52** |

Income from commission, exchange and brokerage increased by 15.74% from Rs. 3,028.24 million in Fiscal 2006 to Rs. 3,504.83 million in Fiscal 2007. This increase was mainly due to increased business activity in this area.

Net profit on the sale of investments decreased by 25.83% from Rs. 1,836.59 million in Fiscal 2006 to Rs. 1,362.20 million in Fiscal 2007. This decrease was due to a decrease in the volume of securities sold offset in part by an increase in the yield on Government securities, resulting in a decrease in the average price of securities sold.

Net loss on revaluation of investments increased by 321.88%, from a loss of Rs. 204.26 million in Fiscal 2006 to a loss of Rs. 861.73 million in Fiscal 2007. This increase in loss was due to an increase in the amortization amount from Rs. 204.26 million in Fiscal 2006 to Rs. 861.73 million in Fiscal 2007 because of the shifting of Rs. 47,620 million worth of securities from the Available for Sale category to the Held to Maturity category in Fiscal 2007 and the net addition of Rs. 11,331.00 million worth of securities put into the Held to Maturity category.

Net profit on exchange transactions increased by 65.21%, from Rs. 260.88 million in Fiscal 2006 to Rs. 431.01 million in Fiscal 2007. This increase was due to an increase in the volume of transactions and an increase in profit from proprietary trading.

Miscellaneous income includes rent on safe deposit lockers and rent received from tenants of the Bank's own premises and other miscellaneous income. Our miscellaneous income decreased by 19.63% from Rs. 381.54 million in Fiscal 2006 to Rs. 306.66 million in Fiscal 2007. This decrease was primarily due to a decrease in other miscellaneous income.

*Operating Expenses*

Total operating expenses decreased by 1.86% from Rs. 17,162.20 million in Fiscal 2006 to Rs. 16,843.56 million in Fiscal 2007. As a percentage of our total income, operating expenses decreased to 25.10% in Fiscal 2007 compared with 29.01% in Fiscal 2006. Set forth below are the details of our total operating expenses for Fiscal 2006 and Fiscal 2007.

**(Rs. in million)**

| | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|
| Payment to and provision for employees | 12,757.38 | 11,754.15 |
| Rent, taxes and lighting | 1,001.11 | 1,090.00 |
| Printing and stationery | 162.51 | 166.07 |
| Advertisement and publicity | 77.87 | 60.10 |
| Depreciation on Bank's properties (net of amounts adjusted against revaluation reserve) | 509.01 | 649.99 |
| Directors' fees, allowances and expenses | 5.26 | 4.52 |
| Auditors' fees and expenses | 138.84 | 137.40 |
| Law charges | 95.15 | 92.49 |
| Postage, telegrams, telephones, etc. | 58.81 | 107.74 |
| Repairs and maintenance | 251.63 | 338.55 |
| Insurance | 572.88 | 643.84 |
| Other expenditure | 1,531.75 | 1,798.73 |
| **Total Operating Expenses** | **17,162.20** | **16,843.58** |

The primary component of our operating expenses was payments to and provision for employees, which decreased by 7.86%, from Rs. 12,757.38 million in Fiscal 2006 to Rs. 11,754.15 million in Fiscal 2007. In Fiscal 2006, we made a provision for wage revision arrears amounting to Rs. 392.94 million and ex-gratia payments of Rs. 526.02 million and pension and gratuity payments of Rs. 184.40 million to employees who retired under a voluntary retirement scheme. No such provision or payments were required in Fiscal 2007. The decrease in Fiscal 2007 was also due to a 2.72% decrease in the number of full-time employees from 37,241 as at March 31, 2006 to 36,227 as at March 31, 2007.

Depreciation expenses on our property (our fixed assets, including furniture, fixtures and computers) increased by 27.70% from Rs. 509.01 million in Fiscal 2006 to Rs. 649.99 million in Fiscal 2007. This increase was primarily due depreciation for extra hardware and software for the CBS purchased in Fiscal 2007 and the installation of ATMs during Fiscal 2007.

Repairs and maintenance expenses increased by 34.54%, from 251.63 million in Fiscal 2006 to Rs. 338.55 million in Fiscal 2007. This increase was mainly due to an increase in the annual maintenance contract for newly acquired hardware for CBS and ATMs.

Insurance expenses increased by 12.39% from Rs. 572.88 million in Fiscal 2006 to Rs. 643.84 million in Fiscal 2007, mainly due to insuring the extra hardware and ATMs purchased in Fiscal 2007 and increases in insurance premiums.

Other expenditure increased by 17.43% from Rs. 1,531.75 million in Fiscal 2006 to Rs. 1,798.73 million in Fiscal 2007. This increase was due to an increase in the volume of our business.

*Operating Profit*

As a result of the foregoing factors, our operating profit before provisions and contingencies increased by 5.95%, from Rs. 11,946.68 million in Fiscal 2006 to Rs. 12,657.19 million in Fiscal 2007. As a percentage of total income, our operating profit decreased from 20.19% in Fiscal 2006 to 18.86% in Fiscal 2007.

*Provisions and Contingencies*

Provisions and contingencies made in Fiscal 2007 decreased by 43.51% from Rs. 8,187.40 million in Fiscal 2006 to Rs. 5,704.10 million in Fiscal 2007. The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

**(Rs. in million)**

| | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|
| Required provision for non-performing advances | 3,393.40 | 3,265.90 |
| Floating provision for NPAs in addition to norms made/(written back) | (2,193.40) | - |
| Provision for standard advances | 689.00 | 1,222.10 |
| (Recovery in written off accounts) | (540.00) | (1,633.30) |
| Depreciation on investments | 6,889.20 | 2,378.10 |
| Other provisions made/(written back) | (50.80) | 471.30 |
| **Total provisions and contingencies** | 8,187.40 | 5,704.10 |

Our required provisioning in respect of non-performing advances decreased by 3.76% from Rs. 3,393.40 million in Fiscal 2006 to Rs. 3,265.90 million in Fiscal 2007. This was due to a decrease in gross NPAs from Rs. 26,841.69 million in Fiscal 2006 to Rs. 25,719.82 million in Fiscal 2007.

In Fiscal 2006, we wrote back Rs. 2,193.40 million out of our floating provisions for NPAs. We decided to write back this amount to reduce the excess provision for NPAs, which stood at Rs. 3,846.60 million as at March 31, 2007. Due to a change in our accounting policy, based on a change in RBI prudential norms, we did not make or write back a floating provision for NPAs in Fiscal 2007. For further information on our accounting policy for floating provisions, please see "Changes in Accounting Policies–Floating Provisions for NPAs" in this section on page 232 above.

Our provision for standard advances increased by 77.37%, from Rs. 689.00 million in Fiscal 2006 to Rs. 1,222.10 million in Fiscal 2007. This increase was primarily due to an increase in the provisioning requirement required by the RBI under several categories of advances. In some categories the provisioning requirement increased from 0.40% to 2.00%.

Our recovery in written off accounts increased by 202.46%, from Rs. 540 million in Fiscal 2006 to Rs. 1,633.30 million in Fiscal 2007 due, in part, to an increased focused on recovery.

Our provisioning for depreciation on investments decreased by 65.48%, from Rs. 6,889.20 million in Fiscal 2006 to Rs. 2,378.10 million in Fiscal 2007. This decrease was due to the shifting of Rs. 47,620 million worth of securities from the Available for Sale category to the Held to Maturity category in April 2006 and thereby insulating them from the mark to market requirement.

Other provisions include provisions for restructured accounts and provisions for other assets. In Fiscal 2007, we made other provisions of Rs. 471.30 million, principally due a Rs. 438.54 million provision for restructured accounts, whereas in Fiscal 2006, we wrote back Rs. 50.80 million from our other provisions, which included Rs. 12.10 million written back from our provisions for restructured accounts.

*Income Tax*

Our provision for income tax (including deferred tax) was Rs. 1,185.10 million in Fiscal 2006 and was Rs. 1,972.96 million in Fiscal 2007. This increase was primarily due to the increase in our operating profit and deletion of the benefit under Section 10(23G) of the Income Tax Act, 1961 effective April 1, 2006. The benefit to us under Section 10(23G) for Fiscal 2006 was Rs. 288.50 million. Our effective income tax rate was 31.52% in Fiscal 2006 and was 28.36% in Fiscal 2007 compared with statutory tax rate of 33.66%. Our effective income tax rate in Fiscal 2006 and Fiscal 2007 was less than the statutory tax rate primarily due to various deductions available as per the provisions of the Income Tax Act, 1961.

*Net Profit*

As a result of the foregoing factors, our net profit after tax increased by 93.47% from Rs. 2,574.18 million in Fiscal 2006 to Rs. 4,980.13 million in Fiscal 2007. As a percentage of total income, our net profit after tax increased from 4.35% in Fiscal 2006 to 7.42% in Fiscal 2007.

***Year ended March 31, 2006 Compared with the Year ended March 31, 2005***

Our total income decreased by 3.41% from Rs.61,250.08 million in Fiscal 2005 to Rs. 59,164.03 million in Fiscal 2006 and our total expenditure increased by 4.56% from Rs. 45,158.38 million in Fiscal 2005 to Rs. 47,217.35 million in Fiscal 2006. Our operating profit decreased by 25.76% from Rs. 16,091.70 million in Fiscal 2005 to Rs. 11,946.68 million in Fiscal 2006. Our net profit after tax decreased by 27.98% from Rs. 3,574.08 million in Fiscal 2005 to Rs. 2,574.18 million in Fiscal 2006.

Our interest income on advances (including discounts on bills) increased by 15.55%, from Rs. 22,413.41 million in Fiscal 2005 to Rs. 25,897.88 million in Fiscal 2006. This increase in income was partially offset by our other income declining by 42.31%, from Rs. 9,201.32 million in Fiscal 2005 to Rs. 5,308.18 million in Fiscal 2006, mainly due to a 68.76% decline in net profit on sale of investments.

Our operating profit decreased primarily due to a 68.76% decrease in our net profit on the sale of investments, which fell from Rs. 5,878.51 million in Fiscal 2005 to Rs. 1,836.59 million in Fiscal 2006, which was partially offset by a 15.55% increase in interest on advances and discount on bills, which increased from Rs. 22,413.41 million in Fiscal 2005 to Rs. 25,897.88 million in Fiscal 2006.

*Net Interest Income*

Our net interest income increased by 0.22%, from Rs. 23,749.41 million in Fiscal 2005 to Rs. 23,800.70 million in Fiscal 2006. The following table sets forth the components of our net interest income.

**(Rs. in million)**

| | **Fiscal 2005** | **Fiscal 2006** |
|---|---|---|
| Interest income | 52,048.76 | 53,855.85 |
| Interest expense | 28,299.35 | 30,055.15 |
| **Net interest income** | 23,749.41 | 23,800.70 |

*Interest Income*

The following table sets forth the components of our interest income:

**(Rs. in million)**

| | **Fiscal 2005** | **Fiscal 2006** |
|---|---|---|
| Interest on advances and discount on bills | 22,413.41 | 25,897.88 |
| Income on investments | 26,740.83 | 25,611.78 |
| Interest on balance with the RBI and other inter-bank lending | 1,945.64 | 1,854.37 |
| Interest on income tax refunds | 948.69 | 491.82 |
| Others | 0.19 | - |
| **Total interest income** | **52,048.76** | **53,855.85** |

Interest on advances and discount on bills increased by 15.55%, from Rs. 22,413.41 million in Fiscal 2005 to Rs. 25,897.88 million in Fiscal 2006, reflecting a 21.80% increase in average advances from Rs. 253,614.70 million in Fiscal 2005 to Rs. 308,894.90 million in Fiscal 2006, which was partially offset by a decrease in the average yield on advances from 8.84% in Fiscal 2005 to 8.38% in Fiscal 2006. The decrease in average yield was primarily due to lending to corporates at sub BPLR due to market conditions.

Income from investments decreased by 4.22%, from Rs. 26,740.83 million in Fiscal 2005 to Rs. 25,611.78 million in Fiscal 2006. This decrease was principally due to the average yield on our investments decreasing from 8.49% in Fiscal 2005 to 8.17% in Fiscal 2006, principally due to redemption of high coupon securities and the purchase of securities with a lower interest rate than the average interest rate in the previous fiscal year. The interest rate on securities declined in Fiscal 2006 due to market conditions. The decrease in income from investments was also due to a 0.44% decrease in our average volume of investments, from Rs. 314,903.40 million in Fiscal 2005 to Rs. 313,512.20 million in Fiscal 2006.

Interest on balances with the RBI and other inter-bank lending decreased by Rs. 91.27 million, or 4.69%, from Rs. 1,945.64 million in Fiscal 2005 to Rs. 1,854.37 million in Fiscal 2006. This decrease was primarily due to a 13.34% decrease in interest on call and term lending, from Rs. 799.29 million in Fiscal 2005 to Rs. 692.63 million in Fiscal 2006. This decrease was due to a decrease in the average yield on call and term lending from 7.79% in Fiscal 2005 to 6.19% in Fiscal 2006, partially offset by an increase in the average amount of call and term lending from Rs. 10,257.50 million in Fiscal 2005 to Rs. 11,185.40 million in Fiscal 2006.

*Interest Expense*

Our interest expense increased by 6.20%, from Rs. 28,299.35 million in Fiscal 2005 to Rs. 30,055.15 million in Fiscal 2006. The average volume of funds increased by 9.54%, from Rs. 578,521.25 million in Fiscal 2005 to Rs. 633,730.38 million in Fiscal 2006 and our average borrowing cost decreased from 8.80% in Fiscal 2005 to 8.07% in Fiscal 2006. The following table sets forth the components of our interest expense:

**(Rs. in million)**

| | **Fiscal 2005** | **Fiscal 2006** |
|---|---|---|
| Interest on deposits | 27,030.38 | 28,799.15 |
| Interest on RBI and inter-bank borrowings | 27.13 | 131.11 |
| Others | 1,241.84 | 1,124.89 |
| **Total interest expended** | **28,299.35** | **30,055.15** |

Our interest on deposits increased by 6.54%, from Rs. 27,030.38 million in Fiscal 2005 to Rs. 28,799.15 million in Fiscal 2006. This increase was principally due to 9.58% increase in our average deposits, from Rs. 564,109.20 million in Fiscal 2005 to Rs. 618,171.02 million in Fiscal 2006, partially offset by the decrease in the average cost of deposits from 4.79% in Fiscal 2005 to 4.66% in Fiscal 2006. The decrease in the average cost of deposits was due to a downward revision of interest rates on deposits offered during the period. Deposits contributed 89.71% and 89.29% of our average funds in Fiscal 2005 and Fiscal 2006, respectively.

Our interest expense on RBI and inter-bank borrowings increased by 383.27% from Rs. 27.13 million in Fiscal 2005 to Rs. 131.11 million in Fiscal 2006, primarily due to an increase in average borrowing from Rs. 310.00 million in Fiscal 2005 to Rs. 2,320.00 million in Fiscal 2006.

Our other interest expenses, which consists of mainly of interest paid on subordinate debt (Tier II Bonds), decreased by 9.42% from Rs. 1,241.84 million in Fiscal 2005 to Rs. 1,124.89 million in Fiscal 2006. This decrease was due to a Rs. 585.27 million decrease in average Tier II Bonds and a decrease in the average interest rate on Tier II Bonds from 8.92% in Fiscal 2005 to 8.21% in Fiscal 2006.

*Other Income*

Our other income decreased by 42.31%, from Rs. 9,201.32 million in Fiscal 2005 to Rs. 5,308.18 million in Fiscal 2006. The following table sets forth the components of our other income.

**(Rs. in million)**

| | **Fiscal 2005** | **Fiscal 2006** |
|---|---|---|
| Commission, exchange and brokerage | 2,952.46 | 3,028.24 |
| Profit on sale of investments (Net) | 5,878.51 | 1,836.59 |
| Profit/(Loss) on revaluation of investments (Net) | (187.39) | (204.26) |
| Profit/(Loss) on sale of land, building and other assets (Net) | (3.17) | (1.11) |
| Profit on exchange transactions (Net) | 283.51 | 260.88 |
| Income earned by way of dividends from Subsidiaries and Associates in India | 10.32 | 6.30 |
| Miscellaneous Income | 267.08 | 381.54 |
| **Total other income** | **9,201.32** | **5,308.18** |

Income from commissions, exchange and brokerage increased by 2.57%, from Rs. 2,952.46 million in Fiscal 2005 to Rs. 3,028.24 million in Fiscal 2006. This increase was mainly due to an increase in the volume of business.

Net profit on the sale of investments decreased by 68.76%, from Rs. 5,878.51 million in Fiscal 2005 to Rs. 1,836.59 million in Fiscal 2006. This decrease was due to a decrease in the volume of securities sold and an increase in the yield on Government securities, resulting in a decrease in the average price of securities sold.

Net loss on revaluation of investments increased by 9.00%, from Rs. 187.39 million in Fiscal 2005 to Rs. 204.26 million in Fiscal 2006. This increase in net loss was due to was due to an increase in the amortization amount due to shifting of Rs. 25,566 million worth of securities from the Available For Sale category to the Held to Maturity category in Fiscal 2006 and the net addition of Rs. 5,212 million worth of securities into the Held to Maturity category.

Net profit on exchange transactions decreased by 7.98% from Rs.283.51 million in Fiscal 2005 to Rs.260.88 million in Fiscal 2006. This decrease was primarily due to a decrease in the volume of transactions and an increase in volatility in the foreign exchange market.

Our miscellaneous income increased by 42.86% from Rs. 267.08 million in Fiscal 2005 to Rs. 381.54 million in Fiscal 2006. This increase was primarily due to an increase in other miscellaneous income.

*Operating Expenses*

Total operating expenses increased by 1.80%, from Rs. 16,859.03 million in Fiscal 2005 to Rs. 17,162.20 million in Fiscal 2006. As a percentage of our total income, operating expenses increased to 29.01% in Fiscal 2006 compared with 27.52% in Fiscal 2005. Set forth below are the details of our total operating expenses for Fiscal 2005 and Fiscal 2006.

**(Rs. in million)**

| | **Fiscal 2005** | **Fiscal 2006** |
|---|---|---|
| Payment to and provision for employees | 12,775.62 | 12,757.38 |
| Rent, taxes and lighting | 943.06 | 1,001.11 |
| Printing and stationery | 157.68 | 162.51 |
| Advertisement and publicity | 70.37 | 77.87 |
| Depreciation on banks' properties (net of amounts adjusted against revaluation reserve) | 531.68 | 509.01 |
| Director's fees, allowances and expenses | 5.35 | 5.26 |
| Auditor's fees and expenses | 131.13 | 138.84 |

| | Fiscal 2005 | Fiscal 2006 |
|---|---|---|
| Law charges | 109.85 | 95.15 |
| Postage, telegrams, telephones etc. | 59.28 | 58.81 |
| Repairs and maintenance | 236.21 | 251.63 |
| Insurance | 410.56 | 572.88 |
| Other expenditure | 1,428.24 | 1,531.75 |
| **Total operating expenses** | **16,859.03** | **17,162.20** |

The primary component of our operating expenses was payments to and provision for employees, which decreased by 0.14%, from Rs. 12,775.62 million in Fiscal 2005 to Rs. 12,757.38 million in Fiscal 2006. This decrease was primarily due to a decrease in the number of full-time employees from 38,303 as at March 31, 2005 to 37,241 as at March 31, 2006.

Insurance expenses increased by 39.54% from Rs. 410.56 million in Fiscal 2005 to Rs. 572.88 million in Fiscal 2006, mainly due to an increase in premiums paid on deposit insurance with Deposit Insurance and Credit Guarantee Corporation from 0.09% to 0.10% with effect from April 2005.

Other expenditure increased by 7.25% from Rs. 1,428.24 million in Fiscal 2005 to Rs. 1,531.75 million in Fiscal 2006. This was mainly due to increase in the volume of business.

*Operating Profit*

As a result of the foregoing factors, our operating profit before provisions and contingencies decreased by 25.76% from Rs. 16,091.70 million in Fiscal 2005 to Rs. 11,946.68 million in Fiscal 2006. As a percentage of total income, our operating profit decreased from 26.27% in Fiscal 2005 to 20.19% in Fiscal 2006.

*Provisions and Contingencies*

Provisions and contingencies made in Fiscal 2006 decreased by 19.70%, from Rs. 10,195.44 million in Fiscal 2005 to Rs. 8,187.40 million in Fiscal 2006. The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

**(Rs. in million)**

| | Fiscal 2005 | Fiscal 2006 |
|---|---|---|
| Required provision for non-performing advances | 5,132.07 | 3,393.40 |
| Floating provision for NPAs in addition to norms made/(written back) | 2,040.00 | (2,193.40) |
| Provision for standard advances | 122.60 | 689.00 |
| (Recovery in written off accounts) | (1,185.45) | (540.00) |
| Depreciation on investments | 3,598.02 | 6,889.20 |
| Other provisions made/(written back) | 488.20 | (50.80) |
| **Total provisions and contingencies** | **10,195.44** | **8,187.40** |

Our required provision in respect of non-performing advances decreased by 33.88%, from Rs. 5,132.07 million in Fiscal 2005 to Rs. 3,393.40 million in Fiscal 2006. This decrease was primarily due to changes in the RBI's prudential norms for asset classification and provisioning.

We made a Rs. 2,040.00 million floating provision for NPAs in Fiscal 2005 compared with writing back Rs. 2,193.40 million from the floating provision for NPAs in Fiscal 2006.

Our provision for standard advances increased by 461.99%, from Rs. 122.60 million in Fiscal 2005 to Rs. 689.00 million in Fiscal 2006. This increase was primarily due to an increase in the percentage of provisions on standard assets from 0.25% to 0.40% in certain categories by the RBI.

Our provisioning for depreciation on investments increased by 91.47%, from Rs. 3,598.02 million in Fiscal 2005 to Rs. 6,889.20 million in Fiscal 2006. This increase was due to an increase in the yield on Government securities, which resulted in a decrease in the market value of our securities and an increase in our mark to market losses. Our increase in depreciation in Fiscal 2006 was partially offset by the shifting of Rs. 25,570 million in securities in June 2005 from the Available for Sale category to the Held to Maturity category, thereby insulating them from the mark to market requirement.

Other provisions made/(written back) in Fiscal 2005 included a Rs. 462.73 million provision for restructured standard accounts, whereas other provisions made/(written back) in Fiscal 2006 included Rs. 12.10 million written back for restructured standard accounts. We had excess provisions that were withdrawn during Fiscal 2006 as the amount outstanding in restructured accounts decreased from Rs. 5,212.60 million in Fiscal 2005 to Rs. 3,560.60 million in Fiscal 2006.

*Income Tax*

Our provision for income tax (including deferred tax) decreased by 48.97%, from Rs. 2,322.14 million in Fiscal 2005 to Rs. 1,185.10 million in Fiscal 2006. This decrease was mainly due to a decrease in our operating profit. Our income tax provision for Fiscal 2006 also included a Rs. 366.50 million provision for fringe benefits tax, which became effective from April 1, 2005. Our effective income tax rate in Fiscal 2005 of 39.38% was higher than statutory tax rate of 36.59% primarily due to certain statutory disallowances as per the Income Tax Act, 1961. Our effective income tax rate in Fiscal 2006 of 31.52% was lower than statutory tax rate of 33.66% primarily due to various deductions available as per the Income Tax Act, 1961.

*Net Profit after Tax*

As a result of the foregoing factors, our net profit after tax decreased by 27.98%, from Rs. 3,574.08 million in Fiscal 2005 to Rs. 2,574.18 million in Fiscal 2006. As a percentage of total income, our net profit after tax decreased from 5.84% in Fiscal 2005 to 4.35% in Fiscal 2006.

**Liquidity and Capital Resources**

Our growth over the fiscal years ended March 31, 2005, March 31, 2006 and March 31, 2007 has been financed by a combination of cash generated from operations and increases in our customer deposits and borrowings.

The table below sets forth our cash flows from operations, cash flows from investment activities, cash flows from financing activities and net changes in cash and cash equivalents for the periods indicated:

**(Rs. in million)**

| | **Fiscal 2005** | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|---|
| Net cash flow from operations(1) | 22,690.24 | -24,560.25 | 38,447.12 |
| Net cash flow from investing activities(2) | -387.38 | -353.65 | -1,122.76 |
| Net cash flow from financing activities(3) | -2,594.18 | 2,325.46 | 2,863.60 |
| Net changes in cash and cash equivalents(4) | 19,708.68 | -22,588.44 | 40,187.96 |

(1) A negative number indicates cash used in operations.
(2) A negative number indicates cash used in investing activities.
(3) A negative number indicates cash used in financing activities.
(4) A positive number indicates a net increase in cash and cash equivalents and a negative number indicates a decrease in cash and cash equivalents.

*Cash Flow from Operations*

Our net cash flow from operating activities reflects interest received during the period 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. In addition, our net cash from operating activities reflects changes in operating assets and liabilities, including investments, advances, deposits and borrowings, as well as other assets and liabilities. Change in borrowings reflects only short-term borrowings and not Tier II Bonds, which are included in cash flows from financing activities.

Our net cash received from operating activities was Rs. 22,690.24 million in Fiscal 2005, our net cash used in operating activities was Rs. 24,560.25 million in Fiscal 2006 and our net cash received from operating activities was Rs. 38,447.12 million.

The table below sets forth our cash flow from (1) the cash profit generated from operating activities before tax, (2) deposits, (3) advances, and (4) investments for the periods indicated. These line items are the most material in terms of changes in our cash flow from operations.

**(Rs. in million)**

| | **Fiscal 2005** | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|---|
| Cash profit generated from operating activities before tax | 7,558.71 | 5,284.37 | 8,999.87 |
| Increase/(Decrease) in deposits | 48,430.72 | 57,309.74 | 162,936.29 |
| (Increase)/Decrease in advances | (44,732.14) | (102,061.62) | (143,119.86) |
| (Increase)/Decrease in investments | 5,703.70 | 21,956.62 | 8,972.00 |

*Cash Used in Investing Activities*

Our net cash used in investing activities reflects the purchase and sale of fixed assets and dividends received from our Subsidiaries and Associates. Our net cash used in investing activities was Rs. 387.38 million, Rs. 353.65 million and Rs. 1,122.76 million in Fiscal 2005, 2006 and 2007, respectively. The purchase of fixed assets was Rs. 584.54 million in Fiscal 2005, Rs. 457.05 million in Fiscal 2006 and Rs. 1,373.74 million in Fiscal 2007; this is mainly on account of investment in CBS implementation (hardware and software) and acquiring new ATMs. This was partially offset by dividends received from our Subsidiaries and Associates and the sale of fixed assets.

*Cash Flows from Financing Activities*

Our net cash from financing activities reflects proceeds or redemptions of our Tier II Bonds, interest paid on our Tier II Bonds and dividends paid to the Government and taxes paid thereon.

Our net cash used in financing activities was Rs. 2,594.18 million in Fiscal 2005, comprising Rs. 1,199.34 million in interest paid on the Tier II Bonds, the redemption of Rs. 1,000 million of Tier II Bonds, Rs. 350 million in dividends paid to the Government and Rs. 44.84 million in taxes paid thereon.

Our net cash received from financing activities of was Rs. 2,325.46 million in Fiscal 2006, reflecting Rs. 3,782.00 million in proceeds from the issuance of Tier II Bonds, partially offset by Rs. 1,057.45 million in interest paid on the Tier II Bonds, Rs. 350 million in dividends paid to the Government and Rs. 49.09 million in taxes paid thereon.

Our net cash received from financing activities of was Rs. 2,863.60 million in Fiscal 2007, reflecting Rs. 5,000.00 million in proceeds from the issuance of Tier II Bonds, partially offset by Rs. 1,566.27 million in interest paid on the Tier II Bonds, Rs. 500 million in dividends paid to the Government and Rs. 70.13 million in taxes paid thereon.

### Capital

We are 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. We are required to maintain a minimum 9% capital to risk weighted assets, at least half of which must be Tier I capital.

Our regulatory capital and capital adequacy ratios, based on our restated financial statements, are as follows:

**(Rs. in million, except percentages)**

| | As at March 31, 2005 | As at March 31, 2006 | As at March 31, 2007 |
|---|---|---|---|
| Tier I capital | 17,024.70 | 29,204.90 | 32,898.20 |
| Tier II capital | 17,024.70 | 15,604.80 | 21,219.50 |
| Total capital | 34,049.40 | 44,809.70 | 54,117.70 |
| Total risk weighted assets and contingents | 280,302.20 | 406,080.70 | 520,178.80 |
| Capital adequacy ratios: | | | |
| Tier I | 6.08 | 7.19 | 6.32 |
| Tier II | 6.07 | 3.84 | 4.08 |
| Total capital ratio | 12.15 | 11.03 | 10.40 |
| Minimum capital ratios required by the RBI: | | | |
| Tier I | 4.50% | 4.50% | 4.50% |
| Total capital ratio | 9.00% | 9.00% | 9.00% |

We have been able to maintain the required capital adequacy ratio ("CAR") prescribed by the RBI. As shown above, our total capital adequacy ratio was 12.15% as at March 31, 2005, 11.03% as at March 31, 2006 and 10.40% as at March 31, 2007. Our capital adequacy ratio as at March 31, 2007 decreased due to an increase in risk weighted assets from Rs. 406,080.70 million as at March 31, 2006 to Rs. 520,178.80 million as at March 31, 2007. Between Fiscal 2005 and 2006, the CAR decreased mainly due to an increase in advances from Rs. 272,773.19 million as at March 31, 2005 to Rs. 374,834.81 million as at March 31, 2006. This led to an increase in risk-weighted assets from Rs. 280,302.20 million as at March 31, 2005 to Rs. 406,080.70 million as at March 31, 2006.

We are constantly reviewing our portfolio mix to maximise our return as well as to maintain the required CAR. As discussed above in "Introduction–Factors Affecting our Results of Operations–Laws, Rules, Regulations, Guidelines and Norms Applicable to the Banking Industry–Capital Adequacy Requirements" in this section on page 231 of this Red Herring Prospectus, the implementation of Basel II norms by the RBI may increase our capital requirement and may require additional investment in risk management systems.

### Net Worth

Our net worth was Rs. 33,039.79 million as at March 31, 2007, an increase of 12.60% compared with our net worth of Rs. 29,343.29 million as at March 31, 2006, which was 17.56% higher than our net worth of. Rs. 24,960.05 million as at March 31, 2005. The following table sets forth the principal components of our net worth as at March 31, 2005, March 31, 2006 and March 31, 2007:

(Rs. in million)

| | As at March 31, 2005 | As at March 31, 2006 | As at March 31, 2007 |
|---|---|---|---|
| Share Capital | 11,241.41 | 11,241.41 | - |
| Equity Capital | - | - | 3,241.41 |
| Preference Capital | - | - | 8,000.00 |
| Reserves and Surplus | 16,175.05 | 18,101.88 | 21,798.38 |
| Less: Deferred Tax Asset/Liability | 2456.40 | - | - |

| | As at March 31, 2005 | As at March 31, 2006 | As at March 31, 2007 |
|---|---|---|---|
| **Net Worth** | **24,960.05** | **29,343.29** | **33,039.79** |

During Fiscal 2007 our capital was restructured as per the Government's directives, by converting the share capital of Rs. 11,241.41 million into Rs. 8,000.00 million of perpetual non-cumulative preference share capital carrying a dividend at the Repo rate plus 100 basis points and retaining the balance of Rs. 3,241.41 million as equity capital.

***Assets***

The following table sets forth the principal components of our assets as at March 31, 2005, March 31, 2006 and March 31, 2007:

(Rs. in million)

| | As at March 31, 2005 | As at March 31, 2006 | As at March 31, 2007 |
|---|---|---|---|
| Cash in hand (including foreign currency notes) | 4,927.16 | 5,291.82 | 7,384.83 |
| Balance with the RBI | 50,790.89 | 28,536.79 | 47,351.85 |
| Balance with banks in India | 10,275.56 | 11,250.30 | 8,578.59 |
| Balance with banks outside India | 3,035.72 | 2,861.98 | 6,034.13 |
| Money at call and short notice | 1,500.00 | - | 18,779.45 |
| Investments (Net) | 308,347.55 | 286,390.93 | 277,418.92 |
| Total advances(Net) | 272,773.19 | 374,834.81 | 517,954.67 |
| Fixed Assets | 7,521.67 | 7,248.36 | 7,672.70 |
| Other Assets | 26,787.20 | 30,395.42 | 38,905.70 |
| **Total Assets** | **685,958.94** | **746,810.41** | **930,080.84** |

Our total assets increased by 8.87% from Rs. 685,958.94 million as at March 31, 2005 to Rs. 746,810.41 million as at March 31, 2006, and further increased by 24.54% to Rs. 930,080.84 million as at March 31, 2007. The most significant element of these changes was increase in advances as a result of a general increase in our business activities.

Our net investments decreased by 7.12% from Rs. 308,347.55 million as at March 31, 2005 to Rs. 286,390.93 million as at March 31, 2006, and decreased by 3.13 % to Rs. 277,418.92 million as at March 31, 2007. Of our investment portfolio as at March 31, 2007, 80.69% consisted of securities issued by the Government, state governments and others (including local authorities) compared with 84.35% and 81.91% as at March 31, 2006, and 2005, respectively.

Our advances increased by 37.42% from Rs. 272,773.19 million as at March 31, 2005 to Rs. 374,834.81 million as at March 31, 2006, and further increased by 38.18% to Rs. 517,954.66 million as at March 31, 2007. The reasons for these increases in our advances were improved credit off take in the market together with our focus on credit growth.

Other assets, which included interest accrued, tax paid, tax deducted at source, and stationery and stamps, increased by 13.47% from Rs. 26,787.20 million as at March 31, 2005 to Rs. 30,395.42 million as at March 31, 2006, and increased by 28% to Rs. 38,905.70 million as at March 31, 2007. Our gross non-performing assets increased from Rs. 26,214.05 million as at March 31, 2005, to Rs. 26,841.69 million as at March 31, 2006, and decreased to Rs. 25,719.82 million as at March 31, 2007, or 9.01%, 6.85% and 4.81% of gross advances, respectively. The reduction in gross NPAs was mainly due to accelerated efforts for recovery of NPAs.

Our net NPAs to net advances ratio was 2.98% as at March 31, 2005, 2.59% as at March 31, 2006 and 1.70% as at March 31, 2007. Our provisions and reductions for NPAs were Rs. 18,072.29 million as at

March 31, 2005, Rs. 17,119.33 million as at March 31, 2006 and Rs. 16,935.24 million as at March 31, 2007.

See the section titled "Selected Statistical Information" on page 212 of this Red Herring Prospectus for a further discussion of our non-performing assets.

***Liabilities***

The following table sets forth the principal components of our liabilities as at March 31, 2005, March 31, 2006 and March 31, 2007:

**(Rs. in million)**

| | **As at March 31, 2005** | **As at March 31, 2006** | **As at March 31, 2007** |
|---|---|---|---|
| Demand deposits from banks | 2,058.81 | 2,912.98 | 1,854.13 |
| Demand deposits from others | 59,327.84 | 73,394.65 | 83,401.51 |
| Savings deposits | 203,271.17 | 234,802.28 | 263,122.40 |
| Term deposits from banks | 17,815.27 | 18,825.89 | 17,680.27 |
| Term deposits from others | 325,043.66 | 334,890.68 | 461,704.46 |
| **Total deposits** | **607,516.75** | **664,826.48** | **827,762.77** |
| Borrowings | 1,396.87 | 3,108.13 | 7,820.11 |
| Other liabilities and provisions | 31,293.18 | 27,574.14 | 34,717.71 |
| Subordinate debts | 13,100.00 | 16,882.00 | 21,882.00 |
| **Total liabilities** | **653,306.80** | **712,390.75** | **892,182.59** |

Our total liabilities increased by 9.04%, from Rs. 653,306.80 million as at March 31, 2005 to Rs. 712,390.75 million as at March 31, 2006 and further increased by 25.24 %, to Rs. 892,182.59 million as at March 31, 2007. Other liabilities and provisions include bills payable, interest accrued on deposits and borrowings, inter-office adjustments, provisions for standard advances, deferred tax liability and other provisions. Subordinate debts are our Tier II Bonds.

Our total deposits increased by 9.43%, from Rs. 607,516.75 million as at March 31, 2005 to Rs. 664,826.48 million as at March 31, 2006, and further increased by 24.51% to Rs. 827,762.77 million as at March 31, 2007. Demand (current) deposits grew by 24.31%, from Rs. 61,386.65 million as at March 31, 2005 to Rs. 76,307.63 million as at March 31, 2006 and further increased by 11.73% to Rs. 85,255.64 million as at March 31, 2007. Term deposits grew by 3.17%, from Rs. 342,858.93 million as at March 31, 2005 to Rs. 353,716.57 million as at March 31, 2006, and further increased by 35.53% to Rs. 479,384.73 million as at March 31, 2007.

**Off-Balance Sheet Arrangements and Financial Instruments**

***Contingent Liabilities***

The following table sets forth the principal components of our contingent liabilities as March 31, 2005, March 31, 2006 and March 31, 2007:

**(Rs. in million)**

| | **As at March 31, 2005** | **As at March 31, 2006** | **As at March 31, 2007** |
|---|---|---|---|
| Claims against the Bank not acknowledged as debt | 4,811.24 | 4,998.67 | 3,543.16 |
| Liability for partly paid investments | 62.96 | 258.36 | 618.48 |
| Liability on account of outstanding forward exchange contracts | 81,429.53 | 112,095.16 | 96,547.02 |
| Guarantees given on behalf of constituents in India | 17,449.71 | 19,866.47 | 20,994.38 |
| Guarantees given on behalf of constituents outside India | 2,419.89 | 2,882.39 | 1,655.22 |

| | As at March 31, 2005 | As at March 31, 2006 | As at March 31, 2007 |
|---|---|---|---|
| Acceptances, endorsements and other obligations | 15,384.87 | 16,077.91 | 21,219.38 |
| Other items for which the Bank is contingently liable | 18.69 | 7.32 | 6.86 |
| **Total contingent liabilities** | **121,576.89** | **156,186.28** | **144,584.50** |

Contingent liabilities increased by 28.47%, from Rs. 121,576.89 million as at March 31, 2005 to Rs. 156,186.28 million as at March 31, 2006 and decreased by 7.43%, to Rs. 144,584.50 million as at March 31, 2007. The increase in Fiscal 2006 was primarily due to an increase in money market operations as part of our integrated treasury operations and an increase in our non-funded business (e.g., letters of credit and guarantees). The decrease in Fiscal 2007 was primarily due to a decrease in the contingent liability on forward exchange contracts, which decreased by Rs. 15,548.14 million in Fiscal 2007 due to volatility in the forward rates when the six month premium for USD/INR was more than the 12 months premium. Hence, many of the contracts in Fiscal 2007 were short term (mainly three-month contracts).

***Foreign Exchange and Derivative Transactions***

Our foreign exchange contracts arise out of spot and forward foreign exchange transactions with corporate and non-corporate customers and inter-bank counter parties. We earn profit on inter-bank and customer transactions by way of a spread between the purchase rate and the sale rate. Income from foreign exchange transactions is recorded as income from exchange transactions and income from derivatives transactions in the hedging book is recorded as interest income and income from the proprietary book is recorded as trading income.

The aggregate notional principal amount of our forward foreign exchange contracts was Rs. 81,429.53 million as at March 31, 2005, Rs. 112,095.16million as at March 31, 2006 and Rs. 96,547.02 million as at March 31, 2007. Since these contracts are marked to market, their fair value as at those dates was the same as their notional value.

The aggregate notional principal amount of our interest rate swaps was nil as at March 31, 2005, Rs. 5,000 million as at March 31, 2006 and Rs. 5,000 million as at March 31, 2007. Both the amounts in Fiscal 2006 and Fiscal 2007 relate to one interest rate swap whereby we receive a fixed interest rate and pay a floating interest rate linked to Japanese Yen LIBOR (the London Interbank Offered Rate), with a cap of 2.00% of Japanese Yen LIBOR, which matures in 2015. The swap was entered into solely for hedging purposes. The fair value of the swap as at March 31, 2006 was a loss of Rs. 451.3 million to maturity and was a loss of Rs. 268.7 million to maturity as at March 31, 2007.

**Significant Developments after March 31, 2007**

Except as stated elsewhere in this Red Herring Prospectus, to our knowledge no circumstances have arisen since March 31, 2007, which is 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 trading and profitability of the Bank or the value of our assets or our ability to pay our liabilities.

**Analysis of Certain Changes**

***Unusual or Infrequent Events or Transactions***

To our knowledge there have been no unusual or infrequent events or transactions that have taken place during the last three years, except as disclosed as extraordinary items and fixed assets in this section.

***Significant Economic Changes***

Except as described in “Risk Factors”, “Our Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations on a Standalone Basis” beginning on pages xi, 45 and 228 of this Red Herring Prospectus, respectively, to the best of our knowledge, there have been no significant economic changes that will have a material adverse impact on the operations or finances of the Bank.

***Known Trends or Uncertainties***

Our business has been impacted and we expect will continue to be impacted by the trends identified above in "Factors Affecting our Results of Operations" and the uncertainties described in the section titled "Risk Factors" beginning on page xi of this Red Herring Prospectus. To our knowledge, except as we have described in this Red Herring Prospectus, there are no known factors, which we expect to have a material adverse impact on our revenues.

***Future Relationship between Expenditure and Revenues***

Except as described in "Risk Factors", "Our Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Standalone Basis" beginning on pages xi, 45 and 228 of this Red Herring Prospectus, respectively, to the best of our knowledge, there is no future relationship between expenditure and income that will have a material adverse impact on the operations and finances of the Bank.

***Increase in our Revenue***

As described in the section titled "Our Business" beginning on page 45 of this Red Herring Prospectus, we currently have a number of strategies to increase our revenues.

***Significant Regulatory Changes***

Except as described in the sections titled "Regulations and Policies" and "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Standalone Basis" beginning on pages 82 and 228, respectively, of this Red Herring Prospectus, there have been no significant regulatory changes that could affect our income from continuing operations.

***New Products or Business Segments***

Except as described in the section titled "Our Business" beginning on page 45 of this Red Herring Prospectus, we have no current plans to develop new products or establish any new business segments.

***Seasonality of Business***

Although our business is not seasonal in nature, our business is affected by seasonal trends in the Indian economy that affect the overall banking industry. The period from October to March is the busy period in India for economic activity and, accordingly, we generally experience higher volumes of business during this period. From April to September, when economic activity typically decreases, our business volumes experience a corresponding decrease

***Dependence on Few Customers***

We are not dependent on a few customers.

***Competitive Conditions***

We expect competition to increase due to, among other things, an increase in regulatory reforms in the banking sector. For further details, see the section titled "Risk Factors–External Risk Factors" and "Our Business–Competition" beginning on pages xxiii and 79, respectively, of this Red Herring Prospectus.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION ON A CONSOLIDATED BASIS

*The following discussion and analysis relates to Central Bank of India (referred to in this section as the "Parent") and its subsidiaries and associates (together with the Parent, the "Group") on a consolidated basis and is based on the Group's unrestated audited consolidated financial statements. You should read the following discussion together with the Group's unrestated audited consolidated financial statements included in this Red Herring Prospectus. You should also read the section titled "Risk Factors" beginning on page xi of this Red Herring Prospectus, which discusses a number of factors and contingencies that could impact the Group's financial condition and results of operations. This discussion also contains forward looking statements and you should refer to the section "Forward-Looking Statements" on page x of this Red Herring Prospectus. The Parent does not calculate financial performance indicators on a consolidated basis.*

*In this section, references to "we"," our" and "us" are to the Group on a consolidated basis, unless the context requires otherwise.*

### Introduction

***Overview***

The Parent is a public sector banking institution with branches in 27 States and in three Union Territories in India. As at March 31, 2007, the Parent had 3,194 branches and a workforce of 39,055 employees (including part-time employees) serving over 25 million customers

The Parent's main business is taking deposits, lending money and making investments. The Parent also offers a wide range of general banking services to its customers, including: credit cards; debit cards; cash management and remittance services; and collection services. The Parent distributes third party life and non-life insurance policies and mutual funds on an agency basis. In addition, the Parent acts as an agent for various state governments and the Government of India on numerous matters, including the collection of taxes and the payment of pensions. The Parent also issues traveller's cheques and gift cheques.

The Parent has two subsidiaries: Centbank Financial and Custodial Services Limited, in which the Parent has a 100% ownership interest; and Cent Bank Home Finance Limited, in which the Parent has 59.5% ownership interest. Centbank Financial and Custodial Services Limited provides various executor and trustee services, including acting as an executor of wills, acting as an administrator of an estate, acting as a trustee under wills and acting as a trustee of numerous types of trusts. As at March 31, 2007, Centbank Financials maintained 1,957 accounts of various categories. Cent Bank Home Finance Limited is involved in housing finance. It has a network of 12 branches and one extension counter in seven states in India.

The Parent has a 20% ownership interest in Indo-Zambia Bank Limited, which is involved in banking operations in Zambia. The Parent sponsors and has a 35% ownership interest in 11 Regional Rural Banks ("RRBs") in collaboration with the state governments of Madhya Pradesh, Chattisgarh, Bihar, Maharashtra Uttar Pradesh and Rajasthan. RRBs mainly provide credit to small farmers, artisans, small entrepreneurs and agricultural labourers. For the years ended March 31, 2005 and 2006, the Parent sponsored and had a 35% ownership interest in 23 RRBs and 15 RRBs, respectively.

***Revenue and Expenses***

The types of revenue, which is referred to herein and in our financial statements as our total income, and expenses are the same for us on a consolidated basis and the Parent on a standalone basis except for income and expenses relating to the various executor and trustee services provided by Centbank Financial and Custodial Services Limited. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Standalone Basis–Introduction" beginning on page 228 of this Red Herring Prospectus.

*Factors Affecting our Results of Operations*

The factors affecting our results of operations and financial condition on a consolidated basis are the same as for the Parent on a standalone basis. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Standalone Basis–Introduction" beginning on page 228 of this Red Herring Prospectus.

**Basis of Consolidation**

The Group's consolidated financial statements have been prepared in accordance with Accounting Standard - 21 (AS-21) "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India and guidelines issued by the RBI in respect thereof. The financial statements of the Indo-Zambia Bank Limited, an associate of the Parent, have been prepared in accordance with the International Accounting Standards.

The Group's consolidated financial statements have been prepared based on line-by-line consolidation of the financial statements of the Parent and its subsidiaries by adding together like items of assets, liabilities, income and expenses after eliminating intra-group balances and intra-group transactions and unrealized profit/loss.

Investments in the Parent's associates have been accounted for in the Consolidated Financial Statements under the Equity Method as per Accounting Standard 23 (AS-23) "Accounting for Investments in Associates in Consolidated Financial Statements" and guidelines issued by the RBI in respect thereof.

The Group's consolidated financial statements comprise the financial statements of the Parent, its two subsidiaries and its associates consisting of 11 Regional Rural Banks ("RRBs") in the year ended March 31, 2007, 15 RRBs in the year ended March 31, 2006 and 23 RRBs in each of the years ended March 31, 2003, 2004 and 2005 sponsored by the Parent and Indo-Zambia Bank Limited.

In the preparation of the consolidated financial statements, in some of the cases, different accounting policies for like transactions have been followed in respect of associates for which appropriate adjustments have not been made nor the amounts quantified in the absence of necessary information. Material items in respect of which different accounting policies have been adopted are: accounting for depreciation on fixed assets; accounting of certain expenses on cash basis; interest on overdue/matured term deposits; incentive/Commission received on purchase of investments; and broken period interest on purchase of investments being capitalized.

Minorities' interest in the net assets of Cent Bank Home Finance Limited consists of the amount of equity attributable to minorities and the minorities' share of movements in equity since the day on which parent-subsidiary relationship came into existence.

In the case of Cent Bank Home Finance Limited, due to practical difficulties, goodwill has been calculated at the end of each financial year in which further investment have been made by the Parent irrespective of the actual date of investment as required by AS-21.

Due to practical difficulties, it has not been possible to calculate the goodwill or capital reserve at the time of investment in associates made on different dates as required by AS-23.

**Significant Accounting Policies**

***Parent***

The Parent's significant accounting policies are set forth in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations on Standalone Basis–Significant Accounting Policies" beginning on page 233 of this Red Herring Prospectus.

***Subsidiaries***

*Revenue Recognition*

In case of Cent Bank Home Finance Limited, repayment of housing loans is by way of equated monthly instalments ("EMIs") comprising of principal and interest. Interest is calculated on the outstanding balance at the beginning of the financial year. EMIs commence once the entire loan is disbursed. Pending commencement of EMIs, pre-EMI interest is payable every month.

In line with the guidelines issued by National Housing Bank, income on performing assets is recognized on accrual basis and on NPAs on a realization basis. Credits in NPAs are appropriated first towards interest and thereafter towards principal. Penal interest is recognized on a receipt basis.

*Investments*

Investments are considered long term in nature and accounted for at cost.

*Provision on Housing Loans*

In case of Cent Bank Home Finance Limited, provision on housing loans have been arrived at in accordance with National Housing Bank guidelines and directives.

*Depreciation*

Depreciation has been provided on the "Straight Line Method" at the rates prescribed in Schedule XIV to the Companies Act, 1956.

*Retirement Benefits*

Cent Bank Home Finance Limited makes regular contributions to a provident fund. The gratuity amount has been set aside on an actuarial basis and invested in Group Gratuity Scheme of the Life Insurance Corporation of India.

**Changes in Accounting Policies in the Last Three Fiscal Years**

***Parent***

The Parent changed its accounting policy with respect to floating provisions for NPAs in Fiscal 2007. For information on this change of accounting policy, please see the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Standalone Basis–Changes in Accounting Policies" on page 232 of this Red Herring Prospectus.

**Segment Reporting**

In accordance with RBI guidelines on compliance with Accounting Standard 17 – "Segment Reporting" issued by the Institute of Chartered Accountants of India, we have recognised treasury operations and other banking operations as our two business reporting segments. Treasury operations include dealing in government and other securities, money market operations and foreign exchange operations. Other banking operations consist of corporate banking, retail banking, personal and commercial banking, cash management services, deposits, investments in government securities maintained under SLR requirements and allied services such as credit cards and debit cards. As we currently do not have any branches outside India, we do not have any geographic reporting segments.

For Fiscal 2007, revenue from our other banking operations and treasury operations contributed Rs. 56,761 million and Rs. 9,602 million or 84.15% and 14.23% of our total income, respectively. Set forth below is a table showing our revenue from our other banking operations and treasury operations and unallocated income for Fiscal 2005, Fiscal 2006 and Fiscal 2007. The segment revenue reported below represents revenue from external customers. The segment revenue reported below does not tally exactly with our total income figures set forth in the consolidated statement of profit and loss due to certain netting and splitting of revenue.

***(Rs. in million)***

| | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 |
|---|---|---|---|
| Other Banking Operations | 39,480 | 41,938 | 56,761 |
| Treasury Operations | 21,100 | 16,993 | 9,602 |
| Unallocated Income | 930 | 1,324 | 1,085 |

***Implementation of AS-15 Relating to Accounting of Staff Pension and Gratuity***

The Parent currently calculates staff pension and gratuity liability on the basis of an actuarial valuation; however, the actual payment is made on the basis of an employee's last drawn salary before retirement. Accounting Standard - 15, which deals with accounting for employee benefits including pension and gratuity, has been revised by the ICAI with effect from December 21, 2006. The implementation of this revised accounting standard could lead to higher provisioning requirements of Rs. 6,500 million for the Parent. This may adversely affect our future profitability by an amount that cannot be quantified.

**Results of Operations**

***Year ended March 31, 2007 Compared with the Year ended March 31, 2006***

Our total income increased by 13.24% from Rs. 59,428.20 million in Fiscal 2006 to Rs. 67,299.27 million in Fiscal 2007 and our total expenditure increased by 15.13% from Rs. 47,425.82 million in Fiscal 2006 to Rs. 54,603.17 million in Fiscal 2007. Our operating profit increased by 5.78 % from Rs. 12,002.38 million in Fiscal 2006 to Rs. 12,696.10 million in Fiscal 2007. The net profit after tax attributable to the Group increased by 103.97%, from Rs. 2,498.18 million in Fiscal 2006 to Rs. 5,095.65 million in Fiscal 2007.

Our total income was higher in Fiscal 2007 mainly on account of a 40.84% increase in interest earned on advances (including discounts on bills) from Rs. 26,136.08 million in Fiscal 2006 to Rs. 36,809.16 million in Fiscal 2007. This was partially offset by our income on investments declining by 11.57%, from Rs. 25,614.46 million in Fiscal 2006 to Rs. 22,651.75 million in Fiscal 2007 mainly due to a decrease in the Parent's average of gross investments from Rs. 313,512.20 million in Fiscal 2006 to Rs. 288,421.00 million and a decrease in average yield on those investments from 8.17% in Fiscal 2006 to 7.85% in Fiscal 2007.

The net profit after tax attributable to the Group was higher in Fiscal 2007 mainly due to 30.68% decrease in provisions and contingencies (other than provision for tax), from Rs. 8,200.76 million in Fiscal 2006 to Rs. 5,685.17 million in Fiscal 2007. The decrease in provisions and contingencies (other than provision for tax) was mainly due to a 65.47% decrease in our provisioning for depreciation on investments, from Rs.6,889.58 million in Fiscal 2006 to Rs.2,378.87 million in Fiscal 2007, and a 202.50% increase in our recovery in written off accounts, from Rs. 540 million in Fiscal 2006 to Rs. 1,633.30 million in Fiscal

2007, which was partially offset by the fact that we did not utilise any amount out of our floating provisions for our NPAs in Fiscal 2007, whereas in Fiscal 2006 we utilised Rs. 2,193.40 million out of our floating provisions for NPAs.

*Net Interest Income*

Our net interest income increased by 3.98% from Rs. 23,868.00 million in Fiscal 2006 to Rs. 24,818.81 million in Fiscal 2007. The following table sets forth the components of our net interest income:

**(Rs. in million)**

| | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|
| Total interest income | 54,096.73 | 62,545.76 |
| Total interest expense | 30,228.73 | 37,726.95 |
| **Net interest income** | **23,868.00** | **24,818.81** |

*Interest Income*

The following table sets forth the components of our interest income:

**(Rs. in million)**

| | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|
| Interest on advances and discount on bills | 26,136.08 | 36,809.16 |
| Income on investment | 25,614.46 | 22,651.75 |
| Interest on balance with the RBI and other inter-bank lending | 1,854.37 | 2,143.45 |
| Interest on income tax refunds | 491.82 | 941.40 |
| Others | - | - |
| **Total interest income** | **54,096.73** | **62,545.76** |

Interest on advances and discount on bills increased by 40.84%, from Rs. 26,136.08 million in Fiscal 2006 to Rs. 36,809.16 million in Fiscal 2007, mainly reflecting a 37.50% increase in the Parent's average advances from Rs. 308,894.90 million in Fiscal 2006 to Rs. 424,740.80 million in Fiscal 2007. This was augmented by an increase in the average yield on the Parent's advances from 8.38% in Fiscal 2006 to 8.62% in Fiscal 2007. The increase in average yield on advances was primarily due to a 40.14% increase in the Parent's housing and retail advances and a 33.27% increase in the Parent's SME advances, which are higher yielding advances, and an increase in the Parent's interest rate on lending to corporates. An increase in NPA recovery by the Parent from Rs. 3,820.00 million in Fiscal 2006 to Rs. 4,590.00 million in Fiscal 2007 also contributed to the increase in yield on advances.

Income from investments decreased by 11.57% from Rs. 25,614.46 million in Fiscal 2006 to Rs. 22,651.75 million in Fiscal 2007. This decrease was mainly due to the Parent's average volume of investments decreasing by 8.00%, from Rs. 313,512.20 million in Fiscal 2006 to Rs. 288,421.00 million in Fiscal 2007. In addition, the average yield on the Parent's investments decreased from 8.17% in Fiscal 2006 to 7.85% in Fiscal 2007, principally due to the redemption of higher coupon securities and the purchase of securities with a lower interest rate than the average in the previous fiscal year.

Interest on balance with the RBI is the interest paid on our required cash reserve ratio balance. Interest on other inter-bank lending includes interest on call and term lending and interest on repo lending. Interest on balance with the RBI and other inter-bank lending increased by 15.59%, from Rs. 1,854.37 million in Fiscal 2006 to Rs. 2,143.45 million in Fiscal 2007. This increase was principally due to a 56.97% increase in interest on call and term lending, from Rs. 692.63 million in Fiscal 2006 to Rs. 1,087.19 million in Fiscal 2007. This increase was due to an increase in the Parent's average amount of call and term lending from Rs. 11,185.40 million in Fiscal 2006 to Rs. 17,282.20 million in Fiscal 2007 and an increase in the Parent's average yield on that lending from 6.19% in Fiscal 2006 to 6.29% in Fiscal 2007. The increase in interest on call and term lending was partially offset by a 15.07% decrease in interest on repo lending, from Rs. 738.96 million in Fiscal 2006 to Rs. 627.60 million in Fiscal 2007. This decrease was primarily due to a decrease in the Parent's average yield on repo lending from 7.00% in Fiscal 2006 to 4.09% in Fiscal 2007, partially offset by an increase in the Parent's average amount of repo lending from Rs. 10,557.30 million in Fiscal 2006 to Rs. 15,362.90 million in Fiscal 2007.

*Interest Expense*

The following table sets forth the components of our interest expense:

**(Rs. in million)**

| | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|
| Interest on deposits | 28,849.49 | 35,734.35 |
| Interest on RBI and inter-bank borrowings | 254.35 | 340.54 |
| Others | 1,124.89 | 1,652.06 |
| **Total interest expended** | **30,228.73** | **37,726.95** |

Our interest expense increased by 24.80%, from Rs. 30,228.73 million in Fiscal 2006 to Rs. 37,726.95 million in Fiscal 2007. This increase was mainly due to an increase in the Parent's average cost of funds from 4.74% in Fiscal 2006 to 5.12% in Fiscal 2007, which resulted from an increase in the Parent's average cost of deposits from 4.66% in Fiscal 2006 to 5.02% in Fiscal 2007. This increase was due to re-pricing of deposits offered during the period as a result of increased competition in the market for deposits to address the increasing demand for credit. The Parent's average deposits increased from Rs. 618,171.02 million in Fiscal 2006 to Rs. 711,977.80 million in Fiscal 2007. Deposits contributed 89.29% and 88.69% of the Parent's average working funds in Fiscal 2006 and Fiscal 2007, respectively.

The Parent's average cost of borrowings increased from 8.07% in Fiscal 2006 to 8.24% in Fiscal 2007 and the Parent's average borrowings increased by Rs 7,376.47 million in Fiscal 2007 compared with Fiscal 2006. The average cost of the Parent's borrowings increased due to a general increase in interest rates in India.

Our interest expense on RBI and other inter-bank borrowings increased by 33.89% from Rs. 254.35 million in Fiscal 2006 to Rs. 340.54 million in Fiscal 2007 primarily due to an increase of Rs. 86.19 million in the cost of inter-bank borrowings. The increase in the cost of inter-bank borrowings was primarily due to an increase of Rs. 240.00 million in the Parent's average amount of inter-bank borrowings and an increase in the average interest rate on those borrowings from 7.64% in Fiscal 2006 to 8.21% in Fiscal 2007. The increase in the Parent's average inter-bank interest rate was due to increased competition among banks for funds to meet their short-term liquidity, especially in the second half of the fiscal year.

Our other interest expense, which consists mainly of interest on Tier II Bonds issued by the Parent, increased by 46.86%, from Rs. 1,124.89 million in Fiscal 2006 to Rs. 1,652.06 million in Fiscal 2007. This increase was mainly due to a 60.17% increase in interest on Tier II Bonds due to a Rs. 7,136.57 million increase in average outstanding Tier II Bonds.

*Other Income*

Our other income decreased by 10.74 %, from Rs. 5,325.17 million in Fiscal 2006 to Rs. 4,753.51 million in Fiscal 2007. The following table sets forth the components of our other income.

**(Rs. in million)**

| | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|
| Commission, exchange and brokerage | 3,030.17 | 3,507.24 |
| Profit on sale of investments (Net) | 1,836.99 | 1,362.20 |
| Profit/(Loss) on revaluation of investments (Net) | (204.26) | (861.73) |
| Profit/(Loss) on sale of land, building and other assets (Net) | (1.11) | (2.90) |
| Profit on exchange transactions (Net) | 260.88 | 431.01 |
| Miscellaneous income | 402.50 | 317.69 |
| **Total other income** | **5,325.17** | **4,753.51** |

Income from commission, exchange and brokerage increased by 15.74% from Rs. 3,030.17 million in Fiscal 2006 to Rs. 3,507.24 million in Fiscal 2007. This increase was mainly due to increased business activity in this area.

Net profit on the sale of investments decreased by 25.85% from Rs. 1,836.99 million in Fiscal 2006 to Rs. 1,362.20 million in Fiscal 2007. This decrease was due to a decrease in the volume of securities sold offset in part by an increase in the yield on Government securities, resulting in a decrease in the average price of securities sold.

Net loss on revaluation of investments increased by 321.88%, from a loss of Rs. 204.26 million in Fiscal 2006 to a loss of Rs. 861.73 million in Fiscal 2007. This increase in loss was due to an increase in the amortization amount from Rs. 204.26 million in Fiscal 2006 to Rs. 861.73 million in Fiscal 2007 because of the shifting of Rs. 47,620 million worth of securities from the Available for Sale category to the Held to Maturity category in Fiscal 2007 and the net addition of Rs. 11,331.00 million worth of securities put into the Held to Maturity category.

Net profit on exchange transactions increased by 65.21%, from Rs. 260.88 million in Fiscal 2006 to Rs. 431.01 million in Fiscal 2007. This increase was due to an increase in the volume of transactions and an increase in profit from proprietary trading.

Miscellaneous income includes rent on safe deposit lockers and rent received from tenants of the Bank's own premises, and other miscellaneous income. Our miscellaneous income decreased by 21.07% from Rs. 402.50 million in Fiscal 2006 to Rs. 317.69 million in Fiscal 2007. This decrease was primarily due to a decrease in other miscellaneous income.

*Operating Expenses*

Total operating expenses decreased by 1.87% from Rs. 17,197.09 million in Fiscal 2006 to Rs. 16,876.22 million in Fiscal 2007. As a percentage of our total income, operating expenses decreased to 25.08% in Fiscal 2007 compared with 28.94% in Fiscal 2006. Set forth below are the details of our total operating expenses for Fiscal 2006 and Fiscal 2007.

**(Rs. in million)**

| | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|
| Payment to and provision for employees | 12,773.71 | 11,769.88 |
| Rent, taxes and lighting | 1,003.46 | 1,092.12 |
| Printing and stationery | 163.24 | 166.68 |
| Advertisement and publicity | 78.09 | 60.52 |
| Depreciation on Bank's properties (net of amounts adjusted against revaluation reserve) | 509.50 | 651.94 |
| Directors' fees, allowances and expenses | 5.27 | 4.52 |
| Auditors' fees and expenses | 139.06 | 137.72 |
| Law charges | 96.62 | 93.44 |
| Postage, telegrams, telephones, etc. | 60.65 | 108.91 |
| Repairs and maintenance | 256.60 | 342.14 |
| Insurance | 575.20 | 646.19 |
| Other expenditure | 1,535.69 | 1,802.16 |
| **Total Operating Expenses** | **17,197.09** | **16,876.22** |

The primary component of our operating expenses was payments to and provision for employees, which decreased by 7.86%, from Rs. 12,773.71 million in Fiscal 2006 to Rs. 11,769.88 million in Fiscal 2007. In Fiscal 2006, we made a provision for wage revision arrears amounting to Rs. 392.94 million and ex-gratia payments of Rs. 526.02 million and pension and gratuity payments of Rs. 184.40 million to employees who retired under a voluntary retirement scheme. No such provision or payments were required in Fiscal 2007. The decrease in Fiscal 2007 was also due to a 3.24% decrease in the number of our full-time employees from 37,462 as at March 31, 2006 to 36,248 as at March 31, 2007.

Depreciation expenses on our property (our fixed assets, including furniture, fixtures and computers) increased by 27.96%, from Rs. 509.50 million in Fiscal 2006 to Rs. 651.94 million in Fiscal 2007. This increase was primarily due depreciation for extra hardware and software for the CBS purchased by the Parent in Fiscal 2007 and the installation of ATMs by the Parent during Fiscal 2007.

Insurance expenses increased by 12.34%, from Rs. 575.20 million in Fiscal 2006 to Rs. 646.19 million in Fiscal 2007, mainly due to insuring the extra hardware and ATMs purchased by the Parent in Fiscal 2007 and increases in insurance premiums.

Repairs and maintenance expenses increased by 33.34%, from 256.60 million in Fiscal 2006 to Rs. 342.14 million in Fiscal 2007. This increase was mainly due to an increase in the annual maintenance contract for newly acquired hardware for CBS and ATMs.

Other expenditure increased by 17.35%, from Rs. 1,535.69 million in Fiscal 2006 to Rs. 1,802.16 million in Fiscal 2007. This increase was due to an increase in the volume of our business.

*Operating Profit*

As a result of the foregoing factors, our operating profit before provisions and contingencies increased by 5.78%, from Rs. 12,002.38 million in Fiscal 2006 to Rs. 12,696.10 million in Fiscal 2007. As a percentage of total income, our operating profit decreased from 20.20% in Fiscal 2006 to 18.86% in Fiscal 2007.

*Provisions and Contingencies (other than Provision for Tax)*

Provisions and contingencies made in Fiscal 2007 decreased by 30.68% from Rs. 8,200.76 million in Fiscal 2006 to Rs. 5,685.15 million in Fiscal 2007. The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

**(Rs. in million)**

| | **Fiscal 2006** | **Fiscal 2007** |
|---|---|---|
| Required provision for non-performing advances | 3,406.38 | 3,245.68 |
| Floating provision for NPAs in addition to norms made/(written back) | (2,193.40) | - |
| Provision for standard advances | 689.00 | 1,222.10 |
| (Recovery in written off accounts) | (540) | (1,633.30) |
| Depreciation on investments | 6,889.58 | 2,378.87 |
| Other provisions made/(written back) | (50.80) | 471.82 |
| **Total provisions and contingencies (other than provision for tax)** | **8,200.76** | **5,685.17** |

Our required provisioning in respect of non-performing advances decreased by 4.72% from Rs. 3,406.38 million in Fiscal 2006 to Rs. 3,245.68 million in Fiscal 2007. This was due to a decrease in gross NPAs from Rs. 27,447.21 million in Fiscal 2006 to Rs. 26,257.64 million in Fiscal 2007.

In Fiscal 2006, the Parent wrote back Rs. 2,193.40 million out of its floating provisions for NPAs. The Parent decided to write back this amount to reduce its excess provision for NPAs, which stood at Rs. 3,846.60 million as at March 31, 2007. Due to a change in the Parent's accounting policy, based on a change in RBI prudential norms, the Parent did not make or write back a floating provision for NPAs in Fiscal 2007. For further information on the Parent's accounting policy for floating provisions, please see the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Standalone Basis–Changes in Accounting Policies" on page 232 of the Red Herring Prospectus.

Our provision for standard advances increased by 77.37%, from Rs. 689.00 million in Fiscal 2005 to Rs. 1,222.10 million in Fiscal 2006. This increase was primarily due to an increase in the provisioning requirement required by the RBI under several categories of advances. In some categories the provisioning requirement increased from 0.40% to 2.00%. .

Our recovery in written off accounts increased by 202.46%, from Rs. 540.00 million in Fiscal 2006 to Rs. 1,633.30 million in Fiscal 2007 due, in part, to an increased focused on recovery by the Parent.

Our provisioning for depreciation on investments decreased by 65.47%, from Rs. 6,889.58 million in Fiscal 2006 to Rs. 2,378.87 million in Fiscal 2007. This decrease was due to the shifting of Rs. 47,620 million worth of securities from the Available for Sale category to the Held to Maturity category by the Parent in April 2006 and thereby insulating them from the mark to market requirement.

Other provisions include provisions for restructured accounts and provisions for other assets. In Fiscal 2007, we made other provisions of Rs. 471.82 million, principally due a Rs. 438.54 million provision for restructured accounts by the Parent, whereas in Fiscal 2006, we wrote back Rs. 50.80 million from our other provisions, which included Rs. 12.10 million written back from the Parent's provisions for restructured accounts.

*Income Tax*

Our provision for income tax (including deferred tax) was Rs. 1,191.10 million in Fiscal 2006 and was Rs. 1,973.00 million in Fiscal 2007. This increase was primarily due to the increase in our operating profit and the deletion of the benefit under Section 10(23G) of the Income Tax Act, 1961 with effect from April 1, 2007. The benefit to us under Section 10(23G) of the Income Tax Act, 1961 for Fiscal 2006 was Rs. 288.50 million.

*Net Profit after Tax Attributable to the Group*

As a result of the foregoing factors, the net profit after tax attributable to the Group increased by 103.97% from Rs. 2,498.18 million in Fiscal 2006 to Rs. 5,095.65 million in Fiscal 2007. As a percentage of total income, the net profit after tax attributable to the Group increased from 4.20% in Fiscal 2006 to 7.57% in Fiscal 2007.

***Year ended March 31, 2006 Compared with the Year ended March 31, 2005***

Our total income decreased by 3.42%, from Rs. 61,530.26 million in Fiscal 2005 to Rs. 59,428.20 million in Fiscal 2006 and our total expenditure increased by 4.44% from Rs. 45,411.76 million in Fiscal 2005 to Rs. 47,425.82 million in Fiscal 2006. Our operating profit decreased by 25.54% from Rs. 16,118.50 million in Fiscal 2005 to Rs. 12,002.38 million in Fiscal 2006. The net profit after tax attributable to the Group decreased by 30.51% from Rs. 3,595.20 million in Fiscal 2005 to Rs. 2,498.18 million in Fiscal 2006.

The 3.42% decrease in our total income was primarily due to our other income declining by 42.10%, from Rs. 9,208.68 million in Fiscal 2005 to Rs. 5,331.47 million in Fiscal 2006. This decrease was mainly due to a 68.76% decline in net profit on sale of investments, which fell from Rs. 5,880.12 million in Fiscal 2005 to Rs. 1,836.99 million in Fiscal 2006. The decline in our other income was partially offset by income on advances (including discounts on bills) increasing by 15.23%, from Rs. 22,682.16 million in Fiscal 2005 to Rs. 26,136.08 million in Fiscal 2006.

*Net Interest Income*

Our net interest income increased by 0.29%, from Rs. 23,800.11 million in Fiscal 2005 to Rs. 23,868.00 million in Fiscal 2006. The following table sets forth the components of our net interest income.

**(Rs. in million)**

| | **Fiscal 2005** | **Fiscal 2006** |
|---|---|---|
| Interest income | 52,321.58 | 54,096.73 |
| Interest expense | 28,521.47 | 30,228.73 |
| **Net interest income** | **23,800.11** | **23,868.00** |

*Interest Income*

The following table sets forth the components of our interest income:

**(Rs. in million)**

| | Fiscal 2005 | Fiscal 2006 |
|---|---|---|
| Interest on advances and discount on bills | 22,682.16 | 26,136.08 |
| Income on investments | 26,744.89 | 25,614.46 |
| Interest on balance with the RBI and other inter-bank lending | 1,945.64 | 1,854.37 |
| Interest on income tax refunds | 948.69 | 491.82 |
| Others | 0.20 | - |
| **Total interest income** | **52,321.58** | **54,096.73** |

Interest on advances and discount on bills increased by 15.23%, from Rs. 22,682.16 million in Fiscal 2005 to Rs. 26,136.08 million in Fiscal 2006, mainly reflecting a 21.80% increase in the Parent's average advances from Rs. 253,614.70 million in Fiscal 2005 to Rs. 308,894.90 million in Fiscal 2006, which was partially offset by a decrease in the average yield on those advances from 8.84% in Fiscal 2005 to 8.38% in Fiscal 2006. The decrease in average yield was primarily due to lending to corporates at sub BPLR due to market conditions.

Income from investments decreased by 4.23%, from Rs. 26,744.89 million in Fiscal 2005 to Rs. 25,614.46 million in Fiscal 2006. This decrease was principally due to the average yield on the Parent's investments decreasing from 8.49% in Fiscal 2005 to 8.17% in Fiscal 2006, principally due to redemption of high coupon securities and the purchase of securities with a lower interest rate than the average interest rate in the previous fiscal year. The interest rate on securities declined in Fiscal 2006 due to market conditions. The decrease in income from investments was also due to a 0.44% decrease in the Parent's average volume of investments, from Rs. 314,903.40 million in Fiscal 2005 to Rs. 313,512.20 million in Fiscal 2006.

Interest on balances with the RBI and other inter-bank lending decreased by Rs. 91.27 million, or 4.69%, from Rs. 1,945.64 million in Fiscal 2005 to Rs. 1,854.37 million in Fiscal 2006. This decrease was primarily due to a 13.34% decrease in interest on call and term lending, from Rs. 799.29 million in Fiscal 2005 to Rs. 692.63 million in Fiscal 2006. This decrease was due to a decrease in the Parent's average yield on call and term lending from 7.79% in Fiscal 2005 to 6.19% in Fiscal 2006, partially offset by an increase in the Parent's average amount of call and term lending from Rs. 10,257.50 million in Fiscal 2005 to Rs. 11,185.40 million in Fiscal 2006.

*Interest Expense*

Our interest expense increased by 5.99%, from Rs. 28,521.47 million in Fiscal 2005 to Rs. 30,228.73 million in Fiscal 2006. This increase was primarily due to the Parent's average volume of funds increasing by 9.54%, from Rs. 578,521. 25 million in Fiscal 2005 to Rs. 633,730.38 million in Fiscal 2006, which was partially offset by the Parent's average borrowing cost decreasing from 8.80% in Fiscal 2005 to 8.07% in Fiscal 2006. The following table sets forth the components of our interest expense:

**(Rs. in million)**

| | Fiscal 2005 | Fiscal 2006 |
|---|---|---|
| Interest on deposits | 27,102.56 | 28,849.49 |
| Interest on RBI and inter-bank borrowings | 177.07 | 254.35 |
| Others | 1,241.84 | 1,124.89 |
| **Total interest expended** | **28,521.47** | **30,228.73** |

Our interest on deposits increased by 6.45%, from Rs. 27,102.56 million in Fiscal 2005 to Rs. 28,849.49 million in Fiscal 2006. This increase was mainly due to a 9.58% increase in the Parent's average deposits, from Rs. 564,109.20 million in Fiscal 2005 to Rs. 618,171.02 million in Fiscal 2006, partially offset by the decrease in the average cost of those deposits from 4.79% in Fiscal 2005 to 4.66% in Fiscal 2006. The decrease in the Parent's average cost of deposits was due to a downward revision of interest rates on deposits offered during the period. Deposits contributed 89.71% and 89.29% of the Parent's average funds in Fiscal 2005 and Fiscal 2006, respectively.

Our interest expense on RBI and inter-bank borrowings increased by 43.64% from Rs. 177.07 million in Fiscal 2005 to Rs. 254.35 million in Fiscal 2006, primarily due to a 648.39% increase in the Parent's average inter-bank borrowings, from Rs. 310.00 million in Fiscal 2005 to Rs. 2,320.00 million in Fiscal 2006.

Our other interest expense, which consists of mainly of interest paid on subordinate debt (Tier II Bonds), decreased by 9.42% from Rs. 1,241.84 million in Fiscal 2005 to Rs. 1,124.89 million in Fiscal 2006. This decrease was due to a Rs. 585.27 million decrease in average Tier II Bonds and a decrease in the average interest rate on Tier II Bonds from 8.92% in Fiscal 2005 to 8.21% in Fiscal 2006.

*Other Income*

Our other income decreased by 42.17%, from Rs. 9,207.61 million in Fiscal 2005 to Rs. 5,325.17 million in Fiscal 2006. The following table sets forth the components of our other income.

**(Rs. in million)**

| | **Fiscal 2005** | **Fiscal 2006** |
|---|---|---|
| Commission, exchange and brokerage | 2,960.30 | 3,030.17 |
| Profit on sale of investments (Net) | 5,880.12 | 1,836.99 |
| Profit/(Loss) on revaluation of investments (Net) | (187.39) | (204.26) |
| Profit/(Loss) on sale of land, building and other assets (Net) | (3.18) | (1.11) |
| Profit on exchange transactions (Net) | 283.51 | 260.88 |
| Miscellaneous income | 274.25 | 402.50 |
| **Total other income** | **9,207.61** | **5,325.17** |

Income from commissions, exchange and brokerage increased by 2.36%, from Rs. 2,960.30 million in Fiscal 2005 to Rs. 3,030.17 million in Fiscal 2006. This increase was mainly due to an increase in the volume of business.

Net profit on the sale of investments decreased by 68.76%, from Rs. 5,880.12 million in Fiscal 2005 to Rs. 1,836.99 million in Fiscal 2006. This decrease was due to a decrease in the volume of securities sold by the Parent and an increase in the yield on Government securities, resulting in a decrease in the average price of securities sold.

Net loss on revaluation of investments increased by 9.00%, from Rs. 187.39 million in Fiscal 2005 to Rs. 204.26 million in Fiscal 2006. This increase in net loss was due to an increase in the amortization amount due to the shifting by the Parent of Rs. 25,566 million worth of securities from the Available For Sale category to the Held to Maturity category in Fiscal 2006 and the net addition of Rs. 5,212 million worth of securities into the Held to Maturity category by the Parent.

Net profit on exchange transactions decreased by 7.98% from Rs. 283.51 million in Fiscal 2005 to Rs.260.88 million in Fiscal 2006. This decrease was primarily due to a decrease in the volume of transactions and an increase in volatility in the foreign exchange market.

Our miscellaneous income increased by 46.76%, from Rs. 274.25 million in Fiscal 2005 to Rs. 402.50million in Fiscal 2006. This increase was primarily due to an increase in other miscellaneous income.

*Operating Expenses*

Total operating expenses increased by 1.82%, from Rs. 16,890.29 million in Fiscal 2005 to Rs. 17,197.09 million in Fiscal 2006. As a percentage of our total income, operating expenses increased to 28.94% in Fiscal 2006 compared with 27.45% in Fiscal 2005. Set forth below are the details of our total operating expenses for Fiscal 2005 and Fiscal 2006.

**(Rs. in million)**

| | **Fiscal 2005** | **Fiscal 2006** |
|---|---|---|
| Payment to and provision for employees | 12,788.88 | 12,773.71 |
| Rent, taxes and lighting | 945.30 | 1,003.46 |
| Printing and stationery | 158.46 | 163.24 |
| Advertisement and publicity | 71.00 | 78.09 |
| Depreciation on banks' properties (net of amounts adjusted against revaluation reserve) | 534.07 | 509.50 |
| Directors' fees, allowances and expenses | 5.35 | 5.27 |
| Auditors' fees and expenses | 131.25 | 139.06 |
| Law charges | 111.26 | 96.62 |
| Postage, telegrams, telephones, etc. | 60.88 | 60.65 |
| Repairs and maintenance | 239.00 | 256.60 |
| Insurance | 412.07 | 575.20 |
| Other expenditure | 1,432.77 | 1,535.69 |
| **Total operating expenses** | **16,890.29** | **17,197.09** |

The primary component of our operating expenses was payments to and provision for employees, which decreased by 0.12%, from Rs. 12,788.88 million in Fiscal 2005 to Rs. 12,773.71 million in Fiscal 2006. This decrease was primarily due to a decrease in the number of our full-time employees from 38,349 as at March 31, 2005 to 37,462 as at March 31, 2006.

Insurance expenses increased by 40.07% from Rs. 412.07 million in Fiscal 2005 to Rs. 575.20 million in Fiscal 2006, mainly due to an increase in premiums paid on deposit insurance with Deposit Insurance and Credit Guarantee Corporation from 0.09% to 0.10% with effect from April 2005.

Other expenditure increased by 7.18% from Rs. 1,432.77 million in Fiscal 2005 to Rs. 1,535.69 million in Fiscal 2006. This was mainly due to increase in the volume of business.

*Operating Profit*

As a result of the foregoing factors, our operating profit before provisions and contingencies decreased by 25.54% from Rs. 16,118.50 million in Fiscal 2005 to Rs. 12,002.38 million in Fiscal 2006. As a percentage of total income, our operating profit decreased from 26.19% in Fiscal 2005 to 20.20% in Fiscal 2006.

*Provisions and Contingencies (other than Provision for Tax)*

Provisions and contingencies (other than provision for tax) made in Fiscal 2006 decreased by 21.01%, from Rs. 10,382.50 million in Fiscal 2005 to Rs. 8,200.76 million in Fiscal 2006. The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

**(Rs. in million)**

| | **Fiscal 2005** | **Fiscal 2006** |
|---|---|---|
| Required provision for non-performing advances | 5,308.12 | 3,406.38 |
| Floating provision for NPAs in addition to norms made/(written back) | 2,040.00 | (2,193.40) |
| Provision for standard advances | 122.60 | 689.00 |
| (Recovery in written off accounts) | (1,185.45) | (540.00) |
| Depreciation on investments | 3,598.63 | 6,889.58 |

| | Fiscal 2005 | Fiscal 2006 |
|---|---|---|
| Other provisions made/(written back) | 498.60 | (50.80) |
| **Total provisions and contingencies (other than provision for tax)** | **10,382.50** | **8,200.76** |

Our required provision in respect of non-performing advances decreased by 35.83% from Rs. 5,308.12 million in Fiscal 2005 to Rs. 3,406.38 million in Fiscal 2006. This decrease was primarily due to changes in the RBI's prudential norms for asset classification and provisioning.

We made a Rs. 2,040.00 million floating provision for NPAs in Fiscal 2005 compared with writing back Rs. 2,193.40 million from the floating provision for NPAs in Fiscal 2006.

Our provision for standard advances increased by 461.99%, from Rs. 122.60 million in Fiscal 2005 to Rs. 689.00 million in Fiscal 2006. This increase was due to an increase in the percentage of provisions on standard assets from 0.25% to 0.40% in certain categories by the RBI.

Our provisioning for depreciation on investments increased by 91.45%, from Rs. 3,598.63 million in Fiscal 2005 to Rs. 6,889.58 million in Fiscal 2006. This increase was due to an increase in the yield on Government securities, which resulted in a decrease in the market value of our securities and an increase in our mark to market losses. Our increase in depreciation in Fiscal 2006 was partially offset by the Parent shifting Rs. 25,570 million in securities in June 2005 from the Available for Sale category to the Held to Maturity category, thereby insulating them from the mark to market requirement.

Other provisions made/(written back) in Fiscal 2005 included a Rs. 462.73 million provision for restructured standard accounts, whereas other provisions made/(written back) in Fiscal 2006 included Rs. 12.10 million written back for restructured standard accounts. We had excess provisions that were withdrawn during Fiscal 2006 as the amount outstanding in the Parent's restructured accounts decreased from Rs. 5,212.60 million in Fiscal 2005 to Rs. 3,560.60 million in Fiscal 2006.

*Income Tax*

Our provision for income tax (including deferred tax) decreased by 48.66%, from Rs. 2,320.00 million in Fiscal 2005 to Rs. 1,191.10 million in Fiscal 2006. This decrease was mainly due to a decrease in our operating profit. Our income tax provision for Fiscal 2006 also included a Rs. 366.50 million provision for fringe benefits tax, which became effective from April 1, 2005.

*Net Profit after Tax Attributable to the Group*

The net profit after tax attributable to the Group decreased by 30.51% from Rs. 3,595.20 million in Fiscal 2005 to Rs. 2,498.18 million in Fiscal 2006. As a percentage of total income, the net profit after tax attributable to the Group decreased from 5.84% in Fiscal 2005 to 4.20% in Fiscal 2006.

**Liquidity and Capital Resources**

Our growth over the fiscal years ended March 31, 2005, March 31, 2006 and March 31, 2007 has been financed by a combination of cash generated from operations and increases in our customer deposits and borrowings.

The table below sets forth our cash flows from operations, cash flows from investment activities, cash flows from financing activities and net changes in cash and cash equivalents for the periods indicated:

**(Rs. in million)**

| | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 |
|---|---|---|---|
| Net cash flow from operations(1) | 22,699.92 | -24,388.97 | 39,053.55 |
| Net cash flow from investing activities(2) | -400.08 | -355.05 | -1,131.50 |
| Net cash flow from financing activities(3) | -2,598.43 | 2,154.42 | 2,310.10 |

| | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 |
|---|---|---|---|
| Net changes in cash and cash equivalents(4) | 19,701.41 | -22,589.60 | 40,192.15 |

(1) A negative number indicates cash used in operations.
(2) A negative number indicates cash used in investing activities.
(3) A negative number indicates cash used in financing activities.
(4) A positive number indicates a net increase in cash and cash equivalents and a negative number indicates a decrease in cash and cash equivalents.

***Cash Flow from Operations***

Our net cash flow from operating activities reflects interest received during the period 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. In addition, our net cash from operating activities reflects changes in operating assets and liabilities, including investments, advances, deposits and borrowings, as well as other assets and liabilities. Change in borrowings reflects only short-term borrowings and not Tier II Bonds, which are included in cash flows from financing activities.

Our net cash received from operating activities was Rs. 22,699.92 million in Fiscal 2005, our net cash used in operating activities was Rs. 24,388.97 million in Fiscal 2006 and our net cash received from operating activities was Rs. 39,013.55 million in Fiscal 2007.

The table below sets forth our cash flow from (1) the cash profit generated from operating activities before tax, (2) deposits, (3) advances, and (4) investments for the periods indicated. These line items are material in terms of changes in our cash flow from operations.

**(Rs. in million)**

| | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 |
|---|---|---|---|
| Cash profit generated from operating activities before tax | 7,528.76 | 5,230.70 | 9,004.12 |
| Increase in deposits | 48,309.27 | 57,125.40 | 162,675.70 |
| (Increase) in advances | (44,377.26) | (101,629.94) | (142,711.99) |
| Decrease in investments | 5,596.52 | 22,067.85 | 9,025.60 |

***Cash Used in Investing Activities***

Our net cash used in investing activities reflects the purchase and sale of fixed assets and dividends received from Indo-Zambia Bank Limited. Our net cash used in investing activities was Rs. 400.08 million, Rs. 355.05 million and Rs. 1,131.50 million in Fiscal 2005, 2006 and 2007, respectively. The purchase of fixed assets was Rs. 548.90 million in Fiscal 2005, Rs. 457.73 million in Fiscal 2006 and Rs. 1,373.92 million in Fiscal 2007; this is mainly on account of investment by the Parent in CBS implementation (hardware and software) and acquiring new ATMs. This was partially offset by the sale of fixed assets and dividends received from Indo-Zambia Bank Limited.

***Cash Flows from Financing Activities***

Our net cash from financing activities reflects proceeds or redemptions of the Parent's Tier II Bonds, interest paid on the Parent's Tier II Bonds and dividends paid to the Government by the Parent and taxes paid thereon.

Our net cash used in financing activities was Rs. 2,598.43 million in Fiscal 2005, comprising Rs. 1,199.34 million in interest paid on the Tier II Bonds, the redemption of Rs. 1,000 million of Tier II Bonds, Rs. 350 million in dividends paid to the Government and Rs. 49.09 million in taxes paid thereon.

Our net cash received from financing activities of was Rs. 2,154.42 million in Fiscal 2006, reflecting Rs. 3,782.00 million in proceeds from the issuance of Tier II Bonds, partially offset by Rs. 1,057.45 million in interest paid on the Tier II Bonds, Rs. 500.00 million in dividends paid to the Government and Rs. 70.13 million in taxes paid thereon.

Our net cash received from financing activities of was Rs. 2,310.10 million in Fiscal 2007, reflecting Rs. 5,000.00 million in proceeds from the issuance of Tier II Bonds, partially offset by Rs. 1,566.27 million in interest paid on the Tier II Bonds, Rs. 996.00 million in dividends paid to the Government and Rs. 167.63 million in taxes paid thereon.

**Financial Condition**

***Net Worth***

Our net worth was Rs. 33,161.08 million as at March 31, 2007, an increase of 12.63% compared with our net worth of Rs. 29,441.43 million as at March 31, 2006, which was 6.77% higher than our net worth of Rs. 27,575.06 million as at March 31, 2005. The following table sets forth the principal components of our net worth as at March 31, 2005, March 31, 2006 and March 31, 2007:

(Rs. in million)

| | As at March 31, 2005 | As at March 31, 2006 | As at March 31, 2007 |
|---|---|---|---|
| Share Capital | 11,241.41 | 11,241.41 | 11,241.41 |
| Minorities' Interest | 112.57 | 128.11 | 157.50 |
| Reserves and Surplus | 16,221.08 | 18,071.91 | 21,762.17 |
| **Net Worth** | **27,575.06** | **29,441.43** | **33,161.08** |

***Assets***

The following table sets forth the principal components of our assets as at March 31, 2005, March 31, 2006 and March 31, 2007:

(Rs. in million)

| | As at March 31, 2005 | As at March 31, 2006 | As at March 31, 2007 |
|---|---|---|---|
| Cash in hand (including foreign currency notes) | 4,930.10 | 5,293.60 | 7,390.80 |
| Balance with the RBI | 50,790.89 | 28,536.79 | 47,351.85 |
| Balance with banks in India | 10,275.56 | 11,250.30 | 8,578.59 |
| Balance with banks outside India | 3,035.72 | 2,861.98 | 6,034.13 |
| Money at call and short notice | 1,500.00 | - | 18,779.45 |
| Investments (Net) | 308,187.57 | 286,119.71 | 277,094.11 |
| Total advances (Net) | 275,206.01 | 376,835.95 | 519,547.94 |
| Fixed Assets | 7,527.63 | 7,254.62 | 7,677.21 |
| Other Assets | 26,805.19 | 30,419.80 | 38,933.06 |
| **Total Assets** | **683,080.99** | **743,554.39** | **926,586.69** |

Our total assets increased by 8.85% from Rs. 683,080.99 million as at March 31, 2005 to Rs. 743,554.39 million as at March 31, 2006, and further increased by 24.62% to Rs. 926,586.69 million as at March 31, 2007. The most significant element of these changes was increases in advances as a result of a general increase in our business activities.

Our net investments decreased by 7.16% from Rs. 308,187.57 million as at March 31, 2005 to Rs. 286,119.71 million as at March 31, 2006, and decreased by 3.15% to Rs. 277,094.11 million as at March 31, 2007. Of our investment portfolio as at March 31, 2007, 78.06 % consisted of securities issued by the Government, state governments and others (including local authorities) compared with 81.44 % and 79.01 % as at March 31, 2006, and 2005, respectively.

Our advances increased by 36.93% from Rs. 275,206.01 million as at March 31, 2005 to Rs. 376,835.95 million as at March 31, 2006, and further increased by 37.87% to Rs. 519,547.94 million as at March 31, 2007. The reasons for these increases in our advances were on account of improved credit off take in the market together with our focus on credit growth.

Our gross non-performing assets have increased from Rs. 27,060.34 million as at March 31, 2005, to Rs. 27,447.21 million as at March 31, 2006, and decreased to Rs. 26,257.64 million as at March 31, 2007, or 9.19%, 6.95% and 4.88% of gross advances, respectively. The reduction in gross non-performing advances was mainly due to accelerated efforts for recovery of non-performing advances.

Our net non-performing advances to net advances ratio was 3.17% as at March 31, 2005, 2.68% as at March 31, 2006 and 1.75% as at March 31, 2007. Our provisions and reductions for NPAs were Rs. 18,337.41 million as at March 31, 2005, Rs. 17,334.92 million as at March 31, 2006 and Rs. 17,137.55 million as at March 31, 2007.

Other assets, which included interest accrued, tax paid, tax deducted at source, and stationery and stamps, increased by 13.48% from Rs. 26,805.19 million as at March 31, 2005 to Rs. 30,419.80 million as at March 31, 2006, and increased by 27.99% to Rs. 38,933.06 million as at March 31, 2007.

***Liabilities***

The following table sets forth the principal components of our liabilities as at March 31, 2005, March 31, 2006 and March 31, 2007:

**(Rs. in million)**

| | **As at March 31, 2005** | **As at March 31, 2006** | **As at March 31, 2007** |
|---|---|---|---|
| Demand deposits from banks | 2,058.81 | 2,912.98 | 1,854.13 |
| Demand deposits from others | 59,289.27 | 73,329.98 | 83,312.46 |
| Savings deposits | 203,271.17 | 234,802.28 | 263,122.40 |
| Term deposits from banks | 17,815.27 | 18,825.89 | 17,680.27 |
| Term deposits from others | 325,623.22 | 335,312.00 | 461,889.58 |
| **Total deposits** | **608,057.74** | **665,183.13** | **827,858.84** |
| Borrowings | 2,910.71 | 4,413.32 | 8,927.26 |
| Other liabilities and provisions | 31,437.48 | 27,634.51 | 34,757.51 |
| Subordinate debts | 13,100.00 | 16,882.00 | 21,882.00 |
| **Total liabilities** | **655,505.93** | **714,112.96** | **893,425.61** |

Our total liabilities increased by 8.94%, from Rs. 655,505.93 million as at March 31, 2005 to Rs. 714,112.96 million as at March 31, 2006 and further increased by 25.11%, to Rs. 893,425.61 million as at March 31, 2007. Other liabilities and provisions include bills payable, interest accrued on deposits and borrowings, inter-office adjustments, provisions for standard advances, deferred tax liability and other provisions. Subordinate debts are the Parent’s Tier II Bonds.

Our total deposits increased by 9.39%, from Rs. 608,057.74 million as at March 31, 2005 to Rs. 665,183.13 million as at March 31, 2006, and further increased by 24.46% to Rs. 827,858.84 million as at March 31, 2007. Demand (current) deposits grew by 24.28%, from Rs. 61,348.08 million as at March 31, 2005 to Rs. 76,242.96 million as at March 31, 2006 and further increased by 11.70% to Rs. 85,166.59 million as at March 31, 2007. Term deposits grew by 3.12%, from Rs. 343,438.49 million as at March 31, 2005 to Rs. 354,137.89 million as at March 31, 2006, and further increased by 35.42% to Rs. 479,569.85 million as at March 31, 2007.

**Off-Balance Sheet Arrangements and Financial Instruments**

***Contingent Liabilities***

The following table sets forth the principal components of our contingent liabilities as March 31, 2005, March 31, 2006 and March 31, 2007:

**(Rs. in million)**

| | **As at March 31, 2005** | **As at March 31, 2006** | **As at March 31, 2007** |
|---|---|---|---|
| Claims against us not acknowledged as debts | 4,811.24 | 4,998.67 | 3,580.94 |
| Liability for partly paid investments | 62.96 | 258.36 | 618.48 |
| Liability on account of outstanding forward exchange contracts | 81,429.53 | 112,095.16 | 96,547.02 |
| Guarantees given on behalf of constituents in India | 17,449.71 | 19,866.47 | 20,994.38 |
| Guarantees given on behalf of constituents outside India | 2,419.84 | 2,882.39 | 1,655.22 |
| Acceptances, endorsements and other obligations | 15,384.86 | 16,077.91 | 21,219.38 |
| Other items for which we are contingently liable | 18.69 | 7.32 | 6.86 |
| **Total contingent liabilities** | 121,576.89 | 156,186.28 | 144,622.29 |

Contingent liabilities increased by 28.47%, from Rs. 121,576.89 million as at March 31, 2005 to Rs. 156,186.28 million as at March 31, 2006 and decreased by 7.42 %, to Rs. 144,622.29 million as at March 31, 2007. The increase in Fiscal 2006 was primarily due to an increase in the Parent's money market operations as part of its integrated treasury operations and an increase in the Parent's non-funded business (e.g., letters of credit and guarantees). The decrease in Fiscal 2007 was primarily due to a decrease in the contingent liability on forward exchange contracts, which decreased by Rs. 15,548.13 million in Fiscal 2007 due to volatility in the forward rates when the six month premium for USD/INR was more than the 12 months premium. Hence, many of the contracts in Fiscal 2007 were short term (mainly three-month contracts).

***Foreign Exchange and Derivative Transactions***

Our foreign exchange contracts arise out of spot and forward foreign exchange transactions by the Parent with corporate and non-corporate customers and inter-bank counterparties. The Parent earns profit on inter-bank and customer transactions by way of a spread between the purchase rate and the sale rate. Income from foreign exchange transactions is recorded as income from exchange transactions and income from derivatives transactions in the hedging book is recorded as interest income and income from the proprietary book is recorded as trading income.

The aggregate notional principal amount of our forward foreign exchange contracts was Rs. 81,429.53 million as at March 31, 2005, Rs. 112,095.16 million as at March 31, 2006 and Rs. 96,547.02 million as at March 31, 2007. Since these contracts are marked to market, their fair value as at those dates was the same as their notional value.

The aggregate notional principal amount of our interest rate swaps was nil as at March 31, 2005, Rs. 5,000 million as at March 31, 2006 and Rs. 5,000 million as at March 31, 2007. Both the amounts in Fiscal 2006 and Fiscal 2007 relate to one interest rate swap whereby the Parent receives a fixed interest rate and pays a floating interest rate linked to Japanese Yen LIBOR (the London Interbank Offered Rate), with a cap of 2.00% of Japanese Yen LIBOR, which matures in 2015. The swap was entered into solely for hedging purposes. The fair value of the swap as at March 31, 2006 was a loss of Rs. 451.3 million to maturity and was a loss of Rs. 268.7 million to maturity as at March 31, 2007.

**Significant Developments after March 31, 2007**

Except as stated elsewhere in this Red Herring Prospectus, to our knowledge no circumstances have arisen since March 31, 2007, which is the date of the last financial statements as disclosed in this Red Herring Prospectus, which materially and adversely affect or are likely to affect, our trading and profitability or the value of our assets or our ability to pay our liabilities.

**Analysis of Certain Changes**

***Unusual or Infrequent Events or Transactions***

To our knowledge there have been no unusual or infrequent events or transactions that have taken place during the last three years, except as disclosed as extraordinary items and fixed assets in this section.

***Significant Economic Changes***

Except as described in "Risk Factors", "Our Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Consolidated Basis" beginning on pages xi, 45 and 254 of this Red Herring Prospectus, respectively, to the best of our knowledge, there have been no significant economic changes that will have a material adverse impact on our operations or finances.

***Known Trends or Uncertainties***

Our business has been impacted and we expect will continue to be impacted by the trends identified the section titled in "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Standalone Basis–Introduction–Factors Affecting our Results of Operations" and the uncertainties described in the section titled "Risk Factors" beginning on pages 232 and xi of this Red Herring Prospectus, respectively. To our knowledge, except as we have described in this Red Herring Prospectus, there are no known factors, which we expect to have a material adverse impact on our revenues.

***Future Relationship between Expenditure and Revenues***

Except as described in "Risk Factors", "Our Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Consolidated Basis" beginning on pages xi, 45 and 254 of this Red Herring Prospectus, respectively, to the best of our knowledge, there is no future relationship between expenditure and income that will have a material adverse impact on our operations and finances.

***Increase in our Revenue***

As described in the section titled "Our Business" beginning on page 45 of this Red Herring Prospectus, we currently have a number of strategies to increase our revenues.

***Significant Regulatory Changes***

Except as described in the sections titled "Regulations and Policies" and "Management's Discussion and Analysis of Financial Condition and Results of Operations on a Consolidated Basis" beginning on pages 82 and 254, respectively, of this Red Herring Prospectus, there have been no significant regulatory changes that could affect our income from continuing operations.

***New Products or Business Segments***

Except as described in the section titled "Our Business" beginning on page 45 of this Red Herring Prospectus, we have no current plans to develop new products or establish any new business segments.

***Seasonality of Business***

Although our business is not seasonal in nature, our business is affected by seasonal trends in the Indian economy that affect the overall banking industry. The period from October to March is the busy period in India for economic activity and, accordingly, we generally experience higher volumes of business during this period. From April to September, when economic activity typically decreases, our business volumes experience a corresponding decrease

***Dependence on Few Customers***

We are not dependent on a few customers.

***Competitive Conditions***

We expect competition to increase due to, among other things, an increase in regulatory reforms in the banking sector. For further details, see the section titled "Risk Factors–External Risk Factors" and "Our Business–Competition" beginning on pages xxiii and 79, respectively, of this Red Herring Prospectus.

## FINANCIAL INDEBTEDNESS

***Details of Tier II Capital of the Bank***

In Rs. million

| Issue Series | Date of Issue | Amount Outstanding as of March 31, 2007 | Date of Repayment | Coupon Rate (% p.a.) | Security |
|---|---|---|---|---|---|
| **Bond Series IV** | September 28, 2001 | 1,000.00 | April 28, 2007 | 9.80 | Unsecured |
| **Bond Series V** | | | | | |
| Option I | December 29, 2001 | 450.00 | April 29, 2007 | 9.40 | Unsecured |
| Option II | December 29, 2001 | 950.00 | April 29, 2009 | 9.75 | Unsecured |
| **Bond Series VI** | | | | | |
| Option I | September 25, 2002 | 160.00 | April 25, 2009 | 8.15 | Unsecured |
| Option II | September 25, 2002 | 1,840.00 | April 25, 2009 | 8.35 | Unsecured |
| **Bond Series VII** | September 25, 2003 | 2,000.00 | April 25, 2010 | 5.80 | Unsecured |
| **Bond Series VIII** | October 7, 2003 | 700.00 | May 7, 2010 | 5.80 | Unsecured |
| **Bond Series IX** | October 8, 2004 | 2,000.00 | June 8, 2014 | 7.05 | Unsecured |
| **Bond Series X** | March 28, 2006 | 5,782.00 | June 28, 2015 | 8.15 | Unsecured |
| **Bond Series XI** | October 4, 2006 | 7,000.00 | October 4, 2016 | 8.95 | Unsecured |

These bonds have been issued on a private placement basis and IDBI Trusteeship Services Limited is the trustee for the holders of these bonds. Pursuant to a trustee agreement dated December 14, 2005, with IDBI Trusteeship Services Limited, in the event of default in payment of dues to the bondholders/trustee by way of periodical interest and/or redemption or default in payment of trustee remuneration, the Bank can declare or pay dividend only with the prior written permission of the trustee.

*Investment by our Associates in our Bond Offerings*

Set forth below are the details of investment by our Associate in our Bond offerings described above:

| Issue Series | Name of the Associate | Amount |
|---|---|---|
| **Bond Series IV** | | |
| | Etawah Regional Rural Bank | 7.00 |
| | Uttarbanga Regional Rural Bank | 5.00 |
| | Regional Rural Bank, Hoshangabad | 15.00 |
| **Bond Series V** | | |
| | Kanpur Regional Rural Bank | 20.00 |
| **Bond Series X** | | |
| | Etawah Regional Rural Bank | 5.00 |
| | Uttarbanga Regional Rural Bank | 5.00 |
| | Chhindwara Seoni Regional Rural Bank | 10.00 |
| | Ratlam-Mandsaur Regional Rural Bank | 5.00 |
| | Mandla-Balaghat Regional Rural Bank | 10.00 |
| | Vidharbha Regional Rural Bank | 2.00 |
| | Shahdol Regional Rural Bank | 20.00 |
| | Ballia Regional Rural Bank | 27.00 |
| | **Total** | **131.00** |

Consequent to the amalgamation of Chhindwara Seoni Regional Rural Bank, Regional Rural Bank, Hoshangabad Mandla-Balaghat Regional Rural Bank and Shahdol Regional Rural Bank into Satpura Regional Rural Bank, in terms of the GoI notification dated June 1, 2006, Rs. 55.00 million of the Tier II capital is held by Satpura Regional Rural Bank.

*Details of Other Unsecured Liabilities*

Set forth below is a brief summary of our aggregate unsecured borrowings as on March 31, 2007, in addition to our Tier II capital:

(in Rs. million)

| Particulars | Amount outstanding |
|---|---|
| Borrowings – RBI | 3,000 |
| Subordinated debts (including subordinated Tier II Bond Series I) | 21,882.00 |
| Borrowings from other banks | 114.76 |
| Other institutions and agencies | 4,705.35 |
| **Total** | **29,702.11** |

*Borrowings in India*

Borrowings within India comprise borrowings from the RBI, borrowings from banks and other financial institutions and agencies. All these borrowings are unsecured.

The Bank has availed of interest free re-finance from the Small Industries Development Bank of India ("**SIDBI**") under the National Equity Fund Scheme for an amount aggregating approximately Rs. 4.06 million. In terms of the National Equity Fund Scheme, the Bank avails of the refinance within a period of 18 months from the date of sanction of refinance.

(in Rs. million)

| Amount | Date of repayment | Amount outstanding as of March 31, 2007 | Security |
|---|---|---|---|
| 4.06 | Co-terminus with the repayment of the loan amount | 4.06 | Unsecured |

These borrowings are in the ordinary course of the Bank's business comprising money market operations.

*Borrowings in Foreign Exchange*

As of March 31, 2007, the Bank had no borrowings in foreign exchange.

# OUTSTANDING LITIGATION AND MATERIAL DEVELOPMENTS

*Except as described below, there is no outstanding litigation, suits or civil proceedings, or criminal proceedings, or prosecutions or tax liabilities by or against our Bank or our Directors, Subsidiaries or our Associates, and there are no defaults, non-payment or overdues of statutory dues, overdues to banks / financial institutions, defaults against banks / financial institutions, defaults in dues payable to holders of any debentures, bonds, or fixed deposits, and arrears on preference shares issued by the Bank, defaults in creation of full security as per terms of issue/ other liabilities, proceedings initiated for economic/ civil/ and other offences (including past cases where penalty may or may not have been awarded) that would result in a material adverse effect on our business. Apart from criminal cases against the Bank, a materiality threshold of Rs. 10 million has been adopted for other cases. None of the aforesaid persons/ companies/ banks is on RBI's list of wilful defaulters.*

## Litigation against the Bank

### *Criminal Cases*

1. Valvoline Cummins Limited had filed criminal complaint No. 1591 of 2004 in the court of the Chief Judicial Magistrate, Bhopal, against the Bank and others alleging that the Bank had wrongly seized certain goods belonging to the complainant and committed offences of cheating, criminal breach of trust and criminal conspiracy. The Chief Judicial Magistrate, Bhopal passed an order dated August 12, 2005 directing the release of the goods to Valvoline Cummins Limited. Against this order, the Bank filed criminal revision petition No. 334 of 2005 in the court of the Additional Sessions Judge, Bhopal. The Additional Sessions Judge, Bhopal, passed an order setting aside the order of the Chief Judicial Magistrate. Aggrieved by this order of the Additional Sessions Judge, Valvoline Cummins Limited has filed miscellaneous petition No. 4544 of 2006 before the Jabalpur High Court against the Bank. The Bank has filed its reply and the petition is pending.

2. Kamala Devi has lodged a criminal complaint No. 5879 of 2006 in the court of the Chief Judicial Magistrate at Buxar against the Chairperson and Managing Director, the Zonal Manager Patna and certain other employees of the Bank alleging that an amount aggregating approximately Rs. 0.68 million from her accounts with the Bank has been misappropriated by certain employees of the Bank. She has also alleged that the Bank has failed to redress her grievance in this regard. The Court of the Chief Judicial Magistrate, Buxar has taken cognizance of the offence. The case is pending.

3. Lalit Kumar has lodged a first information report dated April 18, 2005 with the Bhagalpur police station against the branch manager of the Bank's Bhagalpur branch and an authorized collection agent of the Bank, *inter alia*, for the offences of cheating. The complainant has alleged that he was induced by the defendant collecting agent to deposit an amount aggregating approximately Rs. 0.10 million in the Bank, which was recorded in a pass book signed by the defendant manager. Subsequently the complainant desired to withdraw the amount but was informed that only Rs. 1,200 had been deposited. On the basis of this first information report, a criminal complaint has been filed in the court of the Chief Judicial Magistrate at Bhagalpur. The complaint is pending.

4. IndusInd Bank Limited has filed criminal complaint No. 8457 of 2002 in the court of the Metropolitan Magistrate, Chennai, against a former Chairperson and Managing Director of the Bank and certain employees of the Bank under section 138 of the Negotiable Instruments Act, 1881, as amended, in respect of dishonour of a banker's cheque for an amount aggregating approximately Rs. 5.63 million issued by the Bank's Royapettah Branch. The former Chairperson and Managing Director and the accused employees of the Bank have filed petition No. 11786 of 2002 before the Madras High Court praying that the Madras High Court quash the proceedings initiated by IndusInd Bank Limited. IndusInd Bank Limited has filed its reply to the petition. The High Court has passed an order dated November 18, 2002 staying the proceedings before the Metropolitan Magistrate. The petition is pending.

*Civil Cases*

As at June 30, 2007, there are approximately 125 civil cases filed against the Bank that are pending before various forums in respect of amounts aggregating approximately Rs. 446.60 million. These include the cases described below where the amount involved in each case exceeds Rs. 10 million.

1. IndusInd Bank Limited has filed original application No. 232 of 2003 before the DRT, Chennai against the Bank for an amount aggregating approximately Rs. 7.36 million allegedly payable by the Bank against a letter of credit issued by the Bank together with interest thereon at the rate of 20.50 per cent p.a. until the date of realization of the amount. The Bank has filed its reply to the application. The application is pending.

2. Bhupendra Impex Private Limited and Model Estates Private Limited have filed suit Nos. 1610 of 2004 and 1626 of 2004, respectively, in the Bombay High Court against the Bank and others including certain employees of the Bank seeking a declaration that an equitable mortgage over certain immovable property sought to be enforced by the Bank is void. They have also alleged fraud on the part of an employee of the Bank and have each claimed an amount aggregating approximately Rs. 45 million as damages. The Bank has filed its reply and the suit is pending.

3. Swastik Roofing Limited has filed a compensation petition before the Monopolies and Restrictive Trade Practices Commission against the Bank on grounds of alleged restrictive and unfair trade practices of the Bank. Swastik Roofing Limited has alleged that the Bank had failed to liquidate its fixed deposits to honour cheques despite having requested to do so, but instead provided overdraft facilities for which it charged penal interest. The complainant has claimed an amount aggregating approximately Rs. 15.88 million, including refund of the interest and compensation for the loss suffered on account of the alleged restrictive and unfair trade practices of the Bank. The petition is pending.

4. Tripathy Finance & Investments Private Limited and others have filed suit No. 2254 of 1995 in the court of the City Civil Judge at Ahmedabad against the Bank and certain employees of the Bank seeking damages of an amount aggregating approximately Rs. 19.57 million for the damage, harassment and defamation allegedly caused by the Bank by returning a cheque presented by the plaintiffs without informing them that it was signed by one person, but drawn on another's account. The suit is pending.

5. Y.G. Rajendra has filed miscellaneous appeal No. 343 of 2005 before the DRT, Chennai, against an ex parte order in original application No.735 of 1999 against the Bank and others. The DRT, Chennai had found the petitioner jointly liable for the debts aggregating approximately Rs. 318.10 million of a certain company in liquidation. The petitioner has alleged that he has no liability as director/guarantor of the company in liquidation and that the notices regarding the original application were not delivered to him and hence there was no justification for the exparte order. The appeal is pending.

6. Allahabad Bank has filed original application No. 1051 of 1999 before the DRT Chennai against the Bank for an amount aggregating approximately Rs. 49.46 million as damages for the loss caused on account of the alleged suppression of material facts by the Bank in respect of one of its clients. Allahabad Bank has alleged suppression of material facts by the Bank. The application is pending.

7. Gulabrai Bhagchand Thadani has filed petition No. 95 of 2004 before the National Consumer Disputes Redressal Commission against the Bank in respect of an amount aggregating approximately Rs. 15.58 million allegedly payable by the Bank on account of the deficiency in services. The bank had allegedly failed to issue the proper receipt in respect of a certain pay order of the complainant, causing mental harassment to the complainant. The matter is pending.

8. Swadeshi Polytex Limited had filed petition No. 32 of 1996 before the National Consumer Disputes Redressal Commission against the Bank and others in respect of an amount aggregating approximately Rs. 14.26 million allegedly payable by the Bank on account of the deficiency in services. The Bank had allegedly wrongly failed to honour a letter of credit drawn in favour of the complainant. The National Consumer Disputes Redressal Commission held the Bank liable for grossly deficient services and ordered payment of an amount aggregating approximately Rs. 14.26 million in favour of Swadeshi Polytex Limited. The Bank has preferred civil appeal No. 5044 of 2004 before the Supreme Court against this order of the National Consumer Disputes Redressal Commission. The appeal is pending.

9. The State Bank of Travancore has filed original application No. 93 of 2000 before the DRT Mumbai, against the Bank and others in respect of an amount aggregating approximately Rs. 11.55 million allegedly payable by the Bank and the other defendants on account of the failure by the Bank to make payment under two letters of credit. The DRT passed an order dated September 19, 2005 holding the Bank and certain other defendants jointly and severally liable to pay the amount aggregating approximately Rs. 11.55 million to the State Bank of Travancore. Against this order dated September 19, 2005, the Bank filed an appeal No. 389 of 2005 before the Debts Recovery Appellate Tribunal, Mumbai. The Debts Recovery Appellate Tribunal passed an order dated January 10, 2006 staying recovery proceedings until further orders. The State Bank of Travancore has also filed a reference before the high powered committee.

10. EDC Limited has filed an application dated February 9, 2007 before the Board of Industrial and Financial Reconstruction claiming an amount aggregating approximately Rs. 39.40 million from the Bank. EDC Limited has alleged that the Bank has appropriated the entire amount recovered from a certain borrower pursuant to a rehabilitation scheme to the exclusion of the claims of the other co-lenders, including EDC Limited. The Bank has replied to the application on June 22, 2007. The matter is pending.

***Tax cases***

*Income Tax*

As at June 30, 2007, the Bank is involved in approximately 28 disputes in relation to income tax claims that are pending before various forums in respect of tax amounts aggregating approximately Rs. 10,482.84 million. These include the cases described below where the amount involved in each case exceeds Rs. 10 million. In addition, the income tax department has filed three applications before the Bombay High Court for condonation of delay in respect of filing of appeals against orders of the ITAT.

1. The Bank has filed an appeal (IT Appeal No. 331 of 2003) against the order of the ITAT in ITA No.1709/Bom/1995 under Section 260A of the Income Tax Act, 1961 for assessment year 1990-1991. The issue on appeal is whether the Bank is entitled to a deduction, in computing its business income, of the interest on shortfalls in its CRR of approximately Rs. 37 million paid by it to the RBI. The matter is pending.

2. The Commissioner of Income Tax (Appeals -XXXII), Mumbai passed an order dated July 31, 2002 partly allowing an appeal (Appeal No. CIT (A) XXXII/IT/4/94-95) made by the Bank against an order of Deputy Commissioner of Income Tax (Special Range - 36), Mumbai for assessment year 1991-1992. However, the Commissioner of Income Tax (Appeals) did not dispose off one ground of appeal made by the Bank. The Bank had appealed that the Deputy Commissioner of Income Tax had erred in adding Rs. 148.08 million as income from undisclosed sources. The tax amount aggregates approximately to Rs. 68.11 million. The matter is pending.

3. The Bank has filed an appeal before the Commissioner of Income Tax (Appeals) against an order of the Assistant Commissioner of Income Tax [Circle 2(1)], Mumbai for assessment year 1994-1995. The order has been appealed *inter alia* on grounds that the Assistant Commissioner of Income Tax has erred in:

(a) rectifying an order issued to the Bank under section 143(3) of the Income Tax Act;
(b) passing an order under section 154 of the Income Tax Act without allowing the Bank a reasonable opportunity of being heard; and
(c) alleging that the delay in granting the refund was attributable to the appellant and therefore erred in withdrawing interest of Rs. 11.54 million granted to the Bank under section 244A of the Income Tax Act.

The matter is pending.

4. The Bank has filed two appeals before the Commissioner of Income Tax (Appeals), Mumbai against the orders of the Deputy Commissioner of Income Tax (Circle 2[1]), Mumbai for assessment year 1996-1997. The tax amount in these appeals aggregates approximately to Rs. 545.63 million. The order has been appealed *inter alia* on grounds that the Deputy Commissioner of Income Tax has erred in disallowing bad debts of Rs. 1,186.16 million as well as in issuing notice under section 148 and making an assessment under section 147 of the Income Tax Act. The matter is pending.

5. The Bank has filed an appeal (Appeal No. 4155/M/03) before the Income Tax Appellate Tribunal against an order of the Commissioner of Income Tax (Appeals) XXXII, Mumbai for assessment year 1997-1998. The tax amount aggregates approximately to Rs. 478.62 million. The order has been appealed *inter alia* on grounds that the Commissioner of Income Tax (Appeals) has erred in

(a) upholding disallowance of non-rural bad debts written off to the extent of Rs. 1,108.99 million; and
(b) upholding disallowance of Rs. 4.08 million as payment to Mastercard and Visa on the ground that the Bank had not deducted tax at source under section 195 of the Income Tax Act.

The matter is pending.

6. The Bank has filed an appeal before the Commissioner of Income Tax (Appeals-II), Mumbai against an order of the Deputy Commissioner of Income Tax (Circle 2[1]), Mumbai for assessment year 1997-1998. The tax amount aggregates approximately to Rs. 241 million. The order has been appealed *inter alia* on grounds that the Deputy Commissioner of Income Tax has erred in:

(a) extending reassessment proceedings to disallowance of bad debts and recomputation of book profits under section 115JA;
(b) disallowing an amount aggregating approximately Rs. 110 million in respect of pension paid to retired employees; and
(c) disallowing bad debts of Rs. 450.76 million.

The matter is pending.

7. The Bank has filed an appeal (Appeal No. 4156/M/2003) in the Income Tax Appellate Tribunal against an order of the Commissioner of Income Tax (Appeals) XXXII, Mumbai for assessment year 1998-1999. The tax amount aggregates approximately to Rs. 282.62 million. The order has been appealed *inter alia* on grounds that the Commissioner of Income Tax (Appeals) has erred in:

(a) upholding disallowance of non-rural bad debts written of to the extent Rs. 801.05 million; and
(b) upholding disallowance of Rs. 6.46 million as payment to Mastercard and Visa on the grounds that the Bank had not deducted tax at source under section 195 of the Income Tax Act.

The matter is pending.

8. The Bank has filed an appeal before the Commissioner of Income Tax (Appeals - II), Mumbai against a re-assessment order of the Deputy Commissioner of Income Tax (Circle 2[1]), Mumbai for assessment year 1998-1999. The tax amount aggregates approximately to Rs. 134.36 million. The order has been appealed *inter alia* on grounds that the Deputy Commissioner of Income Tax had erred in disallowing bad debts of Rs. 383.88 million. The matter is pending.

9. The Bank has filed an appeal (Appeal No. 4157/M/03) before the Income Tax Appellate Tribunal against an order passed by the Commissioner of Income Tax (Appeals-XXXII), Mumbai for

assessment year 1999-2000. The tax amount aggregates approximately to Rs. 205.42 million. The order has been appealed *inter alia* on grounds that the Commissioner of Income Tax has erred in:

(a) upholding disallowance of non-rural bad debts written off to the extent of Rs. 578.87 million; and
(b) upholding disallowance of Rs. 8.05 million as payment to Mastercard and Visa on the ground that the Bank had not deducted tax at source under section 195 of the Income Tax Act.

The matter is pending.

10. The Bank has filed an appeal with the Commissioner of Income Tax (Appeals - II), Mumbai against a re-assessment order of the Deputy Commissioner of Income Tax, (Range 2[1]), Mumbai for assessment year 1999-2000. The tax amount aggregates approximately to Rs. 326.70 million. The order has been appealed *inter alia* on grounds that the Deputy Commissioner of Income Tax has erred in:

(a) initiating reassessment proceedings to recomputed book profits under section 115JA of the Income Tax Act on an issue which has been decided by the Commissioner of Income Tax (Appeals);
(b) disallowing provision for bad debts of Rs. 2150 million and provision for other assets of Rs. 6.95 million;
(c) disallowing provision for wealth tax of Rs. 1.3 million; and
(d) not excluding from book profits the excess provision of Rs. 953.25 million.

The matter is pending.

11. The Bank has filed an Appeal (Appeal No. 3639/M/2004) before the Income Tax Appellate Tribunal against an order of the Commissioner of Income Tax (Appeals-II), Mumbai for assessment year 2000-2001. The tax amount aggregates approximately Rs. 488.98 million. The order has been appealed *inter alia* on grounds that the Commissioner of Income Tax (Appeals) has erred in:

(a) upholding disallowance of non-rural bad debts written off to the extent of Rs. 698.50 million;
(b) upholding disallowance of Rs. 10.55 million as payment to Mastercard and Visa on the ground that the Bank had not deducted tax at source under section 195 of the Income Tax Act;
(c) upholding allocation on an adhoc basis, interest expense of Rs. 544.44 million and business expenses of Rs. 16.58 million;
(d) not allowing deduction for actual write-off of bad debts of Rs. 698.50 million in determination of book profits; and
(e) upholding addition of Rs. 561.03 million to book profits.

The matter is pending.

12. The Bank has filed an appeal (Appeal No. 3640/M/04) before the Income Tax Appellate Tribunal against an order of the Additional Commissioner of Income Tax (Range 2[1]), Mumbai for assessment year 2001-2002. The tax amount aggregates approximately to Rs. 1,037.66 million. The order has been appealed *inter alia* on grounds that the Commissioner of Income Tax (Appeals) has erred in:

(a) upholding disallowance of bad debts of Rs. 2,098.99 million in computing book profits;
(b) upholding disallowance of non-rural bad debts written off to the extent of Rs. 1,552.21 million;
(c) upholding disallowance of Rs.7.69 million as payment to Mastercard on the ground that the Bank had not deducted tax at source under section 195 of the Income Tax Act, 1961;
(d) upholding allocation, on an adhoc basis, expenses aggregating approximately Rs.1,063.77 million to income from dividends and interest exempt under Section 10(23G) and disallowing the same in computing income from business; and
(e) upholding addition of adhoc amount of Rs.1,063.77 million to book profits.

The matter is pending.

13. The Bank has filed an appeal before the Commissioner of Income Tax (Appeals - II), Mumbai against an order of the Additional Commissioner of Income Tax for assessment year 2002-2003.

The tax amount aggregates approximately to Rs. 1,001.03 million. The order has been appealed *inter alia* on grounds that the Additional Commissioner of Income Tax has erred in:

(a) ignoring the actual write off of bad debts of Rs. 2,100.36 million in determination of book profits;
(b) adding an adhoc amount of Rs. 882.90 million allocated to income exempt under section 10 to book profits;
(c) adding Rs. 485.95 million as interest accrued on securities;
(d) in disallowing non-rural bad debts written off to the extent of Rs. 1,435.14 million;
(e) in allocating on an adhoc basis business expenses of Rs. 882.90 million to income from dividends and interest and disallowing the same in computing income from business; and
(f) not allowing the computation of capital gains of government securities on the basis of indexed cost of acquisition.

The matter is pending.

14. The Bank has filed an appeal with the Commissioner of Income Tax (Appeals - II), Mumbai against a re-assessment order of the Income Tax Officer Range 2(1)(1), Mumbai for assessment year 2002-2003. The tax amount aggregates approximately to Rs. 205.08 million. The order has been appealed *inter alia* on grounds that the Income Tax Officer has erred in:

(a) treating investments held to maturity as business assets and treating income from sale of investments of Rs. 574.46 million as business income instead of capital gains;
(b) charging of interest of Rs. 73.33 million under section 234B of the Income Tax Act; and
(c) levying of interest of Rs. 80.16 million under section 234D of the Income Tax Act.

The matter is pending.

15. The Bank has filed an appeal before the Commissioner of Income Tax (Appeals) II, Mumbai against an order of the Income Tax Officer (2[1][i]), Mumbai for assessment year 2003-2004. The tax amount aggregates approximately to Rs. 1,319.55 million. The order has been appealed *inter alia* on grounds that the Income Tax Officer has erred in:

(a) assessing to tax interest accrued on securities amounting to Rs. 953.70 million;
(b) disallowing non-rural bad debts written off to the extent of Rs. 1,432.91;
(c) allocating on an adhoc basis business expenses amounting to Rs. 1,204.01 million to income exempt under section 10(23G) and disallowing the same in computing income from business;
(d) relying on third proviso to section 48, which prohibited indexation of the cost of acquisition of bonds & debentures for computing capital gains, to deny indexation of cost of government securities, which is outside the scope of the proviso;
(e) not granting full credit for tax deducted at source and limiting it to Rs. 1,474.93 million;
(f) not allowing set-off of losses brought forward from the past;
(g) levying interest under section 234B of Rs. 357.12 million; and
(h) levying interest under section 234D of Rs. 88.26 million.

The matter is pending.

16. The Bank has filed an appeal before the Commissioner of Income Tax (Appeals) II, Mumbai against a re-assessment order of the Income Tax Officer (Range 2[1][1]), Mumbai for assessment year 2003-2004. The tax amount aggregates approximately to Rs. 63.21 million. The order has been appealed *inter alia* on grounds that the Income Tax Officer has erred in:

(a) issuing notice under section 148 and making an assessment under section 143(3) read with 147 of the Income Tax Act;
(b) treating investments held to maturity as business assets and income from sale of investments of Rs.22.02 million as business income instead of capital gains;
(c) disallowing deduction under Section 80M in respect of intercorporate dividends of Rs.150 million;
(d) not granting credit for taxes deducted at source of Rs. 27.96 million;
(e) levying interest under Section 234B of Rs. 369.14 million; and
(f) levying interest under Section 234D of Rs. 88.26 million.

The matter is pending.

17. The Bank has filed an appeal before the Commissioner of Income Tax (Appeals) II, Mumbai against an order of the Deputy Commissioner of Income Tax (2[1]), Mumbai for assessment year 2004-2005. The tax amount aggregates approximately to Rs. 1,700.28 million. The order has been appealed *inter alia* on grounds that the Deputy Commissioner of Income Tax has erred in:
(a) disallowing interest accrued on securities of Rs. 257.14 million;
(b) disallowing non-rural bad debts written off to the extent of Rs. 2,246.09 by reducing from the debts written off of Rs. 5,102.81 during the year;
(c) allocating business expenses to the extent of Rs. 1,289.39 million to income from interest exempt under Section 10(23G) and disallowing the same in computing income from business;
(d) disallowing payment of Rs. 23.59 million for delay in remittance of funds collected under various schemes of the central government;
(e) disallowing Bank's claim for deduction for the diminution of Rs. 923.24 million in the value of investments held as stock-in-trade;
(f) not granting full credit for tax deducted at source and limiting it to Rs. 1,279.18 million;
(g) not allowing set-off of losses brought forward from the past; and
(h) levying interest under Section 234D of Rs. 131.95 million.
The matter is pending.

18. The Commissioner of Income Tax (II), Mumbai has preferred an appeal (Income Tax Appeal Lodg. No. 668 of 2001) before the Bombay High Court against the order of the ITAT dated June 6, 2001 (ITA No.6760/Bom/92) for assessment year 1987-1988. The ground for appeal is whether the CIT(A) erred in allowing interest under Section 244(1) on interest granted under Section 244(1A) of the Income Tax Act, 1961. The appellant has filed a motion for condonation of delay in filing the appeal. The matter is pending.

19. The Commissioner of Income Tax (II), Mumbai has preferred an appeal (Income Tax Appeal Lodg. No. 566 of 2002) before the Bombay High Court against the order of the ITAT dated December 26, 2001 (ITA No.6964/B/91) for assessment year 1989-1990. The ground for appeal is whether the CIT(A) erred in deleting the additional tax levied under Section 143(1A) of the Income Tax Act, 1961. The appellant has filed a motion for condonation of delay in filing the appeal. The matter is pending.

20. The Deputy Commissioner of Income Tax (Circle 2 [1]), Mumbai has filed an appeal (Appeal No. 4387/M/05) in the Income Tax Appellate Tribunal against an order of the Commissioner of Income Tax (Appeals-II), Mumbai for assessment year 1996-1997. The order has been appealed *inter alia* on grounds that the Commissioner of Income Tax had erred in holding that the Bank was not given an opportunity of being heard before withdrawal of TDS credit aggregating approximately Rs. 12.03 million. The Deputy Commissioner of Income Tax has also stated in the appeal that the TDS credit relates to interest income for the period December 16, 1987 to March 31, 1998 and not to the previous year relevant to assessment year 1996-1997. The matter is pending.

21. The Deputy Commissioner of Income Tax (RG-2[1]), Mumbai has filed an appeal (Appeal No. ITA 4448/M/2003) in the Income Tax Appellate Tribunal against an order of the Commissioner of Income Tax (Appeals) XXXII, Mumbai for assessment year 1997-1998. The tax amount aggregates approximately to Rs. 379.08 million. The order has been appealed *inter alia* on grounds that the Commissioner of Income Tax has erred in:
(a) holding that 30% of the total expenditure quantified by the auditors will be apportioned towards the share of employees participating in the hospitality extended to the guest and business associates of the Bank and balance expenditure will be subject to disallowance under section 37(2) of the Income Tax Act and not as disallowed by the assessing officer;
(b) deleting the addition on account of interest accrued on investment held by the Bank on day to day basis till the last date of the financial year;
(c) deleting the disallowance made by the assessing officer on account of interest on purchase of securities on broken period;

(d) directing the assessing officer to allow deductions under section 80M of the Income Tax Act to the Bank on the Bank's dividend income without allocating any proportionate expenses; and
(e) directing the assessing officer to recompute the book profit under section 115JA of the Income Tax Act after considering the debit of bad debts.

The matter is pending.

22. The Deputy Commissioner of Income Tax (RG-2[1]), Mumbai has filed an appeal (Appeal No. ITA 4449/M/2003) in the Income Tax Appellate Tribunal against an order of the Commissioner of Income Tax (Appeals) XXXII, Mumbai for assessment year 1998-1999. The tax amount aggregates approximately to Rs. 436.04 million. The order has been appealed *inter alia* on grounds that the Commissioner of Income Tax has erred in:

(a) directing the assessing officer to recompute the book profit under section 115 JA of the Income Tax Act after considering the debit of bad debts;
(b) deleting the addition made by the assessing officer on account of interest accrued on securities held by the Bank on a day to day basis;
(c) deleting the addition made by the assessing officer on account of interest relating to zero coupon securities;
(d) deleting the disallowance made by the assessing officer in respect of broken period interest on purchase of securities;
(e) holding that quantum of exempt income under section 10 of the Income Tax Act cannot be brought down by ad hoc allocation of the expenses to earn such income and has further erred in holding that such expenses cannot be added back to the book profit and also erred in deleting the addition made by the assessing officer by the reduction of exemption under section 10 of the Income Tax Act as claimed by the Bank; and
(f) directing the assessing officer to allow the claim of indexation of the Bank in respect of bonds and debentures as claimed by the Bank.

The matter is pending.

23. The Deputy Commissioner of Income Tax (RG-2[1]), Mumbai has filed an appeal (Appeal No. ITA 4450/M/2003) in the Income Tax Appellate Tribunal against an order of the Commissioner of Income Tax (Appeals) XXXII, Mumbai for assessment year 1999-2000. The tax amount aggregates approximately to Rs. 742.93 million. The order has been appealed *inter alia* on grounds that the Commissioner of Income Tax has erred in:

(a) directing the assessing officer to recompute the book profit after reducing therefrom the relevant debit for the bad debts;
(b) deleting the addition made by the assessing officer on account of interest accrued upon the securities held by the Bank on a day to day basis till the last day of the financial year;
(c) deleting the addition made on account of broken period interest on purchase of securities;
(d) deleting the addition made by the assessing officer by the reduction of exemption and has further erred in deleting the increase in book profits made by the assessing officer in accordance with explanation F to section 115J of the Income Tax Act; and
(e) directing the assessing officer to verify the claim of the Bank with regard to indexation cost in respect of bonds and debentures and to accordingly rectify the computation of capital gains.

The matter is pending.

24. The Deputy Commissioner of Income Tax (RG-2[1]), Mumbai has filed an appeal (Appeal No. ITA 3580/M/2003) in the Income Tax Appellate Tribunal against an order of the Commissioner of Income Tax (Appeals) XXXII, Mumbai for assessment year 2000-2001. The tax amount aggregates approximately to Rs. 841.40 million. The order has been appealed *inter alia* on grounds that the Commissioner of Income Tax has erred in:

(a) deleting the addition of Rs. 692.39 million made by the assessing officer being the difference between the interest of securities on accrual basis and interest offered by the Bank to tax on due basis;
(b) directing the assessing officer to allow broken period interest of Rs. 1,357.37 million being interest paid on purchase of securities as allowable expenditure;

(c) in restricting the disallowance to the extent of Rs. 16.58 million towards operational expenses related to earning of exempted income in accordance with section 14A of the Income Tax Act;
(d) in directing the assessing officer to increase the book profits in accordance with explanation F to section 115JA of the Income Tax Act by expenditure amount of Rs. 561.03 million being income relatable to exempt income under Chapter III of the Income Tax Act as against Rs. 580.58 million increased by the assessing officer; and
(e) in deleting the disallowance of Rs. 61.09 million made by the assessing officer under section 43-B read with section 36(1)(va) of the Income Tax Act on account of delayed payment of contribution to provident fund on the ground that credit to the account of employees has been made within the due date.

The matter is pending.

*Interest Tax and Wealth Tax*

As at June 30, 2007, the Bank is involved in three disputes in relation to interest tax claims that are pending before various forums in respect of amounts aggregating approximately Rs. 130.41 million and one dispute in relation to wealth tax in respect of an amount aggregating approximately Rs. 0.47 million. The interest tax disputes include the following case where the amount involved exceeds Rs. 10 million:

1. The Deputy Commissioner of Income Tax (SR-27), Mumbai has filed an appeal (Appeal No. Int. T.A. 62/M/96) in the Income Tax Appellate Tribunal against an order passed by the Commissioner of Income Tax (Appeals) VII, Mumbai for assessment year 1994-1995. The tax demand aggregates approximately to Rs. 125.93 million. The order has been appealed on the grounds that the Commissioner of Income Tax (Appeals) has erred in deleting the addition of an amount aggregating approximately Rs. 419.77 million on account of securities, bonds and debenture taxes computed by the assessing officer under the Interest Tax Act, 1974. The matter is currently pending before the Income Tax Appellate Tribunal.

***Labour and employment cases***

As at June 30, 2007, there are approximately 944 labour and employment related claims against the Bank before various forums in respect of which the financial impact cannot be quantified. These include 13 disputes pertaining to claims for allowances, 158 disputes pertaining to departmental enquiries involving cases of termination of employment, 126 disputes pertaining to other departmental enquiries, other than cases involving termination of employment, 49 disputes pertaining to claims for compassionate appointment, 71 disputes pertaining to promotion claims, 245 disputes pertaining to recruitment, 67 disputes pertaining to claims for pension, 42 disputes pertaining to claims for retirement dues other than claims for pension, 16 disputes pertaining to transfers, 4 disputes pertaining to claims for increment, 42 disputes pertaining to miscellaneous departmental enquiries and 111 miscellaneous disputes.

***Other cases***

As at June 30, 2007:

1. there are approximately 13 complaints against the Bank pending before the Banking Ombudsman in respect of an amount aggregating approximately Rs. 0.81 million;

2. there are approximately 159 proceedings against the Bank in respect of its various premises. The financial impact in respect of these proceedings cannot be quantified; and

3. the Bank has been impleaded as a party in 14 cases in its capacity as debenture trustee in respect of debentures issued by third parties.

**Cases filed by the Bank**

As at June 30, 2007:

1. there are approximately 16,799 cases filed by the Bank before various forums in respect of recovery of dues aggregating approximately Rs. 58,506.50 million with interest and costs. These include approximately 12,833 cases filed by the Bank before various forums in respect of recovery of dues aggregating approximately Rs. 2,790.00 million, where the amount involved in each case is less than Rs. 1 million and 3,966 cases filed by the Bank before various forums in respect of recovery of dues aggregating approximately Rs. 55,716.50 million, where the amount involved is equal to or more than Rs. 1 million;

2. the Bank has initiated approximately 53 proceedings including in respect of labour laws, winding up petitions or closure applications;

3. the Bank has filed seven suits on behalf of debenture holders in its capacity as debenture trustee in respect of debentures issued by third parties; and

4. The Bank has initiated 320 criminal proceedings, including before the Central Bureau of Investigation, against various persons, *inter alia*, on grounds of fraud. Such persons are not employees of the Bank.

**Cases against Subsidiaries**

**Cent Bank Home Finance Limited**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Cent Bank Home Finance Limited has a disputed tax liability of Rs. 34.58 million on account of N.P.A. provisioning. Income tax assessments have been completed up to assessment year 2004-2005. The income tax department has disallowed provision for N.P.A. (including amount written off) amounting to Rs. 40.89 million raising a demand of Rs. 20.72 million for assessment year 2003-2004 and Rs. 13.86 million for assessment year 2004-2005. The company has not accepted the said disallowance and has filed an appeal against the same before the Commissioner of Income Tax (Appeals); and

2. C.M.C. Limited has raised a bill of Rs. 3.21 million which is disputed. However, Cent Bank Home Finance Limited has, vide its legal notice, demanded back the entire amount of Rs. 5.23 million paid to C.M.C. Limited towards the project cost along with a penalty of Rs. 3.01 million.

**Centbank Financial and Custodial Services Limited**

**Litigation (as of June 30, 2007)**

1. Centbank Financial and Custodial Services Limited has been impleaded as a party in three cases in its capacity as a trustee/executor of its clients;

2. Centbank Financial and Custodial Services Limited has filed four cases as debenture trustees before various forums in respect of an amount aggregating approximately Rs. 182.60 million; and

3. Centbank Financial and Custodial Services Limited has initiated three cases in its capacity as a trustee/executor of its clients.

**Cases involving Associates**

**Indo-Zambia Bank Limited**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Letters of Credit: K 1,946.01 million (Rs. 19.90 million).
2. Guarantees and other engagement: K 33,108.66 million (Rs. 338.64 million).

**Ballia Regional Rural Bank**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Guarantees given on behalf of constituents in India: Rs.0.96 million

**Litigation**

As at June 30, 2007, there are 19,325 cases filed by Ballia Regional Rural Bank in respect of recovery of dues aggregating approximately Rs. 108.65 million.

**Chambal – Gwalior Regional Rural Bank**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Guarantees given on behalf of constituents in India: Rs.5.18 million; and
2. Acceptances and endorsements and other obligations (bills for collection): Rs.7.41 million

**Litigation**

As at June 30, 2007, there are 13,319 cases filed by Chambal – Gwalior Regional Rural Bank in respect of recovery of dues aggregating approximately Rs. 195.60 million. Further, there are five consumer cases in respect of amounts aggregating approximately Rs. 0.05 million and one case in respect of staff matters with a claim of Rs. 0.80 million.

**Etawah Regional Rural Bank**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Claims against Bank not acknowledged as debts: Rs.0.03 million; and
2. Guarantees given on behalf of constituents in India: Rs.1.10 million.

**Litigation**

As at June 30, 2007, there are 17,418 cases filed by Etawah Regional Rural Bank in respect of recovery of dues aggregating approximately Rs. 113.30 million. Further, there are five other cases in respect of an amount aggregating approximately Rs. 0.38 million.

**Hadoti Regional Rural Bank**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Guarantees given on behalf of constituents in India: Rs.0.80 million; and
2. Inland bills for collection: Rs.21.14 million

**Litigation**

As at June 30, 2007, there are 7,297 cases filed by Hadoti Regional Rural Bank in respect of recovery of dues aggregating approximately Rs. 146.90 million. Further, there are ten recovery cases in respect of an amount aggregating approximately Rs. 2.04 million and 22 cases in respect of staff matters, the financial impact of which cannot be quantified.

**Kosi Regional Rural Bank**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Inland bills for collection: Rs.113.28 million

**Litigation**

As at June 30, 2007, there are 1,267 cases filed by Kosi Regional Rural Bank in respect of recovery of dues aggregating approximately Rs. 22.90 million.

**Ratlam – Mandsaur Regional Rural Bank**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Guarantees given on behalf of constituents in India: Rs.2.61 million.

**Litigation**

As at June 30, 2007, there are 9,212 cases filed by Ratlam – Mandsaur Regional Rural Bank in respect of recovery of dues aggregating approximately Rs. 56.70 million. Further, there are two cases before the DRT in respect of an amount aggregating approximately Rs. 10.70 million.

**Satpura Regional Rural Bank**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Bank Guarantees: Rs.6.63 million
2. *others*
   (a) In Hoshangabad Regional Office claims against Satpura Regional Rural Bank, not acknowledged as debts, Rs.1.29 million on account of disparity in salary structure of the Field Supervisors with that of Veterinary Assistant Surgeons. Satpura Regional Rural Bank has paid 50% of Claim, i.e., Rs. 0.65 million and kept the same in OD nominal account as salary arrears. As the matter is sub-judice and the petition is pending with the court at Jabalpur, the same shall be accounted for on payment basis.

   (b) Similarly, in Mandla Regional Office, ad hoc payment of Rs.1.36 million made under Gupta Committee to Officers during 1994-95 is still shown under other assets, total amount payable is not ascertainable, hence not provided for.

**Litigation**

1. As at June 30, 2007, 25 cases have been filed for recovery of dues and ten cases have been filed and are pending in respect of an amount aggregating approximately Rs. 0.60 million against Satpura Regional Rural Bank before consumer forums.

2. As at June 30, 2007, there are approximately 22,903 cases filed by Satpura Regional Rural Bank in respect of recovery of dues aggregating approximately Rs. 5.22 million.

**Surguja Regional Rural Bank**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Claims against Bank not acknowledged as debts: Rs.3.20 million.

**Litigation**

As at June 30, 2007, there are 6,068 cases filed by Surguja Regional Rural Bank in respect of recovery of dues aggregating approximately Rs. 80.69 million. Further, there are four consumer cases, the financial impact of which cannot be quantified.

**Uttar Bihar Regional Rural Bank**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Guarantees given on behalf of constituents in India: Rs.0.94 million; and
2. Other contingent liabilities: Rs.0.33 million.

**Litigation**

As at June 30, 2007, there are 8,890 cases filed by Uttar Bihar Regional Rural Bank in respect of recovery of dues aggregating approximately Rs. 148.63 million. There are 117 consumer cases against Uttar Bihar Regional Rural Bank in respect of an amount aggregating approximately Rs. 1.89 million. Further, there are 58 cases in respect of staff matters and one case filed against the Uttar Bihar Regional Rural Bank by a landlord for fixation of rent, the financial impact of which cannot be quantified.

**Uttarbanga Regional Rural Bank**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Guarantees given on behalf of constituents in India: Rs.3.92 million.

**Litigation**

As at June 30, 2007, there are 861 cases filed by Uttarbanga Regional Rural Bank in respect of recovery of dues aggregating approximately Rs. 6.40 million. Further, there are six consumer cases, the financial impact of which cannot be quantified.

**Vidharbha Regional Rural Bank**

**Contingent Liabilities not provided for (as of March 31, 2007)**

1. Guarantees given on behalf of constituents in India: Rs.2.20 million.

**Litigation**

As at June 30, 2007, there are 966 cases filed by Vidharbha Regional Rural Bank in respect of recovery of dues aggregating approximately Rs. 9.06 million. Further, there are four cases in respect of staff matters, the financial impact of which cannot be quantified.

***Cases against our Chairperson and Managing Director***

There are four contempt applications pending before various High Courts against our Chairperson and Managing Director. These cases have been filed by petitioners, *inter alia*, on grounds that the Bank had rejected an application for appointment of a petitioner on compassionate grounds, the Bank had not recorded a petitioner for grant of pension, and that the Bank had wrongly dismissed a petitioner from service.

Our Chairperson and Managing Director has been impleaded as a defendant in a suit filed before the Delhi High Court for damages on account of the delay in crediting certain remittances received from abroad. An application has been filed to discharge the Chairperson and Managing Director from the suit. The suit and the application are pending.

## LICENSES AND APPROVALS

*On the basis of the indicative list of approvals provided below, we can undertake this Issue and our current business activities and no further major approvals from any government authority/RBI are required to continue these activities. It must be distinctly understood that, in granting these licenses, the GoI and/or the RBI does not take any responsibility for our financial soundness or for the correctness of any of the statements make or opinions expressed in this behalf.*

### Approvals for the Issue

1. Letter No. F.No.11/17/2003-BOA dated January 24, 2007 from the Government of India, Ministry of Finance, Department of Economic Affairs (Banking Division), granting its approval for an issue of 80 million Equity Shares.

2. Letter No. FE.CO.FID/26446/10.78.020/2006-07 dated May 24, 2007 from the Foreign Exchange Department, RBI approving the issue and allotment of up to 20% of the Issue to NRIs and FIIs in this Issue.

### Approvals for our Business

*Appointment and remuneration of Directors*

1. Notification No. F.No.9/20/2003-BO-I dated June 10, 2005 issued by the MoF, GOI in terms of section 9(3)(a) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clauses 3, 5, 6, 7, 8(1) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 appointing H.A. Daruwalla as Chairperson and Managing Director of the Bank from the date of her taking charge on or after June 30, 2005 up to December 31, 2008, i.e., the date of her attaining the age of superannuation, or until further orders, whichever is earlier.

2. Notification No. F.No.9/3/2006-BO-I dated February 2, 2006 issued by the MoF, GOI in terms of section 9(3)(a) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clauses 3(1) and 8(1) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 appointing K. Subbaraman as whole time director (designated as the Executive Director) of the Bank from the date of his taking charge and up to September 30, 2008, i.e., the date of his attaining the age of superannuation or until further orders, whichever is earlier.

3. Notification No. F.No.9/21/2006-BO-I dated June 6, 2007 issued by the MoF, GOI in terms of section 9(3)(a) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clauses 3(1) and 8(1) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 appointing Albert Tauro as a whole time director (designated as the Executive Director) of the Bank from the date of his taking charge and up to March 31, 2011, i.e., the date of his attaining the age of superannuation or until further orders, whichever is earlier.

4. Notification No. F.No.9/11/2004-BO-I dated February 7, 2006 issued by the MoF, GOI in terms of section 9(3)(b) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clause 3(1) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 appointing P.P. Mitra as a Director of the Bank with immediate effect and until further orders.

5. Notification No. F.No.9/2/2007-BO-I dated February 27, 2007 issued by the MoF, GOI in terms of section 9(3)(c) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clause 3(1) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 nominating M.K. Bhattacharya as a Director of the Bank with immediate effect and until further orders.

6. Notification No. F.No. 9/33/2005-BO-I dated September 16, 2005 issued by the MoF, GOI in terms of sections 9(3)(h) and 9(3-A) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clause 3(1) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 nominating Kamal Faruqui as a part-time non-official Director of the Bank for a period of three years from the date of notification or until his successor is nominated, whichever is earlier.

7. Notification No. F.No. 9/33/2005-BO-I dated October 6, 2005 issued by the MoF, GOI in terms of sections 9(3)(h) and 9(3-A) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clause 3(1) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 nominating Major (Retd.) Ved Prakash as a part-time non-official Director of the Bank for a period of three years from the date of notification or until his successor is nominated, whichever is earlier.

8. Notification No. F.No.9/33/2005-BO-I dated November 10, 2005 issued by the MoF, GOI in terms of sections 9(3)(h) and 9(3-A) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clause 3(1) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 nominating Satya Bahin as a part-time non-official Director of the Bank for a period of three years from the date of notification or until her successor is nominated, whichever is earlier.

9. Notification No. F.No.9/33/2005-BO-I dated November 10, 2005 issued by the MoF, GOI in terms of sections 9(3)(h) and 9(3-A) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clause 3(1) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 nominating Harish Chandhok as a part-time non-official Director of the Bank for a period of three years from the date of notification or until his successor is nominated, whichever is earlier.

10. Notification No. F.No.9/33/2005-BO-I dated March 3, 2006 issued by the MoF, GOI in terms of sections 9(3)(h) and 9(3-A) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clause 3(1) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 nominating Romesh Sabharwal as a part-time non-official Director of the Bank for a period of three years from the date of notification or until his successor is nominated, whichever is earlier.

11. Notification No. F.No.9/4/2006-BO-I dated January 2, 2007 issued by the MoF, GOI in terms of sections 9(3)(h) and 9(3-A) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clause 3(1) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 nominating Indu Singh Pawar as a part-time non-official Director of the Bank for a period of three years from the date of notification or until her successor is nominated or until further orders, whichever is the earliest.

12. Notification No. F.No.15/3/2002-IR dated September 5, 2003 issued by the MoF, GOI in terms of section 9(3)(e) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clause 3(1) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 appointing C.M. Puri as workman employee Director of the Bank for a period of three years with effect from September 5, 2003 and thereafter until his successor is appointed or till he ceases to be a workman employee of the Central Bank of India, or until further orders, whichever is earliest.

13. Notification No. F.No.9/10/2001-BO-I dated August 10, 2006 issued by the MoF, GOI in terms of section 9(3)(f) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with clauses 9(1) and 9(2)(a) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 appointing N.K. Pareek as an officer employee Director of the Bank for a period of three years with effect from the date of notification or until his successor has been nominated or till he ceases to be an officer of the Central Bank of India, whichever is earliest.

14. Notification No. F.20/7/2004-BO-I dated July 27, 2005 issued by the MoF, GOI in terms of clause 8(2) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 fixing the salary, allowances fees, perquisites and other terms and conditions of appointment of H.A. Daruwalla, Chairperson and Managing Director.

15. Letter No.F.No.20/2/2006-B.O.I. dated March 21, 2006 from the MoF, GoI in terms of clause 8(2) of the Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 fixing the salary, allowances fees, perquisites and other conditions of appointment of K. Subbaraman, Executive Director.

16. Letter No. F.No.26/2/2000-B.O.I dated January 15, 2004 from the MoF, GoI to the Chairman and Managing Director of Nationalized Banks revising the sitting fees payable to the Directors nominated under clauses (e), (f), (g), (h) and (i) of sub-section (3) of section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 for attending Board Meetings at Rs.5,000 per meeting and for attending committee meetings at Rs.2,500 per meeting.

*Taxation*

1. Permanent Account Number (PAN) AAACC2498P issued by the Department of Income Tax, GOI.

2. Tax deducted at source Account Number MUMC11449E issued by the Department of Income Tax, GoI to the Bank.

3. Certificate of Registration dated May 12, 2005 issued by the Office of the Superintendent of Service Tax, GoI for payment of service tax on services of input service distribution to the Bank at its central office.

4. Certificate of Registration issued by the Office of the Superintendent of Service Tax, GoI for payment of service tax on services of banking and finance to the Bank at its central office.

5. Certificate of Registration issued by the Office of the Assistant Commissioner, Central Excise Department, GoI for payment of service tax on banking and other financial services (credit card) to Central Bank of India at its central office.

*Licenses and Approvals from the RBI*

Section 22 of the Banking Regulation Act, which requires a license to be obtained from RBI in order to carry out banking business in India, applies only to banking companies and not to corresponding new Banks constituted under the Bank Acquisition Act. Accordingly, our Bank does not require a license in order to carry out Banking Activities.

1. Letter No. DBOD No. FSC.BC 27/24.01.018/2003-2004 dated September 22, 2003 issued by RBI to all scheduled commercial banks (excluding RRBs and LABs) permitting them to enter into insurance referral business without prior approval of RBI, subject to certain conditions including obtaining approval of the IRDA.

2. In-principle approval from the RBI vide letter No. DBOD.No.FSC.508/24.01.018/2002-03 dated January 14, 2003 to the Bank for acting as a ‘corporate agent’ to undertake distribution of insurance products on agency basis without any risk participation subject to certain conditions (such as compliance with IRDA regulations, reporting, non-transfer of risk from insurance business to banking business and a prohibition on the opening of offices for insurance purposes in towns where it has no banking presence).

We require prior approval from RBI for opening a new place of business in India or abroad. We have obtained the necessary approvals from the appropriate statutory and regulatory authorities for carrying out our business and operations through our branches and no further approvals are required from any Indian government authority/RBI to continue our business and operations. Except as disclosed hereunder, there are no approvals which have expired, or which have been applied for and have not been granted to the Indian branches of the Bank. We are not required to apply for any other approvals for the purposes of running our business and operations.

*Registration with SEBI*

1. Certificate of Registration dated December 2, 2005 granted by SEBI to the Bank for carrying on activities as merchant bankers under the SEBI (Merchant Bankers) Regulations, 1992 with the Registration Code INM000003069 valid until September 30, 2008.

2. Certificate of Registration dated March 9, 2005 granted by SEBI to the Bank for carrying on activities as a participant under the SEBI (Depositories and Participants) Regulations, 1996 with the Registration Number IN-DP-CDSL-296-2005 valid until March 8, 2010.

3. Certificate of Registration dated April 24, 2006 granted by SEBI to the Bank for carrying on activities as debenture trustees under the SEBI (Debenture Trustee) Regulations, 1993 with the Registration Code IND000000012 valid until May 31, 2009.

*Approvals granted by the Insurance Regulatory and Development Authority*

1. License no. 1115568 dated February 17, 2006 issued by the IRDA in terms of the Insurance Regulatory and Development Authority (Licensing of Corporate Agents) Regulations 2002 authorising the Bank to act as corporate agent under the Insurance Act, 1938 for three years from March 25, 2006.

**Registration with AMFI**

1. Certificate of Registration dated May 17, 2006 granted by AMFI enrolling the Bank as an AMFI Registered Mutual Fund Advisor enabling them to carry on the activities of intermediaries with the AMFI Registration No. ARN-39091.

***Approvals applied for and pending approval***

1. Letter dated April 7, 2007 to the GoI, Ministry of Finance, Department of Economic Affairs (Banking Division) seeking approval of the GoI to reset the coupon rate in respect of the 800,000,000 perpetual non-cumulative preference shares of Rs. 10 each issued by the Bank to the GoI.

2. Letter dated November 11, 2006 from the Bank to SEBI seeking renewal of the certificate of Registration dated November 10, 2003 granted by SEBI to the Bank for carrying on activities as bankers to an issue under the SEBI (Bankers to an Issue) Regulations, 1994 with the Registration Code INB100000012, which was valid till November 15, 2006.

3. Application Number 1553996 dated April 30, 2007 for registration of the Bank's logo as a trademark in class 36 under the provisions of the Trade Mark Act, 1999.

## OTHER REGULATORY AND STATUTORY DISCLOSURES

***Authority for the Issue***

Our Board of Directors authorised a fresh issue of 80,000,000 Equity Shares pursuant to a resolution passed at its meeting held on April 23, 2007.

The Bank, by its letter dated November 30, 2006 applied to the Government of India for its consent to a fresh issue of 80 million Equity Shares. The Department of Economic Affairs (Banking Division), Ministry of Finance, Government of India, has, by its letter dated January 24, 2007 granted its approval for an issue of 80 million Equity Shares.

The Foreign Exchange Control Department, RBI has, by its letter dated May 24, 2007, approved the issue and allotment of up to 20% of this Issue to NRIs and FIIs.

***Prohibition by SEBI, RBI or governmental authorities***

Neither the Bank, nor our Directors or our Associates, nor companies with which our Directors are associated as directors or Promoter, nor our Subsidiaries have been prohibited from accessing or operating in the capital markets, or restrained from buying, selling or dealing in securities under any order or direction passed by SEBI.

None of the Bank, its Directors, its Promoter, Associates, Subsidiaries, the directors of the Subsidiaries and the companies in which the Bank's Directors are associated as directors, have been declared as a willful defaulter by the RBI or any other governmental authority and except as disclosed in this Red Herring Prospectus there has been no violation of any securities law committed by any them in the past and no such proceedings are pending against any of them.

***Eligibility for the Issue***

As a corresponding new bank set up under the Bank Acquisition Act, we are exempt under clause 2.4 of the SEBI Guidelines 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 Guidelines is set forth 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;*

*(ii) a corresponding new bank set up under the Banking Companies (Acquisition and Transfer of Undertaking) Act, 1970, Banking Companies (Acquisition and Transfer of Undertaking) Act, 1980, State Bank of India Act, 1955 and State Bank of India (Subsidiary Banks) Act, 1959 (hereinafter referred to as "public sector banks")."*

Therefore, on the basis of the above we are eligible to make this Issue.

***Disclaimer Clause***

**AS REQUIRED, A COPY OF THE DRAFT RED HERRING PROSPECTUS HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THE DRAFT 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 DRAFT RED HERRING PROSPECTUS. THE BOOK RUNNING LEAD MANAGERS, ICICI SECURITIES PRIMARY DEALERSHIP LIMITED, CITIGROUP GLOBAL MARKETS INDIA PRIVATE LIMITED, ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED, IDBI CAPITAL MARKET SERVICES LIMITED AND KOTAK MAHINDRA CAPITAL COMPANY LIMITED HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT RED HERRING PROSPECTUS ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURE 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 DRAFT 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, ICICI SECURITIES PRIMARY DEALERSHIP LIMITED, CITIGROUP GLOBAL MARKETS INDIA PRIVATE LIMITED, ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED, IDBI CAPITAL MARKET SERVICES LIMITED AND KOTAK MAHINDRA CAPITAL COMPANY LIMITED HAVE FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED MAY 19, 2007 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 DRAFT 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 DRAFT 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 DRAFT 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 DRAFT 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."**

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, GOVERNMENT OF INDIA AND ANY OTHER COMPETENT AUTHORITY.**

5. **WE CERTIFY THAT WRITTEN CONSENT FROM THE PROMOTER HAS BEEN OBTAINED FOR INCLUSION OF ITS EQUITY SHARES AS PART OF THE PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN AND THE EQUITY SHARES PROPOSED TO FORM PART OF THE PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN WILL NOT BE DISPOSED OR SOLD OR TRANSFERRED BY THE PROMOTER DURING THE PERIOD STARTING FROM THE DATE OF FILING THE DRAFT RED HERRING PROSPECTUS WITH SEBI UNTIL THE DATE OF COMMENCEMENT OF THE LOCK-IN PERIOD AS STATED IN THE DRAFT RED HERRING PROSPECTUS."**

   **THE FILING OF THE DRAFT 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 LEAD MANAGERS, ANY IRREGULARITIES OR LAPSES IN THE DRAFT RED HERRING PROSPECTUS.**

**Note:**

The Bank, the 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 our website, www.centralbankofindia.co.in, 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 us dated May 18, 2007 and the Underwriting Agreement to be entered into among the Underwriters and us.

All information shall be made available by us and the BRLMs to the public and investors at large and no selective or additional information would be made available to a section of the investors in any manner whatsoever including at road show presentations, in research or sales reports, at bidding centres or elsewhere.

Neither we nor the Syndicate shall be liable to the Bidders for any failure in downloading the Bids due to faults in any software/hardware system or otherwise.

***Disclaimer from the Bank and the BRLMs***

Investors that bid in the Issue will be required to confirm and will be deemed to have represented to the Bank, the Underwriters and their respective directors, officers, agents, affiliates, and representatives that they are eligible under all applicable laws, rules, regulations, guidelines and approvals to acquire Equity Shares of the Bank and will not offer, sell, pledge, or transfer the Equity Shares of the Bank to any person who is not eligible under any applicable laws, rules, regulations, guidelines and approvals to acquire

Equity Shares of the Bank. The Bank, the Underwriters and their respective directors, officers, agents, affiliates, and representatives accept no responsibility or liability for advising any investor on whether such investor is eligible to acquire Equity Shares of the Bank.

***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, public financial institutions as specified in section 4A of the Companies Act, venture capital funds registered with SEBI, state industrial development corporations, insurance companies registered with the Insurance Regulatory and Development Authority, provident funds (subject to applicable law) with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million and to permitted non residents including FIIs, Eligible NRIs, multilateral and bilateral development financial institutions, FVCIs and other eligible foreign investors, provided that they are eligible under all applicable laws and regulations to hold Equity Shares. This Red Herring Prospectus does not, however, constitute an offer to sell or an invitation to subscribe to Equity Shares offered hereby in any jurisdiction other than India 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. Accordingly, the Equity Shares, represented thereby 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 affairs of the Bank 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 U.S. Securities Act of 1933, as amended (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 (i) in the United States to "qualified institutional buyers", as defined in Rule 144A of the Securities Act in reliance on Rule 144A under the Securities Act, and (ii) 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.**

**The Equity Shares have not been, and will not be, registered, listed or otherwise qualified in any other jurisdiction outside India and may not be offered or sold, and Bids may not be made by persons in any such jurisdiction, except in compliance with the applicable laws of such jurisdiction.**

Further, each Bidder where required agrees that such Bidder will not sell or transfer any Equity Shares or create any economic interest therein, including any off-shore derivative instruments, such as participatory notes, issued against the Equity Shares or any similar security, other than pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with applicable laws and legislations in each jurisdiction, including India.

**Disclaimer clause of the BSE**

BSE has given vide its letter dated June 28, 2007, permission to us to use BSE's name in the Red Herring Prospectus as one of the stock exchanges on which our securities are proposed to be listed. BSE has scrutinised the Draft Red Herring Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to us. BSE does not in any manner:

- Warrant, certify or endorse the correctness or completeness of any of the contents of the Draft Red Herring Prospectus; or

- Warrant that this Bank's securities will be listed or will continue to be listed on BSE; or

- 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 the Draft 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 the Draft Red Herring Prospectus has been submitted to NSE. NSE has given in its letter ref. NSE/LIST/49081-E dated June 18, 2007, permission to us to use NSE's name in the Red Herring Prospectus as one of the stock exchanges on which our further securities are proposed to be listed, The NSE has scrutinised the Draft Red Herring Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to us. 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 the Draft 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 the Draft Red Herring Prospectus; nor does it warrant that our 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 promoters, its management or any scheme or project of this Bank.

Every Person who desires to apply for or otherwise acquires any of our 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 CARE***

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the Bank as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions of for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold Equity Shares. It is also not a comment on the Issue Price or the listed price of the Equity Shares. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the Bank; also it does not indicate compliance/violation of various statutory requirements. Other than under applicable law, CARE shall not be liable for any losses incurred by users from any use of the IPO Grading.

***Filing***

A copy of the Draft Red Herring Prospectus was filed with SEBI at Securities and Exchange Board of India, SEBI Bhavan, G Block, 3rd Floor, Bandra Kurla Complex, Bandra (E), Mumbai 400 051 .

A copy of this Red Herring Prospectus, along with the other documents required to be filed under applicable law, will be delivered for registration to the Designated Stock Exchange and a copy of the Prospectus, along with the documents required to be filed under applicable law, will be delivered for registration to the Designated Stock Exchange.

***Listing***

Applications have been made to the NSE and BSE seeking permission for listing of the Equity Shares issued pursuant to this Issue. The NSE 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, our Bank will forthwith repay, without interest, all moneys received from the applicants in reliance on the Red Herring Prospectus. If such money is not repaid within eight days after our Bank becomes liable to repay it, i.e. from the date of refusal or within 10 weeks 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.

Our Bank shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at both the Stock Exchanges are taken within seven (7) working days of finalization of the Basis of Allotment 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, the Company Secretary, the Compliance Officer, the Auditors, the Banker to the Issue; and (b) BRLMs, Syndicate Members, Registrar to the Issue, Escrow Collection Bank, Banker to the Issue, Domestic Legal Counsel to the Bank, Domestic Legal Counsel to the BRLMs, International Legal Counsel to the BRLMs, to act in their respective capacities have been obtained and shall be filed along with a copy of the Red Herring Prospectus with the Designated Stock Exchange and such consents have not been withdrawn up to the time of delivery of this Red Herring Prospectus for registration with the Designated Stock Exchange.

Our 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 have not been withdrawn up to the time of delivery of this Red Herring Prospectus for filing with the the Designated Stock Exchange.

CARE, the agency engaged by us for the purpose of obtaining IPO grading in respect of this Issue, will give its written consent to the inclusion of their report in the form and context in which it will appear in the Red Herring Prospectus and such consent and report has not withdrawn up to the time of delivery of the Red Herring Prospectus with the Designated Stock Exchange.

***Expert Opinion***

Except the report of CARE in respect of the IPO grading of this Issue annexed herewith and except as stated elsewhere in this Red Herring Prospectus, we have 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, advertisement expenses and registrar, depository and listing fees. The estimated Issue expenses are as follows:

| **Activity** | **Expense** | | |
|---|---|---|---|
| | **(in Rs. Million)*** | **(Percentage of total Issue expenses)*** | **(Percentage of total Issue size)*** |
| Lead management, underwriting commission | [●] | [●] | [●] |
| Advertising and Marketing expenses | [●] | [●] | [●] |
| Printing and stationery | [●] | [●] | [●] |
| Registrars fee, legal fee, etc. | [●] | [●] | [●] |
| IPO grading expenses | [●] | [●] | [●] |
| Others | [●] | [●] | [●] |
| Total estimated Issue expenses | [●] | [●] | [●] |

* Will be incorporated after finalisation of Issue Price

***Fees Payable to the BRLMs and Syndicate Members, Brokerage and Underwriting Commission***

The total fees payable to the BRLMs and the Syndicate Members including brokerage and underwriting commission for the Issue will be as per the engagement letter dated March 30, 2007 and the memorandum of understanding executed among the Bank and the BRLMs dated May 18, 2007, a copy of which is available for inspection at our Head Office.

***Fees Payable to the Registrar to the Issue***

The fees payable to the Registrar to the Issue will be as per the memorandum of understanding between the Bank and the Registrar to the Issue dated May 14, 2007 a copy of which is available for inspection at our Head Office.

The Registrar to the Issue will be reimbursed for all out of pocket expenses including cost of stationery, postage, stamp duty and communication expenses. Adequate funds will be provided to the Registrar to the Issue to enable them to make refunds in any of the modes described in this Red Herring Prospectus or send refund orders or allotment advice by registered post or speed post or under certificate of posting.

***Bidding/Issue Period***

| | |
|---|---|
| **BID/ISSUE OPENS ON** | **July 24, 2007** |
| **BID/ISSUE CLOSES ON** | **July 27, 2007** |

Bids and any revision in Bids shall be accepted **only between 10 a.m. and 3 p.m**. (Indian Standard Time) during the Bidding/Issue Period as mentioned above at the bidding centres mentioned on the Bid cum Application Form except that on the Bid/Issue Closing Date, the Bids shall be accepted **only between 10**

**a.m. and 3 p.m.** (Indian Standard Time) and uploaded until such time as permitted by the BSE and the NSE.

We, in consultation with the BRLMs, reserve the right to revise the Price Band during the Bidding/Issue Period in accordance with the SEBI Guidelines, provided that the Cap Price is less than or equal to 120% of the floor price. The Floor Price can be revised up or down to a maximum of 20% of the Floor Price disclosed in this Red Herring Prospectus.

**In case of revision in the Price Band, the Bidding/Issue Period will be extended for three additional days after revision of Price Band, subject to the Bidding/Issue Period not exceeding 10 working days. Any revision in the Price Band, and the revised Bidding/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 other members of the Syndicate.**

***Designated Date and Allotment of Equity Shares***

(a) We 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 Accounts to the Issue Account on the Designated Date, we would ensure the credit to the successful Bidders' depository account as well as the refund to unsuccessful Bidders 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.

Investors are advised to instruct their Depository Participants to accept the Equity Shares that may be allocated to them pursuant to the Issue.

***Letters of allotment or refund orders***

We shall give credit to the beneficiary account with Depository Participants within two working days from the date of the finalisation of Allotment. We 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 only at the sole or First Bidder's sole risk within 15 days of the Bid/Issue Closing Date.

In accordance with the requirements of the Stock Exchanges and SEBI Guidelines, we undertake that:

- Allotment shall be made only in dematerialised form within 15 days from the Bid/Issue Closing Date;
- Despatch of refund orders shall be done within 15 days from the Issue Closing Date; and
- We shall pay interest at 15.0% per annum (for any delay beyond the 15 days of the Issue Closing Date as mentioned above), if allotment is not made, refund orders are not despatched and/or demat credits are not made to Bidders within the 15 days of the Issue Closing Date, provided that the beneficiary particulars relating to such Bidders as given by the Bidders is valid at the time of the upload of the demat credit.

We 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 and payable at par at places where Bids are received, except where the refund or portion thereof is made in electronic mode/manner. The bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centres will be payable by the Bidders.

***Companies under the Same Management***

No company under the same management has made any public or rights issue during the last three years.

*Particulars regarding Public or Rights Issues during the last five years*

Our Bank has not made any previous rights and public issues in India or abroad in the five years preceding the date of this Red Herring Prospectus.

***Promise vs. Performance***

Neither our Bank nor any associate or subsidiary company has made any previous rights or public issues in the past.

***Issues otherwise than for cash***

Except as mentioned in the section titled "Capital Structure" on page 16 of this Red Herring Prospectus, we have not issued any Equity Shares for consideration otherwise than for cash in the last five years.

**Underwriting commission, brokerage and selling commission on Previous Issues**

Since this is the initial public offering of the Bank's Equity Shares, no sum has been paid as commission or brokerage for subscribing to or procuring or agreeing to procure subscription for any of the Equity Shares.

**Outstanding Debentures or Bond Issues or Preference Shares**

The Bank has no outstanding debentures. For details of outstanding bonds and redeemable preference shares see sections "Financial Indebtedness" and "Capital Structure" on pages 273 and 16, respectively, of this Red Herring Prospectus.

**Stock Market Data of the Equity Shares**

This being an initial public offering of the Equity Shares of the Bank, the Equity Shares are not listed on any stock exchange.

***Remuneration Payable to the Directors***

Please refer to the section titled "Our Management- Remuneration of Directors" on page 130 of this Red Herring Prospectus.

***Purchase of Property***

There is no property which we have purchased or acquired or propose 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.

We have not purchased any property in which any Directors 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 our borrowings or deposits.

***Mechanism for Redressal of Investor Grievances***

Investor grievance will be settled expeditiously and satisfactorily by us. The memorandum of understanding between the Registrar to the Issue and us, will provide for retention of records with the Registrar to the Issue for a period of at least one year from the last date of dispatch of letters of allotment or refund orders, demat credit or where refunds are being made electronically, giving of refund instructions to the clearing system, 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 Syndicate Member 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 for the redressal of routine investor grievances shall be seven working 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.

We have appointed S.R. Shukla, as the Compliance Officer and he may be contacted in case of any pre-Issue or post-Issue-related problems such as non-receipt of letters of allotment, credit of allotted shares in the respective beneficiary account, refund orders, etc. He can be contacted at the following address: Central Bank of India, Chandermukhi, Nariman Point, Mumbai 400 021.

**Other Disclosures**

Except as disclosed in this Red Herring Prospectus, the Promoter has not purchased or sold any securities of the Bank during a period of six months preceding the date on which this Red Herring Prospectus is filed with SEBI.

**Tax Implications**

For details of tax implications on the Equity Shares to be allotted pursuant to the Issue, see the section titled “Statement of Tax Benefits” on page 29 of this Red Herring Prospectus.

**Payment or Benefit to Officers of the Bank**

Except as stated otherwise in this Red Herring Prospectus, no amount or benefit has been paid or given or is intended to be paid or given during the preceding two years to any of the Bank’s officers except the normal remuneration rendered as Directors, officers or employees. Except statutory benefits upon termination of their employment in the Bank or superannuation, no officer of the Bank is entitled to any benefit upon termination of such officer’s employment in the Bank or superannuation. None of the beneficiaries of loans, and advances and sundry debtors are related to the Directors of the Bank.

***Changes in Auditors***

Our auditors are appointed by the RBI from time to time and their remuneration, rights and duties are regulated by the Bank Acquisition Act.

Except as stated in the Auditor's Report on page 159 of this Red Herring Prospectus, there have been no changes in our auditors in the last three years.

***Capitalisation of Reserves or Profits***

We have not capitalised any reserves or profits during the last five years.

***Revaluation of Assets***

There has been no revaluation of assets in the last five years.

## TERMS OF THE ISSUE

The Equity Shares being issued are subject to the provisions of the Banking Regulation Act, Constitutional Documents, the terms of the Draft Red Herring Prospectus, this Red Herring Prospectus and the Prospectus, Bid cum Application Form, the Revision Form, the CAN and other terms and conditions as may be incorporated in the allotment advices and other documents/ certificates that may be executed in respect of the Issue. The Equity Shares shall also be subject to applicable laws, guidelines, rules, notifications and regulations relating to the issue of capital and listing and trading of securities issued from time to time by SEBI, the Government of India, the Stock Exchanges, RBI and/ or other authorities, as in force on the date of the Issue and to the extent applicable.

Our Board of Directors authorised a fresh issue of 80,000,000 Equity Shares pursuant to a resolution passed at its meeting held on April 23, 2007.

The Bank, by its letter dated November 30, 2006 applied to the Government of India for its consent to a fresh issue of 80 million Equity Shares. The Department of Economic Affairs (Banking Division), Ministry of Finance, Government of India, has, by its letter dated January 24, 2007 granted its approval for an issue of 80 million Equity Shares.

The Foreign Exchange Control Department, RBI has, by its letter dated May 24, 2007 approved the issue and allotment of up to 20% of this Issue to NRIs and FIIs.

### Ranking of Equity Shares

The Equity Shares being issued shall be subject to the provisions of our Constitutional Documents and shall rank pari passu with the existing Equity Shares of our Bank including rights in respect of dividend. The Allottees of Equity Shares under this Issue will be entitled to dividends and other corporate benefits, if any, declared by the Bank after the date of Allotment.

### Face Value and Issue Price

The face value of the Equity Shares is Rs. 10 each and the Issue Price is Rs. [●] per Equity Share. At any given point of time there shall be only one denomination of Equity Shares. The Floor Price is 8.5 times of the face value and the Cap Price is 10.2 times of the face value.

### Compliance with SEBI Guidelines

We shall comply with applicable disclosure and accounting norms specified by SEBI from time to time.

### Mode of Payment of Dividend

The Bank shall pay dividend to its shareholders in accordance with applicable laws.

### Rights of the Equity Shareholders

Subject to applicable laws, the equity shareholders shall have the following rights:

- Right to receive dividend, if declared. However, the declaration of dividend by the Bank is subject to certain restrictions. Please refer to the restrictions on the payment of dividend in the section titled "Regulation and Policies - Restrictions on Payment of Dividends" on page 116 of this Red Herring Prospectus;

- Right to attend general meetings and exercise voting powers, unless prohibited by law. The Bank Acquisition Act states that no shareholder of the Bank, other than the GoI shall be entitled to exercise voting rights in respect of the shares held by him in excess of one percent of the total voting rights of all the shareholders of the Bank. However, the power of shareholders to exercise voting rights is subject to certain restrictions. For 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 116 of this Red Herring Prospectus;

- Right to vote on a poll either in person or by proxy;
- Right of free transferability shall be subject to the provisions of section 3(2D) of the Bank Acquisition Act and Regulations 17 and 19 of the Bank Regulations. However, the right of free transferability is subject to certain restrictions. For information on these restrictions, please refer to section titled "Main Provisions of Constitutional Documents" on page 342 of this Red Herring Prospectus; and
- Such other rights, as may be available to a shareholder of a corresponding new bank under the Banking Regulation Act, our Constitutional Documents and under the listing agreements executed with the Stock Exchanges. However, please note that not all rights available to shareholders of a company are available to the shareholders of a corresponding new bank. For information on these rights, please see the section titled "Regulations and Policies – Comparative Table of Rights of Shareholders under the Companies Act, 1956 and under Regulations applicable to Corresponding New Banks" on page 82 of this Red Herring Prospectus.

For a detailed description of the main provisions of our Constitutional Documents relating to voting rights, dividend, forfeiture and lien, transfer and transmission, please refer to the section titled "Main Provisions of Constitutional Documents" on page 343 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 dematerialised form. As per the SEBI Guidelines, the trading of our Equity Shares shall be in dematerialised form only. Since trading of our Equity Shares is in dematerialised form, the tradable lot is one Equity Share. Allotment in this Issue will be only in electronic form in multiples of one Equity Share subject to a minimum Allotment of 60 Equity Shares. For details of allocation and Allotment, see the section titled "Issue Procedure – Basis of Allotment" on page 333 of this Red Herring Prospectus.

**Jurisdiction**

Exclusive jurisdiction for the purpose of this Issue is with the competent courts/authorities in Mumbai, India.

**Nomination Facility to Investor**

In terms of Regulation 20 of the Central Bank of India (Shares and Meetings) Regulations, 1998, the executors or administrators of a deceased shareholder in respect of an Equity Share, or the holder of probate or letters of administration with or without the will annexed or a succession certificate issued under Part X of the Indian Succession Act, 1925, or the holder of any legal representation or a person in whose favour a valid instrument of transfer was executed by the deceased sole holder during the latter's lifetime shall be the only person who may be recognized by the Bank as having title to such Equity Share. In the case of Equity Shares registered in the name of two or more shareholders, the survivor or survivors and on the death of the last survivor, his executors or administrators or any person who is the holder of probate or letters of administration with or without the will annexed or a succession certificate or any other legal representation in respect of such survivor's interest in the Equity Shares or a person in whose favour a valid instrument of transfer of Equity Shares was executed by the deceased sole holder during the latter's lifetime shall be the only person who may be recognized by the Bank as having title to such Equity Share.

Notwithstanding the above, since the Allotment of Equity Shares in the Issue will be made only in dematerialised form, nominations registered with respective depository participant of the applicant would prevail. If the investors require to change their nomination, they are requested to inform their respective depository participant.

**Minimum Subscription**

If our Bank does not receive a minimum subscription of 90% of the Issue less the Employee Reservation Portion, including devolvement to the underwriters within 60 days from the Bid/Issue Closing Date, our Bank shall forthwith refund the entire subscription amount received. If there is a delay beyond eight days after our Bank becomes liable to pay the amount, our Bank shall pay interest prescribed under section 73 of the Companies Act.

**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.

The shareholding of Non Residents in the Bank cannot exceed 20% of the paid up capital of the Bank in terms of section 3(2D) of the Bank Acquisition Act. For public sector banks, RBI monitors the ceilings on FII/NRI/PIO investments on a daily basis. For effective monitoring, RBI has fixed cut off points lower than the actual ceilings which is 18% for public sector banks. Once the aggregate net purchase of Equity Shares reaches the cut off points further acquisition of Equity Shares by FIIs/NRIs/PIOs require approval of the RBI. Accordingly, absent prior approval of the RBI, the shareholding of Non-Residents in the Bank cannot exceed 18% of the paid-up capital of the Bank. In addition, the provisions of the SEBI Takeover Regulations apply and must be complied with. Further Bank Regulations also regulates the manner of transfer of shares consolidation and sub-division of the Equity Shares of the Bank. For further details, please refer to the section "Main Provisions of Constitutional Documents" on page 342 of this Red Herring Prospectus.

The Foreign Exchange Control Department, RBI has, by its letter dated May 24, 2007 approved the issue and allotment of up to 20% of this Issue to NRIs and FIIs.

**As per existing regulations, OCBs cannot Bid in the Issue.**

**Arrangement for disposal of Odd Lots**

There are no arrangements for disposal of odd lots.

**Restriction on transfer of shares**

There are no restrictions on transfers and transmission of shares/debentures and on their consolidation/ splitting except as provided in our Constitutional Documents. See the section titled "Main Provisions of the Constitutional Documents" beginning on page 342 of this Red Herring Prospectus.

**Withdrawal of the Issue**

Our Bank, in consultation with the BRLMs, reserves the right not to proceed with the Issue at any time including after the Bid/Issue Closing Date, until final Allotment of the Equity Shares in the Issue, without assigning any reason therefor. Notwithstanding the following, the Issue is also subject to obtaining the final listing and trading approvals of the Stock Exchanges, which the Bank shall apply for after Allotment.

**The Equity Shares have not been and will not be registered under 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 (i) in the United States to "qualified institutional buyers", as defined Rule 144A of the Securities Act, in reliance on Rule 144A under the Securities Act, and (ii) 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.**

## ISSUE STRUCTURE

The present Issue of 80,000,000 Equity Shares Rs. 10 each, at a price of Rs. [●] for cash aggregating Rs. [●] million is being made through the 100% Book Building Process.

| | QIBs | Non-Institutional Bidders | Retail Individual Bidders | Employee Reservation Portion |
|---|---|---|---|---|
| Number of Equity Shares* | At least 45,600,000 Equity Shares | Not less than 7,600,000 Equity Shares or Net Issue less allocation to QIB Bidders and Retail Individual Bidders shall be available for allocation, subject to valid Bids being received at or above the Issue Price | Not less than 22,800,000 Equity Shares or Net Issue less allocation to QIB Bidders and Non-Institutional Bidders shall be available for allocation, subject to valid Bids being received at or above the Issue Price | 4,000,000 Equity Shares |
| Percentage of Issue Size available for Allotment/allocation | At least 60% of Net Issue shall be allocated to QIBs However, 5% of the QIB Portion shall be available for allocation proportionately to Mutual Funds only. Mutual Funds participating in the Mutual Fund Portion will also be eligible for allocation in the remaining QIB Portion. The unsubscribed portion in the Mutual Fund reservation will be available to QIBs. | Not less than 10% of Net Issue or the Net Issue less allocation to QIB Bidders and Retail Individual Bidders shall be available for allocation, subject to valid Bids being received at or above the Issue Price. | Not less than 30% of Net Issue or the Net Issue less allocation to QIB Bidders and Non-Institutional Bidders shall be available for allocation, subject to valid Bids being received at or above the Issue Price. | 5% of the Issue or the Issue less Net Issue. |
| Basis of Allotment/Allocation if respective category is oversubscribed | Proportionate as follows: (a) 2,280,000 Equity Shares shall be allocated on a proportionate basis to Mutual Funds; and (b) 43,320,000 Equity Shares shall be Allotted on a proportionate basis to all QIBs including Mutual Funds | Proportionate | Proportionate | Proportionate |

| | QIBs | Non-Institutional Bidders | Retail Individual Bidders | Employee Reservation Portion |
|---|---|---|---|---|
| | receiving allocation as per (a) above. | | | |
| Minimum Bid | Such number of Equity Shares in multiples of 60 Equity Shares that the Bid Amount exceeds Rs. 100,000. | Such number of Equity Shares in multiples of 60 Equity Shares that the Bid Amount exceeds Rs. 100,000. | 60 Equity Shares. | 60 Equity Shares |
| Maximum Bid | Such number of Equity Shares in multiples of 60 Equity Shares so that the Bid does not exceed the Issue, subject to applicable limits. | Such number of Equity Shares in multiples of 60 Equity Shares so that the Bid does not exceed the Issue, subject to applicable limits. | Such number of Equity Shares whereby the Bid Amount does not exceed Rs. 100,000 in value. | 4,000,000 Equity Shares. |
| Mode of Allotment | Compulsorily in dematerialised form. | Compulsorily in dematerialised form. | Compulsorily in dematerialised form. | Compulsorily in dematerialised form. |
| Bid/Allotment Lot | 60 Equity Shares in multiples of 60 Equity Shares | 60 Equity Shares in multiples of 60 Equity Shares | 60 Equity Shares in multiples of 60 Equity Shares | 60 Equity Shares in multiples of 60 Equity Shares |
| Trading Lot | One Equity Share | One Equity Share | One Equity Share | One Equity Share |
| Who can Apply ** | Public financial institutions as specified in section 4A of the Companies Act, FIIs registered with SEBI, scheduled commercial banks, mutual funds registered with SEBI, multilateral and bilateral development financial institutions, venture capital funds registered with SEBI, foreign venture capital investors registered with SEBI, state industrial development corporations, insurance companies registered with Insurance Regulatory and Development Authority, provident funds (subject to | Eligible NRIs, Resident Indian individuals, HUF (in the name of Karta), companies, corporate bodies, scientific institutions societies and trusts. | Individuals (including HUFs in the name of the karta, Eligible NRIs) applying for Equity Shares such that the Bid Amount does not exceed Rs. 100,000 in value. | Eligible Employees as defined in the section "Definitions and Abbreviations" on page ii of this Red Herring Prospectus |

| | QIBs | Non-Institutional Bidders | Retail Individual Bidders | Employee Reservation Portion |
|---|---|---|---|---|
| | applicable law) with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million in accordance with applicable law. | | | |
| Terms of Payment | QIB Margin Amount shall be payable at the time of submission of Bid cum Application Form to the Syndicate Member. | Margin Amount shall be payable at the time of submission of Bid cum Application Form to the Syndicate Member. | Margin Amount shall be payable at the time of submission of Bid cum Application Form to the Syndicate Member. | Margin Amount shall be payable at the time of submission of Bid cum Application Form to the Syndicate Member. |
| Margin Amount | At least 10% of Bid Amount | 100% of Bid Amount | 100% of Bid Amount | 100% of Bid Amount |

* Subject to valid Bids being received at or above the Issue Price. In terms of Rule 19(2)(b) of the SCRR, this is an Issue for less than 25% of the post-Issue capital, therefore, the Issue is being made through a 100% Book Building Process wherein at least 60% of the Issue shall be allotted on a proportionate basis to QIBs. If at least 60% of the Issue cannot be allotted to QIBs, then the entire application money will be refunded. Under-subscription, if any, in any category except the QIB Portion, would be allowed to be met with spillover from any other categories at the discretion of the Bank in consultation with the BRLMs and the Designated Stock Exchange. If at least 60% of the Net Issue cannot be Allotted to QIBs, then the entire application money will be refunded. A total of 5% of the Issue, i.e., 4,000,000 Equity Shares has been reserved for allocation to Eligible Employees on a proportionate basis, subject to valid Bids being received at or above the Issue Price. Any under subscription in the Employee Reservation Portion would be treated as part of the Net Issue. The maximum Bid under the Employee Reservation Portion cannot exceed 4,000,000 Equity Shares.

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 20% of its post Issue paid up capital.

** In case the Bid cum Application Form is submitted in joint names, the investors should ensure that the demat 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.

**Bidding/Issue Programme**

| | |
|---|---|
| **BID/ISSUE OPENS ON** | **July 24, 2007** |
| **BID/ISSUE CLOSES ON** | **July 27, 2007** |

Bids and any revision in Bids shall be accepted **only between 10 a.m. and 3 p.m**. (Indian Standard Time) during the Bidding/Issue Period as mentioned above at the bidding centres mentioned on the Bid cum Application Form except that on the Bid/Issue Closing Date, the Bids shall be accepted **only between 10**

**a.m. and 3 p.m.** (Indian Standard Time) and uploaded until such time as permitted by the BSE and the NSE on the Bid/Issue Closing Date.

**In case of revision in the Price Band, the Bidding/Issue Period will be extended for three additional days after revision of Price Band, subject to the Bidding/Issue Period not exceeding 10 working days. Any revision in the Price Band, and the revised Bidding/Issue Period, if applicable, will be widely disseminated by notification to the BSE and the NSE, by issuing a press release, and also by indicating the change on the web site of the BRLMs and at the terminals of the other members of the Syndicate.**

## ISSUE PROCEDURE

### *Book Building Procedure*

In terms of Rule 19(2)(b) of the Securities Contract Regulation Rules, 1957, this being an Issue for less than 25% of the post-Issue capital, the Issue is being made through the 100% Book Building Process wherein at least 60% of the Net Issue shall be Allotted on a proportionate basis to QIBs. 5% of the QIB Portion shall be available for allocation to Mutual Funds only and the remaining QIB portion shall be available for allocation to all the QIB Bidders, including Mutual Funds, subject to valid Bids being received at or above the Issue Price. If at least 60% of the Net Issue cannot be allotted to QIBs, then the entire application money will be refunded forthwith. Further, not less than 10% of the Net Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 30% 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. Further 4,000,000 Equity Shares shall be available for allocation on a proportionate basis to Eligible Employees, subject to valid Bids being received at or above the Issue Price.

Bidders are required to submit their Bids through the Syndicate. Further, QIB Bids can be submitted only through Syndicate Members. In case of QIB Bidders, the Bank in consultation with the BRLMs may reject Bids at the time of acceptance of the Bid cum Application Form provided that the reasons for rejecting the same shall be provided to such Bidder in writing. In case of Non-Institutional Bidders and Retail Individual Bidders, the Bank will have a right to reject the Bids only on technical grounds.

**Investors should note that Allotment of Equity Shares to all successful Bidders will only be in the dematerialized form. Bidders will not have the option of getting allotment of the Equity Shares in physical form. The Equity Shares, on Allotment, shall be traded only in the dematerialized 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. 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 Designated Stock Exchange, 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 the Red Herring Prospectus and the Bid cum Application Form as would be required for filing the Prospectus with the Designated Stock Exchange and as would be required by the Designated Stock Exchange 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, and Eligible NRIs applying on a non repatriation basis | White |
| Non-Residents, including Eligible NRIs, FVCIs, FIIs etc applying on a repatriation basis | Blue |
| Eligible Employees | Pink |

### Who can Bid?

- Persons eligible to invest under all applicable laws, rules, regulations and guidelines;

- Indian nationals resident in India who are majors, or in the names of their minor children as natural/legal guardians 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 regulations and the SEBI Guidelines and regulations, as applicable);

- Venture Capital Funds registered with SEBI;

- Foreign Venture Capital Investors registered with SEBI, subject to compliance with applicable laws, rules, regulations, guidelines, and approvals in this Issue.

- State Industrial Development Corporations;

- Trusts/societies registered under the Societies Registration Act, 1860, as amended, or under any other law relating to trusts/societies and who are authorised under their constitution to hold and invest in equity shares;

- Eligible NRIs on a repatriation basis, or a non-repatriation basis subject to compliance with applicable laws, rules, regulations, guidelines, and approvals in this Issue.

- FIIs registered with SEBI on a repatriation basis, subject to compliance with applicable laws, rules, regulations, guidelines, and approvals in this Issue.

- Scientific and/or industrial research organisations authorised under their constitution 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; and

- Eligible Employees (as defined in the section titled "Definitions and Abbreviations" beginning on page ii of this Red Herring Prospectus).

**As per the existing regulations, OCBs cannot Bid in this Issue.**

**Participation by associates of BRLMs and Syndicate Members**

The BRLMs and Syndicate Members shall not be entitled to subscribe to this Issue in any manner except towards fulfilling their underwriting obligations. However, associates and affiliates of the BRLMs and Syndicate Members may subscribe for Equity Shares in the Issue, including in the QIB Portion and Non-Institutional Portion where the allocation is on a proportionate basis.

**The information below is given for the benefit of the Bidders. The Bank 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 or that can be owned by them do not exceed the applicable limits under laws or regulations.**

**Bids 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 2,280,000 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.

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 applications made by the asset management companies or custodians of a Mutual Fund shall clearly indicate the name of the concerned scheme for which the application is being made.

5% of the QIB Portion shall be available for allocation to Mutual Funds. Mutual Funds participating in the 5% reservation in the QIB Portion will also be eligible for allocation in the remaining QIB Portion.

***Bids by Eligible Non Residents***

Foreign investment in a corresponding new bank is regulated by the provisions of the Bank Acquisition Act as applicable to the Bank. Under section 3(2D) of the Bank Acquisition Act, foreign investment in a corresponding new bank is subject to an overall statutory limit of 20% of the paid up capital of the corresponding new bank. For corresponding new banks, the RBI monitors the ceilings on Non Resident investments on a daily basis. For effective monitoring the RBI has fixed cut off points lower than the actual ceiling which is 18% for public sector banks. Once the aggregate net purchase of equity shares reaches the cut off point, further acquisition of equity shares by Non Residents require approval of the RBI until the limit is reached till 20% beyond which Non Residents cannot acquire further shares.

**Bids by Eligible NRIs**

Bid cum Application Forms have been made available for Eligible NRIs at our Head Office and with members of the Syndicate and the Registrar to the Issue.

Eligible NRI applicants should note that only such Bids as are accompanied by payment in free foreign exchange shall be considered for Allotment. The Eligible NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the Bid cum Application Form meant for resident Indians.

**Bids 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 our post-Issue paid-up capital. 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 our total issued capital or 5% of our total issued capital, in case such sub-account is a foreign corporate or an individual.

Subject to compliance with all applicable Indian laws, rules, regulations, guidelines and approvals in terms of Regulation 15A(1) of the Securities Exchange Board of India (Foreign Institutional Investors) Regulations, 1995, as amended, an FII or its sub-account may issue, deal or hold, offshore derivative instruments such as participatory notes, equity-linked notes or any other similar instruments against underlying securities listed or proposed to be listed on any stock exchange in India only in favour of those entities which are regulated by any relevant regulatory authorities in the countries of their incorporation or establishment subject to compliance of "know your client" requirements. An FII or sub-account shall also ensure that no further downstream issue or transfer of any instrument referred to hereinabove is made to any person other than a regulated entity.

Associates and affiliates of the Underwriters, including the BRLMs, that are FIIs or its sub account may issue offshore derivative instruments against Equity Shares allocated to them in the Issue (all such offshore derivative instruments are referred to herein as "P-Notes"). P-Notes have not been and are not being offered or sold pursuant to this Red Herring Prospectus. Neither the Draft Red Herring Prospectus, this Red Herring Prospectus nor the Prospectus contains or will contain any information concerning P-Notes, including, without limitation, any information regarding any risk factors relating thereto.

Any P-Notes that may be issued are not the securities of the Bank and do not constitute any obligation of, claims on or interests in the Bank. The Bank has not participated in any offer of any P-Notes, or in the establishment of the terms of any P-Notes, or in the preparation of any disclosure related to the P-Notes. Any P-Notes that may be offered are issued by, and are the sole obligations of, third parties that are unrelated to the Bank. The Bank and its affiliates do not make any recommendation as to any investment in P-Notes and not accept any responsibility whatsoever in connection with the P-Notes.

Any P-Notes that may be issued are not securities of the Underwriters and do not constitute any obligations or claim on the Underwriter.

**Bids by SEBI registered Venture Capital Funds and Foreign Venture Capital Investors**

*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, as amended, prescribe investment restrictions on venture capital funds and foreign venture capital investors registered with SEBI. Accordingly, whilst the holding by any individual venture capital fund registered with SEBI in one company should not exceed 25% of the corpus of the venture capital fund, a Foreign Venture Capital Investor can invest its entire funds committed for investments into India in one company. Further, Venture Capital Funds and Foreign Venture Capital Investors can invest only upto 33.33% of the investible funds by way of subscription to an initial public offer.

Pursuant to the SEBI Guidelines, the shareholding of venture capital funds and foreign venture capital investors registered with SEBI in a company prior to making an initial public offering, would be exempt from lock-in requirements only if the shares have been held by them for at least one year prior to the time of filing of the draft prospectus with SEBI.

**Bids under Employee Reservation Portion by Eligible Employees:**

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);
- Only Eligible Employees (as defined in the "Definitions" section on page ii of this Red Herring Prospectus) would be eligible to apply in this Issue under the Employee Reservation Portion;
- Eligible Employees, as defined above, should mention the Employee Number at the relevant place in the Bid cum Application Form;
- The sole/ first Bidder shall be the Eligible Employee as defined above;
- Bids by 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;
- The Bids must be for a minimum of 60 Equity Shares and in multiples of 60 Equity Shares thereafter. The allotment in the Employee Reservation portion will be on a proportional basis;
- Eligible Employees who Bid for Equity Shares of or for a value of not more than Rs. 100,000 in any of the bidding options can apply at Cut-Off Price. This facility is not available to other Eligible Employees whose Bid Amount in any of the bidding options exceeds Rs. 100,000;
- The maximum bid under Employee Reservation Portion by an Eligible Employee cannot exceed 4,000,000 Equity Shares;
- Bid/ Application by Eligible Employees can also be made in the "Net Issue" portion and such Bids shall not be treated as multiple bids;
- If the aggregate demand in this category is less than or equal to 4,000,000 Equity Shares at or above the Issue Price, full allocation shall be made to the Eligible Employees to the extent of their demand. Under-subscription, if any, in the Employee Reservation Portion will be added back to the Net Issue;
- If the aggregate demand in this category is greater than 4,000,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis. For the method of proportionate basis of allocation, please see section titled "Basis of Allotment" on page 332 of this Red Herring Prospectus.
- Under-subscription, if any, in the Employee Reservation portion will be added back to the Net Issue to the Public, and the ratio amongst the investor categories will be at the discretion of the Bank and the BRLMs. In case of under-subscription in the Net Issue, spill over to the extent of under-subscription shall be permitted from the Employee Reservation portion; and
- This is not an issue for sale within the United States of any equity shares or any other security of the Company. Securities of the Company, 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.

**Maximum and Minimum Bid Size**

(a) **For Retail Individual Bidders:** The Bid must be for a minimum of 60 Equity Shares and in multiples of 60 Equity Shares thereafter, so as to ensure that the Bid Price 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 Price does not exceed Rs. 100,000. In case the Bid Price 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. The Cut-Off option is an option given only to the Retail Individual Bidders indicating their agreement to Bid and purchase at the final Issue Price as determined at the end of the Book Building Process.

(b) **For Other Bidders (Non-Institutional Bidders and QIBs):** 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 60 Equity Shares thereafter. A Bid cannot be submitted for more than the Net Issue. However, the maximum Bid by a QIB investor 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/Issue Closing Date and is required to pay QIB Margin Amount upon submission of the Bid.**

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 QIBs are not allowed to Bid at 'Cut-Off'.

**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.**

Refund amounts following a permitted withdrawal of a Bid shall be paid in the manner described in "Mode of making refunds" below.

**Information for the Bidders:**

(a) The Bank will file the Red Herring Prospectus with the Designated Stock Exchange at least 3 (three) days before the Bid/Issue Opening Date.

(b) The Bank and the BRLMs shall declare the Bid/Issue Opening Date, Bid/Issue Closing Date and Price Band at the time of filing the Red Herring Prospectus with the Designated Stock Exchange and also publish the same in three widely circulated newspapers (one each in English, Hindi and Marathi). This advertisement, shall be in the format prescribed in Schedule XX–A of the SEBI Guidelines.

(c) The members of the Syndicate will circulate copies of the Red Herring Prospectus along with the Bid cum Application Form to potential investors and at the request of potential investors, copies of the Red Herring Prospectus.

(d) Any investor (who is eligible to invest in our Equity Shares) who would like to obtain the Red Herring Prospectus and/ or the Bid cum Application Form can obtain the same from our Head Office or from any of the members of the Syndicate and should approach any of the BRLMs or Syndicate Members or their authorised agent(s) to register their bids.

(e) The Members of the Syndicate shall accept Bids from the Bidders during the Issue Period in accordance with the terms of the Syndicate Agreement.

(f) 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.

(g) The Bidding/Issue Period shall be for a minimum of 3 (three) working days and not exceeding 7 (seven) working days. In case the Price Band is revised, the revised Price Band and the Bidding/Issue Period will be published in two widely circulated national newspapers (one each in English and Hindi) and one Marathi newspaper and the Bidding/Issue Period may be extended, if required, by an additional 3 (three) days, subject to the total Bidding/Issue Period not exceeding 10 (ten) working days.

(h) The Price Band has been fixed at Rs. 85 to Rs. 102 per Equity Share of Rs. 10 each, Rs. 85 being the lower end of the Price Band and Rs. 102 being the higher end of the Price Band. The Bidders can bid at any price with in the Price Band, in multiples of Rs. 1 (One).

(i) The Bank in consultation with the BRLMs, reserve the right to revise the Price Band, during the Bidding/Issue Period, in accordance with SEBI Guidelines. The higher end of the Price Band should not be more than 20% of the lower end of the Price Band. Subject to compliance with the immediately preceding sentence, the lower end of the Price Band can move up or down to the extent of 20% of the lower end of the Price Band disclosed in the Red Herring Prospectus.

(j) In case of revision in the Price Band, the Bidding/Issue Period will be extended for 3 (three) additional working days after revision of Price Band subject to a maximum of 10 (ten) working days. Any revision in the Price Band and the revised Bidding/Issue Period, if applicable, will be widely disseminated by notification to BSE and NSE, by issuing a public notice in three widely circulated newspapers (one each in English and Hindi) and one Marathi newspaper with wide circulation, and also by indicating the change on the websites of the BRLMs and at the terminals of the Syndicate Members.

(k) The Bank, in consultation with the BRLMs, can finalise the Issue Price within the Price Band, without the prior approval of, or intimation, to the Bidders.

**Method and Process of Bidding**

(a) Each Bid cum Application Form will give the Bidder the choice to bid for up to three optional prices (for details refer to the paragraph titled "Bids at Different Price Levels and Revision of Bids" on page 319 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/Allotment and the rest of the Bid(s), irrespective of the Bid Price, will become automatically invalid.

(b) 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 will 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 paragraph titled "Bids at Different Price Levels and Revision of Bids" on page 319 of this Red Herring Prospectus.

(c) The members of the Syndicate 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.

(d) During the Bidding/Issue 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, subject to the terms of the Syndicate Agreement and this Red Herring Prospectus.

(e) Along with the Bid cum Application Form, all Bidders will make payment in the manner described under the paragraph titled "Terms of Payment and Payment into the Escrow Accounts" on page 326 of this Red Herring Prospectus.

**Bids at Different Price Levels and Revision of Bids**

(a) The Bidder can bid at any price within the Price Band. The Bidder has to bid for the desired number of Equity Shares at a specific price. Retail Individual Bidders and Eligible Employees 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, Non-Institutional Bidders and Eligible Employees bidding in excess of Rs. 100,000 and such Bids shall be rejected.

(b) Retail Individual Bidders and Eligible Employees bidding in the 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 Eligible Employees under the Employee Reservation Portion bidding at Cut-Off Price shall deposit the Bid Price based on the higher end of the Price Band in the Escrow Account. In the event the Bid Price is higher than the subscription amount payable by the Retail Individual Bidders and Eligible Employees bidding in the Employee Reservation Portion, 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 and Eligible Employees bidding in the Employee Reservation Portion, who Bid at Cut off Price, shall receive the refund of the excess amounts from the Escrow Account.

(c) In case of an upward revision in the Price Band announced as above, Retail Individual Bidders and Eligible Employees bidding in the Employee Reservation Portion who had bid at Cut-Off Price could either (i) revise their Bid or (ii) make additional payment based on the higher end of the Revised Price Band (such that the total amount i.e., original Bid Price plus additional payment does not exceed Rs. 100,000 for Retail Individual Bidders and Eligible Employees bidding in the Employee Reservation Portion, if such 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 Price plus additional payment) exceeds Rs. 100,000 for Retail Individual Bidders and Eligible Employees bidding in the Employee Reservation Portion the Bid will be considered for allocation under the Non-Institutional Portion in terms of this Red Herring Prospectus. If, however, such Bidder does not either revise the Bid or make additional payment and the Issue Price is higher than the higher end of the Price Band prior to 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 such Bidder and such Bidder is deemed to have approved such revised Bid at Cut-Off Price.

(d) In case of a downward revision in the Price Band, announced as above, Retail Individual Bidders and Eligible Employees bidding in the Employee Reservation Portion 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 Escrow Account.

(e) In the event of any revision in the Price Band, whether upwards or downwards, the minimum application size shall remain 60 Equity Shares irrespective of whether the Bid Price payable on such minimum application is not in the range of Rs. 5,000 to Rs. 7,000.

(f) During the Bidding/Issue 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.

(g) Revisions can be made in both the desired number of Equity Shares and the Bid price by using 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 complete all the details of the other two options that are not being revised, in the Revision Form. The members of the Syndicate will not accept incomplete or inaccurate Revision Forms.

(h) The Bidder can make this revision any number of times during the Bidding/Issue 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.

(i) 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.

(j) 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 members of the Syndicate shall collect the payment in the form of cheque or demand draft or electronic transfer of funds through RTGS 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.

(k) 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 revision of the original Bid.**

**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 must be:

(a) Made only in the prescribed Bid cum Application Form or Revision Form, as applicable (white colour for Resident Indians, blue colour for NRIs and FIIs applying on repatriation basis and pink colour for Eligible Employees bidding in the Employee Reservation Portion).

(b) 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.

(c) For Retail Individual Bidders, the Bid must be for a minimum of 60 Equity Shares and in multiples of 60 Equity Shares thereafter subject to a maximum Bid Amount of Rs. 100,000.

(d) For Non-Institutional Bidders and QIB Bidders, Bids must be for a minimum of such number of Equity Shares that the Bid Price exceeds or is equal to Rs. 100,000 and in multiples of 60 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 shares that can be held by them under the applicable laws or regulations.

(e) Bids by NRIs for a Bid Price of up to Rs. 100,000 would be considered under the Retail Portion for the purposes of allocation and Bids for a Bid Price of more than Rs. 100,000 would be considered under Non-Institutional Portion for the purposes of allocation;

(f) Bids by other eligible Non Resident Bidders for a minimum of such number of Equity Shares and in multiples of 60 Equity Shares thereafter that the Bid Price exceeds Rs. 100,000.

(g) Bids by Non Residents, NRIs, FIIs and Foreign Venture Capital Funds registered with SEBI on a repatriation basis shall be in the names of individuals, or in the names of FIIs but not in the names of minors, OCBs, firms or partnerships, foreign nationals (excluding NRIs) or their nominees.

(h) For Eligible Employees bidding in the Employee Reservation Portion, the Bid must be for a minimum of 60 Equity Shares and in multiple of 60 Equity Shares thereafter subject to a maximum of up to 4,000,000 Equity Shares.

(i) In single name or in joint names (not more than three, and in the same order as their Depository Participant details).

(j) Thumb impressions and signatures other than in the languages specified in the Eighth Schedule to the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal.

**Electronic Registration of Bids**

(a) The Members of the Syndicate will register the Bids using the on-line facilities of the BSE and the NSE. 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) The BSE and the NSE will offer a screen-based facility for registering Bids for the Issue. This facility will be available on the terminals of the Members of the Syndicate and their authorised agents during the Bidding/Issue Period. Syndicate Members can also set up facilities for off-line electronic registration of Bids subject to the condition that they will subsequently upload the off-line data file into the on-line facilities for book building on a regular basis. On the Bid /Issue Closing Date, the Members of the Syndicate shall upload the Bids until such time as may be permitted by the Stock Exchanges.

(c) The aggregate demand and price for Bids registered on the electronic facilities of the BSE and the NSE will be uploaded on a regular basis, consolidated and displayed on-line at all bidding centres and the website of BSE and NSE. A graphical representation of consolidated demand and price would be made available at the bidding centres during the Bidding/Issue Period.

(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.
- Investor Category – Individual, Corporate, Eligible NRI, FII, or Mutual Fund, FVCIs, QIBs etc.
- Numbers of Equity Shares bid for.
- Bid price.
- Bid cum Application Form number.
- Whether Margin Amount has been paid upon submission of Bid cum Application Form.
- Depository Participant identification number and client identification number of the beneficiary 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/Alloted either by the members of the Syndicate or our 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, members of the syndicate 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 in writing. In case of Non-Institutional Bidders, Retail Individual Bidders and Eligible Employees, Bids would not be rejected except on the technical grounds listed on page 329 of this Red Herring Prospectus.

(h) It is to be distinctly understood that permission given by the BSE and the NSE 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 our Bank and/or the BRLMs are cleared or approved by BSE and NSE; 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, our Promoter, our management or any scheme or project of our Bank.

(i) It is also to be distinctly understood that the approval given by the BSE and the NSE to use their network and software of the online IPO system should not in any way be deemed or construed that this Red Herring Prospectus has been cleared or approved by the BSE and 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 Equity Shares will be listed or will continue to be listed on the BSE and NSE.

(j) Only bids that are uploaded on the online IPO system of the NSE and BSE shall be considered for allocation/ Allotment. In case of discrepancy of data between the BSE or the NSE and the members of the Syndicate, the decision of the BRLMs based on the physical records of the Bid cum Application Forms shall be final and binding on all concerned.

**GENERAL INSTRUCTIONS**

**Do's:**

(a) Check if you are eligible to apply having regard to applicable laws, rules, regulations, guidelines and approvals and the terms of the Red Herring Prospectus;

(b) Read all the instructions carefully and complete the applicable Bid cum Application Form;

(c) Ensure that the details about Depository Participant and beneficiary account are correct as Allotment of Equity Shares will be in the dematerialised form only;

(d) Ensure that the Bids are submitted at the bidding centres only on forms bearing the stamp of a member of the Syndicate;

(e) Ensure that the Bid is within the Price Band and that you have been given a TRS for all your Bid options;

(f) Submit revised Bids to the same member of the Syndicate through whom the original Bid was placed and obtain a revised TRS;

(g) Each Bidder should mention his/her Permanent Account Number (PAN) allotted under the IT Act. SEBI has issued a circular no. MRD/DoP/Cir-05/2007 dated April 27, 2007 requiring that with effect from July 2, 2007, the PAN would be the sole identification number for participants transacting in the securities market, irrespective of the amount of transaction. In case the PAN has not been allotted, mention "Applied for" or "Not Applicable" in the appropriate places and submit Form 60 or Form 61 as the case may be together with permissible documents as proof of address;

(h) Ensure that the Demographic Details (as defined hereinbelow) are updated, true and correct in all respects; and

(i) Ensure that the name(s) given in the Bid cum Application Form is exactly the same as the name(s) in which the beneficiary account is held with the Depository Participant. In case the Bid cum Application Form is submitted in joint names, ensure that the beneficiary account is also held in same joint names and such names are in the same sequence in which they appear in the Bid cum Application Form.

**Don'ts:**

(a) Do not bid for lower than the minimum Bid size;

(b) 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;

(c) Do not bid on another Bid cum Application Form after you have submitted the Bid to the members of the Syndicate;

(d) Do not pay the Bid Price in cash, by money order or by postal order or by stockinvest;

(e) Do not send Bid cum Application Forms by post; instead submit the same to a member of the Syndicate only;

(f) Do not bid at Cut Off Price (for QIB Bidders and Non-Institutional Bidders and such Bidders in the Employee Reservation Portion whose maximum Bid exceeds Rs. 100,000);

(g) Do not Bid at Bid Amount exceeding Rs. 100,000 in case of a Bid by a Retail Individual Bidder;

(h) Do not submit the Bid without the QIB Margin Amount, in case of a Bid by a QIB;

(i) 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; and

(j) Do not submit the GIR number instead of the PAN as the Bid is liable to be rejected on this ground.

**Bidder's Depository Account and Bank Account 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 demographic details including address, Bidders bank account details, MICR code and occupation (hereinafter referred to as "Demographic Details"). Since the Issue is being made entirely in the dematerialised form, the Bank Account details used for giving refunds to the Bidders to whom an electronic refund is being made will also be taken from the data provided by such Bidder to the Depository Participant. 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 despatch/ credit of refunds to Bidders at the Bidders sole risk and neither**

**the BRLMs or the Registrar or the Escrow Collection Banks nor the Bank shall have any responsibility and undertake any liability for the same. Hence, Bidders should carefully fill in their Depository Account details in the Bid cum Application Form.**

**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 SUCH JOINT NAMES ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE BID CUM APPLICATION FORM.**

These Demographic Details would be used for all correspondence with the Bidders including mailing of the refund orders/ECS credit for refunds/direct credit of refunds/CANs/allocation advice/NEFT or RTGS for refunds and printing of bank particulars on the refund orders. The Demographic Details given by Bidders in the Bid cum Application Form will not be used for any other purpose by the Registrar to the Issue.

By signing the Bid cum Application Form, the Bidder would be deemed to have authorised the Depositories to provide, upon request, to the Registrar to the Issue, the required Demographic Details as available on its records.

**In case of Bidders not receiving refunds through electronic transfer of funds, 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, the Registrar, Escrow Collection Bank(s) nor the BRLMs shall be liable to compensate the Bidder for any losses caused to the Bidder due to any such delay to pay any interest for such delay. In case of Bidders receiving refunds through electronic modes as detailed on page 336 of this Red Herring Prospectus, Bidders may note that refunds may get delayed if Bank particulars obtained from the Depository Participant are incorrect.**

In case no corresponding record is available with the Depositories, which 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.

**Refunds, dividends and other distributions, if any, will be payable in Indian Rupees only at the prevailing exchange rate and net of bank charges and / or commission. In case of Bidders who remit money through Indian Rupee drafts purchased abroad, such payments in Indian Rupees will be converted into U.S. Dollars or any other freely convertible currency as may be permitted by the RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered 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.**

**As per the existing regulations, OCBs cannot Bid in the Issue.**

**There is no reservation for Non Residents, NRIs, FIIs and foreign venture capital funds and all Non Residents, NRI, FII and foreign venture capital funds applicants will be treated on the same basis with other categories for the purpose of allocation.**

### Bids under Power of Attorney

In case of Bids made pursuant to a power of attorney or by limited companies, eligible 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 of association and articles of association and/or bye laws must be submitted 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 therefor.

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. In case of Bids made by Mutual Funds, venture capital funds registered with SEBI and FVCIs, 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 therefor.

In case of Bids made by insurance companies registered with the Insurance Regulatory and Development Authority, a certified copy of certificate of registration issued by Insurance Regulatory and Development Authority 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 therefor.

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 thereof.

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/ refunds through electronic transfer of funds, 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.

The Bank in its absolute discretion, reserves the right to relax the above condition of simultaneous submission 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.

## PAYMENT INSTRUCTIONS

### Escrow Mechanism

The Bank shall open Escrow Accounts with one or more Escrow Collection Bank(s) for the collection of the Bid Amount payable upon submission of the Bid cum Application Form and for amounts payable pursuant to allocation in the Issue.

The Escrow Collection Banks will act in terms of this Red Herring Prospectus and the Escrow Agreement. The Escrow Collection Bank (s) for and on behalf of the Bidders shall maintain the monies in the Escrow Account. The Escrow Collection Bank(s) 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(s) shall transfer the funds equivalent to the size of the Issue from the Escrow Account, 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. Payments of refund to the Bidders shall also be made from the Refund Account are 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(s) and the Registrar to the Issue to facilitate collections from the Bidders.

**Terms of Payment and Payment into the Escrow Accounts**

Each Bidder shall draw a cheque or demand draft for the amount payable on the Bid and/or on allocation/Allotment as per the following terms.

1. Each category of Bidders i.e., QIB Bidders, Non-Institutional Bidders, Retail Individual Bidders and Eligible Employees bidding in the Employee Reservation Portion, shall provide the applicable Margin Amount, and with the submission of the Bid cum Application Form draw a cheque or demand draft for the maximum amount of his/ her Bid in favour of the Escrow Account of the Escrow Collection Bank(s) (for details refer to the paragraph titled "Terms of Payment and Payment into the Escrow Account" on page 326 of this Red Herring Prospectus) and submit the same to the member of the Syndicate to whom the Bid is being submitted. Bid cum Application Forms accompanied by cash shall not be accepted. The Margin Amount payable by each category of Bidders is mentioned under the section titled "Issue Structure" on page 308 of this Red Herring Prospectus. The maximum Bid Price has to be paid at the time of submission of the Bid cum Application Form based on the highest bidding option of the Bidder.

2. Where the Margin Amount applicable to the Bidder is less than 100% of the Bid Price, any difference between the amount payable by the Bidder for Equity Shares allocated/allotted at the Issue Price and the Margin Amount paid at the time of Bidding, shall be payable by the Bidder no later than the Pay-in-Date, which shall be a minimum period of 2 (two) days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs. If the payment is not made favouring the Escrow Account within the time stipulated above, the Bid of the Bidder is liable to be cancelled.

3. The payment instruments for payment into the Escrow Account should be drawn in favour of:

   - In case of Resident QIB Bidders: "Escrow Account – CBI IPO – QIB – R"
   - In case of non-resident QIB Bidders: "Escrow Account – CBI IPO – QIB – NR"
   - In case of Resident Retail and Institutional Bidders: "Escrow Account – CBI IPO – R"
   - In case of Non Resident Retail and Institutional Bidders: "Escrow Account – CBI IPO – NR"
   - In case of Eligible Employees: "Escrow Account – CBI IPO – Employees"

4. In case of Bids by Eligible NRIs applying on repatriation basis, the payments must be made through Indian 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 Non-Resident External (NRE) Accounts or Foreign Currency Non-Resident (FCNR) 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 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 NRE Account or FCNR Account.

5. In case of Bids by FIIs/ FVCIs registered with SEBI/ multilateral and bilateral financial institutions, 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.

6. Where a Bidder has been allocated/Allotted 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/Allotted will be refunded to the Bidder from the Refund Account.

7. On the Designated Date, the Escrow Collection Banks shall transfer the funds from the Escrow Account as per the terms of the Escrow Agreement into the Issue Account with the Bankers to the Issue. No later than 15 days from the Bid/Issue Closing Date, the Escrow Collection Bank shall also refund all amounts payable to unsuccessful Bidders and also the excess amount paid on Bidding, if any, after adjusting for allocation/Allotment to the Bidders.

8. 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/ stockinvest/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 shall be submitted to the members of the Syndicate at the time of submission of the Bid. Separate receipts shall not be issued for the money payable on the submission of Bid cum Application Forms or Revision Forms. However, the collection centre 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.

**Payment by Stockinvest**

In terms of the Reserve Bank of India Circular No. DBOD No. FSC BC 42/24.47.00/2003-04 dated November 5, 2003, the option to use the stockinvest instrument in lieu of cheques or bank drafts for payment of Bid money has been withdrawn. Hence, payment through stockinvest would not be accepted in this Issue.

**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 refund payments will be made only 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 as per the Demographic Details received from the Depository.

**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. Bids by Eligible Employees can also be made in the "Net Issue" and such Bids shall not be treated as multiple Bids.

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 document.

2. In this master, a check will be carried out for the same PAN/ GIR numbers. In cases where the PAN/GIR numbers are 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, applications will finally 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, in consultation with the BRLMs, reserves the right to reject, in its absolute discretion, all or any multiple Bids in any or all categories.

**Permanent Account Number or PAN**

The Bidders, 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. SEBI has issued a circular no. MRD/DoP/Cir-05/2007 dated April 27, 2007 requiring that with effect from July 2, 2007, the PAN would be the sole identification number for participants transacting in the securities market, irrespective of the amount of transaction. In case the PAN has not been allotted, mention "Applied for" or "Not Applicable" in the appropriate places and submit Form 60 or Form 61 as the case may be together with permissible documents as proof of address. 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 cum Application Form. Further, where the Bidder(s) has mentioned "Applied for" or "Not Applicable", the Sole/First Bidder and 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 of the Income Tax Rules, 1962), 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 of the Income Tax Rules, 1962), 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 Form 61, as the case may be.**

**GROUNDS FOR REJECTIONS**

In case of QIB Bidders, the Bank in consultation with the BRLMs may reject Bids provided that the reasons for rejecting the same shall be provided to such Bidder in writing. In case of Non-Institutional Bidders, Retail Individual Bidders and Eligible Employees Bidding in the Employee Reservation Portion who Bid, the Bank has a right to reject Bids based on technical grounds. Consequent refunds shall be made as described in this Red Herring Prospectus and will be sent to the Bidders' address at the Bidders' risk.

Bidders are advised to note that Bids are liable to be rejected *inter alia* on the following technical grounds:

- Amount paid does not tally with the amount payable for the highest value of Equity Shares bid for;
- Bank account details (for refund) are not given;
- Age of First Bidder not given;
- In case of partnership firms, Equity Shares may be registered in the names of the individual partners and no firm as such shall be entitled to apply;
- Bid by persons not competent to contract under the Indian Contract Act, 1872 including minors and insane persons;
- PAN photocopy/PAN communication/ Form 60 or Form 61 declaration along with documentary evidence in support of address given in the declaration not given;
- GIR number furnished instead of 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 and QIB Bidders and Eligible Employees bidding in the Employee Reservation Portion in excess of Rs. 100,000;
- Bids for number of Equity Shares which are not in multiples of 60 Equity Shares;
- 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 Stockinvest/money order/postal order/cash;
- Signature of sole and / or joint Bidders missing;
- Bid cum Application Form does not have the stamp of the BRLMs, or Syndicate Members;

- Bid cum Application Form 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/Issue Opening Date advertisement and the 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 account number;
- Bids for amounts greater than the maximum permissible amounts prescribed by the regulations;
- Bids by QIBs not submitted through members of the Syndicate;
- Bids by OCBs;
- Bids by U.S. persons, other than "qualified institutional buyers" as defined in Rule 144 A of the Securities Act or other than in reliance on Regulation S under the Securities Act; and
- Bids by any persons outside India if not in compliance with applicable foreign and Indian laws or by any persons who are not eligible to acquire Equity Shares of the Bank in terms of all applicable laws, regulations, guidelines and approvals.

**Price Discovery and Allocation**

(a) After the Bid/Issue Closing Date, the BRLMs will analyse the demand generated at various price levels and discuss pricing strategy with the Bank.

(b) The Bank, in consultation with the BRLMs, shall finalise the "Issue Price", the number of Equity Shares to be Allotted and the allotment to successful Bidders in each investor category.

(c) The allocation to QIBs will be at least 60% of the Net Issue and the availability for allocation to Non-Institutional and Retail Individual Bidders will be not less 10% and 30% of the Net Issue, respectively, on a proportionate basis, in a manner specified in the SEBI Guidelines and this Red Herring Prospectus, in consultation with the Designated Stock Exchange, subject to valid bids being received at or above the Issue Price. If at least 60% of the Net Issue cannot be allotted to QIBs, then the entire application money will be refunded. The allocation under the Employee Reservation Portion will be on a proportionate basis, in the manner specified in the SEBI Guidelines and this Red Herring Prospectus in consultation with the Designated Stock Exchange, subject to valid Bids being received at or above the Issue Price.

(d) Under-subscription, if any, in the Non-Institutional category and the Retail Individual category would be met with spill over from any other category at the sole discretion of the Bank in consultation with the BRLMs. However, if the aggregate demand by Mutual Funds is less than 2,280,000 Equity Shares, the balance Equity Shares available for allocation in the Mutual Fund Portion will first be added to the QIB Portion and be Allotted proportionately to the QIB Bidders. In the event that the aggregate demand in the QIB Portion has been met, undersubscription, if any, would be allowed to be met with spill-over from any other category or combination of categories at the discretion of the Bank, in consultation with the BRLMs and the Designated Stock Exchange.

(e) Under-subscription, if any, in the Employee Reservation Portion will be added back to the Net Issue, and the ratio amongst the investor categories will be at the discretion of the Bank and the BRLMs. In case of under-subscription in the Net Issue, spill over to the extent of under-subscription shall be permitted from the Employee Reservation Portion.

(f) Allocation to Eligible NRIs, FIIs, foreign venture capital funds registered with SEBI applying on repatriation basis will be subject to applicable law and the terms and conditions stipulated by the RBI.

**Signing of Underwriting Agreement and Filing with the Designated Stock Exchange**

(a) The Bank, the BRLMs and the Syndicate Members shall enter into an Underwriting Agreement on finalisation of the Issue Price and allocation(s) /Allotment to the Bidders.

(b) After signing the Underwriting Agreement, the Bank would update and file the updated Red Herring Prospectus with the Designated Stock Exchange, 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.

(c) The Bank will issue a statutory advertisement after the filing of the Prospectus with the Designated Stock Exchange. 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**

(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. The approval of the basis of Allotment by the Designated Stock Exchange for QIB Bidders may be done simultaneously with or prior to the approval of the basis of allocation for the Retail Bidders, Non-Institutional Bidders and Eligible Employees bidding in the Employee Reservation Porton. However, investors should note that the Bank shall ensure that the demat credit of the Equity Shares to all investors in this Issue shall be given on the same date.

(b) The BRLMs or members of the Syndicate would dispatch a CAN to their Bidders who have been allocated Equity Shares in the Issue. The dispatch of a 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. Those Bidders who have not paid the entire Bid Amount into the Escrow Account at the time of bidding shall pay in full the amount payable into the Escrow Account by the Pay-in Date specified in the CAN.

(c) Bidders who have been allocated Equity Shares and who have already paid the Bid Amount 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 his or her cheque or demand draft paid into the Escrow Account. The dispatch of a CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for the Allotment to such Bidder.

(d) The Issuance of CAN is subject to "Notice to QIBs: Allotment Reconciliation and Revised CANs" as set forth herein.

**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. This shall be followed by a physical book prepared by the Registrar on the basis of the Bid cum Application Forms received. Based on the electronic book or the physical book, as the case may be, QIBs will 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 cum Application Forms 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. 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 Pay-in 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. Any 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 account. Allotment of the Equity Shares to the successful Bidders shall be within 15 days from the Bid/Issue Closing Date.

(b) In accordance with the 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, as per the provisions of the Depositories Act.

**Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be allocated/Allotted to them pursuant to this Issue.**

**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 category. The Allotment to all the successful Retail Individual Bidders will be made at the Issue Price.

- The Net Issue size less Allotment to Non-Institutional 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 category is less than or equal to 22,800,000 Equity Shares at or above the Issue Price, full Allotment shall be made to the Retail Individual Bidders to the extent of their valid Bids.

- If the aggregate demand in this category is greater than 22,800,000 Equity Shares at or above the Issue Price, the Allotment shall be made on a proportionate basis up to a minimum of 60 Equity Shares. For the method of proportionate basis of Allotment, 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 category. The Allotment to all successful Non-Institutional Bidders will be made at the Issue Price.

- The Net Issue size less Allotment to QIBs and Retail Portion shall be available for Allotment 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 7,600,000 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 7,600,000 Equity Shares at or above the Issue Price, Allotment shall be made on a proportionate basis up to a minimum of 60 Equity Shares. For the method of proportionate Basis of Allotment refer below.

**C. For Employee Reservation Portion**

- The maximum Bid under the Employee Reservation Portion cannot exceed 4,000,000 Equity Shares.

- 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 Eligible Employees will be made at the Issue Price.

- If the aggregate demand in this category is less than or equal to 4,000,000 Equity Shares at or above the Issue Price, full allocation shall be made to the Eligible Employees to the extent of their demand.

- If the aggregate demand in this category is greater than 4,000,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis up to a minimum of 60 Equity Shares and in multiple of 60 Equity Share thereafter. For the method of proportionate basis of allocation, refer below.

- Only Eligible Employees are eligible to apply under Employee Reservation Portion.

**D. For QIBs**

- 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 Allotment to all the QIB Bidders will be made at the Issue Price.

- The QIB Portion shall be available for Allotment 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 Mutual Fund Bids 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 for Allotment to all QIB Bidders as set out in (b) below;

(b) In the second instance Allotment to all QIBs shall be determined as follows:

(i) In the event that the oversubscription in the QIB Portion, all QIB Bidders who have submitted Bids above the Issue Price shall be Allotted Equity Shares on a proportionate basis for up to 95% of the QIB Portion.

(ii) Mutual Funds, who have received allocation as per (a) above, for less than the number of Equity Shares Bid for by them, are eligible to receive Equity Shares on a proportionate basis along with other QIB Bidders.

(iii) Under-subscription below 5% of the QIB Portion, if any, from Mutual Funds, would be included for allocation to the remaining QIB Bidders on a proportionate basis.

- The aggregate Allotment to QIB Bidders shall not be less than 45,600,000 Equity Shares.

**Illustration of Allotment to QIBs and Mutual Funds ("MF")**

**A. Issue Details**

| Sr. No. | Particulars | Issue details |
|---|---|---|
| 1 | Issue size | 200 million equity shares |
| 2 | Allocation to QIB (60%) | 120 million equity shares |
| | Of which: | |
| | a. Allocation to MF (5%) | 6 million equity shares |
| | b. Balance for all QIBs including MFs | 114 million equity shares |
| 3 | No. of QIB applicants | 10 |
| 4 | No. of shares applied for | 500 million equity shares |

**B. Details Of QIB Bids**

| S.No | Type of QIB bidders# | No. of shares bid for (in million) |
|---|---|---|
| 1 | A1 | 50 |
| 2 | A2 | 20 |
| 3 | A3 | 130 |
| 4 | A4 | 50 |
| 5 | A5 | 50 |
| 6 | MF1 | 40 |
| 7 | MF2 | 40 |
| 8 | MF3 | 80 |
| 9 | MF4 | 20 |
| 10 | MF5 | 20 |
| | **Total** | **500** |

# A1-A5: ( QIB bidders other than MFs), 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 6 million Equity Shares to MF proportionately (please see note 2 below) | Allocation of balance 114 million Equity Shares to QIBs proportionately (please see note 4 below) | Aggregate allocation to MFs |
|---|---|---|---|---|
| **(I)** | **(II)** | **(III)** | **(IV)** | **(V)** |
| A1 | 50 | 0 | 11.54 | 0 |
| A2 | 20 | 0 | 4.62 | 0 |
| A3 | 130 | 0 | 30.00 | 0 |
| A4 | 50 | 0 | 11.54 | 0 |
| A5 | 50 | 0 | 11.54 | 0 |
| MF1 | 40 | 1.2 | 8.95 | 10.15 |
| MF2 | 40 | 1.2 | 8.95 | 10.15 |
| MF3 | 80 | 2.4 | 17.90 | 20.30 |
| MF4 | 20 | 0.6 | 4.48 | 5.08 |
| MF5 | 20 | 0.6 | 4.48 | 5.08 |
| | **500** | **6** | **114** | **50.76** |

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 273.

2. Out of 120 million Equity Shares allocated to QIBs, 6 million (i.e. 5%) will be allocated on proportionate basis among 5 Mutual Fund applicants who applied for 200 shares in QIB category.

3. The balance 114 million Equity Shares (i.e. 120 - 6 (available for MFs)) will be allocated on proportionate basis among 10 QIB applicants who applied for 500 Equity Shares (including 5 MF applicants who applied for 200 Equity Shares).

4. The figures in the fourth column titled "Allocation of balance 114 million Equity Shares to QIBs proportionately" in the above illustration are arrived as under:

   - For QIBs other than Mutual Funds (A1 to A5)= No. of shares bid for (i.e. in column II) X 114 / 494

   - 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 114/494

   - The numerator and denominator for arriving at allocation of 114 million shares to the 10 QIBs are reduced by 6 million shares, which have already been Allotted to Mutual Funds in the manner specified in column III of the table above.

**Method of Proportionate Basis of Allotment in the Issue**

In the event the Issue is over-subscribed, the Bank shall finalise the basis of Allotment in consultation with the Designated Stock Exchange. The executive director (or any other senior official nominated by them) of the Designated Stock Exchange along with the BRLMs and the Registrar to the Issue shall be responsible for ensuring that the basis of Allotment is finalized in a fair and proper manner.

The Allotment shall be made in marketable lots, on a proportionate basis as explained below:

a) Bidders will be categorised according to the number of Equity Shares applied for by them.

b) The total number of Equity Shares to be Allotted to each category as a whole shall be arrived at on a proportionate basis, which is the total number of Equity Shares applied for in that category (number of Bidders in the category multiplied by the number of Equity Shares applied for) multiplied by the inverse of the over-subscription ratio.

c) Number of Equity Shares to be Allotted to the successful Bidders will be arrived at on a proportionate basis, which is total number of Equity Shares applied for by each Bidder in that category multiplied by the inverse of the over-subscription ratio.

d) In all Bids where the proportionate Allotment is less than 60 Equity Shares per Bidder, the Allotment shall be made as follows:

- The successful Bidders out of the total Bidders for a category shall be determined by draw of lots in a manner such that the total number of Equity Shares Allotted in that category is equal to the number of Equity Shares calculated in accordance with (b) above; and

- Each successful Bidder shall be Allotted a minimum of 60 Equity Shares.

e) If the proportionate Allotment to a Bidder is a number that is more than 60 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.

f) If the Equity Shares allocated on a proportionate basis to any category are more than the Equity Shares Allotted to the Bidders in that category, the remaining Equity Shares available for Allotment shall be first adjusted against any other category, where the Allotted shares are not sufficient for proportionate Allotment to the successful Bidders in that category. The balance Equity Shares, if any, remaining after such adjustment will be added to the category comprising Bidders applying for minimum number of Equity Shares.

**PAYMENT OF REFUND**

Bidders must note that on the basis of name of the Bidders, Depository Participant's name, DP ID and Beneficiary Account number provided by them in the Bid-cum-Application Form, the Registrar will obtain, from the Depositories, the Bidders' bank account details, including the nine digit MICR code as appearing on a cheque leaf. 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 despatch of refund order or refunds through electronic transfer of funds, as applicable, and any such delay shall be at the Bidders' sole risk and neither the Bank, the Registrar, Escrow Collection Bank(s), Bankers to the Issue nor the BRLMs shall be liable to compensate the Bidders for any losses caused to the Bidder due to any such delay or liable to pay any interest for such delay.

**Mode of making refunds**

The payment of refund, if any, would be done through various modes in the following order of preference:

1. ECS – Payment of refund would be done through ECS for applicants having an account at any of the following fifteen centres: 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. The payment of refunds through ECS is mandatory for applicants having a bank account at any of the abovementioned fifteen centres, except where the applicant, being eligible, opts to receive refund through NEFT, direct credit or RTGS.

2. Direct Credit – Applicants having bank accounts with the Refund Banker(s), as mentioned in the Bid cum Application Form, shall be eligible to receive refunds through direct credit. Charges, if any, levied by the Refund Bank(s) for the same would be borne by the Bank.

3. 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 the Bank. Charges, if any, levied by the applicant's bank receiving the credit would be borne by the applicant.

4. NEFT (National Electronic Fund Transfer) – 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 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. The process flow in respect of refunds by way of NEFT is at an evolving stage and hence use of NEFT is subject to operational feasibility, cost and process efficiency.

5. Please note that only applicants having a bank account at any of the 15 centres where clearing houses for ECS are managed by the RBI are eligible to receive refunds through the modes detailed hereinabove. For all other applicants, including those who have not updated their bank particulars with the MICR code, the refund orders will be despatched "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 centres will be payable by the Bidders.

**Interest on refund of excess Bid Amount**

The Bank shall pay interest at the rate of 15% per annum on the excess Bid Amount received of refund orders are not dispatched within 15 days from the Bid/Issue Closing Date.

**DISPOSAL OF APPLICATIONS AND APPLICATION MONEYS AND INTEREST IN CASE OF DELAY**

The Bank shall ensure dispatch of Allotment advice, refund orders (except for Bidders who receive refunds through electronic transfer of funds) and give benefit to the beneficiary account with Depository Participants and submit the documents pertaining to the Allotment to the Stock Exchanges within 15 working days of the Bid/Issue Closing Date.

In case of applicants who receive refunds through ECS, direct credit or RTGS, the refund instructions will be given to the clearing system within 15 days from the Bid/Issue Closing Date. A suitable communication shall be sent to the bidders receiving refunds through this mode within 15 days of Bid/ 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 will provide adequate funds required for dispatch of refund orders or allotment advice to the Registrar to the Issue. 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 Allotment.

In accordance with the the requirements of the Stock Exchanges and the SEBI Guidelines, the Bank further undertakes that:

- Allotment of Equity Shares shall be made only in dematerialised form within 15 (fifteen) days of the Bid/Issue Closing Date;

- Dispatch of refund orders or in a case where the refund or portion thereof is made in electronic manner, the refund instructions are given to the clearing system within 15 (fifteen) days of the Bid/Issue Closing Date would be ensured; and

- That the Bank shall apply in advance for the listing of Equity Shares;

- The Bank shall pay interest at 15% (fifteen) per annum for any delay beyond the 15 (fifteen)-day time period as mentioned above, if Allotment is not made and refund orders are not dispatched 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 and/or demat credits are not made to investors within the 15 (fifteen)-day time prescribed above as per the guidelines issued by the Government of India, Ministry of Finance pursuant to their letter No. F/8/S/79 dated July 31, 1983, as amended by their letter No. F/14/SE/85 dated September 27, 1985, addressed to the stock exchanges, and as further modified by SEBI's Clarification XXI dated October 27, 1997, with respect to the SEBI Guidelines.

**UNDERTAKINGS BY THE BANK**

We undertake the following:

- That the complaints received in respect of this Issue shall be attended to by us expeditiously;

- 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 Allotment;

- That funds required 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;

- That where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicant within 15 days of the Bid/Issue Closing Date, as the case may be, giving details of the bank where refunds shall be credited along with amount and expected date of electronic credit of refund;

- That the certificates of the securities/ refund orders to the non-resident Indians shall be despatched within specified time; and

- That no further issue of capital whether by way of issue of bonus shares, preferential allotment, rights issue or in any other manner shall be made until the Equity Shares offered through this Red Herring Prospectus are listed or until the Bid monies are refunded on account of non-listing, under-subscription etc.

The Bank shall not have recourse to the Issue proceeds until the approval for trading of the Equity Shares from all the Stock Exchanges where listing is sought has been received.

**Utilisation of Issue proceeds**

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.

**Withdrawal of the Issue**

The Bank in consultation with the BRLMs reserves the right not to proceed with the Issue at anytime including after the Bid/Issue Opening Date, without assigning any reason thereof. In terms of the SEBI Guidelines, QIB Bidders shall not be allowed to withdraw their Bids after the Bid/Issue Closing Date.

**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 fungible statements issued in electronic mode).

In this context, two agreements have been signed among the Bank, the respective Depositories and the Registrar to the Issue:

a) Agreement dated July 11, 2007 with NSDL, the Bank and the Registrar to the Issue; and

b) Agreement dated July 10, 2007 with CDSL, the Bank and the Registrar to the Issue;

**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) A Bidder applying for Equity Shares must have at least one beneficiary account with the Depository Participants of either NSDL or CDSL prior to making the Bid.

b) 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.

c) Allotment to a successful Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder

d) 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 with the Depository.

e) 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.

f) 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.

g) Equity Shares in electronic form can be traded only on the stock exchanges having electronic connectivity with NSDL and CDSL. All the Stock Exchanges where our Equity Shares are proposed to be listed have electronic connectivity with CDSL and NSDL.

h) 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, Bidders Depository Account Details, 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.

Investors can contact the Compliance Officer or the Registrar to the Issue in case of any pre-Issue or post-Issue related problems such as non-receipt of letters of allotment, credit of allotted shares in the respective beneficiary accounts, refunds etc.

## RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES

Foreign investment in corresponding new banks is regulated by the provisions of the Bank Acquisition Act. Under section 3(2D) of the Bank Acquisition Act, foreign investment in corresponding new banks is subject to an overall statutory limit of 20% of the paid-up capital of the bank.

Section 3(2D) of the Bank Acquisition Act states as follows:

*"(2D) The shares of every corresponding new bank not held by the Central Government shall be freely transferable:*

*Provided that no individual or company resident outside India or any company incorporated under any law not in force in India or any branch of such company, whether resident outside India or not, shall at any time hold or acquire by transfer or otherwise shares of the corresponding new bank so that such investment in aggregate exceed the percentage, not being more than twenty per cent, of the paid-up capital, as may be specified by the Central Government by notification in the Official Gazette.*

*Explanation— For the purposes of this clause "company" means any body corporate and includes a firm or other association of individuals."*

Hence, section 3(2D) of the Bank Acquisition Act prescribes that foreign investment in the aggregate is permitted in a corresponding new bank, like our Bank only until 20% under the automatic route. For public sector banks, the RBI monitors the ceilings on FII/NRI/PIO investments on a daily basis. For effective monitoring the RBI has fixed cut off points lower than the actual ceilings, which is 18% for public sector banks. Once the aggregate net purchase of Equity Shares reaches the cut off points, further acquisition of Equity Shares by FIIs/NRIs/PIOs requires prior approval of the RBI. Accordingly, without prior approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18 % of the paid up capital of the Bank.

# MAIN PROVISIONS OF CONSTITUTIONAL DOCUMENTS

We were constituted as a "corresponding new bank" in 1970 under the provisions of the Bank Acquisition Act. We are not required to have memorandum and articles of association. Since we were constituted under the Bank Acquisition Act we have provided the salient terms thereof. Further since the Nationalised Banks Scheme and the Bank Regulations deal with the management of corporate affairs in our Bank, which are matters typically finding a place in the constitutional documents of a company incorporated under the Companies Act, the same have been profiled in this chapter.

The Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 was made by S.O. 3793 dated November 16, 1970 by the Central Government in consultation with the Reserve Bank of India in exercise of the powers conferred by section 9 of the Bank Acquisition Act.

The Bank Regulations were formulated under section 19 of the Bank Acquisition Act by our board of directors in consultation with the Reserve Bank of India, and with the previous sanction of the central government.

The Bank Acquisition Act amended section 34A, 36AD and section 51 of the Banking Regulation Act, 1949 and made these sections applicable to corresponding new banks constituted under the Bank Acquisition Act. For details of the applicability of the Banking Regulation Act to corresponding new bank like our Bank see the section titled "Regulations and Policies" on page 82 of this Red Herring Prospectus.

For more details, investors are advised to refer to the complete text of the Bank Acquisition Act, Banking Regulation Act, 1949, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 and the Central Bank of India (Shares and Meetings) Regulations, 1998.

Shareholders and investors in the Bank may note that the rights available to shareholders of a corresponding new bank are more restricted than the rights available to the shareholders of a company incorporated under the Companies Act, 1956. For further details on the restrictions and their potential impact on shareholders of our Bank please refer to the section titled "Risk Factors – External Risk Factors" on page xxiii of this Red Herring Prospectus.

The salient features of the same are as below.

***Bank Acquisition Act***

*3. Establishment of corresponding new banks and business thereof.*

(1) On the commencement of this Act, there shall be constituted such corresponding new banks as are specified in the First Schedule.

(2) The paid-up capital or every corresponding new bank constituted under sub-section (1) shall, until any provision is made in this behalf in any scheme made under section 9, be equal to the paid-up capital of the existing bank in relation to which it is the corresponding new bank.

(2A) Subject to the provisions of this Act, the authorised capital of every corresponding new bank shall be one thousand five hundred crores of rupees divided into one hundred fifty crores fully paid-up shares of ten rupees each.

Provided that the Central Government may, after consultation with the Reserve Bank and by notification in the Official Gazette, increase or reduce the authorised capital as it thinks fit, so however that after such increase or reduction, the authorised capital shall not exceed three thousand crores or be less than one thousand five hundred crores, of rupees.

(2B) Notwithstanding anything contained in sub-section (2), the paid-up capital of every corresponding new bank constituted under sub-section (1) may from time to time be increased by:—

(a) such amounts as the Board of Directors of the corresponding new bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, transfer from the reserve fund established by such bank to such paid-up capital;

(b) such amounts as the Central Government may, after consultation with the Reserve Bank, contribute to such paid-up capital;

(c) such amounts as the Board of Directors of the corresponding new bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, raise whether by public issue or preferential allotment or private placement, of equity shares or preference shares in accordance with the procedure as may be prescribed, so, however, that the Central Government shall, at all times hold not less than fifty-one per cent. of the paid-up capital consisting of equity shares of each corresponding new bank:

Provided that the issue of preference shares shall be in accordance with the guidelines framed by the Reserve Bank specifying the class of preference shares, the extent of issue of each class of such preference shares (whether perpetual or irredeemable or redeemable) and the terms and conditions subject to which, each class of preference shares may be issued.

(2BB) Notwithstanding anything contained in sub-section (2), the paid-up capital of a corresponding new bank constituted under sub-section (1) may, from time to time and before any paid-up capital is raised by public issue or preferential allotment or private placement under clause (c) of sub-section (2B), be reduced by-

(a) the Central Government, after consultation with the Reserve Bank, by canceling any paid-up capital which is lost, or is unrepresented by available assets;

(b) the Board of Directors, after consultation with the Reserve Bank and with the previous sanction of the Central Government, by paying off any paid-up capital which is in excess of the wants of the corresponding new bank.

Provided that in a case where such capital is lost, or is unrepresented by available assets because of amalgamation of another corresponding new bank or a corresponding new bank as defined in clause (b) of section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act. 1970 (5 of 1970) with the corresponding new bank, such reduction may be done, either prospectively or retrospectively, but not from a date earlier than the date of such amalgamation.

(2BBA) (a) A corresponding new bank may from time to time and after any paid-up capital has been raised by public issue or preferential allotment or private placement under clause (c) of sub-section (2B), by resolution passed at an annual general meeting of the shareholders entitled to vote, voting in person, or, where proxies are allowed, by proxy, and the votes cast in favour of the resolution are not less than three times the number of the votes, if any, cast against the resolution by the shareholders so entitled and voting, reduce its paid-up capital in any way.

(b) without prejudice to the generality of the foregoing power the paid-up capital may be reduced by:—

(i) extinguishing or reducing the liability on any of its shares in respect of share capital not paid-up;

(ii) either with or without extinguishing or reducing liability on any of its paid-up shares, canceling any paid-up capital which is lost, or is unrepresented by available assets; or

(iii) either with or without extinguishing or reducing liability on any of its paid-up shares, paying off any paid share capital which is in excess of the wants of the corresponding new bank.

(2BBB) Notwithstanding anything contained in sub-section (2BB) or sub-section (2BBA), the paid-up capital of a corresponding new bank shall not be reduced at any time so as to render it below twenty-five per cent of the paid-up capital of that bank as on the date of commencement of the Banking Companies (Acquisition and Transfer of Undertakings) Amendment Act, 1995.

(2C) The entire paid-up capital of a corresponding new bank, except the paid-up capital raked from public by public issue under clause (c) of sub-section (2B), shall stand vested in and allotted to the Central Government.

(2D) The shares of every corresponding new bank not held by the Central Government shall be freely transferable:

Provided that no individual or company resident outside India or any company incorporated under any law not in force in India or any branch of such company, whether resident outside India or not, shall at any time hold or acquire by transfer or otherwise shares of the corresponding new bank so that such investment in aggregate exceed the percentage, not being more than twenty per cent of the paid-up capital as may be specified by the Central Government by notification in the Official Gazette.

Explanation— For the purposes of this clause "company" means any body corporate and includes a firm or other association of individuals.

(2E) No shareholder of the corresponding new bank, other than the Central Government, shall be entitled to exercise voting rights in respect of any shares held by him in excess of one per cent of the total voting rights of all the shareholders of the corresponding new bank.

Provided that the shareholder holding any preference share capital in the corresponding new bank shall, in respect of such capital, have a right to vote only on resolutions placed before such corresponding new bank which directly affects the rights attached to his preference shares:

Provided further that no preference shareholder shall be entitled to exercise voting rights in respect of preference shares held by him in excess of one per cent. of the total voting rights of all the shareholders holding preference share capital only.

(2F) Every corresponding new bank shall keep at its head office a register in one or more books, of the shareholders (in this Act referred to as the register) and shall enter therein the following particulars

(i) the names, addresses and occupations, if any, of the shareholders and a statement of the shares held by each shareholder, distinguishing each share by its denoting number;

(ii) the date on which each Person is so entered as a shareholder;

(iii) the date on which any Person ceases to be a shareholder; and

(iv) such other particulars as may be prescribed.

Provided that nothing in this sub-section shall apply to shares held with a depository.

(2G) Notwithstanding anything contained in sub-section (2F), it shall be lawful for every corresponding new bank to keep the register in computer floppies or diskettes subject to such safeguards as may be prescribed.

(3) Notwithstanding anything contained in the Indian Evidence Act, 1872 (1 of 1872) a copy of, or extract from, the register, certified to be a true copy under the hand of an officer of the corresponding new bank authorised in this behalf by it, shall, in all legal proceedings, be admissible in evidence.

(4) Every corresponding new bank shall be a body corporate with perpetual succession and a common seal with power, subject to the provisions of this Act, to acquire, hold and dispose of property, and to contract, and may sue and be sued in its name.

(5) Every corresponding new bank shall carry on and transact the business of banking as defined in clause (b) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), and may engage in (one or more of the other forms of business) specified in sub-section (1) of section 6 of that Act.

(6) Every corresponding new bank shall establish a reserve fund to which shall be transferred to share premiums and the balance, if any, standing to the credit of the reserve fund of the existing bank in relation to which it is the corresponding new bank, and such further sums, if any, as may be transferred in accordance with the provisions of section 17 of the Banking Regulation Act, 1949 (10 of 1949).

(7)(i) The corresponding new bank shall, if so required by the Reserve Bank, act as agent of the Reserve Bank at all places in India where it has a branch, for-

(a) paying, receiving, collecting and remitting money, bullion any securities on behalf of any Government in India; and

(b) undertaking and transacting any other business which the Reserve Bank may from time to time entrust to it.

(ii) The terms and conditions on which any such agency business shall be carried on by the corresponding new bank on behalf of the Reserve Bank shall be such as may be agreed upon.

(iii) If no agreement can be reached on any matter referred to in clause (ii), or if a dispute arises between the corresponding new bank and the Reserve Bank as to the interpretation of any agreement between them, the matter shall be referred to the Central Government and the decision of the Central Government thereon shall be final.

(iv) The corresponding new bank may transact any business or perform any functions entrusted to it under clause (i), by itself or through any agent approved by the Reserve Bank.)

*7. Head office and management*

(1) The head office of each corresponding new bank shall be at such place as the Central Government may, by notification in the Official Gazette, specify in this behalf, and, until any such place is so specified, shall be at such place at which the head office of the existing bank, in relation to which it is the corresponding new bank, is on the commencement of this Act, located.

(2) The general superintendence, direction and management of the affairs and business of a corresponding new bank shall vest in a Board of Directors which shall be entitled to exercise all such powers and do all such acts and things as the corresponding new bank is authorised to exercise and do.

(3)(a) As soon as may be after the appointed day, the Central Government shall, in consultation with the Reserve Bank, constitute the first Board of Directors of a corresponding new bank, consisting of not more than seven persons, to be appointed by the Central Government, and every Director so appointed shall hold office until the Board of Directors of such corresponding new bank is constituted in accordance with the scheme made under section 9:

Provided that the Central Government may, if it is of opinion that it is necessary in the interests of the corresponding new bank so to do, remove a person from the Membership of the first Board of Directors and appoint any other person in this place.

(b) Every Member of the first Board of Directors (not being an officer of the Central Government or of the Reserve Bank) shall receive such remuneration as is equal to the remuneration which a Member of the Board of Directors of the existing bank was entitled to receive immediately before the commencement of this Act.

(4) Until the first Board of Directors is appointed by the Central Government under sub-section (3), the general superintendence, direction and management of the affairs and business of a corresponding new bank shall vest in a Custodian, who shall be the Chief Executive Officer of that bank and may exercise all powers and do all acts things as may be exercised or done by that bank.

(5) The Chairman of an existing bank holding office as such immediately before the commencement of this Act, shall be the Custodian of the corresponding new bank and shall receive the same emoluments as he was receiving immediately before such commencement:

Provided that the Central Government may, if the Chairman of an existing bank declines to become, or to continue to function as, a Custodian of the corresponding new bank, or, if it is of opinion that it is necessary in the interests of the corresponding new bank so to do, appoint any other person as the Custodian of a corresponding new bank and the Custodian so appointed shall receive such emoluments as the Central Government may specify in this behalf.

(6) The Custodian shall hold office during the pleasure of the Central Government.

*8. Corresponding new banks to be guided by the directions of the Central Government*

Every corresponding new bank shall, in the discharge of its functions, be guided by such directions in regard to matters of policy involving public interest as the Central Government may, after consultation with the Governor of the Reserve Bank, give.

*9. Power of Central Government to make scheme*

(1) The Central Government may, after consultation with the Reserve Bank, make a scheme for carrying out the provisions of this Act.

(2) In particular, and without prejudice to the generality of the foregoing power, the said scheme may provide for all or any of the following matters, namely:—

(a) the capital structure of the corresponding new bank;

(b) the constitution of the Board of Directors, by whatever name called, of the corresponding new bank and all such matters in connection therewith or incidental thereto as the Central Government may consider to be necessary or expedient;

(c) the reconstitution of any corresponding new bank into two or more corporations, the amalgamation of any corresponding new bank with any other corresponding new bank or with another banking institution, the transfer of the whole or any part of the undertaking of a corresponding new bank to any other corresponding new bank or banking institution or the transfer of the whole or any part of the undertaking of any other banking institution to a corresponding new bank;

(ca) the manner in which the excess number of directors shall retire under the second proviso to clause (i) of sub-section (3);

(d) such incidental, consequential and supplemental matters as may be necessary to carry out the provisions of this Act.

(3) Every Board of directors of a corresponding new bank constituted under any scheme made under sub-section (1), shall include—

(a) not more than four whole-time directors to be appointed by the Central Government after consultation with the Reserve Bank;

(b) one director who is an official of the Central Government to be nominated by the Central Government:

Provided that no such director shall be a director of any other corresponding new bank.

Explanation—For the purposes of this clause, the expression corresponding new bank" shall include a corresponding new bank within the meaning of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970);

(c) one director, possessing necessary expertise arid experience in matters relating to regulation or supervision of commercial banks, to be nominated by the Central Government on the recommendation of the Reserve Bank..

Explanation—For the purpose of this clause, "an Officer of the Reserve Bank" includes an officer of the Reserve Bank who is deputed by that Bank under section 54AA of the Reserve Bank of India Act, 1934 (2 of 1934) to any institution referred to therein:

(d) [***];

(e) one director, from among such of the employees of the corresponding new bank who are workmen under clause (s) of section 2 of the Industrial Disputes Act, 1947 (14 of 1947) to be nominated by the Central Government in such manner as may be specified in a scheme made under this section;

(f) one director, from among the employees of the corresponding new bank who are not workmen under clause (s) of section 2 of the Industrial Disputes Act, 1947, (14 of 1947) to be nominated by the Central Government after consultation with the Reserve Bank;

(g) one director who has been a Chartered Accountant for not less than fifteen years to be nominated by the Central Government after consultation with the Reserve Bank;

(h) subject to the provisions of clause (i), not more than six directors to be nominated by the Central Government;

(i) where the capital issued under clause (c) of sub-section (2B) of section (3) is—

(I) not more than sixteen per cent of the total paid-up capital, one director;

(II) more than sixteen per cent but not more than thirty two per cent of the total paid-up capital, two directors,

(III) more than thirty two per cent of the total paid-up capital, three directors, to be elected by the shareholders, other than the Central Government from amongst themselves:

Provided that on the assumption of charge after election of any such directors under this clause, equal number of directors nominated under clause (h) shall retire in such manner as may be specified in the scheme.

Provided further that in case the number of directors elected, on or before the commencement of the Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Act, 2006, in a corresponding new bank exceed the number of directors specified in sub-clause (I) or sub-clause (II) or sub-clause (III), as the case may be, such excess number of directors elected before such commencement shall retire in such manner as may be specified in the scheme and such directors shall not be entitled to claim any compensation for the premature retirement of their term of office.

(3A) The directors to be nominated under clause (h) or to be elected under clause (1) of sub-section (3) shall—

(A) have special knowledge or practical experience in respect of one or more of the following matters namely :-

(i) agricultural and rural economy,

(ii) banking,

(iii) co-operation,

(iv) economics,

(v) finance,

(vi) law,

(vii) small-scale industry,

(viii) any other matter the special knowledge of, and practical experience in, which would, in the opinion of the Reserve Bank, he useful to the corresponding new bank;

(B) represent the interests of depositors; or

(C) represent the interests of farmers, workers and artisans.

(3AA) Without prejudice to the provisions of sub-section (3A) and notwithstanding anything to the contrary contained in this Act or in any other law for the time being in force, no person shall be eligible to be elected as director under clause (i) of sub-section (3) unless he is a person having fit and proper status based upon track record, integrity and such other criteria as the Reserve Bank may notify from time to time in this regard.

(3AB) The Reserve bank may also specify in the notification issued under sub-section (3AA), the authority to determine the fit and proper status, the manner of such determination, the procedure to be followed for such determination and such other matters as may be considered necessary or incidental thereto.

(3B) Where the Reserve Bank is of the opinion that any Director of a corresponding new bank elected under clause (i) of sub-section (3) does not fulfill the requirements of sub-sections (3A) and

(3AA), it may, after giving to such Director and the bank a reasonable opportunity of being heard, by order, remove such Director and on such removal, the Board of Directors shall co-opt any other person fulfilling the requirements of sub-sections (3A) and (3AA) as a Director in place of the person so removed till a Director is duly elected by the shareholders of the corresponding new bank in the next annual general meeting and the person so co-opted shall be deemed to have been duly elected by the shareholders of the corresponding new bank as a Director.

(4) The Central Government may, after consultation with the Reserve Bank, make a scheme to amend or vary any scheme made under sub-section (1).

(5) On and from the date of coming into operation of a scheme made under this section with respect to any of the matters referred to in clause (c) of sub-section (2) or any matters incidental, consequential and supplemental thereto,—

(a) the scheme shall be binding on the corresponding new bank or corporations or banking institutions, and also on the members, if any, the depositors, and other creditors and employees of each of them and on any other persons having any right or liability in relation to any of them including the trustees or other persons, managing or in any other manner connected with any provident fund or other fund maintained by any of them;

(b) the properties and assets of the corresponding new bank, or as the case may be, of the banking institution shall, by virtue of and to the extent provided in the scheme, stand transferred to, and vested in, and the liabilities of the corresponding new bank, or, as the case may be, of the banking institution shall, by virtue of, and to the extent provided in the scheme, stand transferred to, and become the liabilities of, the corporation or corporations brought into existence by reconstitution of the banking institution or the corresponding new bank, as the case may be.

Explanation I— In this section, “banking institution” means ‘a banking company and includes the State Bank of India or a subsidiary bank.

Explanation II— For the purposes of this section, the expression “corresponding new bank” shall include a corresponding new bank within the meaning of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970).

(6) Every scheme made by the Central Government under this Act shall be laid as soon as may be after it is made, before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the scheme or both Houses agree that the scheme should not be made, the scheme shall thereafter have effect only in such modified form or be of no effect, as the case may be; so however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that scheme.

*9A. Power of Reserve Bank to appoint additional director*

(1) If the Reserve Bank is of the opinion that in the interest of banking policy or in the public interest or in the interests of the corresponding new bank or its depositors, it is necessary so to do, it may, from time to time, by order in writing, appoint, with effect from such date as may be specified in the order, one or more persons to hold office as additional directors of the corresponding new bank.

(2) Any person appointed as an additional director in pursuance of this section--

(a) shall hold office during the pleasure of the Reserve Bank and subject thereto for a period not exceeding three years or such further periods not exceeding three years at a time as the Reserve Bank may specify;

(b) shall not incur any obligation or liability by reason only of his being a director or for anything done or omitted to be done in good faith in the execution of the duties of his office or in relation thereto; and

(c) shall not be required to hold qualification shares in the corresponding new bank.

*10. Closure of accounts and disposal of profits*

(1) Every corresponding new bank shall cause its books to be closed and balanced on the 31st day of December or such other date in each year as the Central Government may, by notification In the Official Gazette, specify and shall appoint, with the previous approval of the Reserve Bank, Auditors for the audit of its accounts:

Provided that with a view to facilitating the transition from one period of accounting to another period of accounting tinder this sub-section, the Central Government may, by order published in the Official Gazette, make such provisions as it considers necessary or expedient for the closing and balancing of, or for other matters relating to, the books in respect of the concerned years.

(2) Every auditor of a corresponding new bank shall be a person who is qualified to act as an auditor of a company under section 226 of the Companies Act, 1956 (1 of 1956) and shall receive such remuneration as the Reserve Bank may fix in consultation with the Central Government.

(3) Every auditor shall be supplied with a copy of the annual balance sheet and profit and loss account and a list of all books kept by the corresponding new bank, and it shall be the duty of the auditor to examine the balance-sheet and profit and loss account with the accounts and vouchers relating thereto, and in the performance of his duties, the auditor—

(a) shall have, at all reasonable times, access to the books, accounts and other documents of the corresponding new bank,

(b) may, at the expense of the corresponding new bank, employee accountants or other persons to assist him in investigating such accounts, and

(c) may, in relation to such accounts, examine the Custodian or any officer or employee of the corresponding new bank.

(4) Every auditor of a corresponding new bank shall make a report to the Central Government upon the annual balance sheet and accounts and in every such report shall state:

(a) whether, in his opinion, the balance-sheet is a full and fair balance-sheet containing all the necessary particulars and is properly drawn up so as to exhibit a true and fair view of the affairs of the corresponding new bank, and in case he had called for any explanation or information, whether it has been given and whether it is satisfactory;

(b) whether or not the transactions of the corresponding new bank, which have come to his notice, have been within the powers of that bank;

(c) whether or not the returns received from the offices and branches of the corresponding new bank have been found adequate for the purpose of his audit;

(d) whether the profit and loss account shows a true balance of profit or loss for the period covered by such account; and

(e) any other matter which he considers should be brought to the notice of the Central Government.

Explanation I: For the purposes of this Act

(i) the balance-sheet shall not be treated as not disclosing a true and fair view of the affairs of the corresponding new bank, and

(ii) the profit and loss account shall not be treated as not showing a true balance of profit or loss for the period covered by such account,

merely by reason of the fact that the balance-sheet or, as the case may be, the profit and loss account, does not disclose any matters which are by the provisions of the Banking Regulation Act 1949 (10 of 1949), read with the relevant provisions of this Act or any other Act, not required to be disclosed.

Explanation II—For the purposes of this Act the accounts of the corresponding new bank shall not be deemed as having not been properly drawn up on the ground merely that they do not disclose certain matters if:

(i) those matters are such as the corresponding new bank is, by virtue of any provision contained in the Banking Regulation Act, 1949 (1 of 1949), read with the relevant provisions of this Act, or any other Act, not required to disclose; and

(ii) the provisions referred to in clause (i) are specified in the balance sheet and profit and loss account of the corresponding new bank or in the Auditor's report.

(5) The report of the Auditor shall be verified, signed and transmitted to the Central Government.

(6) The Auditor shall also forward a copy of the audit report to the corresponding new bank and to the Reserve Bank.

(7) After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds and all other matters for which provision is necessary under any law, or which are usually provided for by banking companies, a corresponding new bank may out of its net profits declare a dividend and retain the surplus if any.

(7A) Every corresponding new bank shall furnish to the Central Government and to the Reserve Bank the annual balance sheet, the profit and loss account, and the Auditor's report and a report by its Board of directors on the working and activities of the bank during the period covered by the accounts.

(8) The Central Government shall cause every Auditors report and report on the working and activities of each corresponding new bank to be laid as soon as may be after they are received before each House of Parliament.

(9) Without prejudice to the foregoing provisions, the Central Government may, at any time,

appoint such number of Auditors as it thinks fit to examine and report on the accounts of a corresponding new bank and the Auditors so appointed shall have all the rights, privileges and authority it relation to the audit of the accounts of the corresponding new bank which an Auditor appointed by the corresponding new bank has under this section.

*10A. Annual general meeting*

(1) A general meeting (in this Act referred to as an annual general meeting) of every corresponding new bank which has issued capital under clause (c) of sub-section (2B) of section 3 shall be held at the place of the head office of the bank in each year at such time as shall from time to time be specified by the Board of directors:

Provided that such annual general meeting shall be held before the expiry of six weeks from the date on which the balance sheet, together with the profit and loss account and Auditor's report is under sub-section (7A) of section 10, forwarded to the Central Government or to the Reserve Bank whichever date is earlier.

(2) The shareholders present at an annual general meeting shall be entitled to discuss, approve and adopt the balance-sheet and the profit and loss account of the corresponding new bank made up to the previous 31st day of March, the report of the Board of directors on the working and activities of the corresponding new bank for the period covered by the accounts and the Auditor's report on the balance-sheet and accounts.

(3) Nothing contained in this section shall apply during the period for which the Board of directors of a corresponding new bank had been superseded under sub-section (1) of section 18A:

Provided that the Administrator may, if he considers it appropriate in the interest of the corresponding new bank whose Board of directors had been superseded, call annual general meeting in accordance with the provisions of this section.

*10B. Transfer of unpaid or unclaimed dividend to Unpaid Dividend Account*

(1) Where, after the commencement of the Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Act, 2006, a dividend has been declared by a corresponding new bank but has not been paid or claimed within thirty days from the date of declaration, to, or by, any shareholder entitled to the payment of the dividend, the corresponding new bank shall, within seven days from the date of the expiry of such period of thirty days, transfer the total amount of dividend which remains unpaid or unclaimed within the said period of thirty days, to a special account to be called "Unpaid Dividend Account of ... (the name of the corresponding new bank)".
Explanation.--In this sub-section, the expression "dividend which remains unpaid" means any dividend the warrant in respect thereof has not been encashed or which has otherwise not been paid or claimed.

(2) Where the whole or any part of any dividend, declared by a corresponding new bank before the commencement of the Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Act, 2006, remains unpaid at such commencement, the corresponding new bank shall, within a period of six months from such commencement, transfer such unpaid amount to the account referred to in sub-section (1).

(3) Any money transferred to the Unpaid Dividend Account of a corresponding new bank in pursuance of this section which remains Unpaid or unclaimed for a period of seven years from the date of such transfer, shall be transferred by the corresponding new bank to the Investor Education and Protection Fund established under sub-section (1) of section 205C of the Companies Act, 1956(1 of 1956).

(4) The money transferred under sub-section (3) to the Investor Education and Protection Fund shall be utilised for the purposes and in the manner specified in section 205C of the Companies Act,1956(1 of 1956).

*11. Corresponding new bank deemed to be an Indian company*

For the purposes of the Income-tax Act, 1961 (43 of 1961), every corresponding new bank shall be deemed to be an Indian company and a company in which the public are substantially interested.

*15. Certain defects not to invalidate acts of proceedings*

(a) All acts done by the Custodian, acting in good faith, shall, notwithstanding any defect in his appointment or in the procedure, be valid.

(b) No act or proceeding of any board of directors or a local board or committee of a corresponding new bank shall be invalid merely on the ground of the existence of any vacancy in, or defect in the constitution of, such board or the committee, as the case may be.

(c) All acts done by a person acting in good faith as a director or Member of a local board or Committee of a corresponding new bank shall be valid notwithstanding that it may afterwards be discovered that his appointment was not invalid by reason of any defect or disqualification or had terminated by virtue of any provision contained In any law for the time being in force:

Provided that nothing in this section shall be deemed to give validity to any act by a director or Member of a local board or Committee of a corresponding new bank after his appointment has been shown to the corresponding new bank to be invalid or to have terminated.

*16. Indemnity*

(1) Every custodian of a corresponding new bank and every Officer of the Central Government or of the Reserve Bank and every Officer or other employee of a corresponding new bank, shall be indemnified by such bank against all losses and expenses incurred by him in or in relation to the discharge of his duties except such as have been caused by his own willful act or default.

(2) A director or Member of a local board or Committee of a corresponding new bank shall not be responsible for any loss or expense caused to such bank by the insufficiency or deficiency of the value of, or title to, any property or security acquired or taken on behalf of the corresponding new bank, or by the insolvency or wrongful act of any customer or debtor, or by anything done in or in relation to the execution of the duties of his office, unless such loss, expense, insufficiency or deficiency was due to any willful act or default on the part of such director or Member.

*16A. Arrangement with corresponding new bank on appointment of directors to prevail*

(1) Where any arrangement entered into by a corresponding new bank with a company provides for the appointment by the corresponding new bank of one or more directors of such Company, such appointment of directors made in pursuance thereof shall be valid and effective notwithstanding anything to the contrary contained in the Companies Act, 1956 (1 of 1956) or in any other law for the time being in force or in the memorandum, articles of association or any other instrument relating to the Company, and any provision regarding share qualification, age limit, number of directorship, removal from office of directors and such like conditions contained in any such law or instrument aforesaid, shall not apply to any director appointed by the corresponding new bank in pursuance of the arrangement as aforesaid.

(2) Any director appointed as aforesaid shall—

(a) hold office during the pleasure of the corresponding new bank and may be removed or substituted by any person by order in writing of the corresponding new bank;

(b) and incur any obligation or liability by reason only of his being a director or for anything done or omitted to be done in good faith in the discharge of his duties as a director or anything in relation thereto;

(c) not be liable to retirement by rotation and shall not be taken into account for computing the number of directors liable to such retirement;

(d) Power to make regulations.

(3) The board of directors of a corresponding new bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, by notification in the Official Gazette make regulations, not inconsistent with the provisions of this Act or any scheme made thereunder, to provide for all matters for which provision is of a expedient for the purpose of giving effect to the provisions of this Act.

(4) Until any regulation is made under sub-section (1), the articles of association of the existing bank and every regulation, rule, bye-law or order made by the existing bank shall, if in force at the commencement of this Act, be deemed to be the regulations made under sub-section (1) and shall have effect accordingly and any reference therein to any authority of the existing bank shall be deemed to be a reference to the corresponding authority of the corresponding new bank and until any such corresponding authority is constituted under this Act, shall be deemed to refer to the Custodian.

(5) Every regulation shall, as soon as may be after it is made under this Act by the board of directors of a corresponding new bank, be forwarded to the Central Government and that Government shall cause a copy of the same to be laid before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both houses agree in making any modification in the regulation or both Houses agree that the regulation should not be made, the regulation shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that regulation.

*18A. Supersession of board in certain cases*

(1) Where the Central Government, on the recommendation of the Reserve Bank, is satisfied that in the public interest or for preventing the affairs of any corresponding new bank being conducted in a manner detrimental to the interest of the depositors or the corresponding new bank or for securing the proper management of any corresponding new bank, it is necessary so to do, the Central Government may, for reasons to be recorded in writing, by order, supersede the board of Directors of such corresponding new bank for a period not exceeding six months as may be specified in the order:

Provided that the period of supersession of the board of directors may be extended from time to time, so, however, that the total period shall not exceed twelve months.

(2) The Central Government may, on supersession of the board of directors of the corresponding new bank under sub-section (1), appoint, in consultation with the Reserve Bank, for such period as it may determine, an Administrator (not being an officer of the Central Government or a State Government) who has experience in law, finance, banking, economics or accountancy.

(3) The Central Government may issue such directions to the Administrator as it may deem appropriate and the Administrator shall be bound to follow such directions.

(4) Upon making the order of supersession of the board of directors of the corresponding new bank, notwithstanding anything contained in this Act,--

(a) the chairman, managing director and other directors shall, as from the date of supersession, vacate their offices as such;

(b) all the powers, functions and duties which may, by or under the provisions of this Act or any other law for the time being in force, be exercised and discharged by or on behalf of the board of directors of such corresponding new bank, or by a resolution passed in general meeting of such corresponding new bank, shall, until the board of directors of such corresponding new bank is reconstituted, be exercised and discharged by the Administrator appointed by the Central Government under sub-section (2):

Provided that the power exercised by the Administrator shall be valid notwithstanding that such power is exercisable by a resolution passed in the general meeting of the corresponding new bank.

(5) The Central Government may constitute, in consultation with the Reserve Bank, a committee of three or more persons who have experience in law, finance, banking, economics or accountancy to assist the Administrator in the discharge of his duties

(6) The committee shall meet at such times and places and observe such rules of procedure as may be specified by the Central Government.

(7) The salary and allowances payable to the Administrator and the members of the committee constituted under sub-section (5) by the Central Government shall be such as may be specified by the Central Government and be payable by the concerned corresponding new bank.

(8) On and before the expiration of two months before expiry of the period of supersession of the board of directors as specified in the order issued under sub-section (1), the Administrator of the corresponding new bank, shall call the general meeting of the corresponding new bank to elect new directors and reconstitute its board of directors.

(9) Notwithstanding anything contained in any other law or in any contract, the memorandum or articles of association, no person shall be entitled to claim any compensation for the loss or termination of his office.

(10) The Administrator appointed under sub-section (2) shall vacate office immediately after the board of directors of the corresponding new bank has been reconstituted.

***Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970***

*3. Constitution of the board*

(i) The director referred to in Clause (e) of sub-section (3) of Section 9 of the Act, shall be nominated by the Central Government from out of a panel of three such employees furnished to it by the representative union, within a date to be specified by the Central Government, which date shall not be more than six weeks from the date of communication made by the Central Government, requiring the representative union to furnish the panel of names:

Provided that where the Central Government is of the opinion that owing to the delay which is likely to occur in the verification and certification of any union or federation as a representative union it is necessary in the interest of the Nationalised Bank so to do, it may nominate any employee of the Nationalised Bank, who is a workman, to be a director of that bank.

(ii) (a) Where there is no representative union, to represent the workman of a Nationalised Bank, or

(b) where such representative union being in existence omits or fails to furnish any panel of names within the specified date, or

(c) where all the persons specified in the panel furnished by the representative union are disqualified whether under item (iii) of this sub-clause or under Clause 10, the Central Government may, at its discretion appoint such workman of the Nationalised Bank, as it may think fit, to be a director of such bank.

(iii) A workman of a Nationalised Bank shall be disqualified for being nominated as a director unless—

(a) he is, and has been serving for a continuous period of not less than five years in the Nationalised Bank; and

(b) he is of such age that there is no likelihood of his attaining the age of superannuation during his term of office as director.

*4. Manner of retirement of nominee directors*

The director referred to in Clause (h) of sub-section (3) of section 9 of the Act shall retire by rotation, when the elected directors assume charge, in such manner that the directors who have been longest in office since the last nomination, shall retire first and as between persons, who became directors on the same day, those who are to retire, shall, in default of or subject to any agreement among themselves, be decided by the Central Government.

*4A. Manner of retirement of excess elected director*

The number of excess directors shall be determined under the second proviso to clause (i) of sub-section 9 of the Act and such number of directors elected by the shareholders (other than the Central Government) equal to the number so determined shall retire, and the order in which the directors shall retire, and the order in which the directors shall retire, will begin with the longest serving director:

Provided that if two or more directors have served for the same period of time, the older among the said directors shall retire first.

*5. Chairman*

(1) The Central Government shall, after consultation with the Reserve Bank, appoint one of the directors to be the Chairman of the board.

(2) The Chairman shall preside over the meetings of the board.

*6. Managing director*

The Central Government shall, after consultation with the Reserve Bank, appoint one of the directors referred to in Clause (a) of sub-section (3) of section 9 of the Act to be the Managing Director, who shall be the Chief Executive Officer of the Nationalised Bank and shall exercise the powers and discharge such duties as may be delegated to him by the board.

7. *Same person may hold office as Chairman and Managing director*

The Central Government may, after consultation with the Reserve Bank appoint the same person to hold, at the same time, both the office of the Chairman and the Managing director.

8. *Term of office and remuneration of a wholetime director including Managing director*

(1) A wholetime director, including the Managing director shall devote his whole time to the affairs of the Nationalised Bank and shall hold office for such terms not exceeding five years as the Central Government may, after consultation with the Reserve Bank, specify and shall be eligible for re-appointment.

(1-A) Notwithstanding anything contained in sub-clause (1), the Central Government shall have the right to terminate the term of office of a whole-time director, including the Managing director, at any time before the expiry of the term specified under that sub-clause by giving to him a notice of not less than three months, in writing or three months salary and allowances in lieu of notice; and the whole-time director, including the Managing director, shall also have the right to relinquish his office at any time before the expiry of the term specified under that sub-clause by giving to the Central Government notice of not less than three months in writing.

(1-B) Any reference to a whole-time director, including the Managing director, in sub-clause (1-A) shall be construed as including a reference to the person holding office as such at the commencement of the Nationalised Banks (Management and Miscellaneous Provision (Second Amendment) Scheme, 1976.

(2) A whole-time director, including the Managing director shall receive from the Nationalised Bank such salary, allowance, fees and perquisites and be governed by such terms and conditions as the Central Government may determine, after consultation with the Reserve Bank.

(3) If a whole-time director including the Managing director is by infirmity or otherwise rendered incapable of carrying out his duties or is absent on leave or otherwise in circumstances not involving the vacation of his office, the Central Government may, after consultation with the Reserve Bank, appoint another person to act in his place during his absence.

(4) The Central Government may, if it is satisfied that it is expedient in the interests of the nationalized bank so to do, remove a whole-time director including the Managing director from office:

Provided that no such removal shall be made except after—

(a) consultation with the board, and

(b) giving a reasonable opportunity to the whole-time director including the Managing director, of showing cause against the proposed action.

9. *Term of office of other directors*

(1) A director other than a director referred to in Clause (a) and Clause (i) of sub-section (3) of section 9 of the Act shall hold office during the pleasure of the Central Government.

(2) Subject to the provisions of sub-clause (1),

(a) a director referred to in Clause (e), Clause (f), Clause (g) and Clause (h) of sub-section (3) of section 9 of the Act shall hold office for such term not exceeding three years as the Central Government may specify at the time of his nomination shall be eligible for re-nomination:

(b) a director referred to in Clause (g) and Clause (h) of sub-section (3) of section 9 of the Act shall hold office for such term not exceeding three years as the Government may specify at the time of his nomination and thereafter and shall be eligible for re-nomination:

Provided that no such director shall hold office continuously for a period exceeding six years.

(3) Without prejudice to the provisions of sub-clauses (1) and (2), a director referred to in Clause (b) of sub-section (3) of section 9 of the Act shall retire in the manner specified in Clause 4.

(4) An elected director shall hold office for three years and shall be eligible for re-election:

Provided that no such director shall hold office continuously for a period exceeding six years.

*10. Disqualification of directors*

A person shall be disqualified for being appointed as, and for being, a director—

(a) if he has at any time been adjudicated an insolvent or has suspended payment or has compounded with his creditors; or

(b) if he has been found to be of unsound mind and stands so declared by a competent Court; or

(c) if he has been convicted by a Criminal Court of an offence which involves moral turpitude.

*11. Vacation of office of directors, etc.*

(1) If a director becomes subject to any of the disqualifications specified in Clause 10 or is absent without leave of the board for more than three consecutive meetings thereof he shall be deemed to have vacated his office as such and thereupon his office shall become vacant.

(2) The Chairman or whole-time director including the Managing director or a director referred to in Clause (b) or Clause (c) or Clause (d) of sub-section (3) of section 9 of the Act may resign his office by giving notice thereof in writing to the Central Government and on such resignation being accepted by that Government shall be deemed to have vacated his office; any other director may resign his office by giving notice thereof in writing to the Central Government and such resignation shall take effect on the receipt of the communication of the resignation by the Central Government.

(3) Without prejudice to the provisions of the foregoing sub-clause, the office of a director referred to in Clause (e) or Clause (f) of sub-section (3) of section 9 of the Act shall become vacant as soon as the director ceases to be a workman or an employee, other than a workman of the nationalized bank of which he is a director.

(4) Where any vacancy occurs in the office of a director, other than an elected director, it shall be filled in accordance with sub-section (3) of section 9 of the Act.

*11-A. Removal from office of an elected director*

The shareholders other than the Central Government, may, by a resolution passed by majority of the votes of such shareholders holding in the aggregate not less than one half of the share capital held by all such shareholders, remove any director elected under Clause (i) of sub-section (3) of section 9 and elect in his stead another person to fill the vacancy.

*11-B. Filling of vacancy in the office of an elected director*

(1) Where any vacancy occurs before the expiry of the term of office of an elected director, the vacancy shall be filled in by election:

Provided that where the duration of vacancy is likely to be less than six months, the vacancy may be filled in by the remaining directors.

(2) A person elected or cooperated, as the case may be, under sub-clause (1) shall hold office for the unexpired portion of the term of his predecessor.

*12. Meetings of the board*

(1) Meetings of the board shall ordinarily be held at least six times in a year and at least once in each quarter.

(2) A meeting of the board shall be held at the head office of the nationalised bank or such other place as the board may decide.

(3) Ordinarily, not less than fifteen days' notice shall be given of any meeting of the board and such notice shall be sent to every director at the address specified by him in this behalf.

(4) No business, other than that for which the meeting was convened shall be transacted at a meeting of the board except with the consent of the Chairman of the meeting and a majority of the directors present, unless one week's notice of such business has been given in writing to the Chairman.

(5) The quorum of a meeting of the board shall be one-third of the number of directors holding office as such directors of the board on the day of the meeting, subject to a minimum of three directors, two of whom shall be directors referred to in Clause (b) or Clause (c) or Clause (h) of sub-section (3) of section 9 of the Act.

(6) If, for any reason, the Chairman is unable to attend a meeting of the board, the Managing director shall preside over that meeting and in the absence of the Managing director or in the event of the Chairman and the Managing director being the same person, any other director elected by the directors present at the meeting from among themselves shall preside at the meeting.

(7) All questions at the meeting shall be decided by a majority of the votes of the directors present and voting and in the case of equality of votes, the person presiding shall have a second or a casting vote.

(8) A director who is directly or indirectly concerned or interested in any contract, loan, arrangement or proposal entered into or proposed to be entered into by or on behalf of the nationalized bank shall, as soon as possible after the relevant circumstances have come to his knowledge, disclose the nature of his interest to the board and shall not be present at the meeting of the board when any such contract, loan, arrangement or proposal is discussed unless his presence is required by the other directors for the purpose of eliciting information and no director so required to be present shall vote on any such contract, loan, arrangement or proposal:

Provided that nothing contained in this sub-clause shall apply to such director by reason only of his being—

(i) a shareholder (other than a director) holding not more than two per cent of the paid-up capital in any public company as defined in the Companies Act, 1956 (1 of 1956), or any corporation established by or under any law for the time being in force in India or any co-operative society, with which or to which the Nationalised Bank has entered into or made or proposed to enter into or make, a contract, loan, arrangement or proposal, or

(ii) an officer or other employee of the nationalized bank, if he is a director referred to in Clause (e) or Clause (f) of sub-section (3) of section 9 of the Act.

(9) A copy of the proceedings of each meeting of the board shall be circulated as soon as possible after the meeting for other information of the directors and shall be signed by the Chairman of that or the next succeeding meeting.

(10) No act or proceeding of the board shall be invalid on the ground merely of the existence of any vacancy in or any defect in the constitution of the board.

*13. Management Committee*

(1) There shall be a Management Committee of the board.

(2) The Management Committee shall consist of—

(a) The Chairman

(b) The Managing director

(c) The Executive director/s

(d) The directors referred to in Clauses (g) of sub-section (3) of section 9 of the Act.

(e) Three director nominated by the board from amongst, the directors referred to in Clause (d) of sub-section (3) of section 9 of the Act;

(f) One director nominated by the board from amongst the directors referred to in Clauses (e), (f), (h) and (i) of sub-section (3) of section 9 of the Act:

Provided that the directors nominated by the board shall hold office for not more than six months at a time.

(3) The Management Committee shall exercise such powers of the board including the powers with regard to credit proposals, as may be delegated to it by the board with the approval of the Central Government and such approval shall be given by the Central Government after consultation with the Reserve Bank of India.

(4) The meetings of the Management Committee may be called by the Chairman of the Management Committee as often as he feels necessary.

(5) Four members shall be the quorum for a meeting of the Management Committee.

(6) The minutes of a meeting of the Management Committee shall be laid before the board as soon as possible after the meeting.

(7) Save as otherwise provided in sub-clauses (4), (5) and (6) the meetings and proceedings of the Management Committee shall be governed by the provisions contained in this Scheme for regulating the meetings and proceedings of the board so far as the same are applicable thereto.

(8) Where the Chairman of the Management Committee is of opinion that in view of urgency in any matter, it should be dealt with expeditiously, he may circulate a resolution to that effect to the members of the Management Committee, and such resolution shall be deemed to be the resolution passed by the Management Committee when it is approved by a majority of the Members but shall

have effect from the date it is signed by the last signatory to the resolution:

Provided that any resolution passed as aforesaid shall be placed before the next meeting of the Management Committee:

Provided further that if any dissenting member requires in writing that any resolution so passed shall be placed before a meeting of the Management Committee, the resolution shall not be deemed to be valid and effectual as aforesaid unless the same is passed at such meeting.

Explanation— For the purpose of sub-clause (2), "Executive director" means the whole-time director, not being the Managing director, appointed under sub-clause (a) of Clause 3 and designated as such.

*18. Resolution without meeting of the board valid*

A resolution in writing signed by the majority of the members of the board shall be valid and effectual and shall be deemed to be the resolution passed by the board on the date it was signed by the last signatory to the resolution:

Provided that any resolution passed as aforesaid shall be placed before the next meeting of the board.

Provided further that if any dissenting member requires in writing that any resolution so passed shall be placed before a meeting of the Board, the resolution shall not be deemed valid and effectual as aforesaid unless the same is passed at such meeting.

*20. Increase of paid-up capital*

The paid-up capital of a Nationalised Bank may be increased from time to time as in sub-clause (a) or sub-clause (b) or sub-clause (c) below or in combination with any of them:

(a) the board of directors of a Nationalised Bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government transfer to its capital a specified amount from the reserve fund establishment by such bank under sub-section (6) of section 3 of the Act;

(b) the Central Government may, in consultation with the Reserve Bank, make contribution of any specified amount to the paid-up capital of a Nationalised Bank;

(c) the board may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, raise the paid-up capital by public issue of shares in such manner as may be prescribed; so however, that the Central Government shall at all times hold not less than fifty-one per cent of the paid-up capital of each Nationalised Bank.

***Central Bank of India (Shares and Meetings) Regulations, 1998***

**3. Nature of Shares**

The shares at the Bank shall be movable property, transferable in the manner provided under these regulations

**4. Kinds of Share Capital**

(i) Preference Share Capital means that part of share capital of the Bank which fulfils both the following conditions:

(A) as respects dividends, it carries a preferential right to be paid a fixed amount or an amount calculated at fixed rate, which may be either free of or subject to income tax and

(B) as respect capital, it carries or will carry, on winding up repayment of capital, a preferential right to be repaid the amount of the capital paid up or deemed to have been paid up, whether or not there is preferential right to the payment of either or both of the following amounts, namely,

(a) any money remaining unpaid in respect of the amounts specified in clause (A) up to the date of winding up or repayment of capital, and

(b) any fixed premium or premium on any fixed scale, specified by the Board with previous consent of the Central Government.

(ii) "Equity Share Capital" means all share capital, which is not preference share capital.

(iii) The expressions "Preference Share" and "Equity Share" shall be construed accordingly.

**5. Particulars to be entered in the register**

(i) A share register shall be kept, maintained and updated in accordance with Sub-section 2(F) of section 3 of the Act.

(ii) In addition to the particulars specified in Sub-Section 2(F) of Section 3 of the Act, such other particulars as the Board may specify shall be entered in the register.

(iii) In the case of joint holders of any share, their names and other particulars required by sub-regulations (i) shall be grouped under the name of the first of such joint holders.

(iv) Subject to the proviso of sub-section 2(D) of Section 3 of the Act, a shareholder resident outside India may furnish to the Bank an address in India, and any such address shall be entered in the register and be deemed to be his registered address for the purposes of the Act and these regulations.

**5A.** (i) The Bank shall, unless the register is in such form as in itself to constitute an index, keep an index, which may be in form of a card index of the names of shareholders and shall, within fourteen days after the date on which any alteration is made in the register of shareholders, make the necessary alterations to the index.

(ii) The index shall be kept with the register of shareholders.

**6. Control over shares and registers**

Subject to the provisions of the Act and these regulations, and such directions as the Board may issue from time to time, the register shall be kept and maintained at the Head Office of the Bank and be under the control of the Board and the decision of the Board as to whether or not a person is entitled to be registered as a shareholder in respect of any share shall be final.

7. Parties who may not be registered as shareholders

i) Except as otherwise provided by these regulations, all persons who are not competent to contract shall not be entitled to be registered as a shareholder and the decision of the board in this regard shall be conclusive and final;

ii) 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 be registered as a shareholder.

8. Maintenance of share register in computer system, etc

i) The particulars required to be entered in the share register under Sub-section 2(F) of Section 3 of the Act, read with those mentioned in regulation 5, shall be maintained under Sub-section 2 (G) of Section 3 of the Act, in the form of data stored in magnetic/ optical/ magneto – optical media by way of diskettes, floppies, cartridges or otherwise (hereinafter referred to as the 'media') in computers to be maintained at the Head Office and the back up at such location as may be decided from time to time by the Chairman and Managing Director or any other official not below the rank of the General Manager designated in this behalf by the Chairman and Managing Director (hereinafter referred to as "the designated official".)

ii) Particulars required to be entered in the share register under Section 3(B) of the Act read with Section 11 of the Depositories Act, 1996 shall be maintained in the electronic form in the manner and in the form as prescribed therein.

iii) The register in electronic form shall be maintained subject to such safeguards as stipulated for securing electronic records under the Information Technology Act, 2000 (21 of 2000).

**9. Safeguards for protection of computer system**

i) The access to the system set out in Regulation 8(i) in which data is stored shall be restricted to such persons including Registrars to an issue and/ or share transfer agents as may be authorized in this behalf by the Chairman and Managing Director or the designated official and the passwords if any, and the electronic security control systems shall be kept confidential under the custody of the said persons.

ii) The access by the authorized persons shall be recorded in logs by the computer system and such logs shall be preserved with the officials/ persons designated in this behalf by the Chairman and Managing Director or the designated official.

iii) Copies of the back-ups shall be taken on removable media at intervals as may be specified from time to time by the Chairman and Managing Director or the designated official, incorporating the changes made in the register of shareholders. Atleast one of these copies shall be stored in a location other than the premises in which processing is being done. This copy shall be stored in a fire-proof environment with locking arrangement and at the requisite temperature. The access to the Back-ups in both the locations shall be restricted to persons authorized in this behalf by the Chairman and Managing Director or the designated official. The persons so authorized shall record the access in a manual register kept at the location.

iv) It shall be the duty of the authorized persons to compare the data on the back-ups with that on the computer system by using appropriate software to ensure correctness of the back-up. The result of this operation shall be recorded in the register maintained for the purpose.

v) It shall be competent for the Chairman and Managing Director, by special or general order, to add or modify the instructions, stipulations in regard to the safeguards to be observed in maintaining the register of the shareholders in the computer system with due regard to the advancement of technology, and/or in the exigencies of situation or for any other relevant consideration.

**10. Exercise of rights of joint holders**

If any share stands in the names of two or more persons, the person first named in the register shall, as regards voting, receipt of dividends, service of notices and all or any other matters connected with the Bank except the transfer of shares, be deemed to be sole holder thereof.

**11. Inspection of register**

i) The register shall, except when closed under Regulation 12, be open to inspection of any shareholder, free of charge, at the place where it is maintained during business hours subject to such reasonable restrictions as the Board may impose, but so that not less than two hours in each working day shall be allowed for inspection.

ii) Any shareholder may make extracts of any entry in the register or computer prints free of charge or if he requires a copy or computer prints of the register or any part thereof, the same will be supplied to him on pre-payment at the rate of Rs.5/- or at such rate as the Board may decide for every 1000 words or fractional part thereof required to be copied.

iii) Not withstanding anything contained in sub-regulation (ii), any duly authorized officer of the Government shall have the right to make a copy of any entry in the register or be furnished a copy of the register or any part thereof.

**12. Closing of the register**

The Bank may, after ensuring compliance of the applicable guidelines and the listing agreement with the Stock Exchanges, and after giving not less than seven days previous notice by advertisement in at least two newspapers circulating in India, close the register of shareholders for any period or periods not exceeding in the aggregate forty- five days in each year, but not exceeding thirty days at any one time as may in its opinion, be necessary

**13. Share certificates**

i) Each share certificate shall bear share certificate number, a distinctive number, the number of shares in respect of which it is issued and the names of the shareholder to whom it is issued and it shall be in such form as may be specified by the Board.

ii) Every share certificate shall be issued under the common seal of the Bank in pursuance of a resolution of the Board and shall be signed by two directors and some other officer not below the rank of Scale II or the Company Secretary for the purpose.

Provided that the signature of the directors may be printed, engraved, lithographed or impressed by such other mechanical process as the Board may direct.

(iii) A signature so printed, engraved, lithographed or otherwise impressed shall be as valid as a signature in the proper handwriting of the signatory himself.

(iv) No share certificate shall be valid unless and until it is so signed. Share Certificates so signed shall be valid and binding notwithstanding that, before the issue thereof, any person whose signature appears thereon may have ceased to be a person authorized to sign share certificates on behalf of the Bank.

**14. Issue of share certificates**

i) While issuing share certificates to any shareholder, it shall be competent for the Board to issue the certificates on the basis of one certificate for every hundred shares or multiples thereof registered in his name on any one occasion and one additional share certificate for the number of shares in excess thereof but which are less than hundred.

ii) If the number of shares to be registered is less than hundred, one certificate shall be issued for all the shares.

iii) In respect of any share or shares held jointly by several persons, the bank shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one of several joint holders shall be sufficient delivery to all such holders.

**15. Issue of new or duplicate share certificate**

i) If any share certificate is worn out or defaced, the Board or the Committee designated by it on production of such certificate may order the same to be cancelled and have a new certificate issued in lieu thereof.

ii) If any share certificate is alleged to be lost or destroyed, the Board or the Committee designated by it on such indemnity with or without surety as the Board or the Committee thinks fit, and on publication in two newspapers and on payment to the Bank of its costs, charges and expenses, a duplicate certificate in lieu thereof may be given to the person entitled to such lost or destroyed certificate.

**16. Consolidation and sub-division of shares**

On a written application made by the shareholder(s), the Board or the committee designated by it may consolidate or sub-divide the shares submitted to it for consolidation/ sub-division as the case may be and issue a new certificate(s) in lieu thereof on payment to the Bank of its costs, charges and expenses of and incidental to the matter.

**17. Transfer of shares**

i) Every transfer of the shares of the Bank shall be by an instrument of transfer in form ‘A’ annexed hereto or in such other form as may be approved by the Bank from time to time and shall be duly stamped, dated and executed by or on behalf of the transferor and the transferee alongwith the relative share certificate.

ii) The instrument of transfer alongwith the share certificate shall be submitted to the Bank at its Head Office and the transferor shall be deemed to remain the holder of such shares until the name of the transferee is entered in the share register in respect thereof.

iii) Upon receipt by the Bank of an instrument of transfer along with a share certificate with a request to register the transfer, the Board or the Committee designated by the Board shall forward the said instrument of transfer along with share certificate to the Registrar or Share Transfer Agent for the purposes of verification that the technical requirements are complied with in their entirety. The Registrar or share Transfer Agent shall return the instrument of transfer along with the share certificate, if any, to the transferee for resubmission unless the instrument of transfer is presented to the bank, duly stamped and properly executed for registration and is accompanied by the certificate of the shares to which it relates and such other evidence as the Board may require to show the title of the transferor to make such transfer.

Explanation: - “Technical requirements” means

a) Transfer deed shall be duly stamped;

b) Certificate number or distinctive number mentioned in the transfer deed shall tally with the share certificate;

c) Transferor's signature shall tally;

d) Transfer deed shall be witnessed.

(iv) The Board or the Committee designated by the Board shall, unless it refuses to register the transfer under regulation 19 hereinafter, cause the transfer to be registered.

(v) Unless the transfer of shares is refused under regulation 19, the share certificate duly transferred shall be delivered to the transferee within sixty days from the date of lodging of the instrument of transfer.

**18. Power to suspend transfers**

The Board or the Committee designated by the Board shall not register any transfer during any period in which the register is closed.

**19. Board's right to refuse registration of transfer of shares**

i) The Board or Committee may refuse transfer of any shares in the name of transferee on any one or more of the following grounds, and on no other ground:

a) The transfer of shares is in contravention of the provisions of the Act or regulations made there under or any other Law or that any other requirement under the law relating to registration of such transfer has not been complied with;

b) The transfer of shares, in the opinion of the Board, is prejudicial to the interest of the Bank or to public interest;

c) The transfer of shares is prohibited by an order of Court, Tribunal or any other authority under any law for the time being in force.

d) An individual or company resident outside India or any company incorporated under any law not in force in India or any Branch of such company whether resident outside India or not will on the transfer being allowed hold or acquire as a result thereof, shares of the Bank and such investment in the aggregate will exceed the percentage being more than 20% (twenty) of the paid up capital or as may be specified by the Central Government by notification in the Official Gazette.

ii) The Board or Committee shall, after the instrument of transfer of shares of the Bank is lodged with it for the purpose of registration of such transfer from its opinion as to whether such registration ought or ought not to be refused on any of the grounds referred to in such regulation (i) -

a) If it has formed the opinion that such registration ought not to be so refused, effect such registration; and

b) If it has formed the opinion that such registration ought to be refused on any of the grounds mentioned in sub regulation (i) intimate the same to the Transferor and the Transferee by notice in writing giving reasons for such refusal within 60 days from the receipt of transfer form or within such period as may be laid down in the Listing Agreement with the concerned Stock Exchange

**20. Transmission of shares in the event of death, insolvency etc**

i) The executors or administrators of a deceased share holder in respect of a share, or the holder of letter of probate or letters of administration with or without the will annexed or succession certificate issued under Part X of the Indian Succession Act, 1925 or the holder of any legal representation or a person in whose favour a valid instrument of transfer was executed by the deceased sole holder during the latter's life time shall be the only person who may be recognized by the Bank as having any title to such share.

ii) In the case of shares registered in the name of two or more share holders, the survivor or survivors and on the death of the last survivor, his executors or administrators or any person who is the holder of letters of probate or letters of administration with or without will annexed or a succession certificate or any other legal representation in respect of such survivor's interest in the share or a person in whose favour a valid instrument of transfer of share was executed by such person and such last survivor during the latter' s life time, shall be the only person who may be recognized by The Bank as having any title to such share.

iii) The Bank shall not be bound to recognize such executors or administrators unless they shall have obtained probate or letters of administration or succession certificate, as the case may be, from a Court of competent jurisdiction.

Provided, however, that in a case where the Board in its discretion thinks fit, it shall be lawful for the Board to dispense with the production of probate or letters of administration of succession certificate or such other legal representation, upon such terms as to indemnity or otherwise as it may think fit.

iv) Any such person becoming entitled to share in consequence of death of a share holder and any person becoming entitled to a share in consequence of the insolvency, Bankruptcy or liquidation of a share holder shall upon production of such evidence, as the Board may require, have the right –

a) to be registered as a shareholder in respect of such share

b) to make such transfer of such share as the person from whom he derives title could have made.

**21. Shareholder ceasing to be qualified for registration**

It shall be the duty of any person registered as a shareholder, whether solely or jointly with another or others forthwith upon ceasing to be qualified to be so registered in respect of any share to give intimation thereof to the Board in this regard.

Explanation- For the purposes of this regulation, a shareholder may cease to be qualified for registration-

(a) If he is a guardian of minor, on the minor attaining the majority;

(b) If he is holding shares as a Karta, on his ceasing to be a Karta.

**22. Calls on shares**

The Board may, from time to time, make such calls as it thinks fit upon the share holders in respect of all moneys remaining unpaid on the shares held by them, which are by the conditions of allotment not made payable at fixed times, and each shareholder shall pay the amount of every call so made on him to the person and at the time and place appointed by the Board. A call may be payable by instalments.

**23. Calls to date from resolution**

A call shall be deemed to have been made at the time when the resolution of the Board authorizing such call was passed and may be made payable by the shareholders on the register on such date or at the discretion of the Board on such subsequent date as may be fixed by the Board.

**24. Notice of call**

A notice of not less than thirty days of every call shall be given specifying the time of payment provided that before the time for payment of such call the Board may by notice in writing to the shareholders revoke the same.

**25. Extension of time for payment of call**

The Board may, from time to time and at its discretion, extend the time fixed for the payment of any call to all or any of the shareholders having regard to distance of their residence or some other sufficient cause, but no shareholder shall be entitled to such extension as a matter of right.

**26. Liabilities of joint holders**

The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

**27. Amount payable at fixed time or by instalments as calls**

If by the terms of issue of any share or otherwise any amount is payable at any fixed time or by instalments at fixed times, every such amount or instalment shall be payable as if it were a call duly made by the Board and of which due notice had been given and all the provisions herein contained in respect of the calls shall relate to such amount or instalment accordingly.

**28. When interest on call or instalment payable**

If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the holder for the time being or allottee of the share in respect of which a call shall have been made, or the instalment shall be due, shall pay interest on such sum at such rate as the Board may fix from time to time, from the day appointed for the payment thereof to the time of actual payment, but the Board may at its discretion waive payment of such interest wholly or in part.

**29. Non-payment of calls by shareholder**

No shareholder shall be entitled to receive any dividend or to exercise any right of a shareholder until he shall have paid all calls for the time being due and payable on every share held by him, whether singly or jointly with any person, together with interest and expenses, as may be levied or charged.

**30. Notice on non-payment of call or instalment**

If any shareholder fails to pay the whole or any part of any call or instalment or any money due in respect of any shares either by way of principal or interest on or before the day appointed for the payment of the same, the Bank may at any time thereafter during such time as the call or instalment or any part thereof or other moneys remain unpaid or a judgement or decree in respect thereof remains unsatisfied in whole or in part, serve a notice on such shareholder or on the person (if any) entitled to the share by transmission, requiring him to pay such call or instalment or such part thereof or other moneys as remain unpaid together with any interest that may have accrued and all expenses (legal or otherwise) that may have been paid or incurred by The Bank by reason of such non-payment.

**31. Notice of forfeiture**

The notice of forfeiture shall name a day not being less than fourteen days from the date of the notice and the place or places on and at which such call or instalment or such part or other monies and such interest and expenses as aforesaid are to be paid. The notice shall also state that in the event of non-payment on or before the time and at the place appointed, the share in respect of which the call was made or instalment is payable will be liable to be forfeited.

**32. Shares to be forfeited on default**

If the requirements of any such notice as aforesaid are not complied with, any of the shares in respect of which such notice has been given may at any time thereafter for non-payment of all calls or instalments, interest and expenses or the money due in respect thereof, be forfeited by a resolution of the Board to that effect at its next meeting to be held after the expiry of the notice of forfeiture under regulation 31at that effect. Such forfeiture shall include all dividends declared in respect of forfeited shares and not actually paid before the forfeiture.

**33. Entry of forfeiture in the register**

When any share has been forfeited under Regulation 32, an entry of the forfeiture with the date thereof shall be made in the register.

**34. Forfeited shares to be property of the bank and may be sold**

Any share so forfeited shall be deemed to be the property of the Bank and may be sold, reallotted or otherwise disposed of to any person upon such terms and in such manner as the Board may decide.

**35. Power to annul forfeiture**

The Board may, at any time, before any share so forfeited under Regulation 32 shall have been sold, reallotted or otherwise disposed of, annul the forfeiture thereof upon such conditions as it may think fit.

**36. Shareholder liable to pay money owing at the time of forfeiture and interest**

Any shareholder whose shares have been forfeited shall, notwithstanding the forfeiture, be liable to pay and shall forthwith pay to The Bank all calls, instalments, interest, expenses and other moneys owing upon or in respect of such shares at the time of forfeiture with interest thereon from the time of forfeiture until payment at such rate as may be specified by the Board and the Board may enforce the payment of the whole or a portion thereof.

**37. Partial payment not to preclude forfeiture**

Neither a judgement nor a decree in favour of the Bank for calls or other monies due in respect of any shares nor any payment or satisfaction thereunder nor a receipt by the Bank of a portion of any money which shall be due from any shareholder from time to time in respect of any shares either by way of principal or interest nor any indulgence granted by the Bank in respect of payment of any money shall preclude the forfeiture of such shares under these regulations.

**38. Forfeiture of shares extinguishes all claims against bank**

The forfeiture of a share shall involve extension, at the time of forfeiture, of all interest in and all claims and demands against the Bank, in respect of the share and all other rights incidental to the share, except only such of those rights as by these presents expressly waived.

**39. Original shares null and void on sale, re-issue, re-allotment or disposal on being forfeited**

Upon any sale, reissue, reallotment or other disposal under the provisions of the preceding regulations, the certificate(s) originally issued in respect of the relative shares shall (unless the same shall on demand by the Bank have been previously surrendered to it by the defaulting member) stand cancelled and become null and void and of no effect, the Board shall be entitled to issue a new certificate or certificates in respect of the said shares to the person or persons entitled thereto.

**40. Application of forfeiture provisions**

The provisions of these regulations as to the forfeiture shall apply in the case of non-payment of any sum which by terms of issue of a share become payable at a fixed time, whether on account of nominal value of the shares or by way of premium as if the same had been payable by virtue of a call duly made.

**41. Lien on shares**

i) The Bank shall have a first and paramount lien -

a) on every share (not being a fully paid share), for all moneys (whether presently payable or not) called, or payable at a fixed time, in respect of that share;

b) on all shares (not being fully-paid shares) standing registered in the name of a single person, for all moneys presently payable by him or his estate to the Bank;

c) upon all the shares registered in the name of each person (whether solely or jointly with others) and upon the proceeds of sale thereof for his debts; liabilities and engagements, solely or jointly with any other person to or with the Bank, whether the period for the payment, fulfilment, or discharge thereof shall have actually arrived or not and no equitable interest in any share shall be recognized by the Bank over its lien.

Provided that the Board may at any time declare any share to be wholly or in part exempt from the provisions of this clause.

ii) The Bank’s lien, if any, on a share shall extend to all dividends payable thereon.

**42. Enforcing lien by sale of shares**

i) The Bank may sell, in such manner as the Board thinks fit, any shares on which the Bank has a lien;

a) if a sum in respect of which the lien exists is presently payable and

b) after the expiration of fourteen days after a notice in writing stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder for the time being of the share or the person entitled thereto by reason of his death or insolvency.

ii) to give effect to any such sale, the Board may authorize some officer to transfer the shares sold to the purchaser thereof.

**43. Application of proceeds of sale of shares**

The net proceeds of any sale of shares under Regulation 42 after deduction of costs of such sale, shall be applied in or towards the satisfaction of the debt or liability in respect whereof the lien exists so far as the same is presently payable and the residue, if any, be paid to the shareholders or the person, if any, entitled by transmission to the shares so sold.

**44. Certificate of forfeiture**

A certificate in writing under the hands of any director, Company Secretary or any other Officer of the Bank not below the rank of Scale II of the Bank duly authorized in this behalf, that the call in respect of a share was made and that the forfeiture of the share was made by a resolution of the Board to that effect, shall be conclusive evidence of the fact stated therein as against all persons entitled to such shares.

**45. Title of purchaser and allottee of forfeited share**

The Bank may receive the consideration, if any, given for the share on any sale, reallotment or other disposition thereof and the person to whom such share is sold, reallotted or disposed of may be registered as the holder of the share and shall not be bound to see to the application of the consideration, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale, reallotment or other disposal of the share and the remedy of any person aggrieved by the sale shall be in damages only and against the Bank exclusively.

**46. Service of a notice or document to shareholders**

i) The Bank may serve a notice or a document on any shareholder either personally, or by ordinary post at his registered address or if he has no registered address in India, at the address, if any within India supplied by him to the Bank for giving of notice to him.

ii) Where a document or notice is sent by post, the service of such document or notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the document or notice:

Provided that where a shareholder has intimated to the Bank in advance that documents should be sent to him under a certificate of posting or by registered post, with or without acknowledgement due or by courier service or in an electronic mode and has deposited with the Bank a sum sufficient to defray the expenses of doing so, service of the document or notice shall not be deemed to be effected unless it is sent in the manner intimated by the shareholder. And such service shall be deemed to have been effected in the case of a notice of a meeting at the expiration of forty eight hours after the letter containing the same is posted, and in any other case, at the time at which the letter would have been delivered in the ordinary course of post or electronic media, as the case may be.

iii) A notice or a document advertised in a newspaper widely circulated in India shall be deemed to be duly served on the day on which the advertisement appears on every shareholder of the Bank who has no registered address in India and has not supplied to the Bank an address within India for giving of notice to him.

iv) A notice or document may be served by the Bank on the joint holder of a share by effecting service on the joint holder named first in the register in respect of the share and notice so given shall be sufficient notice to all the holders of the said shares.

v) A notice or a document may be served by the Bank on the persons entitled to a share upon death or in consequence of the insolvency of a shareholder by sending it through post in a prepaid letter addressed to them by name, or by the title of representatives of the deceased, or assignees of the insolvent, or by any like description, at the address, if any, in India supplied for the purpose by the persons, claiming to be so entitled, or until such an address has been so supplied, by serving the document in any manner in which it might have been served if the death or insolvency had not occurred.

vi) The signature to any notice to be given by the Bank may be written or printed.

**47. Agreement between a depository and the bank**

The Bank may enter into an agreement with one or more depository as defined in section 2(e) of the Depositories Act, 1996 to avail of its services in respect of securities issued by the Bank.

**48. Agreement between a Participant and the depository**

(i) Any participant may enter into an agreement with the depository to act as its agent. The depository with whom the agreement will be entered into will be one whose services the Bank has agreed to avail of under Regulation 47.

(ii) Any shareholder of the Bank may through the participant enter into an agreement with the depository in the form specified by such depository for availing its services in respect of securities issued by the Bank.

**49. Surrender of certificate of security**

(i) Any shareholder or holder of any security of the Bank who has entered into an agreement under regulation 48 above, shall surrender the certificate of security in respect of which he seeks to avail the service of a depository to the Bank.

(ii) The Bank on receipt of the certificate of security under sub-regulation (i) above, shall cancel the certificate of security and substitute in its record the name of the depository as a registered owner in respect of that security and inform the depository accordingly.

(iii) A depository shall, on receipt of information under sub-regulation (ii) above, enter the name of the person referred to in sub-regulation (i) above, in its records as the beneficial owner.

**50. Registration of transfer of securities with depository**

Every depository shall on receipt of intimation to effect transfer from the Bank, register the transfer of securities in the name of the transferee.

**51. Option to receive security certificate or to hold the security held with a depository**

(i) Every person subscribing to securities offered by the Bank, shall have option either to receive security certificate or hold the security with the depository.

(ii) When a person opts to hold security with the depository the Bank shall intimate such depository details of allotment of securities and on receipt of such information, the depository shall enter in its register, name of the allottee as the beneficial owner of that security.

**52. Securities in depository to be in a fungible form**

All securities held by the depository shall be dematerialised and shall be in a fungible form.

**53. Rights of beneficial owner**

The beneficial owner shall be entitled to all the rights and benefits and be subjected to all the liabilities in respect of his securities held by the depository.

**54. Register of Beneficial Owner**

(i) Every depository shall maintain a register and an index of beneficial owners in such form as may be prescribed under the Depositories Act., 1996 or by SEBI in respect of securities of the Bank held by the Depository

(ii) The depository shall furnish to the Bank at such intervals as may be prescribed by the Bank, an updated copy of the register and index of the beneficial owners maintained by it.

**55. Option to opt out in respect of any securities**

(i) If the beneficial owner seeks to opt out from the depository in respect of any security, he shall inform the depository accordingly.

(ii) The depository shall on receipt of such intimation under sub-regulation (i) above make appropriate entries in its records and shall inform the Bank.

(iii) The Bank shall within 30 (thirty) days of the receipt of intimation from the depository and on fulfillment of such conditions and on payment of such fees as may be specified in the SEBI Depositories & Participants Regulations, 1996 and/or the Depositories Act, 1996 issue a certificate of security to the beneficial owner or the transferee as the case may be.

**56. Notice convening an annual general meeting**

i) A notice convening an Annual General Meeting of the shareholders signed by the Chairman and Managing Director or Executive Director or any officer not below the rank of Scale VII or Company Secretary of the Bank shall be published at least twenty one clear days before the meeting in not less than two daily newspapers having wide circulation in India.

ii) Every such notice shall state the time, date and place of such meeting and also the business that shall be transacted at that meeting.

iii) The time and date of such meeting shall be as specified by the Board. The meeting shall be held at the place of Head Office of The Bank.

**57. Extraordinary general meeting**

i) The Chairman and Managing Director or in his absence the Executive Director of the Bank or in his absence any one of the Directors of the Bank may convene an Extra Ordinary General Meeting of shareholders if so directed by the Board, or on a requisition for such a meeting having been received either from the Central Government or from other shareholders holding shares, carrying, in the aggregate, not less than ten percent of the total voting rights of all the shareholders.

ii) The requisition referred in sub-regulation (i) shall state the purpose for which the Extra Ordinary General Meeting is required to be convened, but may consist of several documents in like form each signed by one or more of the requisitionists.

iii) Where two or more persons hold any shares jointly, the requisition or a notice calling a meeting, signed by one or some of them shall, for the purpose of this regulation have the same force and effect as if it had been signed by all of them.

iv) The time, date and place of the Extra Ordinary General Meeting shall be decided by the Board.

Provided that the Extra Ordinary General Meeting convened on the requisition by the Central Government or other shareholder shall be convened not later than 45 days of the receipt of the requisition.

v) If the Chairman and Managing Director or in his absence the Executive Director, as the case may be, does not convene a meeting as required by sub-regulation (i), within the period stipulated in the proviso to sub-regulation (iv), the meeting may be called by the requisitionist themselves within three months from the date of the requisition;

Provided that nothing in this sub-regulation shall be deemed to prevent a meeting duly convened before the expiry of the period of three months aforesaid, from being adjourned to some day after the expiry of that period.

vi) A meeting called under sub-regulation (v) by the requisitionist shall be called in the same manner, as nearly as possible as that in which the other general meetings are called by the Board.

**58. Quorum of general meeting**

i) No business shall be transacted at any meeting of the shareholders unless a quorum of at least five shareholders entitled to vote at such meeting in person are present at the commencement of such business.

ii) If within half an hour after the time appointed for the holding of a meeting, a quorum is not present, in the case of a meeting called by a requisition of shareholders other than the Central Government, the meeting shall stand dissolved.

iii) In any other case if within half an hour after the time appointed for the holding of a meeting, a quorum is not present, the meeting shall stand adjourned to the same day in the next week, at the same time and place or to such other day and such other time and place as the Chairman may determine. If at the adjourned meeting a quorum is not present within half an hour from the time appointed for holding the meeting, the shareholders who are present in person or by proxy or by duly authorized representative at such adjourned meeting shall be quorum and may transact the business for which the meeting was called:

Provided that no Annual General Meeting shall be adjourned to a date later than the date within which such Annual General Meeting shall be held in terms of Section 10A(1) of the Act and if adjournment of the meeting to the same day in the following week would have this effect, the Annual General Meeting shall not be adjourned but the business of the meeting shall be commenced within one hour from the time appointed for the meeting if the quorum is present or immediately after the expiry of one hour from that time and those shareholders who are present in person or by proxy or by duly authorized representative at such time shall form the quorum.

**59. Chairman at general meeting**

i) The Chairman and Managing Director or in his absence, the Executive Director or in his absence such one of the Directors as may be generally or in relation to a particular meeting be authorized by the Chairman and Managing Director or in his absence, the Executive Director in this behalf, shall be the Chairman of the meeting and if the Chairman and Managing Director or the Executive Director or any other Director authorized in this behalf is not present, the meeting may elect any other Director present to be the Chairman of the meeting.

ii) The Chairman of the General Meeting shall regulate the procedure at General Meetings and in particular shall have power to decide the order in which the shareholders may address the meeting to fix a time limit for speeches, to apply the closure, when in his opinion, any matter has been sufficiently discussed and to adjourn the meeting.

**60. Persons entitled to attend general meetings**

i) All Directors and all shareholders of the Bank shall, subject to the provisions of Sub-Regulation (ii) be entitled to attend the General Meeting.

ii) A shareholder (not being the Central Government) or a Director, attending a General Meeting shall for the purpose of identification and to determine his voting rights, be required to sign and deliver to the Bank a form to be specified by the Chairman containing particulars relating to:

a) his full name and registered address,

b) the distinctive numbers of his shares,

c) whether he is entitled to vote and the number of votes to which he is entitled in person or by proxy or as a duly authorized representative.

**61. Voting at general meetings**

i) At any General Meeting, a resolution put to the vote of the meeting shall, unless a poll is demanded be decided on a show of hands.

ii) Save as otherwise provided in the Act every matter submitted to a General Meeting shall be decided by a majority of votes.

iii) Unless a poll is demanded under Sub-Regulation (i), a declaration by the Chairman of the meeting that a resolution on show of hands has or has not been carried either unanimously or by a particular majority and an entry to that effect in the books containing the minutes of the proceedings, shall be conclusive evidence of the fact, without proof of the number of proportion of the votes cast in favour or, or against, such resolution.

iv) Before or on the declaration of the result of the voting or any resolution on a show of hands, a poll may be ordered to be taken by the Chairman of the Meeting of his own motion, and shall be ordered to be taken by him on demand made in that behalf by any shareholder or shareholders present in person or by proxy and holding shares in the Bank which confer a power to vote on the resolution not being less than one fifth of the total voting power in respect of the resolution.

v) The demand for the poll may be withdrawn at any time by the person or persons who made the demand.

vi) The poll demanded on a question of adjournment or election of Chairman of the meeting shall be taken forthwith.

vii) A poll demanded on any other question shall be taken at such time not being later than forty eight hours from the time when the demand was made, as the Chairman of the meeting may direct.

viii) The decision of the Chairman of the meeting as to the qualification of any person to vote, and also in the case of poll, as to the number of votes any person is competent to exercise shall be final.

**61A. Scrutineers at poll**

i) 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.

ii) The Chairman of the meeting shall have the power, at any time before the result of the poll is declared, to remove a scrutineer from the office and to fill the vacancy in the office of the scrutineers arising from such removal or from any other cause.

iii) Of the two scrutineers appointed under this regulation one shall always be a shareholder ( not being an Officer or employee of the Bank) present at the meeting: provided that such a shareholder is available and willing to be appointed.

**61B. Manner of taking poll and result thereof**

i) The Chairman of the meeting shall have power to regulate the manner in which a poll shall be taken.

ii) The result of the poll shall be deemed to be the decision of the meeting on the resolution on which the poll was taken.

**62. Minutes of general meetings**

i) The Bank shall cause the minutes of all proceedings to be maintained in the books kept for the purpose.

ii) Any such minutes, if purporting to be signed by the Chairman of the meeting at which the proceedings were held, or by the Chairman of the next succeeding meeting, shall be evidence of the proceedings.

iii) Until the contrary is proved, every General Meeting in respect of the proceedings hereof minutes have been so made shall be deemed to have been duly called and held, and all proceedings held thereat to have been duly held.

iv) On written request made by a shareholder for inspection of the minute book or for a copy of the minute of a specified meeting, the Bank shall allow the inspection or furnish the copy of the minute, as the case may be, to the shareholder

**63. Directors to be elected at general meeting**

i) A Director under Clause (i) of Sub-Section (3) of Section 9 of the Act shall be elected by the Shareholders on the register, other than the Central Government, from amongst themselves in the General Meeting of The Bank.

ii) Where an election of a Director is to be held at any General Meeting, the notice thereof shall be included in the notice convening the meeting. Every such notice shall specify the number of Directors to be elected and the particulars of vacancies in respect of which the election is to be held.

**64. List of shareholders**

i) For the purpose of election of a Director under Sub-Regulation (i) of Regulation 63 of these regulations, a list shall be prepared of shareholders on the register by whom the Director is to be elected.

ii) The list shall contain the names of the shareholders, their registered addresses, the number and denoting numbers of shares held by them with the dates on which the shares were registered and the number of votes to which they will be entitled on the date fixed for the meeting at which the election will take place and copies of the list shall be available for purchases atleast three weeks before the date fixed for the meeting at a price to be fixed by the Board or the Management Committee, on application at the Head Office.

**65. Nomination of candidates for election**

i) No nomination of a candidate for election as a Director shall be valid unless,

a) he is a shareholder holding not less than 100 (one hundred) shares in The Bank

b) he is on the last date for receipt of nomination, not disqualified to be a director under the Act or under the Scheme;

c) he has paid all calls in respect of the shares of the Bank held by him, whether alone or jointly with others, on or before the last date fixed for the payment of the call;

d) the nomination is in writing signed by at least one hundred shareholders entitled to elect directors under the Act or by their duly constituted attorney, provided that a nomination by a shareholder who is a company may be made by a resolution of the Directors of the said company and where it is so made, a copy of the resolution certified to be a true copy by the Chairman of the meeting at which it was passed shall be dispatched to the Head Office of the Bank and such copy shall be deemed to be a nomination on behalf of such company;

e) the nomination accompanies or contains a declaration signed by the candidate before a Judge, Magistrate, Registrar or Sub-registrar of Assurances or other Gazetted Officer or any officer of the Reserve Bank of India or any nationalized bank, that he accepts the nomination and is willing to stand for election, and that he is not disqualified either under the Act or the scheme or these regulations from being a Director.

ii) No nomination shall be valid unless it is received with all the connected documents complete in all respects and received, at the Head Office of The Bank on a working day not less than fourteen days before the date fixed for the meeting.

**66. Scrutiny of nominations**

i) Nominations shall be scrutinized on the first working day following the date fixed for receipt of the nominations and in case any nomination is not found to be valid, the same shall be rejected after recording the reason therefore. If there is only one valid nomination for any particular vacancy to be filled by election, the candidate so nominated shall be deemed to be elected forthwith and his name and address shall be published as so elected. In such an event there shall not be any election at the meeting convened for the purpose and if the meeting had been called solely for the purpose of the aforesaid election, it shall stand cancelled.

ii) In the event of an election being held, if valid nominations are more than the number of directors to be elected, the candidate polling the majority of votes shall be deemed to have been elected.

iii) A director elected to fill an existing vacancy shall be deemed to have assumed office from the date following that on which he is, or is deemed to be elected.

**67. Election disputes**

i) If any doubt or dispute shall arise as to the qualification or disqualification of a person deemed, or declared to be elected, or as to the validity of the election of a director, any person interested, being a candidate or shareholder entitled to vote at such election, may, within seven days of the date of the declaration of the result of such election, give intimation in writing thereof to the Chairman and Managing Director of the Bank and shall in the said intimation give full particulars of the grounds upon which he doubts or disputes the validity of the election.

ii) On receipt of an intimation under Sub-regulation (i), the Chairman and Managing Director or in his absence, the Executive Director of the Bank shall forthwith refer such doubt or dispute for the decision of a committee consisting of the Chairman and Managing Director or in his absence, the Executive Director and any two of the Directors nominated under Clause (b) and (c) of sub-section (3) of Section 9 of the Act.

iii) The committee referred to in Sub-Regulation (ii) shall make such enquiry as it deems necessary and if it finds that the election was a valid election, it shall confirm the declared result of the election or, if it finds that the election was not a valid election, it shall, within 30 days of the commencement of the enquiry, make such order and give such directions including the holding of a fresh election as shall in the circumstances appear just to the committee.

iv) An order and direction of such committee in pursuance of this regulation shall be conclusive.

**68. Determination of voting rights**

i) Subject to the provisions contained in Section 3(2E) of the Act, each shareholder who has been registered as a shareholder on the date of closure of the register prior to the date of a General Meeting shall, at such meeting, have one vote on show of hands and in case of a poll shall have one vote for each share held by him.

ii) Subject to the provisions contained in Section 3(2E) of the Act, every shareholder entitled to vote as aforesaid who, not being a company, is present in person or by proxy or who being a company is present by a duly authorised representative, or by proxy shall have one vote on a show of hands and in case of a poll shall have one vote for each share held by him as stated hereinabove in sub-regulation (i)

Explanation – for this Chapter, " Company" means any body corporate.

iii) Shareholders of the Bank entitled to attend and vote at a general meeting shall be entitled to appoint another person (whether a shareholder or not) as his proxy to attend and vote instead of himself; but a proxy so appointed shall not have any right to speak at the meeting.

**69. Voting by duly authorised representative**

i) A shareholder, being the Central Government or a company, may by a resolution, as the case may be, authorize any of its officials or any other person to act as its representative at any General Meeting of the shareholders and the person so authorized (referred to as a 'duly authorized representative' in these regulations) shall be entitled to exercise the same powers on behalf of the Central Government or company which he represents, as if he were an individual shareholder of the Bank. The authorization so given may be in favour of two persons in the alternative and in such a case any one of such persons may act as a duly authorized representative of the Central Government/ Company.

ii) No person shall attend or vote at any meeting of the shareholders of the Bank as the duly authorized representative of a company unless a copy of the resolution appointing him a duly authorized representative certified to be a true copy by the Chairman of the meeting at which it was passed shall have been deposited at the Head Office of the Bank not less than four days before the date fixed for the meeting.

**70. Proxies**

i) No instrument of proxy shall be valid unless, in the case of an individual shareholder, it is signed by him or by his attorney duly authorized in writing or in the case of joint holders, it is signed by the shareholder first named in the register or his attorney duly authorized in writing or in the case of the body corporate signed by its officer or an attorney duly authorized in writing;

Provided that an instrument of proxy shall be sufficiently signed by any shareholder, who is, for any reason, unable to write his name, if his mark is affixed thereto and attested by a Judge, Magistrate, Registrar or Sub-Registrar of Assurances or other Government Gazetted officer or an Officer of the Bank.

ii) No proxy shall be valid unless it is duly stamped and a copy thereof deposited at the Head Office of the Bank not less than four days before the date fixed for the meeting, together with the power of attorney or other authority (if any) under which it is signed or a copy of that power of attorney or other authority certified as a true copy by a Notary Public or a Magistrate unless such a power of attorney or the other authority is previously deposited and registered with the Bank.

iii) No instrument of proxy shall be valid unless it is in Form 'B'.

iv) An instrument of proxy deposited with the Bank shall be irrevocable and final.

v) In the case of an instrument of proxy granted in favour of two grantees in the alternative, not more than one form shall be executed.

vi) The grantor of an instrument of proxy under this regulation shall not be entitled to vote in person at the meeting to which such instrument relates.

vii) No person shall be appointed as duly authorized representative or a proxy who is an officer or an employee of the Bank.

## MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following contracts (not being contracts entered into in the ordinary course of business carried on by our 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 our 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 Head Office of our Bank between 10.00 am to 4.00 pm on working days from the date of this Red Herring Prospectus until the Bid /Issue Closing Date.

***Material Contracts***

1. Letters of appointment dated March 30, 2007 to I-SEC, Citi, Enam, IDBI Capital and KMCC from our Bank appointing them as BRLMs.

2. Memorandum of Understanding among the Bank and the BRLMs dated May 18, 2007.

4. Memorandum of Understanding executed between our Bank and the Registrar to the Issue dated May 14, 2007.

5. Escrow Agreement dated [●] among the Bank, the BRLMs, Escrow Collection Bank and the Registrar to the Issue.

6. Syndicate Agreement dated [●] among the Bank, the BRLMs and the Syndicate Members.

7. Underwriting Agreement dated [•] among the Bank, the BRLMs and the Syndicate Members.

***Material Documents***

1. Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, as amended.

2. Central Bank of India (Shares and Meetings) Regulations, 1998, as amended.

3. Board Resolutions dated April 23, 2007 and April 26, 2007 in relation to this Issue and other related matters.

4. Letter No. F.No. 11/17/2003-BOA dated January 24, 2007 from the GoI, Ministry of Finance, Department of Economic Affairs (Banking Division), granting its approval for the Issue.

5. Letter No. FE.CO.FID/26446/10.78.020/2006-07 dated May 24, 2007 from the Foreign Exchange Department, RBI approving the issue and allotment of up to 20% of the Issue to NRIs and FIIs in this Issue.

6. Letter No. F.No. 11/17/2003-BOA dated March 31, 2007 from the GoI, Ministry of Finance, Department of Economic Affairs (Banking Division), approving the restructuring of the share capital of the Bank.

7. Reports of the Auditors dated May 3, 2007 prepared as per Indian GAAP and disclosed elsewhere in this Red Herring Prospectus.

8. Copies of annual reports of our Bank for the last five financial years.

9. Consents of the Auditors for inclusion of their report on accounts in the form and context in which they appear in this Red Herring Prospectus.

10. Consent of the IPO grading agency for inclusion of their report in the form and context in which

they appear in the Red Herring Prospectus and the Prospectus.

11. Power of Attorney executed by the Directors of our Bank in favour of Person(s) for signing and making necessary changes to this Red Herring Prospectus and other related documents.

12. Consents of BRLMs, Advisors to the Issue, Syndicate Members, Registrar to the Issue, Banker to the Issue, Domestic Legal Counsel to the Bank, Domestic Legal Counsel to the BRLMs, International Legal Counsel to the BRLMs, Directors, Company Secretary and Compliance Officer, as referred to, in their respective capacities.

13. In-principle listing applications dated June 5, 2007 and June 6, 2007 filed with the NSE and the BSE respectively.

14. In-principle listing approvals dated June 18, 2007 and June 28, 2007 from the NSE and the BSE respectively.

15. Tripartite agreement between NSDL, our Bank and the Registrar to the Issue dated July 11, 2007.

16. Tripartite agreement between CDSL, our Bank and the Registrar to the Issue dated July 10, 2007.

17. Due diligence certificate dated May 19, 2007 to SEBI from the BRLMs.

18. SEBI observation letter No. CFD/DIL/SM/ISSUES/98171/2007 dated July 6, 2007.

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

We, the Directors of the Bank, hereby declare that all the relevant provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and subsequent amendments thereto, Central Bank of India (Shares and Meetings) Regulations, 1998, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 and the guidelines issued by the Government of India 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 Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and subsequent amendments thereto, Central Bank of India (Share and Meetings) Regulations, 1998, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, the Securities and Exchange Board of India Act, 1992 or rules made thereunder or guidelines issued, as the case may be. All legal requirements applicable until the filing of the Draft Red Herring Prospectus with the Stock Exchanges have been complied with. We further certify that all statements and disclosures in this Red Herring Prospectus are true and fair.

**SIGNED BY ALL DIRECTORS**

| | | |
|---|---|---|
| Ms. H.A. Daruwalla<br>*Chairperson & Managing Director* | Mr. K. Subbaraman<br>*Executive Director* | Mr. Albert Tauro<br>*Executive Director* |
| Mr. P.P. Mitra | Mr. M.K. Bhattacharya | Mr. Kamal Faruqui |
| Major (Retd.) Ved Prakash | Ms. Satya Bahin | Mr. Harish Chandhok |
| Mr. Romesh Sabharwal | Ms. Indu Singh Pawar | Mr. C.M. Puri |
| Mr. N.K. Pareek | | |

Mr. R. Natarajan
*General Manager, Accounts*

**Date**: July 11, 2007

**Place**: Mumbai

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