Red Herring Prospectus
December 30, 2005
100% Book Building Issue

ANDHRA BANK

(Andhra Bank was originally incorporated on November 20, 1923 under the Companies Act, 1913 as "The Andhra Bank Limited" with its registered office at Machilipatnam, Andhra Pradesh. The registered office of the Bank was subsequently shifted to Andhra Bank Buildings, Sultan Bazar, Hyderabad 500 195, Andhra Pradesh, India in 1973. After nationalization of the Bank pursuant to the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, the name of the Bank was changed to "Andhra Bank".
(Constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 on April 15, 1980)

Head Office: Dr. Pattabhi Bhavan, 5-9-11, Saifabad, Hyderabad - 500 004, India, **Tel:** (91 40) 2323 0883, **Fax:** (91 40) 2323 0883
Contact Person: K. Sethu Prasad; **Email:** eco@andhrabank.co.in; **Website:** www.andhrabank-india.com

PUBLIC ISSUE OF UP TO 85,000,000 EQUITY SHARES OF RS. 10 EACH FOR CASH AT A PRICE OF RS. [•] PER EQUITY SHARE AGGREGATING RS. [•] MILLION BY ANDHRA BANK (THE "BANK" OR "ISSUER") (THE "ISSUE"). THE ISSUE COMPRISES A NET ISSUE TO THE PUBLIC OF UP TO 76,500,000 EQUITY SHARES OF RS. 10 EACH (THE "NET ISSUE") AND A RESERVATION FOR ELIGIBLE EMPLOYEES OF UP TO 8,500,000 EQUITY SHARES OF RS. 10 EACH, AT THE ISSUE PRICE. THE ISSUE WOULD CONSTITUTE 17.53% OF THE TOTAL POST ISSUE PAID-UP EQUITY CAPITAL OF THE BANK.

PRICE BAND: RS. [•] TO RS. [•] PER EQUITY SHARE OF FACE VALUE RS. 10

THE FACE VALUE OF THE SHARES IS RS. 10 AND THE FLOOR PRICE IS [•] TIMES OF THE FACE VALUE AND THE CAP PRICE IS [•] TIMES OF THE FACE VALUE. THE PRICE BAND AND THE MINIMUM BID LOT SIZE FOR THE ISSUE WILL BE DECIDED BY US IN CONSULTATION WITH THE BRLMS AND ADVERTISED AT LEAST ONE DAY PRIOR TO THE BID/ISSUE OPENING DATE

The Issue is being made through the 100% book building process where upto 50% of the Net Issue shall be allocated on a proportionate basis to Qualified Institutional Buyers ("QIBs") (including 5% of the QIB portion that shall be available for allocation on a proportionate basis to Mutual Funds). Further, not less than 15% of the Net Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Net Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. Up to 8,500,000 shares shall be allotted on a proportionate basis to Eligible Employees.

RISK IN RELATION TO THE ISSUE

We are listed on the National Stock Exchange of India Limited, Bombay Stock Exchange Limited and the Hyderabad Stock Exchange Limited. The Issue Price (as determined by Andhra Bank in consultation with the Book Running Lead Managers ("BRLMs") on the basis of assessment of market demand for the Equity Shares by way of book-building) should not be taken to be indicative of the market price of the Equity Shares after the Equity Shares are listed. The market price of the existing Equity Shares of Andhra Bank could affect the price discovery through book building and vice versa. No assurance can be given regarding an active and/or sustained trading in the Equity Shares or regarding the price at which the Equity Shares will be traded after listing.

GENERAL RISKS

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

ISSUER'S RESPONSIBILITY

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

LISTING

The Equity Shares offered through this Red Herring Prospectus are proposed to be listed on the National Stock Exchange of India Limited, the Bombay Stock Exchange Limited and the Hyderabad Stock Exchange Limited. We have received in-principle approval from the National Stock Exchange of India Limited, Bombay Stock Exchange Limited and the Hyderabad Stock Exchange Limited for the listing of the Equity Shares pursuant to letters dated December 1, 2005, December 14, 2005 and December 7, 2005, respectively. The Designated Stock Exchange is the National Stock Exchange of India Limited.

BOOK RUNNING LEAD MANAGERS					REGISTRAR TO THE ISSUE
SBI Capital Markets Limited	citigroup	DSP Merrill Lynch	ENAM	kotak Investment Banking	MCS
SBI CAPITAL MARKETS LIMITED 202, Maker Tower - E , Cuffe Parade Mumbai 400 005, India Tel: (91 22) 2218 9166; Fax: (91 22) 2218 8332 Email: ab.fpo@sbicaps.com Website: www.sbicaps.com Contact Person: Subrat Panda	**CITIGROUP GLOBAL MARKETS INDIA PRIVATE LIMITED** Bakhtawar, 4th Floor, Nariman Point. Mumbai - 400 021 India Tel: (91) 1600 2299 96, Fax: (91 22) 5631 9803 Email: andhrabank.fpo@citigroup.com Website: www.citibank.co.in Contact Person: Akhilesh Poddar	**DSP MERRILL LYNCH LIMITED** Mafatlal Centre, 10th Floor, Nariman Point, Mumbai - 400 021, India Tel: (91 22) 2262 1071; Fax: (91 22) 2262 1187 Email: ab_fpo@ml.com; Website: www.dspml.com Contact Person: N.S. Shekhar	**ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED** 801/802, Dalamal Towers , Nariman Point Mumbai 400 021, India Tel: (91 22) 5638 1800; Fax: (91 22) 2284 6824 Email: andhrabkfpo@enam.com Website: www.enam.com Contact Person: Prabhat Kumar Rai	**KOTAK MAHINDRA CAPITAL COMPANY LIMITED** 3rd Floor, Bakhtawar, 229, Nariman Point, Mumbai-400 021, India Tel: (91 22) 5634 1100, Fax: (91 22) 2284 0492 Email: andhrabank.fpo@kotak.com Website: www.kotak.com Contact Person: Satyajit Joshi	**MCS LIMITED** Sri Padmavathi Bhavan Plot No. 93, Road No. 16 MIDC Area, Andheri East, Mumbai - 400 093 Tel: (91 22) 2820 1785 ; Fax: (91 22) 2820 1783 Email: ab@mcs.ind.com Website: www.mcsind.com Contact Person: Ashok Kambli

ISSUE PROGRAMME	
BID / ISSUE OPENS ON : JANUARY 16, 2006	**BID / ISSUE CLOSES ON : JANUARY 20, 2006**

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DEFINITIONS AND ABBREVIATIONS

Term	Description
The "Bank" or "our Bank" or "Andhra Bank" or "we" or "our" or "us"	Unless the context otherwise requires, refers to Andhra Bank, a correspond ing new bank constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, having its Head Office at Dr. Pattabhi Bhavan, 5-9-11, Saifabad, Hyderabad - 500 004, Andhra Pradesh, India

Bank / Industry Related Terms

Term	Description
ABFSL	Andhra Bank Financial Services Limited
ABHFL	Andhra Bank Housing Finance Limited
Associates	Collectively, the RRBs sponsored by our Bank i.e. Rushikulya Gramya Bank, Chaitanya Grameena Bank and Godavari Grameena Bank
Auditors	The statutory auditors of the Bank being M/s M. R. Narain & Co., M/s Chaturvedi & Shah, M/s S.R.B. & Associates, M/s S.C. Vasudeva & Co. and M/s Sunil K. Gupta & Associates
Bank Acquisition Act	Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, as amended from time to time
Bank Regulations	Andhra Bank (Shares and Meetings) Regulations, 2003, as amended from time to time, which have been made by the Board of Directors in the exercise of powers conferred by Section 19 of the Bank Acquisition Act after consultation with the RBI and with previous sanction of the GoI
Banking Regulation Act	The Banking Regulation Act, 1949, as amended from time to time
Board of Directors/Board	The Board of Directors of our Bank or a committee constituted thereof
CMD or Chairman and Managing Director	The chairman and managing director of our Bank, K. Ramakrishnan
Constitutional Documents	The Bank Acquisition Act read with the Bank Regulations and the Nationalised Bank Scheme
Director(s)	Director(s) of Andhra Bank, unless otherwise specified
Head Office	The head office of the Bank at Dr. Pattabhi Bhavan, 5-9-11, Saifabad, Hyderabad - 500 004, Andhra Pradesh, India
Promoter	The President of India acting through the MoF, GoI
Subsidiary	The subsidiary of the Bank being ABFSL

Issue Related Terms

Term	Description
Allotment	Unless, the context otherwise requires, the issue of Equity Shares pursuant to this Issue
Banker to the Issue	Andhra Bank
Bid	An indication to make an offer during the Bidding Period by a prospective investor to subscribe to our Equity Shares at a price within the Price Band, including all revisions and modifications thereto
Bid Amount	The highest value of the optional Bids indicated in the Bid cum Application Form
Bid Closing Date/Issue Closing Date	The date after which the Syndicate will not accept any Bids for the Issue, which is January 20, 2006.

Bid Opening Date/Issue Opening Date	The date on which the Syndicate shall start accepting Bids for the Issue, which is January 16, 2006
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
Bidder	Any prospective investor who makes a Bid pursuant to the terms of this Red Herring Prospectus and the Bid cum Application Form
Bidding Period/Issue Period	The period between the Bid Opening Date/Issue Opening Date and the Bid Closing Date/Issue Closing Date inclusive of both days and during which prospective Bidders can submit their Bids
Book Building Process	Book building route as provided under Chapter XI of the SEBI Guidelines, in terms of which the Issue is made
BRLMs/Book Running Lead Managers	Book Running Lead Managers to the Issue, in this case being SBI Capital Markets Limited, Citigroup Global Markets India Private Limited, DSP Merrill Lynch Limited, Enam Financial Consultants Private Limited and Kotak Mahindra Capital Company Limited
CAN/Confirmation of Allocation Note	Means the note or advice or intimation of allocation of Equity Shares sent to the Bidders who have been allocated Equity Shares after discovery of the Issue Price in accordance with the Book Building Process
Cap Price	The higher end of the Price Band, above which the Issue Price will not be finalised and above which no Bids will be accepted
Citigroup	Citigroup Global Markets India Private Limited, a company incorporated under the Companies Act and having its registered office at Bakhtawar, 4th Floor, Nariman Point, Mumbai - 400 021, India
Co-Managers	Co-Managers to the Issue, in this case being, Darashaw & Company Private Limited and Karvy Investor Services Limited.
Cut-off Price	Any price within the Price Band finalised by us in consultation with the BRLMs which will be notified in Financial Express, an English language newspaper with wide circulation, Jansatta, a Hindi language newspaper with wide circulation and Andhra Jyothi, a Telugu language newspaper with wide circulation. A Bid submitted at Cut-off Price is a valid Bid at all price levels within the Price Band
Designated Date	The date on which funds are transferred from the Escrow Account(s) to the Issue Account after the Prospectus is filed with the Designated Stock Exchange, following which the Board shall allot Equity Shares to successful Bidders
Designated Stock Exchange	National Stock Exchange of India Limited
Draft Red Herring Prospectus	The Draft Red Herring Prospectus filed with SEBI, which does not have complete particulars of the price at which the Equity Shares are offered and size of the Issue
DSPML	DSP Merrill Lynch Limited, a company incorporated under the Companies Act and having its registered office at Mafatlal Centre, 10th Floor, Nariman Point, Mumbai - 400 021, India
Eligible Employee	Means a permanent employee or Director of the Bank or its Subsidiary who is an Indian national based in India and is physically present in India on the date of submission of the Bid cum Application Form

Employee Reservation Portion	The portion of the Issue being a maximum of 8,500,000 Equity Shares available for allocation to Eligible Employees
Enam	Enam Financial Consultants Private Limited, a company incorporated under the Companies Act and having its registered office at 113, Stock Exchange Towers, Dalal Street, Fort, Mumbai 400 001, India
Equity Shares	Equity shares of the Bank of Rs. 10 each, unless otherwise specified in the context thereof
Escrow Account	Account opened with an Escrow Collection Bank and in whose favour the Bidder will issue cheques or drafts in respect of the Bid Amount
Escrow Agreement	Agreement entered into among the Bank, the Registrar, the Escrow Collection Bank and the BRLMs for collection of the Bid Amounts and for remitting refunds, if any, of the amounts collected to the Bidders
Escrow Collection Bank	Andhra Bank
First Bidder	The Bidder whose name appears first in the Bid cum Application Form or Revision Form
Floor Price	The lower end of the Price Band, below which the Issue Price will not be finalised and below which no Bids will be accepted
IPO	Initial Public Offering
Issue	Public issue of 85,000,000 Equity Shares of Rs. 10 each for cash at a price of Rs. [●] per Equity Share aggregating Rs. [●] million by the Bank comprising a Net Issue to the public of at least 76,500,000 Equity Shares of Rs. 10 each and a reservation for Eligible Employees of up to 8,500,000 Equity Shares of Rs. 10 each at the Issue Price pursuant to the Red Herring Prospectus and the Prospectus
Issue Account	Account opened with the Banker 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 Companies Act and having its registered office at 3rd Floor, Bakhtawar, 229, Nariman Point, Mumbai-400 021, India
Margin Amount	The amount paid by the Bidder at the time of submission of his/her Bid, which may be 10% or 100% of the Bid Amount, as applicable
Mutual Fund(s)	Mutual funds registered with SEBI under the SEBI (Mutual Funds) Regulations, 1996
Net Issue/Net Issue to the public	The Issue less the allocation to the Employee Reservation Portion
Non-Institutional Bidders	All Bidders that are not QIBs or Retail Individual Bidders and whose Bid Amount is more than Rs. 100,000
Non-Institutional Portion	The portion of the Issue being at least 11,475,000 Equity Shares of Rs. 10 each available for allocation to Non-Institutional Bidders
Pay-in-Date	The date which shall be a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs

Pay-in-Period	(i) With respect to Bidders whose Margin Amount is 100% of the Bid Amount, the period commencing on the Bid Opening Date and extending until the Bid Closing Date, and (ii) with respect to Bidders whose Margin Amount is less than 100% of the Bid Amount, the period commencing on the Bid Opening Date and extending up to the date specified in the CAN
Price Band	The price band with a minimum price (Floor Price) of Rs. [•] and the maximum price (Cap Price) of Rs. [•], which shall be advertised at least one day prior to the Bid Opening Date/Issue Opening Date, in Financial Express, an English language newspaper with wide circulation, Jansatta, a Hindi language newspaper with wide circulation and Andhra Jyothi, a Telugu language newspaper with wide circulation, and 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 (subject to applicable law), 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 submitted by a QIB in its Bid
QIB Portion	The portion of the Net Issue to public of up to 38,250,000 Equity Shares of Rs. 10 each at the Issue Price, available for allocation to QIBs of which 1,912,500 Equity Shares shall be available for allocation to Mutual Funds
Registrar/Registrar to the Issue	Registrar to the Issue, in this case being MCS Limited
Retail Individual Bidders	Individual Bidders (including HUFs) who have Bid for Equity Shares and whose Bid Amount is less than or equal to Rs. 100,000, in any of the bidding options in the Issue, including revisions if any
Retail Portion	The portion of the Net Issue to the public being a minimum of 26,775,000 Equity Shares of Rs. 10 each 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	The document issued in accordance with the SEBI Guidelines, which does 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 be filed with the Designated Stock Exchange at least three days before the Bid/Issue Opening Date and will become a Prospectus upon filing with the Designated Stock Exchange after pricing and allocation
SARFAESI or Securitisation Act	The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, as amended from time to time
SBI Caps	SBI Capital Markets Limited, a company incorporated under the Companies Act and having its registered office at 202, Maker Tower - E, Cuffe Parade, Mumbai 400 005, India
Stock Exchanges	BSE, NSE and HSE

Securities Act	The U.S. Securities Act of 1933, as amended
Syndicate	The BRLMs, Co-Managers 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
UIN	Unique Identification Number
Underwriters	The BRLMs, Co-Managers and the Syndicate Members
Underwriting Agreement	The agreement among the members of the Syndicate and the Bank to be entered into on or after the Pricing Date

Technical and Industry Terms

Term	**Description**
ALM	Asset Liability Management
ATMs	Automated Teller Machines
CAIIB	Certified Associate of Indian Institute of Bankers
CAR	Capital Adequacy Ratio
CBS	Core Banking Solutions
CDR	Corporate Debt Restructuring
CRAR	Capital to Risk weighted Assets Ratio
CRR	Cash Reserve Ratio
ECS	Electronic Clearing Services
HR	Human Resources
IBA	Indian Banks Association
ICFAI	Institute of Chartered Financial Analysts of India
IRDA	Insurance Regulatory and Development Authority
IT	Information Technology
FCNR(B)	Foreign Currency Non Resident (Banks)
LC	Letters of Credit
NPA	Non-performing Asset
OTS	One Time Settlement
PIN	Personal Identification Number
RTGS	Real Time Gross Settlement
SGL	Subsidiary General Ledger
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprises
Spread	The difference between the yield on the fortnightly average of interest earning assets and the cost of the fortnightly average of interest bearing liabilities

Tier I capital	The core capital of a bank, which provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital and reserves consisting of any statutory reserves, free reserves and capital reserves as reduced by equity investments in subsidiaries, intangible assets, and losses in the current period and those brought forward from the previous period and investment fluctuation reserves
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 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) and subordinated debt

Conventional/General Terms

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	Bombay Stock Exchange Limited
CAGR	Compounded Annual Growth Rate
CDSL	Central Depository Services (India) Limited
Companies Act	The Companies Act, 1956, as amended from time to time
Depositories Act	The Depositories Act, 1996, as amended from time to time
Depository	A body corporate registered under the SEBI (Depositories and Participant) Regulations, 1996, as amended from time to time
Depository Participant	A depository participant as defined under the Depositories Act
DRT	Debt Recovery Tribunal(s)
ECGC	Export Credit Guarantee Corporation of India Limited
FEMA	Foreign Exchange Management Act, 1999, as amended from time to time, and the regulations framed thereunder
FII	Foreign Institutional Investor (as defined under Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000) registered with SEBI under applicable laws in India
Financial Year /fiscal year/ FY/ fiscal	Period of twelve months ended March 31 of that particular year, unless otherwise stated
GIR Number	General Index Registry Number
Government/ GoI	The Government of India
HSE	The Hyderabad Stock Exchange Limited
HUF	Hindu Undivided Family
I.T. Act	The Income Tax Act, 1961, as amended from time to time
Indian GAAP	Generally accepted accounting principles in India
IPC	The Indian Penal Code, 1860

MoF	Ministry of Finance, Government of India
NABARD	National Bank for Agricultural and Rural Development
Nationalised Bank Scheme	The Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1980 notified under Section 9 of the Bank Acquisition Act
NBFCs	Non-Banking Finance Companies
Non Resident	Non Resident is a Person resident outside India, as defined under FEMA and includes a Non Resident Indian
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 as defined under the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000
NRO Account	Non Resident Ordinary Account
NSDL	National Securities Depository Limited
NSE	The National Stock Exchange of India Limited
OCB/ Overseas Corporate Body	A company, partnership, society or other corporate body owned directly or indirectly to the extent of at least 60% by NRIs, including overseas trusts in which not less than 60% of beneficial interest is irrevocably held by NRIs directly or indirectly as defined under Foreign Exchange Management (Deposit) Regulations, 2000. OCBs are not permitted to invest in this Issue
P/E Ratio	Price/Earnings Ratio
PAN	Permanent Account Number
Person/Persons	Any individual, sole proprietorship, unincorporated association, unincorporated organization, body corporate, corporation, company, partnership, limited liability company, joint venture, or trust or any other entity or organization validly constituted and/or incorporated in the jurisdiction in which it exists and operates, as the context requires
PIO/ Person of Indian Origin	Shall have the same meaning as is ascribed to such term in the Foreign Exchange Management (Investment in Firm or Proprietary Concern in India) Regulations, 2000
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 from time to time
RRB	Regional Rural Bank
SEBI	The Securities and Exchange Board of India constituted under The Securities and Exchange Board of India Act, 1992
SEBI Guidelines	SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 27, 2000, as amended, including instructions and clarifications issued by SEBI from time to time
SEBI Takeover Regulations	Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 1997, as amended from time to time
SIDBI	Small Industries Development Bank of India
U.S. GAAP	Generally accepted accounting principles in the United States of America, as in effect from time to time

CERTAIN CONVENTIONS; USE OF MARKET DATA

Unless stated otherwise, the financial data in this Red Herring Prospectus is derived from our financial statements prepared in accordance with Indian GAAP and included in this Red Herring Prospectus. The statistical and operational data in this Red Herring Prospectus is presented on an unconsolidated basis. Our fiscal year commences on April 1 and ends on March 31 of each year, so 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.

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

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

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

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.

FORWARD-LOOKING STATEMENTS

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

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

- General economic and business conditions in India and other countries;
- Our ability to successfully implement our strategy, growth and expansion plans and technological initiatives;
- Changes in Indian or international interest rates and their impact on our financial results;
- Performance of the agricultural, retail and industrial sectors in India;
- Rate of growth of our deposits, advances and investments;
- Changes in the value of the Rupee and other currencies;
- Potential mergers, acquisitions or restructurings;
- Changes in laws and regulations that apply to banks in India, including laws that impact our ability to enforce our collaterals;
- The occurrence of natural disasters or calamities affecting the areas in which we have operations or outstanding credit;
- Changes in political conditions in India; and
- Changes in the foreign exchange control regulations in India.

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

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 our Equity Shares. To obtain a complete understanding of our Bank, you should read this section in conjunction with the sections entitled "Business" beginning on page 43 of this Red Herring Prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 191 of this Red Herring Prospectus as well as the other financial and statistical information contained in this Red Herring Prospectus. If the following risks occur, our business, results of operations and financial condition could suffer, and the price of our Equity Shares and the value of your investment in our Equity Shares could decline. The financial impact of the risks outlined hereunder has been quantified, wherever posible.

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

Internal Risk Factors and Risks Relating to our Business

We are involved in certain securities related cases.

There are three securities related cases that have been filed against the Bank in relation to certain transactions pertaining to the purchase of certain bonds. Of these, two cases have been filed by Standard Chartered Bank in 1992 and the third case has been filed by ABN Amro Bank in 1995. The total amount involved in these cases is Rs. 2,273.81 million. For further details please see the section "Security Related Offences - Cases against the Bank - Outstanding Litigation and Material Developments" on page 218 of this Red Herring Prospectus.

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

In the first six months of financial year 2006, net interest income represented 44.94% of our interest income and 38.88% 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. Volatility in interest rates has, in the past, adversely affected our business and financial performance, including in the half year ended September 30, 2005, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Six months ended September 30, 2005 compared with the Six months ended September 30, 2004.. 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 RBI's monetary policy, deregulation of the financial sector in India, domestic and international economic and political conditions and other factors. On October 25, 2005, the reverse repo rate (which is the overnight rate at which commercial banks place funds with RBI) was raised from 5.00% to 5.25%.

Under the regulations of RBI, we are required to maintain a minimum specified percentage, currently 25.0% (Statutory Liquidity Ratio), of our net demand and time liabilities in cash, government or other approved securities with RBI. As at September 30, 2005, 27.94% of our net demand and time liabilities and 82.03% of our total investments were in cash, 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 increase was sudden or sharp, we could be 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 on September 30, 2005, we had 0.33% of our investments in "Held for Trading" category, 35.22% in the "Available for Sale" category and 64.45% "Held to Maturity" category.

We have substantial activity to agriculture and other priority sectors and our business could be adversely affected by market and other factors, which impact these sectors.

We have substantial exposure to loans and advances to agriculture and small-scale industries, categorized as "priority sectors". In addition, the RBI requires that every bank should extend at least 40% of its net bank credit to priority sectors with atleast 18% of the net bank credit to the agricultural sector. As at the last reporting Friday of September 2005, priority sector credit constituted 41.32% of our net bank credit, and loans to agricultural and small-scale industry borrowers constituted 18.44% and 6.71%, respectively, of our net bank credit. As at September 30, 2005, the percentage of our priority sector gross non-performing assets to total priority sector advances was 2.91%. As at September 30, 2005, the percentage of our agricultural gross non-performing assets to total agricultural advances was 1.17% and the ratio of our small-scale industry gross non-performing assets to total small-scale industry advances was 5.70%, compared with our overall ratio of non-performing assets to total domestic advances of 2.27%. Although we believe that our loans are adequately collateralised, with 20.88% coverage of our agricultural loans, economic difficulties owing to various factors, such as uncertain monsoons or other weather conditions, natural calamities, reductions in price supports, changes in government policy, or other events and conditions may adversely impact these priority sectors, our business and the level of our non-performing assets.

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

Approximately 43.46% of our total income in financial year 2005 and 35.88% of our total income in the six months ended September 30, 2005 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 realize the same level of income from treasury operations as we have in the past. Any decrease in our income from our treasury operations could 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, 2001 and March 31, 2005, our net advances grew at a CAGR of 23.94%, from Rs. 74,231.70 million to Rs. 175,168.43 million in the same period. As at September 30, 2005, retail loans represented 20.94% of our total outstanding credit. This compares with 20.75%, 20.15% and 22.06% of our net bank credit as at March 31, 2005, March 31, 2004 and March 31, 2003, respectively. Our present business strategy 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. While we anticipate continued demand in this area, we cannot assure you that our retail portfolio will continue to grow at the rates we have recently experienced.

We face significant challenges in our new businesses.

We intend to diversify our products and services, particularly in retail banking. For example, we have recently begun distributing mutual funds and selling life and general insurance policies. As part of our strategy, we intend to focus on the distribution and sale of such products to enhance our fee-based revenues, however, the distribution and sale of such new products may not be profitable in the initial years of operation and are subject to start-up risks and as well as general risks and costs associated with the respective businesses, which may limit the growth of this revenue stream.

The Bank has a regional concentration in the state of Andhra Pradesh and is dependent on the economy of Andhra Pradesh.

The Bank has a regional concentration in the state of Andhra Pradesh. As at September 30, 2005, 854 branches, or approximately 72.5% of our total branches were located in the state of Andhra Pradesh and approximately 58% of the Bank's loans and advances were from branches located in the state of Andhra Pradesh. The concentration of assets in this state exposes the Bank more acutely to any adverse economic, political or environmental circumstances in this region of India. If there is a sustained downturn in the economy of the state of Andhra Pradesh, our financial performance may be adversely affected.

Our planned international expansion may pose management issues and tax, legal, foreign exchange and other risks.

We are planning to establish a representative office in Dubai in the United Arab Emirates, which will be our first international operation. Towards this end, we have obtained the requisite permission of the RBI and the Central Bank of the United Arab Emirates. We have no experience with respect to such international expansion and the skills required for our international business could be different from those required for our domestic operations.

International expansion is subject to inherent risks, including:

- cost structures and cultural and language factors, associated with managing and coordinating our international operations;
- compliance with a wide range of foreign laws, including immigration, labour and tax laws;
- restrictions on repatriation of profits and capital in some cases; and
- exchange rate volatility.

If we do not successfully manage these risks, our financial condition could be adversely affected.

We have concentrations of loans to certain customers and to certain groups of customers and credit losses from these customers or groups could adversely affect our business and financial condition.

As at September 30, 2005, our total exposure was Rs. 230,624 million, which includes outstanding funded exposure and non-funded exposure (sanctioned limits or outstanding, whichever is higher for both). Our exposure to our 10 largest borrowers in the aggregate accounted for approximately 11.63% of our total exposure as at September 30, 2005. Our exposure to our largest single borrower (excluding food credit) as at September 30, 2005 accounted for approximately 2.25% of our total exposure and 21.03% 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 September 30, 2005 accounted for approximately 2.78% of our total exposure and 25.98% of our capital funds. Credit losses on these large borrowers and group exposures could adversely affect our business and financial condition.

Our internal policies limit our credit exposure to various industries. The maximum permissible exposure across all industries is to the Power sector, which is 20.0% of credit of the Bank as at the end of the previous quarter. The top five industries that are not related to food credit accounted for 22.59% and 24.25% of our gross credit exposure as at March 31, 2005 and September 30, 2005, respectively. Based on fund based outstanding exposures as at September 30, 2005, our five largest industry exposures were to the Power, Construction, Textiles, Iron and Steel and Rice Mills (including both direct and indirect lending to corporate borrowers, housing finance institutions and state governments) and which in the aggregate constituted 40.52% of our total fund based domestic exposures in respect of accounts larger than Rs. 10 million. Our aggregate funded domestic exposure to the top five borrowers in these industries together represented 37.95% of our aggregate funded credit exposure to these industries. Financial difficulties in these industries could adversely affect our business and financial condition.

As at September 30, 2005, 75.44% of our rated advances were to borrowers that we rate as “A” and above, which is considered by us to be of sound grade. As at September 30, 2005 17.46% of our rated advances were to borrowers that we rate as being in the moderate safety grade “B”, and 6.90% of our rated advances to borrowers that we rate as average grade “C” and 0.20% of our rated advances to borrowers that we rate as poor grade “D”. Our “C” and “D” grade borrowers, in particular, could be especially vulnerable if economic conditions worsen or economic growth rates were to slow, which could adversely affect our business and financial condition.

If we are not able to maintain or reduce the level of non-performing assets, our business and financial condition may be adversely affected.

Our gross non-performing assets were Rs. 4,409 million as at March 31, 2005, representing 2.46% of our gross advances, and Rs. 4,351 million as at September 30, 2005, representing 2.27% of our gross advances. Our net non-performing assets were Rs. 490 million as at March 31, 2005, representing 0.28% of our net advances, and Rs. 481 million as at September 30, 2005, representing 0.26% of our net advances.

We have been able to reduce our net non-performing assets through recoveries, upgradation of non-performing assets to “performing” categories and additional provisioning. However, our ability to continue to reduce or contain the level of our gross and net non-performing assets may be affected by a number of factors that are beyond our control, e.g., increased competition, a recession in the economy including specific industries to which we are exposed, decreases in agricultural production, declines in commodity and food grain prices, adverse fluctuations in interest and exchange rates or adverse changes in Government policies, laws or regulations. In addition, the expansion of our business may also cause the level of our non-performing assets to increase. As at September 30, 2005, approximately 50.57% of our gross industrial sector non-performing asset portfolio was concentrated in the following industries: All Engineering, Textiles, Food Processing, Construction and Leather. These industries together constituted 15.08% of our total funded credit exposure as at September 30, 2005. Although our loan portfolio contains loans to a wide variety of businesses, financial difficulties in these industries could increase our level of non-performing assets and adversely affect our business and financial condition.

We may experience delays in enforcing our collateral when borrowers default on their obligations to us, which may result in inability to recover the expected value of the collateral.

We take collateral for a large proportion of our loans, including mortgages, pledge/hypothecation of inventories, receivables and other current assets, and in some cases, charges on fixed assets and financial assets, such as marketable securities. As at September 30, 2005, 82.92% of net advances were secured by tangible assets, such as properties, plant and machinery, inventory, receivables, other current assets. Foreclosure of such securities may require court or tribunal intervention that may cause delays leading to deterioration in the quality and value of such securities. Therefore, we may not be able to realize the full value of securities in all cases.

The Bank is a member of the RBI Corporate Debt Restructuring ("CDR") mechanism. The RBI has set forth guidelines on CDR. The guidelines envisage that for debt amounts of Rs. 100 million and above, lenders holding atleast 75% of such debt along with the support of 60% of the number of creditors can decide to restructure the debt and such a decision would be binding on the remaining lenders. In situations where we own 25% or less of the debt of a borrower, we could be required to agree to restructuring of debt, which may be time consuming, requires us to reduce interest rates, or write-off portions of outstanding amounts, in preference to foreclosure of security or a one-time settlement.

There were no assets restructured under CDR for the six month period ended September 30, 2005. As at September 30, 2005 the total amount of loan assets under CDR was Rs. 1,078 million, out of which standard assets were Rs. 1,000 million and sub-standard assets were Rs. 78 million.

Our funding is primarily 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 adversely affected.

A high portion of our funding requirements are met through term deposits. As at September 30, 2005, 51.87% of our funding consisted of term deposits representing 64.11% of our total deposits as at September 30, 2005. Savings deposits and current deposits constituted 27.71% and 8.18% respectively, of our total deposits as at September 30, 2005. The trend of increases in the proportion of current and savings deposits to the total deposits is changing as average current deposits as at March 31, 2005 were Rs. 17,788.30 million, up 35.05% from Rs. 13,171.30 million as at March 31, 2004 and average savings deposits as at March 31, 2005 were Rs. 67,121.40 million, up 27.54% from Rs. 52,624.20 million as at March 31, 2004.In comparison, average term deposits grew only 1.67% from Rs. 145,204 million as at March 31, 2004 to Rs. 147,639 million as at March 31, 2005.

A portion of our assets have long-term maturity profiles, creating a potential for funding mismatches. 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, our liquidity position and business could be 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 an adverse effect on our business, profitability and our ability to grow.

Problems in the roll-out of our Core Banking Solution could 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 September 30, 2005, 788 out of a total of 1,177 of our branches were networked under this system. This information technology initiative will allow us to increase interconnectivity among our branches, are required for us to provide many of the products and services we have introduced and will be necessary to comply with regulatory requirements in the future. We may experience problems in the installation and implementation of our CBS across our branch and ATM networks, including problems relating to migration of information, data protection and upgrading existing hardware and software. We have also been required to invest in software, hardware, network architecture and asset management services, which have required substantial investment. If we are unable to successfully roll-out the CBS across our branch network it will be difficult for us to expand our products and services across our branch network.

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

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 are currently implementing our Internet banking platform and understand 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 and failure. A significant failure in security measures could have an adverse effect on our business.

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

We are exposed to many types of operational risk, including the risk of fraud or other misconduct by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or recordkeeping errors or errors resulting from faulty computer or telecommunications systems. 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 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 a deterioration in customer service and to loss or liability to us.

We outsource some functions to other agencies and are exposed to the risk that external vendors 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 not to be sufficiently adequate. 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 suffered some losses from operational risk and there can be no assurance that we will not suffer losses from operational risks in the future that may be material in amount. For a discussion of how operational risk is managed see the section "Business - Risk Management - Operational Risk" on page 69 of this Red Herring Prospectus.

System failures and calamities could 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. We are also currently implementing our Internet banking platform. 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 are in the process of establishing a disaster recovery centre, any failure in our systems, particularly those utilized for our retail products and services and transaction banking, or the occurrence of calamities such as earthquakes, tsunamis and cyclones that affect areas in which we have a significant presence, could affect our operations and the quality of our customer service.

Our contingent liabilities could adversely affect our financial condition.

As at September 30, 2005, we had contingent liabilities not provided for amounting to Rs. 162,283.14 million. Contingent liabilities arising out of the ordinary course of business include liability on account of outstanding forward exchange contracts of Rs. 121,617.36 million, guarantees given on behalf of constituents in and outside India of Rs. 23,265.01 million and acceptances, endorsements and other obligations of Rs. 15,863.89 million. In addition, we have contingent liabilities on account of claims against us not acknowledged as debts of Rs. 1,261.49 million. If these contingent liabilities materialize, fully or partly, our financial condition and results of operations could be adversely affected.

The contingent liabilities in respect of RRBs of our Bank as at March 31, 2005 were as follows:

- Chaitanya Grameena Bank - Rs. 14.36 million
- Godavari Grameena Bank - Rs. 1.67 million
- Rushikulya Gramya Bank - Rs. 12.45 million

For further details please refer to section titled "Outstanding Litigation and Material Developments" beginning on page 213 of this Red Herring Prospectus.

Our Subsidiary has incurred losses and our Subsidiary and our Associates are involved in legal proceedings, which if determined against us, may have an adverse impact on our operations.

Our Subsidiary has accumulated losses of Rs. 240.84 million as at September 30, 2005. The main reason for the loss is due to interest paid to inter-corporate deposit holders as per the direction of the Special Court, Mumbai.

Our Subsidiary is also involved in legal proceedings, which if determined against us may have an adverse impact on our operations. The aggregate amount claimed against our Subsidiary, which is contingent in nature, is approximately Rs. 2,144.80 million as at September 30, 2005.

There is some outstanding litigation against our Associates.

For details of the same, please see "Litigation against our Subsidiary - Outstanding Litigation and Material Developments" and "Litigation against our RRBs - Outstanding Litigation and Material Developments" as appearing on page 221 respectively of this Red Herring Prospectus.

In order to sustain our growth, we will need to maintain a minimum capital adequacy ratio. There is no assurance that we will be able to access the capital markets when necessary to do so.

We are required to retain 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 continuous growth. Our capital adequacy ratio was 11.95% on September 30, 2005. The implementation of the Basel II capital adequacy standards could result in a decline in our capital adequacy ratio. Our ability to support and grow our business could be limited by a declining capital adequacy ratio if we are unable to or have difficulty accessing the capital markets or have difficulty obtaining capital in any other manner.

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

Basel II is the international capital adequacy framework for banks, which prescribes minimum capital requirements for market risk and operational risk in addition to the requirement of minimum capital for credit risk. The capital requirements are expected to increase when Basel II standards are implemented by RBI. 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, evaluation of capital charges, including for operational risk and increase in transparency in financial reporting as part of market discipline, as required by RBI. In the mid-term review of the credit policy RBI has increased the requirements for provisioning on standard advances from the present level of 0.25% to 0.40%. Credit risk and operational risk management measures, as per Basel II norms, will be implemented as directed by RBI, by March 31, 2007. While we are in the process of adopting the recommendations, if we are required to implement the Basel II standards before we are ready to implement those standards, it could adversely impact our business and financial performance.

We are required to maintain cash reserve and statutory liquidity ratios and increases in these requirements could adversely affect our business.

As a result of the statutory reserve requirements stipulated by RBI, we may be more exposed structurally to interest rate risk than banks in many other countries. Under RBI regulations, we are subject to a cash reserve ratio requirement under which we are currently required to keep 5.00% of our net demand and time liabilities in a current account with RBI. RBI may increase the cash reserve ratio requirement as a monetary policy measure. We do not earn interest on 60% of the cash reserves maintained with RBI. On the remaining cash reserves held with RBI, we earn interest at rates (currently at 3.5% per annum) that are less than those for our retail and corporate loan portfolio. In addition, under RBI regulations, our liabilities are subject to a statutory liquidity ratio requirement, according to which 25.00% of our net demand and time liabilities need to be invested in GoI securities, state government securities and other approved securities. Increases in cash reserve ratio and statutory liquidity ratio requirements could adversely affect our business and financial performance.

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 GoI 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.

As at December 15, 2005, there are 265 cases involving an amount of Rs. 1,261.5 million outstanding against our Bank.

There are three cases outstanding in relation to the “securities scam” concerning forged bankers receipts that occurred in 1992 involving an amount of Rs. 1,089.40 million.

There are 17 civil cases filed against us including cases in relation to interest imposed, negligence, recovery of money, guarantees, letters of credit, etc. in which the aggregate amount claimed against us amounts to Rs. 100.80 million.

There are two fraud cases involving an aggregate amount of Rs. 12.30 million and four cases concerning fraudulent encashment of cheques involving an aggregate amount of Rs. 5.20 million. There are two cases pertaining to violation of contractual terms and conditions involving an aggregate amount of Rs. 12.20 million.

There are six cases filed against us relating to consumer forum cases in relation to, inter alia, payment against forged cheques, alleged wrongful refusal to sanction certain facilities, and refusal to release fixed deposit receipts/title deeds pledged as security. The aggregate amount claimed against us in these cases is Rs. 10 million.

There are three insurance claim cases involving an aggregate amount of Rs. 4.50 million.

There are six cases pending against us in relation to eviction from properties that have been leased/licensed by us and the aggregate amount claimed in such cases is Rs. 12 million.

There are 222 miscellaneous cases in which the aggregate amount claimed against us is Rs. 15.10 million.

Apart from the cases filed against us, we file cases from time to time against persons who are in default or are in breach of their obligations to us or attempt to adversely affect our interests.

The information relating to the above cases is given as at December 15, 2005. We may incur liability if the courts rule against us in these cases. For details of these cases, please refer to the section titled "Outstanding Litigation and Material Developments" beginning on page 213 of this Red Herring Prospectus.

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

There were six disputes relating to income tax and interest tax assessments in which the aggregate amount (excluding interest thereon) claimed against us was Rs. 990.09 million as at December 15, 2005. In cases where the Bank has filed an appeal, the Bank has paid the entire amount claimed by the Income Tax Department under protest. We may incur liability if orders against us are passed in the said cases. For details please refer to the section titled "Outstanding Litigation and Material Developments - Tax Cases" on page 219 of this Red Herring Prospectus.

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

Under Section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, the Central Government has the power to appoint directors on our Board. After the completion of the Issue, the Government will own at least 51.55% of our outstanding Equity Shares and will be able to appoint nine Directors out of a total 15 Directors. Consequently, the Government will continue to have a controlling interest in our Bank and will also be able to determine a majority of our Board of Directors. Further, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 provides that 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 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 largely controlled by the Government.

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

We may undertake additional equity offerings to finance future growth, 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 adversely affect the market price of our Equity Shares.

You will be subject to market risks until the Equity Shares are credited to your demat account.

You can start trading the Equity Shares allotted to you only after they have been credited to your demat account and necessary Stock Exchange approvals have been received. Since our Equity Shares are currently traded on the Stock Exchanges, you will be subject to market risk from the date you pay for the Equity Shares to the date they are credited to your demat account. Under the current regulations, we are required to credit your demat account within 15 days of the Bid/ Issue Closing Date, failing which we are required to pay interest at 15% per annum for any delay beyond this period. Further, there can be no assurance that the Equity Shares allocated to you will be credited to your demat account, or that trading in the Equity Shares will commence, in a timely manner. This risk factor is for the information of investors and it does not in any way dilute the rights of investors or our obligations.

There are certain deficiencies in title in relation to some of our leased/owned immovable properties.

Some of the immovable properties where our branches, offices, guest houses and residences are located which are either owned by us and in our possession or leased/licensed by us have one or more of the following irregularities in title:

- We do not possess the title deeds;
- The conveyance deeds for transfer of property have not been executed and/or adequately stamped under relevant law;

- The agreements to sell or conveyance deeds have not been registered in the land records; maintained by the concerned Sub Registrar of Assurances; or
- Lease deeds have not been executed or have expired and have not been renewed.

The related party disclosures in this document do not include transactions with our Subsidiary or the Regional Rural Banks in which we have an interest.

As per 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 nationalized banks are exempt from disclosing the transactions with their subsidiaries as well as the RRBs sponsored by them. Hence, no such disclosure has been made in this Red Herring Prospectus with respect to our Subsidiary and the RRBs in which we have an interest. Further, we are not disclosing transactions with our Subsidiary and the RRBs in the audited accounts.

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

We are currently rated tAAA for term deposits and AA+ (IND) for subordinated debt by Fitch and AA+ (AA+) by CARE for subordinated debt. A downgrade in our credit rating 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 adversely affect our business, financial condition and results of operations.

We are subject to certain restrictive covenants in our loan documents, which may restrict our operations and expansion ability and may adversely affect our business.

We have entered into certain agreements in respect of our borrowings, which require us to obtain approval from the lender for declaring dividends in certain circumstances, making substantial change to the general nature or scope of our business, incurring or assuming any debt in certain circumstances and reducing the GoI shareholding in our Bank below 51%. No assurance can be given that such consent will be granted by lenders for these desired actions in the future.

Our financial statements for the period ended September 30, 2004 and September 30, 2005 have not been audited.

Our financial statements for the six month periods ended September 30, 2004 and September 30, 2005 have not been audited and are based on a limited review of our accounts for the aforementioned periods conducted by our Auditors in compliance with extant RBI guidelines on limited review in conjunction with other relevant applicable norms.

External Risk Factors

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

In India, we compete with public and private sector Indian commercial banks as well as foreign commercial banks. Many of our competitors in India and internationally 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 and many of our competitors outside of India may have operational advantages in implementing new technologies, rationalizing branches and recruiting employees through incentive-based compensation.

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

Banks in India are subject to detailed supervision and regulation by 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 material change in the laws and regulations governing the banking sector could 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 otherwise.

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 RBI and the shareholding of the Government cannot go below 51% of the paid-up capital.
- The Government has control over policy matters relating to RBI 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. RBI has fixed a cut-off point at 18% for the purposes 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%, 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 RBI. Accordingly, absent specific approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid up capital of the Bank.
- 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 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 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 for 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.
- 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 adversely affect our customer-base, our revenues and our profitability.

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 more 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 adversely affect our business and our future financial performance.

Exchange rate fluctuations may have an impact on our financial performance.

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

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

The Indian economy has shown sustained growth over the last few years with GDP growing at 6.9% in financial year 2005, 8.5% in financial year 2004 and 4.0% in financial year 2003. In its Mid-term Review of the Annual Policy Statement for 2005-2006 released on October 25, 2005 the RBI forecast GDP growth for fiscal 2006 at 7.0-7.5% (up from a forecast of 7.0% in its annual policy 2005-2006 published on April 28, 2005). However, growth in industrial and agricultural production in India has been variable. Industrial growth was 8.3% for financial year 2005, 6.5% in financial year 2004 and 6.2% in financial year 2003. Agricultural production grew by 1.1% in financial year 2005 compared with 9.6% in financial year 2004 and a 5.2% decline in financial year 2003. Industrial production increased by 9.0% during April-September 2005 (Source: Ministry of Finance Release). Any slowdown in the Indian economy or volatility in global commodity prices, in particular oil and steel prices, could adversely affect our borrowers and contractual counterparties. With the importance of retail loans to our business, any slowdown in the growth of sectors like housing and automobiles could adversely impact our financial performance. Further, given the importance of the agricultural sector to our business, any slowdown in the growth of the agricultural sector could also adversely impact our performance.

A significant change in the Government of India's economic liberalization and deregulation policies could disrupt our business and cause the price of our Equity Shares to decline.

Our assets and customers are predominantly located in India. The Government of India 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. The present Government, which was formed after the Indian parliamentary elections in April-May 2004, is a coalition of several political parties. Any significant change in the Government's policies or any political instability in India could adversely affect business and economic conditions in India and could also adversely affect our business, our future financial performance and the price of our Equity Shares.

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 financial year 2003, the agricultural sector recorded a negative growth of 5.2%. The monsoon in 2005 resulted in floods in a number of rural and urban areas and had an adverse impact on agriculture in certain parts of the country. Further, prolonged spells of abnormal rainfall or other natural calamities could have a negative impact on the Indian economy, adversely affecting our business and the price of our Equity Shares.

Terrorist attacks, civil unrest and other acts of violence or war involving India and other countries could adversely affect the financial markets and our business.

Terrorist attacks and other acts of violence or war, may negatively affect the Indian markets where our Equity Shares trade and also 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 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 adversely affect the price of our 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 and the price of our 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 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 our Equity Shares.

Banks are subject to restrictions on payments of dividends

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.

Notes to Risk Factors:

- RBI conducts regular inspections of banking companies under the provisions of the Banking Regulation Act. The Issuer would like to clarify that the inspection by RBI is a regular exercise and is carried out by RBI for all banks/ financial institutions. The reports of RBI are strictly confidential. We are in discussions with RBI in respect of observations made by RBI in their reports for prior periods. RBI does not permit disclosure of its inspection report and that disclosures herein are on the basis of management reports (including internal management information system) and audit reports of the Bank.
- Public issue of up to 85 million Equity Shares for cash at a price of Rs. [•] per Equity Share aggregating Rs. [•] million. The Issue comprises Net Issue to the public of 76.5 million Equity Shares and a reservation for Eligible Employees of up to 8.5 million Equity Shares.
- Net worth of our Bank as at September 30, 2005 was Rs. 20,463.75 million.
- The book value per Equity Share as at September 30, 2005, was Rs. 51.16 per Equity Share.
- 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 117 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 section titled "Basis for Issue Price" on page 25 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% Please refer to the section titled "Issue Procedure - Other Instructions-Basis of Allotment" on page 257 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.
- 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. For details of the same, please refer to the section titled "Our Management-Interests of Directors" on page 101 of this Red Herring Prospectus.

SUMMARY

The financial figures used in this section unless otherwise stated, have been derived from our Bank's restated stand alone financial statements included in this Red Herring Prospectus, stand alone audit reports for the relevant years and our Bank's reporting to RBI.

Business Overview

We are a public sector banking institution in India. As at September 30, 2005, we had 1,177 branches in India spread over 21 states and 2 union territories. Of these branches, 854 are located in the state of Andhra Pradesh, where we are the largest bank by number of branches. We had an additional 526 delivery channels including extension counters, ATMs and satellite offices. As at September 30, 2005, we served over 13.9 million customers.

In fiscal 2005, we made a net profit of Rs. 5,821.94 million and in the six months ended September 30, 2005, our net profit was Rs. 2,035.20 million. In fiscal 2005, we had assets of Rs. 327,200.04 million and net worth of Rs. 18,904.16 million. At September 30, 2005, our Bank had assets of Rs. 350,791.21 million and our net worth was Rs. 20,463.75 million. We have a record of consistent growth in deposits and advances, with deposits growing at a compound annual rate of 10.78% during the last four years and net advances growing at a compound annual rate of 23.94% during the same period.

We were founded by Dr. Bhogaraju Pattabhi Sitaramayya in 1923 in Machilipatnam, Andhra Pradesh. Our Head Office is now in Hyderabad. We were registered on November 20, 1923 and following nationalisation in April 1980 we became a wholly-owned Government bank. In 1964, we merged with Bharata Lakshmi Bank and further consolidated our position in Andhra Pradesh. We currently have lead bank responsibilities from the RBI in six districts, Guntur, West Godavari, East Godavari and Srikakulam in Andhra Pradesh and Ganjam and Gajapathi in Orissa. We are the convener of the State Level Bankers Committee in the state of Andhra Pradesh. We had our initial public offering in February 2001 at which time the shareholding of the Government of India was diluted to 62.50%. After this present Issue, the Government of India's shareholding is proposed to be reduced to 51.55%.

In 1981, we became one of the first banks in India to introduce credit cards. In fiscal 2004, we became one of the first public sector banks to undertake mortgage backed securitisation with the securitisation of 1,437 housing loan accounts for an aggregate value of Rs. 503.6 million. Additionally, we were one of the first banks to actively market insurance-linked savings deposits to customers.

We have won a number of industry awards. We were recently ranked the number one bank in Asia in return on capital by The Banker, Financial Times business publication, and ranked 683rd overall in its survey of the "Top 1000 Banks", up from 960 in 2004. The Business Standard Annual Banking Survey 2004-2005 ranked us first in a survey of 76 Banks (26 Public Sector Banks, 23 Private Sector Banks and 27 Foreign Banks) operating in India. The parameters considered were: Productivity, Profitability, Growth, Safety, and Efficiency. ICRA assigned us a corporate governance rating of "CGR-2", which demonstrates that we have adopted and follow corporate governance practices, conventions and codes that provide our financial stakeholders with a high level of assurance on the quality of our corporate governance. In addition, our work with over 47,884 Self Help Groups (SHGs) was recognised by the Government of Andhra Pradesh in fiscal 2005, which awarded us the title of "Best Bank" in the state for the fourth year running.

Managing NPAs effectively is of paramount importance to us. We have demonstrated commitment to the containment of loan delinquency and the accelerated recovery of NPAs, which has resulted in us having one of the lowest NPAs amongst the public sector banks in India. As at September 30, 2005, we had net NPAs of at 0.26% and gross NPAs to gross advances of 2.27%.

Our business is principally divided into three main areas; corporate financial services, retail financial services and agricultural financial services.

Our banking operations for corporate and commercial customers include a range of products and services for large corporate customers as well as for small and medium sized businesses. 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. We also provide credit substitutes such as letters of credit and guarantees. In addition, we also provide fee-based products and services such as cash management services.

As part of our commercial banking business, we provide financial services to Small and Medium Enterprises (SMEs) and Small Scale Industries (SSIs). Our products for these sectors are intended to facilitate the establishment, expansion and modernisation of small businesses, including acquiring fixed assets, plant and machinery and meeting working capital needs. We provide flexible security requirements to make credit more accessible to SME and SSI borrowers.

Our retail banking business provides financial products and services to our retail customers. We provide housing, retail trade, automobile, consumer, education and other personal loans and deposit services such as demand, savings and fixed deposits for our customers. In addition, we distribute products such as global debit cards and global credit cards. We also distribute third party products including mutual fund products and general and life insurance policies.

We have also maintained our focus on addressing the needs of agricultural customers and offer specialised products and services to the agricultural sector. We offer direct financing to farmers for production and investment as well as indirect financing for infrastructure development and credit to suppliers of inputs.

We are committed to facilitating community development. We are a pioneer in the SHG - Public Sector Bank Linkage Program. During fiscal 2005, we loaned an aggregate of Rs. 1,795.1 million to 47,884 SHGs and for the six month period ending September 30, 2005, we loaned an aggregate of Rs. 898.00 million to 21,675 SHGs. As at September 30, 2005, we had loaned a total of Rs. 6,010.70 million to 202,560 SHGs. In addition, we have established eight Development Training Institutes that, as at March 31, 2005, have assisted 42,425 unemployed youth and rural poor to develop self-employment skills, which have helped to strengthen our ties with the agricultural community.

We have a wide network of branches across India, and we are well positioned to offer customers convenient and accessible banking services. We deliver our products and services through our branches, extension counters and ATMs. We have recently introduced mobile phone banking and we are currently implementing the technology to enable Internet banking and expect this service to be available by the end of fiscal 2006. As at September 30, 2005, our branch network comprised 385 rural, 332 semi-urban, 299 urban and 161 metropolitan branches. This network includes a number of specialised branches that focus on the needs of specific sectors. As at September 30, 2005, we had 13 specialised SME branches, nine specialised agriculture finance branches, eight specialised housing finance branches and two specialised corporate finance branches. In addition, we pioneered the concept of mobile banking whereby we make banking facilities available to residents of isolated rural villages and customers that have limited mobility in a "branch on wheels" format.

All our branches are computerised and we are currently implementing our core banking technology project throughout our organisation to network our branches in regional clusters. 830 of our 1,177 branches are connected to this network, which allow customers to access information relating to their accounts from any networked branch thereby enabling the provision of "anywhere banking".

The following table gives the region-wise break-up of domestic deposits, advances and branch network as at the end of fiscal 2004 and fiscal 2005 and as at September 30, 2005:

Geographic Distribution		As at March 31, 2004			As at March 31, 2005			As at September 30, 2005		
		No. of Branches	Aggregate Deposits	Net Bank Credit	No. of Branches	Aggregate Deposits	Net Bank Credit	No of Branches	Aggregate Deposits	Net Bank Credit
I	Northern region	46	15,317.70	7,971.20	47	19,217.50	12,761.10	48	20,743.50	14,878.80
II	North eastern region	1	154.00	51.30	1	140.10	62.70	1	187.70	53.30
III	Eastern region	99	16,547.80	4,822.70	104	22,371.20	7,899.00	104	23,555.30	7,761.70
IV	Central region	20	6,348.40	1,919.80	21	9,944.00	2,371.40	21	7,397.70	2,503.30
V	Western region	46	24,408.00	20,930.80	47	31,608.10	28,405.70	51	42,889.50	30,158.70
VI	Southern region	918	165,812.30	98,094.10	948	191,489.80	127,558.50	952	201,951.70	136,135.40
	All India	**1,128**	**228,588.20**	**133,789.90**	**1,168**	**274,770.70**	**179,058.40**	**1,177**	**296,725.40**	**191,491.20**

Business Strategy

We intend to maintain our position as an innovative, forward looking, cost efficient and customer focused institution that provides comprehensive banking and related services. We intend to grow by expanding geographically in India and internationally, by increasing our volume of retail business and by cross-selling various fee-based financial products and services to our customers. We are committed to our entrenched philosophy of aiding India's development and will expand our services to the priority sectors. The main elements of our strategy are set forth below:

Reduce cost of funds

We have made a concerted effort to achieve a low overall cost of funds. We have achieved this through a large base of low cost deposits, which represents 35.89% of our total deposits and 30.55% of our total working funds as at September 30,

2005. Interest free current deposits and low interest savings deposits constituted 8.18% and 27.71% of our total deposits as at September 30, 2005, respectively.

Average current deposits as at March 31, 2005 were Rs. 17,789.00 million, up 35.06% from Rs. 13,171.00 million as at March 31, 2004. Average savings deposits as at March 31, 2005 were Rs. 67,121.00 million, up 27.54% from Rs. 52,624.00 million as at March 31, 2004. In comparison, average term deposits, which are less profitable for us, grew only 1.68% from Rs. 145,204.00 million as at March 31, 2004 to Rs. 147,640.00 million as at March 31, 2005. We are implementing measures to make this trend continue.

We prudently manage our deposit portfolio to minimize the average cost of deposits. We believe we can continue to enlarge our low cost funding base by leveraging our extensive rural branch network where many of the customer deposits are low cost savings deposits and maintaining our focus on increasing the volume of our retail banking business. We may also in the future employ securitisation as a balance sheet management tool to reduce our cost of funds.

Increase fee-based revenue

We are looking to increase our high margin fee-based income by expanding our third party product offerings and increasing the fee-based services we provide. We have recently entered into agreements with Principal Mutual Fund, SBI Mutual Fund, TATA Mutual Fund, UTI Mutual Fund and Sundaram Mutual Fund for the distribution of mutual fund products issued by these providers. We also market and sell the life insurance products of Life Insurance Corporation of India and United India Insurance Company Limited in conjunction with certain of our savings account and term deposit products. We have also recently relaunched Western Union Money Transfer services, increasing the number of locations from 252 to 700 as at March 31, 2005. We earn fees and commissions for the distribution and sale of these products. We also intend to increase this revenue stream by promoting certain of our products and services including the issuance of letters of credit and guarantees and our depositary services. We intend to grow our income from fee based services by offering new products and services and by cross-selling our offerings to our customers.

Maintain our credit quality

Maintaining a high quality asset base is vital to the performance and growth of our institution. Strategies that we believe will help us achieve this include effectively managing our NPAs, diversifying our loan portfolio and implementing credit risk initiatives.

Managing NPAs effectively is of paramount importance to us. We have demonstrated commitment to the containment of loan delinquency and the accelerated recovery of NPAs, resulting in us having one of the lowest NPAs amongst the public sector banks in India. As at September 30, 2005, we had net NPAs of 0.26% and gross NPAs to gross advances of 2.27%. We intend to work towards lowering these figures even further by continuing to implement strategies for the recovery of NPAs, including conducting regular "recovery drives" in order to focus branches on the recovery of NPAs below Rs. 100,000; forming asset recovery cells within selected zones that continually follow up on outstanding NPAs of Rs. 500,000 and above; initiating compromise settlement schemes; deploying a specialised asset recovery team to further educate branches on the recovery of smaller NPA accounts and maintaining a cultural focus on NPA management throughout all levels of our institution.

We have a diverse corporate credit portfolio, which has lead to a wider risk spread among the industries to which we are committed. None of the top ten industries to which we are exposed comprises more than 7.5% of our total exposure. We intend to maintain prudent internal policy guidelines concerning exposure to individual industries and concentration of loans.

We are currently centralising the way in which we process applications for both commercial and retail credit. Functions that were preformed by individual branches will now be performed at dedicated loan centres. Our centralization initiative means such processes would become more efficient, which adds to customer satisfaction, and will promote consistency in respect of consents to credit applications that will enhance the quality of our asset base.

Expand our presence in domestic and international markets

As at September 30, 2005, we had 1,177 branches and 526 delivery channels (including extension counters, ATMs and satellite offices) and maintained a presence in 21 states and 2 union territories in India, although a high proportion of our branches are located in the state of Andhra Pradesh. We intend to expand this presence within India and internationally.

Over the past five years, we have been assertively increasing the number of branches we have in India, particularly in the metro and urban areas. We intend to continue to proportionately increase the number of branches we have in these areas in markets where we recognize business potential. We believe these areas are the most strategic in terms of our growth plans as they offer us greater access to the retail sector, a sector on which we are keenly focused. Our aim is to grow organically to have a presence in the top 200 business centers in India. We also anticipate growing our rural and semi-urban branch numbers in a manner that protects our core business base in these areas.

Additionally, we believe that the international markets present a major growth opportunity. Our strategy for growth in international markets is based on leveraging home country links for international expansion by capturing market share in selected international markets. We have identified the United Arab Emirates (Dubai) as a key region for establishing our international presence, and have received approval from the RBI to as well as the Central Bank of the United Arab Emirates to open a representative office in Dubai. Our focus will be on supporting Indian companies in raising corporate and project finance, trade finance, personal financial services for non-resident Indians and international alliances to support domestic businesses. In the future, we may open additional representative offices or branches outside India. These entities may be sole enterprises or joint ventures with other Indian banks also looking to expand internationally.

Maintain our commitment to technological innovation

The development of efficient means of reaching customers and processing transactions is a key element of our goal to expand our profitability and to capitalize on opportunities for organic growth. We have been strengthening this strategy by implementing new information technology through our core business solution and other initiatives. We have made progress towards networking, computerising and interconnecting our branches, ATMs and other delivery channels. As at September 30, 2005, 788 of our 1,177 branches were connected through our CBS network. Our network of 346 ATMs is well utilized by our customer base. As at September 30, 2005 we had issued 1.54 million ATM debit cards to our customers. We have devoted resources to improving the interconnectivity of our ATMs with our branches and extension counters and have increased the number connected to our ATMs from 482 as at March 31, 2004 to 830 as at September 30, 2005. We are currently implementing measures to make our Kisan credit cards ATM compatible. We have also introduced our mobile banking service, which allows customers to conduct their banking business using mobile telephone handsets. In addition, we have launched a number of products that utilize information technology processes including our ‘E-seva’, ‘E-hundi’, online utility bill payment platform and online tax accounting products.

We believe that technology offers unparalleled opportunities to reach our customers in a cost-efficient manner. We are committed to being at the forefront of the bank automation process by creating opportunities for the Indian public to reach us through the Internet. We expect to roll out our Internet banking platform by the end of fiscal 2006. We have also appointed Center for Scientific and Industrial Consultancy as our institutional IT consultants.

Enhance our retail banking business

We intend to continue our focus on growing our retail banking business. The retail sector has emerged as a rapidly growing opportunity for banks with the skills and infrastructure to adequately service this market. The keys to our retail strategy are our focused marketing approach, developing new products and services, networking our branch locations, developing our distribution channels including expanding our ATM network and introducing Internet banking and improving customer service. We are continuing to respond to our customer needs by introducing 8:00am to 8:00pm and Sunday banking in 14 and 12 branches, respectively, and we anticipate extending these facilities to other branches. In addition, we believe that there is potential to generate additional revenue growth by focusing on higher value added products and by increasing cross-selling across our different distribution channels. Increasing the sale of high margin products such as mutual fund products, insurance products, and credit and debit cards will also increase our fee-based revenue. We have taken measures to promote the sale of our debit cards.

We are also focusing on growth in our retail deposit base to diversify our funding towards more stable and lower cost funding sources. We intend to continue to expand the financial services and products that are distributed outside of the conventional branch environment, such as our credit card businesses, in order to capitalize on changes in consumer behavior in the consumption of financial services.

Strengthen our priority sector banking business

Social lending and concern for the development of agricultural and small-scale industry has remained a core theme of our operations. We intend to maintain and enhance our position as one of the leading banks for agricultural lending in India. We have traditionally focused on priority sector lending and we believe we possess the necessary elements to continue to succeed in these markets. To increase our market share of such business we intend to:

- position ourselves based on accumulated expertise. We believe our historical focus on this market means we have a better understanding of the credit risks embedded in this market segment and are able to develop loan and other products specifically tailored to the needs of this market segment;
- operate a relationship management system to provide targeted and tailored customer service to priority sector enterprises. We have 13 dedicated SME branches with relationship management teams that market products and review and approve loans in these areas, and anticipate opening another three shortly. We intend to further expand our agriculture and small-scale industry sector banking activities by establishing more specialised SME branches; and
- focus on cross-selling loan products with other products, for example, when we lend to small- and medium-sized enterprises we intend to explore opportunities to cross-sell consumer loans and deposit products to these customers or to provide financial advisory services.

THE ISSUE

Equity Shares issued by the Bank	85,000,000 Equity Shares
of which:	
Employee Reservation Portion*	Up to 8,500,000 Equity Shares
Net Issue	At least 76,500,000 Equity Shares
of which	
QIB Portion	Up to 38,250,000 Equity Shares [(1)]
of which:	
Available for Mutual Funds	Up to 1,912,500 Equity Shares
Balance for all QIBs including Mutual Funds	Up to 36,337,500 Equity Shares
Non-Institutional Portion	At least 11,475,000 Equity Shares
Retail Portion	At least 26,775,000 Equity Shares
Equity Shares outstanding prior to the Issue	400,000,000 Equity Shares
Equity Shares outstanding after the Issue	485,000,000 Equity Shares
Use of proceeds by the Bank	See the section titled "Objects of the Issue" on page 24 of this Red Herring Prospectus.

* For Eligible Employees.

[(1)] Allocation to all investors shall be on a proportionate basis subject to :

1. Compliance with RBI requirement,
2. Shares left out on account of rejections in the non-institutional and retail categories, if any which may be allotted by the Bank in consultation with the BRLMs and the Designated Stock Exchange.

SELECTED FINANCIAL INFORMATION

SUMMARY STATEMENT OF PROFIT & LOSS (RESTATED)

(Rs in Millions)

Sr.No.		AUDITED					REVIEWED	
		FINANCIAL YEAR ENDED 31ST MARCH					Half year ended	
		2001	2002	2003	2004	2005	Sept,04	Sept,05
A	**INCOME**							
1	**Interest Earned**	18,750.58	20,298.26	21,950.22	22,272.58	22,734.60	11,281.44	12,525.42
1.1	Interest/Discount on Advances/Bills	7,940.83	9,809.53	12,223.81	12,308.20	13,586.02	6,556.70	8,369.81
1.2	Income on investments	10,327.03	9,886.35	9,154.93	9,511.57	8,232.70	4,211.69	3,777.53
1.3	Interest on balances with Reserve Bank of India and other inter bank LENDING	482.72	526.10	542.80	367.46	775.60	396.98	368.78
1.4	Interest on Income Tax	0.00	76.15	28.42	85.45	140.81	116.05	9.30
1.5	Others	0.00	0.13	0.26	-0.10	-0.53	0.02	0.00
2	**OTHER INCOME**	2,046.21	3,040.24	6,036.40	6,780.47	7,533.50	4,559.25	1,951.22
2.1	Commission, Exchange & Brokerage	783.50	881.47	997.60	1,159.11	1,390.39	612.92	801.44
2.2	Profit on Sale of investments	650.00	1,360.16	3,949.28	4,063.16	3,855.09	3,007.01	330.87
2.3	Profit on revaluation of Investments (Net)	0.00	0.00	-0.64	-45.60	0.00	0.00	-62.60
2.4	Profit on sale of land, bldg.& other assets (Net)	0.88	0.49	3.74	2.42	0.22	1.10	3.78
2.5	Profit on exchange transaction(Net)	125.56	158.89	185.11	200.61	284.52	115.39	134.83
2.6	Income earned by way of dividends etc., from subsidiaries/companies/ jt.Ventures in India	29.58	46.77	40.86	147.60	99.37	44.86	48.23
2.7	Miscellaneous Income	456.69	592.46	860.45	1253.17	1903.91	777.97	694.67
	TOTAL INCOME	20,796.79	23,338.50	27,986.62	29,053.05	30,268.10	15,840.69	14,476.64
B	**EXPENDITURE**							
1	**Interest Expended**	13,745.76	14,544.83	14,420.54	13,166.75	12,044.18	5,868.89	6,896.41
1.1	Interest on Deposits	13,013.23	14,040.95	13,617.17	12,389.26	11,294.17	5,502.26	6,304.53
1.2	Interest on RBI/Inter-Bank borrowings	322.13	200.14	396.31	317.17	255.45	135.84	291.04
1.3	Others	410.40	303.74	407.06	460.32	494.56	230.79	300.84
	Operating Expenses	4,614.92	4,524.81	6,097.60	6,942.33	7,673.68	3,643.46	4,121.45
1	Payment to & Provision for employees	3,428.97	3,077.30	4,106.76	4,440.44	4,762.87	2,336.34	2,436.19
2	Rent, Taxes & Lighting	240.72	272.86	366.55	467.56	630.56	260.21	397.22
3	Printing & Stationery	59.14	64.63	79.85	95.17	112.78	51.10	49.48
4	Advertisement and Publicity	16.82	19.57	62.20	90.84	91.91	30.88	37.02
5	Depreciation on Bank's Properties	224.40	321.64	462.12	611.00	600.09	278.47	305.67
6	Director's Fees, Allowances & Expenses	0.80	1.09	1.72	3.20	3.58	1.87	1.60
7	Auditor's Fess & Expenses	29.33	48.58	54.03	76.09	77.69	39.60	41.59
8	Law Charges	25.24	23.71	24.38	17.19	22.50	8.86	8.48
9	Postage, Telegrams, Telephones etc.,	43.82	41.76	75.39	97.20	119.61	60.02	77.64
10	Repairs & Maintenance	74.31	87.47	109.27	149.48	218.61	107.30	134.65

(Rs in Millions)

Sr.No.		AUDITED					REVIEWED	
		FINANCIAL YEAR ENDED 31ST MARCH					Half year ended	
		2001	**2002**	**2003**	**2004**	**2005**	**Sept,04**	**Sept,05**
11	Insurance	108.55	107.31	126.14	151.23	225.77	106.81	155.87
12	Other Expenditure	362.82	458.89	629.19	742.93	807.71	362.00	476.04
	Total Expenditure	18,360.68	19,069.64	20,518.14	20,109.08	19,717.86	9,512.35	11,017.86
	Operating Profit (before Provision & Contingencies	2,436.11	4,268.86	7,468.48	8,943.97	10,550.24	6,328.34	3,458.78
	Less: Provisions & Contingencies (Other than Provision for Tax)	930.26	1,486.07	1,826.93	2,425.87	2,500.60	2,317.21	595.64
	Profit Before Tax	1,505.85	2,782.79	5,641.55	6,518.10	8,049.64	4,011.13	2,863.14
	Provision for Tax (**)	345.00	745.00	1,691.50	2,240.85	2,227.70	1,135.00	830.00
	Net Profit after tax	1,160.85	2,037.79	3,950.05	4,277.25	5,821.94	2,876.13	2,033.14
	Add: Amount Transferred from Investment Fluctuation Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Profit Brought Forward	0.38	1.43	1.72	2.04	2.06	2.06	2.06
	Net Profit for the Year / Half year ended	1,161.23	2,039.22	3,951.77	4,279.29	5,824.00	2,878.19	2,035.20
	APPROPRIATIONS TRANSFER TO							
a)	Statutory Reserve	362.00	505.68	1,007.50	1,158.75	1,300.25	0.00	0.00
b)	b) Capital Reserve	7.47	16.99	5.82	0.00	1451.50	0.00	0.00
c)	c) Revene and Other Reserves	287.43	572.57	431.94	-8.22	1,713.37	0.00	0.00
I)	Investment Fluctuation Reserve	7.00	313.73	1,421.47	1,863.20	0.00	0.00	0.00
ii)	General Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
iii)	Statutory Reserve (Foreign)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
d)	Dividend(Including Dividend Tax)	495.90	630.00	1,083.00	1,263.50	1,356.82	0.00	0.00
I)	Interim Dividend	0.00	0.00	480.00	560.00	600.00	0.00	0.00
ii)	Proposed Dividend	450.00	630.00	480.00	560.00	600.00	0.00	0.00
	Tax on Dividend	45.90	0.00	123.00	143.50	156.82	0.00	0.00
	Transfer to : Unallocated Profit	1.43	0.25	2.04	2.06	2.06	0.00	0.00
	TOTAL	1,161.23	2,039.22	3,951.77	4,279.29	5,824.00	0.00	0.00
	Break up of Miscellaneous Income(*)							
	Incidental Charges	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Recovery in Bad Debts W/o	104.08	112.09	169.43	316.45	632.10	238.42	151.73
	Others	352.61	480.37	691.02	936.73	1,271.81	539.55	542.94
	Total Miscellaneous Income	456.69	592.46	860.45	1,253.18	1,903.91	777.97	694.67
	(*) Items listed here are generally of recurring nature							
	Break-up of provisions and contingencies							
	Provision for Non-Performing Advances	687.40	1,005.40	1,694.30	2,425.30	124.04	630.00	0.00
	Provision for Standard Advances	45.00	120.00	70.70	35.00	120.00	35.00	30.00
	Depreciation on investment	-16.60	126.70	-14.40	-74.06	1,665.19	1,586.78	231.75
	Provision for Restructured Standard Accounts	0.00	0.00	0.00	0.00	12.85	0.00	10.08
	Others	214.46	233.97	76.33	39.63	578.52	65.43	323.80
	Provision & Contingencies (Other than Provision for Tax)	930.26	1,486.07	1,826.93	2,425.87	2,500.60	2,317.21	595.63
	Provision for Income Tax	345.00	745.00	1691.50	2240.85	2227.70	1135.00	830.00
	TOTAL	1,275.26	2,231.07	3,518.43	4,666.72	4,728.30	3,452.21	1,425.63

(**) Provision for tax is as per audited Accounts, before restatement

SUMMARY STATEMENT OF ASSETS AND LIABILIITES (RESTATED)

(Rs. In Millions)

Sl. No.		AUDITED					REVIEWED	
		AS AT 31ST MARCH					As on 30th September	
		2001	2002	2003	2004	2005	2004	2005
(A)	ASSETS							
1	Cash in Hand	2,027.45	1,949.67	2,277.95	2,895.55	2,640.67	2,629.13	2,498.07
2	Balance with RBI	14,276.14	10,786.03	10,643.70	17,550.57	18,098.61	25,175.99	30,209.47
3	Balance with Bank	5,741.80	3,925.11	2,455.77	4,036.19	7,343.56	6,024.31	4,492.76
	In India	3,775.26	2,500.21	2,201.53	3,714.53	6,835.56	5,433.90	3,631.21
	Outside India	1,966.54	1,424.90	254.24	321.66	508.00	590.41	861.55
4	Money at call and short notice	520.15	353.50	1,350.00	1,250.00	7,150.00	1,561.49	10,458.64
5	Investment							
	In India	98,855.22	84,192.58	10,5176.48	103,173.55	106,462.83	94,858.01	103,588.87
	Outside India	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total	98,855.22	84,192.58	105,176.48	103,173.55	106,462.83	94,858.01	103,588.87
6	Advances	74,231.70	96,777.24	115,129.42	128,854.66	175,168.43	142,225.63	187,662.95
	In India	74,231.70	96,777.24	115,129.42	128,854.66	175,168.43	142,225.63	187,662.95
	Outside India	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7	Fixed Assets	934.64	1,059.33	1,717.02	1,799.35	1,872.87	2,109.80	2,172.91
	Less: Revaluation Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Net Fixed Assets	934.64	1,059.33	1,717.02	1,799.35	1,872.87	2,109.80	2,172.91
8	Other Assets	7,297.03	10,302.98	8,069.27	10,529.60	8,549.87	9,015.68	9,794.34
	Less : Deferred Tax Asset(DTA)	0.00	0.00	0.00	0.60	86.80	0.60	86.80
	Other Assets excl.DTA	7,297.03	10,302.98	8,069.27	10,529.00	8,463.07	9,015.08	9,707.54
	TOTAL-(A)	203,884.13	209,346.44	246,819.61	270,088.87	327,200.04	283,599.44	350,791.21
(B)	**LIABILITIES**							
1	DEPOSITS	182,915.25	184,907.67	210,618.47	229,405.20	275,507.10	241,569.00	298,691.83
	Demand Deposits							
	From Banks	224.42	178.50	168.62	187.65	255.73	113.12	1,536.12
	From Others	12,776.73	13,773.83	15,885.20	22,001.87	25,327.21	22,063.95	22,900.39
2	Saving Deposits	32,299.85	38,404.22	48,242.45	63,481.25	74,007.70	70,347.01	82,773.92
3	Term Deposits from Banks	2,959.39	1,697.68	997.36	629.39	480.70	301.26	430.35
	Term Deposits from Others	134,654.86	130,853.44	145,324.84	143,105.04	175,435.76	148,743.66	191,051.04
4	**Borrowings**	1,779.27	2,190.41	9,906.28	8,429.96	9,832.42	8,065.38	10,635.63
	In India	1,779.27	2,085.61	8,861.58	3,867.89	4,626.76	3,833.38	4,384.79
	Outside India	0.00	104.80	1,044.70	4,562.07	5,205.66	4,232.00	6,250.84
5	Other Liabilities and Provisions	9,526.60	10,535.90	10,920.32	13,786.22	16,656.36	12,263.68	14,700.00
6	Subordinate Debt	2,150.00	2,900.00	4,300.00	4,300.00	6,300.00	4,300.00	6,300.00
	TOTAL -(B)	196,371.12	200,533.98	235,745.07	255,921.38	308,295.88	266,198.06	330,327.46

(Rs. In Millions)

Sl. No.		AUDITED					REVIEWED	
		AS AT 31ST MARCH					As on 30th September	
		2001	2002	2003	2004	2005	2004	2005
(c)	NET WORTH (C=A-B)	7,513.01	8,812.46	11,074.54	14,167.49	18,904.16	17,401.38	20,463.75
	Represented by :							
(D)	Share Capital	4,500.00	4,500.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00
(E)	Share Application Money	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(F)	**RESERVES & SURPLUS**							
1	Statutory Reserve	1,506.00	2,011.68	3,019.18	4,177.93	5,478.18	4,177.93	5,478.18
2	Capital Reserve	7.47	24.45	30.27	30.27	1,481.77	30.27	1,481.77
3	Revaluation Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4	Investment Fluctuation Reserve	284.19	597.92	2,019.38	3,882.58	3,130.00	3,882.58	3,130.00
5	Revenue & Other Reserve	1,213.92	1,678.16	1,855.44	1,927.02	3,838.14	2,284.77	3,217.18
	Spl.Revenue Reserve-AB Homes			148.23	148.23	148.23	1,48.23	148.23
6	Deferred Tax Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7	Balance of Profit & Loss a/c	1.43	0.25	2.04	2.06	2.06	2878.20	2,935.19
8	Share Premium	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9	Special Reserve u/s 36(1)(VIII) IT	0.00	0.00	0.00	0.00	160.00	0.00	160.00
10	Transfer from investment Fluctation Reserve	0.00	0.00	0.00	0.00	752.58	0.00	0.00
	TOTAL	3,013.01	4,312.46	7,074.54	10,168.09	14,990.96	13,401.98	16,550.55
	Less : Revaluation Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Less: Deferred Tax Assets(DTA)	0.00	0.00	0.00	0.60	86.80	0.60	86.80
	TOTAL - (F)	3,013.01	4,312.46	7,074.54	10,167.49	14,904.16	13,401.38	16,463.75
	NET WORTH (D+E+F)	7,513.01	8,812.46	11,074.54	14,167.49	18,904.16	17,401.38	20,463.75
(G)	Contingent Liabilities							
1	Claims ag.the Bank not acknowledged as debt	1,877.18	1,768.76	2,007.32	2,041.94	1,289.05	2,041.94	1,261.49
2	Liability for partly paid investments	30.00	0.00	0.00	0.20	0.00	0.00	0.00
3	Liability on account of outstanding forward exchange contracts	11,690.63	7,098.69	11,945.85	30,582.42	112,676.39	39,753.96	121,617.36
4.	Guarantees given on behalf of constituents							
	In India	5,878.51	9,394.22	10,396.37	13,009.05	17,021.53	13,449.22	21,464.73
	Outside India	0.00	0.00	221.52	1444.77	1,537.20	1568.70	1800.28
5.	Acceptances, Endorsements & Other Obligations	3,370.81	3,832.44	4,897.44	8,713.13	16,995.46	13,102.72	15,863.89
6.	Other items for which the Bank is contingently liable	548.51	351.75	1,693.04	264.57	288.35	43.95	275.39
7.	**CAPITAL COMMITMENTS**	0.00	199.54	298.90	142.08	0.00	0.00	0.00
	TOTAL - (G)	23,395.64	22,645.40	31,460.44	56,198.16	149,807.98	69,960.49	162,283.14
	Bills for collection	7,759.35	9,900.90	13,088.23	19,452.68	33,314.44	31,002.81	29,661.38

Head Office of our Bank

Andhra Bank
Dr. Pattabhi Bhavan,
5-9-11, Saifabad,
Hyderabad - 500 004,
Andhra Pradesh,
India
Tel: (91 40) 2323 0883
Fax: (91 40) 2323 0883

Board of Directors

Our Board comprises:

1. K. Ramakrishnan, Chairman and Managing Director;
2. R. Balakrishnan, Executive Director;
3. Rakesh Singh, GoI Nominee Director;
4. Dr. Deepali Pant Joshi, RBI Nominee Director;
5. Anil Kumar Sood, Shareholder Director;
6. T. Navaneeth Rao, Shareholder Director;
7. S. Swaminathan, Shareholder Director;
8. Mallineni Rajaiah, Shareholder Director;
9. K.V. Subbaiah, Director Representing Non-Workmen Employees;
10. B.S.R. Mohan Reddy, Director Representing Workmen Employees; and
11. Dr. K. Anjanappa, Non-Official Part-Time Director

For further details please refer to the section titled "Our Management" beginning on page 101 of this Red Herring Prospectus.

Compliance Officer	***Company Secretary***
K. Sethu Prasad, Assistant General Manager Dr. Pattabhi Bhavan 5-9-11, Saifabad Hyderabad - 500 004 Andhra Pradesh India Tel: (91 40) 2323 1171 Fax: (91 40) 2323 1385 Email: eco@andhrabank.co.in	**T.R. Ramabhadran** Dr. Pattabhi Bhavan 5-9-11, Saifabad Hyderabad - 500 004 Andhra Pradesh India Tel: (91 40) 2323 0883 Fax: (91 40) 2323 0883 Email: mbd@andhrabank.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, refund orders, etc.	
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, India Tel: (91 22) 2496 4455 Fax: (91 22) 2496 3666	**International Legal Counsel to the Underwriters** **Dorsey and Whitney LLP** 21 Wilson Street London, England EC2M 2TD Tel: (44 20) 7588 0800 Fax: (44 20) 7588 0555

Domestic Legal Counsel to the Underwriters **S&R Associates** K 40, Connaught Circus New Delhi 1100 001, India Tel: (91 11) 5289 8000 Fax: (91 11) 5289 8001	
Book Running Lead Managers	
SBI Capital Markets Limited 202, Maker Tower - E Cuffe Parade Mumbai 400 005, India Tel: (91 22) 2218 9166 Fax: (91 22) 2218 8332 Contact Person: Subrat Panda Email: ab.fpo@sbicaps.com Website: www.sbicaps.com	**Citigroup Global Markets India Private Limited** Bakhtawar, 4th Floor Nariman Point Mumbai - 400 021 India Tel: (91) 1600 2299 96 Fax: (91 22) 5631 9803 Contact Person: Akhilesh Poddar Email: andhrabank.fpo@citigroup.com Website: www.citibank.co.in
DSP Merrill Lynch Limited Mafatlal Centre, 10th Floor Nariman Point Mumbai 400 021, India Tel: (91 22) 2262 1071 Fax: (91 22) 2262 1187 Contact Person: NS Shekhar Email: ab_fpo@ml.com Website: www.dspml.com	**Enam Financial Consultants Private Limited** 801, Dalamal Towers Nariman Point Mumbai 400 021, India Tel: (91 22) 5638 1800 Fax: (91 22) 2284 6824 Contact Person: Prabhat Kumar Rai Email: andhrabkfpo@enam.com Website: www.enam.com
Kotak Mahindra Capital Company Limited 3rd Floor, Bakhtawar, 229 Nariman Point Mumbai 400 021, India Tel: (91 22) 5634 1100 Fax: (91 22) 2284 0492 Contact Person: Satyajit Joshi Email: andhrabankfpo@kotak.com Website: www.kotak.com	
Co - Managers to the Issue	
Darashaw & Company Private Limited Regent Chambers, 12th Floor Nariman Point Mumbai - 400 021, India Tel: (9122) 5630 6612 Fax: (91 22) 2204 0031 Contact Person: Rishi Bhasin E-mail: darashaw@vsnl.com/ andhrabankipo@darashaw.com Website: www.darashaw.com	**Karvy Investor Services Limited** "KARVY HOUSE" 46, Avenue 4, Street No.1 Banjara Hills Hyderabad - 500 034, India. Tel: (9140) 2331 2454, 2332 0251 Fax: (9140) 2337 4714 Contact Person:V. Madhusudhan Rao E-mail: mbd@karvy.com Web site: www.karvy.com

Syndicate Members	
Enam Securities Private Limited D. Rajabahadur Compound, Ambalal Doshi Marg, Fort, Mumbai - 400 001. Telephone No. +91 22 5638 1800 Fax : +91 22 2284 6824 Contact Person : M. Natarajan Email : andhrabankfpo@enam.com	**Kotak Securities Limited** 1st Floor, Bakhtawar, 229, Nariman Point, Mumbai - 400 021 Tel : (91 22) 5634 1100 Fax : (91 22) 5630 3927 Contact Person : Ulhas Sawant Email : ulhas.sawant@kotak.com
Registrar to the Issue	
MCS Limited Sri Padmavathi Bhavan Plot No. 93, Road No. 16 MIDC Area Andheri East Mumbai - 400 093, India Tel: (91 22) 2820 1785 Fax: (91 22) 2820 1783 Contact Person: Ashok Kambli Email: ab@mcs.ind.com Website: www.mcsind.com	

Auditors

M/s M.R. Narain & Co. Chartered Accountants 5, Club Road, 1st Floor Chetput Chennai - 600 031 Tamil Nadu India. Tel.: (91 44) 2836 1556 Fax: (91 44) 2836 1391 Email: mrnarainco@eth.net	**M/s Chaturvedi & Shah** Chartered Accountants A-3, Laxmi Towers, 1st Floor Bandra Kurla Complex Bandra East Mumbai - 400 051 India Tel.: (91 22) 3061 6100 Fax : (91 22) 3061 6125 Email: cas@chaturvedi-and-shah.com	**M/s S.R.B. & Associates** Chartered Accountants 5th Floor, IDCO Tower Janapath Bhubaneswar - 751 022 Orissa India. Tel.: (91 674) 2542 733 Fax: (91 674) 2546 414 Email: srbbsr@vsbl.net
M/s S.C. Vasudeva & Co. Chartered Accountants B -41, Panchasheel Enclave New Delhi - 110 017 India Tel.: (91 11) 2649 9111 Fax: (91 11) 2649 9555 Email: Info@scvasudeva.com	**M/s Sunil K. Gupta & Associates** Chartered Accountants 4232 - 1, Ansari Road, Darya Gunj New Delhi - 110 002 India Tel. (91 11) 2327 1296 Fax (91 11) 2327 3558 Email: skg4232@rediffmail.com	

Banker to the Issue and Escrow Collection Bank

Andhra Bank
'Saurabh'
116, Andheri Kurla Road
Andheri (E)
Mumbai 400 093
Tel: (91 22) 2824 2281/2832 8623
Fax: (91 22) 2824 2281
Contact Person: S.S. Sundara Rao
Email: bmmum028@andhrabank.co.in
Website: www.andhrabank-india.com

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.	SBI Caps, DSPML, KMCC, Enam and Citigroup	SBI Caps
Due diligence of the Bank's operations/management/business plans/legal, etc. Drafting and design of offer document and of statutory 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 finalisation of the Prospectus and filing with the Stock Exchanges.	SBI Caps, DSPML, KMCC, Enam and Citigroup	SBI Caps
Drafting and approval of all publicity material other than statutory advertisement as mentioned above including corporate advertisement, brochure etc.	SBI Caps, DSPML, KMCC, Enam and Citigroup	SBI Caps
Appointment of other Intermediaries	SBI Caps, DSPML, KMCC, Enam and Citigroup	
(a) Printers;		KMCC
(b) Registrar;		DSPML
(c) Advertising Agency; and		Enam
(d) Banker to the Issue		Citigroup
Domestic institutions/banks/ mutual funds marketing strategy: ● Finalise the list and division of investors for one on one meetings, institutional allocation	SBI Caps, DSPML, KMCC, Enam and Citigroup	KMCC
International institutional marketing strategy, road show marketing presentation ● Finalise the list and division of investors for one on one meetings, institutional allocation	SBI Caps, DSPML, KMCC, Enam and Citigroup	Citigroup
Retail/Non-institutional marketing strategy which will cover, inter alia, ● Finalize media, marketing and public relations strategy; ● Finalize centers for holding conferences for brokers, etc.; ● Finalize collection centers; and ● Follow-up on distribution of publicity and issue material including form, Prospectus and deciding on the quantum of the Issue material	SBI Caps, DSPML, KMCC, Enam and Citigroup	Enam
Managing the Book, coordination with Stock Exchanges, pricing and allocation to QIB Bidders.	SBI Caps, DSPML, KMCC, Enam and Citigroup	Citigroup
Post bidding activities including management of Escrow Accounts, co-ordinate non-institutional allocation, intimation of allocation and dispatch of refunds to Bidders, etc.	SBI Caps, DSPML, KMCC, Enam and Citigroup	DSPML
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 the responsibility through suitable agreements with the issuer Bank.	SBI Caps, DSPML, KMCC, Enam and Citigroup	DSPML

Credit Rating

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

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 Closing Date/Issue Closing Date.

The principal parties involved in the Book Building Process are:

- The Bank;
- Book Running Lead Managers;
- Co-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; and
- Registrar to the Issue.

The SEBI Guidelines have permitted an issue of securities to the public through the 100% Book Building Process, wherein up to 50% of the Net Issue shall be allocated on a proportionate basis to QIBs. Of the QIB Portion, 5% shall be available for allocation on a proportionate basis to Mutual Funds. Further, not less than 15% of the Net Issue shall be available for allotment on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Net Issue shall be available for allotment on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. We will comply with the SEBI Guidelines for this Issue. In this regard, we have appointed the BRLMs to manage the Issue and to procure subscriptions to the Issue.

Pursuant to amendments to the SEBI Guidelines, QIB Bidders are not allowed to withdraw their Bid(s) after the Bid Closing Date/Issue Closing Date and for further details see the section titled "Terms of the Issue" beginning on page 237 of this Red Herring Prospectus.

The process of Book Building under SEBI Guidelines though not new, 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 242 of this Red Herring Prospectus;
- Ensure that the Bidder has a demat account; 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 will enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be offered through this Issue. The obligations of the Underwriters would be subject to relevant law and terms and conditions contained in the said Underwriting Agreement.

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. Million)
SBI Capital Markets Limited, 202, Maker Tower - E Cuffe Parade Mumbai 400 005, India Tel : (91 22) 2218 9166 Fax : (91 22) 2218 8332 Email : ab.fpo@sbicaps.com	[●]	[●]
Citigroup Global Markets India Private Limited Bakhtawar, 4th Floor Nariman Point Mumbai - 400 021 India Tel: (91 22) 1600 2299 96 Fax: (91 22) 5631 9803 Email : andhrabank.fpo@citigroup.com	[●]	[●]
DSP Merrill Lynch Limited Mafatlal Centre, 10th Floor, Nariman Point, Mumbai 400 021, India Tel : (91 22) 2262 1071 Fax : (91 22) 2262 1187 Email : ab_fpo@ml.com	[●]	[●]
Enam Financial Consultants Private Limited 801, Dalamal Towers Nariman Point Mumbai 400 021, India Tel : (91 22) 5638 1800 Fax : (91 22) 2284 6824 Email : andhrabkfpo@enam.com	[●]	[●]
Kotak Mahindra Capital Company Limited 3rd Floor, Bakhtawar, 229 Nariman Point Mumbai 400 021, India Tel : (91 22) 5634 1100 Fax : (91 22) 2284 0492 Email : andhrabank.fpo@kotak.com	[●]	[●]

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

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 Securities and Exchange Board of India Act, 1992 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. In the event of any default, the respective Underwriter in addition to other obligations to be defined in the Underwriting Agreement will also be required to procure/subscribe to the extent of the defaulted amount. Notwithstanding the above table, the Underwriters shall be severally responsible for ensuring payment with respect to Equity Shares allocated to investors procured by them, provided, however, it is proposed that pursuant to the terms of the Underwriting Agreement, Enam and KMCC shall be responsible for bringing in the amount devolved in the event that their respective Syndicate Members, being Enam Securities Private Limited and Kotak Securities Limited do not fulfil their underwriting obligations.

Allocation to QIB Bidders is proportionate as per the terms of this Red Herring Prospectus. Further, out of the QIB Portion, 5% would be available for allocation on a proportionate basis to Mutual Funds. In case of inadequate demand from the Mutual Funds, the Equity Shares would be made available to QIBs other than Mutual Funds. Valid bids from Mutual Funds would be eligible for allotment from the 5% of the QIB Portion as well as from the balance QIB Portion. The subscription for proportionate allotment to QIBs shall be identified after reducing 5% of the total allocation to QIBs or any lesser amount allotted to Mutual Funds.

CAPITAL STRUCTURE

(Rs. in million)

		Aggregate Nominal Value	Aggregate Value at Issue Price
A)	**AUTHORISED EQUITY SHARE CAPITAL**		
	1,500,000,000 Equity Shares of Rs. 10 each(1)	15,000	
B)	**ISSUED AND SUBSCRIBED EQUITY SHARE CAPITAL**		
	400,000,000 Equity Shares of Rs. 10 each	4,000	
C)	**PAID UP CAPITAL**		
	400,000,000 Equity Shares of Rs. 10 each	4,000	
D)	**PRESENT ISSUE IN TERMS OF THIS RED HERRING PROSPECTUS**(2)		
	85,000,000 Equity Shares of Rs. 10 each fully paid up	850	[●]
	Of which		
	(i) Employee Reservation Portion - 8,500,000 Equity Shares	85	[●]
	(ii) Net Issue to the Public - 76,500,000 Equity Shares	765	[●]
E)	**EQUITY CAPITAL AFTER THE ISSUE**		
	485,000,000 Equity Shares of Rs. 10 each fully paid up shares	4,850	[●]
F)	**SHARE PREMIUM ACCOUNT**		
	Before the Issue	0	
	After the Issue	[●]	

(1) The authorised share capital of the Bank is Rs. 15,000 million as per sub-section 2A of Section 3 of the Bank Acquisition Act, as amended from time to time. There have been no changes to our authorised share capital since nationalisation on April 15, 1980.

(2) Our Board of Directors authorised a fresh issue of up to 85,000,000 Equity Shares of Rs. 10 each pursuant to a resolution passed at its meeting held on September 27, 2005. Our shareholders subsequently authorised the fresh issue of up to 85,000,000 Equity Shares of Rs. 10 each, by a resolution passed unanimously at the EGM of our Bank held on October 24, 2005, subject to the approval of the GoI, the RBI, SEBI and other relevant authorities. The GoI, Ministry of Finance, Department of Economic Affairs (Banking Division) has granted its approval for the present Issue of 85,000,000 Equity Shares through its letter no. F.No.11/24/2005-BOA dated November 21, 2005, inter alia, on the conditions that the holding of GoI shall not fall below 51% at any point of time and allotment to Non-Residents, if any, will be subject to the prior approval of the Exchange Control Department of RBI and should be within the ceiling of 20% of the paid-up capital or any lower ceiling that may be notified by the Government of India under sub-section (2D) of the Section 3 of the BankAcquisition Act.

For further details, see the sections titled "Capital Structure-Notes to Capital Structure" on page 19 of this Red Herring Prospectus, "Other Regulatory and Statutory Disclosures - Authority for the Issue" on page 226 of this Red Herring Prospectus and "Licenses and Approvals -Approvals for the Issue" beginning on page 223 of this Red Herring Prospectus.

Notes to Capital Structure

1. Share capital history of the Bank since nationalisation on April 15, 1980:

Date of Allotment	No. of Shares (In Million)	Face Value (in Rs.)	Issue Price (in Rs.)	Conside-ration (Rs. in million)	Reason of Allotment	Cumulative Premium	Cumulative Paid up Capital (Rs. in million)
Balance as at December 31, 1979	0.10	100	100	Nil	Nil	Nil	10.00
April 15, 1980	1.00	10	10	Nil	Nationalisation	Nil	10.00
December 31, 1984	1.88	10	10	18.80	Capitalisation of Reserves	Nil	28.80
	0.12	10	10	1.20	Contribution to Capital by GoI[(1)]	Nil	30.00
December 31, 1985	9.00	10	10	90.00	Contribution to Capital by GoI[(1)]	Nil	120.00
December 31, 1986	5.00	10	10	50.00	Contribution to Capital by GoI[(1)]	Nil	170.00
March 28, 1988	5.00	10	10	50.00	Contribution to Capital by GoI[(1)]	Nil	220.00
March 31, 1992	40.00	10	10	400.00	Contribution to Capital by GoI[(1)]	Nil	620.00
March 31, 1993	30.00	10	10	300.00	Contribution to Capital by GoI[(1)]	Nil	920.00
January 1, 1994	150.00	10	10	1,500.00	Contribution to Capital by GoI[(1)]	Nil	2,420.00
December 1, 1994	108.60	10	10	1,086.00	Contribution to Capital by GoI[(1)]	Nil	3,506.00
February 16, 1995	75.72	10	10	757.20	Contribution to Capital by GoI[(1)]	Nil	4,263.20
March 29, 1997	165.00	10	10	1,650.00	Contribution to Capital by GoI[(1)]	Nil	5,913.20
March 30, 1999	(243.37)	(10)	(10)	(2,433.70)	Adjustment of accumulated losses against capital [(2)]	Nil	3,479.50
January 31, 2001	(47.95)	(10)	(10)	(479.50)	Return of capital to GoI[(3)]	Nil	3,000.00
March 24, 2001	150.00	10	10	1,500.00	Initial Public Offer[(4)]	Nil	4,500.00
March 27, 2003	(50.00)	(10)	(10)	(500.00)	Return of capital to GoI[(5)]	Nil	4,000.00

Notes:

(1) Contribution of capital by GoI through Recapitalisation Bonds / Special Securities.

(2) In terms of approval dated March 26, 1999 issued by the MOF, GoI, the Bank has restructured its capital by adjusting the brought forward losses of Rs. 2,433.70 million against the paid-up capital of the Bank.

(3) In terms of the permission granted by the MoF letter no. F.No.11/5/2000-BOA dated December 29, 2000, we returned share capital of Rs. 479.50 million to GoI.

(4) The Bank offered 150,000,000 Equity Shares of Rs. 10 each for cash at par for subscription to the public on February 14, 2001. Out of the same, 15,000,000 shares were reserved for permanent employees/working directors of the Bank.

(5) In terms of the permission granted by the MoF letter no.F.No.11/5/2000-BOA dated March 27, 2003, we returned share capital of Rs. 500.00 million to GoI.

2. Promoters Contributions and Lock-In

The requirement of Promoter's contribution and lock in is not applicable to this Issue since the Bank has been listed on the Stock Exchanges for over three years and has a track record of dividend payment for at least three immediately preceding years.

3. Equity Shares held by top 10 shareholders

Our top 10 shareholders and the Equity Shares held by them are as follows:

S. No.	Name	No. of Equity Shares	Percentage
1.	The President of India	250,000,000	62.50
2.	Genesis Indian Investment Company Limited-General Sub Fund	23,304,135	5.83
3.	BMF- Bank Bees - Investment Account	5,072,289	1.42
4.	California Public Employees' Retirement System managed by Genesis Assistant Managers, LLP	5,382,001	1.35
5.	Life Insurance Corporation of India	4,569,203	1.14
6.	Sanford C Bernstein and Co. Delaware Businesstrust - Emerging Markets Value Series	4,503,000	1.13
7.	Citigroup Global Markets Mauritius Private Limited	3,407,606	0.85
8.	California Public Employees' Retirement System managed by Alliance Capital Management, LLP	3,168,232	0.79
9.	HSBC Global Investment Funds - A/C HSBC Global Investment Funds Maruritius Limited	2,253,479	0.56
10.	Alliance Capital Management LP A/c Sanford C Bernstein Fund, Inc	2,222,000	0.56

Our top 10 shareholders and the Equity Shares held by them 10 days prior to the date of filing the Red Herring Prospectus with the Designated Stock Exchange are as follows:

S. No.	Name	No. of Equity Shares	Percentage
1	The President of India	250,000,000	62.50
2	Genesis Indian Investment Company Limited-General Sub Fund	23,304,135	5.83
3	BMF-Bank Bees-Investment A/C	5,903,134	1.48
4	California Public Employee's Retirement System- managed By Genesis Asset Managers,LLP	5,382,001	1.35
5	Life Insurance Corporation of India	4,569,203	1.14
6	Sanford C Bernstein and Co. Delaware Business Trust - Emerging Markets Value Series	4,503,000	1.13
7	Citigroup Global Markets Mauritius Private Ltd	3,567,902	0.89
8	California Public Employee's Retirement System Managed By Alliance Capital Management, LLP	3,168,232	0.79
9	Goldman Sachs Investments (Mauritius) I Ltd	2,512,619	0.63
10	HSBC Global Investment Funds A/C HSBC Global Investment Funds Mauritius Limited	2,253,479	0.56

Our shareholders and the Equity Shares held by them two years prior to the date of filing the Red Herring Prospectus are as follows:

S. No.	Name	No. of Equity Shares	Percentage
1	The President of India	250,000,000	62.50
2	Genesis Indian Investment Company Limited- General Sub Fund	8,000,000	2.00
3	Birla Sun Life Trustee Company Private Ltd. A/c. Birla Dividend Yield Plus	5,753,737	1.44
4	Goldman Sachs Investments (Mauritius) I Ltd.	4,458,641	1.12
5	HSBC Financial Services (Middle East) Ltd.	2,426,815	0.61
6	The India Fund, Inc	1,834,950	0.46
7	Templeton Mutual Fund Account Franklin India Prima Fund	1,720,107	0.43
8	Life Insurance Corpn. Ltd.	1,642,200	0.41
9	Housing Development Finance Corpn.Ltd.	1,406,376	0.35
10	ABN AMRO Asia (Mauritius) Ltd.-Class D	1,306,400	0.33

(i) As of the date of the Red Herring Prospectus there are no outstanding warrants, options or rights to convert debentures, loans or other financial instruments into our Equity Shares.

5. Shareholding pattern as at September 30, 2005

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

	Equity Shares owned prior to the Issue		Equity Shares owned after the Issue(1)	
Shareholder Category	**Number**	**Percentage (%)**	**Number**	**Percentage (%)**
Promoter(2)	250,000,000	62.50	250,000,000	51.55
Sub Total (A)	**250,000,000**	**62.50**	**250,000,000**	**51.55**
Non-Promoter holding (Institutional Investors)				
Mutual Funds (including Unit Trust of India)	8,536,187	2.13	8,536,187	1.76
Banks, Financial Institutions, Insurance Companies (Central/ State Government Institutions/ Non Government Institutions)	9,635,477	2.41	9635477	1.99
Foreign Institutional Investors	62,952,424	15.74	62,952,424	12.98
Sub Total (B)	**81,124,088**	**20.28**	**81,124,088**	**16.73**
Others				
Private Corporate Bodies	8,195,223	2.05	8,195,223	1.69
Indian Public	52,985,820	13.25	52,985,820	10.92
NRIs/OCBs	496,847	0.12	496,847	0.10
Trade Unions/Trusts/Clearing Members/HUFs	7,198,022	1.8	7,198,022	1.48
Sub Total (C)	**68,875,912**	**17.22**	**68,875,912**	**14.20**
Total pre Issue share capital (D=A+B+C)	400,000,000	100.00	-	-
Public Issue (E)	**-**	**-**	**85,000,000**	**17.53**
Total post-Issue share capital (F=D+E)	**-**	**-**	**485,000,000**	**100.00**

(1) The break up of the Equity Shares allotted pursuant to the Issue is not included.

(2) Our Promoter is the President of India, acting through the MoF, GoI, which holds 62.50% of the pre-Issue paid up equity share capital of our Bank and will hold at least 51.55% of the fully diluted post-Issue paid up equity share capital of our Bank.

6. Our Bank applied to the GoI for its consent to a fresh issue of up to 85 million Equity Shares by its letter bearing number 666/25/646/544 dated September 28, 2005. The GoI, Ministry of Finance, Department of Economic Affairs (Banking Division) has granted its approval for the present Issue of 85,000,000 Equity Shares through its letter no. F.No.11/24/2005-BOA dated November 21, 2005, inter alia on the conditions that the holding of GoI shall not fall below 51% at any point of time and allotment to Non-Residents, if any, will be subject to the prior approval of the Exchange Control Department of RBI and should be within the ceiling of 20% of the paid-up capital or any lower ceiling that may be notified by the Government of India under sub-section (2D) of the Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980.

7. Our Bank has applied to the Chief General Manager, Exchange Department (Foreign Investment Division) by letter dated no. 666/25/646/617 dated November 8, 2005 seeking approval of the RBI to issue Equity Shares under this Issue to the public including NRIs and FIIs with repatriation benefits. The RBI has, by its letter no. FE.CO.FID/12810/10.78.012/2005-06 dated December 12, 2005, permitted us to issue shares to NRIs/FIIs with repatriation benefits out of the issue of Equity Shares of Rs. 10 each amounting to Rs. 850 million. The permission is subject to ensuring that the post-Issue non-resident equity holding in the Bank shall not exceed 20% of the post-Issue paid up capital. The permission is further subject to conditions laid down by the Government of India in their approval F.No.11/24/2005-BOA dated November 21, 2005, conditions prescribed by SEBI and terms and conditions for issue of shares as stipulated in Schedules 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 3, 2000, as amended from time to time. However, absent specific approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid up capital of the Bank.

8. 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. None of our Directors, the Promoter and the BRLMs have entered into any buyback and/or standby arrangements for the purchase of our Equity Shares from any person.

9. The Bank has not raised any bridge loan against the proceeds of this Issue. For details on use of proceeds, see the section titled "Objects of the Issue" on page 24 of this Red Herring Prospectus.

10. In the Net Issue to the public, in case of over-subscription in all categories, up to 50% of the Issue to the Public shall be available for allocation on a proportionate basis to Qualified Institutional Buyers (including the allocation of 5% of the QIB portion for Mutual Funds on a proportionate basis), not less than 15% of the Issue to the Public shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Issue to the Public 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. In case of undersubscription in any category, the same shall be allowed to be met through oversubscription in any other category, including the Employee Reservation Portion. The overall Allotment shall be subject to the condition that the Non Resident holding in the Bank shall not exceed 20% of our post Issue paid up capital. Accordingly, absent specific approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid up capital of the Bank.

11. The Issue includes an Employee Reservation Portion of 8,500,000 Equity Shares which are available for allocation to Eligible Employees on a proportionate basis. Under-subscription, if any, in the Employee Reservation Portion, would be allowed to be met first with spill over from the Retail Portion and then from any other category.

12. A Bidder in the Issue cannot make a Bid for more than the number of Equity Shares offered in the Net Issue. This is further subject to the maximum limit of investment prescribed under relevant laws applicable to each category of investor.

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

14. The Bank presently does not have any intention or proposal to alter its capital structure for a period of six months commencing from the date of opening of this Issue, by way of split/ consolidation of the denomination of Equity Shares or further issue of Equity Shares or securities convertible into Equity Shares, whether on a preferential basis

or otherwise. However, during such period or at a later date, we may undertake an issue of shares or securities linked to equity shares to finance an acquisition, merger or joint venture by us or as consideration for such acquisition, merger or joint venture, or for regulatory compliance or such other scheme of arrangement if an opportunity of such nature is determined by our Board to be in the interest of the Bank..However, absent specific approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid up capital of the Bank.

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

16. 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 investments in Equity Shares of the Bank, this could be only in the name of the trustees and no details of the trust would be taken cognisance of by the Bank in its Register of Shareholders.

17. Section 3(2E) of the Bank Acquisition Act provides that no shareholder other than GoI shall be entitled to exercise voting rights in respect of any equity shares held by him/her in excess of 1% of the total voting rights of all the shareholders of the Bank.

18. The Bank has not issued any Equity Shares out of revaluation reserves or any Equity Shares for consideration other than cash, within a period of two years preceding the date of this Red Herring Prospectus.

19. We have 128,341 members as at December 28, 2005.

OBJECTS OF THE ISSUE

The objects of the Issue are as follows:

The RBI, which regulates us, requires us to maintain a minimum capital to risk weighted assets ratio of 9.0%, at least half of which should consist of Tier I capital. As at September 30, 2005, our total capital adequacy ratio was 11.95% and our Tier I capital adequacy ratio was 8.37%. As per our audited restated financial statements, restated as per SEBI Guidelines, our total capital adequacy ratio was 12.11% and our Tier I capital adequacy ratio was 8.03% as at March 31, 2005 compared with 13.71% and 8.17% as at March 31, 2004, respectively.

RBI has adopted a phased approach to the implementation of the Basel II norms. New capital norms for market risk will be 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, 2007. In order to maintain consistency and harmony with international standards, banks have been advised to adopt the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk with effect from March 31, 2007. 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. 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 and all other Issue related expenses are estimated at Rs. [●] million. The entire net proceeds of the Issue shall be utilized by the Bank towards the aforementioned objects of the Issue i.e. augmenting the capital adequacy of the Bank and growth in the assets of the Bank.

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 and listing fees. The estimated Issue expenses are as follows:

Activity	**Expense (in Rs. Million)**
Lead management, underwriting commission*	[●]
Advertising and Marketing expenses	[●]
Printing and stationery	[●]
Registrars fee, legal fee, etc.	[●]
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.

Qualitative Factors

1. We are a public sector banking institution in India and service over 13.90 million customers across India.
2. As at September 30, 2005, we had 1,177 branches in India spread over 21 states and 2 union territories. We have one Subsidiary and three Associates, which are three Regional Rural Banks, for whom we are the sponsoring bank.
3. Our advances increased by 31.94% to Rs. 187,662.95 million as at September 30, 2005 from Rs. 142,225.63 million as at September 30, 2004; and our retail portfolio increased by 37.78% to Rs. 37,150 million as at March 31, 2005 from Rs. 26,963 million as at March 31, 2004. As at September 30, 2005, our retail loan portfolio stood at Rs. 40,107 million.
4. Our deposits increased by 23.65% to Rs. 298,691.83 million at September 30, 2005 from Rs. 241,569.00 million at September 30, 2004. As at September 30, 2005, our interest-free demand deposits and low-interest savings bank deposits constituted 35.89% of our total deposits. These low-cost deposits led to an average cost of deposits of 4.78% and an average cost of funds of 4.91% in the six months ended September 30, 2005.
5. Our ratio of net NPAs to net advances declined to 0.28% as at March 31, 2005 from 0.93% as at March 31, 2004. The ratio of net NPAs to net advances as at September 30, 2005 is 0.26%.
6. Post nationalisation, we have a track record of consistent profitability.

Quantitative Factors

Information presented in this section is derived from our audited restated stand alone financial statements prepared in accordance with Indian GAAP.

1. Weighted average earnings per share (EPS)*

Period	**EPS(Rs.)**	**Weight**
Year ended March 31, 2003	8.79	1
Year ended March 31, 2004	10.69	2
Year ended March 31, 2005	14.55	3
Weighted Average	**12.30**	

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

2. Price/Earning (P/E) ratio in relation to Issue Price of Rs. [●]
   a. Based on twelve months ended March 31, 2005 is [●]
   b. Industry P/E[1]
      i) Highest: 13.0
      ii) Lowest: 6.2
      iii) Average (composite): 9.9

(1) Source: “Capital Market” VolumeXX/20 dated December, 2005 to December 18, 2005 for the Category titled ‘Banks - Public Sector’.

3. Weighted average return on average net worth[2]

Period	**Return on Average Net Worth (%)**	**Weight**
Year ended March 31, 2003	35.67	1
Year ended March 31, 2004	30.19	2
Year ended March 31, 2005	30.80	3
Weighted Average	**31.41**	

(2) 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 is [●] % .

5. Net Asset Value per Equity Share at March 31, 2005 is Rs. 47.26.

6. Net Asset Value per Equity Share after Issue

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

   Issue Price per Equity Share: Rs. [●]

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

7. Comparison of Accounting Ratios as at March 31, 2005

	EPS (Rs.)	P/E	Return On Average Net Worth (%)	Book Value Per Share (Rs.)
Andhra Bank[1]	**14.55**	**7.20**	**30.80**	**47.26**
Peer Group[2]				
Indian Overseas Bank	11.90	7.10	29.90	44.70
Allahabad Bank	11.80	6.00	35.60	40.90
Corporation bank	27.10	9.30	13.80	213.00
Bank of Maharashtra	3.90	9.50	12.10	35.20
Vijaya Bank	8.80	7.00	27.10	35.40
Peer Group (Simple) Average		7.78	23.70	

Source:

(1) Our EPS, Return on Average Net Worth and Book Value per Share have been calculated from our audited restated financial statements. Our P/E is based on the closing market price of our Equity Shares on NSE as at September 30, 2005.

(2) Source for other information is "Capital Market" Volume VolumeXX/18 dated November 7, 2005 to November 20, 2005

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

The BRLMs believe that the Issue Price of Rs. [●] is justified in view of the above qualitative and quantitative parameters. See the section titled "Risk Factors" on page x of this Red Herring Prospectus and the financials of the Bank including important profitability and return ratios, as set out in the Auditors' report beginning on page 119 of this Red Herring Prospectus to have a more informed view.

STATEMENT OF TAX BENEFITS

The information provided below sets out the possible tax benefits available to the Bank and its shareholders under the current tax laws presently in force in India, as provided by the Auditors by their 'statement of tax benefits, dated November 26, 2005. Several of these benefits are dependent on the Bank or its shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence, the ability of the Bank or its shareholders to derive the tax benefits is dependent upon fulfilling conditions, as may be necessary, and is based on business imperatives the Bank faces in the future. It may be also kept in mind that the Bank may or may not choose to fully utilize the benefits. It may be also noted that the benefits discussed below are not exhaustive and this statement is only intended to provide general information to the investors and is neither designed nor intended to be substitute for professional tax advice.

Under the Income Tax Act, 1961

1. TO THE BANK:

Under the Income Tax Act, 1961 (the "Act") the Bank is entitled to various deductions as is applicable to an Indian Resident Company. The following are the important beneficial provisions, which are presently applicable to Andhra Bank (the"Bank").

The following incomes earned are exempt from Income Tax:

1. Under Section 10 (15)(i) of the Act, income earned by way of interest, premium on redemption or any other payment on certain notified securities issued by the Central Government and deposits with the Central Government;
2. Under Section 10 (15) (iv), interest earned from a Government or a local authority on moneys' borrowed by it before the Ist day of June, 2001, or debts owed by it before the 1st day of June, 2001 or an industrial undertaking on moneys borrowed by it under loan agreement entered into before the Ist day of June, 2001 and approved by the Central Government;
3. Under Section 10 (15)(vii), interest earned on notified bonds issued by a local authority;
4. Under Section 10 (23F), income by way of dividends or long-term capital gains of an approved venture capital fund/company from investments in equity shares before the 1st day of April, 1999;
5. Under Section 10(23FA), income by way of dividends (other than dividends referred to in section 115-O), long-term capital gains of an approved venture capital fund/company from investments in equity shares in a venture capital undertaking made by the bank before the 31st day of March, 2000;
6. Under Section 10 (23G), income by way of dividends (other than dividends referred to in section 115-O), interest or long-term capital gains of an infrastructure capital fund/company or a co-operative bank, from investments made on or after the 1st day of June, 1998, by way of shares or long-term finance in any enterprise or undertaking wholly engaged in the business referred to in section 80IA(4) or a project referred to in 80IB(10);
7. Under Section 10(34), income by way of dividends referred to in section 115 O of the Income Tax Act, 1961;
8. Under Section 10(35), income received in respect of the units of Mutual Fund specified under Section 10(23D) or income received in respect of units from the Administrator ("Administrator" means the Administrator as referred to in clause (a) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002) of the specified undertaking; or income received in respect of units from the specified company ("specified company" means a company as referred to in clause (h) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act,2002);
9. Under Section 10(38), income arising from the transfer of a Long Term Capital Asset, being equity shares in a company or units of an equity oriented fund (i.e. a fund where the investible funds are invested by way of equity shares in domestic companies to the extent of more than fifty percent of the total proceeds of such fund and which has been set up under a scheme of a mutual fund specified undeSection 10(23D) and where the transaction is chargeable to Securities Transaction Tax under Chapter VII of the Finance (No.2) Act, 2004.

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) of the Act, the Bank is eligible to claim a deduction in respect of any provision for bad and doubtful debts made by it of an amount not exceeding seven and one half percent of the total income (computed before making any deduction under this clause and under Chapter VIA) and an amount not exceeding

ten percent of the aggregate average advances made by the rural branches ('rural branch" means a branch of a scheduled bank or a non-scheduled bank situated in a place which has a population of not more than ten thousand according to the last preceding census of which the relevant figures have been published before the first day of the previous year) of the Bank. Further, the Bank can, at its option, claim, a deduction in respect of any provision made by it for assets classified as per the regulations of the Reserve Bank of India as Doubtful Assets or Loss Assets, an amount not exceeding five per cent of the amount of such assets shown in the books of account of the Bank on the last day of the previous year. Apart from the above, the Bank, at its option, can claim a further deduction for an amount not exceeding the income derived from the redemption of securities in accordance with a scheme framed by the Central Government, subject to the condition that such income has been disclosed in the return of income under the head "profits and gains from Business".

2. Under Section 36(1) (vii) of the Act, the amount of any bad debt or part thereof which is 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 or part thereof exceeds the credit balance in the provision for bad and doubtful debts account made under section 36(1)(viia).

3. As per legal opinion, the bank is eligible for a deduction U/S 36(1) (viii), of the Income Tax in respect of profits earned from providing long term finance to Industrial or Agricultural development or development of infrastructure facility provided a special reserve of 40% of profits is created and maintained.

4. As per Section 43D of the Act, interest income on Non Performing Asset (recognized as such having regard to the guidelines issued by Reserve Bank of India) shall be chargeable to tax, only in the year in which it is actually received or the year in which it is credited to the Profit and Loss Account by the Bank, whichever is earlier.

2. TO THE SHAREHOLDERS OF THE BANK:

The following are the benefits as per the Current Tax Laws to a prospective investor. It may be, however, noted that in view of the individual nature of tax consequences, prospective investors are advised to consult his/her/their own tax advisor with respect to specific tax consequences of his/her/their participation in public issue of the bank:

1. To all shareholders:

a) The following incomes earned are exempt from Income Tax in the hands of the shareholders:

   1. Under Section 10 (34), income by way of dividends referred to in section 115-O of the Income Tax Act, 1961;

   2. Under Section 10 (38), income arising from the transfer of an Equity Share of the Bank, which by virtue of holding by the Investor is a Long Term Capital Asset ("Long Term Capital Asset" is an asset held by the investor for more than twelve months) and where the transaction is chargeable to Securities Transaction Tax under Chapter VII of the Finance (no.2) Act, 2004.

b) Under Section 111A of the Act, any income chargeable under the head "Capital gains", arising from the transfer of shares of the Bank held by an Investor as a Short Term Capital Asset ("Short Term Capital Asset" is defined as an asset held for not more than twelve months immediately preceding the date of its transfer) and such transaction is chargeable to Securities Transaction Tax under Finance (no.2) Act, 2004, then the tax payable by the Investor on the such income shall be the aggregate of the amount of Income-tax calculated on such short-term capital gains at the rate of ten per cent. Further, in the case where the Investor is a Resident Individual/ Hindu Undivided Family, and the total income as reduced by such short-term capital gains is below the maximum amount not chargeable to income-tax, then, such short-term capital gains shall be reduced by the amount by which the total income as so reduced falls short of the maximum amount which is not chargeable to income-tax and the tax on the balance of such short-term capital gains shall be computed at the rate of ten per cent.

c) Under Section 112 of the Act, income on transfer of shares would be chargeable as Long Term Capital Gains under the head "Capital Gains", if such transaction was not chargeable to Securities Transaction Tax under Finance (no.2) Act, 2004, and taxed at a rate of 20 % (plus applicable surcharge and education cess) after indexation as provided in the second proviso of Section 48; or at 10% (plus applicable surcharges and education cess) (without indexation), at the option of the shareholders. In such a case, the following options are also available to the shareholder:

1. Under Section 54EC of the Act, where the Investor has, at any time within a period of six months after the date of such transfer, invested the whole or any part of capital gains in a long term specified asset, the said capital gains shall be as under;

    1. Where the cost of the long-term specified asset is not less than the capital gain arising from the transfer of the original asset, the whole of such capital gain shall not be charged under section 45;

    2. Where the cost of the long-term specified asset is less than the capital gain arising from the transfer 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 long-term specified asset bears to the whole of the capital gain, shall not be charged under section 45.

2. Under Section 54ED of the Act, where a capital gains arises form the transfer on sale of shares of the Bank and the Investor has, within a period of six months after the date of such transfer, Invested the whole or any part of the capital gain in equity shares forming part of an eligible issue of capital (such equity shares being hereinafter referred to as the specified equity shares), the said capital gain shall be as under:

    a. Where the cost of the specified equity shares is not less than the capital gain arising from the transfer of the original asset, the whole of such capital gain shall not be charged under section 45;

    b. Where the cost of the specified equity shares is less than the capital gain arising from the transfer 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 the specified equity shares acquired bears to the whole of the capital gain shall not be charged under section 45.

3. Under Section 54F of the Act, (subject to certain conditions specified therein) in the case of an Investor being an Individual or a Hindu Undivided Family, the Capital Gain arising from the transfer of shares of the Bank and the Investor has, within a period of one year before or two years after the date on which the transfer took place, purchased, or has within a period of three years after that date constructed, a residential house (hereinafter referred to as the new asset) the capital gain shall be as under:

    (a) 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;

    (b) 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 the new asset bears to the net consideration, shall not be charged under section 45.

<u>2. To non- residential shareholders in particular:</u>

1. In case of non-resident shareholders governed by the provisions of the Chapter XII A of the Act, the following benefits are available to such shareholders:

    a) Under section 115E of the Act, where the total income of the Investor includes dividend (not being dividend referred to 115-0) or long-term capital gains (such transaction is not chargeable to Securities Transaction Tax under Finance (N0.2) Act, 2004), 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 herein above at the rate of twenty per cent, and the amount of income-tax calculated on the income by way of long-term capital gains referred hereinabove at the rate of ten percent.

    b) Under Section 115F of the Act, where the Investor having Long Term Capital Gains (not exempt under section 10 (38) of the Act) arising from the transfer of 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 115H of the Act, where the Non Resident Indian investor, subsequently becomes assessable as the 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 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 such assets.

2. Under Section 115AD of the Act, where the total income of a Foreign Institutional Investor ("Foreign Institutional Investor" means such investor as the Central Government may, by notification in the Official Gazette, specify in this behalf) includes income (other than income by way of dividends referred to in section 115-0) received in respect of security (other than units referred to in section 115 AB), 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:

   a) the amount of income-tax calculated on securities at the rate of twenty per cent;

   b) the amount of income-tax calculated on the income by way of short -term capital gains at the rate of thirty per cent. However, the amount of income-tax calculated on the income by way of short-term capital gains referred to in section 111A shall be at the rate of ten per cent; and

   c) 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 ten per cent.

Further, as per section 196D of the Act, where any 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 twenty per cent. 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 115AD, payable to a Foreign Institutional Investor.

The above provisions will be further subject to benefits under the Double Taxation Avoidance Agreements, if any, between India and country in which the non-resident has fiscal domicile.

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. Accordingly, shares purchased in the issue are not liable to wealth-tax in the hands of the shareholders.

Under the Gift Tax Act, 1958:

Gifts of the shares made on or after October1, 1998 are not liable to Gift Tax.

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 and RBI, and has not been prepared or independently verified by us or any of our advisors. Wherever we have relied on figures published by RBI, unless stated otherwise, we have relied on RBI Annual Report, 2004-2005, Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks as at March 2005, RBI's Annual Policy Statements for 2004-2005 and 2005-2006 and the Mid-Term Review of the RBI's Annual Policy Statement for 2005-06.

History

The evolution of the modern commercial banking industry in India can be traced to 1786 with the establishment of the Bank of Bengal in Calcutta. 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 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. Since 1991, many financial reforms have been introduced substantially transforming the banking industry in India.

Overview

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

- commercial banks comprising:
  - public sector banks;
  - private sector banks; and
  - foreign banks.
- cooperative banks;
- long-term lending institutions;
- non-bank finance companies, including housing finance companies;
- other specialized financial institutions, and state-level financial institutions;
- insurance companies; and
- mutual funds.

Until the early 1990s, the Indian financial system was strictly controlled. Interest rates were administered, formal and informal parameters governed asset allocation, and strict controls limited entry into and expansion within the financial sector. The Government of India'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, the Narasimham Committee I. The second phase of the reform process began in 1999.

The discussion below presents an overview of the role and activities of RBI and of each of the major participants in the Indian financial system, with a focus on the commercial banks. This is followed by a brief summary of the banking reform process along with the recommendations of various committees that have played a key role in the reform process. A brief discussion on the impact of the liberalization process on commercial banks and financial sector is then presented. Also, reforms in the non-banking financial sector are briefly reviewed.

Reserve Bank of India

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

RBI issues guidelines, notifications and circulars on various areas, including exposure standards, income recognition, asset classification, provisioning for non-performing assets, investment valuation and capital adequacy standards for commercial banks, long-term lending institutions and non-banking finance companies. RBI requires these institutions to furnish information relating to their businesses to RBI on a regular basis.

Commercial Banks

Commercial banks in India have traditionally focused on meeting the short-term financial needs of industry, trade and agriculture. At the end of March 2005 there were 284 scheduled commercial banks and four non-scheduled commercial banks in the country, with a network of 68,116 branches. Scheduled commercial banks 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. Industrial Development Bank of India was converted into a banking company by the name of Industrial Development Bank of India Limited with effect from October 2004 and is a scheduled commercial bank. Scheduled commercial banks have a presence throughout India, with nearly 69.49% of bank branches located in rural or semi-urban areas of the country. A large number of these branches belong to the public sector banks.

Public Sector Banks

Public sector banks make up the largest category of banks in the Indian banking system. There are 28 public sector banks in India. They include the State Bank of India and its associate banks and 20 nationalised banks. Nationalised banks are governed by the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970 and 1980. The banks nationalised under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and 1980 are referred to as 'corresponding new banks'.

Andhra Bank was constituted as a corresponding new bank, nationalised in 1980 under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980.

At the end of March 2005, public sector banks had 47,320 branches and accounted for 74% of the aggregate deposits and 70.47% of the outstanding gross bank credit of the scheduled commercial banks.

Regional Rural Banks

Regional rural banks were established from 1976 to 1987 jointly by the Central Government, State Governments and sponsoring public sector commercial banks with a view to develop the rural economy. Regional rural banks provide credit to small farmers, artisans, small entrepreneurs and agricultural labourers. There were 196 regional rural banks at the end of March 2005 with of 14,433 branches, accounting for 3.50% of aggregate deposits and 2.81% of gross bank credit outstanding of scheduled commercial banks.

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, RBI permitted entry by the private sector into the banking system. This resulted in the introduction of nine private sector banks. These banks are collectively known as the new private sector banks. There are nine "new" private sector banks operating at present. In addition, 20 private sector banks existing prior to July 1993 were operating as at March 31, 2005.

Foreign Banks

At the end of March 2005, there were 31 foreign banks with 220 branches operating in India, accounting for 4.40% of aggregate deposits and 6.60% of outstanding gross bank credit of scheduled commercial banks. The Government of India 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% in a private bank. The primary activity of most foreign banks in India has been in the corporate segment. However, some of the larger foreign banks have made consumer financing a significant part of their portfolios. These banks offer products such as automobile finance, home loans, credit cards and household consumer finance. The GoI in 2003 announced that wholly-owned subsidiaries of foreign banks would be permitted to incorporate wholly-owned subsidiaries in India. Subsidiaries of foreign banks will have to adhere to all banking regulations, including priority sector lending norms, applicable to domestic banks. In March 2004, the Ministry of Commerce and Industry, GoI announced that the foreign direct investment limit in private sector banks has been raised to 74% from the existing 49% under the automatic route including investment by FIIs. The announcement also stated that the aggregate of foreign investment in a private bank from all sources would be allowed up to a maximum of 74% of the paid up capital of the bank.

The RBI in July 2004 issued a Draft Policy on Investment and Governance in Private Sector Banks, which set out certain broad principles underlying the framework relating to ownership of private sector banks.

Cooperative Banks

Cooperative banks cater to the financing needs of agriculture, small industry and self-employed businessmen in urban and semi-urban areas of India. The state land development banks and the primary land development banks provide long-term credit for agriculture. In light of the liquidity and insolvency problems experienced by some cooperative banks in fiscal 2001, RBI undertook several interim measures to address the issues, pending formal legislative changes, including measures related to lending against shares, borrowings in the call market and term deposits placed with other urban cooperative banks. RBI is currently responsible for the supervision and regulation of urban co-operative societies, the National Bank for Agriculture and Rural Development, state co-operative banks and district central co-operative banks. The Banking Regulation (Amendment) and Miscellaneous Provisions Act, 2004 (which came into effect as at September 24, 2004), specifies that all co-operative banks are under the supervision and regulation of RBI.

Term Lending Institutions

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

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

- Fee-based activities like investment banking and advisory services; and
- Short-term lending activity including corporate loans and working capital loans.

Pursuant to the recommendations of the Committee on Banking Sector Reforms (Narasimham Committee II), S.H. Khan Working Group, a working group created in 1999 to harmonise the role and operations of term lending institutions and banks, RBI, in its mid-term review of monetary and credit policy for fiscal 2000, announced that long-term lending institutions would have the option of transforming themselves into banks subject to compliance with the prudential norms as applicable to banks in India. In April 2001, RBI issued guidelines on several operational and regulatory issues which were required to be addressed in evolving the path for transition of a term lending institution into a universal bank.

Industrial Development Bank of India was converted into a banking company with the name of Industrial Development Bank of India Limited within the meaning of the Banking Regulation Act and the Companies Act with effect from October 11, 2004. It is currently able to carry on banking operations in addition to the business being transacted by it as a term lending institution.

Non-Banking Finance Companies

There were 13,187 non-banking finance companies in India as at March 31, 2005, mostly in the private sector. All non-banking finance companies are required to register with RBI in terms of The Reserve Bank of India (Amendment) Act, 1997. The non-banking finance companies, on the basis of their principal activities are broadly classified into four categories namely Equipment Leasing (EL), Hire Purchase (HP), Loan and Investment Companies and deposits and business activities of Residuary Non-Banking Companies (RNBCs). The Reserve Bank has put in place a set of directions to regulate the activities of NBFCs under its jurisdiction. The directions are aimed at controlling the deposit acceptance activity of NBFCs. The NBFCs which accept public deposits are subject to strict supervision and capital adequacy requirements of RBI. Out of the NBFCs registered with RBI as at March 2005, 474 NBFCs accept Public Deposits.

Housing Finance Companies

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

Other Financial Institutions

Specialized Financial Institutions

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

State Level Financial Institutions

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

Insurance Companies

As at August 31, 2005, there were 29 insurance companies in India, of which 14 are life insurance companies, 14 are general insurance companies and one is a reinsurance company. Of the 14 life insurance companies, 13 are in the private sector and one is in the public sector. Among the general insurance companies, nine are in the private sector and five are in the public sector. The reinsurance company, General Insurance Corporation of India, is in the public sector. Life Insurance Corporation of India, General Insurance Corporation of India and public sector general insurance companies also provide long-term financial assistance to the industrial sector. In fiscal 2004, the total gross premiums underwritten of all general insurance companies were Rs. 160.37 billion and the total new premiums of all life insurance companies were Rs. 194.30 billion. As per provisional figures released by Insurance Regulatory and Development Authority (IRDA), in fiscal 2005, the total gross premiums underwritten of all general insurance companies were Rs. 180.95 billion and the total new premiums of all life insurance companies were Rs. 253.43 billion. Over the past few years, the market shares of private sector insurance companies have been increasing in both life and non-life insurance businesses. The market share of private sector life insurance companies in new business written increased from 1.35% in fiscal 2002 to 5.66% in fiscal 2003 and 12.56% in the fiscal 2004. Provisional figures released by IRDA indicate a market share of 21.93% during fiscal 2005 for private sector life insurance companies in new business written. The market share of private sector non-life insurance companies for business in India increased from 3.86% in fiscal 2002 to 9.16% in fiscal 2003 and 14.09% during the fiscal 2004. Provisional figures released by IRDA indicate a market share of 19.65% during fiscal 2005 for private sector non-life insurance companies for business in India

Mutual Funds

As at September 30, 2005, there were 28 mutual funds in India with total net assets of Rs. 2,016.69 billion. From 1963 to 1987, Unit Trust of India was the only mutual fund operating in India. It was set up in 1963 at the initiative of the Government and RBI. From 1987 onwards, several other public sector mutual funds entered this sector. These mutual funds were established by public sector banks, the Life Insurance Corporation of India and General Insurance Corporation of India. The mutual funds industry was opened up to the private sector in 1993. The industry is regulated by the SEBI (Mutual Fund) Regulation 1996.

Liberalisation and the Reform Process

Impact of Liberalisation on the Banking Sector

Until 1991, the financial sector in India was heavily controlled, and commercial banks and term lending institutions, the two dominant financial intermediaries, had mutually exclusive roles and objectives and operated in a largely stable environment, with little or no competition. Term lending institutions were focused on the achievement of the Indian government's various socio-economic objectives, including balanced industrial growth and employment creation, especially in areas requiring development. These lending institutions provided access to long-term funds at subsidised rates through loans and equity from the Government of India and from funds guaranteed by the Government of India originating from commercial banks in India and foreign currency resources originating from multilateral and bilateral agencies.

The focus of the commercial banks was primarily to mobilise household savings through demand and time deposits and to use these deposits to meet the short-term financial needs of borrowers in industry, trade and agriculture. In addition, the commercial banks provided a range of banking services to individuals and businesses.

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

Banking Sector Reforms

In the wake of the last decade of financial reforms, the banking industry in India has undergone a significant transformation, which has covered almost all important facets of the industry.

Most large banks in India were nationalised by 1980 and thereafter were subject to a high degree of control until reform began in 1991. In addition to controlling interest rates and entry into the banking sector, the regulations also channelled lending into priority sectors. Banks were required to fund the public sector through the mandatory acquisition of low-interest-bearing government securities or statutory liquidity ratio bonds to fulfil statutory liquidity requirements. As a result, bank profitability was low, non-performing assets were comparatively high, capital adequacy was diminished, and operational flexibility was hindered.

Committee on the Financial System (Narasimham Committee I)

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

- With fiscal stabilisation and the Government increasingly resorting to market borrowing to raise resources, the statutory liquidity ratio, or the proportion of a bank's net demand and time liabilities that were required to be invested in government securities, was reduced from 38.5%, in the pre-reform period, to 25.0% in October 1997. This meant that the significance of the statutory liquidity ratio shifted from being a major instrument for financing the public sector in the pre-reform era to becoming a prudential requirement;
- Similarly, the cash reserve ratio or the proportion of the bank's net demand and time liabilities that were required to be deposited with RBI, was reduced from 15.0%, in the pre-reform period, to 5.0% currently;
- Special tribunals were created to resolve bad debt problems;
- Most of the restrictions on interest rates for deposits were removed and commercial banks were allowed to set their own level of interest rates for all deposits except savings bank deposits; and
- Substantial capital infusion to several state-owned banks was approved in order to bring their capital adequacy closer to internationally accepted standards. The stronger public sector banks were given permission to issue equity to increase capital.

Committee on Banking Sector Reform (Narasimham Committee II)

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

The successes of the reforms were aided to a large extent by the relative macroeconomic stability during the period. Another distinguishing feature of the reforms was the successful sequencing and gradual introduction of the reforms.

Banks have implemented new prudential accounting norms for the classification of assets, income recognition and loan loss provisioning. Following the Bank for International Settlements (BIS) guidelines, capital adequacy norms have also been prescribed. To meet additional capital requirements, public sector banks have been allowed to access the market for funds. Interest rates have been deregulated, while the rigour of directed lending has been progressively reduced.

Committee on Capital Account Convertibility (Tarapore Committee)

In 1997, the Tarapore Committee on Capital Account Convertibility, constituted by the Reserve Bank, set out the preconditions for capital account convertibility, which it set itself the objective of establishing within three years. The three crucial preconditions were fiscal consolidation, a mandated inflation target and a strengthening of the financial system. RBI set itself the objective of achieving these preconditions within three years from the date the Tarapore Committee was constituted.

The Tarapore Committee also recommended change in the legislative framework governing foreign exchange transactions. Accordingly, the Foreign Exchange Regulation Act (FERA) which formed the statutory basis for exchange control in India was repealed and replaced by the FEMA with effect from June 2000.

Proposed Structural Reforms

Amendments to the Banking Regulation Act

A bill to amend the Banking Regulation Act, 1949, was recently passed, which provides for the following:

- to remove the lower and upper bounds to the Statutory Liquidity Ratio and provide flexibility to RBI to prescribe prudential norms;
- to allow banking companies to issue preference shares; and
- to introduce specific provisions to enable the consolidated supervision of banks and their subsidiaries by RBI in consonance with international best practices.
- introduction of new provision to provide for set-off of losses to banking companies in cases of amalgamation; and
- enhancement of credit-linking of Self-Help Groups with the Banking System.

Amendments to the Reserve Bank of India Act

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

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

Legislative Framework for Recovery of Debts Due to Banks

In fiscal 2003, the Parliament passed the Securitisation Act. The Securitisation Act provides the powers of “seize and desist” to banks. The Act provides that a “secured creditor” may, in respect of loans classified as non-performing in accordance with RBI guidelines, give notice in writing to the borrower requiring it to discharge its liabilities within 60 days, failing which the secured creditor may take possession of the assets constituting the security for the loan, and exercise management rights in relation thereto, including the right to sell or otherwise dispose of the assets. This Act also provides for the establishment of asset reconstruction companies regulated by RBI to acquire assets from banks and financial institutions. The constitutionality of the Securitisation Act was challenged in Mardia Chemicals Limited v. Union of India, AIR 2004 SC 2371. The Supreme Court upheld the validity of the Act, except Section 17(2), wherein they found that the requirement of making a deposit of 75% of the amount claimed at the time of making a petition or an appeal to the DRT in order to challenge the measures taken by the creditor was unreasonable and therefore, struck down. RBI has issued guidelines for asset reconstruction companies in respect of their establishment, registration and licensing by RBI, and operations.

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

Corporate Debt Restructuring ("CDR")

To put in place an institutional mechanism for the restructuring of corporate debt, RBI has devised a corporate debt restructuring system. The objective of this framework is to ensure a timely and transparent mechanism for the restructuring of corporate debts of viable entities facing problems, outside the purview of the Board for Industrial and Financial Reconstruction, debt recovery tribunals and other legal proceedings. In particular, the framework aims to preserve viable corporates that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and co-ordinated restructuring program. The corporate debt restructuring system is a non-statutory mechanism and a voluntary system based on debtor-creditor and inter-creditor agreements. Any lender having a minimum 20% exposure in term loan or working capital may make a reference to the CDR Forum.

The system put in place by RBI contemplates a three tier structure with the CDR Standing Forum at the helm, which is the general body of all member institutions, out of which is carved out the core group, a niche body of select institutions that decides policy matters. Decisions on restructuring are taken by the CDR Empowered Group, which has all the member banks/FIs as its members. To assist the CDR Forum in secretarial matters and for analysis of the restructuring packages, a CDR Cell has been formed.

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

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

- extension of the scheme to entities with outstanding exposure of Rs.10 crore or more;
- requirement of support of 60% of creditors by number in addition to the support of 75% of creditors by value with a view to make the decision making more equitable;
- discretion to the core group in dealing with wilful defaulters in certain cases other than cases involving frauds or diversion of funds with malafide intentions;
- linking the restoration of asset classification prevailing on the date of reference to the CDR Cell to implementation of the CDR package within four months from the date of approval of the package;
- restricting the regulatory concession in asset classification and provisioning to the first restructuring where the package also has to meet norms relating to turn-around period and minimum sacrifice and funds infusion by promoters;
- convergence in the methodology for computation of economic sacrifice among banks and FIs
- limiting RBI's role to providing broad guidelines for CDR mechanism;
- enhancing disclosures in the balance sheet for providing greater transparency;
- pro-rata sharing of additional finance requirement by both term lenders and working capital lenders;
- allowing OTS as a part of the CDR mechanism to make the exit option more flexible; and
- regulatory treatment of non-SLR instruments acquired while funding interest or in lieu of outstanding principal and valuation of such instruments.

Recent Developments

RBI in its mid-term review of credit policy has introduced a debt restructuring mechanism for units in the SME sector in line with the corporate debt restructuring mechanism prevailing in the banking sector.

Universal Banking Guidelines

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

Annual Policy Statement

RBI has renamed its credit policy as the "Annual Policy" statement since it is more aimed at structural adjustments rather than controlling the credit flow in the economy. As per the Annual Policy statement for the year 2005-06, the rate of CRR of scheduled commercial banks has been kept at 5.00% of net demand and time liabilities as on the last Friday of the second preceding fortnight.

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

In the Annual Policy for the year 2005-06, RBI has stated that the overall stance of monetary policy for the year 2005-06 shall be as follows:

- Provision of appropriate liquidity to meet credit growth and support investment and export demand in the economy while placing equal emphasis on price stability;
- Consistent with the above, to pursue an interest rate environment that is conductive to macroeconomic and price stability, and maintaining the momentum of growth; and
- To consider measures in a calibrated manner, in response to evolving circumstances with a view to stabilising inflationary expectations.

In the Annual Policy for fiscal 2006, RBI introduced the following measures, among others:

- Liquidity adjustment facility ("LAF") scheme: The international usage of "repo" and "reverse repo" terms was adopted from October 29, 2004. The LAF scheme has been operating with overnight fixed rate repo and reverse repo with effect from November 1, 2004.
- There is no change in the bank rate, which remains at 6.00%.
- The fixed reverse repo rate under the LAF scheme was increased effective from April 29, 2005 from 4.75% to 5.00%. The fixed repo rate under LAF remained unchanged at 6.00%.
- The CRR level has been kept unchanged at 5.00%.
- Ensuring stability in short-term interest rates, minimising default risk and achieving a balanced development of various segments of the money market.
- RBI will not be participating in the primary issuance of Government securities with effect from April 1, 2006. Further sale of government securities allotted in primary issues with and between CSGL account holders (which is the demat form of holding Government securities) shall also take place on the same day.
- RBI shall issue guidelines on merger and amalgamation between private sector banks and with NBFCs. The guidelines would cover process of merger proposal, determination of swap ratios, disclosures, norms for buying/selling of shares by promoters before and during the process of merger and the Board's involvement in the merger process. The principles underlying these guidelines would also be applicable as appropriate to public sector banks, subject to relevant legislation.
- To raise the ceiling of overseas investment by Indian entities in overseas joint ventures and/or wholly owned subsidiaries from 100% to 200% of their net worth under the automatic route.
- To set up an independent Banking Codes and Standards Board of India on the model of the mechanism in the UK in order to ensure that comprehensive code of conduct for fair treatment of customers are evolved and adhered to.
- Structural and developmental measures for deepening and widening the government securities market.
- Measures for simplifying the systems and procedures for offering better customer service and to continue with the liberalisation process for improvement of the foreign exchange market.

Mid-Term Review of Annual Policy Statement

The Mid-Term Review of the Annual Policy Statement of RBI for the Year 2005-06, which was released in late October 2005, included the following revisions:

Monetary Measures

- Bank rate kept unchanged at 6.0%.
- Reverse repo rate increased by 25 basis points to 5.25%, effective October 26, 2005. The spread between reverse repo rate and the repo rate under LAF was maintained at 100 basis points.
- The cash reserve ratio was kept unchanged at 5.0%.

<u>Interest Rate Policy</u>

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

Financial Markets

- RBI constituted a new department called the Financial Markets Department in July 2005 with a view to moving towards functional separation between debt management and monetary operations.
- RBI proposes the introduction of intra-day short selling in government securities proposed.
- NDS-OM module to be extended to all insurance entities that are mandated to invest in government securities.
- A screen-based negotiated quote-driven system for call/notice and term money markets and an electronic trading platform for market repo operations in government securities are being developed by the Clearing Corporation of India Ltd.

External Commercial Borrowings (ECBs)

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

Credit Delivery Mechanisms

- Banks have been advised (a) to fix their own targets for financing the SME sector so as to reflect higher disbursement required by RBI, (b) formulate liberal and comprehensive policies for extending loans to the SME sector and (c) rationalise the cost of loans to the SME sector with cost linked to credit ratings.
- A debt restructuring mechanism for units in the SME sector, in line with the corporate debt restructuring (CDR) mechanism prevailing in the banking sector has been formulated by the RBI.
- The Micro Finance Development Fund set up in the NABARD has been re-designated as the Microfinance Development and Equity Fund (MFDEF) and its funding increased from Rs. 1,000 million to Rs. 2,000 million. The modalities in regard to the functioning of the MFDEF are being considered.
- An internal working group proposed to examine and revise guidelines concerning relief measures to be provided in areas affected by natural calamities.

Financial Inclusion

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

Prudential Measures

- A bank's aggregate capital market exposure has been restricted to 40% of the net worth of the bank on a stand alone and consolidated basis; consolidated direct capital market exposure has been modified to 20% of the bank's consolidated net worth. Individual banks that have sound internal controls and robust risk management systems can approach the Reserve Bank to apply for higher limits.
- The general provisioning requirement for 'standard advances' has been increased from the present level of 0.25% to 0.40%. Direct advances to agricultural and SME sectors are exempted from the additional provisioning requirement.
- A supervisory review process to be initiated with select banks having significant exposure to some sectors, namely, real estate, highly leveraged NBFCs, venture capital funds and capital markets, in order to ensure that effective risk management systems and sound internal controls are in place.
- A general permission has been granted to banks to issue debit cards in tie-up with non-bank entities.

Institutional Developments

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

The RBI anticipates that:

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

Reforms of the Non-Banking Finance Companies

The standards relating to income recognition, provisioning and capital adequacy were prescribed for non-banking finance companies in June 1994. The registered non-banking finance companies were required to achieve a minimum capital adequacy of 6.0% by year-end fiscal 1995 and 8.0% by year-end fiscal 1996 and to obtain a minimum credit rating. To encourage the companies complying with the regulatory framework, RBI announced in July 1996 certain liberalization measures under which the non-banking finance companies registered with it and complying with the prudential norms and credit rating requirements were granted freedom from the ceiling on interest rates on deposits and amount of deposits. Other measures introduced include requiring non-banking finance companies to maintain a certain percentage of liquid assets and to create a reserve fund. The percentage of liquid assets to be maintained by non-banking finance companies has been revised uniformly upwards and since April 1999, 15.0% of public deposits must be maintained. Efforts have also been made to integrate non-banking finance companies into the mainstream financial sector.

New Initiatives in the Banking Sector

Risk Management and Basel II

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

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

RTGS Implementation in India

With the commencement of operations of the Real Time Gross Settlement ("RTGS") system from March 26, 2004, India crossed a major milestone in the development of systemically important payment systems and complied with the core principles framed by the Bank for International Settlements. As at March 31, 2005, there are 95 direct participants in the RTGS system. As at September 30, 2005, RTGS connectivity was available in 11,280 bank branches in 508 cities. The salient features of the RTGS are as follows:

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

More than 75% of the value of inter bank transfers, which was earlier being settled through the deferred net settlement systems ("DNSS") based inter-bank clearing, is now being settled under RTGS.

Cheque Truncation

The pilot program for the Cheque Truncation System, which aims to enhance efficiency in the retail cheque clearing sector is expected to be implemented in the National Capital Region by the end of Fiscal 2006. RBI proposes to extend this service to three other metro centers (Mumbai, Kolkata and Chennai) over the next two years.

Exchange Controls

Restrictions on Conversion of Rupees

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

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

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

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

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

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

Technology

Technology is emerging as a key-driver of business in the banking and financial services industry. Banks are developing alternative channels of delivery like ATMs, telebanking, remote access and Internet banking etc. Indian banks have been making significant investments in technology. Besides computerization of front-office operations, the banks have moved towards back-office centralization. Banks are also implementing “Core Banking” or “Centralised Banking”, which provides connectivity between branches and helps offer a large number of value-added products, benefiting a larger number of customers. RBI Annual Report for the fiscal 2005 states that the use of ATMs has been growing rapidly and this has helped in optimising the investments made by banks in infrastructure. Banks have joined together in small clusters to share their ATM networks during the year. There are five such ATM network clusters functioning in India. The total number of ATMs installed by the public sector banks stood at 8,219 at March 31, 2004, compared with 5,963 ATMs at March 31, 2003.

The payment and settlement system is also being modernised. RBI is actively pursuing the objective of establishing a Real Time Gross Settlement (RTGS) system, on par with other developed economies.

Corporate Governance

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

Consolidation

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

BUSINESS

The financial figures used in this section unless otherwise stated, have been derived from our Bank's restated financial statements included in this Red Herring Prospectus, stand alone financial, stand alone audit reports for the relevant years and our Bank's reporting to RBI.

Business Overview

We are a public sector banking institution in India. As at September 30, 2005, we had 1,177 branches in India spread over 21 states and 2 union territories. Of these branches, 854 are located in the state of Andhra Pradesh, where we are the largest bank by number of branches. We had an additional 526 delivery channels including extension counters, ATMs and satellite offices. As at September 30, 2005, we served over 13.9 million customers.

In fiscal 2005, we made a net profit of Rs. 5,821.94 million and for the six months ended September 30, 2005, our net profit was Rs. 2,035.20 million. In fiscal 2005, we had assets of Rs. 327,200.04 million and net worth of Rs. 18,904.16 million. At September 30, 2005, our Bank had assets of Rs. 350,791.21 million and our net worth was Rs. 20,463.75 million. We have a record of consistent growth in deposits and advances, with deposits growing at a compound annual rate of 10.78% during the last four years and net advances growing at a compound annual rate of 23.94% during the same period.

We were founded by Dr. Bhogaraju Pattabhi Sitaramayya in 1923 in Machilipatnam, Andhra Pradesh. Our Head Office is now in Hyderabad. We were registered on November 20, 1923 and following nationalisation in April 1980 we became a wholly-owned Government bank. In 1964, we merged with Bharata Lakshmi Bank and further consolidated our position in Andhra Pradesh. We currently have lead bank responsibilities from the RBI in six districts, Guntur, West Godavari, East Godavari and Srikakulam in Andhra Pradesh and Ganjam and Gajapathi in Orissa. We are the convener of the State Level Bankers Committee in the state of Andhra Pradesh. We had our initial public offering in February 2001 at which time the shareholding of the Government of India was diluted to 62.50%. After this present Issue, the Government of India's shareholding is proposed to be reduced to 51.55%.

In 1981, we became one of the first banks in India to introduce credit cards. In fiscal 2004, we became one of the first public sector banks to undertake mortgage backed securitisation with the securitisation of 1,437 housing loan accounts for an aggregate value of Rs. 503.6 million. Additionally, we were one of the first banks to actively market insurance-linked savings deposits to customers.

We have won a number of industry awards. We were recently ranked the number one bank in Asia in return on capital by The Banker, Financial Times business publication, and ranked 683rd overall in its survey of the "Top 1000 Banks", up from 960 in 2004. The Business Standard Annual Banking Survey 2004-2005 ranked us first in a survey of 76 banks (26 Public Sector Banks, 23 Private Sector Banks and 27 Foreign Banks) operating in India. The parameters considered were: Productivity, Profitability, Growth, Safety, and Efficiency. ICRA assigned us a corporate governance rating of "CGR-2", which demonstrates that we have adopted and follow corporate governance practices, conventions and codes that provide our financial stakeholders with a high level of assurance on the quality of our corporate governance. In addition, our work with over 47,884 Self Help Groups (SHGs) was recognised by the Government of Andhra Pradesh in fiscal 2005, which awarded us the title of "Best Bank" in the state for the fourth year running.

Managing NPAs effectively is of paramount importance to us. We have demonstrated commitment to the containment of loan delinquency and the accelerated recovery of NPAs, which has resulted in us having one of the lowest NPAs amongst the public sector banks in India. As at September 30, 2005, we had net NPAs of 0.26% and gross NPAs to gross advances of 2.27%.

Our business is principally divided into three main areas; corporate financial services, retail financial services and agricultural financial services.

Our banking operations for corporate and commercial customers include a range of products and services for large corporate customers as well as for small and medium sized businesses. 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. We also provide credit substitutes such as letters of credit and guarantees. In addition, we also provide fee-based products and services such as cash management services.

As part of our commercial banking business, we provide financial services to Small and Medium Enterprises (SMEs) and Small Scale Industries (SSIs). Our products for these sectors are intended to facilitate the establishment, expansion and modernisation of small businesses, including acquiring fixed assets, plant and machinery and meeting working capital needs. We provide flexible security requirements to make credit more accessible to SME and SSI borrowers.

Our retail banking business provides financial products and services to our retail customers. We provide housing, retail trade, automobile, consumer, education and other personal loans and deposit services such as demand, savings and fixed deposits for our customers. In addition, we distribute products such as global debit cards and global credit cards. We also distribute third party products including mutual fund products and general and life insurance policies.

We have also maintained our focus on addressing the needs of agricultural customers and offer specialised products and services to the agricultural sector. We offer direct financing to farmers for production and investment as well as indirect financing for infrastructure development and credit to suppliers of inputs.

We are committed to facilitating community development. We are a pioneer in the SHG - Public Sector Bank Linkage Program. During fiscal 2005, we loaned an aggregate of Rs. 1,795.1 million to 47,884 SHGs and for the six month period ending September 30, 2005, we loaned an aggregate of Rs. 898.00 million to 21,675 SHGs. As at September 30, 2005, we had total loans outstanding of Rs. 6,010.70 million to 202,560 SHGs. In addition, we have established eight Development Training Institutes that, as at March 31, 2005, have assisted 42,425 unemployed youth and rural poor to develop self-employment skills, which have helped to strengthen our ties with the agricultural community.

We have a wide network of branches across India, and we are well positioned to offer customers convenient and accessible banking services. We deliver our products and services through our branches, extension counters and ATMs. We have recently introduced mobile phone banking and we are currently implementing the technology to enable Internet banking and expect this service to be available by the end of fiscal 2006. As at September 30, 2005, our branch network comprised 385 rural, 332 semi-urban, 299 urban and 161 metropolitan branches. This network includes a number of specialised branches that focus on the needs of specific sectors. As at September 30, 2005, we had 13 specialised SME branches, nine specialised agriculture finance branches, eight specialised housing finance branches and two specialised corporate finance branches. In addition, we pioneered the concept of mobile banking whereby we make banking facilities available to residents of isolated rural villages and customers that have limited mobility in a "branch on wheels" format.

All our branches are computerised and we are currently implementing our core banking technology project throughout our organisation to network our branches in regional clusters. 830 of our 1,177 branches are connected to this network, which allow customers to access information relating to their accounts from any networked branch thereby enabling the provision of "anywhere banking".

The following table gives the region-wise break-up of domestic deposits, advances and branch network as at the end of fiscal 2004 and fiscal 2005 and as at September 30, 2005:

Geographic Distribution		As at March 31, 2004			As at March 31, 2005			As at September 30, 2005		
		No. of Branches	Aggregate Deposits	Net Bank Credit	No. of Branches	Aggregate Deposits	Net Bank Credit	No of Branches	Aggregate Deposits	Net Bank Credit
I	Northern region	46	15,317.70	7,971.20	47	19,217.50	12,761.10	48	20,743.50	14,878.80
II	North eastern region	1	154.00	51.30	1	140.10	62.70	1	187.70	53.30
III	Eastern region	99	16,547.80	4,822.70	104	22,371.20	7,899.00	104	23,555.30	7,761.70
IV	Central region	18	6348.40	1,919.80	21	9,944.00	2,371.40	21	7,397.70	2,503.30
V	Western region	46	24,408.00	20,930.80	47	31,608.10	28,405.70	51	42,889.50	30,158.70
VI	Southern region	918	165,812.30	98,094.10	948	191,489.80	127,558.50	952	201,951.70	136,135.40
	All India	**1,128**	**228,588.20**	**133,789.90**	**1,168**	**274,770.70**	**179,058.40**	**1,177**	**296,725.40**	**191,491.20**

Business Strategy

We intend to maintain our position as an innovative, forward looking, cost efficient and customer focused institution that provides comprehensive banking and related services. We intend to grow by expanding geographically in India and internationally, by increasing our volume of retail business and by cross-selling various fee-based financial products and services to our customers. We are committed to our entrenched philosophy of aiding India's development and will expand our services to the priority sectors. The main elements of our strategy are set forth below:

Reduce cost of funds

We have made a concerted effort to achieve a low overall cost of funds. We have achieved this through a large base of low cost deposits, which represents 35.89% of our total deposits and 30.55% of our total working funds as at September 30,

2005. Interest free current deposits and low interest savings deposits constituted 8.18% and 27.71% of our total deposits as at September 30, 2005, respectively.

Average current deposits as at March 31, 2005 were Rs. 17,789.00 million, up 35.06% from Rs. 13,171.00 million as at March 31, 2004. Average savings deposits as at March 31, 2005 were Rs. 67,121.00 million, up 27.54% from Rs. 52,624.00 million as at March 31, 2004. In comparison, average term deposits, which are less profitable for us, grew only 1.68% from Rs. 145,204.00 million as at March 31, 2004 to Rs. 147,640.00 million as at March 31, 2005. We are implementing measures to make this trend continue.

We prudently manage our deposit portfolio to minimize the average cost of deposits. We believe we can continue to enlarge our low cost funding base by leveraging our extensive rural branch network where many of the customer deposits are low cost savings deposits and maintaining our focus on increasing the volume of our retail banking business. We may also in the future employ securitisation as a balance sheet management tool to reduce our cost of funds.

Increase fee-based revenue

We are looking to increase our high margin fee-based income by expanding our third party product offerings and increasing the fee-based services we provide. We have recently entered into agreements with Principal Mutual Fund, SBI Mutual Fund, TATA Mutual Fund, UTI Mutual Fund and Sundaram Mutual Fund for the distribution of mutual fund products issued by these providers. We also market and sell the life insurance products of Life Insurance Corporation of India and United India Insurance Company Limited in conjunction with certain of our savings account and term deposit products. We have also recently relaunched Western Union Money Transfer services, increasing the number of locations from 252 to 700 as at March 31, 2005. We earn fees and commissions for the distribution and sale of these products. We also intend to increase this revenue stream by promoting certain of our products and services including the issuance of letters of credit and guarantees and our depositary services. We intend to grow our income from fee based services by offering new products and services and by cross-selling our offerings to our customers.

Maintain our credit quality

Maintaining a high quality asset base is vital to the performance and growth of our institution. Strategies that we believe will help us achieve this include effectively managing our NPAs, diversifying our loan portfolio and implementing credit risk initiatives.

Managing NPAs effectively is of paramount importance to us. We have demonstrated commitment to the containment of loan delinquency and the accelerated recovery of NPAs, resulting in us having one of the lowest NPAs amongst the public sector banks in India. As at September 30, 2005, we had net NPAs of 0.26% and gross NPAs to gross advances of 2.27%. We intend to work towards lowering these figures even further by continuing to implement strategies for the recovery of NPAs, including conducting regular "recovery drives" in order to focus branches on the recovery of NPAs below Rs. 100,000; forming asset recovery cells within selected zones that continually follow up on outstanding NPAs of Rs. 500,000 and above; initiating compromise settlement schemes; deploying a specialised asset recovery team to further educate branches on the recovery of smaller NPA accounts and maintaining a cultural focus on NPA management throughout all levels of our institution.

We have a diverse corporate credit portfolio, which has lead to a wider risk spread among the industries to which we are committed. None of the top ten industries to which we are exposed comprises more than 7.5% of our total exposure. We intend to maintain prudent internal policy guidelines concerning exposure to individual industries and concentration of loans.

We are currently centralising the way in which we process applications for both commercial and retail credit. Functions that were preformed by individual branches will now be performed at dedicated loan centres. Our centralization initiative means such processes would become more efficient, which adds to customer satisfaction, and will promote consistency in respect of consents to credit applications that will enhance the quality of our asset base.

Expand our presence in domestic and international markets

As at September 30, 2005, we had 1,177 branches and 526 delivery channels (including extension counters, ATMs and satellite offices) and maintained a presence in 21 states and 2 union territories in India, although a high proportion of our branches are located in the state of Andhra Pradesh. We intend to expand this presence within India and internationally.

Over the past five years, we have been assertively increasing the number of branches we have in India, particularly in the metro and urban areas. We intend to continue to proportionately increase the number of branches we have in these areas in markets where we recognize business potential. We believe these areas are the most strategic in terms of our growth plans as they offer us greater access to the retail sector, a sector on which we are keenly focused. Our aim is to grow organically to have a presence in the top 200 business centers in India. We also anticipate growing our rural and semi-urban branch numbers in a manner that protects our core business base in these areas.

Additionally, we believe that the international markets present a major growth opportunity. Our strategy for growth in international markets is based on leveraging home country links for international expansion by capturing market share in selected international markets. We have identified the United Arab Emirates (Dubai) as a key region for establishing our international presence, and have received approval from the RBI as well as the Central Bank of the United Arab Emirates to open a representative office in Dubai. Our focus will be on supporting Indian companies in raising corporate and project finance, trade finance, personal financial services for non-resident Indians and international alliances to support domestic businesses. In the future, we may open additional representative offices or branches outside India. These entities may be sole enterprises or joint ventures with other Indian banks also looking to expand internationally.

Maintain our commitment to technological innovation

The development of efficient means of reaching customers and processing transactions is a key element of our goal to expand our profitability and to capitalize on opportunities for organic growth. We have been strengthening this strategy by implementing new information technology through our Core Banking Solution and other initiatives. We have made progress towards networking, computerising and interconnecting our branches, ATMs and other delivery channels. As at September 30, 2005, 788 of our 1,177 branches were connected through our CBS network. Our network of 346 ATMs is well utilized by our customer base. As at September 30, 2005 we had issued 1.54 million ATM/debit cards to our customers. We have devoted resources to improving the interconnectivity of our ATMs with our branches and extension counters and have increased the number connected to our ATMs from 482 as at March 31, 2004 to 830 as at September 30, 2005. We are currently implementing measures to make our Kisan credit cards ATM compatible. We have also introduced our mobile banking service, which allows customers to conduct their banking business using mobile telephone handsets. In addition, we have launched a number of products that utilize information technology processes including our 'E-seva', 'E-hundi', online utility bill payment platform and online tax accounting products.

We believe that technology offers unparalleled opportunities to reach our customers in a cost-efficient manner. We are committed to being at the forefront of the bank automation process by creating opportunities for the Indian public to reach us through the Internet. We expect to roll out our Internet banking platform by the end of fiscal 2006. We have also appointed Center for Scientific and Industrial Consultancy as our institutional IT consultants.

Enhance our retail banking business

We intend to continue our focus on growing our retail banking business. The retail sector has emerged as a rapidly growing opportunity for banks with the skills and infrastructure to adequately service this market. The keys to our retail strategy are our focused marketing approach, developing new products and services, networking our branch locations, developing our distribution channels including expanding our ATM network and introducing Internet banking and improving customer service. We are continuing to respond to our customer needs by introducing 8:00am to 8:00pm and Sunday banking in 14 and 12 branches, respectively, and we anticipate extending these facilities to other branches. In addition, we believe that there is potential to generate additional revenue growth by focusing on higher value added products and by increasing cross-selling across our different distribution channels. Increasing the sale of high margin products such as mutual fund products, insurance products, and credit and debit cards will also increase our fee-based revenue. We have taken measures to promote the sale of our debit cards.

We are also focusing on growth in our retail deposit base to diversify our funding towards more stable and lower cost funding sources. We intend to continue to expand the financial services and products that are distributed outside of the conventional branch environment, such as our credit card businesses, in order to capitalize on changes in consumer behavior in the consumption of financial services.

Strengthen our priority sector banking business

Social lending and concern for the development of agricultural and small-scale industry has remained a core theme of our operations. We intend to maintain and enhance our position as one of the leading banks for agricultural lending in India. We have traditionally focused on priority sector lending and we believe we possess the necessary elements to continue to succeed in these markets. To increase our market share of such business we intend to:

- position ourselves based on accumulated expertise. We believe our historical focus on this market means we have a better understanding of the credit risks embedded in this market segment and are able to develop loan and other products specifically tailored to the needs of this market segment;

- operate a relationship management system to provide targeted and tailored customer service to priority sector enterprises. We have 13 dedicated SME branches with relationship management teams that market products and review and approve loans in these areas, and anticipate opening another three shortly. We intend to further expand our agriculture and small-scale industry sector banking activities by establishing more specialised SME branches; and
- focus on cross-selling loan products with other products, for example, when we lend to small- and medium-sized enterprises we intend to explore opportunities to cross-sell consumer loans and deposit products to these customers or to provide financial advisory services.

Overview of our Lending Operations

We offer products and services to our corporate, retail and rural customers. The following table presents our sector-wise outstanding domestic loans and the proportion of these loans to our outstanding total domestic loans, as at the dates indicated:

DOMESTIC	March 31, 2003		March 31, 2004		March 31, 2005		September 30, 2005	
Sector	Loans	% of Total	Loans	% of Total	Loans	% of Total	Loans	% of Total
						(Rs. in million, except for percentages)		
Corporate and Commercial	77,730.03	65.40	86,520.86	64.67	115,035.63	64.25	120,158.93	62.75
Of which Small to Medium Enterprises (SMEs)(1) (2)	-	-	-	-	20,288.50	11. 33	22,339.50	11.67
Of which Small Scale Industries (SSIs)(3)	10,544.50	8.87	10,425.10	7.79	13,638.50	7.62	12,640.30	6.60
Housing & Retail	24,072.20	20.91	25,489.50	19.05	32,292.10	18.03	36,401.60	19.00
Agriculture	17,057.20	14.35	21,777.30	16.28	31,730.70	17.72	34,934.40	18.25
Total outstanding loans	**118,859.43**	**100.00**	**133,787.66**	**100.00**	**179,058.43**	**100.00**	**191,494.93**	**100.00**

(1) We have only been required to report SME figures since the start of financial year 2005. SME figures are not available prior to financial year 2005.

(2) SME enterprises consist of medium enterprises and SSIs. Medium enterprises are defined as manufacturing, processing and servicing businesses with between Rs. 10 million and Rs. 100 million invested in plant and machinery.

(3) SSIs are defined as manufacturing, processing and servicing businesses with up to Rs. 10 million invested in plant and machinery. This limit is increased to Rs. 50 million for certain specified industries including the manufacture of hosiery, hand tools, drugs and pharmaceuticals, stationery items and sporting goods.

Corporate Banking

General

We provide commercial banking products and services to our corporate customers. Our products for corporate customers include term loans and advances for the acquisition, construction or improvement of assets. We also offer fee based services such as cash management and remittance services. As at September 30, 2005, advances to corporate customers constituted 62.75% of our total outstanding loans, of which, advances to medium and large industries constituted 29.73% of our total outstanding loans. Advances to SSIs constituted 6.60% of our total outstanding loans.

Most of our top twenty customers in terms of loan exposure are medium and large corporate customers. The total corporate credit exposure of medium and large industries amounted to 27.68% of our total outstanding loans as at March 31, 2005 up from 26.23%, as at March 31, 2004.

The RBI required us to break out advances to SMEs in our financial statements from the end of fiscal 2005 onwards. Prior to this, our SME advances were accounted for as part of our “medium and large” corporate and commercial advances. The strategies for promoting our SME and SSI business are similar and we have a clear strategic focus on growing the advances from both of these segments.

Our corporate customers are from a diverse range of industries; however none of the top ten industries to which we are exposed comprises more than 7.5% of our loan portfolio. For a further discussion on our commercial loan portfolio, see “Selected Statistical Information” on page 164 of this Red Herring Prospectus.

We have two specialised corporate finance branches, located in Mumbai and Hyderabad, which cater to the needs of our corporate customers. In addition, all branches have dedicated corporate banking terminals within branches.

Loans and advances

We offer a range of loan and advance products to assist our corporate customers with their financial needs.

Term Loans

Our term loans consist primarily of financing for the acquisition, construction or improvement of assets, including project finance. These loans are typically secured by the real and personal property financed as well as by other assets of the borrower. Repayment is typically in instalments over the life of the loan.

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 mortgage of immoveable property, pledges of marketable securities and personal guarantees. Facilities are typically provided for 12 month periods and bear interest, usually at floating rates. We also provide overdrafts, working capital demand loans, working capital term loans and short-term loan facilities to our corporate and commercial borrowers.

Letters of Credit

We provide letter of credit facilities for fees based on the term of the facility and the amount drawn down. The facilities are typically partially or fully secured by assets including cash deposits, documents of credit, stocks and receivables. These facilities are typically given for twelve-month periods, often 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 payment and performance obligations. These are generally secured by account indemnities, a counter guarantee or a fixed or floating charge on the assets of the borrower, including cash deposits.

Loan against Future Rent Receivables

This product has been developed in response to the growth in the real estate market in metropolitan and urban centers where many commercial properties and shopping malls have been developed. This product allows the owners of these commercial properties to obtain loans secured against the future rent receivable from such properties.

Loans against Shares and Securities

We extend loans and advances against shares, debentures, Public Sector Undertaking bonds and Units of UTI Mutual Funds to individuals, brokers, and market makers subject to RBI and SEBI regulations and in line with our lending policy. We have a scheme for the financing of margin trading against shares of approved companies. We also give advances to corporate borrowers for financing promoters’ contribution.

Other Corporate Products and Services

Foreign Currency Credits

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, lines of credit from other banks and funds raised through Rupee/Dollar swaps as per RBI guidelines. Currently, corporate customers can raise funds in foreign currencies as per the external commercial borrowing policy of the Government of India and the Reserve Bank of India, against a counter-guarantee of our Bank. Foreign currency loans amounted to 6.22% of our advances as at September 30, 2005.

Export Credits

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 and funds borrowed from abroad as per RBI guidelines. We have access to US dollar denominated funds through our US$75 million syndicated loan and other foreign currency loans.

Import Finance

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

Nostro Accounts

Our bank maintains 18 nostro accounts through which sizeable amounts of NRI funds are routed. We have also entered into agreement with Western Union Money transfer for handling the inward remittances pursuant to these accounts.

Small and Medium Sized Enterprise (SMEs) and Small Scale Industry (SSIs) Initiatives

We provide financing to SMEs. SMEs consist of Medium Enterprises and SSIs. Medium Enterprises are defined as manufacturing, processing and servicing businesses with between Rs. 10 million and Rs. 100 million invested in plant and machinery. SSIs are defined as manufacturing, processing and servicing businesses with up to Rs. 10 million invested in plant and machinery. This limit is increased to Rs. 50 million for certain specified industries including the manufacture of hosiery, hand tools, drugs and pharmaceuticals, stationery items and sporting goods. A Tiny Unit is an SSI whose investment in fixed assets in plant and machinery does not exceed Rs 2.5 million and an Industry Related Small Scale Service and Business Enterprise is an enterprise with investment up to Rs. 1.0 million in fixed assets (excluding land and building).

Our products for the SME sector are intended to facilitate the establishment, expansion and modernisation of businesses, including acquiring fixed assets, plant and machinery and meeting working capital needs. We also offer non-fund based finance such as guarantees and letters of credit. We provide flexible security requirements to make credit more accessible to SME borrowers, for example, no collateral security or third party guarantee is required for loans to SSIs up to Rs, 2.5 million or for loans to Tiny Unit Enterprises up to Rs. 500,000.

As at September 30, 2005, we had 13 specialized SME branches that cater exclusively to the credit requirements of the SME. We see the introduction of specialized branches as an integral part of our strategy to enhance credit flow to this sector. We have the largest network of specialized SME branches in Andhra Pradesh, with nine branches within the state. We have identified three more branches that we are in the process of converting to specialized SME branches, two in Andhra Pradesh (Hyderabad and Vijayawada) and one in Tamil Nadu (Chennai). These 16 branches are being upgraded in order to receive ISO certification.

SSIs are considered a priority sector for directed lending purposes. See the section titled "- Priority Sector Financial Services" below. As at the last reporting Friday of September 2005, SSI loans constituted 6.71% of our net bank credit. As at the last reporting Friday of September 2005, we had an outstanding loan portfolio of Rs. 12,640 million in this segment compared with Rs. 10,530 million as at the last reporting Friday of September 2004, representing growth of 20.04%.

Along with standard corporate services described above, we offer the following specialized products to our SME and SSI customers:

AB Laghu Udhyami Credit Card

The Bank launched the Andhra Bank Laghu Udhyami Credit Card in fiscal 2003. This credit card was developed for SMEs. The maximum credit limit is Rs. 1 million or 20% of the annual turnover declared for tax purposes for the entity, whichever is less. The validity of the card is three years. We have issued 1,029 cards and disbursed an amount of Rs. 251 million pursuant to this credit card scheme.

AB Power Tools Scheme

Our new AB Power Tools Scheme allows carpenters, electricians, plumbers, auto mechanics and other associated artisans and self employed customers to obtain financial assistance to meet the cost of acquisition of modern power tools. Financial assistance is by way of composite loan for tool kit in the form of a term loan and need based working capital. We finance the cost of the power tools and working capital up to a maximum amount of Rs. 100,000.

AB Artisan Credit Card Scheme

The AB Artisan Credit Card was launched by the bank in fiscal 2004 to assist in providing adequate and timely assistance to artisans to meet all their credit requirements up to a limit of Rs. 30,000 per borrower and Rs. 200,000 per group. Our Bank issued 1,824 Artisan Credit Cards with total sanctioned limits of Rs. 54.72 million as at September 30, 2005.

New initiatives under SME

Our Bank has signed a memorandum of understanding with the Small Industries Development Bank of India (SIDBI) to co-finance SMEs undertaking projects in sectors such as the service sector and the infrastructure development sector. Our initial focus has been on SMEs in the industrial areas of Hyderabad, Chittoor, Vijayawada and Rayadurg, which operate in industries including the manufacturing of fan and fan components, electronic goods, bulk pharmaceuticals, foundry and hand tools.

SIDBI National Equity Fund Scheme

The objective of this scheme is to provide equity support to those customers establishing projects in the Tiny Units and small scale sector in order to establish, expand, modernize or upgrade their technology or equipment or diversify their business. The total cost of a project funded under this scheme should not exceed Rs. 5 million and the loan is funded up to 25% of project cost or Rs. 1 million per project, whichever is lower.

Credit Linked Capital Subsidy Scheme for Small Scale Industries to Upgrade Technology

This scheme aims to allow SSIs to upgrade the technology they use in the "specified products" sub-sectors by providing a 15% capital subsidy for induction of proven technologies approved under the scheme. New and existing SSI units registered with the State Directorate of Industries are eligible to for loans up to Rs. 10 million.

Credit Guarantee Fund Trust for Small Industries (CGTSI)

We are an eligible lending institution under the CGTSI scheme established by the GoI and SIDBI, which means we are able to extend collateral free loans of up to Rs. 2.5 million to certain SSI units. New and existing SSI units engaged in manufacturing activity or in IT and software development are eligible under this scheme. As at September 30, 2005 we have guaranteed 289 entities with aggregate outstanding loans of Rs. 65 million.

Services for Women in the SSI sector

We are aware that there is a need to expand the employment, income-generating schemes and programs available to women so as to facilitate their self reliance and economic independence and we are strengthening our position as a financial service provider of choice for women in the SSI sector. We have taken the following steps to strengthen the services available to women in order to reach potential women entrepreneurs and encourage them use our credit and ancillary services:

- As at September 30, 2005, we had extended credit to 300,000 women amounting to Rs. 11,976 million, which constitutes 6.36% of our net bank credit. Of this number, 2,563 women entrepreneurs have been classified as SSI sector borrowers, to whom we have extended credit of Rs. 761 million as at September 30, 2005.
- We have set up a women cell within our Head Office to co-ordinate the provision of information, guidance and credit related services to women entrepreneurs. We also provide training to our staff in respect of the credit requirements of women.
- We have introduced credit schemes specifically for women including the Mahila Udyam Nidihi Scheme which offers women borrowers loans for projects up to Rs 1 million. The KVIC Margin Money Scheme also provides enhanced margin money to women borrowers for projects up to Rs. 1 million. Women borrowers can also take advantage of the national equity fund scheme for projects up to Rs. 5 million where the equity requirements are met by SIDBI and the loan component by us.
- We have initiated a mutual credit guarantee scheme in association with the Association of Lady Entrepreneurs of Andhra Pradesh (ALEAP). This has been developed in conjunction with SIDBI, CGSTI and ALEAP and allows eligible borrowers to borrow up to Rs. 1.5 million. Up to 75% of the loan amount is guaranteed by the Mutual Credit Guarantee Organization and the cost of the guarantee and service fees associated with these accounts is intentionally kept very low.

- We have sponsored 14 Entrepreneurship Development Programmes in technical oriented subjects to provide skill based training to women. These courses include bag making, fashion designing, food processing, beauty therapy and dye printing.
- Credit facilities are made available by us to women entrepreneurs under various central government sponsored poverty alleviation and self-employment schemes including:
  - o Prime Minister's Rojgar Yojana;
  - o Integrated Rural Development Program;
  - o Development of Women and Children in Rural Areas;
  - o Training of Rural youth for Self Employment;
  - o Swarnajayanti Gram Swarozgar Yojana;
  - o Swarnajayati Shahari Rozgar Yojana; and
  - o Differential Rate of Interest Scheme.

Developments

We recognize the SME sector as a growth area for us. We have already established a separate department at our Head Office headed by a General Manager to oversee the flow of credit to this sector and we intend to enhance our business in these areas by implementing the following initiatives:

- Continue to consider opportunities for establishing dedicated SME branches;
- Continue to implement SME specific products;
- Conduct advanced training programs on the SME for technical officers, senior managers and branch managers associated with SME; and
- Conducting specialized Entrepreneurship Development Programmes to encourage entrepreneurs to take up new ventures.

Retail Banking

We believe that the provision of modern and efficient retail banking services is important both in maintaining our public profile and as a source of fee-based income.

Our retail banking services have been and will continue to remain one of our core businesses. Our retail banking strategy is to provide prompt and comprehensive service to retail customers through increased automation and improved customer service, as well as a streamlined branch network focused on sales. Our retail banking services include:

- retail advances such as mortgage, educational and consumer lending;
- demand, savings and fixed deposit-taking;
- checking account services;
- electronic banking and ATM services;
- bill paying services, payroll and check-cashing services; and
- currency exchange and wire fund transfer.

Loans

Our total outstanding retail loans and advances were Rs. 38,670 million as at September 30, 2005, representing 20.19% of our total outstanding gross advances. The following table classifies our outstanding retail advances by category of loan, as at March 31, 2004, March 31, 2005 and September 30, 2005:

	March 31, 2004		March 31, 2005		September 30, 2005	
	Amount outstanding	% of total outstanding Personal loans	Amount outstanding	% of total outstanding Personal loans	Amount outstanding	% of total outstanding Personal loans
					(Rs in millions except percentages)	
Housing Loans	12,435	46%	18,782	51%	17,924	47%
Education Loans	3,909	15%	5,132	14%	6,176	16%
Automobile Loans/Vehicle loans/Consumer Durables	597	2%	1,097	3%	1,268	3%
Contingency/Clean loans	4,672	17%	6,052	16%	6,726	17%
Other Loans	5,350	20%	6,087	16%	6,576	17%
Total outstanding						
Retail Advances	**26,963**	**100%**	**37,150**	**100%**	**38,670**	**100%**

The following is a description of our principal personal loan products:

Housing Loans

Our housing finance business involves giving long-term loans to customers to finance the purchase, construction, repair and renovation of a house. Loans are permissible up to a maximum of 48 months gross salary for salaried persons and four times average annual income for other persons. We offer flexible repayment options with a maximum repayment period of up to 20 years. The rates of interest on housing loans depends on the repayment period and interest option (fixed or floating) exercised by the borrower. We also provide housing loans to Non-Resident Indians for acquisition of residential accommodation in India on similar terms.

Education Loans

Through our education loan products we offer retail customers support for study both in India and abroad. The Dr Pattabhi Vidya Jyothi Scheme offers loans of up to Rs. 750,000 to students aged 12 to 30 years for studies within India and loans of up to Rs. 1.5 million to students aged 18 to 35 for studies abroad. Under the AB Career Advancement Loan, up to Rs. 750,000 is available to employed graduates pursuing post-graduate, professional and other courses.

Educational loan products provided by us may be used to meet the costs of tuition, accommodation examination fees, project work and study tours and to assist students in the purchase of books, equipment, instruments and uniforms. Additional amounts can be subscribed for the purchase of computer equipment as part of educational loans.

Educated Youth taking up employment abroad after their studies can apply for loans of up to Rs. 100,000 for air transport and initial expenses upon relocation.

The provision of educational loans is one of our focus areas and the amount of educational loans outstanding grew at a CAGR of 49.66% over the last three years. We have signed “preferred financier” MOUs with some of the most renowned educational institutions in the country including the Indian School of Business, ICFAI, BITS Pilani, Goa Institute of Management, Institute of Public Enterprise, Institute of Insurance and Risk Management and K.J. Somaiya Institute of Management Studies and Research in respect of educational loans offered to their students.

Automobile and Two Wheeler Loans

We provide loans to finance the purchase of new and used automobiles and two wheeler vehicles. Standard automobile loan criteria allow eligible applicants to borrow up to the lower of (a) 90% of the purchase price of the vehicle or (b) double the amount of gross annual income of the applicant. Such loans are secured by a charge on the purchased vehicle and also by a personal guarantee of a party other than the borrower. In addition, the Vanitha Vahan Scheme is a loan developed for women looking to purchase new or used vehicles.

We have entered into “preferred financier” arrangements with certain automobile and two-wheeler companies such as Tata Motors Limited, TVS Motor Company Limited, Bajaj Auto Limited, Bajaj Tempo Limited, Mahindra & Mahindra Limited and Eicher Limited.

Consumer Durables Loan

We provide loans to eligible applicants up to a maximum of 10 months gross salary for salaried persons and those drawing pension and 40% of average annual income for other persons for the purchase of consumer durables such as TVs, VCRs, refrigerators, washing machines and computers. These loans are typically made for a period of up to 60 months and secured against the durables purchased.

Contingency Loans

We offer loans of up to Rs. 100,000 to customers to cover expenses such as unexpected medical expenses, travel expenses and other personal credit requirements. We offer a maximum repayment period of 60 months.

Loans against Future Rent Receivable

The Loan against Future Rent Receivables product has been developed following the growth of real estate in various metropolitan and urban centers. Through this facility we are able to offer loans of up to Rs. 500,000 secured against the future rental receipts of residential and commercial properties in certain major urban areas.

Developments

We recognize the retail advances sector as a growth area for us and we intend to enhance our business in this area by implementing the following initiatives:

- Continue to seek out tie-up arrangement with other participants to cross sell our credit products such as automobile dealers and educational institutions;
- Conduct further marketing and customer education campaigns including door to door marketing;
- Consider the introduction of additional specialized retail lending centers; and
- Continue the provision of specialized retail credit training to branch managers.

Agricultural Financial Services

Approximately 23.0% of India's GDP is derived from agriculture. The industry supports approximately two-thirds of India's population and accounts for 14.7% of export earnings. As at the last reporting Friday of March 2004, the last reporting Friday of March 2005 and the last reporting Friday of September 2005, agricultural loans constituted 17.07%, 18.93% and 18.44% of our net bank credit, respectively.

We offer a wide variety of products and schemes to the agricultural community to assist rural development. The table below sets out the geographic distribution of agricultural accounts across India.

	As at March 31, 2004			As at March 31, 2005			As at September 30, 2005		
Geographic Distribution	**Number of accounts**	**Amount outstanding (Rs. in million)**	**% of total outstanding agricultural loans**	**Number of accounts**	**Amount outstanding (Rs. in million)**	**% of total outstanding agricultural loans**	**Number of accounts**	**Amount outstanding (Rs. in million)**	**% of total outstanding agricultural loans**
Southern India	813,836	19,900.43	95.14	1,094,238	30,285.97	94.56	1,159,243	33,071.86	95.22
Northern India	1,208	10.62	0.05	1,411	22.20	0.06	1,021	19.18	0.06
North-Eastern India	603	5.18	0.02	978	10.60	0.03	682	8.62	0.02
Eastern India	18,756	398.67	1.90	22,001	690.02	2.15	21,940	578.90	1.67
Central India	228	0.66	0.01	249	1.11	0.01	263	1.24	0.01
Western India	1,112	602.44	2.88	1,304	1,024.30	3.19	912	1,049.90	3.02
Total	**835,743**	**20,918.00**	**100.00**	**1,120,181**	**32,034.20**	**100.00**	**1,184,061**	**34,729.70**	**100.00**

Details of our facilities and products developed for our agricultural customers are set out below.

Pattabhi Agricard

Our Pattabhi Agricard is a Kisan Credit Card as developed by the GoI and RBI; however we have added features to make the card "farmer friendly". The Pattabhi Agricard is designed exclusively for the benefit of farmers and aims to provide them the opportunity to manage and utilize funds according to their needs. The facility provides support to farmers for their production needs including for the purchase of quality inputs, investment requirements for infrastructure, farm maintenance expenses, unforeseen family expenses and non-farm activities. In addition, card holders can elect to pay a nominal premium and are covered under an accident insurance policy to the value of Rs 50,000, which can be increased to Rs. 100,000 under certain circumstances.

We had 487,810 Pattabhi Agricards outstanding as at September 30, 2005.

Kisan Chakra Scheme

This scheme is similar to our standard two wheeler loans scheme, however, it has different eligibility criteria that allows farmers to more easily purchase such vehicles.

Rural Storage Facility Scheme

Under our Kisan Samraksha scheme individual farmers in rural areas are able to apply for loans to construct storage facilities up to a capacity of 10,000metric tonnes to store agricultural produce. Entrepreneurs and groups primarily involved in the storage and marketing of agricultural commodities may also apply under this scheme. Corporations that have tie-up arrangements with the Food Corporation of India, State Ware Housing Corporations and other similar institutions can also avail themselves of the scheme. The maximum loan amount is 66% of the cost of construction of the facility, which can be repaid over a term of 12 to 15 years.

We also provide credit against warehouse receipts under a tie-up arrangement with National Collateral Security Management Services Limited.

Agri Clinics / Agri Business Schemes:

Our Kisan Vivek Scheme has been developed as a way for graduates in agricultural or allied studies to establish income producing facilities in rural areas. Graduates or small groups of graduates may apply for loans to finance the expenses associated with such a development including the purchase of equipment for soil testing/input testing, the purchase of farm machinery, the purchase of two wheelers and repairs to farm equipment.

Other Agricultural Lending, Financing and Investment

We assist by providing loans for the purchase of agricultural implements and heavy agricultural machinery. Security for these loans is often provided against the implement or by way of a pledge/hypothecation of agricultural produce. Loans are also available for improving irrigation, land development and construction and maintenance of farm buildings.

Individuals and entities which provide services to farmers and others in the agriculture sector can also benefit from our products. This includes all individuals, entrepreneurs, organisations, institutions, corporations that are capable of carrying out such activities and have viable schemes for providing custom services to farmers.

Self Help Group (SHG) Financing

Our priority sector activities also include the dispensation of micro credit. Our microcredit offerings provide financing to start-up businesses and other small scale entrepreneurs. The credit is primarily disbursed to Self-Help Groups (SHGs) that on lend to poor and low-income people. The credit may be on lent to individuals or small borrower groups. We are a pioneer in the program linking Public Sector Banks and SHGs. During fiscal 2005, we loaned an aggregate of Rs. 1,795.1 million to 47,884 SHGs and for the six month period ending September 30, 2005, we loaned an aggregate of Rs. 898.00 million to 21,675 SHGs. As at September 30, 2005, we had total loans outstanding of Rs. 6,010.70 million to 202,560 SHGs for microcredit and microfinance activities.

We have also introduced our branded SHG credit card. Cardholders are covered under life the Janashree Bhima Yojana insurance scheme and the Swasthya Bima health insurance policy.

Developments

We recognize the agricultural sector as a growth area for us and we intend to enhance our business in this area by implementing the following initiatives:

- We are implementing a scheme to make all Kisan credit cards ATM compatible;
- We have waived the collateral security requirement for all agricultural loans up to Rs. 100,000 (from Rs. 50,000);
- We have launched an enhanced Kisan credit card, the Kisan Green Card, for farmers that covers crop production financing as well as investment and consumption credit requirements;

- We will continue to enter into tie-up arrangements with tractor manufacturing companies to increase lending for tractor financing;
- We have introduced a target for each rural and semi urban branch to finance a minimum of 3 new investment projects in its local district; and
- We have introduced a target for all branches in each zone to finance a minimum of ten agricultural clinics in the zone.

Priority Sector Financial Services

RBI guidelines require banks to lend at least 40.0% of their net bank credit to certain specified sectors called priority sectors. Priority sectors include the agricultural sector, SSIs, food and agri-based industries (with investments in plant and machinery up to Rs. 50 million), small business, self-employed and professional individuals, housing finance up to certain limits and certain other sectors. Out of the 40.0%, banks are required to lend a minimum of 18.0% of their net bank credit to the agriculture sector.

We are required to comply with the priority sector lending requirements on the last reporting Friday (alternate Fridays are designated by RBI as "reporting Fridays") of each fiscal year. Any shortfall in the amount required to be lent to priority sectors may be required to be deposited with Government sponsored development banks such as the National Bank for Agriculture and Rural Development and the Small Industries Development Bank of India. These deposits have a maturity of up to seven years but are relatively low yielding.

We report our priority sector loans to RBI on a quarterly basis. The loans reported are as at the last reporting Friday of the quarter. As at September 30, 2005, which was the last reporting Friday for the quarter ended September 30, 2005, our priority sector loans were Rs. 77,817.40 million, constituting 41.32% of our net bank credit against the requirement of 40%. The agriculture sector constituted 18.44% of our priority sector credit and SSIs constituted 6.71% of our priority sector credit as at September 30, 2005.

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 reporting Friday of the months indicated.

Sector	March 2004		March 2005		September 2005	
	Amount	% of adjusted net bank credit(1)	Amount	% of adjusted net bank credit(1)	Amount	% of adjusted net bank credit(1)
						(In Rs. million, except for percentages)
Agriculture credit	20,918.00	17.07	31,068.40	18.93	34,729.70	18.44
SSI credit	10,255.30	8.40	12,500.60	7.62	12,640.30	6.71
Other priority sector credit(2)	20,808.70	16.98	25,315.40	15.42	30,447.40	16.16
Priority sector credit total	51,982.00	42.42	68,884.00	41.97	77,817.40	41.32
Adjusted net bank credit	**122,547.80**	**100.00**	**164,144.50**	**100.00**	**188,348.80**	**100.00**

(1) Net bank credit is net bank credit less FCNR (B) deposits and NRNR deposits.

(2) Includes transport, retail trade and certain loans to individuals for education and other purposes

Community Support

We intend to maintain our reputation as a premier agricultural financing institution in India. As part of our commitment to this sector, we provide a variety of programs to offer support and assistance to rural communities.

We, under the aegis of the Andhra Bank Rural Development Trust, have established eight Development Training Institutes (seven in Andhra Pradesh and one in Kerala) and we are currently establishing another such institute in Berhampur in Orissa. These institutes provide training, transport and board for unemployed youth and rural poor. As at March 31, 2005, these institutes had conducted 1,282 training programs and assisted 42,425 people. These institutes provide a variety of entrepreneurship and skill development training programs such as the manufacture of coir mats, repair of domestic electrical appliances, computer training and fashion technology and design. They also conduct training for Prime Minister's Rojgar Yojana and other government sponsored agencies such as Rajiv Yuva Shakti. These institutes also provide training for farmers on topics such as water conservation, agricultural technology and crop cultivation.

We also provide facilities at our branches for the public to donate to various relief funds and other non-profit organizations and the bank itself contributes to various causes. Recently we donated funds to the Prime Minister's Relief Fund and the Chief Minister's Relief Fund for victims of the tsunami and contributed directly to the construction of three cyclone/tsunami shelters. We also donated funds towards the care of underprivileged children with heart ailments through the Chief Minister's Relief Fund.

Non-Resident Indian Financial Services

We actively seek banking business from Non-Resident Indians (NRIs). We offer foreign currency accounts to NRIs under our foreign currency non-resident scheme and rupee accounts for NRIs under our non-resident external and non-resident ordinary schemes. We also offer various products for facilitating remittances from NRIs to India. We have an arrangement facilitating money transfers through Western Union, which is a global leader in money transfer services. We also have Rupee drawing arrangements with five exchange houses in the Arabian Gulf, UAE Exchange House in Abu Dhabi and Kuwait, National Exchange House, Qatar and Al Razouki Corporation and Wall Street Finance Company, Dubai, in order to facilitate private remittances to India on behalf of Non Resident Indians in the Gulf.

General Banking Services

We offer a wide range of banking services to our retail, corporate, business and rural customers including:

Credit Cards

We issued India's first credit cards in 1981 and as at September 30, 2005 we had issued over 160,000 cards. We offer four types of cards: VISA Classic, VISA Gold, MasterCard and MasterCard Electronic credit cards. All these cards are accepted in India and Nepal at merchant establishments that display a VISA or MasterCard acceptance logo. The VISA Gold Card is accepted worldwide.

Our credit card division maintains credit card centers at 21 significant urban centres to offer services to our credit card holders.

We earn revenues from our credit card operations through:

- admission fees and annual subscription fees;
- interchange fees;
- service charges on credit card balance and advances;
- handling charges on cash advances through ATMs; and
- interest on advances to cover future payments owed to merchant establishments that accept VISA and MasterCard credit and debit cards.

We have begun to introduce a range of co-branded credit cards with third party service providers including ICFAI and Hindustan Petroleum Corporation.

Debit Cards

We offer VISA Electron debit cards as part of a commercial arrangement with VISA International. The Debit Card is accepted at all our ATMs, at other bank ATMs and certain merchant locations.

Student Cards

Student Cards are issued to the students of professional colleges in courses including management studies, engineering, medicine, agriculture and veterinary science. The card limit is Rs. 10,000 of which Rs. 5,000 can be drawn by way of cash.

Cash Management and Remittances

We have introduced our Cash Track service which is a cheque collection system that allows our corporate customers to nominate a location to credit all cheques that are deposited at any of our branches across the country by their agents.

We also have a multi-city cheque facility available that allows customers to make cheque payments to third parties in locations other than where that customer holds their account.

Collection Services

All our branches have the facility of collecting financial instruments including cheques, drafts, warrants, refund orders and bills from customers and various centres.

Utility Bill Payments

Customers are able to pay utility bills though our branches. We have entered into an agreement with Bharat Sanchar Nigam Limited (BSNL) for collection of bills issued by the Telecom District Office of BSNL at Hyderabad.

Depository Services

We are currently implementing a depository services platform for our individual retail customers in connection with the holding of debt and equity securities. We intend to earn fees for maintaining the accounts as a depository participant of National Securities Depositary Limited and Central Depository Securities Limited, as well as for related services. We are registered as a 'participant' with the CDSL and have applied to NSDL to registerwith them as a 'participant'.

Government Business

Collection of Taxes

We collect income and other direct taxes including corporate tax, interest tax, expenditure tax, estate duty, wealth tax, gift tax and hotel receipts tax for the GoI. Further, we also collect stamp duty and registration fees in the state of Andhra Pradesh on behalf of the government of Andhra Pradesh.

418 of our branches have been authorized to collect central government direct taxes. In addition, we have implemented the RBI's On-line Tax Accounting System in all these branches to enable the public to pay their taxes.

State Government Treasury Business

We are accredited to conduct state government treasury business in two states, Andhra Pradesh and Orissa. This facility is available in four of our branches in Andhra Pradesh and one in Orissa.

We earn commissions from these government businesses.

Other Services

e-Seva

Two of our branches in Andhra Pradesh include an e-seva centre. This is a "one-stop shop" initiative of the government of Andhra Pradesh that allows residents to, among other things, pay utility bills, register personal information and obtain copies of births and death certificates, obtain and renew licences and reserve bus tickets and accommodation.

e-Hundi

All our ATMs offer e-hundi facilities, which allow customers to make donations to Tirumala Tirupati Devasthanams Management, which is a charitable organization connected with a group of temples in the Tirumala-Tirupati area.

Insurance

We market the life insurance products of Life Insurance Corporation of India and United India Insurance Company Limited in conjunction with certain of our savings account and term deposit products.

In addition we earn commissions for the distribution and sale of these and other third party insurance products but do not underwrite them. As at September 30, 2005 we had earned a commission of Rs. 6.30 million from this business.

Mutual Funds

As part of our strategy to increase our fee based revenue and leverage our branch network we have secured AMFI approval for the distribution of mutual fund products as per SEBI guidelines.

We have entered into agreements with Principal Mutual Fund, SBI Mutual Fund, TATA Mutual Fund, UTI Mutual Fund and Sundaram Mutual Fund for the distribution and sale of mutual fund products issued and underwritten by these providers. We earn fees for the distribution and sale of these funds. As at September 30, 2005 we had earned a commission of Rs. 5.52 million from this business.

Deposits

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

1. Demand deposits, which are non-interest bearing;
2. Savings deposits, which are deposits that accrue interest at a fixed rate set by the RBI (which is currently 3.5%) and upon which cheques can be drawn; and

3. Term deposits (which have interest rates determined by banks) including:

   a. Recurring deposits, which are periodic deposits of a fixed amount over a fixed term that accrue interest at a fixed rate; and

   b. Certificates of deposit.

   Demand deposits can be withdrawn on demand during banking hours. Current accounts and matured term deposits, among others, are categorised as demand deposits.

Savings deposits accrue interest at a fixed rate set by RBI, which is currently 3.5% and a prescribed minimum balance is required to be maintained in these accounts to enable continued servicing.

Time deposits, also known as term deposits, allow depositors to opt for payment of interest at maturity or at periodical intervals. We determine interest rates payable on term deposits.

The following table sets forth the balances outstanding by type of deposit, as at the dates indicated:

Type of Deposits	March 31, 2003		March 31, 2004		March 31, 2005		September 30, 2005	
	Balance outstanding	% of Total	Balance outstanding	% of Total	Balance outstanding	% of Total	Balance outstanding	% of Total
Demand Deposits								
From Banks	168.63	0.08	187.65	0.08	255.73	0.09	1,536.12	0.51
From Others	15,885.20	7.54	22,001.87	9.59	25,327.21	9.19	22,900.39	7.67
Savings Deposits	48,242.44	22.91	63,481.25	27.67	74,007.70	26.86	82,773.92	27.71
Term Deposits								
From Banks	997.36	0.47	629.39	0.28	480.70	0.18	430.35	0.14
From Others	145,324.84	69.00	143,105.04	62.38	175,435.76	63.68	191,051.04	63.97
Total Deposits	**210,618.47**	**100.00**	**229,405.20**	**100.00**	**275,507.10**	**100.00**	**298,691.82**	**100.00**

We take corporate deposits from public sector corporations, government organisations, other banks and private sector companies. We take Rupee or foreign currency denominated deposits and offer fixed and floating interest rates.

Deposit Products

Fixed Deposit Accounts

Interest bearing accounts are available for short and long terms. We market a variety of fixed deposit accounts, including our Kalpataruvu deposit account, which is a cumulative term deposit; our recurring deposit account and Swetcha deposit account. All of these products offer customers secure returns and offer flexible withdrawal options and effective tax treatments.

Current Deposits

Our current deposits plans are designed to meet needs of different categories of customers. The terms are flexible and instructions can be effected immediately making this plan most suitable for those with regular transaction activity. We offer flexible current deposit options to all our customers. Business and corporate customers are also able to take advantage of the overdraft facility offered in connection with certain current deposits.

In addition to our conventional current deposit products, we offer a variety of special value-added products and services that complement our deposit accounts.

AB Freedom Savings Account

This product is a combination of a savings account and a term deposit, whereby customer funds in excess of preset limit of Rs. 5,000 are automatically transferred from their savings account to their fixed deposit account in units of Rs. 1,000 each, resulting in higher yields for the customer. Whenever there is a shortfall in the customer's account, deposits are automatically transferred back from the term deposit account, on a last in first out basis, to meet the shortfall. This is known as an "auto-sweep and reverse-sweep" feature.

Abhaya Gold SB Account

This is a savings account with accident insurance coverage provided to the account holder up to (a) Rs. 100,000 for death or total disablement and (b) Rs. 50,000/- for partial disablement.

Kids Khazana

This is a savings account for minors with accident insurance coverage provided to the account holder and their guardian up to (a) Rs. 100,000 for death or permanent disablement and (b) Rs. 50,000/- for partial disablement.

Jeevan Abhaya SB Account

This is a savings account that provides group life insurance cover with accidental death benefit of up to Rs. 200,000 and Rs. 100,000 for normal death, for account holders in the 18 to 55 year age group.

AB Jeevan Prakash

This is a term deposit account that provides life insurance coverage for normal death (Rs. 25,000 / Rs. 50,000) and accidental death (Rs. 50,000 / Rs. 100,000) and health insurance coverage ranging from Rs. 25,000 to Rs. 500,000 for account holders in the 55 to 60 year age group.

AB Jeevan Prakash Plus

This is a term deposit account that provides life insurance coverage of Rs. 50,000 / Rs. 25,000 in case of normal death and Rs. 100,000 / Rs. 50,000 in case of accidental death along with health insurance coverage of Rs. 50,000 / Rs. 25,000 for account holders in the 60 to 65 year age group.

AB Arogyadaan

Under the scheme, all types of accounts holders of the Bank and general public are provided with medical insurance coverage ranging from Rs. 25,000 to Rs. 500,000.

AB Student Care

This is a comprehensive life and health insurance package covering students and their parents.

Insurance Linked Current Account

This is a current account with accident insurance coverage provided to the account holder up to Rs. 100,000 for death or permanent disablement.

Treasury

Through our treasury operations, we seek to manage our balance sheet, including the maintenance of required regulatory reserves, and earn profits from our trading portfolio. Our treasury operations also include a range of products and services for corporate and commercial customers, such as forward contracts and interest rate and currency swaps, and foreign exchange products and services.

Under RBI's statutory liquidity ratio ("SLR") requirement, we are required to maintain an amount equal to at least 25.0% of our demand and time liabilities in approved securities, such as Government of India securities, state government securities and other approved securities. As at September 30, 2005, 27.12% of our net demand and time liabilities consisted of Government and other approved securities. India has an active and mature bond market which offers trading opportunities in these securities. Under RBI's cash reserve ratio requirements, we are required to maintain a minimum of 5% of our net demand and time liabilities in a current account with RBI. As at September 30 2005, 5.10% of our net demand and time liabilities were maintained in current account with RBI. RBI pays no interest on these cash reserves up to 3.0% of the net demand and time liabilities and pays interest at 3.5% per annum on the remaining eligible balance. Treasury is responsible for maintaining these ratios for the bank. For further discussion of these regulatory requirements, see the section titled "Regulations and Policies-Legal Reserve Requirements" on page 91 of this Red Herring Prospectus.

Our treasury is the focal point for the management of market risk for the bank. Our treasury undertakes liquidity management by seeking to maintain an optimum level of liquidity while complying with the cash reserve and statutory liquidity ratios. We maintain the statutory liquidity ratio through a portfolio of Government of India securities that we actively manage to optimize the yield and benefit from price movements.

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

Securities	March 31, 2003		March 31, 2004		March 31, 2005		September 30, 2005	
	In Rs. million	%	In Rs. million	%	In Rs. million	%	In Rs. million	%
SLR								
Government Securities	83,908.30	79.78	83,197.66	80.64	82,871.81	77.84	81,357.46	79.11
Approved Securities	2,147.23	2.04	2,125.25	2.06	1,529.98	1.44	1,542.53	1.50
Sub total	86,055.53	81.82	85,322.91	82.70	84,401.79	79.28	82,899.99	80.61
Non-SLR								
Recap Bonds	4,903.70	4.66	4,903.70	4.75	4,903.70	4.61	4,903.70	4.77
Bonds and debentures	8,954.57	8.51	9,562.53	9.27	11,683.13	10.97	10,903.57	10.60
Shares	595.21	0.57	890.22	0.86	2,436.36	2.29	1,579.45	1.54
Subsidiaries and Joint Venture	93.09	0.09	93.09	0.09	93.09.	0.09	93.09	0.09
Commercial Paper, Mutual Funds and Others	4,574.38	4.35	2,401.10	2.33	2,944.76	2.77	2,466.18	2.40
Sub total	**19,120.95**	**18.18**	**17,850.64**	**17.30**	**22,061.04**	**20.72**	**19,945.99**	**19.39**
Total	**105,176.48**	**100.00**	**103,173.55**	**100.00**	**106,462.83**	**100.00**	**102,845.98**	**100.00**

Foreign Exchange Operations

We undertake foreign exchange transactions for our customers. We also undertake derivative transactions for our customers on a back to back basis with the counter party banks. The foreign exchange contracts arise out of spot and forward foreign exchange transactions entered with corporate and non-corporate customers and counter party banks for the purpose of hedging and trade. We earn profit on inter-bank and customer transactions by way of a spread between the purchase rate and the sale rate.

We have 47 branches that are authorized to conduct foreign exchange operations across India which reports to our International Division at Mumbai. We maintain 18 nostro accounts in various foreign currencies with different correspondent banks to facilitate the foreign exchange business.

Set forth below is our foreign exchange turnover for the period indicated:

	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2004	September 30, 2005
						(Rs. in millions)
Merchant Turnover	50,533.50	68,228.90	95,025.00	143,517.50	52,600.50	60,272.80
Interbank Turnover	167,021.20	263,908.80	556,726.90	761,518.60	375,364.80	403,921.70
Total	**217,554.70**	**332,137.70**	**651,751.90**	**905,036.10**	**427,965.30**	**464,194.50**

Merchant Banking Operations

We are registered with SEBI to act as the collecting / paying banker for public / rights offerings, paying banker for the payment of dividend warrants and as issuing and paying agent for commercial papers. We also act as debenture trustee. We earn commission from these roles.

Mortgage Backed Securitisation

In fiscal 2004 we became the first public sector bank to undertake mortgage backed securitisation with the securitisation of 1,437 housing loan accounts from 46 branches in four states with an aggregate value of Rs. 503.6 million. We identified securitisation of our home loan portfolio as a strategic move to improve our spread management, enhance our competitive abilities in the area of housing finance and as a tool to upgrade the quality of our balance sheet.

Under the securitisation scheme, these assets were subscribed for by a special purpose vehicle formed by the National Housing Bank, which converted them into tradable securities called Pass Through Certificates (PTCs). 430 PTCs of Rs. 998,906 each were allotted to outside investors including General Insurance Corporation, Karnataka Bank, HDFC Bank, Vijaya Bank, Bank of Baroda and LIC Mutual Fund. We subscribed for 75 (Series-B) PTCs totaling Rs. 74.1 million.

We also act as servicing and paying agent for the securities, administering the accounts of various investors. As at September 30, 2005 we have earned Rs. 15.49 million from our PTC (Series-B) investments and Rs. 1.39 million in our capacity as servicing and paying agent.

Driven by the success of mortgage backed securitization, we are considering securitisation options for other segments of our loan portfolio.

Delivery Channels and Accessibility

Our customers, whether they be located in metropolitan or rural areas, can access a range of delivery methods to take advantage of our products and services. These include access to physical branches, ATMs and telephone banking. In addition, we anticipate that our Internet banking platform will be operational by the end of fiscal 2006. These channels allow customers to access information about their accounts and use banking services 24 hours a day, seven days a week.

Branches and Interconnectivity of Branches

As at September 30, 2005, we had 1,177 branches, 142 extension counters and 38 satellite offices in India spread over 21 states and two union territories. Our extension counters are small offices primarily within office buildings or on factory premises that provide limited banking services.

As at September 30, 2005, our Indian branch network comprised 385 rural, 333 semi-urban, 298 urban and 161 metropolitan branches. This network includes 36 specialised branches devoted to servicing certain customer segments. As at September 30, 2005, we had 13 specialised SME branches, nine specialised agriculture finance branches, eight specialised housing finance branches and two specialised corporate finance branches, one autotech branch, one hi-tech branch, one asset recovery branch and one NRI and overseas branch.

All our branches are computerised. We are currently implementing our Core Banking platform on a cluster based model, to inter-connect all our branches electronically. Currently our CBS network covers 88% of our business. This allows customers to access their accounts and obtain services from any connected branch as if they were in their primary branch. This provides greater convenience for our customers, which enhances customer loyalty. As at September 30, 2005, 832 branches and extension counters across the country were connected to the "anywhere banking" network.

We have introduced multi media touch screen kiosks in 65 of our branches. These touch screen kiosks enable our customers to access a range of information regarding their accounts. The general public can also obtain information about our products and services.

We have also introduced PC Banking (Corporate Terminal) for corporate customers, where such customers can access account and other information by accessing the branch server through a PC installed in the branch. We have installed 24 such corporate terminals in various branches.

We are continuing to respond to our customer needs by introducing 8:00am to 8:00pm and Sunday banking in selected branches.

ATMs

As at September 30, 2005, we had 346 ATMs in 132 cities, an increase from 330 ATMs as at March 31, 2005. As at September 30, 2005, 1.54 million of our customers hold ATM or debit cards allowing them to access funds through ATMs up from 1.29 million as at March 31, 2005. Over 100,000 card holders access our ATMs every day.

We participate in a shared ATM network with IDBI Bank, UTI Bank, Indian Bank, HDFC Bank and the SBI group. We also have ATM sharing arrangements with Corporation Bank, Bank of Baroda, Punjab National Bank, United Western Bank, ICICI Bank, Dhanalakshmi Bank, Tamil Nadu Mercantile Bank, South Indian Bank, Oriental Bank of Commerce, Allahabad Bank, J & K Bank, Karnataka Bank, Yes Bank, Karur Vysya Bank, and City Union Bank through the National Financial Switch of IDRBT. This network offers our customers access to over 12,500 common ATMs throughout India.

ATMs offer customers the convenience of withdrawing and depositing cash and performing other banking transactions without having to visit a branch during business hours. The services offered through our ATMs include cash withdrawal, funds transfer, balance enquiries and mini statements detailing the last ten customer transactions.

In conjunction with India Prepaid Services (P) Limited, we are offering a new and innovative service from our ATMs. This service gives our customers the ability to recharge their mobile phones by purchasing vouchers from our ATMs. Telecards are also available. The amount the customer wishes to credit to their mobile phone, or requires to purchase the telecard, is automatically debited from their accounts. If the customer registers themselves through the ATM, the customer is issued a PIN number that allows them to top up their account on demand without re-visiting an ATM by SMS-ing their PIN number and the amount required to the service provider.

Currently this service is available with respect to pre-paid mobile phone accounts with IDEA Cellular in Andhra Pradesh, Maharashtra and Delhi; Reliance India Mobile, available all over India; Airtel in Andhra Pradesh, Karnataka, Delhi and Mumbai and Hutch in Andhra Pradesh, Karnataka and Delhi. VSNL (TATA Indicom) and Reliance telecards are also available for making calls from land line and mobiles that do not have an STD facility. We and our partners intend to extend this service to the following account providers: BSNL, Orange, BPL Mobile, Spice Telecom, MTNL, TATA Indicom and Air Tel (telecards).

Mobile Phone Banking

We have established a mobile phone banking system in 453 branches. This system allows registered customers to access information concerning their accounts by SMS message through their mobile telephone 24 hours, seven days a week. Users can access their account balance, last four transactions, status of cheques credited to their account and credit card balance. As at September 30, 2005, we had over 4,110 registered mobile phone banking users.

Internet Banking

We are currently establishing our Internet banking platform in order to provide our customers with the convenience that Internet banking brings and to take advantage of the relatively low cost of this service delivery channel. We already have a well established Internet web site at www.andhrabank-india.com that provides information and application forms to the general public.

We intend to offer the following services in the first phase of our Internet banking project: account balance enquiry, last ten transactions, enquiry as to the status of cheques credited to their account and credit card balance enquiries. We intend to expand our internet banking platform to provide transaction service in the future.

Data Centre

Our data centre is located in Hitec City, Madhapur, Hyderabad, one of the largest technology parks in India, which provides the required infrastructure for the security and management of our computer data. All of our critical servers are housed in our data centre along with our information technology staff. Our data centre is certified for ISO 9001:2000 standards.

Our disaster recovery server is currently located in Mumbai and we are in the process of establishing a disaster recovery centre, which will be located in Chennai.

Customer Care and Relationship Management

We have introduced a number of marketing and customer service initiatives in order to maintain a high standard of customer service for our clients, including:

Customer Complaints Management - We have a customer complaint management system in place that allows us to log complaints and deal with them promptly and efficiently. During fiscal 2005 we received 600 complaints and only seven remain outstanding as at September 30, 2005.

Customer Charter - We have a customer charter in place that outlines our code of conduct in relation to our customers. This document is available to customers at our branches and on our website.

Customer Education Material - We create a range of material in booklet and brochure format that outline the salient features of our products and delivery channels available to our customers.

Customer Satisfaction Surveys - We have entered into an agreement with Genesis Management and Market Research Private Limited, Pune to conduct customer surveys in 160 branches of the bank throughout India. Genesis will survey 100 customers in each of these branches, out of which ten customers will be ATM card holders. The survey will be completed by the end of February 2006. We believe the information gained from this survey will be a valuable customer relationship management tool.

Marketing Initiatives

We are currently undertaking the following marketing initiatives:

Brand Recognition Activities - We are undertaking a brand awareness campaign focused on our logo. We look to enhance the public recognition of our brand by providing consistent branding across our delivery channels, from ATMs to branches.

Financial Services Centers - We have established a network of 16 financial service centres across the country. These centres offer our customers the convenience of having all our financial products and services available in one location for their review, which makes it easy for them to compare products. We believe that these centres increase our exposure and volume of business and allow us to maximize the potential to earn fee based income. Each of these centres has dedicated marketing teams and client relationship officers associated with them.

Mega Marketing Campaigns - We regularly conduct saturation marketing campaigns in respect of our retail products and fee generating products.

Risk Management

We place particular attention to actively managing and controlling our risk exposures. In the banking and financial service industry, the three main risk exposures we face are credit risk, market risk and operational risk. For all of these risks, we have devised and implemented policies, procedures, organizational structures and control systems for their identification, measurement, monitoring and control.

We have implemented an Integrated Risk Management Policy that covers all areas of risk faced by the bank and was prepared for fiscal 2006 with the broad objective of ensuring smooth transition to the New Capital Accord (Basel II). The policy covers and incorporates the various guidelines and methodologies contained in the New Basel Accord, RBI's circulars and guidance notes issued from time to time on various areas of risk management. This is not a static document, but one that is regularly reviewed and modified in accordance with changes in our risk profile arising from external market changes and other environmental factors, as well as those operational risks associated with new products, activities or systems. The stated objectives of this policy are:

- the proper identification and assessment of the risks faced by us and measures to control and mitigate the same;
- to ensure adherence to the guidelines of RBI on risk management;
- to set out the process of fixing necessary prudential risk limits in all the risk areas and ensuring their adherence in relation to the limits fixed by us;
- the initiation of measures for the smooth implementation of the New Capital Accord (Basel-II) as per the methodologies suggested by RBI and preparing for the parallel calculations from April 1, 2006;
- to put in place systems for the assessment of capital requirements on an ongoing basis based on current and anticipated future business levels;
- to enhance shareholder value by optimizing the deployment of capital funds through the employment of better and improved risk management techniques; and
- to put in place systems for integrating the various risks and to build a robust structure for integrated risk management.

Our internal risk management system is overseen by our Board of Directors The Board approves the risk management policy of the bank containing various risk limits fixed for the bank as a whole and is responsible for establishing the banks operational risk framework. The implementation of this risk management policy is the responsibility of the Risk Management Committee (RMC), which is a Sub-Committee of our Board. Further, we have in place a Credit Risk Management Committee, Asset Liability Management Committee and Operational Risk Management Committee, all of which report to the Board. Reporting to each of these committees are dedicated risk managers that oversee a range of cells that identify, measure, monitor and attempt to control risks within prescribed limits.

Credit Risk

Credit risk is a risk inherent in the banking business and involves the risk of loss arising as a result of the diminution in credit quality of a borrower or counterparty and the risk that the borrower or counterparty will default on contractual repayments under an advance.

The Credit Risk Management Committee (CRMC) is responsible for implementation of the credit risk policies and strategies approved by the Board and the RMC. The CRMC is responsible for preparing the credit risk policy of the bank, policies and standards for the presentation of credit proposals, financial covenants, rating standards and benchmarks and for recommending such proposals to the Board and the RMC for approval. The CRMC is also responsible for recommending the delegation of credit approving powers, prudential limits on credit exposures, standards for loan collaterals, portfolio management, loan review mechanism, risk concentrations, risk monitoring and evaluation, pricing of loans, provisioning regulatory and legal compliance.

Credit Exposure Ceilings

Credit exposure ceilings are a prudential measure mandated by the RBI aimed at improving risk management and avoiding concentration of credit risks. Ceilings are set in relation to single/group borrowers, unsecured advances and with respect to each industry sector.

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). The credit exposure ceiling limits applicable from April 1, 2002 is 15 percent of capital funds in case of single borrower and 40% in the case of a group borrower. Exposure to a single borrower may exceed the exposure limit of 15% of our capital fund by an additional 5% (i.e., up to 20%), provided that the additional credit exposure is on account of infrastructure projects. Similarly exposure to borrowers belonging to a group may exceed the exposure limit of 40% of our capital funds by an additional 10% (i.e., up to 50%), provided that the additional exposure is on account of the extension of credit to infrastructure projects.

As per the RBI's revised guidelines, in exceptional cases, with the approval of the Board, we may consider enhancement of the exposure to a borrower up to a further 5% of capital funds (i.e., up to 20% of the capital funds for a single borrower (up to 25% for infrastructure projects) and up to 45% of capital funds for group borrowers (up to 55% for infrastructure projects) subject to making appropriate disclosures in the Notes to accounts of our annual financial statements, with prior written consent from the borrower.

The CRMC is responsible for preparing the prudential risk limits, which are typically more conservative than those prescribed by the RBI, with approval from the RMC and Board. The risk limits are reviewed at half-yearly intervals. The various prudential risk limits presently in operation are as follows:

Borrowers Exposure Limit

Capital fund	**Tier I capital + Tier II capital**
Extent of exposure	100% Funded + 100% non funded + Investment exposure (including underwriting and similar commitments) + 100% forward commitments in foreign exchange and other derivative products like currency swaps/options (at replacement cost)
Individual exposure limit	15% of Tier I capital + Tier II capital
Group exposure limit	40% of Tier I capital + Tier II capital
Exposure in case of Infrastructure project	20% of capital funds in case of individual borrower and 50% of capital funds in case of group borrowers for infrastructure projects as defined by RBI and circulars issued by us from time to time.
Enhancement of the exposure to the borrower in exceptional circumstances, with the approval of the Board.	Up to a maximum of further 5% of capital funds i.e. Tier I capital + Tier II capital applicable for individual as well as group borrower subject to borrower consenting to make appropriate disclosure in the "Notes of Accounts" in the annual financial statements of the Bank.

Industry Exposure Limits

With respect to sectoral exposure, our policy is that the exposure to any of the sectors should not exceed at any point of time the below mentioned caps of total advances at the end of the previous quarter:

Industry	**Funded Exposure (As % of total advances)**	**Non Funded Exposure (As % of Non fund limits)**
Textiles and Textile Goods	9.00	8.00
Petroleum Products	2.00	1.00
Power	20.00	9.00
Engineering (Heavy and Light)	3.00	11.00

Industry	Funded Exposure (As % of total advances)	Non Funded Exposure (As % of Non fund limits)
Hire Purchase (1%), Leasing (1%) & Factoring Services (1%)	3.00	0.00
Diamonds, Gems and Jewellery	5.00	1.00
Rice Mills	7.00	2.00
Sugar	5.00	2.00
Drugs and Pharmaceuticals	3.00	6.00
Tobacco	2.00	0.50
Cement and Cement products	2.00	0.50
Distilleries	1.00	0.50
Iron and Steel	8.50	7.00
Construction and Contractors	4.00	45.00
Real Estates & Hotels	8.00	1.50
Educational Institutions	2.00	2.00
Software	1.50	1.00
Hospitals	2.00	2.00

Enterprise Type Exposure Limits

Constitution	Prudential limit fixed
Individuals / Proprietorship concerns, Trusts /Co-Op Societies / Association of persons	• Rs. 200 million (Rs. 300 million for group) or 6 times the net worth of the concern as per the latest audited financial statements, whichever is less. • The approval for trust borrowers shall be obtained from Head Office.
Partnerships /HUF concerns	• Rs. 300 million (Rs. 400 million for group) or 6 times the net worth of the concern as per the latest audited financial statements, whichever is less. • For HUF the exposure limit is Rs. 100 million. The approval for HUF borrowers shall be obtained from Head Office.
Private Limited Companies	Rs. 800 million (Rs. 1,000 million for group) or 6 times the net worth of the concern as per the latest audited financial statements, whichever is less.
Closely held Public Limited Companies.	Rs. 1,000 million (Rs. 1,200 million for group)
Widely held Public Limited Companies, Blue Chip/MRTP Companies, Public Sector / Govt. undertakings.	• 15% of capital fund and 20% in case of infrastructure projects (40% for Group, 50% infrastructure project under group). • Group exposure limit not applicable to public sector / government undertakings.
Construction contractors	The fund based and non fund based limits shall not exceed 15 times of the net owned funds

Bank Guarantees and Co-acceptances

Category	Prudential Exposure
Bank Guarantees favouring others Banks/ FIs/other lending institutions for loans sanctioned by them	10% of Tier I Capital
Credit facilities extended against guarantees issued by other Banks/FIs	10% of Tier I capital (will be treated as sub-limit under inter bank exposure)

Off Balance Sheet Exposure

Category	Prudential Exposure
Bank Guarantees	2 times of net worth of the Bank
Letters of Credit	2 times of net worth of the Bank
Bills rediscounted	Equal to net worth of the Bank.
Foreign exchange commitments (Forward contracts etc)	3 times of net worth of the Bank
Others	3 times of net worth of the Bank

Sub ceilings on Advances against Shares, Debentures, PSU Bonds and Units

Category of advance	Revised exposure limit
Loans and advances to individuals etc for the purpose of investments	0.25% of net bank credit or Rs. 375 million whichever is less
Financing of IPOs	Financing is kept in abeyance.
Funded and Non Funded facilities to Stock Brokers	• 0.25% of net bank credit or Rs. 375 million for aggregate funded non funded exposure whichever is less • Individual exposure Rs. 100 million
Funded facility to market makers	• 0.25% of net bank credit or Rs. 375 million whichever is less • Individual exposure Rs. 100 million
Loans and advances to corporates for meeting promoters contribution	• 0.25% of net bank credit or Rs. 375 million whichever is less • Individual exposure Rs. 100 million
Advances to NBFCs against the collateral security/primary security of shares etc	Financing is kept in abeyance

Substantial Exposure Limits

Category	Prudential Exposure
Individual Borrower	Rs. 1,500 million
Total Substantial Exposure limit	Rs. 40,000 million

Other Limits

Category	Prudential Exposure
Exposure to single party in film industry	Rs. 40 million
No. of parties in film industry	6
Exposure towards advances against shares, debentures, units of equity oriented mutual funds etc. and secured and unsecured advances to stock brokers and market makers, exposure to capital markets in all forms (fund based and non fund based)	5% of the total advances (including commercial paper) as at March 31 of previous year
Advances against shares to Individuals	• Rs. 1 million per individual borrower (for shares in physical form) • Rs. 2 million per individual borrower (for shares in demat form)
Margins on advances against shares / issue of guarantees for capital market operations	50% (A minimum cash margin of 25% shall be maintained in respect of guarantees issued)
Exposure to Infrastructure Project Finance	Rs. 1,000 million per project
Ceiling on unsecured advances (Total unsecured advances + 20% of unsecured BGs)	15% of total outstanding advances
Cap on Housing Finance	15% of Total advances.
Sub BMPLR Advances	35% of gross bank credit of previous quarter excluding housing finance intermediaries
Advances with finer rate of interest	27.50% of gross bank credit of previous quarter excluding Sub BMPLR and housing finance intermediaries.

Credit appraisals/ credit risk assessment methodology

We have a robust credit appraisal methodology for appraising credit proposals. We have in place different credit rating system for assessing credit risk in commercial and retail lending for the following categories of exposure: (a) Rs. 5 million and above and (b) Rs. 500,000 to Rs. 5 million. For small loans of Rs. 200,000 and above and up to Rs. 500,000 in the SSI, road transport operators, and priority sector categories a separate credit rating system is available.

In addition to minimum requirements for credit, we have in place a credit approval system. All proposals pass through credit committees comprising of senior executives of the bank.

Post Sanction Monitoring of Loans

The success of a business of providing credit and loan products relies heavily on effective and timely monitoring and supervision of loans granted. In addition to our risk management systems that identify and set individual/group limits based on credit quality and sectoral limits as per RBI guidelines, we also have in place a complete and effective post sanction follow-up system that monitors and tracks the status of loans and other credit facilities once granted. The follow-up system reviews and interprets information and data that identifies potential increases in credit risks and allows us to deal with such credit exposures in a timely manner.

Loan Security and Recovery Policy

We have a comprehensive recovery policy, which covers the restructuring and rescheduling of loans, settlement policy, corporate debt restructuring mechanism, seizure and disposal of assets under the Securitisation Act, and the filing of suits and enforcement of decrees.

Market Risk

Market risk is exposure to loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates and other asset prices. The prime source of market risk for us is the interest rate risk that we are exposed to as a financial intermediary, which arises on account of our asset and liability management activities. In addition to interest rate risk, we are exposed to other elements of market risk, such as liquidity or funding risk, price risk on trading portfolios and exchange rate risk on foreign currency positions. In the case of market risk, our exposure under commodities, equities and foreign exchange is a small proportion of the total balance sheet and the impact of such risks is further minimized due to adherence to RBI's stipulated norms relating to open positions and exposure ceilings.

We have clearly articulated integrated treasury management policy and asset-liability management policy to address market risk. These policies are comprised of management policies, procedures, prudential risk limits, review mechanisms and reporting systems. These policies are revised periodically in tune with changes in financial and economic conditions.

Our Asset Liability Management Committee (ALCO), which is made up of senior executives is responsible for implementation of and adherence to the market risk policies and strategies approved by the Board and the RMC. They also perform the following functions:

- Undertaking balance sheet planning from risk returns perspective;
- Determining the desired maturity profile and mix of incremental assets and liabilities;
- Creating and reviewing our funding policy;
- Determining our interest rate policy;
- Reviewing our transfer price policy of the bank; and
- Approving the pricing of various deposit and advance products;
- Monitoring implementation of policies and reviewing operations within the limits and parameters set by the board.

ALCO is assisted by the Asset Liability Management Cell, headed by a Chief Manager and our Middle Office, which is responsible for the critical functions of independent market risk monitoring, measurement, analysis and reporting for ALCO.

Asset Liability Management (ALM)

We generally fund our core customer assets, consisting of loans and credit substitutes, with our core customer liabilities, consisting principally of deposits. We also borrow in the short-term inter-bank market, though we are a lender most of the time. We use the majority of our funds to make loans or purchase securities.

We measure our exposure to fluctuations in interest rates primarily by way of a gap analysis on a quarterly basis. We classify all rate sensitive assets and liabilities into various time period categories according to contracted residual maturities or anticipated re-pricing dates, whichever is earlier. The difference in the amount of assets and liabilities maturing or being re-priced in any time period category gives us an indication of the extent to which we are exposed to the risk of potential changes in the margins on new or re-priced assets and liabilities.

Information flow is the key to maintaining a successful ALM process and our ALM system is being progressively strengthened and we continuously endeavour to improve the quality and timeliness of our ALM data.As at September 30, 2005, we had captured 100% of our business on a fortnightly basis for the purpose of asset-liability management.As at September 30, 2005, 100% branches were covered under the fortnightly system. Complete implementation of our Core Banking Solution will not only cover 100% of our business, but also improve the authenticity and timeliness of our ALM data.

Liquidity Risk

Liquidity risk arises in three different ways: funding risk, which is the need to replace cash outflows due to unanticipated withdrawals or the non-renewal of deposits; time risk, which is the need to compensate for non-receipt of expected inflows of funds (i.e., performing assets turning into NPAs); and call risk, which is the risk of crystallization of contingent liabilities and the inability to undertake business opportunities when desirable. The purpose of liquidity management is to ensure sufficient cash flow to meet all financial commitments and to capitalize on opportunities for business expansion. This includes our ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature and to make new loans and investments as opportunities arise.

ALCO is responsible for ensuring that we have adequate liquidity, ensuring that our funding mix is appropriate so as to avoid maturity mismatches and to prevent price and reinvestment rate risk in case of a maturity gap, and monitoring local markets for the adequacy of funding liquidity.

We maintain a substantial portfolio of liquid high-quality Indian Government securities. While generally this market provides an adequate amount of liquidity, the interest rates at which funds are available can sometimes be volatile.

We prepare regular maturity gap analysis to review our liquidity position, and must submit a monthly analysis to the RBI. The RBI imposes a limit on the negative mismatch during 1-14 day and 15-28 day periods, which should not exceed 20% of the outflow in the respective periods. As required by RBI, we have also established cumulative gap limits for all short term maturity buckets.

We regularly undertake stress tests to assess the impact of the variables affecting our liquidity position. We also have well-documented contingency plan in place that addresses the liquidity risk arising due to a sudden liquidity crisis in the financial sector.

Price Risk

Price risk is the risk arising from price fluctuations due to market factors, such as changes in interest rates, exchange rates and the price of securities. Our Board has set limits on the maximum permissible impact on the net interest income allowed due to adverse interest rate changes during any one-year period. The interest rate risk under foreign exchange is managed by using the earnings at risk model developed by assessment through the concept of a value at risk, marking to market the gaps on a daily basis. The interest rate risk under investments is measured and monitored using duration and modified duration concepts. As stipulated by the RBI, we maintain an investment fluctuation reserve to serve as a buffer against adverse movement in interest rates.

We also manage our price risk by hedging through derivative transactions. We have set various prudential limits to manage our price risk, including daylight limits, overnight open position limits, aggregate gap limits and value at risk limits. We have cut-loss limits in place scrip-wise. We also have dealer-wise exposure limits for each dealer per day.

Foreign Exchange Risk

We conduct foreign exchange operations including trading and taking positions in various currencies, both proprietary and on behalf of clients. In this regard, part of the market risk we are exposed to are foreign exchange risks as a result of adverse exchange rate movements during a period in which we may have an open position in any combination of foreign currencies. We mitigate these foreign exchange risks by setting counterparty limits and subjecting the overall foreign currency positions to an overnight open exchange position limit.

Operational Risk

The Basel Committee on Banking Supervision has defined operational risk as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can result from a variety of factors, including failure to obtain proper internal authorisations, improperly documented transactions, failure of operational and information security procedures, computer systems, software or equipment, fraud, inadequate training and employee errors. We have established systems and procedures to reduce operational risk.

To monitor operational risk on an on-going basis, we have established an Operational Risk Management Committee (ORMC) under the overall supervision of the RMC and the Board. ORMC meets on a regular basis to review matters relating to operational risk. The ORMC is responsible for implementation of the operational risk policies and limits approved by the RMC and the Board. Its principal objective is the mitigation of operational risk within the institution by the creation and maintenance of an explicit operational risk management process. The ORMC has put in place a comprehensive policy incorporating the guidelines contained in the draft guidance notes of RBI on operational risk management and implementation of the new capital accord and our framework for Operational Risk Management is consistent with the draft guidelines of RBI.

Internal Inspections and Audits

During fiscal 2005, regular inspections were conducted at 1,124 branches. Our portfolio audit of our funds and forex department covered Rs.106,460 million of our business. We have also conducted audit under FEMA at 43 branches and/offices. A concurrent external audit was conducted at 329 branches and offices, covering 66% of deposits and 74% of advances against the RBI stipulation of 50% of deposits and 50% of advances. Out of these 1,124 branches, 100 branches, being high value and high profile branches, were allotted to adequately experienced Chartered Accountant firms.

Basel II Requirements

RBI is adopting the requirements of Basel II, the international capital adequacy framework for banks. We are in the process of moving towards meeting these guidelines. These requirements will affect our management of all three principal categories of risk. In particular, Basel II will introduce minimum capital requirements for market risk and operational risk in addition to the previous requirement of minimum capital only for credit risk. Although we are on schedule to meet the requirements to be implemented and have prepared comprehensive plans, the adoption of these new rules is still an evolving process.

Measures have been initiated for switching over to the standardised approach for credit risk and basic indicator approach for operational risk with effect from March 31, 2007. Capital charge for market risk is computed with effect from March 31, 2005 based on standardised duration method. Steps such as revision of the credit rating framework, migration analyses of loan accounts, etc. are being carried out to prepare us for moving over to the advanced approaches under credit risk.

Human Resources

As at September 30, 2005, the Bank has a committed work force of 13,136 employees as detailed below:

	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
Officers	7,180	7,753	7,990	8,052
Clerks	3,519	3,124	2,885	2,863
Other employees	2,292	2,218	2,233	2,221
Total	**12,991**	**13,095**	**13,108**	**13,136**

We strongly believe that effective management of human resources plays a vital role in the growth of our organisation.

Recruitment

Our recruitment policy is aimed at attracting the best talent. We are one of the few public sector banks that source staff by conducting campus recruitment at reputed colleges and business schools. We recruit the best talent for specialized posts such as marketing officers, financial analysts, rural development officers, IT officers and forex officers. Recruitment processes are handled internally by our HR department.

Training and Employee Development

We attach great importance to the provision of training to our staff so that they keep up to date with the latest developments in the industry and expand their knowledge and skills. The training needs of our staff are assessed on a regular basis.

Our training focuses on all-round development as well as job-specific knowledge. We motivate and encourage staff members for their all-round development in behavioral skills, work attitude, etiquette, communication skills and customer service. At job-specific level, emphasis is placed on developing core competencies of each staff member and the training covers information technology and applications, sales orientation, risk-based internal audit skills, marketing, Credit Management, Treasury and Forex, as well as various computer based tutorials.

Our Staff College in Hyderabad, which is an ISO 9001-2000 certified training institute, provides quality training to staff in line with the corporate goals. To meet the increasing requirement of training of personnel for working in computerised environment, we have well equipped computer training facilities at Hyderabad and Vijayawada.

Our staff regularly attend external training programmes at reputed institutes like National Institute of Bank Management, Pune, Bankers' Training College, Mumbai, College of Agricultural Banking, Pune, Administrative Staff College of India, Hyderabad etc. In order to provide our Senior Managers and Executives with exposure to International Best Practices, they are deputed to renowned International Institutes like Asian Institute of Management, Manila, APRACA CENTRAB, Manila and Jakarta, International School of Management, London; Kellogg School of Management, USA etc.

We are also planning to introduce competency mapping of our key personnel, a process which identifies the core strengths of, and areas that can be improved upon by, the employees.

In terms of employee development, we strive to provide satisfying career progression to our existing personnel, whilst continuing to attract and retain talented professionals by assuring them of fast tracked promotional opportunities.

We have a well defined and transparent transfer policy which helps in rotation of staff and all round development of employees by providing them exposure to different areas.

Top performers are identified and rewarded to motivate them to achieve better performance. Empowerment is another area which the Bank is focusing its attention. Front desk counters in all important branches are manned by more empowered staff to meet the challenges of customer expectations.

The Bank has also taken a new initiative by creating a dedicated group of Client Relationship Officers for building up better relationship with customers and marketing of our products.

Staff Welfare

The Bank has been allocating 3% of its published net profits (up to a maximum of Rs.150 million) towards staff welfare every year. Bank had introduced many staff welfare schemes, like the provision of holiday homes for staff vacations, giving incentives for excellence in education, granting of merit awards to the children of staff, providing free life insurance coverage for all its employees and providing reimbursement of medical expenses for health check ups etc. Our staff welfare schemes are constantly being reviewed and revised based on the feed back received from staff.

Competition

We face competition in all our main business areas. Our primary competitors are other large public sector banks, new private sector banks and foreign banks.

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 large public sector banks, as well as existing and new private sector banks and foreign banks who offer retail loan products. Other public sector banks like us have large deposit base and extensive branch networks, including the State Bank of India Group which has over 13,500 branches. Although foreign banks have a small market penetration, they have a significant presence among NRIs 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.

In particular, we face significant competition primarily from private sector banks and to a lesser degree from other public sector banks, in the housing, automobile and personal loan segments.

Agriculture and Priority Segments

In the agriculture and priority segments, our principal competitors are the large public sector banks and RRBs. This is due to the extensive physical presence of public sector banks and RRBs, throughout India via their large branch networks and the focus on agriculture and priority sectors that has traditionally existed among public sector banks.

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.

Properties

Our Head Office is located at Dr. Pattabhi Bhavan, 5-9-11, Saifabad, Hyderabad-500 004. The building at our Head Office is constructed on land owned by us. We have 16 zonal offices, of which six premises are owned and 10 are leased.

We conduct our business through a total network of 1,177 branches and 142 extension counters as at September 30, 2005. 98% of our branches are located in leased premises. We own 13 residential properties, 29 commercial properties and three vacant sites.

The properties at our Head Office and our zonal offices are duly insured.

Further, we have also obtained a Directors' and Officers' Liability Insurance policy from United India Insurance Company Limited.

The main legislation governing commercial banks, the Banking Regulation Act, applies to public sector banks like Andhra Bank only to a limited extent. Sections 34A, 36AD and 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. 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. that we must follow 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 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, 1980, 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 agreement and every resolution referred to in section 192, if in so far as they have not been embodied in the memorandum or articles.	No corresponding provision.	
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 ● 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.

Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
62	To sue directors, promoters or persons who have authorized 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. Issue procedure of share certificate and joint share certificates, duplicate share certificates detailed.
87	Voting rights at general meetings and on a poll in proportion to the share of the paid-up equity capital of the company.	Regulations 61 and 68 Sections 3(2BBA)(a) and 3(2E)	Regulation 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) 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 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. Regulation 68: Determination of voting rights (i) Subject to the provisions contained in Section 3 (2E) of the Act, each shareholder 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.

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) A corresponding new bank may from time to time and after any paid-up capital him been raised by public issue under clause I 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. Section 3(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.
91	To have calls on shares on a uniform basis on all the shares falling under the same class.	Regulations 22, 24, 26 and 29	Regulation 22: Calls on shares The Board may make such calls as it thinks fit for all moneys remaining unpaid, 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.
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 The shares of the bank shall be movable property, transferable in the manner provided in the bank Regulations which include a detailed procedure for such transfer Section 3(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 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 paid-up capital as may be specified by the central Government by notification in the Official Gazette.

Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
110	To apply for the registration of transfer of shares.	Regulations 18 and 19	Regulation 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. Regulation 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 the transferee on any one or more of the following grounds, and on no other grounds: a. the transfer of shares is in contravention of the provisions of the Bank Acquisition 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; b. the transfer of shares, in the opinion of the board, is prejudicial to the interests 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 a 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% of the paid up capital or as may be prescribed by the central government by notification in the official gazette. (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 above: 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 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 or within such period as may be laid down in the listing agreement with the concerned stock exchange.
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.	

Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
112	To have the share transfer instrument certified by the company in the case of part transfer of the total holding.	Regulation 16	Regulation 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 new certificate(s) in lieu thereof on payment to the bank of its costs, charges and expenses of and incidental to the matter.
113	To have the share certificate delivered within the time limit stipulated.	Regulation 17(v)	Regulation 17(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 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 Government for compelling inspection of the copies and the register aforesaid, in case of refusal by the company.	No 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 12 Section 3 (2F)	Share register maintained under Regulation 5 and Section 3(2F) Regulation 11: Inspection of Register 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

Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
			Notwithstanding 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.
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.	
169	To attend an extra-ordinary general meeting.	Regulations 60	Regulation 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 a general meeting. (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: (a) his full name and registered address; (b) the distinctive number 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.
169	To requisition an extra-ordinary general meeting.	Regulation 57	Regulation 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 or 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 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.

Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
			(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. (iv) The time, date and place of the extra ordinary general meeting shall be decided by the board: 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. (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.
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 57	
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 (i) notice convening an annual general meeting of the shareholders 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) 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.
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 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.

Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
176	To appoint a proxy to attend and vote at a general meeting of a company.	Regulations 68 and 70	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	Regulation 61: Voting at general meetings 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 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.
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 authorise any of its officials or any other person to act as its representative at any general meeting. 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 69(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 - (i) The bank shall cause the minutes of all proceedings to be maintained in the books kept for the purpose. (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.

Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
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.	
205	Dividend to be paid only out of profits	No corresponding provision.	
205A,205B	To claim any unclaimed dividend.	No corresponding provision.	
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.	
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.	
219	To inspect the full accounts at the annual general meeting if the company has sent the abridged accounts.	Section 10A(2)	Section 10A(2): Annual general meeting The shareholders present at an annual general meeting shall be entitled to discuss 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.
224(5)	To nominate a person for the appointment as auditor of the company if the first auditors are removed at a general meeting.	No corresponding provision.	
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 reappointed.	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. 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	

Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
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) Regulation 63	Regulation 63: Directors to be elected at general meeting - (i) 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 (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. nomination is in writing signed by at least one hundred shareholders entitled to elect directors under the Act. (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.
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 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 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.	

Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
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.	
306	To inspect at the annual general meeting, the register of directors' shareholdings.	No corresponding provision.	
307	To inspect at the registered office, the register of directors' shareholdings.	No corresponding 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	To receive notice within one month from the date of the transfer, of that fact in the prescribed manner, to the holders of the remaining shares or of the remaining shares of that class, as the case may be, who have not assented to the scheme or contract.	No corresponding provision.	
395	To require the transferee company to acquire the shares in question within three months of giving the notice.	No corresponding 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.	

Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
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, 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 being wound-up voluntarily or subject to court's supervision.	No corresponding 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 Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, except where otherwise specified.
2. All references to Regulations are references to provisions of Andhra Bank (Shares and Meetings) Regulations, 2003.
3. All references to Clauses are references to provisions of the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1980.
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, quality of its management, efficacy of the internal control system, profitability and other relevant factors. 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, 1998. 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, provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital and reserves consisting of any statutory reserves, free reserves and capital reserves as reduced by equity investments in subsidiaries, intangible assets, and losses in the current period and those brought forward from the previous period. 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 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) 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.

Risk adjusted assets and off-balance sheet items considered for determining the capital adequacy ratio are the weighted aggregate of specified 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. Guarantees and letters of credit are treated as similar to funded exposure and are subject to similar risk weight. All foreign exchange and gold open position limits carry a 100.0% risk weight. A risk weight of 2.5% to cover market risk has to be assigned in respect of the entire investments portfolio over and above the risk weight for credit risk. Banks are required to assign a 100.0% risk weight for all state government guaranteed securities issued by defaulting entities. The aggregate risk weighted assets are taken into account for determining the capital adequacy ratio.

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 11.0%.

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;
- if the interest and/or principal remained overdue for two harvest seasons but for a period not exceeding two half-years in the case of an advance granted for agricultural purposes. 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. With effect from September 30, 2004, 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 a crop season longer than one year are long duration crops, and crops, which are not long duration crops are treated as short duration crops).
- 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 unrealized 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 written off fully.

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

The 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 of 0.25% is required.
- 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 per cent with effect from March 31, 2005 and will become 75 per cent 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.

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 cost of funds, operating expenses, 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 if the borrower has a consortium or multiple banking arrangement, at least 75% by value of the total loans to the borrower are classified as non-performing and at least 75% by value of the banks and financial institutions in the consortium or multiple banking arrangement agree to the sale. The banks selling financial assets should ensure that there is no known liability devolving on them and that they do not assume any operational, legal or any other type of risks relating to the financial assets sold. Further, banks may not sell financial assets at a contingent price with an agreement to bear a part of the shortfall on ultimate 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 risk weight of 102.5% 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 net bank credit with agricultural advances required to be 18.0% of net bank credit, advances to weaker sections required to be 10.0% of net bank credit and 1.0% of the previous year's net bank credit required to be lent under the Differential Rate of Interest scheme. Domestic scheduled commercial banks having shortfall in lending to priority sector are allocated amounts for contribution to the Rural Infrastructure Development Fund established in National Board 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 commercial banks to make loans to exporters at concessional rates of interest. This enables exporters to have access to an internationally competitive financing option. Pursuant to existing guidelines, 12.0% of a bank's net bank credit is required to be in the form of export credit. 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. The Bank has decided that such enhancement may be considered for public sector undertaking borrowers based on their cash flows, and for non-public sector undertaking borrowers if they have a risk rating of 'AA' and above.
- 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;
- facilities extended by way of equipment leasing, hire purchase finance and factoring services;
- advances against shares, debentures, bonds and units of mutual funds to stock brokers and market makers;
- bank loan for financing promoters' contributions;
- bridge loans against equity flows/issues; and
- financing of initial public offerings.

Investment exposure comprises of 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;
- investment 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; and
- investments in debentures, bonds, security receipts, 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.

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 (excluding inter-bank lending and advances outside India and 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% 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-Statutory Liquidity Ratio securities issued by companies, banks, financial institutions, central and state government sponsored institutions and special purpose vehicles. These guidelines apply to primary market subscriptions and secondary market purchases. Pursuant to these guidelines, banks are prohibited from investing in non-Statutory Liquidity Ratio securities with an original maturity of less than one year, other than commercial paper and certificates of deposits. Banks are also prohibited from investing in unrated securities. A bank's investment in unlisted non-Statutory Liquidity Ratio securities may not exceed 10.0% of its total investment in non-Statutory Liquidity Ratio securities as at the end of the preceding fiscal year. These guidelines will not apply to investments in security receipts issued by securitisation or reconstruction companies registered with the RBI and asset backed securities and mortgage-backed securities with a minimum investment grade credit rating. These guidelines have been effective from April 1, 2004, with provision for compliance in a phased manner by January 1, 2005.

Consolidated Supervision Guidelines

In fiscal 2003, the RBI issued guidelines for consolidated accounting and consolidated supervision for banks. These guidelines became effective April 1, 2003. The Bank has adopted these guidelines 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, (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 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.
- 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 RBI announced that it would set up an internal group to review the investment classification guidelines to align them with international practices and the current state of risk management practices in India, taking into account the unique requirement applicable to banks in India of maintenance of a statutory liquidity ratio equal to 25.0% of their demand and time liabilities. In the meanwhile, the RBI 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 pledge 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.

Prohibition on Short-Selling

The RBI does not permit short selling of securities by banks.

Regulations Relating to Deposits

The RBI has permitted banks to independently determine rates of interest offered on term deposits. Primary (urban) co-operative banks are permitted to pay interest on current account deposits at rates not exceeding 0.5% per annum. 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 15 days (seven days in respect of deposits over Rs. 1.5 million) 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 three 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; and
- Interest on deposits is paid in accordance with the schedule of interest rates disclosed in advance by the bank and not pursuant to negotiation between the depositor and the bank.

The RBI has stipulated that the interest rate on NRE deposits accepted before July 17, 2003 should not exceed 250 basis points and interest rates on those NRE deposits accepted before September 15, 2003 should not exceed 100 basis points over the US dollar LIBOR/ swap rates for the corresponding maturity. Further, NRE deposits contracted effective close of business in India on October 18, 2003 should not exceed 25 basis points over the US dollar LIBOR/ swap rates for the corresponding maturity, and those contracted effective close of business in India on April 17, 2004 should not exceed the LIBOR/ swap rates for US dollar 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 was 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 can be a minimum of 3.0% and a maximum of 20.0% pursuant to Section 42 of the Reserve Bank of India Act, 1934. On September 18, 2004, the cash reserve ratio was changed to 4.75%. From October 2, 2004, was increased to 5%.

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, 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 cash reserves up to 3.0% of the demand and time liabilities and pays interest on the eligible cash balances, currently at the rate of 3.5%. Earlier, interest was paid by the RBI at the bank rate.

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 approved securities. The percentage of this liquidity ratio is fixed by the RBI from time to time, and it can be a minimum of 25.0% and a maximum of 40.0% pursuant to Section 24 of the Banking Regulation Act. At present, the RBI requires banking companies to maintain a liquidity ratio of 25.0%. The Banking Regulation (Amendment) and Miscellaneous Provisions Bill, 2003 introduced in the Indian Parliament proposed to amend Section 24 of the Banking Regulation Act to remove the minimum Statutory Liquidity Ratio stipulation, thereby giving the RBI the freedom to fix the Statutory Liquidity Ratio below this level.

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 quarterly 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. The Board of Directors has approved of these limits. In respect of other time periods, up to one year, our Bank, on the basis of the RBI's direction has laid down internal norms in respect of cumulative negative liquidity gaps. It is not mandatory for banks to lay down internal norms in respect of negative liquidity gaps for time periods greater than one year. In case of interest rate sensitivity, our Bank has set limits on the maximum permissible impact on the net interest income during the one year period, due to a general change in the interest rates.

Foreign Currency Dealership

The RBI has granted us a full-fledged authorised dealers' license to deal in foreign exchange through our designated branches. Under this licence, we have been granted permission to:

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

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. 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. However, absent specific approval of the RBI, the shareholding of Non Residents in a public sector bank like ours cannot exceed 18% of the paid up capital of such bank.

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 98 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 25.0% of the profits of each year before dividends. If there is an appropriation from this account, the bank is required to report the same to the RBI within 21 days, 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 dividends, 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.

In the event that we fulfill the conditions stated above, we can declare dividends without the consent of the RBI, but if we do not comply with the conditions stated above but wish to declare dividend or a higher rate of dividend, we would require prior permission from the RBI.

RBI has also notified that banks may also declare and pay interim dividends out of the relevant account period's profit without the prior approval of the RBI if they satisfy the minimum criteria above, and the cumulative interim dividend is within the prudential cap on dividend payout ratio (40%) computed for the relevant accounting period. Declaration and payment of interim dividends beyond this limit would require the prior approval of the RBI.

The MoF, GoI has, by its notification no. F.No. 11/24/2005-BOA dated December 7, 2005, exempted us from the provisions of Sections 13 and 15(1) of the Banking Regulation Act for a period of two years from the date thereof.

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 of 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.

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 zonal offices, regional 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. The other Directors nominated/ appointed by the Central Government include one official each from the GoI and RBI 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 and the RBI who serve as the nominee directors of the Central Government and RBI cannot be a director of any other corresponding new bank. For the text of Section 9 of the Bank Acquisition Act, see the section titled "Main Provisions of Constitutional Documents" on page 263 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 books, records and registers. The Banking Companies (Period of Preservation of Records) Rules, 1985 require a bank to retain records of books, accounts and other documents relating to stock and share register for a period of three years.

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:

- No separate assigned capital is required. However, the parent bank is required to provide a minimum of US$ 10 million to its offshore banking unit.
- Offshore banking units are exempt from cash reserve ratio requirements.
- The RBI may exempt a bank's offshore banking unit from statutory liquidity ratio requirements on specific application by the bank.
- An offshore banking unit may not enter into any transactions in foreign exchange with residents in India, unless such a person is eligible 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 merchant banking, banker to the issue, custodial, depositary participant, and debenture trusteeship 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 new corresponding banks is subject to an overall statutory limit of 20% of the paid up capital. 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. Accordingly, absent approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid up capital of the Bank.

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 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.

Regulations Governing International Businesses

Our international business operations are governed by regulations in the countries in which we have a presence. We are required to obtain approval of the RBI to set 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.

Overseas branches

We propose to establish a representative office in Dubai, UAE and have received approval from the RBI as well as the Central Bank of the United Arab Emirates to open a representative office in Dubai. For further details, please see "Licenses and Approvals" on page 223 of this Red Herring Prospectus.

The Regional Rural Banks Act, 1976

Regional Rural Banks (RRBs) are established under the Regional Rural Banks 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 Regional Rural Banks Act, 1976 stipulates the limit of the paid-up capital of a regional rural bank and further stipulates that the shares shall always be fully paid up shares of one hundred rupees each. Of this, 50% 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 Regional Rural Banks 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 have been deemed to be a co-operative society for the purposes of the I.T. Act. Further, the GoI is empowered to give directions to the RRBs and the RRBs shall have to obey and follow such directions.

Amendments under the Finance Act, 2005

The Finance Act, 2005 proposes to introduce certain changes to the existing regulations governing banks in India, by amendment of the Banking Regulation Act, and RBI Act. These proposals relate to:

- Removal of the lower and upper limits on Statutory Liquidity Ratio;
- Removal of the lower and upper limits on Cash Reserve Ratio;
- Permitting banks to issue preference shares;
- The introduction of specific provisions to enable consolidated supervision of banks and their subsidiaries by RBI;
- Continuation of the tax exemption granted to interest income on Non Resident (External) Account and Foreign Currency Deposits;
- Introduction of the new provision to provide for set off of losses to banking companies in cases of amalgamation;
- Enhancement of credit-linking of Self Help Groups with the Banking System; and
- To enable RBI to lend or borrow securities by way of repo, reverse repo or otherwise.

In addition, the GoI has also proposed to enable RBI to sanction banks to give loans to directors and to enable RBI to remove the board of directors of banks.

HISTORY AND CERTAIN CORPORATE MATTERS

Andhra Bank was founded by Dr. Bhogaraju Pattabhi Sitaramayya on November 20, 1923 and commenced business on November 28, 1923 with a paid up capital of Rs. 100,000 and an authorised capital of Rs. 1 million.

Pre Nationalization

The Bank commenced business as "The Andhra Bank Limited" at Machilipatnam, a port town in coastal region of Andhra Pradesh. The registered and central office of the Bank was set up in Machilipatnam, which was the centre of the Bank's operation between 1923 and 1963. At the time of its inception, the Bank set aside 50% of its advances for farmers, traders, artisans and craftsmen in rural areas.

Post Nationalization

The Bank was nationalised on April 15, 1980. The Bank was one of the first banks to launch credit card business among the public sector banks in India in 1981. By 2003, most of the branches of the Bank were computerised.

In fiscal 2004, we became one of the first public sector banks to undertake mortgage backed securitisation with the securitisation of 1,437 housing loan accounts for an aggregate value of Rs. 503.6 million. Additionally, we were one of the first banks to actively market insurance-linked savings deposits to customers. Our work with over 47,884 Self Help Groups (SHGs) was recognised by the Government of Andhra Pradesh in fiscal 2005, which awarded us the title of "Best Bank" in the state for the fourth year running. We currently have lead bank responsibilities from the RBI in six districts v.i.z. Guntur, West Godavari, East Godavari and Srikakulam in Andhra Pradesh and Ganjam and Gajapathi in Orissa. We are the convener of the State Level Bankers Committee in the state of Andhra Pradesh.

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 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:*

(a) *Paying, receiving, collecting and remitting money, bullion and securities on behalf of the Government of India.*

(b) *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

Date	Event
1923	Establishment of the Bank
1943	Bank attained the status of a Scheduled Bank
1945	Opened first Branch outside Andhra Pradesh in Chennai, Tamil Nadu
1964	Amalgamation of Bharat Lakshmi Bank with the Bank
1969	Lead bank role in four districts of Andhra Pradesh and one district in Orissa State
1970	Introduced the "Kiddy Bank" deposit scheme to attract children's savings
1972	Surpassed the Rs. 10.00 million deposit mark
1980	Nationalization of the Bank
1981	Introduction of credit cards by the Bank
1989	Established Andhra Bank Rural Development Trust and started Andhra Bank Institute of Rural Development at Rajahmundry
1993	First totally computerised branch opened at R.P. Road Branch, Secunderabad
1995	First SSI specialised branch at Hyderabad
1996	First Industrial Finance branch at Hyderabad
1998	Introduction of Kisan Credit Cards
1998	Bank was granted functional autonomy by the GoI
1999	Deposits of the Bank surpassed Rs. 1,000.00 million
2001	Initial Public Offering of the Bank
2002	Launching of network ATMs
2003	• Achieved 100% branch computerization • ABHFL merged with the Bank
2004	• Securitized housing loans worth Rs. 500 million with the National Housing Bank; • Commencement of cash management operations
2005	Business of the Bank surpassed Rs. 450 billion

Awards and Recognition

Year	Awards And Recognitions
2001	Awarded the "Best Bank" award in Andhra Pradesh for financing the maximum number of Self Help Groups.
2002	Awarded the "Best Bank" award in Andhra Pradesh for financing the maximum number of Self Help Groups
2003	Awarded the "Best Bank" award in Andhra Pradesh for financing the maximum number of Self Help Groups
2004	Awarded the "Best Bank" award in Andhra Pradesh for financing the maximum number of Self Help Groups
2005	• Achieved ISO 9001-2000 certification for our Data Center and for our Staff College • Ranked No.1 in Asia for Return on Capital by "The Banker" • Ranked 683rd among Top 1,000 banks in the world by "The Banker", a London based publication by the Financial Times • Rated CGR2 by Indian Credit Rating Agency (ICRA) denoting a high level of assurance on the quality of corporate governance in the Bank • Ranked No.1 for 2005 by the Business Standard Banking Annual (November 2005) based on productivity, safety, profitability, growth and efficiency.

The following table sets forth details regarding our Board of Directors as of the date of filing the Red Herring Prospectus with SEBI:

Board of Directors

Sl No.	Name, Designation, Father's Name, Address, Occupation	Nationality	Age	Date of Appointment and Term	Other Directorships
1.	**K. Ramakrishnan** **Chairman and Managing Director** S/o K.V. Krishna Murthy D. No. 8-2-696/697 F.04-05, LA Creative Heights Road No. 12 Banjara Hills, Hyderabad - 500 034. India *Professional Banker*	Indian	57	June 9, 2005 Appointed up to March 31, 2008 or until further orders, whichever is earlier	ABFSL
2.	**R. Balakrishnan** **Executive Director** S/o Rajagopala S. (Late) Plot No. 8, Road No. 72 Prashashan Nagar Jubilee Hills Hyderabad - 500 033 *Professional Banker*	Indian	59	December 11, 2002 Appointed up to January 31, 2006 or until further orders	ABFSL
3.	**Rakesh Singh** **GoI Nominee Director** S/o R.A. Singh Ministry of Finance Department of Revenue Parliament House North Block New Delhi - 110 001. *Joint Secretary, Government of India*	Indian	50	June 13, 2003 Appointed until further orders or until he ceases to be an officer of the MOF, whichever is earlier	Nil
4.	**Dr. Deepali Pant Joshi** RBI Nominee Director W/o Rajiv Joshi Quarter No. 6 RBI Senior Officers' Quarters Red Hills Hyderabad - 500 004 India *RBI Official*	Indian	47	January 12, 2004 Until further orders	Nil
5.	**Anil Kumar Sood** **Shareholder Director** S/o Virender Mohan Sood Plot No. 26 Quiet Lands Gachibowli Hyderabad - 500 032 *Faculty Member, ASCII*	Indian	42	March 11, 2003 Appointed up to March 10, 2006	Visual Soft Technologies Limited

Sl No.	Name, Designation, Father's Name, Address, Occupation	Nationality	Age	Date of Appointment and Term	Other Directorships
6.	**T. Navaneeth Rao** **Shareholder Director** S/o T. Vittal Rao Plot No. 1298 Road No. 63 and 65 Jubilee Hills Hyderabad - 500 034 *Professor*	Indian	74	March 11, 2003 Appointed up to March 10, 2006	Nil
7.	**S. Swaminathan** **Shareholder Director** S/o Dr. S. Soupramanian 36, Venkat Nagar Pondicherry - 605 011 India *Practising Chartered Accountant*	Indian	47	March 11, 2003 Appointed up to March 10, 2006	<u>Partner in:</u> Ganesan and Co., Chartered Accountants, Pondicherry
8.	**Mallineni Rajaiah** **Shareholder Director** S/o Akkappa Naidu C/o Vijay Agro Products Private Limited Enikepadu Vijayawada - 521 108. *Industrialist*	Indian	63	March 11, 2003 Appointed up to March 10, 2006	<u>Director in:</u> 1. Vijay Agro Products Private Limited 2. Giridhar Cold Storage Private Limited 3. Padmavathi Mansions Private Limited 4. Mallineni Trading Company Private Limited 5. GV Estates and Hotels Private Limited <u>Partner in:</u> 1. Giridhar Fish Farms 2. Raja and Co. 3. Vasu Estates 4. Vijay Agro Aqua Farms 5. Padmavathi Fish Farms 6. Kanakadurga Construction Co. 7. Srinivasa Agencies
9.	**K.V. Subbaiah** **Director Representing Non-Workmen Employees** S/o Kankanala Subbaiah Flat No. 507 Arun Apartments Red Hills Hyderabad - 500 004 *Bank Employee*	Indian	49	April 1, 2003 Appointed for a period of three years and until the appointment of his successor or his cessation as an officer of the Bank, whichever is earlier	Nil

Sl No.	Name, Designation, Father's Name, Address, Occupation	Nationality	Age	Date of Appointment and Term	Other Directorships
10.	**B.S.R. Mohan Reddy** **Director Representing Workmen Employees** S/o B. Satyanarayana Reddy H. No. 15/69, P&T Colony Gadiannaram Hyderabad - 500 060 *Bank Employee*	Indian	50	September 24, 2003 Appointed for a period of three years with immediate effect and thereafter until his successor is appointed or until he ceases to be a workman employee of the Bank or until further orders, whichever is earliest	Andhra Bank Employees' Cooperative Bank Limited
11.	**Dr. K. Anjanappa** **Non-Official Part-Time Director** S/o Late K. Sanjeevappa Sri Sai Nilayam Plot 11, Phase III Kamalapuram Colony Hyderabad *Academician*	Indian	67	November 30, 2005 Appointed for a period of three years or until his successor is nominated, whichever is earlier	Nil

K. Ramakrishnan, the Chairman and Managing Director of the Bank, was appointed by the GoI and prior to such appointment, he was the Executive Director of Bank of Baroda. He is a graduate in Commerce (Spl.), MBA with PG Diploma in Bank Management, NIBM, PG Diploma in Training & Development, University of Manchester, U.K.

He has experience of over 35 years in various fields of commercial banking operations and administration. He joined the Bank of India during April 1970 as an officer and handled operational assignments in various branches. He was a faculty member, Vice-Principal/Acting Principal at Staff Training College, Bank of India. He held positions as Chief Manager, International Department at the head office of Bank of India, Assistant General Manager, Joint Zonal Manager/Zonal Manager, Gujarat zone, Deputy General Manager, Information Technology Department, head office of Bank of India and General Manager In-charge of Operations, Corporate Services, Subsidiaries, Card Products and SMS at the head office of the Bank of India. Thereafter, he joined as Executive Director, Bank of Baroda on August 27, 2004 and held positions as Chairman, Bank of Baroda (Kenya) Limited and Chairman, BOB Housing Finance Limited. He is a Member, Legal & Banking Operational Committee of IBA for the year 2005-06.

R. Balakrishnan, the Executive Director, of the Bank, was appointed as the Executive Director of the Bank by the GoI. Prior to such appointment, he was the General Manager at Corporation Bank. He is a graduate in Commerce, CAIIB, AIB (London) and holder of Certificate in Industrial Finance from the IIB.

He commenced his career in the State Bank of India in the year 1968 and had supervised branch operations at rural and metro branches and specialised functions. Thereafter, he joined the Corporation Bank during in 1977 and held functional responsibilities from middle management to top executive positions in divisions including Large Advances, Board Secretariat, Balance Sheet Administration, Profit Planning, Asset Liability Management, Treasury and Investment operations, International Banking, Legal and Recovery Division, Priority Sector Advances and RRB Division. He was the Zonal Manager of the Greater Mumbai Zone at Corporation Bank. He held the position of nominee Director on the Board of Corp Bank Securities Limited.

Rakesh Singh, the nominee Director representing the GoI, holds the position as Joint Secretary, Department of Revenue, Ministry of Finance, GoI. He is an IAS Officer from the 1978 batch and is a post graduate in Economic and Social Studies from University of Manchester, U.K and History (Modern India) from the University of Allahabad.

He has held various positions during his career including Deputy Secretary, Department of Industries, Additional Secretary, Department of Personnel, Deputy Commissioner, Ferozpur, Secretary, Industries, Tourism, Forest, Environment and Horticulture, Finance Secretary, Chandigarh Administration, Secretary, Department of Housing and Urban Development and is presently the Joint Secretary (Revenue), Ministry of Finance, GoI.

Dr. Deepali Pant Joshi is the Director representing the RBI. She joined RBI as a Grade B Officer during 1981 and has worked in various departments of RBI. She is a post graduate in Political Science and International Relations from University of Allahabad, Ph. D. on United States Foreign Policy towards South & South East in the Post-Vietnam Era, Law Graduate, Fellow Graduate of the Asia Centre, Harvard University and has obtained a Diploma in Management and Diploma in French Language.

She served in various capacities in the Exchange Control Department, DBOD and RPCD in the Central Office of the RBI at Mumbai and various regional offices of the RBI. She has published articles on banking in reputed banking journals, including Yojana Journal of Social and Management Sciences, Prajnan and Economic and Political Weekly. She is presently the Chief General Manager in RBI, Hyderabad.

Anil Kumar Sood, is a Director representing the shareholders of the Bank. He is Fellow (Doctoral Program) from Indian Institute of Management, Ahmedabad and a PGDM (MBA Program) from Indian Institute of Management. He is the Programme Director, Distance Learning MBA, being offered in collaboration with Manchester Business School and University of Wales at Bangor, U.K.

He was the Head, Corporate Finance and Merchant Banking at DCL Finance Limited, the Executive Vice President at Scientific Engineering House Private Limited and the Accounts Executive at SmithKline Beecham Consumer Healthcare Limited. He has trained personnel at the Administrative Staff College of India (ASCI) in various fields. Presently he is a Senior Faculty Member and Chairperson, Finance Area at ASCI. He has been a consultant in various entities including Dr. Reddy's Limited, Future Soft Private Limited, Motorola India Electronics Limited and GE Capital Services India.

T. Navaneeth Rao, is a Director representing the shareholders of the Bank. He is a retired Vice-Chancellor of Osmania University. His has over three decades of experience in teaching and research activities. He is a post graduate in Science, Ph. D. C. Chemistry/FRSC, London. He was member of various professional bodies including Fellow of Royal Society of Chemistry, London, Fellow of Indian Chemical Society, Fellow and Past President, Andhra Pradesh Academy of Sciences and Fellow, Electrochemical Society of India. He is recipient of various awards including J.C Young Scientist Award, Dr. C R Reddy Vamshee Award, National Unity Award and Vijayashree Award.

S. Swaminathan, is a Director representing the shareholders of the Bank. He has been a practising Chartered Accountant since 1986. He had a varied experience in the audit of banks, insurance companies, cooperative societies and the taxation of corporate and non-corporate entities. He holds a Bachelor Degree in Commerce and is a Fellow Member in Institute of Chartered Accountants of India.

M. Rajaiah, is a Director representing the shareholders of the Bank. He is an industrialist with varied experience in business activities. He is a graduate in Science and promoter of various private sector organisations.

K.V. Subbaiah, is a Director representing the officers of the Bank. He is a Graduate in Commerce, joined the Bank during 1977 and has held various positions in the Bank since his joining. At present, he is a Senior Manager in the Inspection and Audit Department of the Bank.

B.S.R Mohan Reddy, is a Director representing the workmen employees of the Bank. He is a graduate in Science and Arts. He joined the Bank in 1976 and currently holds the post of a Special Assistant.

Dr. K. Anjanappa, *is a part-time non-official Director of the Bank. His educational qualifications are M.Sc., Ph.D. and F.M.S. He is an academician with over 12 years of teaching experience at Sri Venkateshwara University at Tirupati and also has over 18 years experience in academic administration in universities. He is also a member of the Andhra Pradesh Public Service Commission.*

Remuneration of Directors

1. *K. Ramakrishnan, Chairman and Managing Director:*

   K. Ramakrishnan was appointed as Chairman and Managing Director of our Bank by a notification dated June 9, 2005 issued by the Department of Economic Affairs (Banking Division), MoF, GoI , after consultation with the RBI under clause (a) of Sub-Section (3) of Section 9 of the Bank Acquisition Act upto July 31, 2008 or till further orders whichever is earlier.

   Salary and dearness pay: K. Ramakrishnan is entitled to receive Rs. 24,050 per month as salary and dearness pay at the rate of 11% of basic pay, as remuneration during his term as the Chairman and Managing Director of our Bank.

   Other perquisites and benefits: In addition to the above, K. Ramakrishnan 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 travelling allowance for travel by air, leave and leave travel concession, provident fund, medical benefits and gratuity.

2. *R. Balakrishnan, Executive Director:*

   R. Balakrishnan was appointed as Executive Director of our Bank on December 11, 2002 by the Department of Economic Affairs (Banking Division), MoF, GoI, by notification no. F.No.9/18/2002-B.O.I dated December 11, 2002 issued by the Department of Economic Affairs (Banking Division), MoF, GoI after consultation with the RBI under clause (a) of Sub-Section (3) of Section 9 of the Bank Acquisition Act up to January 31, 2006 or until further orders, whichever is earlier.

Salary and dearness pay: R. Balakrishnan is entitled to receive Rs. 22,050 per month as salary and dearness pay at the rate of 11% of basic pay, as remuneration during his term as the Executive Director of our Bank.

Other perquisites and benefits: In addition to the above, the Executive Director is entitled to certain perquisites which include 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 travelling allowance for travel by air, leave and leave travel concession, provident fund, medical benefits and gratuity.

Other Directors receive only sitting fees from the Bank. As per extant MoF instructions, a director of a nationalized bank is entitled to receive a sitting fee of Rs. 5,000 per meeting of the board and a sitting fee of Rs. 2,500 per meeting of any committee of the board. In accordance with the same, sitting fees paid to the Directors for the half year ended September 30, 2005 aggregated to Rs. 0.34 million.

Payment or benefit to officers of our Bank

Except as stated in the Red Herring Prospectus, no amount or benefit has been paid or given within the two preceding years or is intended to be paid or given to any of our officers except the normal remuneration for services rendered as Directors, officers or employees.

Corporate Governance

We had made a public issue of 150 million Equity Shares on February 14, 2001 and are currently listed on the NSE, BSE, and the HSE. We had entered into listing agreements with the Stock Exchanges and we are in compliance with the provisions of the listing agreements with the Stock Exchanges especially relating to corporate governance, broad basing of management and setting up necessary committees like the Audit Committee and the Shareholders'/ Investors' Grievance Committee.

We have complied with SEBI Guidelines in respect of corporate governance specially with respect to broad basing of board, constituting the committees such as Shareholders'/ Investors' Grievance committee details of which are provided hereinbelow. We shall comply with the requirements of the SEBI circular SEBI/CFD/DIL/CG/1/2004 dated October 29, 2004, which notifies revised corporate governance guidelines, by the required date, i.e., December 31, 2005 for listed entities like our Bank.

The Board has 11 Directors, of which two are wholetime Directors. The Chairman of the Board is a wholetime Director.

Committees of the Board

We have constituted the following committees of our Board of Directors for compliance with corporate governance requirements:

a) Audit Committee; and

b) Shareholders' and Investors' Grievances Committee.

The Board of Directors has not constituted any remuneration committee as the remuneration of Directors is determined by the Government and is guided by the guidelines of the Government in this regard.

The following committees have been formed to focus on specific areas:

Audit Committee

The members of the Audit Committee are S. Swaminathan (Chairman), R. Balakrishnan, Executive Director, Rakesh Singh, Dr. Deepali Pant Joshi and Anil Kumar Sood.

The responsibilities of the Audit Committee, which was reconstituted on June 22, 2005, include the following:

1. Organization, operationalization and quality control of the internal audit and inspection system of the Bank;
2. Follow up on the external/statutory audit of the Bank and the annual financial inspection by the RBI;
3. Reviewing the compliance with accounting standards in terms of reporting progress and disclosure of financial information and compliance with other statutory requirements;
4. Reviewing inspection reports of specialized and extra large branches and branches with unsatisfactory ratings; and
5. Reviewing inter branch adjustment amounts and unreconciled long outstanding entries in inter bank accounts.

During the period between April 1, 2005 to December 15, 2005, the Committee met eight times.

Shareholders' and Investors' Grievances Committee

The Board of Directors of the Bank constituted the 'Shareholders' and Investors' Grievances Committee' on December 24, 2002 to redress the complaints of shareholders and investors on matters of their interest. The Shareholders' and Investors' Grievances Committee comprises of K. Ramakrishnan, Chairman and Managing Director, (Chairman), R. Balakrishnan, Executive Director, Dr. Deepali Pant Joshi and K.V. Subbaiah. T.R. Ramabhadran has been designated by the Bank as the Compliance Officer.

During the period between April 1, 2005 to December 15, 2005, the Committee met twice.

Other Committees

In addition to the Audit Committee and the Shareholders' and Investors' Grievances Committee, we have also constituted the following committees: Management Committee, Departmental Promotion Committee, Share Transfer Committee, Risk Management Committee, Special Committee for Monitoring Large Value Frauds and Customer Service Committee.

The details of these committees are provided below.

Management Committee

The Management Committee was re-constituted on October 14, 2005 to consider various business matters of material significance like sanctioning of credit proposals, compromise/write-off, approval of revenue and capital expenditure, leasing/purchasing premises, making investments, donations, etc.

The Management Committee comprises K. Ramakrishnan, Chairman and Managing Director, (Chairman), R. Balakrishnan, Executive Director, Rakesh Singh, Dr. Deepali Pant Joshi, S. Swaminathan and Mallineni Rajaiah.

During the period between April 1, 2005 to December 15, 2005, the Committee met 12 times.

Departmental Promotion Committee

The Departmental Promotion Committee has been functional since the inception of the Bank and was constituted to review the vigilance disciplinary cases and departmental enquiries on quarterly basis.

The Departmental Promotion Committee comprises K. Ramakrishnan, Chairman and Managing Director, (Chairman), R. Balakrishnan, Executive Director, Rakesh Singh and Dr. Deepali Pant Joshi.

During the period between April 1, 2005 to December 15, 2005, the Committee met one time.

Share Transfer Committee

The Share Transfer Committee was re-constituted on June 22, 2005 to consider the share transfer requests of the shareholders of the Bank.

The Share Transfer Committee comprises K. Ramakrishnan, Chairman and Managing Director, (Chairman), T. Navaneeth Rao and B.S.R Mohan Reddy.

During the period between April 1, 2005 to December 15, 2005, the Committee has met eight times.

Risk Management Committee

The Risk Management Committee of the Board was re-constituted on June 22, 2005 to evaluate the overall risks faced by the Bank and the determining the level of risks.

It comprises K. Ramakrishnan, Chairman and Managing Director, (Chairman), R. Balakrishnan, Executive Director, Dr. Deepali Pant Joshi, Anil Kumar Sood, S. Swaminathan and Mallineni Rajaiah.

During the period between April 1, 2005 to December 15, 2005, the Committee met four times.

Customer Service Committee

The Customer Service Committee was re-constituted on June 22, 2005 to monitor the quality of customer service and to enhance the quality thereof.

It comprises K. Ramakrishnan, Chairman and Managing Director, (Chairman), Dr. Deepali Pant Joshi, S. Swaminathan, T. Navaneeth Rao and K.V. Subbaiah.

During the period between April 1, 2005 to December 15, 2005, the Committee met three times.

Special Committee for Monitoring Large Value Frauds and Customer Service Committee

The Special Committee for Monitoring Large Value Frauds and Customer Service Committee was constituted on January 28, 2004 to monitor large value frauds against the Bank.

At present, it comprises K. Ramakrishnan, Chairman and Managing Director, (Chairman), Anil Kumar Sood, S. Swaminathan and Mallineni Rajaiah.

During the period between April 1, 2005 to December 15, 2005, the Committee met once.

Shareholding of the Directors

Directors nominated under Sections 9(3) (a) to (h) of the Bank Acquisition Act are not required by law to hold any qualification shares in our Bank. The list of Directors holding Equity Shares and the number of Equity Shares held by each of them as at December 15, 2005 is set forth below:

Directors	**No. of Equity Shares held**
Anil Kumar Sood	100
T Navaneeth Rao	400
M. Rajaiah	18,000
K.V. Subbaiah	1,300
S. Swaminathan	200
Total	**20,000**

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, already held by them or their relatives in the Bank, or that may be subscribed for and allotted to them, out of the present Issue in terms of 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.

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.

Borrowing Powers of 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
K Haribabu	October 15, 1998	March 31, 2003	Appointment of successor
G S Dutt	March 20, 2002	June 12, 2003	Appointment of successor
S S Gangopadhyay	April 2, 2002	July 30, 2003	Appointment of successor
B Vasanthan	May 22, 2000	October 31, 2003	Superannuation
Devaki Muthukrishnan	July 31, 2003	January 11, 2004	Appointment of successor
B Prakash	November 27, 2001	November 26, 2004	Term completed
Kasu Sudhakar	April 24, 2002	April 23, 2005	Term completed
T S Narayanasami	April 21, 2004	June 9, 2005	Appointment as Chairman and Managing Director of Indian Overseas Bank
P Parameswara Rao	June 12, 2002	June 11, 2005	Term completed
K Ramakrishnan	June 9, 2005	- Director of the Bank	Appointed as Chairman and Managing
R Balakrishnan	December 11, 2002	-	Appointed as Executive Director of the Bank
Rakesh Singh	June 13, 2003	-	Nominated by GoI
Dr. Deepali Pant Joshi	January 12, 2004	-	Nominated by RBI
Anil Kumar Sood	March 11, 2003	-	Appointed by shareholders
T Navaneeth Rao	March 11, 2003	-	Appointed by shareholders
S Swaminathan	March 11, 2003	-	Appointed by shareholders
M Rajaiah	March 11, 2003	-	Appointed by shareholders
K.V. Subbaiah	April 1, 2003	-	Appointed as Officer employee director
B.S.R. Mohan Reddy	September 24, 2003	-	Appointed as workmen employee director
Dr. K. Anjannapa	November 30, 2005	-	Appointed as non-official part-time director

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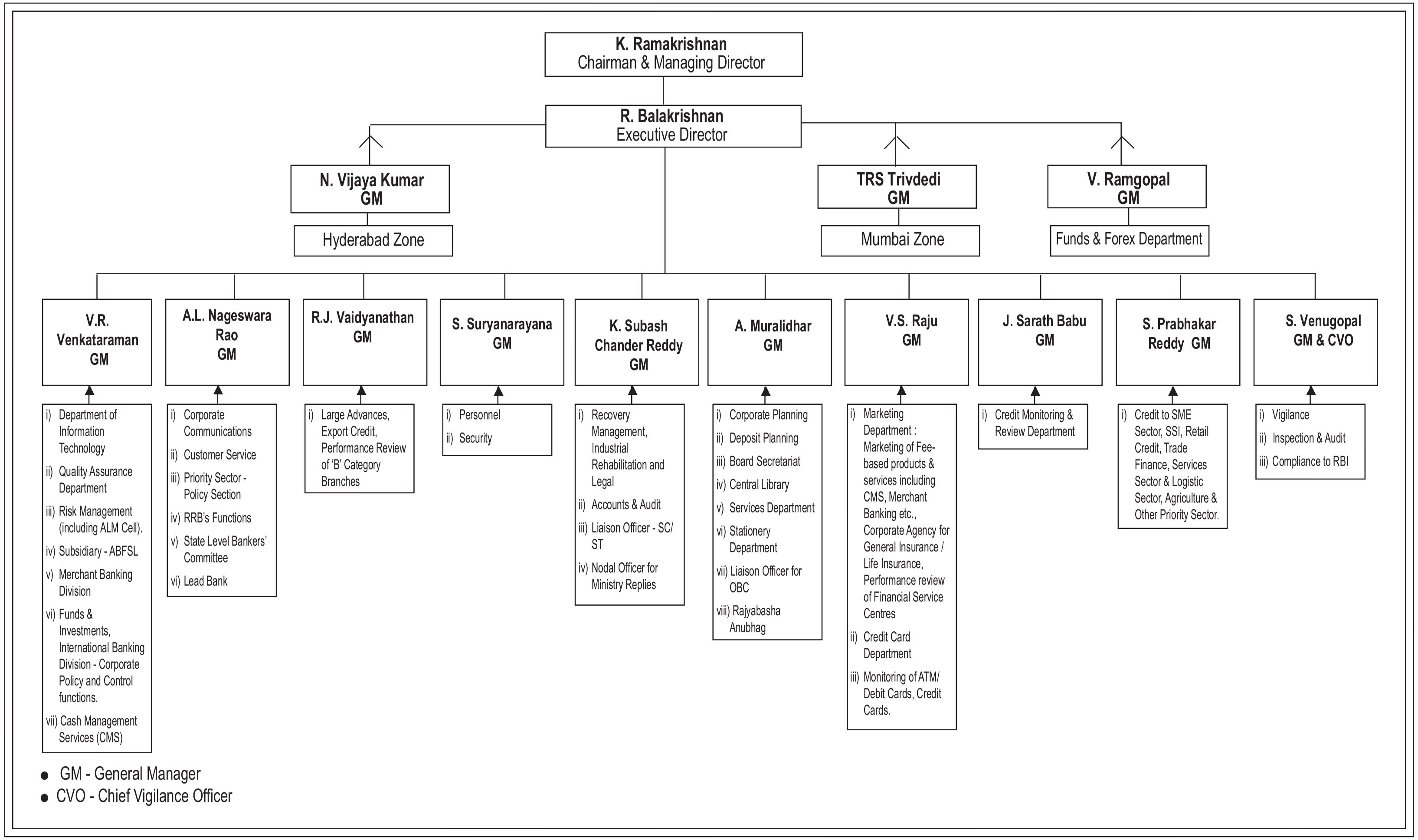
Organizational Structure

Organization Chart of the Bank



Key Managerial Personnel of our Bank

V.R. Venkataraman, General Manager, aged 59 years, joined the Bank on December 27, 1971 and is presently in charge of the Department of Information Technology, Risk Management Department, Merchant Banking Division, Quality Assurance Department and ABFSL. He is a graduate in Science and is a Chartered Accountant. Prior to this assignment, he worked as the Chief Officer of Corporate and Industrial Finance Department, Head Office of the Bank, the Regional Manager, in charge of Berhampur and Bhubaneswar zones in Orissa and the Deputy General Manager in charge of the Mumbai and Visakhapatnam zones. He has also headed the Chennai and Kolkata zones as an Assistant General Manager. He has also been a General Manager in charge of Human Resources Department, Staff, Staff Welfare and Central Accounts Department. He was in charge of the entire credit portfolio, besides Central Accounts, Legal Department and Merchant Banking Division before taking up the present assignment. He has been working with the Bank for the past 34 years.

N. Vijaya Kumar, General Manager, aged 57, joined the Bank on November 24, 1978 and is presently in charge of the Hyderabad zone. He is an Engineering graduate and a Master in Technology. He has worked as Chief Officer, Industrial Finance Department, Head Office of the Bank, the Regional Manager, at Bhubaneswar, the Zonal Manager, Chennai zone, the Assistant General Manager and Deputy General Manager in charge of credit at the Head Office. Prior to this assignment he was the General Manager, Funds & Investments and Foreign Exchange Departments of the Bank. He has been working with the Bank for the past 27 years.

A.L. Nageswara Rao, General Manager, aged 56 years, joined the Bank on February 16, 1972 and is presently in charge of Corporate Communications, Customer Service, Agriculture and Micro Finance, Small Scale Industry and Lead Bank Departments. He is a Post graduate in Commerce. He is the convenor of State Level Bankers' Committee of Andhra Pradesh. Prior to this assignment, he worked as the Regional Manager, Rajahmundry and Srikakulam, the Chief Manager at Mumbai zonal office, the Credit Card Division at the Head Office and as the Zonal Manager, Chennai, Delhi and Visakhapatnam. He has been working with the Bank for the past 33 years.

R.J. Vaidyanathan, General Manager, aged 53 years, joined the Bank on April 18, 1977 and is presently in charge of the Credit Department. He is a graduate in Commerce and is a Chartered Accountant. Prior to this assignment, he was a General Manager, Funds, Investment and Foreign Exchange Department at Mumbai. Earlier he has worked as the Inspector of Branches, Manager (Credit), Chief Manager, Coimbatore Branch, Chief Officer, Assistant General Manager, Funds and Foreign Exchange Department and the Deputy General Manager in charge of Domestic Treasury and International Banking Operations. He has been working with the Bank for the past 28 years.

S. Suryanarayana, General Manager, aged 53 years, joined the Bank on November 17, 1976 and is presently in charge of the Personnel Department. He is a graduate in Commerce and is a Chartered Accountant. He has worked as Zonal Manager, Hyderabad, Assistant General Manager, Department of Information Technology and Corporate Finance Department at the Head Office. Prior to the current assignment, he was in charge of the Credit Department of Corporate Finance and the Credit Review and Monitoring Department. He has been working with the Bank for the past 29 years.

K. Subash Chander Reddy, General Manager, aged 59 years, joined the Bank on October 22, 1973 and is presently in charge of Recovery Management, Central Accounts Department, Credit Risk Management and Legal Departments at the Head Office. He is a graduate in Agricultural Science. Prior to this assignment, he was the General Manager, Mumbai Zone. He also worked in various capacities such as Branch Manager, Regional Manager at Warangal, Secunderabad, Hyderabad (Rural), Visakhapatnam, the Assistant General Manager in charge of the Tirupati Zone, the Deputy General Manager at the Head Office. He was in charge of the Recovery Management Division, the Central Accounts Department and the Corporate and Industrial Finance Department at the Head Office. He headed the Guntur and the New Delhi zones as the Deputy General Manager. He has been working with the Bank for the past 32 years.

T.R.S. Trivedi, General Manager, aged 56 years, joined the Bank on August 31, 1977 and is presently in charge of the Mumbai Zone. He is a graduate in Commerce and a Chartered Accountant. Prior to this assignment, he worked as the Manager, Matunga Branch, Mumbai, the Chief Manager, Mount Road branch, R.K. Puram and Connaught Circus, New Delhi, the Regional Manager, Rajahmundry, Andhra Pradesh and the Assistant General Manager, Sultan Bazar branch, Hyderabad. Prior to the current assignment, he was the Deputy General Manager in charge of Bangalore Zone. He has been working with the Bank for the past 28 years.

A. Muralidhar, General Manager, aged 59 years, joined the Bank on June 24, 1967 and is presently in charge of the Corporate Planning, Services, Board Secretariat, Stationery and Rajbhasha Anubhag departments. He is a Commerce graduate. Prior to this assignment, he worked as the Regional Manager, Tenali and Warangal Zones, the Assistant General Manager, Kolkata Zone and headed the Guntur, New Delhi and Chennai Zones as the Deputy General Manager. He has been working with the Bank for the past 38 years.

V. Siva Koteswara Raju, General Manager, aged 57 years, joined the Bank on April 5, 1976 and is presently in charge of the Marketing Department at Head Office. He is a graduate in Arts and a Master in Law. Prior to this assignment, he worked as the Deputy Chief Officer, Legal Department and the Deposit Planning Department at the Head Office, the Regional Manager, Kakinada, the Assistant General Manager, Kakinada and New Delhi Zones and the Corporate Communications Department at the Head Office. He headed the Tirupati, Kolkata and Hyderabad Zones as Deputy General Manager. Prior to the current assignment, he was the General Manager in charge of Hyderabad Zone. He has been working with the Bank for the past 29 years.

V. Ramgopal, General Manager, aged 53 years, joined the Bank on December 30, 1976 and is presently in charge of the Funds and Foreign Exchange Departments at Mumbai. He is a Master in Science. Prior to this, assignment he served as the Branch Manager at Mumbai, Hyderabad and Kakinada, the Chief Manager at New Delhi and the Chennai Zones, the Assistant General Manager at Connaught Circus Branch, New Delhi, the Zonal Manager in charge of the Kolkata Zone, the Deputy General Manager, Funds & Foreign Exchange Department. Prior to the current assignment, he was the Deputy General Manager in charge of the Guntur Zone. He has been working with the Bank for the past 29 years.

J. Sarat Babu, General Manager, aged 57 years, joined the Bank on November 8, 1975 and is presently in charge of the Credit Monitoring and Review Department at Head Office. He is a graduate in Veterinary Science. Prior to this assignment, he worked as the Rural Development Officer at Priority Sector Policy Department, Head Office and also at the Ponnur branch. He was also the Manager, Ravulapalem Branch, Chairman, Chaitanya Grameena Bank, Tenali, the Chief Officer, Department of Government Sponsored Schemes at the Head Office, the Regional Manager at the Berhampur office in Orissa and the Rajahmundry and Vijayawada braches in Andhra Pradesh, the Assistant General Manager at the Fort Branch, Mumbai and Zonal Office, Hyderabad, as the Deputy General Manager at Ongole, Kurnool and Warangal zones. Prior to the current assignment, he was the Zonal Manager in charge of the Visakhapatnam Zone. He has been working with the Bank for the past 30 years.

S. Prabhakar Reddy, General Manager, aged 56 years, joined the Bank on April 20, 1977 and is presently in charge of the SME and Priority Sector Advances Departments at Head Office. He is a graduate in Science and is a Chartered Accountant. Prior to this assignment, he worked as the Branch Manager at Khammam, Mount Road, Nellore Main, Bhubaneswar Main and Somajiguda branches. He worked in Corporate and Industrial Finance Department as Chief Officer and as an Assistant General Manager. He worked as Zonal Manager at Kurnool and Visakhapatnam Zones. Prior to the current assignment, he was the Zonal Manager, Chennai zone. He has been working with the Bank for the past 28 years.

S. Venu Gopal, aged 55 years, joined Andhra Bank on February 4, 2002 as General Manager and Chief Vigilance Officer of the Bank. He is on deputation from State Bank of India. He joined the State Bank of India as probationary officer in 1974 and worked in different capacities before being deputed for the current assignment. He is a post graduate in Science. He also heads the Inspection and Audit Department of the Bank.

Note: All the Key Managerial Personnel of the Bank as listed above are the permanent employees of the Bank as on the date of filing of this Red Herring Prospectus.

The Key Managerial Personnel as mentioned above are entitled to salary in the scale of Rs. 29,340 - 680/1 - 30,700 - 900/1 - 31,600 - 1,000/1 - 32,600 per annum.

Shareholding of the Key Managerial Personnel

Except as disclosed below, none of our key managerial personnel hold any Equity Shares in Andhra Bank:

Name	Number of Equity Shares
N. Vijaya Kumar	1,000
A.L. Nageswara Rao	1,000
R.J. Vaidyanathan	1,000
S. Suryanarayana	500
K. Subhashchander Reddy	100
T.R.S Trivedi	800
A. Muralidhar	1,000
V. Siva Koteswara Raju	1,700
V. Ramgopal	1,000
J. Sarat Babu	500
S. Prabhakar Reddy	300
S. Venu Gopal	1,300
Total	**10, 200**

Changes in Our Key Managerial Personnel During the Last Three Years

The changes in the key managerial personnel in the last three years are as follows:

Name	Date of becoming key managerial personnel	Date of cessation	Reason for change
Yogeshwar Kumar	-	December 31, 2002	Resigned
S.P. Ghosh	-	January 31, 2003	Superannuation
A.V. Suryanarayana Rao	-	May 31, 2003	Superannuation
S.K. Goel	-	August 27, 2004	Retirement
G. Ramakrishna Reddy	-	June 30, 2005	Superannuation
T.R.S. Trivedi	April 6, 2003	-	Promotion
A. Muralidhar	June 4, 2003	-	Promotion
V. Siva Koteswara Raju	May 19, 2005	-	Promotion
V. Ramgopal	May 19, 2005	-	Promotion
J. Sarat Babu	May 19, 2005	-	Promotion
S. Prabhakar Reddy	July 1, 2005	-	Promotion

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.

OUR PROMOTER, SUBSIDIARY AND ASSOCIATES

Promoter

Our Promoter is the President of India, acting through the MoF, GoI, which holds 62.50% of the pre-Issue paid up equity share capital of our Bank and will hold at least 51.55% of the fully diluted post-Issue paid up equity share capital of our Bank.

Our Subsidiary

We had a subsidiary by the name of Andhra Bank Housing Finance Limited that was merged with the Bank with effect from April 1, 2002. Prior to such merger, ABHFL carried on the business of housing finance.

Currently, we have one subsidiary, Andhra Bank Financial Services Limited, which is wholly-owned by the Bank. It was incorporated on February 25, 1991 to carry on the business of merchant banking, equipment leasing and hire purchase. ABFSL was accordingly registered with the SEBI as a Category-I Merchant Banker and with the RBI as a Non-Banking Financial Institution. However, the activities of ABFSL were discontinued in 1992 pursuant to the Standard Chartered litigation, details of which are provided on page 221 of this Red Herring in the section titled “Litigation against our Subsidiary”. ABFSL had submitted an application to the RBI for renewal of its registration as a Non-Banking Financial Institution on July 3, 1997, which was rejected by the RBI on January 28, 2005. ABFSL is currently not carrying on any business operations.

The shareholding pattern of ABFSLas at September 30, 2005 is as under:

Shareholder	**Shareholding (in Percentage)**
Andhra Bank	100

The board of directors of ABFSL comprises of D. Srinath (Managing Director), K. Ramakrishnan, R. Balakrishnan, VR Venkataraman, AL Nageswara Rao, S. Suryanarayana and K. Sethu Prasad.

The audited financial position of ABFSL for the last three financial years is as under:

(Rs. in million)

Particulars	**Year ended March 31, 2003**	**Year ended March 31, 2004**	**Year ended March 31, 2005**
Capital	50.00	50.00	50.00
Share Capital Deposit Account	Nil	Nil	Nil
Reserves and Surplus	(211.51)	(254.64)	(241.13)
Deposits	Nil	Nil	Nil
Advances	182.17	144.23	131.84
Accumulated Losses	8.65	211.51	254.64
Total Income	24.92	66.64	20.08
Total Expenditure	199.88	70.38	3.66
Profit After Tax (PAT) / (Loss)	(202.87)	(43.13)	13.51
Net Asset Value/ Book value per share (Rs.)	-	-	-
Earning per share (Rs.)	4.98	13.32	4.01

Associates

In accordance with the Regional Rural Banks Act, 1976 providing for the incorporation, regulation and functioning of Regional Rural Banks and with a view to develop the rural economy, the Bank has sponsored three RRBs with a network of 159 branches spread over five districts in two states of India being the states of Andhra Pradesh and Orissa, in order to provide banking services in rural areas in pursuance of GoI policies.

The Regional Rural Banks Act, 1976 stipulates the limit of paid-up capital of a regional rural bank and further stipulates that 50% of such capital would be contributed by the GoI, 35% by the Sponsor Bank and 15% by the relevant State Government. Each of the RRBs is governed independently by a board of directors comprising of the following directors appointed in accordance with the Regional Rural Banks Act, 1976:

1. Chairman
2. One director nominated by RBI;
3. One director nominated by NABARD;
4. Two directors nominated by GoI;
5. Two directors nominated by the relevant State Government; and
6. Two directors nominated by the Sponsor Bank.

The RRBs sponsored by us are:

1. Rushikulya Gramya Bank

Rushikulya Gramya Bank, established on February 14, 1981, has its head office at Berhampur in Orissa. The operational area of the Rushikulya Gramya Bank covers the districts of Ganjam and Gajapati in Orissa and it has 75 branches.

The board of directors of Rushikulya Gramya Bankas at December 15, 2005 is as follows:

Director	Post
D.N. Mohanty	Chairman
A. Apparao Patro	Director
Jaganath Maharana	Director
P. Venugopal Rao	Director
Dr. P.K. Sahu	Director
R.K. Nath	Director
U.S. Sarangi	Director
K. Suryanarayana	Director
Surendra Panda	Director

The audited financial position of Rushikulya Gramya Bank for the last three financial years is as under:

(Rs. in million)

Particulars	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005
Capital	10.00	10.00	10.00
Share Capital Deposit Account	181.53	181.53	181.53
Reserves and Surplus	13.27	108.46	140.67
Deposits	3,52.03	3,407.39	3,525.36
Advances	1,311.51	1,594.49	1,950.45
Accumulated losses	Nil	Nil	Nil
Total Income	441.23	441.71	362.38

Particulars	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005
Total Expenditure	354.86	335.88	330.17
Profit after Tax	86.37	105.83	32.21
Net Asset Value / Book value per share	2.05	3.00	3.32
Earnings per share (Rs.100 face value)	Nil	Nil	Nil

2. Chaitanya Grameena Bank

Chaitanya Grameena Bank, established on March 25, 1983, has its head office at Guntur in Andhra Pradesh. It has 51 branches and the operational area is in the Guntur district in Andhra Pradesh.

The board of directors of Chaitanya Grameena Bank as atDecember 15, 2005 is as follows:

Director	Post
B. Murali Krishna	Chairman
V. Sudharshan	Director
Nilmani Patel	Director
G. Subramanian	Director
P.N .Praveen Kumar	Director
P. Bhaskar	Director
K. Srinivasa Rao	Director
V. Mohan Rao	Director
M. Subba Rao	Director

The audited financial position of Chaitanya Grameena Bank for the last three financial years is as under:

(Rs. in million)

Particulars	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005
Capital	10.00	10.00	10.00
Share Capital Deposit Account	45.75	45.75	45.75
Reserves and Surplus	117.73	152.02	195.17
Deposits	1,914.31	1,967.64	2,075.82
Advances	1,486.15	1,612.76	2,140.78
Accumulated Losses	0.00	0.00	0.00
Total Income	283.57	278.17	308.15
Total Expenditure	250.54	243.88	265.00
Profit after Tax	33.03	34.29	43.15
Net Asset Value / Book Value per share	1.74	2.08	2.51
Earnings per share (Rs.)	Nil	Nil	Nil

3. Godavari Grameena Bank

Godavari Grameena Bank, established on April 11, 1987, has its head office at Rajahmundhry in Andhra Pradesh. The operational area of Godavari Grameena Bank covers the districts of East and West Godavari in Andhra Pradesh and it has 33 branches.

The board of directors of Godavari Grameena Bank as at December 15, 2005 is as follows:

Director	Post
D.V.N. Rao	Chairman
G. Subramanian	Director
K.V. Satyanarayana	Director
Y. Prasad	Director
C. Sreedhar	Director
P. Manikyala Rao	Director
T. Rajya Lakshmi	Director
C.H. Kumara Swamy	Director
A. Rajendra Prasad	Director

The audited financial position of Godavari Grameena Bank for the last three financial years is as under:

(Rs. in million)

Particulars	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005
Capital	10.00	10.00	10.00
Share Capital Deposit Account	8.68	8.68	8.68
Reserves and Surplus	120.37	135.74	151.30
Deposits	893.70	913.40	859.65
Advances	601.64	678.62	807.88
Accumulated losses	Nil	Nil	Nil
Total Income	153.98	127.33	126.91
Total Expenditure	127.36	113.56	111.35
Profit after Tax	26.62	13.78	15.56
Net Asset Value / Book value per share	1.39	1.54	1.70
Earnings per share (Rs.100 face value)	Nil	Nil	Nil

RELATED PARTY TRANSACTIONS

We have entered into related business transactions with key managerial personnel as identified in the audited accounts.

As per the RBI circular no. DBOD.No.BP. BC. 89 /21.04.018/2002-03 dated March 29, 2003 on Guidelines on the Compliance of Accounting Standard by Banks, all nationalized banks are exempt from disclosing their transactions with their subsidiaries as well as the RRBs sponsored by them.

Transactions with wholetime directors who have been termed key managerial personnel for the purposes of the audited accounts of the Bank for the period ended September 30, 2005 are as follows:

Sl. No	Name	Designation	Salary and emoluments (Rs.)
1	B.Vasanthan*	Chairman and Managing Director	NIL
2	T.S.Narayanasami**	Chairman and Managing Director	660,845.00
3.	R.Balakrishnan	Executive Director	642,181.00

* Upto October 31, 2003

** From April 21, 2004

DIVIDEND POLICY

The declaration and payment of dividends will be recommended by our Board of Directors at their discretion and approved by our shareholders and will depend on a number of factors, including but not limited to our profits, capital requirements and overall financial condition, and are subject to the guidelines issued by RBI. The Board may also from time to time pay interim dividend. For further details on restrictions on dividend declaration, see the section titled "Regulations and Policies-Restrictions on Payment of Dividends" on page 93 of this Red Herring Prospectus.

The dividends declared by our Bank during the last five years have been presented below.

	FISCAL				
	2005	**2004**	**2003**	**2002**	**2001**
Face value of Equity Share (Rs. per share)	10	10	10	10	10
Interim Dividend on Equity Shares (in Rs. million)	600.00	560.00	480	Nil	Nil
Final Dividend on Equity Shares (in Rs. million)	600.00	560.00	480	630	450
Total Dividend on Equity Shares (in Rs. million)	1,200.00	1,120.00	960.00	630	450
Dividend rate (%)	30	28	24	14	10
Dividend tax (in Rs. million)	156.83	143.50	123.00	Nil	45.90

However, the amounts paid 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

The Board of Directors
Andhra Bank
Head Office
Dr. Pattabhi Bhavan,
5-9-11, Saifabad,
Hyderabad

We have been engaged to examine and report on the financial information (as set out in Annexure A to J of this report) of Andhra Bank (the Bank).

The preparation and presentation of this financial information is the responsibility of the Bank's management. We have reported on the said financial information on the basis of such tests and procedures which in our opinion were considered necessary, information and explanations provided by the management and a review of the books & records produced to us to ensure that the said information has been prepared in accordance with the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 issued by the Securities and Exchange Board of India (SEBI) on January 19, 2000 as amended from time to time in pursuance of section 11 of the SEBI Act, 1992(SEBI Guidelines).

This financial information is proposed to be included in the offer document of the Bank in connection with its proposed public offer of equity shares.

1. For the purpose of our examination of the financial information, we have placed reliance on the following:

   (a) The financial statements of the Bank for the financial years ended on March 31, 2001, 2002, 2003, 2004 and 2005 which were audited and reported upon by the respective auditors, names of whom and the year of their audit are furnished below:

Year	Name of Auditors
2000-01	M/s. H.Gambhir & Co., New Delhi, M/s. K.C.Bhattacherjee & Paul, Kolkata, M/s. Wahi & Gupta, New Delhi, M/s. S.R.Mohan & Co., Hyderabad, M/s. Ramamoorthy (N) & Co., Hyderabad and M/s. C.R.Sagdeo & Co., Nagpur
2001-02	M/s.H.Gambhir & Co., New Delhi, M/s.K.C.Bhatacherjee & Paul, Kolkata, M/s.Wahi & Gupta, New Delhi, M/s.S.R.Mohan & Co., Hyderabad, M/ s.Abraham & Jose, Kochi and M/s.C.R.Sagdeo & Co., Nagpur.
2002-03	M/s.H.Gambhir & Co., New Delhi, M/s.M.R.Narain & Co., Chennai, M/s. Wahi & Gupta, New Delhi, M/s.S.R.Mohan & Co., Hyderabad, M/s. Abraham & Jose, Kochi and M/s,.C.R.Sagdeo & Co., Nagpur.
2003-04	M/s.H.Gambhir & Co., New Delhi, M/s. M.R.Narain & Co., Chennai, M/s. Chaturvedi & Shah, Mumbai, M/s.S.R.Mohan & Co., Hyderabad, M/s. Abraham & Jose, Kochi and M/s.SRB & Associates, Bhubaneswar.
2004-05	M/s.Abraham & Jose, Kochi, M/s.M.R.Narain & Co, Chennai, M/s.Chaturvedi & Shah, Mumbai, M/s.SRB & Associates, Bhubaneswar, M/s.S.C.Vasudeva & Co., New Delhi and M/s Sunil K.Gupta & Associates, New Delhi.

   (b) The condensed financial statements of the Bank for the half-year ended September 30, 2004 which were subject to a limited review by us.

   (c) The condensed financial statements of the Bank for the half-year ended September 30, 2005 which were subject to a limited review by us. The aforesaid financial statements incorporated the relevant returns of 20 branches reviewed by us and un-reviewed returns in respect of 1157 branches and 14 service centres. In the conduct of our review, we had taken note of the review reports received from the concurrent auditors of 395 branches. These review reports received from the concurrent auditors and branches and Head Office departments reviewed by us cover 78% of the advances portfolio of the Bank excluding food credit and advances at asset recovery branches, and 66.08% of non-performing advances of the bank.

   Since no financial statements have been reviewed subsequent to September 30, 2005 till date, prior to three months before the issue of the prospectus, the said financial statements of the Bank for the half-year ended September 30, 2005 have been incorporated.

2. The audit of the financial statements for the years referred to in paragraph 1(a) of this report comprised of audit tests and procedures deemed necessary by the respective auditors for the purpose of expressing an opinion on such financial statements taken as a whole in accordance with generally accepted auditing practices.

3. The review of the condensed financial statements for the period referred to in paragraph 1(b) & 1(c) above consisted principally of applying analytical procedures to financial data and making enquires of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards, the objective of which is an expression of an opinion on the financial statements as a whole. Accordingly, neither was an audit performed nor an opinion expressed.

4. We report that the profits of the Bank as restated for the financial years ended March 31, 2001, 2002, 2003, 2004, 2005 and for the half-years ended September 30, 2004 and September 30, 2005 are set out in Annexure A. These profits have been arrived at after charging all operating and management expenses, including depreciation and after making such adjustments and regroupings as in our opinion are appropriate and are to be read with accounting policies and notes thereon furnished.

5. We report that the assets and liabilities of the Bank as restated as at March 31, 2001, 2002, 2003, 2004, 2005, and September 30, 2004 & September 30, 2005 are also as set out in Annexure A after making such adjustments and regroupings as in our opinion were appropriate and are to be read with the accounting policies and notes thereon.

6. We report that the cash flow statement of the Bank as restated for the financial years ended March 31, 2001, 2002, 2003, 2004, 2005 and for the half-years ended September 30, 2004 & September 30, 2005 are also set out in Annexure A after making such adjustments and regroupings as in our opinion were appropriate.

7. The financial information as laid out in Annexure A referred to in paragraph 4, 5 & 6 above consists of the following:

   (i) Summary statement of Profit and Loss as restated. (Annexure A-I)

   (ii) Summary statement of Assets and Liabilities as restated. (Annexure A-II)

   (iii) Cash Flow statement as restated. (Annexure A- III)

   (iv) Significant accounting policies for the year ended March 31, 2005(Annexure A-IV)

   (v) Notes on adjustments carried out. (Annexure A-V)

   (vi) Notes on adjustments not carried out. (Annexure A-VI)

   (vii) Material notes on accounts. (Annexure A-VII)

   (viii) Statement of Related Party transactions for the year 2001-02, 2002-03, 2003-04 and 2004-05 and for the half-years ended September 30, 2004 & September 30, 2005. The Bank did not report related party transactions for the year 2000-01 since the relevant accounting standard was not mandatory for that year. (Annexure A-VIII)

   (ix) Segment Reporting (not restated) for the year 2002-03, 2003-04, 2004-05 and for the half-years ended September 30, 2004 & September 30, 2005. The Bank did not prepare segment reports for the year 2000-01 and 2001-02 since the relevant accounting standard was not mandatory for those years (Annexure A-IX)

8. For the purpose of our examination of the financial information furnished in Annexure A, we have performed such tests and procedures, which, in our opinion, were necessary for the purpose of our examination. These procedures, mainly involved comparison of the attached financial information with the bank's audited financial statements for the years 2000-01 to 2004-05 and un-audited financial statements for the half-years ended September 30, 2004 and September 30, 2005 as prepared by the bank.

9. We have examined the statement of dividends (subject to deduction of tax at source and excluding tax on dividend under section 115 O of Income Tax Act, 1961, wherever applicable) declared by the Bank for the five financial years ended March 31, 2005 as set out in Annexure B.

10. Annexures C-I, C-II, D-I, D-II, D-III & D-IV contain summary of financial statements of subsidiaries of the Bank - Andhra Bank Housing Finance Limited for the years ended March 31, 2001 and 2002 and Andhra Bank Financial Services Limited for the five years ended March 31, 2005, as applicable and for the half-years ended September 30, 2004 and September 30, 2005.

11. 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				
	2001	2002	2003	2004	2005
Andhra Bank Housing Finance Limited	59.81	59.81	-*	-	-
Andhra Bank Financial Services Limited	100.00	100.00	100.00	100.00	100.00

* merged with Andhra Bank w.e.f 01.04.2002.

12. The summary of financial statements of following subsidiaries as per Annexure C-I, C-II, D-I, D-II, D-III & D-IV are prepared by the Bank based on the financial statements audited by their respective auditors as mentioned below: -

Name of the subsidiary	Year	Name of Auditor
Andhra Bank Housing Finance Limited	2000-01	Satyanarayana & Co.
	2001-02	G K Rao & Co.
Andhra Bank Financial Services Limited	2000-01	Yaji Associates
	2001-02	Yaji Associates
	2002-03	Yaji Associates
	2003-04	G S Madhav Rao & Co.
	2004-05	Yaji Associates

The summary of financial statements of the subsidiary, Andhra Bank Financial Services Limited, for the half-years ended 30th September, 2004 and 30th September, 2005 as per Annexure D has been prepared by the bank on the basis of the un-audited financial statements. The profits, losses, assets and liabilities, significant accounting policies and material notes to accounts as per Annexures C-I, C-II, D-I, D-II, D-III & D-IV relate to the entire individual subsidiaries.

We have not carried out audit for any of the subsidiaries. The summary of financial statements as given in Annexures C-I, C-II, D-I, D-II, D-III & D-IV have not been audited, reviewed or adjusted by us. However, we have compared the financial information in Annexure C-I, C-II, D-I, D-II, D-III & D-IV with the financial statements of the two subsidiaries referred to hereinabove and furnished to us by the bank.

Annexure E-I, E-II, E-III, E-IV & E-V contain a statement of consolidated assets and liabilities, consolidated profit and loss account, consolidated cash flow of the Bank (as a group) for the years 2001-02, 2002-03, 2003-04 and 2004-05 and half year ended September 30th 2005, significant accounting policies and material notes on accounts for the year ended 31st March'05. The statement referred to above has been prepared by the bank on the basis of the audited accounts for those years and the unaudited accounts for the half year ended September 30, 2005. The consolidated financial statements were audited and reported upon by the respective auditors as given below:

Year	Name of Auditors
2001-02	M/s.H.Gambhir & Co., New Delhi, M/s.K.C.Bhatacherjee & Paul, Kolkata, M/s.Wahi & Gupta, New Delhi, M/s.S.R.Mohan & Co., Hyderabad, M/s.Abraham & Jose, Kochi and M/s.C.R.Sagdeo & Co., Nagpur.
2002-03	M/s.H.Gambhir & Co., New Delhi, M/s.M.R.Narain & Co., Chennai, M/s. Wahi & Gupta, New Delhi, M/s.S.R.Mohan & Co., Hyderabad, M/s. Abraham & Jose, Kochi and M/s,.C.R.Sagdeo & Co., Nagpur.
2003-04	M/s.H.Gambhir & Co., New Delhi, M/s. M.R.Narain & Co., Chennai, M/s. Chaturvedi & Shah, Mumbai, M/s.S.R.Mohan & Co., Hyderabad, M/s. Abraham & Jose, Kochi and M/s.SRB & Associates, Bhubaneswar.
2004-05	M/s.Abraham & Jose, Kochi, M/s.M.R.Narain & Co, Chennai, M/s.Chaturvedi & Shah, Mumbai, M/s. SRB & Associates, Bhubaneswar, M/s.S.C.Vasudeva & Co., New Delhi and M/s Sunil K.Gupta & Associates, New Delhi.

The Bank did not prepare consolidated financial statements for the year 2000-01, since the relevant accounting standard was not mandatory for that year and hence the same are not set out in the report.

We have not carried out any review, audit or adjustments to the summary of consolidated financial statements mentioned in Annexure E-I, E-II, E-III, E-IV & E-V above. However, we have compared the financial information in Annexure E-I, E-II, E-III, E-IV & E-V with the Bank's consolidated financial statements mentioned hereinabove.

13. We have also examined the following financial information relating to the Bank on a stand alone basis, proposed to be included in the offer document.

    (i) Summary of accounting ratios based on adjusted profits as set out in Annexure F.

    (ii) Capitalization statement as at September 30, 2005 of the Bank as set out in Annexure G.

    (iii) Statement of tax shelter as set out in Annexure H.

    (iv) Statement of borrowings as set out in Annexure I.

    (v) Statement of Key Financial Indicators as set out in Annexure J.

14. (a) In our opinion, the financial information of the Bank as stated in Annexure A above read with significant accounting policies and material notes to accounts, after making adjustments as were considered appropriate by us and subject to non-adjustment of certain matters as stated in the said Annexure, have been prepared in accordance with the SEBI Guidelines.

    (b) In our opinion, the financial information as given in Annexures B to J have been properly extracted from bank's and subsidiaries' audited financial statements for the years ended March 31, 2001, 2002, 2003, 2004, 2005 and the unaudited financial statements of the bank and subsidiaries for the period ended September 30, 2004 and September 30, 2005 and after taking into account the adjustments as mentioned in 15 (a) above have been correctly prepared in accordance with the SEBI guidelines subject to consequential effect of adjustment, if any, not carried out.

16. This report is intended solely for your information and for inclusion in the offer document in connection with the proposed public issue of the shares of the Bank and is not to be used, referred to or distributed for any other purpose without our prior written consent.

17. This report should neither in any way be construed as a reissuance or redrafting of any of the previous audit reports issued by us or by other firms of chartered accountants nor construed as a new opinion on any financial statements referred to herein.

For M R Narain & Co. **Chartered Accountants**	**For Chaturvedi & Shah** **Chartered Accountants**	**For S R B & Associates** **Chartered Accountants**
Sd/- **(M.N. Venkatesan)** **Partner** **Membership No.22993**	**Sd/-** **(B P Chaturvedi)** **Partner** **Membership No.15585**	**Sd/-** **(S.C. Bhadra)** **Partner** **Membership No.17054**
For S. C. Vasudeva & Co. **Chartered Accountants**	**For Sunil K Gupta & Associates** **Chartered Accountants**	
Sd/- **(Sanjay Vasudeva)** **Partner** **Membership No.90989**	**Sd/-** **(Sunil Kumar)** **Partner** **Membership No.14835**	

Place: Hyderabad

Dated: November 26, 2005

SUMMARY STATEMENT OF PROFIT & LOSS (RESTATED)

ANNEXURE A-I

(Rs in Millions)

Sr.No.		AUDITED					REVIEWED	
		FINANCIAL YEAR ENDED 31ST MARCH					Half year ended	
		2001	2002	2003	2004	2005	Sept,04	Sept,05
A	**INCOME**							
1	**Interest Earned**	18,750.58	20,298.26	21,950.22	22,272.58	22,734.60	11,281.44	12,525.42
1.1	Interest/Discount on Advances/Bills	7,940.83	9,809.53	12,223.81	12,308.20	13,586.02	6,556.70	8,369.81
1.2	Income on investments	10,327.03	9,886.35	9,154.93	9,511.57	8,232.70	4,211.69	3,777.53
1.3	Interest on balances with Reserve Bank of India and other inter bank LENDING	482.72	526.10	542.80	367.46	775.60	396.98	368.78
1.4	Interest on Income Tax	0.00	76.15	28.42	85.45	140.81	116.05	9.30
1.5	Others	0.00	0.13	0.26	-0.10	-0.53	0.02	0.00
2	**OTHER INCOME**	2,046.21	3,040.24	6,036.40	6,780.47	7,533.50	4,559.25	1,951.22
2.1	Commission, Exchange & Brokerage	783.50	881.47	997.60	1,159.11	1,390.39	612.92	801.44
2.2	Profit on Sale of investments	650.00	1,360.16	3,949.28	4,063.16	3,855.09	3,007.01	330.87
2.3	Profit on revaluation of Investments (Net)	0.00	0.00	-0.64	-45.60	0.00	0.00	-62.60
2.4	Profit on sale of land, bldg.&other assets (Net)	0.88	0.49	3.74	2.42	0.22	1.10	3.78
2.5	Profit on exchange transaction(Net)	125.56	158.89	185.11	200.61	284.52	115.39	134.83
2.6	Income earned by way of dividends etc., from subsidiaries/companies/ jt.Ventures in India	29.58	46.77	40.86	147.60	99.37	44.86	48.23
2.7	Miscellaneous Income	456.69	592.46	860.45	1253.17	1903.91	777.97	694.67
	TOTAL INCOME	20,796.79	23,338.50	27,986.62	29,053.05	30,268.10	15,840.69	14,476.64
B	**EXPENDITURE**							
1	**Interest Expended**	13,745.76	14,544.83	14,420.54	13,166.75	12,044.18	5,868.89	6,896.41
1.1	Interest on Deposits	13,013.23	14,040.95	13,617.17	12,389.26	11,294.17	5,502.26	6,304.53
1.2	Interest on RBI/Inter-Bank borrowings	322.13	200.14	396.31	317.17	255.45	135.84	291.04
1.3	Others	410.40	303.74	407.06	460.32	494.56	230.79	300.84
	Operating Expenses	4,614.92	4,524.81	6,097.60	6,942.33	7,673.68	3,643.46	4,121.45
1	Payment to & Provision for employees	3,428.97	3,077.30	4,106.76	4,440.44	4,762.87	2,336.34	2,436.19
2	Rent, Taxes & Lighting	240.72	272.86	366.55	467.56	630.56	260.21	397.22
3	Printing & Stationery	59.14	64.63	79.85	95.17	112.78	51.10	49.48
4	Advertisement and Publicity	16.82	19.57	62.20	90.84	91.91	30.88	37.02
5	Depreciation on Bank's Properties	224.40	321.64	462.12	611.00	600.09	278.47	305.67
6	Director's Fees, Allowances & Expenses	0.80	1.09	1.72	3.20	3.58	1.87	1.60
7	Auditor's Fess & Expenses	29.33	48.58	54.03	76.09	77.69	39.60	41.59
8	Law Charges	25.24	23.71	24.38	17.19	22.50	8.86	8.48

(Rs in Millions)

Sr.No.		AUDITED					REVIEWED	
		FINANCIAL YEAR ENDED 31ST MARCH					Half year ended	
		2001	2002	2003	2004	2005	Sept,04	Sept,05
9	Postage, Telegrams, Telephones etc.,	43.82	41.76	75.39	97.20	119.61	60.02	77.64
10	Repairs & Maintenance	74.31	87.47	109.27	149.48	218.61	107.30	134.65
11	Insurance	108.55	107.31	126.14	151.23	225.77	106.81	155.87
12	Other Expenditure	362.82	458.89	629.19	742.93	807.71	362.00	476.04
	Total Expenditure	**18,360.68**	**19,069.64**	**20,518.14**	**20,109.08**	**19,717.86**	**9,512.35**	**11,017.86**
	Operating Profit (before Provision & Contingencies	2,436.11	4,268.86	7,468.48	8,943.97	10,550.24	6,328.34	3,458.78
	Less: Provisions & Contingencies(Other than Provision for Tax)	930.26	1,486.07	1,826.93	2,425.87	2,500.60	2,317.21	595.64
	Profit Before Tax	1,505.85	2,782.79	5,641.55	6,518.10	8,049.64	4,011.13	2,863.14
	Provision for Tax (**)	345.00	745.00	1,691.50	2,240.85	2,227.70	1,135.00	830.00
	Net Profit after tax	1,160.85	2,037.79	3,950.05	4,277.25	5,821.94	2,876.13	2,033.14
	Add: Amount Transferred from Investment Fluctuation Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Profit Brought Forward	0.38	1.43	1.72	2.04	2.06	2.06	2.06
	Net Profit for the Year / Half year ended	1,161.23	2,039.22	3,951.77	4,279.29	5,824.00	2,878.19	2,035.20
	APPROPRIATIONS TRANSFER TO							
a)	Statutory Reserve	362.00	505.68	1,007.50	1,158.75	1,300.25	0.00	0.00
b)	b) Capital Reserve	7.47	16.99	5.82	0.00	1451.50	0.00	0.00
c)	c) Revene and Other Reserves	287.43	572.57	431.94	-8.22	1,713.37	0.00	0.00
I)	Investment Fluctuation Reserve	7.00	313.73	1,421.47	1,863.20	0.00	0.00	0.00
ii)	General Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
iii)	Statutory Reserve (Foreign)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
d)	Dividend(Including Dividend Tax)	495.90	630.00	1083.00	1,263.50	1,356.82	0.00	0.00
I)	Interim Dividend	0.00	0.00	480.00	560.00	600.00	0.00	0.00
ii)	Proposed Dividend	450.00	630.00	480.00	560.00	600.00	0.00	0.00
	Tax on Dividend	45.90	0.00	123.00	143.50	156.82	0.00	0.00
	Transfer to : Unallocated Profit	1.43	0.25	2.04	2.06	2.06	0.00	0.00
	TOTAL	1,161.23	2,039.22	3,951.77	4,279.29	5,824.00	0.00	0.00
	Break up of Miscellaneous Income(*)							
	Incidental Charges	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Recovery in Bad Debts W/o	104.08	112.09	169.43	316.45	632.10	238.42	151.73
	Others	352.61	480.37	691.02	936.73	1271.81	539.55	542.94
	Total Miscellaneous Income	456.69	592.46	860.45	1253.18	1903.91	777.97	694.67
	(*) Items listed here are generally of recurring nature							

Sr.No.		AUDITED					REVIEWED	
		FINANCIAL YEAR ENDED 31ST MARCH					Half year ended	
		2001	2002	2003	2004	2005	Sept,04	Sept,05
	Break-up of provisions and contingencies							
	Provision for Non-Performing Advances	687.40	1,005.40	1,694.30	2,425.30	124.04	630.00	0.00
	Provision for Standard Advances	45.00	120.00	70.70	35.00	120.00	35.00	30.00
	Depreciation on investment	-16.60	126.70	-14.40	-74.06	1,665.19	1,586.78	231.75
	Provision for Restructured Standard Accounts	0.00	0.00	0.00	0.00	12.85	0.00	10.08
	Others	214.46	233.97	76.33	39.63	578.52	65.43	323.80
	Provision & Contingencies (Other than Provision for Tax)	930.26	1,486.07	1,826.93	2,425.87	2,500.60	2,317.21	595.63
	Provision for Income Tax	345.00	745.00	1,691.50	2,240.85	2,227.70	1,135.00	830.00
	TOTAL	1,275.26	2,231.07	3,518.43	4,666.72	4,728.30	3,452.21	1,425.63

(**) Provision for tax is as per audited Accounts, before restatement

ANNEXURE A - II

SUMMARY STATEMENT OF ASSETS AND LIABILITIES (RESTATED)

(Rs. In Millions)

Sl. No.		AUDITED					REVIEWED	
		AS AT 31ST MARCH					As on 30th September	
		2001	2002	2003	2004	2005	2004	2005
(A)	ASSETS							
1	Cash in Hand	2,027.45	1,949.67	2,277.95	2,895.55	2,640.67	2,629.13	2,498.07
2	Balance with RBI	14,276.14	10,786.03	10,643.70	17,550.57	18,098.61	25,175.99	30,209.47
3	Balance with Bank	5,741.80	3,925.11	2,455.77	4,036.19	7,343.56	6,024.31	4,492.76
	In India	3,775.26	2,500.21	2,201.53	3,714.53	6,835.56	5,433.90	3,631.21
	Outside India	1,966.54	1,424.90	254.24	321.66	508.00	590.41	861.55
4	Money at call and short notice	520.15	353.50	1,350.00	1,250.00	7,150.00	1,561.49	10,458.64
5	Investment							
	In India	98,855.22	84,192.58	105,176.48	103,173.55	106,462.83	94,858.01	103,588.87
	Outside India	0	0	0	0	0	0	0
	Total	98,855.22	84,192.58	10,5176.48	103,173.55	106,462.83	94,858.01	103,588.87
6	Advances	74,231.70	96,777.24	115,129.42	128,854.66	175,168.43	142,225.63	187,662.95
	In India	74,231.70	96,777.24	115,129.42	128,854.66	175,168.43	142,225.63	187,662.95
	Outside India	0	0	0	0	0	0	0
7	Fixed Assets	934.64	1,059.33	1,717.02	1,799.35	1,872.87	2,109.80	2,172.91
	Less: Revaluation Reserve	0	0	0	0	0	0	0
	Net Fixed Assets	934.64	1,059.33	1,717.02	1,799.35	1,872.87	2,109.80	2,172.91
8	Other Assets	7,297.03	10,302.98	8,069.27	10,529.60	8,549.87	9,015.68	9,794.34
	Less : Deferred Tax Asset(DTA)	0	0	0.00	0.60	86.80	0.60	86.80
	Other Assets excl.DTA	7,297.03	10,302.98	8,069.27	10,529.00	8,463.07	9,015.08	9,707.54
	TOTAL-(A)	203,884.13	209,346.44	246,819.61	270,088.87	327,200.04	283,599.44	350,791.21
(B)	**LIABILITIES**							
1	DEPOSITS	182,915.25	184,907.67	210,618.47	229,405.20	275,507.10	241,569.00	298,691.83
	Demand Deposits							
	From Banks	224.42	178.50	168.62	187.65	255.73	113.12	1,536.12
	From Others	12,776.73	13,773.83	15,885.20	22,001.87	25,327.21	22,063.95	22,900.39
2	Saving Deposits	32,299.85	38,404.22	48,242.45	63,481.25	74,007.70	70,347.01	82,773.92
3	Term Deposits from Banks	2,959.39	1,697.68	997.36	629.39	480.70	301.26	430.35
	Term Deposits from Others	134,654.86	130,853.44	145,324.84	143,105.04	175,435.76	148,743.66	19,1051.04
4	**Borrowings**	1,779.27	2,190.41	9,906.28	8,429.96	9,832.42	8,065.38	10,635.63
	In India	1,779.27	2,085.61	8,861.58	3,867.89	4,626.76	3,833.38	4,384.79
	Outside India	0.00	104.80	1,044.70	4,562.07	5,205.66	4,232.00	6,250.84

(Rs. In Millions)

Sl. No.		AUDITED					REVIEWED	
		AS AT 31ST MARCH					As on 30th September	
		2001	2002	2003	2004	2005	2004	2005
5	Other Liabilities and Provisions	9,526.60	10,535.90	10,920.32	13,786.22	16,656.36	12,263.68	14,700.00
6	Subordinate Debt	2,150.00	2,900.00	4,300.00	4,300.00	6,300.00	4,300.00	6,300.00
	TOTAL -(B)	196,371.12	200,533.98	235,745.07	255,921.38	308,295.88	266,198.06	330,327.46
(c)	NET WORTH (C=A-B)	7,513.01	8,812.46	11,074.54	14,167.49	18,904.16	17,401.38	20,463.75
	Represented by :							
(D)	Share Capital	4,500.00	4,500.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00
(E)	Share Application Money	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(F)	**RESERVES & SURPLUS**							
1	Statutory Reserve	1,506.00	2,011.68	3,019.18	4,177.93	5,478.18	4,177.93	5,478.18
2	Capital Reserve	7.47	24.45	30.27	30.27	1,481.77	30.27	1,481.77
3	Revaluation Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4	Investment Fluctuation Reserve	284.19	597.92	2,019.38	3,882.58	3,130.00	3,882.58	3,130.00
5	Revenue & Other Reserve	1,213.92	1,678.16	1,855.44	1,927.02	3,838.14	2,284.77	3,217.18
	Spl.Revenue Reserve-AB Homes			148.23	148.23	148.23	148.23	148.23
6	Deferred Tax Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7	Balance of Profit & Loss a/c	1.43	0.25	2.04	2.06	2.06	2,878.20	2,935.19
8	Share Premium	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9	Special Reserve u/s 36(1)(VIII) IT	0.00	0.00	0.00	0.00	160.00	0.00	160.00
10	Transfer from investment Fluctation Reserve		0.00	0.00	0.00	752.58	0.00	0.00
	TOTAL	3,013.01	4,312.46	7,074.54	10,168.09	14,990.96	13,401.98	16,550.55
	Less : Revaluation Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Less: Deferred Tax Assets(DTA)	0.00	0.00	0.00	0.60	86.80	0.60	86.80
	TOTAL - (F)	3,013.01	4,312.46	7,074.54	10,167.49	14,904.16	13,401.38	16,463.75
	NET WORTH (D+E+F)	7,513.01	8,812.46	11,074.54	14,167.49	18,904.16	17,401.38	20,463.75
(G)	Contingent Liabilities							
1	Claims ag.the Bank not acknowledged as debt	1,877.18	1,768.76	2,007.32	2,041.94	1,289.05	2,041.94	1,261.49
2	Liability for partly paid investments	30.00	0.00	0.00	0.20	0.00	0.00	0.00
3	Liability on account of outstanding forward exchange contracts	11,690.63	7,098.69	11,945.85	30,582.42	112,676.39	39,753.96	121,617.36
4.	Guarantees given on behalf of constituents							
	In India	5,878.51	9,394.22	10,396.37	13,009.05	17,021.53	13,449.22	21,464.73
	Outside India	0.00	0.00	221.52	1,444.77	1,537.20	1,568.70	1,800.28
5.	Acceptances, Endorsements & Other Obligations	3,370.81	3,832.44	4,897.44	8,713.13	16,995.46	13,102.72	15,863.89
6.	Other items for which the Bank is contingently liable	548.51	351.75	1,693.04	264.57	288.35	43.95	275.39
7.	CAPITAL COMMITMENTS	0.00	199.54	298.90	142.08	0.00	0.00	0.00
	TOTAL - (G)	23,395.64	22,645.40	31,460.44	56,198.16	149,807.98	69,960.49	162,283.14
	Bills for collection	7,759.35	9,900.90	13,088.23	19,452.68	33,314.44	31,002.81	29,661.38

ANNEXURE A - III

CASH FLOW STATEMENT (RESTATED)

(Rs.in Millions)

		AUDITED						
		Years ended 31st March						
		2001	2002	2003	2004	2005	PERIOD FOR SEPT.2004	PERIOD FOR SEPT.2005
A.	Cash flow from operating activities	555.54	-5,161.22	889.06	11,785.76	10,495.36	11,739.92	14,383.74
B.	Cash flow from investing activities	-498.82	-342.87	-910.74	-608.37	-606.33	-588.85	-300.03
C.	Cash flow from financing activities	1,111.56	-47.16	-265.19	-2172.51	-388.50	-1,492.47	-1,657.60
D.	Cash and Cash equivalent at the beginning of the year	21,397.27	22,565.55	17,014.30	16,727.43	25,732.31	25,732.31	35,232.84
E.	Cash and Cash equivalent at the end of the year	22,565.55	17,014.30	16,727.43	25,732.31	35,232.84	35,390.91	47,658.95
F.	**Total cash flow at the end (A+B+C) or (E-D)**	**1,168.28**	**-5,551.25**	**-286.87**	**9,004.88**	**9,500.53**	**9,658.60**	**12,426.11**
G.	**Total cash flow at the end (E-D)**	**1,168.28**	**-5551.25**	**-286.87**	**9,004.88**	**9,500.53**	**9,658.60**	**12,426.11**
	Breakup details							
A.	**CASH FLOW FROM OPERATING ACTIVITIES**							
	Interest received during the year from advances, investments .	18,750.58	20,298.27	2,1950.23	22,272.58	22,734.60	11,281.44	12,525.42
	Other income less income from investments in subsidiaries	2,039.07	3,024.60	6,036.40	6,780.47	7,533.50	4,559.25	1,951.22
Less	Interest paid on deposits, borrowings etc., (excl. subordinated debts)	13,480.85	14,243.57	14,016.35	12,709.00	11,550.93	5,639.92	6,595.64
Less	Operative expenses including provisions and contingencies	5,890.18	6,755.88	9,616.03	11,609.05	12,401.98	7,095.67	5,852.76
Less	Deferred Tax Liability	0.00	118.31	0.00	0.00	0.00	0.00	0.00
Add	Adjustment for depreciation	217.99	243.80	341.94	490.03	532.80	278.39	305.67
I)	**Cash profit generated from operations**	**1,636.61**	**2,448.91**	**4,696.19**	**5,225.03**	**6,847.99**	**3,383.49**	**2,333.91**
II)	**Cash flow from operating assets & liabilities**							
	Deposits	38,735.76	1,992.42	25,710.81	18,786.73	46,101.90	12,163.80	23,184.72
	Borrowings	315.24	411.14	7,715.87	-1,476.32	1402.46	-364.57	803.22
	Other liabilities etc.,(including write back of excess provision made in earlier years)	4,261.34	875.16	-68.58	3,432.96	3,766.32	98.72	-1,073.08
	Advances	-18,495.70	-22,545.54	-18,352.18	-13,725.24	-46,313.77	-13,370.97	-12,494.52
	Investments	-22,532.98	14,662.64	-21,046.76	2,002.93	-3,289.28	8,315.54	2,873.95
	Others	-3,364.73	-3,005.95	2,233.71	-2,460.33	1,979.74	1,513.91	-1,244.46
	Cash flow from operating assets and liabilities	-1,081.07	-7,610.13	-3,807.13	6,560.73	3,647.37	8,356.43	12,049.83
NET CASH FLOW FROM OPERATING ACTIVITIES (I+II)		555.54	-5,161.22	889.06	11,785.76	10,495.36	11,739.92	14,383.74
B.	**CASH FLOW FROM INVESTING ACTIVITIES**							
	Investments in subsidiaries/joint ventures	-61.67	0.00	62.86	0.00	0.00	0.00	0.00

(Rs.in Millions)

	AUDITED						
	Years ended 31st March						
	2001	2002	2003	2004	2005	PERIOD FOR SEPT.2004	PERIOD FOR SEPT.2005
Income from investment in subsidiaries/joint ventures	7.14	15.64	0.00	0.00	0.00	0.00	0.00
Sale/disposal of fixed assets	8.75	40.77	60.87	138.30	75.70	0.08	0.00
Purchase of fixed assets	-453.04	-399.28	-1,034.47	-746.67	-682.03	-588.93	-300.03
NET CASH FLOW FROM INVESTING ACTIVITIES	-498.82	-342.87	-910.74	-608.37	-606.33	-588.85	-300.03
C. CASH FLOW FROM FINANCIng ACTIVITIES							
Share Capital	1,020.50	0.00	-500.00	0.00	0.00	0.00	0.00
Subordinated debts	650.00	750.00	1,400.00	0.00	2,000.00	0.00	0.00
Interest paid on subordinated debts	-264.92	-301.26	-404.19	-457.76	-493.25	-228.97	-300.78
Adjustments in reserves	0.00	0.00	-131.00	0.00	0.00	0.00	0.00
Dividends paid	-294.02	-495.90	-630.00	-1,714.75	-1,895.25	-1,263.50	-1,356.82
NET CASH FLOW FROM FINANCING ACTIVITIES	1,111.56	-47.16	-265.19	-2,172.51	-388.50	-1,492.47	-1,657.60
D. Cash and Cash equivalents at the beginning of the year							
Cash and Bank Balances with RBI	17,025.20	16,303.59	12,735.69	12,921.65	20,446.12	20,446.12	20,739.28
Balances with banks and money at call	4,372.07	6,261.96	4,278.61	3,805.78	5,286.19	5,286.19	14,493.56
Net cash and cash equivalents at the beginning of the year	21,397.27	22,565.55	17,014.30	16,727.43	25,732.31	25,732.31	35,232.84
E. Cash and Cash equivalents at the end of the year							
Cash and Bank Balances with RBI	16,303.59	12,735.69	12,921.65	20,446.12	20,739.28	27,805.11	32,707.54
Balances with banks and money at call	6,261.96	4,278.61	3,805.78	5,286.19	14,493.56	7,585.80	14,951.41
Net cash and cash equivalents at the end of the year	22,565.55	17,014.30	16,727.43	25,732.31	35,232.84	35,390.91	47,658.95

SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED MARCH 31,2005

1. GENERAL:

The financial statements are prepared on historical cost basis, unless otherwise stated by following going concern concept and conform to the statutory provisions and practices prevailing in India.

2. REVENUE AND EXPENSE RECOGNITION :

Revenue/Expenditure is recognized on accrual basis unless otherwise stated.

- Interest on non-performing advances and investments is accounted as per the norms laid down by Reserve Bank of India.
- Interest on overdue bills, commission, exchange, brokerage and rent on lockers are accounted on realization
- Interest on overdue deposits is accounted on renewal.
- Property Tax is accounted as and when demanded by the concerned Authority.
- In the case of suit filed accounts, legal expenses are charged to profit and loss account. Similarly, at the time of recovery of legal expenses in respect of suit filed accounts, the amount recovered is accounted as income.

3. FOREIGN EXCHANGE TRANSACTIONS:

A) Income and Expenditure items are recorded at the exchange rates prevailing on the date of transaction.

B) Monetary items are accounted at the notional rates on the date of transaction and are reported at closing rates as on the balance sheet date. Exchange differences arising on the reporting of such monetary items at rates prevailing at the year end are recognized as income or expense, as the case may be.

C) Forward exchange contracts are translated at the rates prevailing on the date of contract. Gain or loss on the outstanding contracts is computed by multiplying the foreign currency amount of the forward exchange contracts by the difference between the forward rate available on the reporting date for the remaining maturity of the contract and the contracted forward rate. Such gain or loss is recognized in the Profit and Loss account

D) Foreign Letters of Credit and Letters of Guarantee are converted at the rates prevailing on the date of entering into such commitment. However, outstanding items are restated at the closing rate on the date of the Balance Sheet.

4. INVESTMENTS:

A) The Investment portfolio of the Bank is classified in to the following three categories:

i) Held to Maturity

ii) Available for Sale

iii) Held for Trading

"Held to Maturity" category comprises of securities acquired with the intention to hold them up to maturity. "Held for Trading" category comprises securities acquired with the intention of trading. "Available for Sale" securities are those which are not classified in either of the above two categories.

B Investments are grouped and shown in Balance Sheet under the following six groups:

- Government Securities
- Other Approved Securities
- Shares
- Debentures and Bonds
- Subsidiaries and Joint Ventures
- Others.

C Valuation:

The securities in each classification are valued in accordance with Reserve Bank of India guidelines on the following basis:-

i) Held to Maturity:

a) Investments classified under this category are stated at acquisition cost net of amortisation. The excess of acquisition cost over the face value, if any, is amortised over the remaining period of maturity.

b) Any diminution, other than temporary in nature, in the value of investments in subsidiaries and joint ventures is determined and provided for each investment individually.

ii) Available for Sale:

a) Investments classified under this category are marked to market on quarterly basis and valued at the market rates available on the balance sheet date from trades/quotes on the Stock Exchanges, SGL account transactions, price list of Reserve Bank of India, prices declared by Primary Dealers Associations of India (PDAI) jointly with the Fixed Income Money Market and Derivatives Association of India (FIMMDA). Unquoted securities are valued as per the Reserve Bank of India guidelines.

b) The net depreciation under each of the six groups (Para B above) is fully provided for, whereas the net appreciation, if any, under any of the aforesaid groups is ignored.

iii) Held for Trading:

Investments classified under this category are valued at market price based on market quotations at the end of every month. Depreciation is recognized scrip wise and appreciation, if any, is ignored.

D. Prudential Norms:

The identification of non performing investments and provisions made thereon are as per Reserve Bank of India guidelines. Provision requirement in respect of non-performing investments is not set off against the appreciation of other performing investments.

E. Profit / Loss on sale of Investments:

i) Profit or Loss on sale of investments recognised on the trade dates is on the basis of weighted average cost. Premium on redemption of Debentures/ Bonds is recognised on the date of redemption.

ii) Profit on sale of investments held in “Available for Sale” and “Held for Trading” categories are recognized in the Profit and Loss Account.

iii) Profit on sale of investments in “Held to Maturity” category is first taken to the Profit and Loss Account and an equivalent amount of profit is appropriated to the Capital Reserve.

iv) Loss on sale of investments in any of the three categories is recognized in Profit and Loss Account.

F. General

i) Transfer of securities from one category to another is done at lower of acquisition cost/book value/market value on the date of transfer. Depreciation, if any, on such transfer is provided for and the book value of the security is changed accordingly.

ii) Upfront fee / Incentives on subscription of securities is reduced from the cost of securities. When the incentives are received after sale of securities, the same is credited to Profit and Loss account.

iii) Brokerage and Commission and stamp duty paid in connection with the acquisition of securities is treated as revenue expenditure.

5. A. INTEREST RATE SWAPS: (Hedging)

I. Income on continuing swap transactions is accounted on accrual basis except the swap designated with an asset or liability that is carried at market value or lower of cost or market value in the financial statements. In that case, the swap is marked to market with the resulting gain or loss recorded as an adjustment to the market value or designated asset or liability.

II. Gains/ loses on terminated swap transactions are recognized when the offsetting gain or loss is recognized on the designated asset or liability. Thus, the gain or loss on the terminated swap is deferred and recognized over the shorter of the remaining contractual life of the swap or the remaining life of the asset/liability.

B. **INTEREST RATE SWAPS (Trading)**

a) Trading swaps are marked to market with changes recorded in the Profit and Loss account;

b) Income and expenses relating to these swaps are recognized on the settlement date;

c) Fee is recognized as income or expenditure;

d) Gains or losses on the termination of the swaps are recorded immediately as income or expenses on such termination.

6. ADVANCES

A) Advances stated in the Balance Sheet are net of provisions made for Non-Performing Assets as per prudential norms of Income Recognition and Asset Classification prescribed by Reserve Bank Of India and also additional provision made for Non-Performing Assets.

B) Contingent provision on Standard Assets is made at 0.25%.

C) Partial recoveries in Non Performing Assets are apportioned first towards charges and interest, thereafter towards principal.

7. FIXED ASSETS

Premises and Other Fixed Assets are stated at historical cost net of depreciation.

A. AMORTIZATION

- Premium paid for acquisition of leasehold land for a period of less than 60 years and cost of the buildings constructed thereon is amortized over the period of lease.
- Software acquired is written off in the year of acquisition.

B. DEPRECIATION

- Depreciation on ATM s is provided on straight line method based on the useful life of ATMs which is estimated by the Bank as seven years.
- Depreciation on Premises and on other assets excluding Computers is provided on written down value method at the rates specified in Schedule XIV of the Companies Act 1956. The depreciation on Computers and other Peripherals is provided @ of 33.33 % on straight line method.

8. STAFF BENEFITS

Contribution to Provident Fund is made on due dates to the recognized Trust established by the Bank. Contributions to recognized Gratuity Fund, recognized Pension Fund and provision for encashment of leave are made on accrual basis as per actuarial valuation.

9. PROVISION FOR TAXATION:

In compliance of AS-22 Accounting for Taxes on Income, issued by the Institute of Chartered Accountants of India, accounting for income tax is made after considering the effect of deferred tax assets / liabilities. While calculating the deferred tax assets/liabilities, tax rates and laws that have been enacted or substantively enacted as of balance sheet date are applied.

10. DEFERRED REVENUE EXPENDITURE

In accordance with the guidelines issued by Reserve Bank of India, expenditure incurred under Voluntary Retirement Scheme (including additional contribution to Pension and Gratuity Fund) net of income tax benefit is treated as deferred revenue expenditure to be written off over a period of five years including the current financial year.

11. NET PROFIT

The Net Profit disclosed in the Profit and Loss Account is after:

- Provision for depreciation on Investments.
- Provision for Taxation.
- Provision on loan losses as per prudential guidelines.
- Provision for non-performing investments as per Reserve Bank of India guidelines.
- Other usual and necessary provisions.

NOTES ON ADJUSTMENTS CARRIED OUT.

Necessary adjustments arising out of auditors' qualifications wherever quantifiable and other material adjustments in respect of previous years have been carried out while preparing the statements of Profit & Loss, Assets & Liabilities and Cash flow.

- The expenditure on Voluntary Retirement Scheme (VRS 2000) determined at Rs. 1797.30 million as on 31st March 2001 was enhanced by Rs. 205.30 million during the year 2001-02. A sum of Rs. 41.10 million pertaining to arrears of year 2000-01 was written off during the year 2001-02. To ensure uniform accounting:
  - (i) the accounts of 2000-01 have been adjusted by debiting Rs. 41.10 million to Payment to and Provisions for employees (Voluntary Retirement Scheme) in the Statement of P&L A/c and crediting Rs. 41.10 million to Provisions & Contingencies in the Statement of Assets & Liabilities and
  - (ii) the accounts of 2001-02 have been adjusted by crediting Rs. 41.10 million to Payment to and Provisions for employees (Voluntary Retirement Scheme) in the Statement of P&L A/c and debiting Rs. 41.10 million to Provisions & Contingencies in the Statement of Assets & Liabilities.
- The balance of expenditure incurred on initial public issue of shares and required to be written off during the year 2003-04 & 2004-05 amounting to Rs. 22.90 million was written off entirely in the year 2002-03. To ensure uniform accounting:
  - (i) the accounts of 2002-03 have been adjusted by crediting Rs. 22.90 million to Other Expenditure (IPO Expenses) in the Statement of P&L A/c and debiting Rs. 22.90 million to Deferred Revenue Expenditure in the Statement of Assets & Liabilities and
  - (ii) the accounts of 2003-04 & 2004-05 have been adjusted by debiting Rs. 22.90 million (Rs. 11.45 million each year) to Other Expenditure (IPO Expenses) in the Statement of P&L A/c and crediting Rs. 22.90 million (Rs. 11.45 million each year) to Deferred Revenue Expenditure in the Statement of Assets & Liabilities.
- During the year 2002-03, the bank has charged off Rs. 36 million the balance cost of software purchased in earlier years as against the past practice of charging off the same in 3 years. To ensure uniform accounting:
  - (i) the accounts of 2000-01 & 2001-02 have been adjusted by debiting Rs. 9.97 million & 26.03 million to Depreciation on Fixed assets (Software) in statement of P&L A/c and crediting Rs. 9.97 million & 26.03 million to Fixed Assets in the Statement of Assets & Liabilities and
  - (ii) the accounts of 2002-03 have been adjusted by crediting Rs. 36 million to Depreciation on Fixed assets (Software) in statement of P&L A/c and debiting Rs. 36 million to Fixed Assets in the Statement of Assets & Liabilities.
- During the year 2004-05, the bank has made an adhoc provision of Rs. 1010 million for wage revision. Actual liability in this regard has been worked out during the half-year ended September 30, 2005. This provision includes Rs. 632.40 million related to the years 2002-03, 2003-04 & half-year ended September 30, 2005. To ensure uniform accounting:
  - (i) the accounts of 2002-03, 2003-04 & half-year ended September 30, 2005 have been adjusted by debiting Rs. 138.70 million, 346.30 million & 147.40 million to 'Payment to and Provisions for employees (arrears of wages)' in the Statement of P&L A/c and crediting Rs. 138.70 million, 346.30 million & 147.40 million to Provisions & Contingencies in the Statement of Assets & Liabilities and
  - (ii) the accounts of 2004-05 has been adjusted by crediting Rs. 632.40 million to Payment to and Provisions for employees (arrears of wages) in the Statement of P&L A/c and debiting Rs. 632.40 million to Provisions & Contingencies in the Statement of Assets & Liabilities.

  The effect of the aforesaid adjustments has been carried out in the Cash Flow Statement, Summary of Accounting Ratios and Key Financial Indicators. Further adjustments have been carried out without giving effect to the tax impact and other transfer to Reserves etc.,

NOTES ON ADJUSTMENTS NOT CARRIED OUT

Adjustments not carried out on account of :

1. Changes in Accounting Policies

   (a) Reserve Bank of India (RBI) has issued various guidelines from time to time including in respect on income recognition, asset classification and provisioning in respect of non-performing advances and investments, valuation of/depreciation on investments, depreciation on computers and interest rate swaps (for hedging and for trading), accounting for legal expenses on suit filed accounts, accounting for leave encashment and in respect of accounting for Foreign Exchange transactions. The Bank has carried out necessary amendments in its accounting policies in the relevant years to be in conformity with the said RBI guidelines. Further as a prudential measure the bank has made additional provision in respect of non-performing advances over and above the minimum as required by the RBI guidelines.

   (b) Auditors' Qualifications

   The effect of adjustments arising from balancing of books / confirmation / reconciliation / clearance of outstanding entries in Head Office Account, accounting of annual / bi-annual fees and recognition of interest income on credit cards on billing basis, the non-identification of other credit facilities granted to credit card holders classified as NPAs and the consequential amount of provision against such credit facilities not having been made, non-execution/non-receipt of title deeds and provision of depreciation on cost of land included in the premises, non-disclosure of prior period items separately in the Profit & Loss account and accounting for leave encashment on cash basis could not be carried out in the Statement since the consequential impact of such qualifications is not ascertainable.

2. In the absence of necessary details with regard to a) to d) below with the bank to facilitate carrying out adjustments in the relevant financial years, no adjustments have been carried out in the Statement on this account:-.

   a) During the financial year 2002-03,the bank has followed the practice of accounting the sale of securities in the trading book on the basis of purchases made on the same day in the trading book, even though the stock is held in "Available for Sale" or "Held to Maturity" category. Had the accounting of these transactions been made in the category in which the stocks are held, the profits and investments would have been higher by Rs.326.8 million.

   b) During the financial year 2002-03,the method and rate of charging depreciation on ATMs has been changed from the written down value method at13.99% to straight line method at14.29%, resulting in the net profit being reduced by Rs.1.5 million and the written down value being increased by the same amount.

   c) During the financial year 2001-02, the bank has reclassified Automated Teller Machine from "Computer" to "Electrical and Office Equipment" the excess depreciation charged Rs. 3.8 million upto 31st March 2001 has been reversed during the year. Had the previous practice been followed the depreciation for the year would have been higher by Rs. 2.2 million. The combined effect has resulted in increase in profit for the year and value Other Fixed Assets by Rs. 6 million.

   d) During the financial year 2001-02, the bank has shifted investment amounting to Rs. 5933.6 million from "Held to Maturity" category to " Available for Sale" category and Rs. 4915.7 million from " Available for Sale" category to "Held to Maturity" category with retrospective effect from 1st April, 2001. A net profit of Rs. 14 Million has been recognized in Profit & Loss account on sale of some of these securities before shifting.

   e)

MATERIAL NOTES ON ACCOUNTS

HALF YEAR ENDED 30th SEPTEMBER 2005

1. The financial results for the Half year ended 30th September 2005 are based on the same set of Accounting Policies followed for the annual accounts for the year ended 31st March 2005.

2. Reconciliation of outstanding entries in inter branch transactions, transactions with other banks / institutions, sundry accounts is in progress and in the opinion of management, the impact of such reconciliation will not be material.

3. Additional Provision of Rs.966.1 million (Corresponding period ended 30th September 2004 Rs.1661.7 million) is held as at 30th September 2005 in respect of Gross non-performing advances over and above the minimum prescribed as per RBI guidelines with a view to strengthening the financial stability of the Bank. Such additional provision is netted off from Advances.

4. Legal formalities with regard to the registration of properties in favour of Bank are yet to be completed in respect of two properties valued at Rs.91.4 million (previous year - four properties valued at Rs. 97.0 million).

5. No provision is considered necessary towards disputed tax demand of Rs. 442.4 million (previous year Rs.308.8 million) in view of judicial pronouncements in similar cases.

6. The Financial results for the Half year ended 30th September 2005 have been arrived at after considering provision for Non Performing Advances and Standard Assets as per Reserve Bank of India guidelines. Provisions for Taxation, Pension, Gratuity, Leave Encashment, Depreciation on fixed assets, Interest on deposits and other usual expenses have been made on estimated basis.

7. The Institute of Chartered Accountants of India has revised the Accounting Standard 11 - 'The Effects of changes in Foreign Exchange Rates' which has become applicable in respect of accounting periods commencing on or after 1st April 2004 and is mandatory in nature. The Bank has complied with the requirements of the standard as on the balance sheet date except with regard to the recording of transactions relating to monetary items, which have been recorded at notional rates instead of being recorded at the rate prevailing on the date of transactions. However, such recording has no material effect on the profit or assets and liabilities as these monetary items have been restated at the closing rates as on the balance sheet date in accordance with the standard.

8. The guidelines of Reserve Bank of India require the Bank to make a provision at 100% over a period of three years in respect of advances classified as doubtful for more than three years as on 31st March 2004. The Bank, as a prudential measure, has however made a provision at 100% during the year ended 31st March 2005.

9. Previous period / year figures have been regrouped / reclassified wherever necessary.

<u>YEAR ENDED 31ST MARCH - 2005</u>

1. Legal formalities with regard to the registration of properties in favour of Bank are yet to be completed in respect of two properties valued at Rs.91.4 million (previous year - four properties valued at Rs. 97.0 million).

2. No provision is considered necessary towards disputed tax demand of Rs. 442.4 million (previous year Rs.308.8 million) in view of judicial pronouncements in similar cases.

3. a) Investments are classified into "Held to Maturity", "Available for Sale" and "Held for Trading" categories in accordance with Reserve Bank of India guidelines. During the year, certain SLR securities have been shifted from 'Available for Sale' and 'Held for Trading' categories to 'Held to Maturity' category as a one time measure aggregating to Rs. 46625.5 million at the acquisition cost/ book value/Market value, whichever is the least and the resultant depreciation of Rs. 1532.5 million has been provided.

   b) An amount of Rs 1345.5 million (Previous Year .Nil) being profit on sale of securities in "Held to Maturity" category is appropriated to Capital Reserve Account as per Reserve Bank of India guidelines.

   c) As per Reserve Bank of India guidelines, Investment Fluctuation Reserve (IFR) of a minimum 5% of the investment portfolio comprising of investments held in "Held for Trading" and "Available for Sale" categories should be created over a period of 5 years up to 31st March, 2006. Accordingly the Bank holds an amount of Rs. 3130 million under IFR (previous year Rs.3882.6 million) during the year. The total amount held in IFR as on 31st March 2005 is 7.90% of the aggregate investments held in "Held for Trading" and "Available for Sale" categories (previous year 5.00%). The Bank has drawn from IFR an amount of Rs. 752.6 million as per R.B.I guidelines and credited to Profit & Loss Account as below the line item.

d) The appropriate Yield to Maturity in respect of PSU Bonds and Debentures have been arrived at, based on the lowest of the ratings assigned by credit rating agencies available with the Bank at the year end.

4. Investments include Rs. 82.6 million invested in Regional Rural Banks as Share Capital Deposit pursuant to a letter by Government of India. Shares are yet to be allotted by the respective Regional Rural Banks.

5. Additional Provision of Rs. 1368.1 million (Previous year Rs.1697.6 million) is held as at 31st March 2005 in respect of gross non performing advances over and above the minimum prescribed as per RBI guidelines with a view to strengthening the financial stability of the Bank. Such additional provision is netted off from Advances.

6. An amount of Rs. 105.8 million has been transferred to the Profit and Loss account from Blocked account under Bills Payable Demand Drafts and Pay Orders during the year and the amount has been appropriated to the Capital Reserve account.

7. During the previous year, under Mortgage Backed Securitization Scheme of National Housing Bank (NHB), the bank has securitized the pool of individual housing loans amounting to Rs.503.6 million (outstanding balance as on Balance Sheet date is Rs.376.9 million and the previous balance is Rs.479.7 million) and transferred the same to a Special Purpose Vehicle (SPV) trust pursuant to the Deed of Assignment executed between NHB and the Bank.

   Out of the above amount securitized, Rs.429.5 million i.e., various banks/financial institutions subscribed 85.29% as Pass Through Certificates (PTCs) Class A investments and the balance of Rs.74.1 million i.e., 14.71% was subscribed by the Bank as PTC Class B. Such PTC Class B with a book value of Rs.65.8 million has been shown as a part of Investments by the bank as at the year end.

8. Foreign Currency Transactions

The Institute of Chartered Accountants of India has revised the Accounting Standard 11 - 'The Effects of changes in Foreign Exchange Rates' which has become applicable in respect of accounting periods commencing on or after 1st April 2004 and is mandatory in nature. The Bank has complied with the requirements of the standard as on the balance sheet date except with regard to the recording of transactions relating to monetary items, which have been recorded at notional rates instead of being recorded at the rate prevailing on the date of transactions. However, such recording has no material effect on the profit or assets and liabilities as these monetary items have been restated at the closing rates as on the balance sheet date in accordance with the standard.

YEAR ENDED 31ST MARCH 2004.

1. Reconciliation of IBR transactions was done upto 31st March 2004. Reconciliation of Inter Office /Inter Bank transactions is in progress.

2. The bank has realized premium of Rs.86.9 million and Rs.45.8 million on buy back of Government of India securities classified under "Held to Maturity" and "Available for Sale" categories respectively. The premium realized on buy back of securities under "Held to Maturity " category was not appropriated to capital reserve in view of the exemption allowed by Reserve Bank of India as a one time measure.

3. As per Reserve Bank of India guidelines, Investment Fluctuation Reserve (IFR) of a minimum 5% of investment portfolio comprising of investments held in "Held for Trading" and "Available for Sale" categories should be created over a period of 5 years upto 31st March 2006. Accordingly the Bank has transferred an amount of Rs.1863.2 million to the IFR (previous year Rs.1421.5 million) during the year. The total amount held in the IFR as on 31st March 2004 is 5% of the aggregate investments held in "Held for Trading " and "Available for Sale" categories as on 31st March 2004 (Previous year 2.50%).

4. Investment include Rs.82.6 million invested in Regional Rural Banks as Share Capital Deposit pursuant to a letter by Government of India. Shares are yet to be allotted by the respective Regional Rural Banks.

5. Prudential Floating Provision of Rs.1697.6 million (Previous year Rs.92.2 million) is held as at 31st March 2004 in respect of gross non performing advances over and above the minimum prescribed by RBI with a view to strengthen the financial stability of the Bank, as per RBI guidelines. The Floating provision is netted off from Advances.

6. During the year, under the Mortgaged Backed Securities Scheme of National Housing Bank (NHB), the bank has securitised the pool of individual housing loans amounting to Rs.503.6 million (outstanding balance as on Balance Sheet date is Rs.479.7 million) and transferred the same to a Special Purpose Vehicle trust (SPV) pursuant to the Deed of Assignment executed between NHB and the bank.

YEAR ENDED 31ST MARCH 2003.

1. Reconciliation of IBR transactions was done upto 31st March 2003. Reconciliation of Inter Office/ Inter Bank transactions is in progress.
2. The method and rate of charging depreciation on Automatic Teller Machines (ATM) has been changed during the year from written down value at 13.91% to straight line method at 14.29%. Had the Bank followed the previous practice, the depreciation for the year would have been lower by Rs.1.5 million. This has resulted in Profit and fixed assets lower by the like amount.
3. During the year as per the guidelines issued by RBI, Bank has adopted the practice of accounting for leave encashment facility on retirement on accrual basis determined on actuarial valuation instead of on cash basis. The accrued liability of leave encashment on retirement as on 31st March 2002 amounting to Rs.195.3 million is adjusted out of Revenue Reserves outstanding as on 31st March 2002. The liability for the year ended 31st March 2003 amounting to Rs.66.3 million is charged to Profit and loss account for the year.
4. An adhoc provision of Rs.75.2 million (Previous year Rs.65.0 million) has been made during the year in compliance with Reserve Bank of India guidelines with a view to build up additional provision for switching over to 90 day norm for identification of Non Performing Assets by 31st March 2004.
5. A sum of Rs.500 million has been returned to the Government of India out of Share Capital contributed earlier through the allotment of Recapitalisation bonds. Further, a sum of Rs.119.1 million has been refunded to the Government of India out of the interest earned by the Bank on Recapitalisation Bonds during the holding period after setting off the dividend paid pro rata on such returned capital amount.
6. a) Andhra bank Housing Finance Limited (ABHFL) is merged with the Bank. Before merger, the merged company was carrying on the business of Housing finance.

   b) The appointed date of merger for accounting purposes is 1st April 2002 as per scheme approved by the Honourable High Court of Andhra Pradesh vide its order dated 27th March 2003. The merger was approved principally by the RBI on 11th February 2002 vide letter NO.DBOD.FSC.NO.605/24.03.003/2001.02.

   c) After paying up the remaining shareholders of the merged company the total purchase consideration including the initial investment of the bank in the shares of the merged company were totaling to Rs.293.2 million. The net difference between the investments and share capital of the merged company has been adjusted as detailed below:

(Rs. In Million)

Investments of the Bank	293.2
Value of Share Capital	197.8
	95.4
Adjusted with General Reserve of - Merged company	10.0
Revenue Reserve of Bank	**85.4**

YEAR ENDED 31ST MARCH 2002.

1. Reconciliation of various inter-branch accounts is in progress. Though substantial efforts are made in reducing the IBR items there are outstanding entries including frozen differences in some heads of accounts such as Clearing Adjustments, Drafts Payable/Paid Without Advice, Sundry Debtors, Credit Receivable, Sundry Creditors, Sundry Suspense Account, Stock invest and Items in Transit which are in the process of reconciliation/adjustment. In some cases balances with other banks have not been confirmed. Though the bank accounts have been reconciled, a few outstanding entries are not adjusted in view of insufficient information from such banks. In the opinion of the bank the consequential effect of the above on the revenue/assets/liabilities will not be material.
2. Due to reclassification of Automated Teller Machine from “Computer” to “Electrical and Office Equipment” the excess depreciation charged Rs.3.8 million upto 31st March 2001 has been reversed during the year. Had the previous practice been followed the depreciation for the year would have been higher by Rs.2.2 million. The combined effect has resulted in increase in profit for the year and value of Other Fixed Assets by Rs.6.0 million.
3. a) During the year, the excess of acquisition cost over face value of securities under “ Held to Maturity “ category is amortised to the extent of Rs.132.4 million (Previous year Rs.79.6 million).

b) With the approval of the Board on 28th May 2001, the bank has shifted investments amounting to Rs.5933.6 million from 'Held to Maturity' category to 'Available for sale' category and Rs.4915.7 million from ' 'Available for sale' category to ' Held to Maturity ' category with retrospective effect from 1st April 2001. A net profit of Rs.14.0 million has been recognized in Profit and Loss account on sale of some of these securities before shifting.

4. In accordance with Reserve Bank of India guidelines, individual scrips in "Held for Trading" category are marked to market every month. The depreciation for the year amounting to Rs.98.5 million (previous year Rs.5.9 million) is provided for ignoring the appreciation, as against the previous policy of netting of appreciation with depreciation. This has resulted in profit being reduced by Rs.0.9 million with consequent impact on book value of investments.

5. An adhoc provision of Rs.65.0 million has been made in compliance with Reserve Bank of India guidelines with a view to build up additional provision for switching over to 90 day norm for identification of Non Performing Assets by 31st March 2004.

YEAR ENDED 31ST MARCH 2001.

1. Reconciliation of various inter branch accounts is in progress. Reconciliation and balancing of subsidiary ledgers/ registers is in progress at some branches/controlling offices/departments at Head Office. There are outstanding entries including frozen differences in some heads of accounts such as Clearing Adjustments, Drafts Payable/Paid Without Advice, Sundry Debtors, Credit Receivable, Sundry Creditors, Sundry Suspense Account, Stock Invest and Items in Transit which are in the process of reconciliation/adjustment. In few cases balances with other banks have not been reconciled and/or confirmed and in few cases where accounts have been reconciled, outstanding entries or not adjusted in view of insufficient information from such banks. The consequential impact of the above on the Profit and Loss account and the Balance Sheet is not ascertainable.

2. The rate and method of charging depreciation in respect of computers, peripherals and software is changed from 40% on Written Down Value basis to 33.33% on Straight Line basis in accordance with the guidelines issued by the Reserve Bank of India. This resulted in higher charge of depreciation of Rs.17.1 million and the Profit and the value of Fixed Assets is lower to that extent.

3. i) Investments are classified into "Held to Maturity", "Available for Sale" and "Held for Trading" categories in accordance with Reserve Bank of India guidelines. As against the requirement of maintaining a maximum of 25% of total investments in "Held to Maturity" category specified by Reserve Bank of India, the bank holds 21.93% in this category.

   ii) Consequent upon re-categorisation and change in the method of valuation from current category to three categories during the year, the excess of acquisition cost over face value of securities under "Held to Maturity" category is amortised to the extent of Rs.70.0 million and the profit is lower by an equivalent amount.

4. Partial recoveries of NPA accounts in Credit card are adjusted first towards principal and thereafter towards charges and interest.

5. a) Expenditure under Voluntary Retirement Scheme (VRS) incurred is Rs.1797.3 Million (Exgratia Rs.1204.5 million, Gratuity Fund Rs.303.8 million, and Pension fund Rs.289.0 million). A sum of Rs.547.0 million is charged to Profit and Loss account in accordance with Reserve Bank of India guidelines and the balance of Rs.1250.3 million is treated as Deferred Revenue Expenditure and is included in "Other Assets - Others" (Schedule -11)

   b) In accordance with accounting policy followed for Leave Encashment Benefits, the amount of Rs.47.4 million paid during the year to the employees opting for VRS is charged off to Profit and Loss Account.

6. A sum of Rs.479.5 million is returned to Government of India out of Share Capital contributed earlier. Further, a sum of Rs.126.0 million is paid towards interest to Government of India, after adjusting the pro-rata dividend of earlier years amounting to Rs.58.2 million in terms of its letter no. F.No.11/5/2000 BOA dated 29th November 2000. The interest paid is charged to Profit and Loss Account.

7. A Public issue of shares for Rs.1500 million is made during the year.

8. The expenditure on Public Issue of shares is Rs.57.2 million, out of which Rs.11.4 million is charged to the Profit and Loss Account. The balance of Rs.45.8 million is treated as Deferred Revenue Expenditure and included in "Other Assets-others" (Schedule -11), to be written off in the next four years.

ANNEXURE - A-VIII

STATEMENT OF RELATED PARTY TRANSACTIONS

Remuneration to Key Management Personnel

(Rs. In Millions)

	Name of the Party		Name of the Party	
YEAR	**Chairman & Managing Director**	**Remuneration Paid**	**Executive Director**	**Remuneration Paid**
2001-02	Sri B.Vasanthan	0.54	Sri C.R.Sharma	0.44
2002-03	Sri B.Vasanthan	0.60	Sri C.R.Sharma (Up to 29.05.2002) Sri R.Balakrishnan (Wef.11.12.02)	0.13 0.14
2003-04	Sri B.Vasanthan (Upto 31.10.2003)	0.48	Sri R.Balakrishnan	0.52
2004-05	Sri T.S.Narayanasami (from 21.04.2004)	0.66	Sri R.Balakrishnan	0.64
Sept.04	Sri T.S.Narayanasami	0.24	Sri R.Balakrishnan	0.27
Sept.05	Sri T.S.Narayanasami (from Ist Apr,to 8th June 05.) Sri K.Ramakrishnan (from 9th June 2005)	0.12 0.19	Sri R. Balakrishnan	0.28

The subsidiaries and associates as at March 31, 2005 are as under:

(a) Subsidiaries: M/S Andhra Bank Financial Services Ltd.

(b) Associates: Regional Rural Banks

  i. M/s Godavari Grameena Bank

  ii. M/s Chaitanya Grameena Bank

  iii. M/s Rushikulya Grameena Bank

The transactions with subsidiary and Associates (RRBs) are not furnished in view of exemption by RBI.

ANNEXURE - A-IX

SEGMENT REPORTING (NOT RESTATED)

Part A - Business Segments Rs. In Millions

S.No	Particulars	Year ended 31.03.2003	Year ended 31.03.2004	Year ended 31.03.2005	Period ended 30.09.2004	Period ended 30.09.2005
1	**Segment Revenue**					
	(a) Treasury Operations	13,620.10	14,041.50	13,154.30	7,731.10	5,194.30
	(b) Other Banking Operations	14,366.50	15,011.50	17,113.80	8,109.60	9,282.30
	Total	27,986.60	29,053.00	30,268.10	15,840.70	14,476.60
2	**Segment Results**					
	(a) Treasury Operations	4,345.40	4,497.00	2,797.40	1,753.90	342.10
	(b) Other Banking Operations	3,202.90	4,804.70	7,131.90	4,293.20	3,264.00
	Total	**7,548.30**	**9,301.70**	**9,929.30**	**6,047.10**	**3,606.10**
	Unallocated expenditure	1,826.90	2,425.90	2,500.60	2,317.20	595.60
	Profit before Tax	5,721.40	6,875.80	7,428.70	3,729.90	3,010.50
	Provision for Tax	1,691.50	2,240.80	2,227.70	1,135.00	830.00
	Net Profit	4,029.90	4,635.00	5,201.00	2,594.90	2,180.50
3	**Other Information**					
	Segment Assets					
	(a) Treasury Operations	113,653.50	114,610.20	142,435.70	128,915.80	151,217.40
	(b) Other Banking Operations	131,699.90	154,020.70	183,357.90	152,449.90	198,128.90
	Total	245,353.40	268,630.90	325,793.60	281,365.70	349,346.30
	Unallocated assets	1,430.30	1,458.60	1,493.20	2,234.30	1,531.70
	Total Assets	246,783.70	270,089.50	327,286.80	283,600.00	350,878.00
	Segment Liabilities					
	(a) Treasury Operations	104,722.80	126,790.40	139,384.80	127,161.80	150,875.50
	(b) Other Banking Operations	130,906.50	128,773.30	169,532.00	139,317.50	179,451.90
	Total	**235,629.30**	**255,563.70**	**308,916.80**	**266,479.30**	**330,327.40**
	Unallocated Liabilities	11,154.40	14,525.80	18,370.00	17,120.70	20,550.60
	Total Liabilities	246,783.70	270,089.50	327,286.80	283,600.00	350,878.00

Part - B Geographic Segements

There is only one segment - Domestic Segment

ANNEXURE - B

STATEMENT OF DIVIDEND DECLARED BY THE BANK

Year Ended	Equity Capital Rs.In Million	No.of Shares in million	Rate of Dividend (Percent)	Amount of Dividend Rs. In Millions
31.03.2001	4,500.00	450.00	10.00	450.00
31.03.2002	4,500.00	450.00	14.00	630.00
31.03.2003	4,000.00	400.00	24.00	960.00
31.03.2004	4,000.00	400.00	28.00	1,120.00
31.03.2005	4,000.00	400.00	30.00	1,200.00

ANNEXURE - C I

SUMMARY STATEMENT OF ASSETS AND LIABILITIES OF ANDHRA BANK HOUSING FINANCE LIMITED (NOT RESTATED)

(Rs. In Millions)

	31.03.2001		31.03.2002	
SOURCES OF FUNDS				
a) Capital	197.81		197.81	
b) Reserves & Surplus	136.55		167.48	
		334.36		**365.29**
Loan Funds				
a) Secured Loans	1,471.40		2,306.27	
b) Unsecured Loans	1012.75		883.75	
		2,484.15		3,190.02
		2,818.51		**3,555.31**
APPLICATION OF FUNDS				
Fixed Asssets				
a) Gross Block	12.88		15.50	
b) Depreciation	8.58		9.99	
		4.30		5.51
INVESTMENTS		112.79		87.85
HOUSING LOANS		2545.62		3276.35
Current Assets, Loans and Advances				
a) Cash and Bank Balances	177.44		139.56	
b) Loans & Advances	95.01		90.33	
c) Other Assets	4.66		4.39	
	277.11		234.28	
Less : Current Liabilities and Provisions				
a) Current Liabilities	83.82		48.49	
b) Provisions	37.72		1.5	
	121.54		49.99	
Net Current Assets		155.57		184.29
Miscellaneous Expenditure (to the extent not written off or adjusted)		0.23		1.31
		2,818.51		3,555.31

Note : Andhra Bank Housing Finance Ltd., was merged with Andhra Bank with effect from 01.04.2002.

ANNEXURE C II

SUMMARY STATEMENT OF PROFIT & LOSS OF ANDHRA BANK HOUSING FINANCE LIMITED (NOT RESTATED)

	FOR THE YEAR ENDED	
	Rs. In Millions	
	31-03-2001	**31-03-2002**
I. INCOME		
Operating Income	380.60	443.54
Fees & Other charges	21.24	30.67
Other Income	0.02	0.02
	401.86	474.23
II. EXPENDITURE AND CHARGES		
Staff & Operating Expenses	21.96	26.33
Interest & Finance charges	287.01	334.40
Provision for Bad & Doubtful Debts	2.43	28.87
Provision for Contingency	8.00	0.45
Depreciation	1.71	1.41
Amortisation of Miscellaneous Expenditure	0.26	0.67
Provision for investment		25.55
	321.37	417.68
III. PROFIT BEFORE TAXATION	80.49	56.55
Provision for taxation	18.96	24.1
IV. PROFIT AFTER TAXATION	61.53	32.45
Less : Short provision for IT for earlier years	0	0
Prior period expenditure	0	1.51
Add : Prior period income	0	0
Add : Surplus brought forward from previous year	14.24	10.53
AVAILABLE SURPLUS	75.77	41.47
Transferred to Special Reserve (as per Sec 36(1)(viii) of the IT Act, 1961)	31.96	40.00
Transferred to General Reserve	4.43	0
Proposed Dividend	26.17	0
Tax on proposed Dividend	2.67	0
Surplus carried to Balance Sheet	10.54	1.47
	75.77	**41.47**

Note : Andhra Bank Housing Finance Ltd., was merged with Andhra Bank with effect from 01.04.2002.

Annexure - D-I

(Rs.in Millions)

SUMMARY STATEMENT OF ASSETS & LIABILITIES OF ANDHRA BANK FINANCIAL SERVICES LIMITED (NOT RESTATED)

	2001		2002		2003		2004		2005		Sept.04		Sept 05	
Sources of Funds														
Share Capital		50.00		50.00		50.00		50.00		50.00		50.00		50.00
Reserves & Surplus		0.00		0.00		0.00		0.00		0.00		0.00		0.00
Secured Loans		0.00		0.00		0.00		0.00		0.00		0.00		0.00
Unsecured Loans		469.30		269.30		269.30		0.00		0.00		0.00		0.00
TOTAL		519.30		319.30		319.30		50.00		50.00		50.00		50.00
Application of Funds														
Fixed Assets														
Gross Block	8.18		3.18		3.18		3.18		3.18		3.18		3.18	
Less: Accumulated Depreciation	-7.76		-2.77		-2.77		-2.77		-2.77		-2.77		-2.77	
Net Block		0.42		0.41	0.00	0.41		0.41		0.41		0.41		0.41
Current Assets														
Stock in Trade	283.82		124.97		39.28		5.21		11.52		9.83		16.81	
Sundry Debtors	107.77		297.78		269.56		4.26		1.44		2.83		1.44	
Cash & Bank Balances	288.57		84.53		14.53		37.46		34.78		35.53		26.98	
Loans & Advances	199.41		201.13		182.17		144.23		131.84		130.82		134.63	
Other Current Assets	1.03		1.02		1.02		1.02		1.05		1.02		1.02	
Total Current Assets (A)	880.60		709.43		506.56	0.00	192.18		180.63		180.03		180.88	
Less: Current Liabilities & Provisions														
Current Liabilities	0.99		0.97		0.95		0.95		0.95		0.92		0.90	
Provisions	398.22		398.22		398.23		396.28		371.21		394.85		371.22	
Total Current Liabilities (B)	399.21		399.19		399.18		397.23		372.16	0.00	395.77		372.12	
Net Current Assets (A-B)		481.39		310.24		107.38		-205.05		-191.53	0.00	-215.74		-191.24
Profit & Loss A/c		37.48		8.64		211.51		254.64		241.13		265.33		240.83
TOTAL		519.30		319.30		319.30		50.00		50.00		50.00		50.00

ANNEXURE - D-II

(Rs.in Millions)

SUMMARY STATEMENT OF PROFIT & LOSS OF ANDHRA BANK FINANCIAL SERVICES LIMITED (NOT RESTATED)

	2001	2002	2003	2004	2005	PERIOD ENDED SEPT.04	PERIOD ENDED SEPT.05
Incomes							
Investment Business	-13.11	31.71	11.19	56.93	6.32	4.62	7.64
Interest on bonds & deposits	36.11	24.55	2.27	1.53	1.49	0.58	0.39
Other Incomes	8.70	5.32	11.46	8.18	12.27	12.18	0.11
Lease Rentals	0.02	-	-	-	-	-	-
TOTAL	**31.72**	**61.58**	**24.92**	**66.64**	**20.08**	**17.38**	**8.14**
Expenses							
Operating & Admn Expn	7.21	16.34	2.96	8.27	2.87	1.19	1.92
Interest & Finance Charges	0.01	0.00	196.91	62.1	0.71	0.71	0.00
Dobutful Claims	17.1	16.40	0.00	0.00	0.01	0.00	0.00
Depreciation	0.21	0.00	0.01	0.01	0.00	0.00	0.00
Excess Claim written off	-	-	-	-	0.05	-	-
TOTAL	**24.53**	**32.74**	**199.88**	**70.38**	**3.64**	**1.90**	**1.92**
Net Profit / Loss before tax	7.19	28.84	-174.96	-3.74	16.44	15.48	6.22
Less : Income Tax earlier Asst. yrs						0.00	0.00
Add: Income Tax for earlier Asst.yrs			-27.91	-42.78	-31.26	-26.17	-5.93
Provision for taxation no longer required written back			202.87	3.38	34.11	0.00	0.00
				-43.13	19.26	0.00	0.00
Less : Provision for Tax	0.00	0.00	0.00	0.00	-5.75	0.00	0.00
Profit after taxation			-202.87	-43.13	13.51	0.00	0.29
Loss b/f from previous year	-44.68	-37.49	-8.65	-211.51	-254.64	-254.64	-241.13
Transferred to Balance Sheet	-37.49	-8.65	-211.52	-254.64	-241.13	-265.33	-240.84

ANDHRA BANK FINANCIAL SERVICES LTD.

MATERIAL NOTES TO ACCOUNTS FOR THE YEAR ENDED 31st March 2005:

1. During the year the company received Rs. 2.77 million against the petition filed by the company with the Custodian / Hon'ble Special Court Mumbai for Rs.2.8 million, representing Bad Deliveries of FGFSL. The excess claim made is adjusted in P & L Account.

2. Interest on Inter Corporate Deposits- Kudremukh Iron Ore Co Ltd. The dispute between the company and M/s.Kudremukh Iron Ore Co Ltd [KIOCL] was settled during the year 2003-04. However, KIOCL has reserved right to claim on pro-rata basis along with other PSUs in case of surplus arising after meeting all liabilities, for the interest from the date of maturity of ICDs upto the date of payment.

3. **a)** A winding up petition against the company was filed by Tamilnadu Newsprint and Papers Limited [TNPL] in August, 1999. The company filed an appeal before the Division Bench of Madras High Court. The company repaid TNPL Rs.62.1 million being principal and interest upto the contracted date. The company also deposited Rs.105.0 million with the Hon'ble Madras High Court. The appeal filed was admitted and the winding up petition filed by TNPL was dismissed and treated as withdrawn by AP, High Court.

   The appeal filed by the company came up for hearing on 13th July 2004 before the Division Bench of Madras High Court and passed the orders to permit the company to submit its offer for settlement to TNPL within a week and the company submitted its offer. Orders are awaited.

   b) Consequent to the Hon'ble Supreme Court's judgement upholding the judgement of Special Court Mumbai the Miscellaneous Petition No.36 filed by Canbank Financial Services Ltd., for tracing of Securities, there will be no liability on the Company.

   c) The suit filed against the M/s.Incab Industries Ltd in Delhi High Court, for realization of lease rentals amounting to Rs.4.5 million since October 1992, is pending for appointment of the third arbitrator . In the mean time the Incab Industries Ltd., submitted a proposal before the Board for Industrial and Financial Reconstruction [BIFR]. The company filed a petition before the Board [BIFR] who has permitted the company to take possession of the leased machinery with Incab Industries Ltd. But the workers union is protesting to take the machinery with a plea that some interested parties are negotiating for takeover of Incab Industries Ltd . As such, the matter is deferred for some more time.

   d) Against the decree passed by the Madras High Court in the case filed by TNPL, for Rs.18.8 million plus interest, the company filed an appeal, which is admitted by the Division Bench Madras High Court and deposited Rs.14.2 million and Rs. 0.08 million being one third of the decretal amount.

   The appeal filed by the company came up for hearing on 13th July 2004 before the Division Bench of Madras High Court and passed the orders to permit the company to submit its offer for settlement to TNPL within a week and the company submitted its offer. Orders are awaited.

   e) The company repaid the total Inter Corporate Deposits of Rs.40.0 million placed in l992 by M/s Mishra Dhatu Nigam Ltd (MIDHANI) in 1997 with interest up to the contracted date. MIDHANI acknowledged the receipt as full and final settlement in 1997. However, MIDHANI, subsequently, has made a claim for interest after the contracted date. On refusal by the company to acknowledge or pay the interest, MIDHANI has approached the Committee On Disputes (COD) who directed MIDHANI to Permanent Machinery of Arbitration (PMA) with whom the matter is pending. The company has legal opinion saying that the claim of MIDHANI is not sustainable and hence no provision has been made.

   f) During the year 1994 the company has paid the principal amount of ICD 153 & 155 to Delhi Financial Corporation only to the extent of principal Rs.10 million each, with an agreement dt.28th September 1994 that the contracted interest shall be paid after paying the Principal and Interest amount of ICD to all other PSU's. Now that there is a claim for interest of Rs.7,08,000 for the contracted period, the company has paid the same on 9th August 2004. However Delhi Financial Corporation has reserved the right to claim on prorata basis alongwith other PSUs in case of surplus arising after meeting all liabilities, for the Interest from the date of maturity of ICDs to date of payment.

4. Stock of Public Sector Bonds . NIL

Classification of Current and Long Term Investments	Current (Rs)	Long term (Rs)	(Rs)
[a] Govt. or Trust Securities	—		
[b] Shares, debentures or bonds	11520624	11520624	
[c] Investment properties		—	
[d] Others - Specifying nature	—		

5. The stock of Quoted Shares & Securities held as Stock in Trade are valued at Cost or Market Value whichever is lower and Unquoted Shares & Securities are valued at Re.1.

Quantity wise	**Opening stock**	**Purchasers /Additions**	**Purchase/ Returns/ Deletions**	**Sales**	**Closing stock**
Equity Shares of Rs.10/- each fully paid up	1006500				1006500
Value Wise:	Opening stock	Purchases/ Additions	Purchase Returns	Sales Redemption	Closing stock
Equity Shares of Rs.10/- each fully paid up and	5205410				11520624

Segregation between quoted and unquoted shares is made based on BSE/NSE bulletin for the business transacted on 31st March 2005. Further the classification of unquoted shares is considered only when such shares are transacted atleast three months before 31st March 2005.

6. Managing Director Remuneration included in Schedule 15.

The Managing Director is on deputation from Andhra Bank and his remuneration is in accordance with the service regulations of the said Bank.

	2005	**2004**
Salaries and Allowances	3,10,176	3,02,037
Contribution to PF/Pension	20,004	20,067
Perquisites	98,884	87,303
Total	4,29,064	4,09,407

7. As per the directions issued by Reserve Bank of India for registration of Non Banking Finance Companies on 9th January 1997, the Company's application for registration is rejected by RBI vide their letter No.DNBS (H)CMS No.2238/HYQ 0472/2004-05 dt.28th January 2005 requiring the company to pass a specific Board Resolution not to carry on the business of an NBFI. RBI further informed the company to ensure that within a period of 3 years from the date of issue their said letter, the financial assets of the company are disposed off and the company is converted into a Non-Banking Non-Financial Institution or is wound up. Accordingly the company passed Board Resolution on 3rd February 2005 to explore the course of suitable action by the Managing Director at the earliest.

8. Information with regard to the matters in clause 3, 4 (a), 4 (c) and 4 (d) of Part-2 of Schedule 6 to the Companies Act, 1956 to the extent they are either NIL or not applicable to the Company has not been given.

9. The figures of the previous year have been regrouped/reclassified/rearranged wherever necessary to confirm the Current Year's presentation.

10. Contingent liabilities and Claims not acknowledged as debts.

a) Standard Chartered Bank :

The Bank filed various petitions on the company which the company disputed.

		2005	2004
		Rs. in million	Rs. in million
1.	Bankers Cheques for Rs.918.5 million (Previous Year Rs.918.5 million) issued to company on account of various brokers against which the bank alleges of not receiving due consideration.	918.5	918.5
2.	Rs.1040 million (Previous Year Rs.1040 million) paid towards purchase of securities by the Bank. Bank alleges that the company has given a copy of letter of allotment and not the original and hence the securities could not be transferred in its name.	1,040.0	1,040.0
b)	**Other claims**		
	i. Income Tax demand (in appeal) refer note 10 (c). (Rs.126.8 million Advance Tax + Rs.34.9 million Demand)	161.7	154.6
	ii. Tamilnadu Newsprints & Papers Ltd refer note No.3 (a) and (d).	24.6	24.6
	Total Contingent Liabilities	**2,144.8**	**2,137.7**

All the claims have been disputed by the company as explained in the notes above however the Directors considering the complexity of the claims felt it prudent to provide for these liabilities for Rs.360.7 million.

c. INCOME TAX

The Company had gone on appeals for the Assessment Years 1993-94 to 2000-2001 which are pending before the CIT-Appeals and the Hon'ble Bench of the Income Tax Appellate Tribunal, AP. Pending disposal of these appeals the liabilities against the net demand after considering the TDS, Advance Tax and Self Assessment Taxes paid is furnished here under.

A.Yr 2005-06

During the year, the Income Tax provision of Rs.34108479 (Asst.Yr.2000-2001) is reversed as most of the tax liabilities of the previous years are already adjusted out of TDS refund dues adjusted by the Income Tax Department.

A new provision of Rs.57,50,000 + Rs.3289987 is made towards the current year income assessed by ourselves and the tax demand for the Asst.Yr.2002-2003.

Assessment Year	Provision Rs.
2002-03	3289987
2005-06	5750000
	9039987

During the year the TDS accruals are Rs.240424 and hence the position is as under;

Year	Balance Rs.	Adjustments Rs.	Net Amount Rs.
1997-98	819,506	-	819,506
1998-99	176,618	-	176,618
1999-00	14,369,252	(-)14072775	296,477
2000-01	1,341,169	-	1,341,169
2001-02	594,555	(+)71973	666,528
2002-03	4,066		4,066
2003-04	388,582		388,582
2004-05	313,778	313778	4,006,724
2005-06		TDS Accruals	240,424
2005-06		TDS on securities / FDRs	4,247,148
		TDS on Dividends	397,550
	Total		**4,644,698**

<u>Advance Tax</u>

The company has paid Adv. Tax during the year pertaining to Asst. years 2000-01 and 2005-06 for a total sum of Rs.1258750 and the final position is as under:

A.Yr	Balance Rs.
1999-00	81,124,784
2000-01	41,957,163
2004-05	2,500,000
2005-06	1,258,750
	126,840,697

The year wise break up of the advance tax paid for the years is given hereunder:

A.Yr	Rs.	Paid on
1995-96	15,579,928	23.3.98
1996-97	24,475,354	23.3.99
	5,257,800	
1997-98	35,811,702	23.3.99
	81,124,784	
1995-96	12,731,894	21.12.99 to 30.12.1999
1996-97	13,848,146	-do-
1997-98	15,377,123	-do-
	41,957,163	
1997-98	2,500,000	20.10.2003
2000-01	708,750	20.7.2004
2005-06	550,000	24.3.2005
Total	**126,840,697**	

INTEREST TAX

Aggrieved by the demands raised by the Income Tax Department aggregating to Rs.7.6 million for the Assessment Year 1993-94 to 1997-98 towards Interest Tax, the company preferred appeals before the CIT (A). The appeals for all Assessment Years were decided in favour of the Company, excepting for Assessment Years 1993-94 where Interest Tax was determined at Rs.0.11 million. After adjusting refund of Rs.0.02 million for Assessment Year 1994-95, as determined, the net Interest Tax liability is Rs.0.09 million. Aggrieved by the orders of CIT for A.Yrs 1993-94 and 1994-95 the company filed appeals before the Hon'ble ITAT. The Department has gone on appeal against the orders of CIT(A) for the A.Yrs 1993-94 to 1997-98 which are yet to be taken for hearing. Pending disposal of these appeals, no provision is made towards the Interest Tax.

ANNEXURE D - IV

ANDHRA BANK FINANCIAL SERVICES LTD.

SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31.03.2005

A. LEASE FINANCE :

The company recognises lease rentals in the year in which it fallen due. The lease processing charges, management fee and other service charges considered as income on execution of agreements.

B. HIRE PURCHASE :

The income on hire purchase transactions by way of finance charges is arrived at on the basis of straight line method.

C. INVESTMENT BUSINESS :

Purchase and Sale of securities are accounted on execution of contracts.

D. INTEREST :

[1] Interest and other dues are not recognised until received on the grounds of prudence in respect of debts and claims.

1. Where suits have been filed.
2. Where accounts are considered doubtful.
3. Where parties are facing prolonged financial difficulties.

[2] Interest on Investments

Interest on securities and dividend on shares are not recognised until the claims and counter claims if any, pending on such securities are cleared.

Dividend Income on Shares is recognised on cash basis.

Revenue is not recognised on the grounds of prudence, until resolved in respect of consolidation damages, penalties, delayed payment charges as recovery of the amounts is not certain.

E. STOCK IN TRADE :

Stock of securities are stated at cost or market value and in the absence of regular trading under Yield to Maturity at 12% per annum whichever is lower. Stock on hire is valued at agreement value less amounts receivable. Stock of shares and securities valued at cost or market value whichever is lower. In case of unquoted shares the valuation is made at Re.1/- with a view to have control and accountability and also as per the standards suggested by ICAI. A separate list of the shares is shown and their value is Rs.3,65,925.

F. INVESTMENTS :

There are no investments as on date with the company

G. FIXED ASSETS :

All fixed assets including assets given on lease are valued at cost.

SIGNIFICANT ACCOUNTING POLICIES. Contd..

H. DEPRECIATION :

1. Assets for own use.

Depreciation is provided on straight line method on pro rata basis in accordance with rates prescribed under Schedule XIV of the Companies Act, 1956.

2. Assets leased out.

Depreciation is provided on straight line method on pro rata basis in accordance with rates prescribed under Schedule XIV of the Companies Act, 1956 or writing off at 95% of the cost of the asset over the primary lease period in proportion of lease rentals earned during the year to total rentals for the entire primary lease period, whichever is higher.

As the machinery under lease to M/s. Incab Industries Ltd is not put to use during this year also hence no depreciation is provided thereof.

I. Miscellaneous Expenditure.

All expenditure the benefit of which is spread over a number of years is grouped under this account and is amortised over number of years on the basis of estimated benefit derived in each such year.

ANNEXURE - E I

STATEMENT OF CONSOLIDATED ASSETS AND LIABILITIES

(Rs. In Millions)

	As At March 31st	2002	2003	2004	2005	Sept.2005
(A)	ASSETS					
1	Cash in Hand	1,950.96	2,277.95	2,895.55	2,640.67	2,498.07
2	Balance with RBI	10,786.03	10,643.70	17,550.57	18,098.61	30,209.47
3	Balance with Banks - In India	2,540.20	2,201.53	3,714.53	6,835.56	3,631.21
	- Outside India	1,424.90	254.24	321.66	508.00	861.55
4	Money at call and Short notice	353.50	1,350.00	1,250.00	7,150.00	10,458.64
5	Investment - In India	84,287.06	105,302.88	103,178.42	106,474.02	103,605.68
	- Outside India	0.00	0.00	0.00	0.00	0.00
	TOTAL	101,342.65	122,030.30	128,910.73	141,706.86	151,264.62
6	Advances					
	In India	99,780.59	115,129.80	128,854.66	175,168.43	187,663.97
	Outside India	0.00	0.00	0.00	0.00	0.00
7	Fixed Assets	1,092.21	1,681.04	1,799.36	1,872.88	2,173.31
8	Other Assets	10,824.02	8,522.02	10,643.34	8,682.40	9,930.40
	TOTAL - (A)	213,039.47	247,363.16	270,208.09	3,27,430.57	35,1032.30
(B)	LIABILITIES					
1	DEPOSITS					
	Demand Deposits from Banks	178.50	168.63	187.65	255.73	1,536.12
	Demand Deposits from Others	13,695.49	15,884.96	22,001.51	25,326.93	22,897.92
2	Saving Deposits	38,404.22	48,242.45	63,481.25	74,007.70	82,773.92
3	Term Deposits from Banks	1,697.68	997.36	629.39	480.70	430.35
	Term Deposits from Others	131,632.74	145,310.56	143,067.94	175,401.26	191,026.54
4	Borrowings					
	In India	4,254.88	9,071.57	8,429.96	4,626.76	4,384.79
	Outside India	104.76	1,044.70	0.00	5,205.66	6,250.84
5	Other Liabilities & Provisions	11,044.39	11,263.00	13,789.93	17,647.69	15072.83
6	Subordinated Debts	2,900.00	4,300.00	4,300.00	6,300.00	6,300.00
	TOTAL - (B)	203,912.66	236,283.23	255,887.63	309,252.43	330,673.31
(c)	NET ASSETS (C=A-B)	9,126.81	11,079.93	14,320.46	18,178.14	20,358.99
(D)	Share Capital	4,500.00	4,000.00	4,000.00	4,000.00	4,000.00
(E)	Minority Interest	146.76	0.00	0.00	0.00	0.00
(F)	Share Application money/Share Premium	0.00	0.00	0.00	0.00	0.00
(G)	RESERVES AND SURPLUS					
1	Statutory Reserve	2,100.36	3,019.18	4,177.93	5,478.17	5,478.17
2	Capital Reserve	74.45	80.27	30.27	1,481.77	1,481.77
	Capital Reserve on consolidation			50.00	50.00	50.00
3	Share Premium	0.00	0.00	0.00	0.00	0.00
	Other Reserves	597.92	2,019.38	3,882.58	3,438.23	3,438.23
4	Revenue & Other Reserve	1,714.83	2,083.46	2,432.99	3,217.18	3,217.18
5	Balance of Profit & Loss Account	-7.51	-122.36	-253.31	512.79	2,693.64
	TOTAL - (G)	4,480.05	7,079.93	10,320.46	14,178.14	16,358.99
(H)	TOTAL (D TO G)	9,126.81	11,079.93	14,320.46	18,178.14	20,358.99

ANNEXURE - E II

STATEMENT OF CONSOLIDATED PROFIT & LOSS ACCOUNT

(Rs in Millions)

Sr.No.	Financial year ended March, 31st	2002	2003	2004	2005	Period ended Sept,2005
A	**INCOME**					
	Interest Earned	20,718.75	21,950.22	22,272.56	22,734.60	12,525.42
I	Interest/Discount on Advances/Bills	10,192.97	12,223.81	12,308.19	13,586.02	8,369.81
II	Income on investments	9,915.81	9,157.20	9,511.57	8,232.70	3,777.53
III	Interest on balances with Reserve Bank of India and other inter bank LENDING	533.69	540.53	367.46	775.60	368.78
IV	Others	76.28	28.68	85.34	140.28	9.30
	OTHER INCOME	3,107.97	6,059.07	6,845.60	7,552.09	1,958.97
I	Commission, Exchange & Brokerage	881.47	997.59	1159.11	1390.40	801.44
II	Profit on sale of Land, Bldg and other Assets	0.50	3.74	2.42	0.22	3.78
III	Profit on Exchange Transactions	158.89	185.10	200.61	284.52	134.83
IV	Profit on sale of investments	1,391.88	3,960.47	4,120.09	3,861.40	3,38.51
V	Profit on revaluation of Investments	0.00	-0.60	-45.59	99.43	-62.60
	Income earned by way of Dividends etc., from subsidiaries/companies and /or joint venturs in India	52.09	0.00	0	0	48.24
VI	Miscellaneous Income	623.14	912.77	1408.96	1916.12	694.77
	TOTAL INCOME - A	23,826.72	28,009.29	29,118.16	30,286.69	14,484.39
B	**EXPENDITURE**					
1	Interest Expended	14,831.63	14,615.18	13,227.32	12,044.90	6,896.03
I	Interest on Deposits	14,141.93	13,614.90	12,387.72	11,294.17	6,304.15
II	Interest on RBI/Inter-Bank borrowings	421.37	396.31	317.18	255.45	291.04
III	Others	268.33	603.97	522.42	495.28	300.84
	Operating Expenses	4,586.14	6,020.77	6,592.87	8,297.57	3,975.96
I	Payment & Provision for employees	3,131.86	3,968.74	4,094.94	5,395.85	2,289.01
II	Rent, Taxes & Lighting	274.98	366.57	467.58	630.59	397.23
III	Printing & Stationery	65.20	79.89	95.26	112.82	49.49
IV	Advertisement and Publicity	20.57	62.20	90.85	91.91	37.02
V	Depreciation on Bank Property	297.01	498.12	611.01	600.09	305.67
VI	Director's Fees, Allowances & Expenses	1.09	1.72	3.20	3.58	1.60
VII	Auditor's Fess & Expenses	48.67	54.07	76.13	77.75	41.59
VIII	Law Charges	42.50	25.80	23.05	23.52	9.90
IX	Postage, Telegrams, Telephones etc.,	42.95	75.46	97.28	119.68	77.65
X	Repairs & Maintenance	88.49	109.32	149.52	218.62	134.65

(Rs in Millions)

Sr.No.	Financial year ended March, 31st	2002	2003	2004	2005	Period ended Sept,2005
XI	Insurance	107.34	126.14	151.24	225.77	155.87
XII	Other Expenditure	465.48	652.74	732.81	797.39	476.28
	Total Expenditure	19,417.77	20,635.95	19,820.19	20,342.47	10,871.99
	Gross Profit before provisions & contingencies	4,408.95	7,373.34	9,297.97	9,944.22	3,612.40
	Less : Provisions & Contingencies	2,326.45	3,546.35	4,706.84	4,731.92	1,431.57
	Gross Profit after provisions & contingencies	2,082.50	3,826.99	4,591.13	5,212.30	2,180.83
	Minorities share holders interest	12.43	0.00	0.00	0.00	0.00
	Net Profit for Andhra Bank	2,070.07	3,826.99	4,591.14	5,212.30	2,180.83
	Profit Brought forward	-25.53	-6.92	-209.47	-253.31	-242.01
		2,056.97	3,820.07	4,381.66	4,958.99	1,938.82
	APPROPRIATIONS					
	Transfer to Statutory Reservers	545.68	1,007.50	1,158.74	1,300.25	
	Trnsfer to Revenue & other reserves	888.21	1,939.04	2,212.73	2,543.92	
	Transfer to proposed dividend	630.00	1,083.00	1,263.50	1,356.83	
	Balance carried over to Balance Sheet	-7.51	-209.47	-253.31	-242.01	
	Balance added to Miniority Share holders	0.59	0.00	0.00	0	
	Total	2,056.97	3,820.07	4,381.66	4,958.99	

ANNEXURE - E-III

(Rs. In Millions)

CONSOLIDATED CASH FLOW STATEMENT	*Audited years ended 31st March*				
	Sept,2005	**2005**	**2004**	**2003**	**2002**
A. Cash flow from operating activities	14,384.12	10,493.15	11,872.87	1,140.75	-5,193.93
B. Cash flow from investing activities	-300.43	-606.33	-608.36	-1043.90	-338.67
C. Cash flow from financing activities	-1,657.59	-386.29	-2,259.62	-425.02	-76.00
D. Cash and Cash equivalent at the beginning	35,232.84	25,732.31	16,727.42	17,055.59	22,664.20
E. Cash and Cash equivalent at the end	47,658.94	35,232.84	25,732.31	16,727.42	17,055.60
F. Total cash flow at the end (A+B+C) or (E-D) Breakup details	**12,426.10**	**9,500.53**	**9,004.89**	**-328.17**	**-5,608.60**
A. CASH FLOW FROM OPERATING ACTIVITIES					
Interest received during the year from advances, investments etc.	12,525.42	22,734.59	22,272.57	21,950.23	20,718.76
Other income	1,958.97	7,552.09	6,845.58	6,059.05	3,092.32

(Rs. In Millions)

	Audited years ended 31st March				
	Sept,2005	2005	2004	2003	2002
Less Interest paid on deposits, borrowings etc.,(excl. subordinated debts)	6,595.26	11,551.64	12,769.56	14,210.99	14,530.37
Less Operative expenses including provisions and contingencies	5,407.52	13,029.49	11,299.70	9,567.10	6,912.59
Less Deferred Tax adjustments					118.31
AddAdjustment for depreciation	0.00	532.81	490.05	367.95	211.44
I) Cash profit generated from operations	**2,481.61**	**6,238.36**	**5,538.94**	**4,599.14**	**2,461.25**
II) Cash flow from operating assets & liabilities	**11,902.51**	**4,254.79**	**6,333.93**	**-3,458.39**	**-7,655.18**
Deposits	23,192.53	46,104.57	18,763.79	2,4995.32	2,047.99
Borrowings	803.22	1,402.46	-1,686.32	5,756.60	1,040.40
Other liabilities	-1,218.05	4,396.19	2,978.18	-234.39	873.55
Advances	-12,495.54	-46,313.77	-13,724.86	-15,349.22	-2,3263.58
Investments	2,868.34	-3,295.59	2,124.45	-20,928.70	14,846.43
Others	-1,247.99	1,960.93	-2,121.31	2,302.00	-3,199.97
Cash flow from operating assets and liabilities	**11,902.51**	**4,254.79**	**6,333.93**	**-3,458.39**	**-7,655.18**
NET CASH FLOW FROM OPERATING ACTIVITIES (I+II)	14,384.12	10,493.15	11,872.87	1,140.75	-5,193.93
B. CASH FLOW FROM INVESTING ACTIVITIES					
Investments in subsidiaries/joint ventures	0.00	0.00	0.00	-87.11	0.00
Income from investment in subsidiaries/joint ventures	0.00	0.00	0.00	0.00	15.64
Sale/disposal of fixed assets	0.00	75.70	138.30	62.18	48.91
Purchase of fixed assets	-300.43	-682.03	-746.66	-1,018.97	-403.22
NET CASH FLOW FROM INVESTING ACTIVITIES	-300.43	-606.33	-608.36	-1,043.90	-338.67
C. CASH FLOW FROM FINANCIAL ACTIVITIES					
Share Capital	0.00	0.00	0.00	-500.00	0.00
Minorities interest	0.00	0.00	0.00	-146.75	0.00
Subordinated debts	0.00	2000.00	0.00	1400.00	750.00
Interest paid on subordinated debts	-300.77	-493.25	-457.76	-404.19	-301.26
Adjustments in reserves	0.00	2.21	-87.11	-144.08	0.00
Dividends paid	-1356.82	-1895.25	-1714.75	-630.00	-524.74
NET CASH FLOW FROM FINANCIAL ACTIVITIES	-1657.59	-386.29	-2259.62	-425.02	-76.00
D. Cash and Cash equivalents at the beginning of the year					
Cash and Bank Balances with RBI	20,739.28	20,446.12	12,921.65	12,736.99	16,304.97
Balances with banks and money at call	14,493.56	5,286.19	3,805.77	4,318.60	6,359.23
Net cash and cash equivalents at the beginning of the year	35,232.84	25,732.31	16,727.42	17,055.59	22,664.20
E. Cash and Cash equivalents at the end of the year					
Cash and Bank Balances with RBI	32,707.54	20,739.28	20,446.12	12,921.64	12,736.99
Balances with banks and money at call	14,951.40	14,493.56	5,286.19	3,805.78	4,318.61
Net cash and cash equivalents at the end of the year	47,658.94	35,232.84	25,732.31	16,727.42	17,055.60

SIGNIFICANT ACCOUNTING POLICIES ON CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL:

The financial statements are prepared on historical cost basis, unless otherwise stated by following going concern concept and conform to the statutory provisions and practices prevailing in India.

2. REVENUE AND EXPENSE RECOGNITION :

Revenue/Expenditure is recognized on accrual basis unless otherwise stated.

- Interest on non-performing advances and investments is accounted as per the norms laid down by Reserve Bank of India.
- Interest on overdue bills, commission, exchange, brokerage and rent on lockers are accounted on realization
- Interest on overdue deposits is accounted on renewal.
- Property Tax is accounted as and when demanded by the concerned Authority.
- In the case of suit filed accounts, legal expenses are charged to profit and loss account. Similarly, at the time of recovery of legal expenses in respect of suit filed accounts, the amount recovered is accounted as income.

3. FOREIGN EXCHANGE TRANSACTIONS:

A) Income and Expenditure items are recorded at the exchange rates prevailing on the date of transaction.

B) Monetary items are accounted at the notional rates on the date of transaction and are reported at closing rates as on the balance sheet date. Exchange differences arising on the reporting of such monetary items at rates prevailing at the year end are recognized as income or expense, as the case may be.

C) Forward exchange contracts are translated at the rates prevailing on the date of contract. Gain or loss on the outstanding contracts is computed by multiplying the foreign currency amount of the forward exchange contracts by the difference between the forward rate available on the reporting date for the remaining maturity of the contract and the contracted forward rate. Such gain or loss is recognized in the Profit and Loss account

D) Foreign Letters of Credit and Letters of Guarantee are converted at the rates prevailing on the date of entering into such commitment. However, outstanding items are restated at the closing rate on the date of the Balance Sheet.

4. INVESTMENTS:

A The Investment portfolio of the Bank is classified in to the following three categories:

iv) Held to Maturity

v) Available for Sale

vi) Held for Trading

"Held to Maturity" category comprises of securities acquired with the intention to hold them up to maturity. "Held for Trading" category comprises securities acquired with the intention of trading. "Available for Sale" securities are those which are not classified in either of the above two categories.

B. Investments are grouped and shown in Balance Sheet under the following six groups:

- Government Securities
- Other Approved Securities
- Shares
- Debentures and Bonds
- Subsidiaries and Joint Ventures
- Others.

C. Valuation:

The securities in each classification are valued in accordance with Reserve Bank of India guidelines on the following basis:-

i) Held to Maturity:

A) Investments classified under this category are stated at acquisition cost net of amortisation. The excess of acquisition cost over the face value, if any, is amortised over the remaining period of maturity.

B) Any diminution, other than temporary in nature, in the value of investments in subsidiaries and joint ventures is determined and provided for each investment individually.

ii) Available for Sale:

a) Investments classified under this category are marked to market on quarterly basis and valued at the market rates available on the balance sheet date from trades/quotes on the Stock Exchanges, SGL account transactions, price list of Reserve Bank of India, prices declared by Primary Dealers Associations of India (PDAI) jointly with the Fixed Income Money Market and Derivatives Association of India (FIMMDA). Unquoted securities are valued as per the Reserve Bank of India guidelines.

b) The net depreciation under each of the six groups (Para B above) is fully provided for, whereas the net appreciation, if any, under any of the aforesaid groups is ignored.

iii) Held for Trading:

Investments classified under this category are valued at market price based on market quotations at the end of every month. Depreciation is recognized scrip wise and appreciation, if any, is ignored.

D Prudential Norms:

The identification of non performing investments and provisions made thereon are as per Reserve Bank of India guidelines. Provision requirement in respect of non-performing investments is not set off against the appreciation of other performing investments.

E Profit / Loss on sale of Investments:

i) Profit or Loss on sale of investments recognised on the trade dates is on the basis of weighted average cost. Premium on redemption of Debentures/ Bonds is recognised on the date of redemption.

ii) Profit on sale of investments held in "Available for Sale" and "Held for Trading" categories are recognized in the Profit and Loss Account.

iii) Profit on sale of investments in "Held to Maturity" category is first taken to the Profit and Loss Account and an equivalent amount of profit is appropriated to the Capital Reserve.

iv) Loss on sale of investments in any of the three categories is recognized in Profit and Loss Account.

F. General

i) Transfer of securities from one category to another is done at lower of acquisition cost/book value/market value on the date of transfer. Depreciation, if any, on such transfer is provided for and the book value of the security is changed accordingly.

ii) Upfront fee / Incentives on subscription of securities is reduced from the cost of securities. When the incentives are received after sale of securities, the same is credited to Profit and Loss account.

iii) Brokerage and Commission and stamp duty paid in connection with the acquisition of securities is treated as revenue expenditure.

5. A.INTEREST RATE SWAPS: (Hedging)

I. Income on continuing swap transactions is accounted on accrual basis except the swap designated with an asset or liability that is carried at market value or lower of cost or market value in the financial statements. In that case, the swap is marked to market with the resulting gain or loss recorded as an adjustment to the market value or designated asset or liability.

II. Gains/ loses on terminated swap transactions are recognized when the offsetting gain or loss is recognized on the designated asset or liability. Thus, the gain or loss on the terminated swap is deferred and recognized over the shorter of the remaining contractual life of the swap or the remaining life of the asset/ liability.

B. INTEREST RATE SWAPS (Trading)

e) Trading swaps are marked to market with changes recorded in the Profit and Loss account;

f) Income and expenses relating to these swaps are recognized on the settlement date;

g) Fee is recognized as income or expenditure;

h) Gains or losses on the termination of the swaps are recorded immediately as income or expenses on such termination.

6. ADVANCES

A) Advances stated in the Balance Sheet are net of provisions made for Non-Performing Assets as per prudential norms of Income Recognition and Asset Classification prescribed by Reserve Bank Of India and also additional provision made for Non-Performing Assets.

B) Contingent provision on Standard Assets is made at 0.25%.

C) Partial recoveries in Non Performing Assets are apportioned first towards charges and interest, thereafter towards principal.

7. FIXED ASSETS

Premises and Other Fixed Assets are stated at historical cost net of depreciation.

A. AMORTIZATION

- Premium paid for acquisition of leasehold land for a period of less than 60 years and cost of the buildings constructed thereon is amortized over the period of lease.
- Software acquired is written off in the year of acquisition.

B. DEPRECIATION

- Depreciation on ATM s is provided on straight line method based on the useful life of ATMs which is estimated by the Bank as seven years.
- Depreciation on Premises and on other assets excluding Computers is provided on written down value method at the rates specified in Schedule XIV of the Companies Act 1956. The depreciation on Computers and other Peripherals is provided @ of 33.33 % on straight line method.

8. STAFF BENEFITS

Contribution to Provident Fund is made on due dates to the recognized Trust established by the Bank. Contributions to recognized Gratuity Fund, recognized Pension Fund and provision for encashment of leave are made on accrual basis as per actuarial valuation.

9. PROVISION FOR TAXATION:

In compliance of AS-22 Accounting for Taxes on Income, issued by the Institute of Chartered Accountants of India, accounting for income tax is made after considering the effect of deferred tax assets / liabilities. While calculating the deferred tax assets/liabilities, tax rates and laws that have been enacted or substantively enacted as of balance sheet date are applied.

10 DEFERRED REVENUE EXPENDITURE

In accordance with the guidelines issued by Reserve Bank of India, expenditure incurred under Voluntary Retirement Scheme (including additional contribution to Pension and Gratuity Fund) net of income tax benefit is treated as deferred revenue expenditure to be written off over a period of five years including the current financial year.

11 NET PROFIT

The Net Profit disclosed in the Profit and Loss Account is after:

- Provision for depreciation on Investments.
- Provision for Taxation.
- Provision on loan losses as per prudential guidelines.
- Provision for non-performing investments as per Reserve Bank of India guidelines.
- Other usual and necessary provisions.

MATERIAL NOTES ON ACCOUNTS TO CONSOLIDATED FINANCIAL STATEMENTS - 2004-05

1) Andhra Bank has the following subsidiary company:

a) M/S. Andhra Bank Financial Services Ltd.

Country of Incorporation	:	India
Share holding pattern	:	
Andhra Bank	:	100%
Nature of Activity	:	Financial Services

2) Basis of preparation of Consolidated Financial statements.

The Consolidated Financial Statements (CFS) of the Bank (Parent) and its subsidiary are prepared to comply in all material respects with applicable statutory / regularity provisions, Accounting Standards / generally accepted accounting principles and practices prevailing in India, unless otherwise stated.

3) Consolidation Procedure:

The Consolidated Financial Statements are prepared in accordance with the Accounting Standard (AS - 21) "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India (ICAI) and the guidelines issued by the Reserve Bank of India on preparation of Consolidated Financial Statements. The financial statements of the Bank and its subsidiary are combined on a line by line basis by adding together like sum of assets, liabilities, income and expenses, after eliminating intra group balances / transactions and resulting unrealized profit / loss.

4) The financial statements of subsidiary, are adjusted, wherever necessary, to conform to the accounting policies of the Bank.

5) The Book value of the investment of Andhra Bank in Andhra Bank Financial Services Ltd., has been reduced to 'Nil' due to depreciation on investments. Therefore, the share capital of ABFSL held by Andhra Bank, amounting to Rs. 5 crores has been included in capital reverse in the consolidated financial statements.

6) The stock in trade held by the subsidiary, have been valued in terms of RBI guidelines on valuation, for CFS purpose for the year 2004-05 and 2003-04, to conform to the accounting policies of the Bank.

7) Investments in Regional Rural Banks (RRBs) sponsored by the Bank are valued at cost. The RRBs are duly audited by other auditors for the year ending 31st March 2005 and the book value of the shares of the RRBs are higher than the normal value (or cost) continuation of shares as on 31st March 2005.

8) Additional disclosures for consolidated financial statements are as under.

A. Capital to Risk Adequacy Ratio	**2004-05**	**2003-04**
(i) Capital adequacy ratio Tier I + Tier II capital	12.00%	13.50%
(ii) Capital adequacy ratio Tier I capital	7.92%	7.96%
(iii) Capital adequacy ratio Tier II capital	4.08%	5.54%
TOTAL	12.00%	13.50%
B. Earning per share (face value of Rs. 10/- each)		
Basic EPS (Rs)	13.03	11.48
Diluted EPS (Rs)	13.03	11.48

Part A: Business segments

(Rs. in million)

Business Segments	**Treasury**	**Other Banking Operations**		**Subsidiary (ABFSL)**		**TOTAL**		
Particulars	**Current Year**	**Previous Year**	**Current Year**	**Previous Year**	**Current Year**	**Previous Year**	**Current Year**	**Previous Year**
Revenue	13,154.3	14,041.5	17,113.8	15,011.5	18.6	65.2	30,286.7	29,118.2
Result	2,797.4	4,497.0	7,131.9	4,804.7	14.9	(3.7)	9,944.2	9,298.0
Unallocated Expenses		NIL			NIL	NIL	2,498.4	2,426.7
Profit before tax		NIL			NIL	NIL	7,445.8	6,871.3
Income Taxes		NIL			NIL	NIL	2,233.5	2,280.2
Net profit		NIL			NIL	NIL	5,212.2	4,591.1
Segment assets	142,435.7	114,610.2	183,357.9	154,020.7	12.3	8.7	325,805.9	268,639.6
Unallocated Assets		NIL			NIL	NIL	1,624.7	1,568.5
Total assets		NIL			NIL	NIL	327430.6	270208.1
Segment Liabilities	139,384.8	126,790.4	169,532.0	128,773.3	335.6	324.0	309,252.4	255,752.3
Unallocated Liabilities		NIL			NIL	NIL	18,178.2	14,455.8
Total Liabilities		NIL			NIL	NIL	327,430.6	270,208.1

Part B : Geographic segments

There is only one segment i.e. Domestic Segment

ANNEXURE - F

SUMMARY OF ACCOUNTING RATIOS BASED ON ADJUSTED PROFITS

(All values in terms of Rs. in Millions except otherwise stated)

		Year ended 31st March					**Half year ended**	
		2001	**2002**	**2003**	**2004**	**2005**	**Sep-04**	**Sep-05**
1	**Earnings per Share**							
	Profit after Tax	1,160.85	2,037.79	3,950.05	4,277.25	5,821.94	2,876.13	2,033.14
	Weighted Average number of equity shares							
	(No. in Million)	340.48	450.00	449.32	400.00	400.00	400.00	400.00
	Earnings per Share (Rs.)	3.41	4.53	8.79	10.69	14.55	7.19	5.08
2	**Net Asset Value**							
	Share Capital	4,500.00	4,500.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00
	Total Reserves & Surplus	3,013.01	4,312.46	7,074.54	10,168.09	14,990.96	13,401.98	16,550.55
	Less: Revaluation Reserves							
	Intangible Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Deferred Tax Assets	0.00	0.00	0.00	0.60	86.80	0.60	86.80
	Net Worth	7,513.01	8,812.46	11,074.54	14,167.49	18,904.16	17,401.38	20,463.75
3	**Return on Net worth (%)**	15.45	23.12	35.67	30.19	30.80	16.53	9.94
	No. of shares (in millions)	450.00	450.00	400.00	400.00	400.00	400.00	400.00
4	**Book Value per Share (NAV)(Rs.)**	16.70	19.58	27.69	35.42	47.26	43.50	51.16
	(Net worth / No. of Shares)							

ANNEXURE - G

CAPITALIZATION STATEMENT

(Rs. In Millions)

BORROWINGS	30.09.2005	Post Issue
Short Term Debt	10,635.63	10,635.63
Long Term Debt	6,300.00	6,300.00
Total Debt	**16,935.63**	**16,935.63**
Shareholders Funds		
Eqyity Share Capital	4,000.00	4,850.00
Reserves & Surplus	16,463.75	**
Total Share holders' Funds	**20,463.75**	**
Long Term Debt Equity Ratio	**0.30**	**

Notes:

1. **Reserves and Surplus are after excluding deferred tax asset.**
2. **During the year ended 31.03.2003, a sum of Rs. 500.00 million crore has been returned to the Government of india out of Share Capital contributed earlier through the allotment of Recapitalisation bonds. Further a sum of Rs. 119.10 million has been refunded to the Government of India out of the interest earned by the Bank on Recapitalisation Bonds during the holding period after setting off the dividend paid pro rata on such returned capital amount.**

   **** As this is an issue by way of book building process, post issue figures are not possible to be ascertained and therefore not furnished**

ANNEXURE - H

STATEMENT OF TAX SHELTER

(Rs. in Millions)

Year ended March 31	2001	2002	2003	2004	2005
Tax at Notional Rate	615.80	988.10	2,105.00	2,466.70	2,717.50
Adjustments :					
Difference Between Tax depreciation and book depreciation	(76.80)	(47.40)	50.90	9.40	70.00
Other adjustments	(583.00)	(456.90)	(713.00)	(1,011.70)	(2,601.60)
Net adjustments	(659.80)	(504.30)	(662.10)	(1,002.30)	(2,531.60)
Tax saving thereon	260.80	180.00	243.30	359.50	926.31
Total Taxation	355.00	808.10	1,861.70	2,107.20	1,791.19
Tax on extraordinary items	0.00	0.00	0.00	0.00	0.00
Tax on profits before extraordinary items	355.00	808.10	1861.70	2,107.20	1,791.19
Book Profit including Income Tax	1,556.90	2,767.70	5,719.80	6,875.80	7,427.10
Tax rate	39.55%	35.70%	36.75%	35.88%	36.59%
Income tax (Excluding tax on Book Profit)	615.80	988.10	2,102.00	2,466.70	2,717.50
Adjustments:					
A. Permanent differences.					
Dividends exempt under Sec.10.	(114.40)	(202.80)	(138.10)	(152.30)	(99.30)
Other Income exempted u/s 10	(211.50)	(275.40)	(585.80)	(964.50)	(534.00)
Other Adjustments	28.30	2.30	11.20	70.20	92.60
Deduction u/s 36 (I) (viii)					(160.00)*
Depreciation (net of amortisation) on Investments					
under HTM category					(1,358.40) **
Recoveries in Bad Debts written off accounts					(575.00)***
Total - A	**(297.60)**	**(475.90)**	**(712.70)**	**(1,046.60)**	**(2,634.10)**
B.Timing differences					
VRS expenditure	(286.80)	(51.60)	112.70	112.70	112.70
Depreciation	(76.80)	(47.40)	50.90	9.40	70.00
Other Adjustments	1.70	70.60	(113.00)	(77.80)	(80.20)
Total - B	**(361.90)**	**(28.40)**	**50.60**	**44.30**	**102.50**
Net Adjustments (A+B)	(659.50)	(504.30)	(662.10)	(1,002.30)	(2,531.60)
Tax Saving thereon	260.80	180.00	243.30	359.50	926.31

Note:

(1) Figures in brackets indicate reduction of tax liability.

(2) The above figures have been computed based on accepted additions/ disallowances in the assessment orders of the revelvant years and / or income tax returns filed.

* As per legal opinion obtained.

** Depreciation on investments under HTM category.For earlier years amortisation claimed as deduction in Profit & Loss account.

*** Recoveries in Bad debts written off on accounts of Non-Rural branches.

ANNEXURE - I

STATEMENT OF BORROWINGS

	Financial year ended 31st March					Half Year ended	
	2001	2002	2003	2004	2005	Sept,04	Sept,05
Reserve Bank of India	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Banks	222.47	192.73	1,343.9	3,867.88	206.46	196.55	151.29
IDBI Refinance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SIDBI Refinance	343.07	188.77	3063.65	539.69	24.74	33.03	16.29
NABARD Refinance	1,204.46	1,696.77	2,519.26	2,752.48	3,332.96	2,437.72	3,257.93
NHB	9.26	7.34	1,934.76	1,269.90	1,062.60	1,166.08	959.28
Borrowings outside India	0.00	104.79	1,044.70	0.00	5,205.66	4,232.00	6,250.84
Sub Total	1,779.26	2,190.40	9,906.27	8,429.95	9,832.42	8,065.38	10,635.63
Tier II Bonds							
Series -I	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00
Series - II	650.00	650.00	650.00	650.00	650.00	650.00	650.00
Series - III	0.00	750.00	750.00	750.00	750.00	750.00	750.00
Series -IV	0.00	0.00	1,400.00	1,400.00	1,400.00	1,400.00	1,400.00
Series - V	0.00	0.00	0.00	0.00	2000.00	0.00	2000.00
SUB TOTAL	2,150.00	2,900.00	4,300.00	4,300.00	6,300.00	4,300.00	6,300.00
TOTAL	3,929.26	5,090.40	14,206.27	12,729.95	16,132.42	12,365.38	16,935.63

NOTES: 1 Items 1 to 6 are in the nature of short term borrowings under an agreement of refinance refinance with those institutions.

2) Item no. 7 is raised outside India as line of credit with a consortium of Banks.

3) Tier II Bonds are in the nature of Sub ordinated Debt details of which are furnished below:

	Face Value (In Million)	**Coupon Rate(%)**	**Date of Issue**	**Maturity Period**	**Date of Maturity**
Series I	1,500.00	13.60	03.05.1999	87 Months	03.08.2006
Series II	650.00	11.10	27.05.2000	87 Months	27.08.2007
Series III	750.00	9.70	01.12.2001	87 Months	01.03.2009
Series IV	1,400.00	7.75	28.09.2002	87 Months	28.12.2009
Series V	2,000.00	7.25	05.01.2005	111 Months	05.04.2014

ANNEXURE - J

KEY FINANCIAL INDICATORS

(All figures in %)

No. Key Financial Ratios	31.03.01	31.03.02	31.03.03	31.03.04	31.03.05	30.09.04	30.09.05
01 Interest Income / Average Working Funds (AWF)	10.66	10.41	9.86	8.86	8.06	9.16	7.78
02 Interest expenses / AWF	7.82	7.46	6.48	5.24	4.27	4.78	4.28
03 Interest spread / AWF	2.84	2.95	3.38	3.62	3.79	4.40	3.50
04 Non-Interest Income / AWF	1.16	1.56	2.71	2.70	2.67	3.70	1.21
05 Operating expenses / AWF	2.62	2.32	2.74	2.76	2.72	2.96	2.56
06 Cost Income Ratio	65.45	51.46	44.95	43.70	42.10	36.54	54.37
07 Gross (Operating) Profit / AWF	1.39	2.19	3.35	3.56	3.74	5.14	2.15
08 Net Profit / AWF	0.66	1.04	1.77	1.70	2.06	2.34	1.26
09 Return on Net Worth	15.45	23.12	35.67	30.19	30.80	16.53	9.94
10 Return on Assets	0.57	0.97	1.60	1.58	1.78	2.02	1.16
11 Return on Average Assets	0.66	1.04	1.77	1.70	2.06	2.34	1.26
12 Yield on Advances	12.31	12.06	12.01	10.52	9.43	9.75	9.35
13 Cost of Deposits	8.51	8.20	7.15	5.87	4.86	4.91	4.78
14 Dividend payout Raio (including Corporate Dividend Tax)	42.72	30.92	27.42	29.54	23.30	0.00	0.00
15 Credit — Deposit Ratio	42.84	54.53	56.81	58.55	65.18	61.03	64.55
16 Capital Adequacy Ratio	13.40	12.59	13.62	13.71	12.11	14.00	11.95
Tier - I	9.76	8.80	8.19	8.17	8.03	9.23	8.37
Tier - II	3.64	3.79	5.43	5.54	4.08	4.77	3.58

Note : Figures of 30-9-2004 and 30-9-2005 are annualized except Return on Net Worth.

(Rs. In Million except otherwise stated)

No.	Other Key Financial Ratios	31.03.01	31.03.02	31.03.03	31.03.04	31.03.05	30.09.04	30.09.05
1	Employees (number)	12,798	12,800	12,991	13,095	13,108	13,082	13,136
2	Branches (number)	1,020	1,069	1,100	1,128	1,168	1,151	1,191
3	Business per employee	20.31	22.24	25.37	27.74	34.68	29.72	37.32
4	Average Business per employee	17.00	19.74	22.50	25.05	28.73	27.40	33.72
5	Gross Profit per employee	0.19	0.33	0.57	0.68	0.80	0.48	0.26
6	Net Profit per employee	0.09	0.16	0.30	0.33	0.44	0.22	0.15
7	Business per Branch	254.82	266.34	299.65	322.03	389.22	337.74	411.60
8	Gross Profit per branch	2.39	3.99	6.79	7.93	9.03	5.50	2.90
9	Net Profit per branch	1.14	1.91	3.59	3.79	4.98	2.50	1.71
10	Earnings per share (Rupees)	3.41	4.53	8.79	10.69	14.55	7.19	5.08
11	Book Value per share (In Rs.)	16.70	19.58	27.69	35.42	47.26	43.50	51.16

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." 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 on 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.

	Fiscal								
	(Rs. in million, except for percentages)								
	2003			2004			2005		
	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	105,038	12,224	11.64	117,045	12,308	10.52	144,099	13,586	9.43
Investments	94,684	9155	9.67.	104,175	9512	9.13	104,818	8,233	7.85
Others	15,460	571	3.69	19,088	453	2.37	21,696	916	4.22
Total Interest Earning Assets	**215,182**	**21950**	**10.20**	**240,308**	**22273**	**9.27**	**270,613**	**22,735**	**8.4**
Fixed Assets	1,383			1,740			1,836		
Other Assets	9186			9299			9,540		
Total Assets	225,751	21,950	9.72	251,347	22,273	8.86	281,989	22,735	8.06
Liabilities:									
Deposits									
Demand Deposits	11,134	0	0	13,171	0	0	17,789	0	0
Savings Deposits	41,439	1348	3.25	52,624	1,510	2.87	67,121	1,938	2.89
Term Deposits	138,560	12,269	8.85	145,204	10,879	7.49	147,639	9,356	6.34
Borrowings									
Unsecured Subordinated Bonds (Tier-II Bonds)	3600	404	11.22	4300	458	10.65	4800	493	10.27
Other Borrowings	6,048	400	6.61	9,168	320	3.49	9,131	257	2.81
Total Interest Bearing Liabilities	200,781	14421	7.18	224,467	13,167	5.87	246,480	12044	4.89
Capital	4,250			4,000			4,000		
Reserves	5,746			8,840			12,448		
Other Liabilities									
Total Liabilities	210,777	14,421		23,7307	13,167		262,928	12,044	
Net Interest Income		7,529			9,106			10,691	
Net Interest Margin		3.5			3.79			3.95	

	First six months of fiscal					
	(Rs. in million, except for percentages)					
	September 2004			September 2005		
	Average Balance	Interest Income/ Expense	Average Yield/ Cost%	Average Balance	Interest Income/ Expense	Average Yield/ Cost%
			(All percentages are annualized)			
Assets						
Advances	134,506	6,557	9.75	178,944	8,370	9.35
Investments	99,015	4,212	8.51	105,026	3778	7.19
Others	23,506	512	4.36	26,895	377	2.80
Total Interest Earning Assets	**257,027**	**11,281**	**8.78**	**310,865**	**12,525**	**8.06**
Fixed Assets	1,954			2,023		
Other Assets	9,773			9,172		
Total Assets	**268,754**	**11,281**	**8.40**	**322,060**	**12,525**	**7.78**
Liabilities:						
Deposits						
Demand Deposits	17,524	0	0	19,823	0	
Savings Deposits	65,366	929	2.84	77,064	1,083	2.81
Term Deposits	141,110	4573	6.48	167,065	5,221	6.25
Borrowings						
Unsecured Subordinated Bonds (Tier-II Bonds)	4,300	229	10.65	6,300	301	9.56
Other Borrowings	8248	138	3.35	10,234	291	5.69
Total Interest Bearing Liabilities	**236,548**	**5,869**	**4.96**	**280,486**	**6,896**	**4.91**
Capital	4,000			4,000		
Reserves	11,823			15,460		
Other Liabilities						
Total Liabilities	252,371	5,869		299,946	6,896	
Net Interest Income		**5,412**			**5,629**	
Net Interest Margin[1]		**4.21**			**3.62**	

[1] Net interest margin is the ratio of net interest income to average interest-earning assets. The difference in net interest margin and spread arises due to the difference in the amount of average interest-earning assets and average interest-bearing liabilities. If average interest-earning assets exceed average interest-bearing liabilities, net interest margin is greater than the spread. If average interest-bearing liabilities exceed average interest-earning assets, net interest margin is less than the spread.

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 net changes in interest income or expense 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.

	Fiscal 2004 vs. Fiscal 2003			Fiscal 2005 vs. Fiscal 2004			First 6 months of Fiscal 2006 vs. First 6 months of Fiscal 2005		
	Net change in interest income or expense	Change due to change in average volume[1]	Change due to change in average rate[2]	Net change in interest income or expense	Change due to change in average volume[1]	Change due to change in average rate[2]	Net change in interest income or expense	Change due to change in average volume[1]	Change due to change in average rate[2]
				(Rs in Millions)					
Interest income:									
Advances	84	1,398	-1314	1,278	2,846	-1,568	1,813	2,166	-353
Investments	357	918	-561	-1279	59	-1338	-434	256	-690
Others	-118	134	-252	463	62	401	-135	74	-209
Total interest earning assets	**323**	**2,450**	**-2,127**	**462**	**2,967**	**-2,505**	**1244**	**2,496**	**-1,252**
Interest expense									
Deposits									
Demand deposits	-	-	-	-	-	-			
Savings deposits	162	364	-202	428	416	12	154	166	-12
Term deposits	-1,390	588	-1,978	-1,523	182	-1,705	648	841	-193
Borrowings									
Unsecured Subordinated Bonds									
(Tier-II Bonds)	54	79	-25	35	53	-18	72	107	-35
Other Borrowings	-80	206	-286	-63	-1	-62	153	33	120
Total interest bearing liabilities	**-1,254**	**1,237**	**-2,491**	**-1,123**	**650**	**-1,773**	**1027**	**1,147**	**-120**

(1) The change due to change in average volume was calculated from the change in average balance over the two periods multiplied by the average rate in the earlier period.

(2) The change due to change in average rate is the total change less the change due to change in volume.

Yields, Spreads and Margins

The following table sets forth, for the periods indicated the yields, spreads and net interest margins on our interest-earning assets.

(Rs. in million, except for percentages)

	Fiscal					First 6 months of Fiscal Year	
	2001	2002	2003	2004	2005	2006	2005
Interest Income	18,751	20,298	21,950	22,273	22,735	12,525	11,281
Of which Interest Income on Rupee Assets	18,751	20,298	21,950	22,273	22,735	12,525	11,281
Average Interest Earning Assets	169,438	185,145	215,182	240,308	270,613	310,865	257,027
Of which Avg. Interest Earning Rupee Assets	169,438	185,145	215,182	240,308	270,613	310,865	257,027
Interest Expense	13,746	14,545	14,421	13,167	12,044	6,896	5,869
Of which Interest Expenses on Rupee Liabilities	NA	NA	NA	NA	NA	NA	NA
Average Interest Bearing Liabilities	154,744	175,580	20,0781	224,467	246,480	280,486	236,548
Of which Avg. Interest Bearing Rupee Liabilities	NA	NA	NA	NA	NA	NA	NA
Net Interest Income	5,005	5,753	7,529	9,106	10,691	5,629	5,412
Average Total Assets	175,880	194,960	225,751	251,347	281,989	322,060	268,754
Avg. Int.-Earning Assets as a % of Avg. Total Assets	96.34	94.97	95.32	95.61	95.97	96.52	95.64
Avg. Int.-Bearing Liabilities as a % of Avg. Total Assets	87.98	90.06	88.94	89.30	87.41	87.09	88.01
Avg. Int.-Earning Assets as a % of Avg. Int.-Bearing Liabilities	109.50	105.45	107.17	107.06	109.79	110.83	108.66
Yield	11.07	10.96	10.2	9.27	8.40	8.06	8.78
Of which Yield on Rupee Earning Assets	11.07	10.96	10.2	9.27	8.40	8.06	8,788.78
Cost of Funds	8.88	8.28	7.18	5.87	4.89	4.91	4.96
Spread(1)	2.19	2.68	3.02	3.40	3.51	3.15	3.82
Net Interest Margin(2)	2.95	3.11	3.50	3.79	3.95	3.62	4.21

(1) Our spread represents the difference between the yield on the fortnightly average of interest earning assets and the cost of the fortnightly average of interest bearing liabilities.

(2) Net interest margin is the ratio of net interest income to average interest-earning assets. The difference in net interest margin and spread arises due to the difference in the amount of average interest-earning assets and average interest-bearing liabilities. If average interest-earning assets exceed average interest-bearing liabilities, net interest margin is greater than the spread. If average interest-bearing liabilities exceed average interest-earning assets, net interest margin is less than the spread.

Returns on Equity and Assets

The following table presents selected financial ratios for the periods indicated.

(in Rs million, except for percentages)

(Percentages are annualised)

	Fiscal					First 6 months of Fiscal Year	
	2001	2002	2003	2004	2005	2006	2005
Net Profit after Tax	1,211.90	2,022.70	4,029.90	4,635.00	5,201.00	2,181	2,595
Average Total Assets	175,880	194,960	225,751	251,347	281,989	322,060	268,754
Average Shareholders' Funds	6,696	8,201	9,996	12,840	16,448	19,461	15,823
Net Profit after Tax as a percentage of Average Total Assets	0.69	1.04	1.79	1.84	1.84	1.35	1.93
Net Profit after Tax as a percentage of Average Shareholders' Funds	18.09	24.66	40.32	36.10	31.62	22.41	32.80
Average Shareholders' Funds as a percentage of Average Total Assets	3.80	4.21	4.43	5.11	5.83	6.04	5.89

The following table sets forth,as at March 31, 2005, 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)

	Up to one year Amount	One to five years Amount	Five to ten years Amount	More than ten years Amount	Total Amount
Government and other approved securities(excluding recap/ special bonds)	16,896	17,039	30,873	20,436	85,244
Other debt securities (including recap/ special bonds)	2,385	8,747	4,395	1,176	16,702
Total coupon-bearing securities	19,281	25,786	35,268	21,612	101,946
Total Market value of Coupon bearing securities	19,287	25,860	34,884	21,720	101,751

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 monthly balances) of savings deposits was 3.25% in fiscal 2003, 2.87% in fiscal 2004 and 2.89% in fiscal 2005. The average cost of term deposits was 8.85% in fiscal 2003, 7.49% in fiscal 2004 and 6.34 % in fiscal 2005. 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)

	March 31, 2003		March 31, 2004		March 31, 2005		September 30, 2005	
	Balance Outstanding	% of Total	Balance Outstanding	% of Total	Balance Outstanding	% of Total	Balance Outstanding	% of Total
Demand Deposits								
From Banks	168.63	0.08	187.65	0.08	255.73	0.09	1,536.12	0.51
From Others	15,885.20	7.54	22,001.87	9.59	25,327.21	9.19	22,900.39	7.67
Savings Deposits	48,242.44	22.91	63,481.25	27.67	74,007.70	26.86	82,773.92	27.72
Term Deposits								
From Banks	997.36	0.47	629.39	0.28	480.70	0.18	430.35	0.14
From Others	145,324.84	69.00	143,105.04	62.38	175,435.76	63.68	191,051.04	63.96
Total Deposits	210,618.47	100.00	229,405.20	100.00	275,507.10	100.00	298,691.82	100.00

The following table sets forth,at the dates indicated, the regional exposure of our deposits (does not include inter-bank deposits).

(Rs. in million, except for percentages)

Geographic Distribution	March 31, 2003		March 31, 2004		March 31, 2005		September 30, 2005	
	Balance Outstanding	% Of Total	Balance Outstanding	% Of Total	Balance Outstanding	% Of Total	Balance Outstanding	% Of Total
Geographic Distribution			(Rs. in million, except for percentages)					
Northern	21,927.00	10.47	15,317.70	6.70%	19,217.50	6.99%	20,743.50	6.99%
North Eastern	144.00	0.07	154.00	0.06%	140.10	0.05%	187.70	0.06%
Eastern	13,770.00	6.57	16,547.80	7.24%	22,371.20	8.14%	23,555.30	7.94%
Central	5209.00	2.49	6,348.40	2.78%	9,944.00	3.62%	7,397.70	2.49%
Western	17401.00	8.31	24,408.00	10.68%	31,608.10	11.50%	42,889.50	14.45%
Southern	151,001.00	72.09	165,812.30	72.54%	191489.80	69.70%	201,951.70	68.07%
Domestic total	209,452.00	100	228,588.20	100.00%	274,770.70	100.00%	296,725.40	100.00%
Overseas Territories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total-All Regions/ Geographic Distribution of Deposits	209,452.00	100.00	228,588.20	100.00%	274,770.70	100.00%	296,725.40	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 2003			Fiscal 2004			Fiscal 2005			First 6 months of Fiscal 2006		
	Average Balance	Interest Expense	Average Cost	Average Balance	Interest Expense	Average Cost	Average Balance	Interest Expense	Average Cost	Average Balance	Interest Expense	Average Cost
Borrowings excluding Tier - II Bonds	6,048	400	6.61%	9,168	320	3.49%	9131	257	2.81%	10,234	291	5.69%
Tier - II Bonds	3,600	404	11.22%	4,300	458	10.65%	4800	493	10.27%	6,300	301	9.56%
Total Borrowings	9,648	804	8.33%	13,468	778	5.78%	13,931	750	5.38%	16,534	592	7.16%

Notes:

1. Total Average Assets including advances and Deposits figures are obtained from Form 10 & Form A Reports submitted to RBI.
2. Investments data obtained from Form A/ Regular wherever available upto 2002 year and from Balance sheet from 2003 to 2005 by averaging 2 years figures to previous and current year.
3. Fixed Assets and other assets data obtained from balance sheets of previous year and current year by averaging 2 years data.
4. Other Advance figures arrived at by deducting the sum of (1) average advances as per Register, (2) Investments, (3) Fixed Assets and (4) other assets arrived at from Balance sheets as mentioned above, from the total average assets as per Register maintained.
5. Demand deposits, Savings Deposits are maintained as per Average Register maintained.
6. Term Deposits data is arrived at by deducting the sum of Savings Bank and Demand Deposits, from the total average deposits as per Register maintained.
7. Capital, Reserves, Subordinated Debts and other Borrowings data obtained from balance sheets of previous and current years by averaging the sum of 2 years data/ for periods data as applicable.
8. Net profit after tax, shareholders funds are obtained from balance sheets of previous year and current year's average.
9. Maturity profile of investments data is verified with/ obtained from the statement submitted by Funds and Forex Department, Mumbai.
10. Year wise Deposits-Segment wise are obtained from/ verified with audited Balance Sheets of the concerned year.
11. Geographic distribution of Deposits excluding inter Bank deposits are verified with/ obtained from BSR 7 data submitted to RBI.
12. Total outstanding borrowings with/ without Tier II bonds are obtained/ verified with audited Balance Sheet of concerned year.
13. Net interest margin is ratio of Net interest income to average interest earning assets.
14. Yield is the ratio of interest income to interest bearing assets.
15. Cost of funds is the ratio of interest expense to interest bearing liabilities.
16. Spread is the difference of yield and cost of funds.
17. Percentage in respect of six months ended September 30, 2005 and six months ended September 30, 2005 are annualized.
18. Interest paid on demand deposits is falling below 0.5% and negligible. Hence not mentioned in the report.

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Asset-Liability Gap

The following tables set forth our asset-liability gap positionas at March 31, 2003, March 31 2004, March 31, 2005 and six months ended September 30, 2005.

As at March 31, 2005

(Rs. in million, except for percentages)

OUTFLOWS	Total	1-14 days	15-28 days	29 days to 3 months	3 - 6 months	6 - 12 months	1- 3 years	3 - 5 years	Over 5 years
Capital	4,000								4,000
Reserves & Surplus	14,370								14,370
Deposits (i)+(ii)+(iii)	275,507	11,688	5,739	21,577	21,915	30,196	172,714	7,310	4,369
(i) Current Deposits	20,157	1,189					18,968		
(ii) Savings Bank	74,008	555					73,453		
(iii) Term Deposits (A+B)	181,342	9,944	5,739	21,577	21,915	30,196	80,293	7,310	4,369
(A) Retail deposits	133,531	7,105	4,638	9,540	10,389	14,556	75,648	7,286	4,369
(B) Term deposits (wholesale)	47,811	2,839	1,101	12,037	11,526	15,640	4,645	24	0
Borrowings	9,832	652	439	1,008	4,058	723	1,998	784	170
Other Liabilities & Provisions	79,945	8,940	2,003	22,065	14,549	15,703	11,990	2,495	2,201
A. Total Outflows	383,655	21,280	8,180	44,651	40,522	46,622	186,702	10,589	25,109
B. Cumulative Outflows		21,280	29,460	74,111	114,633	161,254	347,957	358,545	383,655
INFLOWS									
Cash	2,641	2,641							
Balances with RBI	18,099	938	680	2,214	2,160	2,692	8,662	471	282
Balances with other Banks	14,494	11,179	800	2,411	0	0	41	41	21
Investments	106,463	3,811	5,685	3,276	5,283	2,442	13,330	13,284	59,352
Advances(performing)(i+ii+iii)	175,168	5,069	5,477	14,986	18,959	23,787	72,063	18,887	15,940
(i) Bills Purchased and discounted	12,332	2,079	3,048	4,151	2,729	325	0	0	0
(ii) Cash Credits and Overdrafts	89,305	2,345	1797	8,863	7,806	14,737	53,757	0	0
(iii) Term Loans	73,531	645	632	1,972	8,424	8,724	18,307	18,887	15,940
Net NPAs	490							490	0
Fixed Assets	1,873							0	1873
Other Assets	69,649	8,265	4,821	25,074	16,360	13,228	1,833	36	31
C. Total Inflows	388,876	31,903	17,463	47,961	42,762	42,148	95,930	33,210	77,498
D. Asset/Liability Gap (C-A)	5,221	10,623	9,283	3,310	2,240	-4,474	-90,772	22,621	52,389
E. % Asset/Liability gap (D as a % of A)	1.36%	49.92%	113.49%	7.41%	5.53%	-9.60%	-48.62%	213.64%	208.64%
F. Cumulative Asset /Liability Gap (D Cumulative)		10,623	19,906	23,216	25,457	20,983	-69,789	-47,168	5221
G. % Cumulative Asset/Liability Gap (F as a % of B)		49.92%	67.57%	31.33%	22.21%	13.01%	-20.06%	-13.16%	1.36%

As of March 31, 2004

(Rs. in million, except for percentages)

OUTFLOWS	**Total**	**1-14 days**	**15-28 days**	**29 days to 3 months**	**3 - 6 months**	**6 - 12 months**	**1- 3 years**	**3 - 5 years**	**Over 5 years**
Capital	4,000	0	0	0	0	0	0	0	4,000
Reserves & Surplus	10,526	0	0	0	0	0	0	0	10,526
Deposits (i)+(ii)+(iii)	229,405	12,761	5,470	16,461	12,515	21,119	147,668	8,024	5,387
(i) Current Deposits	22,190	1,138	0	0	0	0	21,051	0	0
(ii) Savings Bank	63,481	451	0	0	0	0	63,031	0	0
(iii) Term Deposits (A+B)	143,734	11,172	5,470	16,461	12,515	21,119	63,586	8,024	5,387
(A) Retail deposits	121,094	10,236	5,364	12,729	6,166	12,677	61,846	6,689	5,387
(B) Term deposits (wholesale)	22,640	935	106	3,732	6,350	8,442	1,740	1,335	0
Borrowings	8,430	194	1	1,430	1,140	2,976	1,751	613	324
Other Liabilities & Provisions	45,158	6,092	363	8,285	6,475	9,916	10,947	3066	14
A. Total Outflows	297,519	19,047	5,834	26,176	20,131	34,011	160,367	11,702	20,252
B. Cumulative Outflows		19,047	24,881	51,057	71,187	105,198	265,565	277,267	297,519
INFLOWS									
Cash	2,896	2,896	0	0	0	0	0	0	0
Balances with RBI	17,551	7,735	729	1,029	794	1,625	5,070	339	230
Balances with other Banks	5,286	3,784	0	1,502	0	0	0	0	0
Investments	103,174	573	713	6,257	945	541	15,350	17,837	60,959
Advances(performing)(i+ii+iii)	127,654	4,220	5,350	9,856	10,395	21,190	50,819	15,015	10,809
(i) Bills Purchased and discounted	10,249	2,020	1,530	2,781	2,985	934	0	0	0
(ii) Cash Credits and Overdrafts	65,085	1,588	2,986	3,478	3,879	13,580	39,574	0	0
(iii) Term Loans	52,320	613	834	3,598	3,531	6,676	11,245	15,015	10,809
Net NPAs	1,201	0	0	0	0	0	0	996	205
Fixed Assets	1,799	0	0	0	0	0	0	0	1,799
Other Assets	43,009	9,776	1,338	16,819	6,443	6,516	2,041	7	68
C. Total Inflows	302,569	28,984	8,129	35,463	18,577	29,872	73,279	34,194	74,070
D. Asset/Liability Gap (C-A)	5,050	9,937	2,295	9,286	-1,553	-4,138	-87,087	22,492	53,818
E. % Asset/Liability gap (D as a % of A)	1.70%	52.17%	39.34%	35.48%	-7.71%	-12.17%	-54.31%	192.20%	265.75%
F. Cumulative Asset /Liability Gap (D Cumulative)		9,937	12,232	21,518	19,965	15,827	-71,260	-48,768	5,050
G. % Cumulative Asset/Liability Gap (F as a % of B)		52.17%	49.16%	42.15%	28.05%	15.04%	-26.83%	-17.59%	1.70%

As at March 31, 2003

(Rs. In million, except for percentages)

OUTFLOWS	Total	1-14 days	15-28 days	29 days to 3 months	3 - 6 months	6 - 12 months	1- 3 years	3 - 5 years	Over 5 years
Capital	4,000	0	0	0	0	0	0	0	4,000
Reserves & Surplus	7,154	0	0	0	0	0	0	0	7,154
Deposits (i)+(ii)+(iii)	210,619	9,898	5,179	15,959	23,288	41,656	101,299	8,134	5,206
(i) Current Deposits	16,054	1,140	0	0	0	0	14,914	0	0
(ii) Savings Bank	48,242	318	0	0	0	0	47,924	0	0
(iii) Term Deposits (A+B)	146,322	8,440	5,179	15,959	23,288	41,656	38,461	8,134	5,206
(A) Retail deposits	125,737	7,985	5,113	15,412	17,123	31,303	37,506	6,112	5,182
(B) Term deposits (wholesale)	20,585	455	66	547	6,165	10,353	955	2,022	24
Borrowings	9,906	1,347	239	576	3,802	561	1,648	698	1,035
Other Liabilities & Provisions	28,508	3,376	194	6,828	1,906	1,930	6,536	4,065	3,672
A. Total Outflows	260,187	14,621	5,611	23,363	28,996	44,147	109,483	12,897	21,068
B. Cumulative Outflows		14,621	20,233	43,595	72,592	116,739	226,222	239,119	260,187
INFLOWS									
Cash	2278	2278	0	0	0	0	0	0	0
Balances with RBI	10,644	60	4,190	630	853	1,506	2960	294	151
Balances with other Banks	3,806	3,806	0	0	0	0	0	0	0
Investments	105,176	977	19	3,464	1,287	3,851	13,211	13,473	68,895
Advances(performing)(i+ii+iii)	113,052	3,255	4,795	7,563	11,390	17,072	52,047	11,366	5,564
(i) Bills Purchased and discounted	8,036	1,346	3,071	1,513	1,444	661	0	0	0
(ii) Cash Credits and Overdrafts	60,120	1,304	1,313	3,972	5,780	10,279	37,474	0	0
(iii) Term Loans	44,896	605	412	2,079	4,166	6,131	14,573	11,366	5,564
Net NPAs	2,062	0	0	0	0	0	0	1,028	1,034
Fixed Assets	1,681	0	0	0	0	0	0	0	1,681
Other Assets	21,441	4,017	1,144	9,620	2,801	1,725	2,084	29	20
C. Total Inflows	260,140	14,393	10,149	21,277	16,331	24,153	70,302	26,190	77,345
D. Asset/Liability Gap (C-A)	-47	-229	4,537	-2,086	-12,665	-19,994	-39,181	13,293	56,277
E. % Asset/Liability gap (D as a % of A)	-0.02%	-1.56%	80.86%	-8.93%	-43.68%	-45.29%	-35.79%	103.07%	267.12%
F. Cumulative Asset /Liability Gap (D Cumulative)		-229	4309	2223	-10442	-30436	-69617	-56324	-47
G. % Cumulative Asset/Liability Gap (F as a % of B)		-1.56%	21.30%	5.10%	-14.38%	-26.07%	-30.77%	-23.55%	—0.02%

As of September 30, 2005

(Rs. In million, except for percentages)

OUTFLOWS	Total	1-14 days	15-28 days 3 months	29 days to months	3 - 6 months	6 - 12 years	1- 3 years	3 - 5 5 years	Over
Capital	4,000	0	0	0	0	0	0	0	4,000
Reserves & Surplus	16,551	0	0	0	0	0	0	0	16,551
Deposits (i)+(ii)+(iii)	298,692	8,704	5,436	19,734	24,736	37,904	189,963	7,801	4,415
(i) Current Deposits	19,947	1,177	0	0	0	0	18,770	0	0
(ii) Savings Bank	82,774	621	0	0	0	0	82,153	0	0
(iii) Term Deposits (A+B)	195,971	6,906	5,436	19,734	24,736	37,904	89,039	7,801	4,415
(A) Retail deposits	134,272	5,754	3,480	9,772	9,330	12,263	82,127	7,192	4,354
(B) Term deposits (wholesale)	61,698	1,152	1,956	9,962	15,405	25,640	6,913	609	61
Borrowings	10,636	619	0	1,323	5,299	722	2105	527	41
Other Liabilities & Provisions	82,415	5,032	2,274	22,176	19,515	17,300	11,268	2,591	2,258
A. Total Outflows	412,293	14,355	7,710	43,233	49,550	55,926	203,336	10,919	27,265
B. Cumulative Outflows		**14,355**	**22,065**	**65,298**	**114,847**	**170,774**	**374,110**	**385,028**	**412,293**
INFLOWS									
Cash	2,498	2,498	0	0	0	0	0	0	0
Balances with RBI	30,209	293	3,220	4,382	4,404	6,845	9,242	1,599	223
Balances with other Banks	14,951	12,593	1,000	1,000	266	10	41	41	0
Investments	103,589	103	0	9,189	1,280	3,290	9,553	13,722	66,451
Advances(performing)(i+ii+iii)	187,181	6,811	3,529	16,088	15,341	36,837	74,203	20,142	14,230
(i) Bills Purchased and discounted	11,362	3,624	1,372	3,910	2,012	445	0	0	0
(ii) Cash Credits and Overdrafts	73,795	1,763	1,528	5,332	7,513	20,065	37,593	0	0
(iii) Term Loans	102,025	1,424	629	6,845	5,816	16,327	36,611	20,142	14,230
Net NPAs	482	0	0	0	0	0	0	482	0
Fixed Assets	2,173	0	0	0	0	0	0	0	2,173
Other Assets	75,792	5,794	3,589	27,336	19,982	12,515	6,500	30	47
C. Total Inflows	**416,876**	**28,093**	**11,338**	**57,994**	**41,272**	**59,498**	**99,540**	**36,016**	**83,124**
D. Asset/Liability Gap (C-A)	4,583	13,738	3,627	14,761	-8,278	3,572	-103,796	25,098	55,860
E. % Asset/Liability gap (D as a % of A)	1.11%	95.70%	47.05%	34.14%	-16.71%	6.39%	-51.05%	229.86%	204.88%
F. Cumulative Asset /Liability Gap (D Cumulative)		13,738	17,365	32,127	23,849	27,421	-76,375	-51277	4583
G. % Cumulative Asset/Liability Gap (F as a % of B)		95.70%	78.70%	49.20%	20.77%	16.06%	-20.42%	-13.32%	1.11%

Assumptions

(1) Capital Reserves and Surplus have been shown in over five years bucket.

(2) Current & Savings Bank Deposits have been distributed in various time buckets on the basis of behavioural studies on Volatility & 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, considering roll over of retail term deposits as per behavioural studies.

(4) Borrowings have been allocated as per actual repayment 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 portions have been shown in 1-14 days time bucket, while the remaining portions have been shown in 1-3 years time bucket.

(10) Investments have been distributed in various time buckets as per actual maturity.

(11) In case of CC/OD the core and volatile portions has been determined on the basis of Behavioural studies.

(12) In case of bills purchased and discounted and term loans, maturity period have been taken on the basis of data collected from branches.

(13) NPAs have been distributed in 3-5 years and over 5 years time bucket.

(14) Fixed assets have been shown in over 5 years time bucket.

(15) Under Other Liabilities & Provisions we have included Bills Payable, Inter Office Adjustments, Provisions, Others, Unavailed portion of Cash Credits & Overdrafts, Letter Credits & Guarantees, Repos, Swaps, Interest Payable.

(16) Under Other Assets we have included Inter Office Adjustment, Others, Reverse Repos, Swaps, Interest Receivable, Export Refinance Unavailed, Letters of Credit & Guarantees, Advance tax paid on Investments.

(17) In case of Unavailed portion of Cash Credits & Overdrafts, the distribution has been determined on the basis of empirical studies.

(18) In case of Letter Credits & Guarantees, the distribution has been determined on the basis of Behavioural studies.

(19) The embedded options are also effected while distributing the retail term deposits and advances by doing the behavioral studies on premature withdrawal of retail term deposits and prepayment of demand loans & term loans.

Loan Portfolio

As of September 30, 2005, our total outstanding loan portfolio was Rs. 191494.93 million. The following table sets forth, for the dated indicated, our loan portfolio classified by product group.

	March 31, 2003		March 31, 2004		March 31, 2005		September 30, 2005	
	Amount	%	Amount	%	Amount	%	Amount	%
	(Rs. in million, except percentages)							
Bills Purchased/Discounted	8,222.87	6.92	10,668.88	7.97	12,395.79	6.92	11,423.13	5.97
Cash Credit, overdrafts and others	62,286.86	52.40	67,688.93	50.59	91,705.03	51.22	93,666.17	48.91
Term Loans	48,349.70	40.68	55,429.85	41.44	74,957.61	41.86	86,405.63	45.12
Total	**118,859.43**	**100.00**	**133,787.66**	**100.00**	**179,058.43**	**100.00**	**191,494.93**	**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:

DOMESTIC Sector	March 31, 2003		March 31, 2004		March 31, 2005		September 30, 2005	
	Loans	% of Total	Loans	% of Total	Loans	% of Total	Loans	% of Total
					(Rs. in million, except for percentages)			
Corporate and Commercial	77,730.03	65.40	86,520.86	64.67	115,035.63	64.25	120,158.93	62.75
(Of which Small Scale Industries (SSIs)	10,544.50	8.87	10,425.10	7.79	13,638.50	7.62	12,640.30	6.60
Housing & Retail	24,072.20	20.25	25,489.50	19.05	32,292.10	18.03	36,401.60	19.00
Agriculture	17057.20	14.35	21,777.30	16.28	31,730.70	17.72	34,934.40	18.25
Total outstanding loans	118,859.43	100.00	133,787.66	100.00	179,058.43	100.00	191,494.93	100

Concentration of Loans and Credit Substitutes

Under the RBI guidelines, our exposure to individual borrowers must not exceed 15% of capital funds comprising Tier I and Tier II capital. Exposure to individual borrowers may exceed the exposure norm of 15% of capital funds by an additional 5% (i.e., up to 20%) provided the additional exposure is on account of infrastructure financing. Under the RBI guidelines, exposure to a group of companies under the same management control must not exceed 40% of capital funds unless the exposure is in respect of an infrastructure project in which case the ceiling is 50%.

On September 30, 2005, our largest exposure to a single borrower was 22.63 % of our capital funds (excess over 15% is covered by 100% cash margin), and our largest group exposure was 27.97 % of our capital funds; all these borrowers are classified “Standard” and are currently performing according to the terms of our contracts with them.

None of our directors have any interest in any of the companies or persons to whom we have extended loan or advance facilities.

Our policy with respect to our maximum exposure to a particular industry as a percentage of our gross credit and our actual exposure to these sectors as on September 30, 2005 is set forth below.

S.No	Industry	As on September 30, 2005 % of Total Ceilings as Advances	Fund Based (Amount Rs. in million)	Fund Based (% of Total Advances)
1	Textiles	9.00	13,284.30	7.34
2	Petroleum Products	2.00	953.90	0.53
3	Power	20.00	13,548.10	7.49
4	Engineering (Heavy and Light)	3.00	3,985.30	2.20
5	Hire Purchase & Leasing	2.00	895.40	0.49
6	Diamonds Gems & Jewellery	5.00	4,705.00	2.60
7	Rice Mills	7.00	6,542.80	3.62
8	Sugar	5.00	4,937.50	2.73
9	Drugs & Pharmaceuticals	3.00	3,784.20	2.09
10	Tobacco	2.00	2,043.80	1.13
11	Cement & Cement Products	2.00	1,458.20	0.81
12	Distilleries	1.00	975.40	0.54
13	Iron and Steel	8.50	7,962.60	4.40
14	Construction and Contractors	4.00	6,854.10	3.79
15	Real Estate	8.00	1,955.80	1.08
16	Educational Institutions	2.00	2,150.00	1.19
17	Software	1.50	236.10	0.13
18	Film Industry	0.50	73.40	0.04
19	Hospitals	2.00	1,094.20	0.60

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

Sector

Film Industry	0.50 % of total advances
Sensitive Sectors:	
- Capital Markets	5% of total advances
- Real Estate	8% of total advances

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, whichever is higher.

(Rs. in million, except for percentages)

S.No.	Borrower	Industry	Borrower Exposure						
			March 31, 2005			September 30, 2005			
			Expo-sure	% to total credit	% to Capital Funds	Expo-sure	% to total credit	% to Capital Funds	Classifi-cation of Adv.
1	Borrower 1(1)	Trading House	3,500.00	1.95	19.68	-	-	-	Standard
2	Borrower 2(2)	Merchant Exporter	3,108.80	1.74	17.48	5,186.90	2.25	22.63	Standard
3	Borrower 3	Housing Finance	2,450.00	1.37	13.78	2,461.90	1.07	10.74	Standard
4	Borrower 4	Metal Products Mfg	2,176.80	1.22	12.24	-	-	-	Standard
5	Borrower 5	Sugar	2,155.90	1.20	12.12	-	-	-	Standard
6	Borrower6	Railway Transport	2,125.40	1.19	11.95	2,638.50	1.14	11.51	Standard
7	Borrower7	Trading House	2,065.00	1.15	11.61	2,065.00	0.90	9.01	Standard
8	Borrower8	Construction /Contractor	2,059.40	1.15	11.58	3,059.40	1.33	13.35	Standard
9	Borrower9	Construction /Contractor	2,050.00	1.14	11.53	2,120.00	0.92	9.25	Standard
10	Borrower10	Telecom	2000.00	1.12	11.24	2,301.20	1.00	10.04	Standard
11	Borrower11	Electricity Generation	-	-	-	2,000.00	0.87	8.73	Standard
12	Borrower12	Electricity Generation	-	-	-	2,500.00	1.08	10.91	Standard
13	Borrower13	Housing Board	-	-	-	2,496.60	1.08	10.89	Standard

(1) The limit is fully covered by 100% cash margin)

(2) An amount of Rs.2921.90 millions are covered by 100% cash margin as at September 30, 2005, excluding cash margin the percentage to capital funds works out to 9.88%)

None of our top ten borrowers have had any default, nor has there been any compromise or write-off in the past five fiscal years presented herein.

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, whichever is higher.

(Rs. in million, except for percentages)

S.NO	BORROWER	GROUP BORROWAL ACCOUNTS						
		March 31, 2005			September 30, 2005			
		Exposure	% to total credit	% to Capital Funds	Exposure	% to total credit	% to Capital Funds	Classification of Advances
1	Group A	4,216.00	2.35	23.70	6,410.20	2.78	27.97	Standard
2	Group B	3,299.60	1.84	18.55	3,478.50	1.51	15.18	Standard
3	Group C	3,048.90	1.70	17.14	2,631.00	1.14	11.48	Standard
4	Group D	2,876.40	1.61	16.17	2,776.20	1.20	12.11	Standard
5	Group E	2,550.10	1.42	14.34	2,550.00	1.11	11.13	Standard
6	Group F	2,539.70	1.42	14.28	2,525.30	1.09	11.02	Standard
7	Group G	2,536.60	1.42	14.26	2,123.50	0.92	9.27	Standard
8	Group H	2,450.00	1.37	13.78	2,461.90	1.07	10.74	Standard
9	Group I	2,059.40	1.15	11.58	3,059.40	1.33	13.35	Standard
10	Group J	2,050.00	1.14	11.53	2,120.00	0.92	9.25	Standard

In terms of our lending policy different exposure norms are fixed for different industries. Our maximum credit exposure to a particular industry is limited to maximum 20% of our total credit.

The following table sets forth, for the periods indicated, our ten largest industry exposures.

(Rs. in million, except for percentages)

S.No	Activity	March 31, 2003		March 31, 2004		March 31, 2005		September 30, 2005	
		EXPO-SURE	% OF TOTAL EXPO-SURE	EXPO-SURE	% OF TOTAL EXPO-SURE	EXPO-SURE	% OF TOTAL EXPO-SURE	EXPO-SURE	% OF TOTAL EXPO SURE
1	Textiles	7,066.60	6.56	9,553.50	7.76	1,3281.60	8.38	13,284.30	7.34
2	Power	5,597.90	5.20	10,894.60	8.85	12,959.00	8.18	13,548.10	7.49
3	Rice Mills	4,928.30	4.58	5,155.20	4.19	6,402.40	4.04	6,542.80	3.62
4	Iron and Steel	1,781.80	1.65	4,068.70	3.30	6,229.50	3.93	7,962.60	4.40
5	Construction and Contractors	1,771.50	1.64	3,913.40	3.18	5,663.20	3.57	6,854.10	3.79
6	Sugar	1,998.20	1.86	3,443.20	2.80	4,760.20	3.00	4,937.50	2.73
7	Engineering	2,490.60	2.31	3,425.00	2.78	4,718.40	2.98	3,985.30	2.20
8	Diamonds Gems & Jewellery	3,158.80	2.93	3,855.90	3.13	3,983.20	2.51	4,705.00	2.60
9	Drugs and Pharma-ceuticals	1,833.80	1.70	2,366.60	1.92	3,311.70	2.09	3,784.20	2.09
10	Educational Institutions	1,510.00	1.27	1,602.40	1.20	1,902.00	1.06	2,150.00	1.19

Industry wise outstanding as at September 30, 2005

(in Rs. Millions except %)

Industry	Funded Outstanding as at September 30, 2005	Funded Outstanding to top 10 companies as at September 30, 2005	Funded O/s to top 10 companies as a % of Outstanding to the Industry as at September 30, 2005
Textiles	13,284.30	4,151.88	31.25
Petroleum Products	953.90	82.12	8.61
Power	13,548.10	5,154.69	38.05
Engineering (Heavy and Light)	3,985.30	558.09	14.00
Hire Purchase and Leasing	895.40	366.11	40.89
Diamonds Gems and Jewellery	4,705.00	2,805.70	59.63
Rice Mills	6,542.80	1,270.19	19.41
Sugar	4,937.50	3,012.87	61.02
Drugs and Pharmaceuticals	3,784.20	1,996.10	52.75
Tobacco	2,043.80	906.54	44.36
Cement and Cement Products	1,458.20	1,098.18	75.31
Distilleries	975.40	765.30	82.38
Iron and Steel	7,962.60	5,222.70	78.46
Construction and Contractors	6,854.10	3,969.94	65.59
Real Estates	1,955.80	964.89	49.33
Educational Institutions	2,150.00	1,031.86	47.99
Software	236.10	90.36	38.27
Film Industry	73.40	26.78	36.49
Hospitals	1,094.20	853.75	78.03
Total	**77,440.01**	**34,328.05**	

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Security

The table below shows the amount of our net advances as at March 31, 2003, 2004 and 2005 and as at September 20, 2005, which are secured or covered by guarantees or unsecured.

(Rs. in million, except for percentages)

Particulars	Classification of total Advances							
	March 31,						September 30, 2005	
	2003		2004		2005		2005	
	Amount	% of advances	Amount	% of advances	Amount	% of advances	Amount	% of advances
Secured by tangible assets (including advances against book debts)	89,399.10	75.22	111,444.73	83.30	152,729.67	85.30	158,796.60	82.92
Covered by bank or Government guarantees	10,437.12	8.78	8,717.03	6.52	4,855.53	2.71	3,687.64	1.93
Unsecured	19,023.21	16.00	13,625.90	10.18	21,473.23	11.99	29,010.69	15.15
Total	118,859.43	100.00	133,787.66	100.00	179,058.43	100.00	191,494.93	100.00

Non-Performing Assets

As of March 31, 2005, our gross non-performing assets as a percentage of gross advances were 2.46 % (**lowest among the listed Public sector Banks)** and our net non-performing assets as a percentage of net advances were 0.28 %. 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 88.22 % of our gross non-performing loans.As at March 31, 2005, 54.42 % of our gross NPAs were from priority sector advances.

The following table set forth, as at the dates indicated, information about our non-performing loan portfolio:

(Rs. in millions, except percentages)

	March 31, 2001			March 31, 2002			March 31, 2003		
	Amt	NPAs	NPAs as % of Adv	Amt	NPAs	NPAs as % of Adv	Amt	NPAs	NPAs as % of Adv
Gross Advances	76,720	4701	6.13	99,619	5241	5.26	118,859	5,807	4.89
Interest Suspense	--	--	--	--	--		--	--	
DICGC/ECGC claims received and held	14	14		16	16		8	8	
SFSD held	9	9		11	11		6	6	
Provisions (as per RBI)	2,488	2,488		2,842	2,842		3,638	3,638	
Other Adjustments	—	—		—	—		—	—	
Floating Provisions	—	—		—	—		92	92	
Total Deductions	2,511	2,511		2,869	2,869		3,744	3,744	
Net Adv (for Net NPA %)	74,209	2,190	2.95	96,750	2,372	2.45	115,115	2,063	1.79
Unapplied Interest (Domestic NPAs)		2,960			4,302			3,468	

	March 31, 2004			March 31, 2005			September 30, 2005		
	Amt	NPAs	NPAs as % of Adv	Amt	NPAs	NPAs as % of Adv	Amt	NPAs	NPAs as % of Adv
Gross Advances	133,788	6154.	4.60	179,058	4,409	2.46	191,495	4,351	2.27
Interest Suspense	——	——	—	—		—	—	—	
DICGC/ECGC claims received and held	15	15		25	25		33	33	
SFSD held	5	5		4	4		5	5	
Provisions (as per RBI)	3,235	3,235		2,522	2,522		2,866	2,866	
Other Adjustments	—	—		—	—		—	—	
Floating Provisions	1,698	1,698		1,368	1,368		966	966	
Total Deductions	4,953	4,953		3,919	3,919		3,870	3,870	
Net Adv (for Net NPA %)	128,835	1,201	0.93	175,139	490	0.28	187,625	481	0.26
Unapplied Interest (Domestic NPAs)		2,987			2,590			2,954	

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 uncollectable.

The following table provides a break-up of our gross advances as at the dates indicated. (Rs. in millions, except percentages)

	Fiscal										Six months ended September 30, 2005	
	2001		2002		2003		2004		2005			
	Rs	**%**	**Rs.**	**%**	**Rs.**	**%**	**Rs.**	**%**	**Rs.**	**%**	**Rs.**	**%**
Standard assets	72,019	93.87	94,378	94.74	113,052	95.11	127,634	95.40	174,649	97.54	187,144	97.73
Non-Performing assets of which:	4,701	6.13	5,241	5.26	5,807	4.89	6154	4.60	4,409	2.46	4,351	2.27
Sub-standard	1,351	1.76	1,805	1.81	1,167	0.98	2,065	1.54	1,269	0.71	858	0.45
Doubtful assets	3,185	4.15	3,208	3.22	4496	3.79	4,032	3.02	3,023	1.69	3,368	1.76
Loss assets	165	0.22	228	0.23	144	0.12	57	0.04	117	0.06	125	0.06
Total Loan assets	**76,720**	**100.00**	**99,619**	**100.00**	**118,859**	**100.00**	**133,788**	**100.00**	**179,058**	**100.00**	**191,495**	**100.00**

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 2003. 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.

The following table presents our assets restructured during the periods indicated:

(Rs. in millions)

	Fiscal			**Six months ended September 30,**
	2003	**2004**	**2005**	**2005**
CDR restructured assets				
Standard assets	—	250	274	——
Sub-standard assets	—	—	—	——
Doubtful assets	—	—	—	—
Loss assets	—	—	—	——
Total CDR restructured assets	**—**	**250**	**274**	**——**
Other restructured assets				
Standard assets	552	1120	1027	172
Sub-standard assets			68	—
Doubtful assets	67	27	397	—
Total other restructured assets	**619**	**1,147**	**1,492**	**172**
Total restructured assets	**619**	**1,397**	**1,766**	**172**

Provisioning and Write-offs

Our policies on provisioning and write-offs of non-performing assets are consistent with those prescribed by the RBI guidelines. The following is a summary of our provisioning policies:

Standard assets	A general provision of 0.25%.
Sub-standard assets	A general provision of 10% and, from the second quarter of fiscal 2005, an additional provision of 10% for advances which were unsecured when made.
Doubtful assets	We provide for 100% of the unsecured portion of the doubtful assets which are not covered by the realizable value of the security. We provide for secured advances (or the secured portion of partly secured advances) based on the period for which the asset remains doubtful, as follows: Up to one year: 20% provision One to three years: 30% provision More than three years: 100% provision * * Beginning on March 31, 2005, a 100% provision against secured exposure is required for assets categorized as doubtful assets for over three years from April 1, 2004. For assets categorized as doubtful assets for over three years as of March 31, 2004, the provision for secured exposure is to be raised to 60% by March 31, 2005, 75% by March 31, 2006 and 100% by March 31, 2007 but our Bank had raised the provision on secured portion to 100% in the first year as on March 31, 2005. The value assigned to the collateral securing a loan is that reflected on the borrower's books or that is determined by third party appraisers to be realizable, whichever is lower.
Loss assets	The entire asset is provided for.
Restructured Assets	Reductions in the rate of interest, measure in present value terms, is provided for to the extent of the reduction. For the purposes of future interest due as per the original loan agreement in respect of an account, this amount should be discounted to present value at a rate appropriate to the risk category of the borrower and compared to the present value of the amounts expected to be received under the restructuring package discounted on the same basis. The policy regarding asset classification mentioned above is also applicable to restructured assets.

In addition to the provisions required by the RBI guidelines, we also make additional provisions for NPAs such as float provisions. As at March 31, 2004, out of our total provision for NPAs of Rs.4933 million we had Rs. 1698 million in excess of the required provision against NPA of Rs.3235 million. These provisions account for a coverage ratio for gross NPAs of 80.16 % (the coverage ratio is calculated using our total provisions held as coverage). As at March 31, 2005, out of our total provision for NPAs of Rs.3890 million we had Rs. 1368 million in excess of the required provision against NPA of Rs.2522 million. The provisions coverage ratio for gross NPAs improved to 88.22%. This coverage ratio was 88.07% as at September 30, 2005. The table below shows the changes in our provisions for the periods below.

	Fiscal			**Six months ended September 30,**
	2003	**2004**	**2005**	**2005**
		(Rs. in million)		
Opening Balance	**2,842**	**3,730** *** 161**	**4,933**	**3,890**
Add: Provisions made during the year (including float provisions)	1,843	2,425	124	0
Less: Write-off/write-back during the year.	955	1,383	1,167	58
Closing Balance	**3,730**	**4,933**	**3,890**	**3,832**

* Provision held for implementation of 90 days norms on Borderline Performing Assets as at March 31, 2003 of Rs.161 millions transferred to provision on NPAs due to implementation of 90 days norms with effect from March 31, 2004

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.

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Sector-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 into priority and other sectors.

(Rs. in million, except for percentages)

SECTORAL ADVANCES - DOMESTIC - MAR 2001, 2002,2003, 2004 AND 2005

	Sept-05			Mar-05			Mar-04			Mar-03			Mar-02			Mar-01		
SECTOR	GR.ADV	GR.NPA	GR. NPA%	GR.ADV	GR.NPA	GR. NPA%	GR.ADV	GR.NPA	GR. NPA%	GR.ADV	GR.NPA	GR. .NPA%	GR.ADV	GR.NPA	GR. NPA%	GR.ADV	GR.NPA	G0R. NPA%
I. PRIORITY SECTOR																		
AGRICUL-TURE	34,934	407	1.17	31,731	446	1.41	20,744	1,060	5.11	16,070	939	5.84	13,684	876	6.40	10,204	530	5.19
SSI	12,640	720	5.70	13,639	764	5.60	10,365	1,169	11.28	10,495	1,279	12.19	9,409	1,275	13.55	8,454	1,060	12.54
OTHERS	30,447	1,139	3.74	30,281	1,194	3.94	20,334	1,279	6.29	18,444	909	4.93	11,294	893	7.91	8,843	660	7.46
TOTAL PS	**78,021**	**2,266**	**2.90**	**75,651**	**2,404**	**3.18**	**51,443**	**3,508**	**6.82**	**45,009**	**3,127**	**6.95**	**34,387**	**3,044**	**8.85**	**27,501**	**2,250**	**8.18**
II. NON PRIORITY SECTOR (NPS)																		
LARGE & MED INDUSTRS	43,971	642	1.46	37,230	681	1.83	23,933	945	3.95	12,085	1,052	8.71	7,847	910	11.60	6,777	1,101	16.25
TRADE & OTHERS	56,535	1,344	2.38	53,822	1,225	2.28	47,233	1,620	3.42	49,273	1,628	3.30	43,192	1267	2.93	30,526	1,281	4.20
PSUs	12,968	99	0.76	12,355	99	0.80	11,179	81	0.72	12,492	0	0.00	14,193	20	0.14	11,916	69	0.58
TOTAL NPS	**113,474**	**2,085**	**1.84**	**103,407**	**2,005**	**1.94**	**82,345**	**2,646**	**3.21**	**73,850**	**2,680**	**3.63**	**65,232**	**2,197**	**3.37**	**49,219**	**2,451**	**4.98**
DOMESTIC ADVANCES	191,495	4,351	2.27	179,058	4,409	2.46	133,788	6,154	4.60	118,859	5,807	4.89	99,619	5241	5.26	76,720	4,701	6.13
INTL. ADVANCES	0	0.00	0.00	0	0	0.00	0	0	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
GROSS **TOTAL ADV**	**191,495**	**4,351**	**2.27**	**179,058**	**4,409**	**2.46**	**133,788**	**6,154**	**4.60**	**118,859**	**5,807**	**4.89**	**99,619**	**5,241**	**5.26**	**76,720**	**4,701**	**6.13**

The following table sets forth,as at the dates indicated, the classification of our gross non-performing assets by industry sector.

(Rs in million except percentages)

Industry	March 31, 2001			March 31, 2002		
	NPA	% NPA to total industry Outstanding	Provision	NPA	% NPA to total industry O/s	Provision
Coal	0.00	0.00	0.00	0.00	0.00	0.00
Mining	0.00	0.00	0.00	0.90	0.26	0.90
Iron & Steel	152.50	10.03	95.00	251.00	12.24	218.50
Metals & Metal Prod	20.00	20.00	6.00	54.20	49.27	30.60
All Engineering	200.00	10.81	100.00	82.60	4.17	47.20
Textiles	175.80	60.51	90.00	278.30	7.97	194.10
Sugar	15.00	1.17	7.00	0.00	0.00	0.00
Tea	50.00	5.68	10.00	0.70	0.09	0.20
Food Processing	200.00	14.29	100.00	215.40	8.45	83.00
Veg Oils & Vanasp	20.00	12.50	6.00	27.90	27.90	9.20
Tobacco & prod	20.00	2.27	6.00	90.60	28.31	56.50
Paper & prod	60.00	10.34	30.00	16.60	9.76	13.80
Rubber & Prod	0.00	0.00	0.00	0.00	0.00	0.00
Chemicals, Dyes						
Paints, Fertilizers Pharma	350.00	14.00	170.00	243.00	9.64	196.10
Cement	20.00	10.00	10.00	92.50	42.04	80.70
Leather & Prod	20.00	6.90	10.00	197.00	65.67	31.70
Gems & Jewellery	50.00	2.78	30.00	50.60	2.78	48.50
Construction	100.00	12.50	35.00	62.70	1.77	54.30
Automobiles	250.00	12.50	130.00	16.80	5.60	4.60
Computer Software	12.60	3.82	10.00	57.40	9.57	18.60
Infrastructure	155.00	6.65	100.00	0.00	0.00	0.00
Other Industries	330.00	10.15	58.00	1155.30	1.52	500.50
Total	2,200.90		1,003.00	2,893.50		1,589.00

(Rs. In Million, except percentages)

Industry	March 31, 2003			March 31, 2004		
	NPA	% NPA to total industry outstanding	Provision	NPA	% NPA to total industry outstanding	Provision
Coal	0.00	0.00	0.00	0.00	0.00	0.00
Mining	19.20	11.34	6.40	6.50	2.22	6.50
Iron & Steel	186.40	11.41	155.50	67.70	3.41	60.50
Metals & Metal Prod	74.70	14.71	55.50	70.70	30.33	65.80
All Engineering	64.70	3.94	36.30	101.90	7.22	95.60
Textiles	254.80	5.72	176.90	101.10	1.49	81.50
Sugar	1.20	0.10	0.40	17.80	1.33	17.80
Tea	0.70	1.47	0.70	0.10	0.01	0.10
Food Processing	99.00	3.79	48.10	100.50	1.61	84.40
Veg Oils & Vanasp	74.00	56.14	54.00	30.90	16.96	29.60
Tobacco & prod	7.90	4.07	7.90	64.20	79.75	51.40
Paper & prod	40.70	11.93	24.50	8.30	2.04	3.40
Rubber & Prod	11.10	15.90	3.80	7.10	13.17	2.40
Chemicals, Dyes Paints, Fertilizers, Pharma	72.70	2.96	1.00	77.20	2.11	61.20
Cement	34.00	11.27	32.00	4.80	1.25	4.70
Leather & Prod	197.80	52.22	174.10	253.20	66.44	202.10
Gems & Jewellery	53.30	2.37	49.60	259.90	9.33	258.10
Construction	49.30	2.81	42.80	67.80	2.14	57.10
Automobiles	15.00	4.32	5.60	74.60	47.13	65.00
Computer Software	299.50	70.37	286.40	33.80	18.28	22.90
Infrastructure	199.40	9.38	197.80	3.50	0.04	3.50
Other Industries	359.50	3.57	198.40	1,021.80	6.60	465.70
Total	**2,114.90**		**1,557.70**	**2,373.40**		**1,639.30**

(Rs in million except percentages)

Industry	March 31, 2005			September 30, 2005		
	NPA	% NPA to total industry Outstanding	Provision	NPA	% NPA to total industry Outstanding	Provision
Coal	0.00	0.00	0.00	0.00	0.00	0.00
Mining	7.90	4.95	7.90	15.30	5.81	6.30
Iron & Steel	66.70	1.04	66.50	74.60	0.95	69.30
Metals & Metal Prod	19.30	3.64	18.20	14.10	2.27	14.10
All Engineering	119.60	4.28	116.00	136.90	4.45	135.00
Textiles	145.30	1.81	68.00	123.90	0.99	121.40
Sugar	20.50	1.02	4.60	20.50	0.44	20.50
Tea	0.00	0.00	0.00	0.00	0.00	0.00
Food Processing	121.30	2.41	95.70	133.30	2.17	108.40
Veg Oils & Vanasp	0.00	0.00	0.00	4.10	1.85	4.10
Tobacco & prod	15.80	7.09	14.70	35.20	1.83	32.90
Paper & prod	12.60	1.68	12.00	23.30	2.50	22.50
Rubber & Prod	0.00	0.00	0.00	7.70	7.73	6.90
Chemicals, Dyes Paints, Fertilizers, Pharma	28.50	0.82	18.10	35.00	0.87	35.00
Cement	2.40	0.25	1.90	6.50	0.46	2.10
Leather & Prod	74.10	20.17	72.80	81.00	1.74	73.10
Gems & Jewellery	39.50	0.84	35.00	37.30	0.84	33.10
Construction	308.40	5.25	213.90	293.80	4.44	240.80
Automobiles	74.40	43.82	68.60	51.20	11.63	49.40
Computer Software	25.30	8.74	23.00	24.80	18.20	23.60
Infrastructure	41.90	0.29	41.90	40.70	0.25	40.70
Other Industries	184.80	0.01	173.90	361.10	6.76	189.90
Total	**1,308.30**	—	**1,052.70**	**1,520.30**	—	**1,229.10**

The following table sets forth our 10 largest borrowers based on gross non-performing assetsas at September 30, 2005. Together, these borrowers constituted 16.34 % of our gross NPAs as at September 30, 2005.

	Gross NPA	Derecognized income	Provision	DICGC/ ECGC	Net NPA	Realizable value of collateral	Industry
			(In Rs. Million)				
Borrower 1	138.62	0	138.62	0	0	129.70	Construction
Borrower 2	90.78	0	9.08	0	81.70	34.90	Export of watches
Borrower 3	80.50	0	24.20	0	56.30	303.50	Mfg of pressure vessels
Borrower 4	78.24	0	10.65	0	67.59	230.80	Mfg of tiles
Borrower 5	56.95	0	5.70	0	51.25	323.80	Construction
Borrower 6	55.98	0	11.20	0	44.78	717.50	Export of Marine products.
Borrower 7	54.33	0	18.98	5.87	29.48	390.40	Mfg & Export of leather products.
Borrower 8	53.24	0	32.55	0	20.69	55.19	Mfg of railway components.
Borrower 9	53.23	0	53.23	0	0	42.30	Food processing
Borrower 10	48.95	0	30.20	9.00	9.75	12.80	Mfg of Geo Fabrics
Total	**710.82**	**0**	***334.41**	**14.87**	**361.54**	**2240.89**	

* We are also holding Additional provision (floating Provision) on all NPA accounts apart from the specific provision made on NPA account. Only specific provision made on NPA accounts are shown in this column.

Interest in Suspense (undebited interest)

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, for the periods indicated the cumulative amount of interest in suspense on existing non-performing loans.

	Fiscal					Six months ended September 30,
	2001	2002	2003	2004	2005	2005
						(Rs. in million)
Interest in suspense	2960	4302	3468	2987	2590	2954

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Top 25 Borrowings by the Bank

The table below represents the top 25 borrowings made by the Bank as at September 30, 2005:

S. No.	Name of the Lender	Date of Borrowing	Due Date	Int. Rate (%)	Amount (Rs. in Mn)	Nature of Borrowing	Repayment Terms
1	National Bank for Agriculture and Rural Development	*	--	5.50 - 7.0	3,257.93	Term Refinance	Term payment
2	Lender 1	March 31, 2005	March 31, 2006	7.10	2,720.00	Deposit	Demand
3	Tier II Bond Series V	Jan 5, 2005	April 15, 2014	7.25	2,000.00	Subordinated Bond	Bullet
4	Lender 2	March 21, 2005	March 14, 2006	6.25	1,731.20	Deposit	Demand
5	Tier II Bond Series I	May 3, 1999	August 3, 2006	13.6	1,500.00	Subordinated Bond	Bullet
6	Tier II Bond Series IV	Sept.27, 2002	Dec. 27, 2009	7.75	1,400.00	Subordinated Bond	Bullet
7	Lender 3	Aug 29, 2005	Feb. 27, 2006	6.25	1,250.00	Deposit	Demand
8	Lender 4	Sept. 28, 2000	Sept. 27, 2006	10.75	1,220.00	Deposit	Demand
9	Lender 5	Sept 22. 2005	Sept. 22, 2006	6.80	1,000.00	Deposit	Demand
10	Lender 6	August 22, 2005	August 22, 2006	6.75	1,000.00	Deposit	Demand
11	Lender 7	Sept. 26, 2005	March 28, 2006	6.25	1,000.00	Deposit	Demand
12	Lender 8	Sept. 26, 2005	March 25, 2006	6.25	1,000.00	Deposit	Demand
13	National Housing Bank	*	--	7.10 - 12.96	959.28	Term Refinance	Term payment
14	Tier II Bond Series III	Dec. 1, 2001	March 1, 2009	9.7	750.00	Subordinated Bond	Bullet
15	Small Industries Development Bank of India	Sept. 2, 2005	March 2, 2006	6.25	708.50	Term Refinance	Term payment
16	Tier II Bond Series II	May 27, 2000	August 27, 2007	11.1	650.00	Subordinated Bond	Bullet
17	Lender 9	Sept. 6, 2005	Sept. 7, 2008	6.81	600.00	Deposit	Demand
18	Lender 10	Sept. 28, 2005	Sept. 28, 2006	6.80	600.00	Deposit	Demand
19	Lender 11	Sept. 3, 2004	Sept. 6, 2007	5.80	550.00	Deposit	Demand
20	Lender 12	Dec. 10, 2004	Dec. 10, 2005	6.80	500.00	Deposit	Demand
21	Lender 13	Sept. 13, 2005	Sept. 13, 2006	6.80	500.00	Deposit	Demand
22	Lender 14	Sept. 26, 2005	Sept. 26, 2006	6.80	500.00	Deposit	Demand
23	Lender 15	Sept. 26, 2005	Sept. 26, 2006	6.80	500.00	Deposit	Demand
24	Lender 16	Sept. 26, 2005	Sept. 26, 2006	6.80	500.00	Deposit	Demand
25	Lender 17	Sept. 27, 2005	Sept. 27, 2006	6.80	500.00	Deposit	Demand

* On various dates as it is a term refinance borrowing.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 Financial Information" beginning on page 6 and the section titled "Selected Statistical Information" beginning on page 164, which presents important statistical information about our Bank's business. You should also read the section titled "Risk Factors" beginning on page x, which discusses a number of factors and contingencies that could impact our financial condition and results of operations. The following discussion relates to the Bank on an unconsolidated basis and is based on our restated stand alone financial statements, which have been prepared in accordance with Indian GAAP, SEBI Guidelines and RBI guidelines. The following discussion is also based on internally prepared statistical information and on information publicly available from the RBI and other sources.

Introduction

Overview

We are a public sector banking institution in India. As at September 30, 2005, we had 1,177 branches in India spread over 21 states and 2 union territories. As at September 30, 2005, we served over 13.9 million customers.

Our business is principally divided into three main areas; corporate financial services, retail financial services and agricultural financial services.

In fiscal 2005, we made a net profit of Rs. 5,821.94 million and for the six months ended September 30, 2005, our net profit was Rs. 2,035.20 million. As at March 31, 2005, we had net assets of Rs. 327,200.04 million and net worth of Rs. 18,904.16 million. At September 30, 2005, our Bank had net assets of Rs. 350,791.21 million and our net worth was Rs. 20,463.75 million. During fiscal 2001 to fiscal 2005, we had a record of consistent growth in deposits and advances, with deposits growing at a compound annual rate of 10.78% during this period and net advances growing at a compound annual rate of 23.94% during the same period.

Presentation of Unconsolidated Financial Statements

This discussion and analysis is based on the restated stand alone restated financial statements of the Bank. The Bank currently has one subsidiary, Andhra Bank Financial Services Limited ("ABFSL"), which had capital of Rs. 50 million and had accumulated net losses of Rs. 240.83 million as at September 30, 2005. ABFSL is currently not engaged in any business activity. ABFSL has claims against it from various commercial entities and is a party to certain legal proceedings. ABFSL had provisions of Rs. 371.22 million as at September 30, 2005 in respect of these claims and certain potential tax liabilities. For further details please refer to section titled "Outstanding Litigation and Material Developments" beginning on page 213 of this Red Herring Prospectus.

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 the bills discounted) and income on investments. Income on investments consists of interest and dividends from securities and our other investments. We also earn interest income from eligible cash deposits with RBI and inter-bank lending. Our securities portfolio consists primarily of Government of India 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 affected by fluctuations in interest rates as well as the volume of activity.

Our other income consists principally of fee based income, commission, exchange and brokerage income, net profit on sale of investments and gains or losses on foreign exchange transactions. Fee based income includes charges for services such as cash management services and credit-related transactional services and also includes 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 commissions on sales of non-funded products, such as debit cards, mutual funds and insurance products, and commission on collections on behalf of the Government.

Expenses

Our interest expense consists of interest on deposits as well as borrowings. Our interest expense is affected by fluctuations in interest rates, the extent to which we fund our activities with low-interest or non-interest deposits and the extent to which we rely on borrowings.

Our non-interest expense consists principally of operating expenses, including expenses for wages and employee benefits, depreciation on fixed assets, rent paid on premises, insurance, postage and telecommunications, printing and stationery, advertising and publicity, other administrative expenses and other expenses. Provisioning for non-performing assets, depreciation on investments and income tax is included in provisions and contingencies.

Financial Performance Indicators

We use a variety of indicators to measure our performance. These indicators are presented in tabular form in the section titled "Selected Statistical Information" on page 164 of this Red Herring Prospectus. Our net interest income represents our total interest income net of total interest expense. Net interest margin represents the ratio of net interest income to the fortnightly average of total interest earning assets. Our spread represents the difference between the yield on the fortnightly average of interest earning assets and the cost of the fortnightly average of interest bearing liabilities. We calculate average yield on the fortnightly average of advances and average yield on the fortnightly average of investments, as well as the average cost of the fortnightly average of deposits and average cost of the fortnightly average of borrowings. Our cost of funds is the weighted average of the average cost of the fortnightly average of interest bearing liabilities. For the purposes of these averages and ratios, only the interest cost of the unsecured subordinated bonds that we issue for Tier II capital adequacy purposes ("Tier II Bonds") is included in our cost of interest bearing liabilities. In our financial statements, these bonds are accounted for as "other liabilities and provisions" and their interest cost is accounted for under other interest expenses.

The Indian Economy

Our financial condition and results of operations are affected in large measure by general economic conditions prevailing in India. The Indian economy has grown steadily over the past three years. GDP growth was 4.0% in fiscal 2003, 8.5% in fiscal 2004 and 6.9% in fiscal 2005. GDP growth in fiscal 2003 was adversely affected by insufficient rainfall, which contributed to a decrease in agricultural production. GDP growth picked up in fiscal 2004 due to, among other things, agricultural production recovery, resurgence of the industrial sector and continued growth in the services sector. GDP growth was less in fiscal 2005 compared with fiscal 2004 primarily due to a smaller increase in the growth of the agricultural sector.

Industrial growth was 6.2% in fiscal 2003, 6.6% in fiscal 2004 and 8.4% in fiscal 2005. The agriculture sector grew by 5.2% in fiscal 2003, 9.6% in fiscal 2004 and 1.1% in fiscal 2005. We have significant exposure to both the industrial and agricultural sectors and developments in these sectors would impact our results.

The annual rate of inflation, as measured by variations in the wholesale price index (WPI), on a point-to-point basis was, 6.5% in fiscal 2003, 4.6% in fiscal 2004 and 6.01% in fiscal 2005. It was at 6.0% by April 23, 2005 but declined steadily thereafter to 4.6% in October 2005.

In its Mid-term Review of the Annual Policy Statement for 2005-2006 released on October 25, 2005 the RBI forecast GDP growth for fiscal 2006 at 7.0-7.5% (up from a forecast of 7.0% in its annual policy 2005-2006 published on April 28, 2005) and has given an inflation rate forecast of 5.0-5.5%. The average exchange rate of the Indian Rupee to one U.S. Dollar was Rs. 48.27 in fiscal 2003 Rs. 45.83 in fiscal 2004, Rs. 44.89 in fiscal 2005 and Rs. 43.69 for the six months ended September 30, 2005. As at December 15, 2005, the exchange rate was Rs. 45.50 per U.S. Dollar. Foreign exchange reserves were US$ 142.62 billionas at November 4, 2005.

In fiscal 2003 and 2004, there was a general downward movement in interest rates in India, reflecting local and global economic conditions. Banks have generally followed the direction of interest rates set by the RBI and have adjusted both their deposit rates and lending rates downwards. However, the RBI's main influence is on short term interest rates, with long-term rates being more influenced by market conditions. During fiscal 2005, following the general trend of interest rates in the economy, deposit rates in the banking industry also displayed an upward trend. In the six months ended September 30, 2005, interest rates remained stable.

The RBI has maintained a policy of assuring adequate liquidity in the banking system and has generally lowered the rate at which it would lend to Indian banks to ensure that borrowers have access to funding at competitive rates. The RBI's primary motive has been to realign interest rates with the market to facilitate a smooth transition from a government-controlled regime in the early 1990s, when interest rates were heavily regulated, to a market-oriented interest rate regime.

The following table sets forth the bank rate, reverse repo rate, the deposit rate and prime lending rate of Scheduled Commercial Banks as at the dates indicated.

As of	Bank rate	Reverse Repo rate	Deposit rate (as percentages)	Prime lending rate for 5 major banks
March 31, 2003	6.25	5.00	4.25-6.00	10.75-11.50
March 31, 2004	6.00	4.50	4.00-5.25	10.25-11.00
March 31, 2005	6.00	4.75	5.25-6.251	10.25-10.75
September 30, 2005	6.00	5.002	5.25-6.251	10.25-10.75

Source: Reserve Bank of India statistical data.

1. Relates to rates for major banks for term deposits of more than one year maturity.
2. With effect from October 25, 2005, the Reverse Repo Rate stands at 5.25%.

Seasonal trends in the Indian economy affect the banking industry and therefore our business. In the past the period from October to March has been the busy period in India for economic activity and accordingly we have generally experienced high volumes of business during this period. Economic activity in the period from April to September has been generally lower than in the busy period; accordingly, our business volumes are generally lower during this period. However, the seasonal trends experienced in the past have not been evident in the most recent fiscal year.

Global Economic Conditions Affecting our Operations

In recent years, changes in the global economy and an increased integration of the Indian economy with international markets have had an impact on the Indian economy in general and the banking sector in particular. Hardening of yields and rising inflation in US markets have also impacted bond yields in the Indian market.

Critical Accounting Policies

Interest on advances is recognised on an accrual basis except in respect of advances classified as non-performing, where interest income is recognised upon realisation. Prior to March 31, 2004, advances were classified as non-performing if any amount of interest or principal remained overdue for more than 180 days. From March 31, 2004, this period was shortened to 90 days. See also the discussion under the section titled "Selected Statistical Information" on page 164 of this Red Herring Prospectus.

Income from fees, commissions, exchange, brokerage, discount on foreign bills purchased and interest on overdue bills/ advance bills are recognised upon realisation.

In accordance with the RBI guidelines, we classify our investments into three categories. Securities that we intend to hold until maturity are classified as Held to Maturity securities. These securities are recorded on our balance sheet at their acquisition cost and any premium paid to acquire these securities is amortised in our statement of profit and loss over the remaining years to maturity of the securities. For fiscal 2003, fiscal 2004 and part of fiscal 2005, these investments were not allowed to exceed 25% of our total investments. Following a change in the RBI guidelines in September 2004, these investments are not allowed to exceed 25% of our net demand and time liabilities. Securities that are held with the intention to trade by taking advantage of short-term price or interest rate movements are classified as Held for Trading, and securities not falling into either of the first two categories are classified as Available for Sale. Our investments are accounted for under various sub-categories, including government securities, equity shares, preference shares, debentures and bonds, mutual funds and commercial paper. For Held for Trading and Available for Sale securities, any appreciation or depreciation in value is aggregated within each sub-category. We provide for any net depreciation in value and ignore any net appreciation in value.

Gains or losses on the sale of investments are recognised in our profit and loss account. In addition, the amount of gain on the sale of Held to Maturity investments is appropriated to our capital reserve account.

Hedge and non-hedge (market making) transactions are recorded separately. Hedging derivatives are accounted for on an accrual basis. Trading derivative positions are marked-to-market and the resulting losses, if any, are recognized in our profit and loss account. Profit, if any, is not recognized. Income and expenditure relating to interest rate swaps are recognized on the settlement date. Gains/losses on termination of trading swaps are recorded on the termination date as income/ expenditure.

Our policies on provisioning and write-offs of non-performing assets are consistent with those prescribed by the RBI guidelines. The size of our "floating" provision against non-performing assets, however, is determined by our management based on a number of factors, including our net profit position, tax benefits available, management's perception of market risk, expectations and estimates regarding our asset portfolio and its future performance and general prudential principles. As at March 31, 2004, we had provision coverage of 80.16% for our non-performing assets, as at March 31, 2005, we had provision coverage of 88.22% for our non-performing assets and as at September 30, 2005, we had provision coverage of 88.07% for our non-performing assets. Our provisioning policies are discussed in further detail in the section titled "Selected Statistical Information" on page 164 of this Red Herring Prospectus.

Segment Reporting

In line with RBI guidelines on compliance with Accounting Standard 17 - Segment Reporting issued by the Institute of Chartered Accountants of India, we have recognized business segments as our primary reporting segment and geographical segments as our secondary segment. We report Treasury Operations and Other Banking Operations as our two business segments.

Business Segments

For the fiscal year ended March 31, 2005 our Treasury Operations comprised Rs. 13,154.30 million or 43.46% of our total revenue and our other banking operations comprised Rs. 17,113.80 million or 56.54% of our total revenue. For the six months ended September 30, 2005 revenue from our Treasury Operations comprised Rs. 5,194.30 million or 35.88% of our total revenue and our other Banking Operation comprised Rs. 9,282.30 million or 64.12% of our total revenue. Set forth below is a table showing our revenue from our Treasury Operations and Other Banking Operations and total revenue for fiscal 2003, 2004 and 2005 and the six months ended September 30, 2004 and 2005.

(Rs. in million)

	Fiscal 2003	**Fiscal 2004**	**Fiscal 2005**	**Six months ended September 30, 2004**	**Six months ended September 30, 2005**
			(Rs. in million)		
Business Segment Revenue					
Treasury Operations	13,620.10	14,041.50	13,154.30	7,731.10	5,194.30
Other Banking Operations	14,366.50	15,011.50	17,113.80	8,109.60	9,282.30
Total Revenue	27,986.60	29,053.00	30,268.10	15,840.70	14,476.60

Results of Operations

Six months ended September 30, 2005 Compared with the Six months ended September 30, 2004

Our total income decreased by 8.61% from Rs. 15,840.69 million in the six months ended September 30, 2004 to Rs. 14,476.64 million in the six months ended September 30, 2005 and our total expenditure increased by 15.83% from Rs. 9,512.35 million in the six months ended September 30, 2004 to Rs. 11,017.86 million in the six months ended September 30, 2005. Our operating profit decreased by 45.34% from Rs. 6,328.34 million in the six months ended September 30, 2004 to Rs. 3,458.78 million in the six months ended September 30, 2005. Our total income, operating profit and net profit income decreased mainly due to lower profit on sale of investments. Our net profit decreased by 29.31% from Rs. 2,876.13 million in the six months ended September 30, 2004 to Rs. 2,033.14 million in the six months ended September 30, 2005.

<u>Net Interest Income</u>

Our net interest income increased by 4.0% from Rs. 5,412.55 million in the six months ended September 30, 2004 to Rs. 5,629.01 million in the six months ended September 30, 2005. The following table sets forth the components of our net interest income:

	Six months ended September 30,	
	2004	2005
	(in Rs. million)	
Interest income	11,281.44	12,525.42
Interest expense	5,868.89	6,896.41
Net interest income	5,412.55	5,629.01

The increase in net interest income was primarily due to 11.03% increase in total interest income from Rs. 11,281.44 million in the six months ended September 30, 2004 to Rs. 12,525.42 million in the six months ended September 30, 2005, offset by an 17.51% increase in interest expense.

Net interest margin decreased from 4.21% in the six months ended September 30, 2004 to 3.62% in the six months ended September 30, 2005 and our spread decreased from 3.82% in the six months ended September 30, 2004 to 3.15% in the six months ended September 30, 2005.

Interest Income

The following table sets forth the components of our interest income:

	Six months ended September 30,	
	2004	2005
	(in Rs. million)	
Interest and Discount on advances/bills	6,556.70	8,369.81
Income on Investment	4,211.69	3,777.53
Interest on balance with RBI and other Inter Bank Lending	396.98	368.78
Interest on Income Tax Refund	116.05	9.30
Others	0.02	-
Total interest income	11,281.44	12,525.42

Interest and discount on advances and bills increased by 27.65% from Rs. 6,556.70 million in the six months ended September 30, 2004 to Rs. 8,369.81 million in the six months ended September 30, 2005, reflecting a 33.13% increase in our average advances from Rs. 134,447.50 million in the six months ended September 30, 2004 to Rs. 178,986.50 million in the six months ended September 30, 2005 and decrease in average yield from 9.75% to 9.35%. Income on investment decreased by 10.31% from Rs. 4,211.69 million in the six months ended September 30, 2004 to Rs. 3,777.53 million in the six months ended September 30, 2005, due to a change in the mix of our investments toward lower coupon securities to bring down the average maturity of the portfolio.

Interest on balances with the RBI and other inter-bank lending decreased slightly from Rs. 396.98 million in the six months ended September 30, 2004 to Rs. 368.78 million in the six months ended September 30, 2005 because of a decrease in volume of inter-bank placements.

Interest on income tax refund in the six months ended September 30, 2005 was Rs. 9.30 million, compared to an income tax refund of Rs. 116.05 million for the six months ended September 30, 2004.

Interest Expense

Our interest expense increased by 17.51% from Rs. 5,868.89 million in the six months ended September 30, 2004 to Rs. 6,896.41 million in the six months ended September 30, 2005, mainly due to an increase in volume of deposits partially offset by a decrease in average cost of funds.

Our average deposits increased by 17.85% from Rs. 223,972.70 million in the six months ended September 30, 2004 to Rs. 263,952.10 million in the six months ended September 30, 2005. Our average cost of deposits declined from 4.91% in the six months ended September 30, 2004 to 4.78% in the six months ended September 30, 2005 due to the replacement of high cost deposits with lower cost deposits. Average cost of funds decreased from 4.96% in the six months ended September 30, 2004 to 4.91% in the six months ended September 30, 2005.

Our other interest expense increased by 30.35% from Rs. 230.79 million in the six months ended September 30, 2004 to Rs. 300.84 million in the six months ended September 30, 2005 mainly due to the issuance of Rs. 2,000 million Tier II bonds in January 2005.

Other Income

Our other income decreased by 57.20% from Rs. 4,559.25 million in the six months ended September 30, 2004 to Rs. 1,951.22 million in the six months ended September 30, 2005. The following table sets forth the components of our other income:

	Six months ended September 30,	
	2004	**2005**
	(in Rs. million)	
Commission, Exchange and Brokerage	612.92	801.44
Profit on sale of investments (net)	3,007.01	330.87
Profit on sale of land, buildings and other assets (net)	1.10	3.78
Profit on exchange transaction (net)	115.39	134.83
Income earned by way of dividends, etc., from subsidiaries and associates	44.86	48.23
Miscellaneous Income	777.97	694.67
Profit on revaluation of investments (net)	0.00	(62.60)
Total other income	4,559.25	1,951.22

Income from commissions, exchange and brokerage increased by 30.76% from Rs. 612.92 million in the six months ended September 30, 2004 to Rs. 801.44 million in the six months ended September 30, 2005. This increase was mainly due to an increase in the volume of this business.

Net profit on the sale of investments decreased by 89.0% from Rs. 3,007.01 million in the six months ended September 30, 2004 to Rs. 330.87 million in the six months ended September 30, 2005. This was due to rising yields on fixed income securities, which impacted our ability to sell our investments profitably. Net profit from foreign exchange transactions increased slightly from Rs. 115.39 million in the six months ended September 30, 2004 to Rs. 134.83 million in the six months ended September 30, 2005.

Miscellaneous income includes recovery of bad debts previously written off, incidental charges such as account keeping fees and locker rental. Miscellaneous income decreased by 10.71% from Rs. 777.97 million in the six months ended September 30, 2004 to Rs. 694.67 million in the six months ended September 30, 2005. This decrease was primarily due to lower recovery of bad debts previously written off.

Operating Expenses

Total operating expenses increased from Rs. 3,643.46 million in the six months ended September 30, 2004 to Rs. 4,121.45 million in the six months ended September 30, 2005. As a percentage of our total income, operating expenses increased to 28.47% in the six months ended September 30, 2005 compared with 23.0% in the six months ended September 30, 2004.

	Six months ended September 30,	
	2004	**2005**
	(in Rs. million)	
Payment to and provision for employees	2,336.34	2,436.19
Rent, Taxes and Lighting	260.21	397.22
Printing and Stationery	51.10	49.48
Advertisement and publicity	30.88	37.02
Depreciation on Banks Properties	278.47	305.67
Directors’ Fees, Allowances and Expenses	1.87	1.60
Auditor’s Fees and Expenses	39.60	41.59

Law Charges	8.86	8.48
Postage, Telegrams, Telephones, etc.	60.02	77.64
Repairs and Maintenance	107.30	134.65
Insurance	106.81	155.87
Other Expenditure	362.00	476.04
Total Operating Expenses	3,643.46	4,121.45

The primary component of our operating expenses was payments to and provision for employees, which increased slightly from Rs. 2,336.34 million in the six months ended September 30, 2004 to Rs. 2,436.19 million in the six months ended September 30, 2005. As a percentage of total income, payments to and provision for employees increased to 16.83% in the six months ended September 30, 2005 from 14.75% in the six months ended September 30, 2004. We had 13,082 employees as at September 30, 2004 and 13,136 employees as at September 30, 2005.

Expenses for rent, taxes and lighting increased by 52.65% from Rs. 260.21 million in the six months ended September 30, 2004 to Rs. 397.22 million in the six months ended September 30, 2005 primarily due to the introduction in September 2004 of a service tax on service charges collected by banks for its various services.

Insurance expenses increased 45.93% from Rs. 106.81 million in the six months ended September 30, 2004 to Rs. 155.87 million in the six months ended September 30, 2005 due to an increase in the DICGC premium on deposit insurance and because of an increase in the volume of our deposits.

Our other expenditure includes, among others things, travelling and conveyance expenses, ATM security, computer software and maintenance charges. Other expenditure increased by 31.50% from Rs. 362.00 million in the six months ended September 30, 2004 to Rs. 476.04 million in the six months ended September 30, 2005.

Operating Profit

As a result of the foregoing factors, operating profit (before provisions and contingencies) decreased by 45.34% from Rs. 6,328.34 million in the six months ended September 30, 2004 to Rs. 3,458.78 million in the six months ended September 30, 2005. Operating profit as a percentage of total income decreased from 39.95% in the six months ended September 30, 2004 to 23.89% in the six months ended September 30, 2005.

Provisions and Contingencies

Provisions and contingencies made in the six months ended September 30, 2005 decreased by 58.70% to Rs. 1,425.63 million compared with Rs. 3,452.21 million in the six months ended September 30, 2004. The following table sets forth, for the periods indicates, the components of our provisions and contingencies:

	Six months ended September 30,	
	2004	**2005**
	(in Rs. million)	
Provision for Non Performing Advances	630.00	0.00
Provision for Standard Advances	35.00	30.00
Depreciation on Investments	1,586.78	231.75
Provisions for Taxes	1,135.00	830.00
Others	65.43	323.80
Provision for restructured standard accounts	00.00	10.08
Total provisions and contingencies.	3,452.21	1,425.63

Our provisioning in respect of non-performing advances decreased significantly from Rs. 630.00 million in the six months ended September 30, 2004 to nil in the six months ended September 30, 2005. This decrease was due to an improvement in the quality of our assets.

Depreciation on investments also decreased significantly, from Rs. 1,586.78 million in the six months ended September 30, 2004 to Rs. 231.75 million in the six months ended September 30, 2005 because of the Rs. 1,532.50 million provision made for Rs. 46,625.50 million securities transferred from the Available for Sale category to the Held to Maturity category during September 2004 as a special measure permitted by the RBI to all banks.

Our provision for income, wealth and fringe benefit tax decreased by 26.87% from provisions of Rs. 1,135.00 million in the six months ended September 30, 2004 to Rs. 830.00 million in the six months ended September 30, 2005, which was primarily due to lower profit for the period compared with the previous period.

Other provisioning increased significantly from Rs. 65.43 million in the six months ended September 30, 2004 to Rs. 323.80 million in the six months ended September 2005 due to an increase in provisions for amortization on securities in the Held to Maturity category.

Net Profit

As a result of the foregoing factors, our net profit decreased by 29.31% from Rs. 2,876.13 million in the six months ended September 30, 2004 to Rs. 2,033.14 million in the six months ended September 30, 2005. As a percentage of total income, our net profit decreased from 18.16% in the six months ended September 30, 2004 to 14.04% in the six months ended September 30, 2005.

Fiscal Year Ended March 31, 2005 Compared with the Fiscal Year Ended March 31, 2004

Our total income increased marginally from Rs. 29,053.05 million in fiscal 2004 to Rs. 30,268.10 million in fiscal 2005 and our total expenditure decreased slightly from Rs. 20,109.08 million in fiscal 2004 to Rs. 19,717.86 million in fiscal 2005. Our operating profit increased by 17.96% from Rs. 8,943.97 million in fiscal 2004 to Rs. 10,550.24 million in fiscal 2005. Our net profit increased by 36.11% from Rs. 4,277.25 million in fiscal 2004 to Rs. 5,821.94 million in fiscal 2005.

Net Interest Income

Our net interest income increased by 17.40% from Rs. 9,105.83 million in fiscal 2004 to Rs. 10,690.42 million in fiscal 2005. The following table sets forth the components of our net interest income:

	Year ended March 31,	
	2004	**2005**
	(in Rs. million)	
Interest income	22,272.58	22,734.60
Interest expense	13,166.75	12,044.18
Net interest income	9,105.83	10,690.42

The increase in net interest income was primarily due to a 8.53% decrease in interest expense from Rs. 13,166.75 million in fiscal 2004 to Rs. 12,044.18 million in fiscal 2005.

Our average interest earning assets increased by 12.61% from Rs. 240,308.00 million in fiscal 2004 to Rs. 270,613.0 million in fiscal 2005. Our net interest margin increased from 3.79% in fiscal 2004 to 3.95% in fiscal 2005 and our spread increased from 3.40% in fiscal 2004 to 3.51% in fiscal 2005.

Interest Income

The following table sets forth the components of our interest income:

	Year ended March 31,	
	2004	**2005**
	(in Rs. million)	
Interest and Discount on advances/bills	12,308.20	13,586.02
Income on Investment	9,511.57	8,232.70
Interest on balance with RBI and other Inter Bank Lending	367.46	775.60
Interest on Income Tax	85.45	140.81
Others	(0.10)	(0.53)
Total interest income	22,272.58	22,734.60

Interest and discount on advances and bills increased by 10.38% from Rs. 12,308.20 million in fiscal 2004 to Rs. 13,586.02 million in fiscal 2005, reflecting a 23.16% increase in average advances from Rs. 116,959.00 million in fiscal 2004 to Rs. 144,049.00 million in fiscal 2005. The average yield on advances decreased from 10.52% to 9.43%. The decrease in average yield was due to general reduction in market interest rates.

Income from investments decreased by 13.45% from Rs. 9,511.57 million in fiscal 2004 to Rs. 8,232.70 million in fiscal 2005. Our average investments decreased by 5.10% from Rs. 106,600.0 million in fiscal 2004 to Rs. 101,121.8 million in fiscal 2005. This decrease was due to credit expansion. Average yield on our investments decreased from 8.92% in fiscal 2004 to 8.14% in fiscal 2005, due to a change in the mix of our investments toward lower coupon short-term securities to bring down the average maturity of the portfolio.

Interest on balances with the RBI and other inter-bank lending increased by 111.07% from Rs. 367.46 million in fiscal 2004 to Rs. 775.60 million in fiscal 2005. This change was because of an increase in volume of inter-bank placements as well as higher earnings from the money market.

Interest Expense

Our interest expense decreased by 8.53% from Rs. 13,166.75 million in fiscal 2004 to Rs. 12,044.18 million in fiscal 2005. This fall has been primarily due to fall in the average cost of deposits from 5.87% to 4.86%, despite a 20.01% increase in our overall deposits from Rs. 229,405.20 million in fiscal 2004 to Rs. 275,507.10 million in fiscal 2005.

The fall in the average cost of deposits reflected a general decline in market interest rates and our focus on increasing the share of low cost deposits. The average cost of funds decreased from 5.87% in fiscal 2004 to 4.89% in fiscal 2005.

Our other interest expense, which consists mainly of interest on unsecured bonds for Tier-II capital, increased by 7.44% from Rs. 460.32 million in fiscal 2004 to Rs. 494.56 million in fiscal 2005, due to the issuance of Rs. 2,000 million Tier II bonds in January 2005.

Other Income

Our other income increased by 11.11%, from Rs. 6,780.47 million in fiscal 2004 to Rs. 7,533.50 million in fiscal 2005. The following table sets forth the components of our other income:

	Year ended March 31,	
	2004	**2005**
	(in Rs. million)	
Commission, Exchange and Brokerage	1,159.11	1,390.39
Profit on sale of investments (Net)	4,063.16	3,855.09
Profit on sale of land, buildings and other assets (Net)	2.42	0.22
Profit on revaluation of investments (Net)	(45.60)	0.00
Profit on exchange transaction (Net)	200.61	284.52
Income earned by way of dividends etc. from subsidiaries/companies/joint ventures in India	147.60	99.37
Miscellaneous Income	1,253.17	1,903.91
Total other income	6,780.47	7,533.50

Net profit on the sale of investments decreased by 5.12% from Rs. 4,063.16 million in fiscal 2004 to Rs. 3,855.09 million in fiscal 2005. This was due to rising yields on fixed income securities, which impacted our ability to sell our investments profitably. Net profit from foreign exchange transactions increased from Rs. 200.61 million in fiscal 2004 to Rs. 284.52 million in fiscal 2005, mainly due to increased business activity in this area.

Our miscellaneous income includes incidental income from services charges, minimum balance charges, up front-fees and other account keeping fees and recovery of bad debts previously written off. Our miscellaneous income increased by 51.93% from Rs. 1,253.17 million in fiscal 2004 to Rs. 1,903.91 million in fiscal 2005. This was mainly due to an increase in the recovery of bad debts previously written off from Rs. 316.45 million in fiscal 2004 to Rs. 632.10 million in fiscal 2005.

Operating Expenses

Total operating expenses increased by 10.53% from Rs. 6,942.33 million in fiscal 2004 to Rs. 7,673.68 million in fiscal 2005. As a percentage of our total income, operating expenses increased to 25.35% in fiscal 2005 compared with 23.90% in fiscal 2004. Set forth below are the details of our total operating expenses for fiscal 2004 and fiscal 2005.

	Year ended March 31,	
	2004	**2005**
	(in Rs. million)	
Payment to and provision for employees	4,440.44	4,762.87
Rent, Taxes and Lighting	467.56	630.56
Printing and Stationery	95.17	112.78
Advertisement and publicity	90.84	91.91
Depreciation on Banks Properties (net of amounts adjusted against revaluation reserve)	611.00	600.09
Director's Fees, Allowances and Expenses	3.20	3.58
Auditor's Fees and Expenses	76.09	77.69
Law Charges	17.19	22.50
Postage, Telegrams, Telephones etc.	97.20	119.61
Repairs and Maintenance	149.48	218.61
Insurance	151.23	225.77
Other Expenditure	742.93	807.71
Total Operating Expenses	6,942.33	7,673.68

The primary component of our operating expenses was payments to and provision for employees, which increased from Rs. 4,440.44 million in fiscal 2004 to Rs. 4,762.87 million in fiscal 2005. We had 13,095 employees as at March 31, 2004 and 13,108 employees as at March 31, 2005. As a percentage of total income, payments to and provision for employees remained relatively stable at 15.74% in fiscal 2005 from 15.28% in fiscal 2004.

Expenses for rent, taxes and lighting increased by 34.86% from Rs. 467.56 million fiscal 2004 to Rs. 630.56 million in fiscal 2005 mainly due to the introduction in September 2004 of a service tax on service charges collected by banks for its various services.

Depreciation expenses on our property including our fixed assets such as furniture, fixtures and computers, decreased slightly from Rs. 611.0 million in fiscal 2004 to Rs. 600.09 million in fiscal 2005.

Insurance expenses increased by 49.29% from Rs. 151.23 million in fiscal 2004 to Rs. 225.77 million in fiscal 2005 due to an increase in the DICGC premium on deposit insurance and because of an increase in the volume of our deposits.

Other expenditure increased by 8.72% from Rs. 742.93 million in fiscal 2004 to Rs. 807.71 million in fiscal 2005. The primary reason for this increase was due to an increase in the number of ATMs and a corresponding increase in maintenance costs.

Operating Profit

As a result of the foregoing factors, our operating profit (before provisions and contingencies) increased by 17.96% from Rs. 8,943.97 million in fiscal 2004 to Rs. 10,550.24 million in fiscal 2005. As a percentage of total income, our operating profit increased from 30.78% in fiscal 2004 to 34.86% in fiscal 2005.

Provisions and Contingencies

Provisions and contingencies made in fiscal 2005 increased by 1.32% from Rs. 4,666.72 million in fiscal 2004 to Rs. 4,728.30 million in fiscal 2005. The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

	Year ended March 31,	
	2004	**2005**
	(in Rs. million)	
Provision for Non Performing Advances	2,425.30	124.04
Provision for Standard Advances	35.00	120.00
Depreciation on Investments	(74.06)	1,665.19
Provisions for Income Tax	2,240.85	2,227.70
Provision for Restructured Standard Accounts	0.00	12.85
Others	39.63	578.52
Total provisions and contingencies	4,666.72	4,728.30

Our provisioning in respect of non-performing advances decreased substantially from Rs. 2,425.30 million in fiscal 2004 to Rs. 124.04 million in fiscal 2005. This decrease was due to an improvement in our asset quality and a significant reduction in our gross NPAs from Rs. 6,153.7 million in fiscal 2004 to Rs. 4,409.3 million in fiscal 2005.

Our provisioning for depreciation on investments increased substantially from Rs. (74.06) million in fiscal 2004, to Rs. 1,665.19 million in fiscal 2005. The provision for depreciation in investments in fiscal 2005 was mainly due to the Rs. 1,532.50 million provision made for Rs. 46,625.50 million securities transferred from the Available for Sale category to the Held to Maturity category during September 2004 as a special measure permitted by the RBI to all banks.

Our other provisions increased substantially from Rs. 39.63 million in fiscal 2004 to Rs. 578.52 million in fiscal 2005. This increase was due to an increase in provisions for amortization on securities in the Held to Maturity category.

Net Profit

As a result of the foregoing factors, our net profit increased by 36.10% from Rs. 4,277.25 million in fiscal 2004 to Rs. 5,821.94 million in fiscal 2005. As a percentage of total income, our net profit increased from 14.72% in fiscal 2004 to 19.23% in fiscal 2005.

Fiscal Year Ended March 31, 2004 compared with the Fiscal Year Ended March 31, 2003

Our total income increased by 3.81% from Rs. 27,986.62 million in fiscal 2003 to Rs. 29,053.05 million in fiscal 2004 and our total expenditure decreased slightly from Rs. 20,518.14 million in fiscal 2003 to Rs. 20,109.08 million in fiscal 2004. Our operating profit increased by 19.76% from Rs. 7,468.48 million in fiscal 2003 to Rs. 8,943.97 million in fiscal 2004. Our net profit increased by 8.29% from Rs. 3,950.05 million in fiscal 2003 to Rs. 4,277.25 million in fiscal 2004.

<u>Net Interest Income</u>

Our net interest income increased by 20.93% from Rs. 7,529.68 million in fiscal 2003 to Rs. 9,105.83 million in fiscal 2004. The following table sets forth the components of our net interest income:

	Year ended March 31,	
	2003	**2004**
	(in Rs. million)	
Interest income	21,950.22	22,272.58
Interest expense	14,420.54	13,166.75
Net interest income	7,529.68	9,105.83

The increase in net interest income was due to an 8.69% decrease in interest expense and a 1.47% increase in interest income.

Our average interest earning assets increased by 11.68% from Rs. 215,182.0 million in fiscal 2003 to Rs. 240,308.0 million in fiscal 2004. Our net interest margin increased from 3.50% in fiscal 2003 to 3.79% in fiscal 2004 and our spread increased from 3.02% in fiscal 2003 to 3.40% in fiscal 2004.

Interest Income

The following table sets forth the components of our interest income:

	Year ended March 31,	
	2003	2004
	(in Rs. million)	
Interest and Discount on advances/bills	12,223.81	12,308.20
Income on Investment	9,154.93	9,511.57
Interest on balance with RBI and other Inter Bank Lending	542.80	367.46
Interest on Income Tax	28.42	85.45
Others	0.26	(0.10)
Total interest income	21,950.22	22,272.58

Interest and discount on advances and bills increased marginally from Rs. 12,223.81 million in fiscal 2003 to Rs. 12,308.20 million in fiscal 2004, reflecting a decrease in the average yield on our advances from 11.64% in fiscal 2003 to 10.52% in fiscal 2004. This decrease was due to market conditions. The decrease in average yield offset a 14.89% increase in our average advances from Rs. 101,804.20 million in fiscal 2003 to Rs. 116,959.0 million in fiscal 2004.

Investment income increased by 3.90% from Rs. 9,154.93 million in fiscal 2003 to Rs. 9,511.57 million in fiscal 2004. Our average investments increased by 15.02% from Rs. 92,683.5 million in fiscal 2003 to Rs. 106,600.0 million in fiscal 2004 because a slowdown in the deployment of credit resulted in excess funds being invested. Average yield on our investments decreased from 9.97% in fiscal 2003 to 8.92% in fiscal 2004, reflecting a decline in market rates of interest.

Interest on balances with the RBI and other inter-bank lending decreased by 32.30% from Rs. 542.80 million in fiscal 2003 to Rs. 367.46 million in fiscal 2004, reflecting a decline in interest rates and reduced money market activities.

Interest Expense

Our interest expense decreased by 8.69% from Rs. 14,420.54 million in fiscal 2003 to Rs. 13,166.75 million in fiscal 2004, mainly due to a reduction in the interest paid on deposits and an emphasis on behalf of the Bank to attract low cost deposits. Interest paid on deposits decreased by 9.02% from Rs. 13,617.17 million in fiscal 2003 to Rs. 12,389.26 million in fiscal 2004. Our total deposits increased by 8.92% from Rs.210,618.47 million in fiscal 2003 to Rs. 229,405.20 million in fiscal 2004. Our average cost of deposits declined from 7.15% in fiscal 2003 to 5.87% in fiscal 2004 due to rise in the percentage of low cost deposits (Current and Savings bank deposits) from 30.53% in fiscal 2003 to 37.34% in 2004 and average cost of funds decreased from 7.18% in fiscal 2003 to 5.87% in fiscal 2004.

Our other interest expense increased from Rs. 407.06 million in fiscal 2003 to Rs. 460.32 million in fiscal 2004 due to the issuance of Tier II bonds worth Rs. 1,400 million in September 2002 on which interest expenses in fiscal 2003 were incurred for about six months.

Other Income

Our other income increased by 12.3% from Rs. 6,036.40 million in fiscal 2003 to Rs. 6,780.47 million in fiscal 2004. The following table sets forth the components of our other income:

	Year ended March 31,	
	2003	2004
	(in Rs. million)	
Commission, Exchange Brokerage	997.60	1,159.11
Profit on sale of investments (Net)	3,949.28	4,063.16
Profit on revaluation of investments (Net)	(0.64)	(45.60)
Profit on sale of land, building. and other assets (Net)	3.74	2.42
Profit on exchange transaction (Net)	185.11	200.61

Income earned by way of dividends, etc., from subsidiaries/companies/Associates	40.86	147.60
Miscellaneous Income	860.45	1,253.17
Total other income	6,036.40	6,780.47

Profit on the sale of investments increased by 2.88% from Rs. 3,949.28 million in fiscal 2003 to Rs. 4,063.16 million in fiscal 2004. This was due to a softer interest rate scenario in fiscal 2004.

Income from commission and exchange brokerage increased by 16.19% from Rs. 997.60 million in fiscal 2003 to Rs. 1,159.11 million in fiscal 2004. This increase was due to a general increase in the volume of this business.

Miscellaneous income increased by 45.64% from Rs. 860.45 million in fiscal 2003 to Rs. 1,253.17 million in fiscal 2004. This increase was primarily due to an increase in the recovery of bad debts previously written off from Rs. 169.43 million in fiscal 2003 to Rs. 316.45 million in fiscal 2004.

Operating Expenses

Total operating expenses increased from Rs. 6,097.60 million in fiscal 2003 to Rs. 6,942.33 million in fiscal 2004. As a percentage of our total income, operating expenses also increased to 23.90% in fiscal 2004 compared with 21.79% in fiscal 2003.

	Year ended March 31,	
	2003	**2004**
	(in Rs. million)	
Payment to and provision for employees	4,106.76	4,440.44
Rent, Taxes and Lighting	366.55	467.56
Printing and Stationery	79.85	95.17
Advertisement and publicity	62.20	90.84
Depreciation on Banks Properties (net of amounts adjusted against revaluation reserve)	462.12	611.00
Director's Fees, Allowances and Expenses	1.72	3.20
Auditor's Fees and Expenses	54.03	76.09
Law Charges	24.38	17.19
Postage, Telegrams, Telephones etc.	75.39	97.20
Repairs and Maintenance	109.27	149.48
Insurance	126.14	151.23
Other Expenditure	629.19	742.93
Total Operating Expenses	6,097.60	6,942.33

The primary component of our operating expenses was payments to and provision for employees, which increased from Rs. 4,106.76 million in fiscal 2003 to Rs. 4,440.44 million in fiscal 2004. As a percentage of total income, payments to and provision for employees increased from 14.67% in fiscal 2003 to 15.28% in fiscal 2004. We had 12,991 employees as at March 31, 2003 and 13,095 employees as at March 31, 2004.

Depreciation expense of the bank's properties increased by 32.22% from Rs. 462.12 million in fiscal 2003 to Rs. 611.0 million in fiscal 2004.

Other expenditure increased by 18.08% at Rs. 629.19 million in fiscal 2003 to Rs. 742.93 million in fiscal 2004.

Operating Profit

Due to the factors described above, operating profit (before provisions and contingencies) increased by 19.76% from Rs. 7,468.48 million in fiscal 2003 to Rs. 8,943.97 million in fiscal 2004. As a percentage of total income, our operating profit increased from 26.69% in fiscal 2003 to 30.78% in fiscal 2004.

Provisions and Contingencies

Provisions and contingencies made in fiscal 2004 increased by 32.64% to Rs. 4,666.72 million compared with Rs. 3,518.43 million in fiscal 2003. The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

	Year ended March 31,	
	2003	2004
	(in Rs. million)	
Provision for Non Performing Advances	1,694.30	2,425.30
Provision for Standard Advances	70.70	35.00
Depreciation on Investments	(14.40)	(74.06)
Provisions for Income Tax	1,691.50	2,240.85
Others	76.33	39.63
Total provisions and contingencies	3,518.43	4,666.72

Our provisioning in respect of non-performing advances increased by 43.14% from Rs. 1,694.30 million in fiscal 2003 to Rs. 2,425.30 million in fiscal 2004. This was due to the change in the delinquency norms for recognizing NPAs from 180 days in fiscal 2003 to 90 days in fiscal 2004.Our other provisions decreased from Rs. 76.33 million in fiscal 2003 to Rs. 39.63 million in fiscal 2004, which was primarily due to a decrease in provisions for amortization on securities in the Held to Maturity category.

Our provision for income tax increased by 32.48% from Rs. 1,691.50 million in fiscal 2003 to Rs. 2,240.85 million in fiscal 2004, which was primarily due to the increase in our profit.

Net Profit

As a result of the foregoing factors, our net profit increased by 8.28% from Rs. 3,950.05 million in fiscal 2003 to Rs. 4,277.25 million in fiscal 2004. As a percentage of total income, our net profit increased slightly from 14.11% in fiscal 2003 to 14.72% in fiscal 2004.

Fiscal Year Ended March 31, 2003 compared with the Fiscal Year Ended March 31, 2002

Our total income increased by 19.92% from Rs. 23,338.50 million in fiscal 2002 to Rs. 27,986.62 million in fiscal 2002 and our total expenditure increased from Rs. 19,069.64 million in fiscal 2002 to Rs. 20,518.14 million in fiscal 2003. Our operating profit increased by 74.95% from Rs. 4,268.86 million in fiscal 2002 to Rs. 7,468.48 million in fiscal 2003. Our net profit increased by 93.84% from Rs. 2,037.79 million in fiscal 2002 to Rs. 3,950.05 million in fiscal 2003.

Net Interest Income

Our net interest income increased by 30.87% from Rs. 5,753.43 million in fiscal 2002 to Rs. 7,529.68 million in fiscal 2003. The following table sets forth the components of our net interest income:

	Year ended March 31,	
	2002	2003
	(in Rs. million)	
Interest income	20,298.26	21,950.22
Interest expense	14,544.83	14,420.54
Net interest income	5,753.43	7,529.68

The increase in net interest income was due to a 0.85% decrease in interest expense and an 8.14% increase in interest income.

Our average interest earning assets increased by 16.22% from Rs. 185,145.0 million in fiscal 2002 to Rs. 215,182.0 million in fiscal 2003. Our net interest margin increased from 3.11% in fiscal 2002 to 3.50% in fiscal 2003 and our spread increased from 2.68% in fiscal 2002 to 3.02% in fiscal 2003.

Interest Income

The following table sets forth the components of our interest income:

	Year ended March 31,	
	2002	2003
	(in Rs. million)	
Interest and Discount on advances/bills	9,809.53	12,223.81
Income on Investment	9,886.35	9,154.93
Interest on balance with RBI and other Inter Bank Lending	526.10	542.80
Interest on Income Tax	76.15	28.42
Others	0.13	0.26
Total interest income	20,298.26	21,950.22

Interest and discount on advances and bills increased from Rs. 9,809.53 million in fiscal 2002 to Rs. 12,223.81 million in fiscal 2003, reflecting a 25.14% increase in our average advances from Rs. 81,355.20 million in fiscal 2002 to Rs. 101,804.20 million in fiscal 2003. The increase in average advances was offset by a decrease in the average yield on our advances from 12.03% in fiscal 2002 to 11.64% in fiscal 2003. This decrease was due to market conditions.

Investment income decreased by 7.40% from Rs. 9,886.35 million in fiscal 2002 to Rs. 9,154.93 million in fiscal 2003. Our average investments increased by 3.05% from Rs. 91,882.44 million in fiscal 2002 to Rs. 94,684.00 million in fiscal 2003. Average yield on our investments decreased from 11.92% in fiscal 2002 to 9.97% in fiscal 2003, reflecting a decline in market rates of interest.

Interest on balances with the RBI and other inter-bank lending increased by 3.17% from Rs. 526.10 million in fiscal 2002 to Rs. 542.80 million in fiscal 2003.

Interest Expense

Our interest expense decreased by 0.85% from Rs. 14,544.83 million in fiscal 2002 to Rs. 14,420.54 million in fiscal 2003, mainly due to a reduction in the interest paid on deposits and an emphasis by the Bank on attracting low cost deposits. Interest paid on deposits decreased by 3.02% from Rs. 14,040.95 million in fiscal 2002 to Rs. 13,617.17 million in fiscal 2003 despite a 13.90% increase in total deposits from Rs. 184,907.67 million in fiscal 2002 to Rs. 210,618.47 million in fiscal 2003. Similarly, our average cost of deposits declined from 8.20% in fiscal 2002 to 7.15% in fiscal 2003 due to rise in the percentage of low cost deposits from 28.31% in fiscal 2002 to 30.53% in 2003. Our average cost of funds also decreased from 8.28% in fiscal 2002 to 7.18% in fiscal 2003.

Our other interest expense increased from Rs. 303.74 million in fiscal 2002 to Rs. 407.06 million in fiscal 2003, primarily due to the issuance of Tier II bonds worth Rs. 1,400 million in September 2002.

Other Income

Our other income increased by 98.55% from Rs. 3,040.24 million in fiscal 2002 to Rs. 6,036.40 million in fiscal 2003. The following table sets forth the components of our other income:

	Year ended March 31,	
	2002	2003
	(in Rs. million)	
Commission, Exchange Brokerage	881.47	997.60
Profit on sale of investments (Net)	1,360.16	3,949.28
Profit on revaluation of investments (Net)	0.00	(0.64)
Profit on sale of land, building and other assets (Net)	0.49	3.74
Profit on exchange transaction (Net)	158.89	185.11
Income earned by way of dividends, etc., from subsidiaries/companies/Associates	46.77	40.86
Miscellaneous Income	592.46	860.45
Total other income	3,040.24	6,036.40

Profit on the sale of investments increased by 190.35% from Rs. 1,360.16 million in fiscal 2002 to Rs. 3,949.28 million in fiscal 2003. This was due to soft interest regime and low returns on government securities, interest rates having reduced and the favourable market conditions improving our ability to sell the securities profitably.

Income from commission and exchange brokerage increased by 13.17% from Rs. 881.47 million in fiscal 2002 to Rs. 997.60 million in fiscal 2003. This increase was due to a general increase in the volume of business.

Miscellaneous income increased by 45.23% from Rs. 592.46 million in fiscal 2002 to Rs. 860.45 million in fiscal 2003. This increase was due to an increase in the recovery of bad debts previously written off from Rs. 112.09 million in fiscal 2002 to Rs. 169.43 million in fiscal 2003 and also due to increase in general business.

Operating Expenses

Total operating expenses increased from Rs. 4,524.81 million in fiscal 2002 to Rs. 6,097.60 million in fiscal 2003. As a percentage of our total income, operating expenses increased to 21.79% in fiscal 2003 compared with 19.39% in fiscal 2002.

	Year ended March 31,	
	2002	**2003**
	(in Rs. million)	
Payment to and provision for employees	3,077.30	4,106.76
Rent, Taxes and Lighting	272.86	366.55
Printing and Stationery	64.63	79.85
Advertisement and publicity	19.57	62.20
Depreciation on Banks Properties (net of amounts adjusted against revaluation reserve)	321.64	462.12
Director's Fees, Allowances and Expenses	1.09	1.72
Auditor's Fees and Expenses	48.58	54.03
Law Charges	23.71	24.38
Postage, Telegrams, Telephones etc.	41.76	75.39
Repairs and Maintenance	87.47	109.27
Insurance	107.31	126.14
Other Expenditure	458.89	629.19
Total Operating Expenses	4,524.81	6,097.60

The primary component of our operating expenses was payments to and provision for employees, which increased from Rs. 3,077.30 million in fiscal 2002 to Rs. 4,106.76 million in fiscal 2003 mainly due to a change in RBI guidelines that required us to increase our provisions for employee pension funds, gratuities and leave entitlements on an accrual basis as per actuarial valuation. This increased our expenses for provisions to employees by an aggregate of Rs. 725.12 million. As a percentage of total income, payments to and provision for employees increased from 13.19% in fiscal 2002 to 14.67% in fiscal 2003. We had 12,800 employees as at March 31, 2002 and 12,991 employees as at March 31, 2003.

Depreciation expense of the bank's properties increased by 43.68% from Rs. 321.64 million in fiscal 2002 to Rs. 462.12 million in fiscal 2003.

Other expenditure increased by 37.11% at Rs. 458.89 million in fiscal 2002 to Rs. 629.19 million in fiscal 2003.

Operating Profit

Due to the factors described above, operating profit (before provisions and contingencies) increased by 74.95% from Rs. 4,268.86 million in fiscal 2002 to Rs. 7468.48 million in fiscal 2003. As a percentage of total income, our operating profit increased from 18.29% in fiscal 2002 to 26.69% in fiscal 2003.

Provisions and Contingencies

Provisions and contingencies made in fiscal 2003 increased by 57.70% to Rs. 3,518.43 million compared with Rs. 2,231.07 million in fiscal 2002. The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

	Year ended March 31,	
	2002	2003
	(in Rs. million)	
Provision for Non Performing Advances	1,005.40	1,694.30
Provision for Standard Advances	120.00	70.70
Depreciation on Investments	126.70	(14.40)
Provisions for Income Tax	745.00	1,691.50
Others	233.97	76.33
Total provisions and contingencies	2,231.07	3,518.43

Our provisioning in respect of non-performing assets increased by 68.52% from Rs. 1,005.40 million in fiscal 2002 to Rs. 1,694.30 million in fiscal 2003. This was due to the fact that our gross NPAs had increased in this period. Our other provisions decreased from Rs. 233.97 million in fiscal 2002 to Rs. 76.33 million in fiscal 2003 mainly due to a reversal of deferred tax liability of Rs. 113.00 million.

Our provision for income tax increased by 127.05% from Rs. 745.00 million in fiscal 2002 to Rs. 1,691.50 million in fiscal 2003, which was primarily due to the increase in our profit.

Net Profit

As a result of the foregoing factors, our net profit increased by 93.84% from Rs. 2,037.79 million in fiscal 2002 to Rs. 3,950.05 million in fiscal 2003. As a percentage of total income, our net profit increased from 8.73% in fiscal 2002 to 14.11% in fiscal 2003.

Liquidity and Capital Resources

Our growth over the last three fiscal years and the six months ended September 30, 2005 has been financed by through cash generated from operations and Tier II 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 2003	Fiscal 2004	Fiscal 2005	Six months ended September 30, 2004	Six months ended September 30, 2005
			(in Rs. millions)		
Cash Flow from Operations	889.06	11,785.76	10,495.36	11,739.92	14,383.74
Cash Flow from Investment Activities	(910.74)	(608.37)	(606.33)	(588.85)	(300.03)
Cash Flow Financing Activities	(265.19)	(2,172.51)	(388.50)	(1492.47)	(1,657.60)
Net Changes in Cash and Cash Equivalents	(286.87)	9,004.88	9,500.53	9,658.60	12,426.11

Cash Flows from Operations

Our net cash flow from operating activities was Rs. 889.06 million, Rs. 11,785.76 million and Rs. 10,495.36 million, in fiscal 2003, 2004 and 2005, respectively, and Rs. 11,739.92 million and Rs. 14,383.74 million in the six months ended September 30, 2004 and 2005, respectively.

Our net cash flow from operating activities reflects interest received during the period from advances and investments and other income and interest paid on deposits, borrowings (excluding subordinated debts), non-cash charges such as depreciation and provisions (mainly for non-performing and standard assets) made during the period. 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 financing activities. The table below sets out cash flows from cash profits, deposits, investments and advances for the periods indicated, which we believe are material to an understanding of the changes in our cash flow from operations.

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Six months ended September 30, 2004	Six months ended September 30, 2005
	(in Rs. millions)				
Cash Profits	4,696.19	5,225.03	6,847.99	3,383.49	2,333.91
Deposits	25,710.81	18,786.73	46,101.90	12,163.80	23,184.72
Investments	(21,046.76)	2,002.93	(3,289.28)	8,315.54	2,873.95
Advances	(1,8352.18)	(13,725.24)	(46,313.77)	(13,370.97)	(12,494.52)

Cash Flows from Investment Activities

Our net cash flow from investing activities was Rs. (910.74) million, Rs (608.37) million and Rs. (606.33) million in fiscal 2003, 2004 and 2005, respectively. Net cash flow from investing activities was Rs. 588.85 million and Rs. (300.03) million for the six months ended September 30, 2004 and 2005, respectively.

Our net cash flow used in investing activities reflects investments consisting of the purchase/disposal of fixed assets. During fiscal 2003, positive cash flow of Rs. 62.86 million was on account of the merger of Andhra Bank Housing Finance Limited with the Bank.

Cash Flows from Financing Activities

Our net cash flow from financing activities was Rs. (265.19) million, Rs. (2,172.51) million and Rs. (388.50) million, in fiscal 2003, 2004 and 2005, respectively, and Rs. (1,492.47) million and Rs. (1,657.60) million for the six months ended September 30, 2004 and 2005, respectively. In fiscal 2003 there was a cash outflow of Rs. 500 million on account of return of capital to GoI. Our net cash from financing activities fluctuated primarily due to payment of dividends and corporate tax related to dividends and interest on our Tier II Bonds. Our net cash from financing activities reflects cash received from the issuance of our Tier II Bonds.

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 in 1988. We are required to maintain a minimum ratio of total capital to risk adjusted assets as determined by a specified formula of 9.0%, at least half of which must be Tier I capital.

Our regulatory capital and capital adequacy ratios based on our restated financial statements are as follows:

	As of			
	March 31, 2003	**March 31, 2004**	**March 31, 2005**	**September 30, 2005**
	(in Rs. million except percentages)			
Tier I capital	9,085.00	10,593.30	15,190.00	17,283.75
Tier II capital	6,035.30	7,192.50	7,726.40	7,385.78
Total capital	15,120.30	17.785.80	22,916.40	24,669.53
Total risk weighted assets and contingents	110,990.51	129,689.70	189,265.35	206,694.55

Capital adequacy ratios:				
Tier I	8.19	8.17	8.03	8.37
Tier II	5.43	5.54	4.08	3.58
Total capital ratio	13.62	13.71	12.11	11.95
Minimum capital ratios required by the RBI:				
Total capital ratio	9.00%	9.00%	9.00%	9.00%
Tier I	4.50%	4.50%	4.50%	4.50%

As shown above, our total capital ratio was 13.62% as at March 31, 2003, 13.71% as at March 31, 2004, 12.11% as at March 31, 2005 and 11.95% as at September 30, 2005. We are consistently reviewing our portfolio mix to maximize our return as well as to maintain the required capital adequacy ratio.

RBI has also initiated the phased implementation of Basel II norms. Implementation of market risk will be completed within two years commencing from the year ended March 31, 2005 and the credit risk and operational risk with effect from March 31, 2007.

Financial Condition

Our net worth, which we define as our total assets less our total liabilities, increased by 27.93% from Rs. 11,074.54 millionas at March 31, 2003 to Rs. 14,167.49 millionas at March 31, 2004, and increased by 33.43% to Rs. 18,904.16 million as at March 31, 2005. Our net worth as at September 30, 2005 was Rs. 20,463.75 million.

Assets

The following table sets forth the principal components of our assets as at March 31, 2003; March 31, 2004; March 31, 2005 and September 30, 2005, as restated:

	As of			
	March 31, 2003	**March 31, 2004**	**March 31, 2005**	**September 30, 2005**
	(in Rs. million)			
Cash in hand (including foreign currency notes)	2,277.95	2,895.55	2,640.67	2,498.07
Balance with the RBI	10,643.70	17,550.57	18,098.61	30,209.47
Balance with banks in India	2,201.53	3,714.53	6,835.56	3,631.21
Balance with banks outside India	254.24	321.66	508.00	861.55
Money at call and short notice	1,350.00	1,250.00	7,150.00	10,458.64
Investments (Net)	105,176.48	103,173.55	106,462.83	103,588.87
Total advances	115,129.42	128,854.66	175,168.43	187,662.95
Fixed Assets (net of revaluation reserve)	1,717.02	1,799.35	1,872.87	2,172.91
Other Assets	8,069.27	10,529.00	8,463.07	9,707.54
Total Assets	246,819.61	270,088.87	327,200.04	350,791.21

Our total assets increased by 9.43% from Rs. 246,819.61 million as at March 31, 2003 to Rs. 270,088.87 million as at March 31, 2004, and further increased by 21.15% to Rs. 327,200.04 million as at March 31, 2005. Our total assets as at September 30, 2005 were Rs. 350,791.21 million. The reasons for these increases in our advances were improved credit off take in the market coupled with our emphasis on credit growth.

Our net investments decreased by 1.90% from Rs. 105,176.48 million as at March 31, 2003 to Rs. 103,173.55 million as at March 31, 2004, and increased by 3.19% to Rs. 106,462.83 million as at March 31, 2005. Our net investments as at September 30, 2005 were Rs. 103,588.87 million. The decrease in investments in fiscal 2004 was due to the sale of Government of India securities, which we sold in order to take advantage of the increase in their market value following a softening of interest rates and the redeployment of those funds into advances. Of our investment portfolio as at September

30, 2005, 78.54% consisted of securities issued by the Government of India and state governments, compared with 84.44%, 85.39%, and 82.45 % as at March 31, 2003, 2004 and 2005, respectively.

Our advances increased by 11.92% from Rs. 115,129.42 million as at March 31, 2003, to Rs. 128,854.66 million as at March 31, 2004, and further increased by 35.94% to Rs. 175,168.43 million as at March 31, 2005. Our advances as at September 30, 2005 were Rs. 187,662.95 million. The reasons for these increases in our advances were improved credit off take in the market coupled with our emphasis on credit growth.

Other assets, which included inter-office adjustments, interest accrued, advance tax, stationery and stamps, and others, increased by 30.48% from Rs. 8,069.27 million as at March 31, 2003 to Rs. 10,529.0 million as at March 31, 2004, and decreased by 19.62% to Rs. 8,463.07 million as at March 31, 2005. Our other assets as at September 30, 2005 were Rs. 9,707.54 million.

Our gross non-performing assets increased from Rs. 5,807.0 million as at March 31, 2003, to Rs. 6,153.70 million as at March 31, 2004, and decreased to Rs. 4,409.30 million as at March 31, 2005, or, as a percentage of gross advances were 4.89%, 4.60% and 2.46%, respectively. Our gross non-performing assets as at September 30, 2005 were Rs. 4,351.30 million or 2.27% as a percentage of gross advances. The reduction in gross NPAs as a percentage of gross advances has been consistently falling on account of concentrated efforts towards increasing recoveries and reducing NPAs.

Our net NPAs to net advances ratio was 1.79% as at March 31, 2003, 0.93% as at March 31, 2004, 0.28% as at March 31, 2005 and 0.26% as at September 30, 2005. Our provisions and reductions for NPAs were Rs. 1,794.30 million as at March 31, 2003, Rs. 2,425.30 million as at March 31, 2004, Rs. 124.0 million as at March 31, 2005 and nil as at September 30, 2005. Our net NPAs as at September 30, 2005 were Rs. 489.20 million.

See the section titled "Selected Statistical Information" on page 164 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, 2003, March 31, 2004, March 31, 2005 and as at September 30, 2005:

	As of			
	March 31, 2003	**March 31, 2004**	**March 31, 2005**	**September 30, 2005**
	(in Rs. million)			
Demand deposits from banks	168.62	187.65	255.73	1,536.12
Demand deposits from others	15,885.20	22,001.87	25,327.21	22,900.39
Savings deposits	48,242.45	63,481.25	74,007.70	82,773.92
Term deposits from banks	997.36	629.39	480.70	430.35
Term deposits from others	145,324.84	143,105.04	175,435.76	191,051.04
Borrowings	9,906.28	8,429.96	9,832.42	10,635.63
Other liabilities and provisions	10,920.32	13,786.22	16,656.36	14,700.00
Subordinate debts	4,300.00	4,300.00	6,300.00	6,300.00
Total liabilities	235,745.07	255,921.38	308,295.88	330,327.46

Our total liabilities increased by 8.56% from Rs. 235,745.07 million as at March 31, 2003 to Rs. 255,921.38 million as at March 31, 2004 and further increased by 20.47% to Rs. 308,295.88 million as at March 31, 2005. Our total liabilities as at September 30, 2005 were Rs. 330,327.46 million. These increases were mainly due to an increase in savings deposits which increased from Rs. 48,242.45 million as at March 31, 2003 to Rs. 82,773.92 million as at September 30, 2005 and term deposits from others which increased from Rs. 145,324.84 million as at March 31, 2003 to Rs. 191,051.04 million as at September 30, 2005 as a result of the general growth of our business.

Other liabilities and provisions include bills payable, interest accrued on deposits and borrowings, inter-office adjustments, our Tier II Bonds and provisions for standard advances and other provisions. The main reason for the increase as at March 31, 2005 compared with March 31, 2004 was due to issuance of Rs. 2,000 million Tier II Bonds in January 2005.

Off-Balance Sheet Arrangements and Financial Instruments

Contingent Liabilities

The following table sets forth the principal components of our contingent liabilities as at March 31, 2003, March 31, 2004, March 31, 2005 and as at September 30, 2005:

	As of March 31, 2003	**As of March 31, 2004**	**As of March 31, 2005**	**As of September 30, 2005**
	(in Rs. million)			
Contingent liabilities				
Claims against the Bank not acknowledged as debt	2,007.32	2,041.94	1,289.05	1,261.49
Liability for partly paid investments	0.00	0.20	0.00	0.00
Liability on account of outstanding forward exchange contracts	11,945.85	30,582.42	112,676.39	121,617.36
Guarantees given on behalf of constituents in India	10,396.37	13,009.05	17,021.53	21,464.73
Guarantees given on behalf of constituents outside India	221.52	1,444.77	1,537.20	1,800.28
Acceptances, endorsements and other obligations	4,897.44	8,713.13	16,995.46	15,863.89
Other items for which the Bank is contingently liable,	1,693.04	264.57	288.35	275.39
Capital commitments	298.90	142.08	0.00	0.00
Total	31,460.44	56,198.16	149,807.98	162,283.14

Contingent liabilities increased from Rs. 31,460.44 million as at March 31, 2003 to Rs. 56,198.16 million as at March 31, 2004 and increased to Rs. 149,807.98 million as at March 31, 2005. Our contingent liabilities as at September 30, 2005 were Rs. 162,283.14 million. These changes were primarily due to increase in derivative operations in fiscal 2004, fiscal 2005 and fiscal 2006 and an increase in our non-funded business such as letters of credit and guarantees.

Securitisation

In fiscal 2004 we undertook mortgage backed securitisation of 1,437 housing loan accounts from 46 branches in 4 states with an aggregate value of Rs. 503.6 million. Under the securitisation scheme, these assets were subscribed for by a special purpose vehicle formed by the National Housing Bank, which converted them into tradable securities called Pass Through Certificates (PTCs). 430 PTCs of Rs. 998,906 each were allotted to outside investors. We subscribed for 75 (Series-B) PTCs totalling Rs. 74.1 million.

We also act as servicing and paying agent for the securities, administering the accounts of various investors. As at September 30, 2005, we earned Rs. 15.49 million from our PTC (Series-B) investments and Rs. 1.39 million in our capacity as servicing and paying agent.

Foreign Exchange and Derivative Transactions

We enter into foreign exchange and derivative transactions for our customers and for our own account. Our foreign exchange contracts arise out of spot and forward foreign exchange transactions with corporate and non-corporate customers and inter-bank counter parties. Our derivative contracts include interest rate swaps for corporate customers and for our own hedging activities. 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 is recorded as interest income under the head investment income.

The liability on account of outstanding foreign exchange contracts was Rs. 11,945.85 million as at March 31, 2003, Rs. 30,582.42 million as at March 31, 2004, Rs. 112,676.39 million as at March 31, 2005 and Rs. 121,617.36 million as at September 30, 2005. Since these contracts are marked to market, their fair value as at those dates was the same as their notional value.

Our notional principal amount of our single currency interest rate swap agreements, cross currency swap agreements and forward rate agreements was Rs. 1,400.00 million as at March 31, 2003, Rs. 3,250.00 million as at March 31, 2004, Rs. 11,278.22 million as at March 31, 2005.

Significant Developments after September 30, 2005

Except as stated elsewhere in this Red Herring Prospectus, to our knowledge no circumstances have arisen since September 30, 2005, 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 within the next 12 months.

OUTSTANDING LITIGATION AND MATERIAL DEVELOPMENTS

Except as detailed below, there is no outstanding litigation, suits or criminal or civil prosecutions, proceedings or tax liabilities against our Bank, and its Directors that would have a material adverse effect on our business and there are no defaults, non-payment or overdue of statutory dues, institutional/ bank dues and dues payable to holders of any debentures, bonds and fixed deposits that would have a material adverse effect on our business. A materiality threshold of Rs. one (1) million has been adopted in relation to cases against the Bank.

Contingent Liability

The following table sets forth the principal components of our contingent liabilities as at September 30, 2005.

(Rs. in million)

Sl. No	Contingent Liabilities	As at September 30, 2005
1	Claims against the Bank not acknowledged as debt	1,261.49
2	Liability on account of outstanding forward exchange contracts	121,617.36
3	Guarantees given on behalf of constitutents:	
	In India	21,464.73
	Outside India	1,800.28
4	Acceptances, Endorsements & Other Obligations	15,863.89
5	Other items for which the Bank is contingently liable	275.39

Cases by the Bank

1. The Bhubaneshwar Branch had filed a case against M/s. Khimji Dayabhai Jewellers (P) Limited on February 4, 2004 before the DRT, Cuttack (OA No. 5/2004) claiming an amount of Rs. 31,102,348 for wilful default in failing to regularize the account. The DRT had passed an interim ex parte order on February 19, 2004 appointing certain persons (the Advocate Commissioner and M/s. Chandrakantha Jewellers) as gold appraisers for conducting joint inventory of the gold and taking possession of the same. The case was posted to April 29, 2004 for compliance of the order of the DRT but as no steps were taken the case was postponed to July 29, 2004 and subsequently to August 30, 2004. The matter was posted to November 29, 2004 for filing of written statement. The Bank had requested the DRT to appoint itself as receiver of the available stocks and authorize it to sell the same by public auction for appropriation of the sale proceeds to the loan account. The matter has been posted to February 6, 2006 for inquiry.

2. The Ongole branch of the Bank filed a suit against M/s. Lakshmi Tobacco Traders and nine others before the DRT, Vishakhapatnam on October 8, 2004 (O.A.No 219/2004) claiming an amount of Rs. 16,513,656.29 with future interest at the rate of 14.75% per annum for recovery of the loans availed by it under an open cash credit loan of Rs. 13.1 million. The Bank has agreed to a compromise vide letter 666/45/c930/10353 dated March 28, 2005 as per which the borrower has to pay Rs. 7.2 million to the Bank on or before March 31, 2006. As at June 30, 2005, the borrower had paid a total amount of Rs. 804,500 against the approved compromise amount. The said consent decree has been filed before the DRT and consent terms have been recorded thereto.

3. The Bank had initiated parallel proceedings against Kripal Group of Companies consisting of M/s. Kripal Alloy Steels (P) Limited, M/s. Kripal Springs (I) Limited and M/s. Kripal Drinks and seven other defendants before the DRT, Cuttack on March 22, 2004 and also under the SARFAESI claiming the following amounts:

    - Against M/s. Kripal Springs (I) Limited (O.A.No. 24/2004) for issue of a certificate for recovery of a sum of Rs. 54,904,166.86 million as at January 31, 2004.
    - Against M/s. Kripal Alloy Steels (P) Limited (O.A.No 25/2004) for issue of a certificate for recovery of a sum of Rs. 32,155,239.80 as at January 31, 2004; and
    - Against M/s. Kripal Drinks Limited before (O.A.No 26/2004) for issue of a certificate of recovery of a sum of Rs. 11,172,540.20 as at January 31, 2004.

    The defendants had filed a writ petition in the High Court of Orissa challenging the initiation of parallel proceedings by the Bank. The High Court had passed an order directing the Bank to choose one of the two actions initiated and stayed the proceedings in both the actions in the mean time. The Bank decided to continue with the DRT proceedings and drop the proceedings under the SecuritisationAct. Meanwhile, on a compromise proposal submitted by the borrower, the Bank on May 27, 2005 approved the said proposal to receive Rs. 72.5 million on all the three accounts put together (i.e., Rs. 22.5 million from M/s. Kripal Alloy Steel (P) Limited, Rs. 6.5 million from M/s. Kripal Drinks Limited and Rs. 43.5 million from M/s. Kripal Springs (I) Limited) towards full and final settlement and which is to be paid before November 1, 2006 subject to obtaining a consent decree from the DRT. The said compromise petition was allowed by the DRT on September 8, 2005.

4. Model Steels (P) Limited obtained an open cash credit loan and term loan from the Bank and hypothecated certain assets towards the said loans. As the company failed to repay the amount, the Bank initiated proceedings under the Securitisation Act, took possession of the assets and initiated sale proceedings. A winding up petition has been filed by M/s. GSAL (India) Limited, an unsecured creditor in the Andhra Pradesh High Court against M/s. Model Steels (P) Limited (Company Petition No. 105/2002). The Workers Union and the Official Liquidator applied to the Andhra Pradesh High Court (C.A.No 1703/2004) to stay the proceedings and the court granted an interim stay on September 14, 2004. The High Court by its order dated April 5, 2005, vacated the stay and permitted the Bank to complete the formalities of sale of the assets of the company in liquidation. The sale has not been completed yet.

   The Bank filed a suit against M/s. Jog Software Solutions Limited before the DRT, Pune on May 6, 2004 (O.A.No. 69/2004) claiming a sum of Rs. 29.10 million. The Bank had granted financial facilities to the borrower by way of a secured loan of Rs. 20 million against an equitable mortgage for certain property situated in Pune belonging to the borrower. On failure to repay the loan amount, the Bank filed a petition in the Court of District Magistrate, Pune (PGM/ Misc. Application No. 2/2004) under the Securitisation Act. The District Magistrate took possession of the said property on December 27, 2004 and handed over the same to the Bank as the borrower failed to complete the sale. The borrower company filed a counter claim against the Bank in the DRT, Pune claiming Rs. 155,502,222.20 million. The case filed in DRT was posted to August 24, 2005 for filing of counter claim affidavit and depositing original loan documents. It was posted to September 12, 2005 for filing of the Bank's written statement to the counter claim. In the meantime, the Bank approved a compromise proposal for Rs. 29.15 million by its Resolution dated September 27, 2005. The consent decree has been filed on November 10, 2005. The due date for repayment was November 30, 2005 and no payment has been received so far in this regard. The matter has been posted to January 5, 2006 for evidence.

5. The Bank had filed a suit against M/s. Divyaratna Agrotech Private Limited in DRT-III, Mumbai on March 29, 2004 (O.A.No. 115/2004) claiming an amount of Rs. 59.06 million. The Bank has obtained an interim injunction on June 30, 2004 prohibiting the defendants from dealing with any security assets until further orders. The DRT allowed the Bank's application through its order on August 19, 2004 appointing the applicant Bank itself as the receiver for taking possession of the property and appointing some agency for running the unit on a royalty basis. The case is posted to January 16, 2006 for final arguments.

6. The Bank had filed an application against M/s. East West Polyart Limited and others before the DRT, Ahmedabad (O.A. No. 40/2005) on February 24, 2005 claiming an amount of Rs. 58.90 million. The DRT passed an ex parte order against the defendants permitting the Bank to appoint a Commissioner for carrying out the inventory. The case was posted to January 13, 2006 for the service of summons.

7. The Bank had filed a suit against M/s. Bhanu Constructions Company Private Limited and its debtors (National Thermal Power Corporation, National Hydel Power Corporation, NLC and Power Grid Corporation) along with the State Bank of India before the II Additional Judge, City Civil Court, Hyderabad on August 27, 1993 (O.S.No. 191/93) for recovery of a total sum of Rs. 199,286,570.84 against a bank guarantee given to the debtors. The amount due to the Bank is Rs. 104,781,564.49. The said court had passed an order on September 20, 1994 prohibiting and restraining Power Grid Corporation from making any payment to Bhanu Constructions. The suit stood transferred to the DRT, Hyderabad with effect from November 30, 1994 when the said Tribunal was established. The DRT passed an order on October 31, 2000 issuing a recovery certificate for Rs. 440.60 million in pursuance of which recovery proceedings were initiated. Against this, several appeals have been filed before the DRAT, Chennai and before the Andhra Pradesh High Court all of which have been dismissed. However, the Chennai High Court, in a writ petition filed by the company, issued a stay on further recovery proceedings. The stay stands vacated in light of the dismissal of the writ petitions (WP Nos. 3386, 18669, 18670 & 18671/2003) filed by the borrower against the Bank before the Chennai High Court on October 4, 2005. Against this, a special leave petition has been filed by the borrowers in the Supreme Court of India and the matter has been posted to January 17, 2006 for enquiry.

8. P.M. Telelinks Limited is financed by a consortium of banks led by the State Bank of India and Andhra Bank has a 12.31% share in the said consortium. As the said consortium incurred certain liability because of the failure of the company to meet its bills on account of certain LCs on time, the said consortium filed a suit in DRT on September 24, 2003 (O.A.No 175/2003) for a sum of Rs. 42,666,664.51. Meanwhile, the company made a reference to BIFR and the Bank had filed its objections on November 28, 2003 before the BIFR. The suit is posted to June 26, 2006.

9. The Bank had filed a suit against RR Automotive Components (P) Limited before the DRT-II, Delhi on November 5, 2003 (O.A.No. 85/2003) recovery of a sum of Rs. 43,564,080.82 against the credit facilities availed by them. By way of interim relief the DRT restrained the borrower from alienating the properties mortgaged with the Bank. Inspite of the stay order, the Borrower sold the mortgaged properties. The DRT issued a show cause notice to the borrower. The matter is posted to January 24, 2006.

Cases against the Bank

As at December 15, there are 265 cases involving an amount of Rs. 1,261.5 million outstanding against our Bank.

There are three cases outstanding in relation to the "security scam" concerning forged bankers receipts that occurred in 1992 involving an amount of Rs. 1,089.40 million.

There are 17 civil cases filed against us for disputes in which the aggregate amount claimed is Rs. 1 million or more. These 17 civil cases, are in relation to interest imposed, negligence, recovery of money, guarantees, letters of credit, etc., in which the total amount claimed against us amounts to Rs. 100.80 million.

There are two fraud cases involving an amount of Rs. 12.30 million and four cases concerning fraudulent encashment of cheques involving an amount of Rs. 5.20 million. There are two cases pertaining to violation of contractual terms and conditions involving an amount of Rs. 12.20 million.

There are six cases filed against us relating to consumer forum cases in relation to, inter alia, payment against forged cheques, alleged wrongful refusal to sanction certain facilities, and refusal to release fixed deposit receipts/title deeds pledged as security. The total amount claimed against us in these cases is Rs. 10 million.

There are three insurance claim cases involving an amount of Rs. 4.50 million.

There are six cases pending against us in relation to eviction from properties that have been leased/licensed by us and the total amount claimed in such cases is Rs. 12 million.

There are 222 miscellaneous cases in which the aggregate amount claimed is Rs. 15.10 million

Civil Cases

1. M/s. Swagat Textiles has filed a suit against the Bank in the Court of Civil Judge, Pune (Special Civil Suit No. 687/96) on June 27, 1996 for recovery of a sum of Rs. 6,235,110.75 pursuant to a credit card agreement entered into with the Bank under which Swagat Textiles, being the merchant establishment would honour the credit cards issued by the Bank and submit the charge slips which the Bank would credit to such merchant establishment's account. It is alleged that the Bank had failed to credit certain charge slips and had unauthorisedly retained them. The Bank asked for transfer of the suit from the Pune court to the Hyderabad court which was refused by an order passed by the Principal Civil Judge, Pune on September 9, 1997. The Bank filed a civil revision application against this order in the Bombay High Court on June 26, 2000 (Civil Revision Application No. 351/1998) which is pending listing.

2. M/s. Ramesh Textiles has filed a suit against the Bank in the Court of Civil Judge, Pune (Special Civil Suit No. 681/96) on April 9, 1996 for recovery of a sum of Rs. 5,194,033 pursuant to a credit card agreement entered into with the Bank under which Ramesh Textiles, being the merchant establishment would honour the credit cards issued by the Bank and submit the charge slips which the Bank would credit to the Merchant Establishment's account. It is alleged that the Bank had failed to credit certain charge slips and had unauthorisedly retained them. The Bank had asked for transfer of the suit from the Pune court to the Hyderabad court which was refused by an order passed by the Principal Civil Judge, Pune on September 9, 1997. The Bank filed a civil revision application against this order in the Bombay High Court on June 26, 2000 (Civil Revision Application No. 350/1998) which is pending listing.

3. One P. Savita Krishna Reddy has filed a suit against the Bank and against M/s. Uniloids Limited in the Court of II Addl. Judge, City Civil Court, Hyderabad (O.S.No 1211/1991) on December 31, 1991 for recovery of a sum of Rs. 2,914,178 claiming that the Bank should return the deposit amount appropriated by it as she is discharged from her liability as surety to the defendant company due to change in the management of the company. The court on June 19, 2003 dismissed the suit in the Bank's favour. The plaintiff has filed an appeal against this decision in the High Court of Andhra Pradesh (C.M.P. No 2096/2004) on October 14, 2003 which is pending listing.

4. Andhra Pradesh State Electricity Board (APSEB) has filed a suit against the Bank and M/s. Himani Exports in the court of II Addl. Judge, City Civil Court, Hyderabad (O.S.No 1040/1997) on June 1, 1997 for recovery of a sum of Rs. 3,681,058. The plaintiff claims that the Bank has violated the terms and conditions of the letter of credit, which the plaintiff has opened in favour of M/s. Himani Exports, with a fraudulent intention. The court had passed an order on November 25, 2004 against both the defendants directing them to pay Rs. 2,609,665.40 with future interest of Rs. 1,869,586.40. The Bank has preferred an appeal to the Andhra Pradesh High Court (CCCA No. 102/2005) against this order. It has also filed a petition on September 12, 2005 (CCCA M.P.No 357/2005) for grant of stay of all other proceedings pending the appeal, which the Andhra Pradesh High Court granted on September 12, 2005. The Andhra Pradesh High Court also issued a notice to the respondents to show cause as to why the application filed by the Bank should not be complied with. No final orders have been issued in the said matter yet.

5. Dr. William Trevor Lunt has filed a suit against the Bank and 13 other defendants in the Court of the Chief Judge, City Civil Court, Hyderabad (O.S.No 429/2003) on December 5, 2003 for recovery of a sum of Rs. 30,698,910 for failure to follow specific instructions which the Plaintiff alleges to have given to the Bank. The plaintiff had deposited certain amount in the Bank and had allegedly requested the Bank not to allow the money to be withdrawn without specific instructions. However, the Bank allegedly allowed the funds to be withdrawn without specific instructions and hence the suit was filed. The matter is posted for trial on March 17, 2006.

6. Nirdosh Enterprises has filed a suit against the Bank in the Court of Chief Judge, City Civil Court, Hyderabad (O.S.No 196/2002) on February 7, 2002 for recovery of a sum of Rs. 2,432,433 against a bank guarantee given to the plaintiff. The plaintiff initiated proceedings before the Ombudsman constituted by the Banking Commission and filed a complaint on August 19, 1999 but the said Ombudsman dismissed the proceedings. The plaintiff then filed a civil suit which was listed on December 6, 2005. The matter is posted to December 31, 2005 for enquiry.

7. Emirates Trading Co. has filed a suit against the Bank and four other defendants in the Bombay High Court (Suit No. 2961/1990) on September 3, 1990 claiming damages of Rs. 1,236,984 for breach of contract. The Bank had given an irrevocable letter of credit to the plaintiffs which they had failed to honour claiming serious discrepancies in the documents. The case is not yet listed in the High Court.

8. Karan Exports (India) Private Limited has filed a money suit against the Bank and Sandip Exports before the Civil Judge Sr. Division, Calcutta (Case No. 82/2001) on April 10, 2001 for compensation and damages valued at Rs. 12,031,197. The Bank exercised its right of lien and adjusted the proceeds in the plaintiff's account against some irregularities in its sister concern's account. The Bank has filed its written statement and the suit was listed on November 23, 2005 for framing of issues. Karan Exports had earlier filed a suit against the Bank in the City Civil Court, Calcutta (Suit No. 58/1996) on October 8, 1996 claiming Rs. 628,177.58. The trial court upheld the Bank's lien. Karan Exports then filed a writ petition in the Calcutta High Court (W.P.No 1206/1996) and the Hon'ble High Court dismissed the application of Karan Exports on July 23, 1996. The same has been listed on January 12, 2006 for framing of issues.

9. Arbitration proceedings have been initiated before a sole arbitrator between Indian Airlines Limited and the Bank (Application Case No. PMA/NCJ/9/2001 dated August 13, 2001). Indian Airlines has made a claim against the Bank for Rs. 20.50 million plus an interest of Rs. 19.40 million. The Bank had an agreement with Indian Airlines for accepting the credit cards issued by the Bank on ticket sales. On receipt of the claim, the Bank was required to reimburse the amount to Indian Airlines and claim it from Visa/ Mastercard. However, it was alleged that Indian Airlines violated the agreement whereby the Bank suffered charge back losses of Rs. 17.00 million. The Bank therefore withheld the amount due to Indian Airlines and adjusted it against the charge backs. The Bank submitted a counter claim for a total amount of Rs. 42.5 million. The Bank has approved the proposal for holding negotiations with Indian Airlines and for making a compromise offer of Rs. 5 million towards full and final settlement without any prejudice to the pending arbitration. Indian Airlines has requested for review of the offer amount. The matter is still pending before the arbitrator and has been posted to May 18, 2006 for hearing..

10. Jeevandaan Medical Enterprises Private Limited has filed a suit against the Bank in the Court of the Principal Subordinate Judge, Vishakhapatnam (O.S.No. 155/1991) for a sum of Rs. 2,025,054.81 as balance sale consideration for sale of certain land. However, the Bank claims to have disbursed the entire amount. The suit was dismissed in the Bank's favour on January 27, 2001 against which the plaintiff has appealed to the Andhra Pradesh High Court (A.S.No. 1673/2001). The appeal is pending listing.

11. C.R. Engineering Constructions (P) Limited has filed a suit against the Bank and against the Government of Jammu & Kashmir in the Court of Vacation Civil Judge at Vishakhapatnam (O.S.No 3/1991) and obtained an injunction against the Bank from making payment to the beneficiaries under a bank guarantee which was issued on behalf of the

plaintiff. The plaintiff later withdrew its case from the Vishakapatnam court and filed for a stay order and a caveat in the Jammu & Kashmir High Court apprehending stay orders likely to be obtained against the injunction orders. The Jammu & Kashmir High Court issued an injunction order against which the Jammu & Kashmir Government has filed a revision petition which is pending. The bank guarantee has not been invoked and no relief has been claimed yet against the Bank.

12. M/s. Venkataraya Modern Rice Mill has filed a suit against the Bank and against M/s. United India Insurance Co (O.S.No. 48/2000) on August 8, 2000 claiming an amount of Rs. 3,046,666 under certain insurance policies which the plaintiff claims to have been obtained by the Bank in respect of stock hypothecated to the Bank. The Bank filed its written statement and the suit was listed on December 6, 2005. The matter is posted to be heard on January 5, 2006.

13. Mr. S. K. Jain and others, the owners of the premises in which the Delhi Zonal Office of the Bank was situated, filed a suit (Civil Suit No. 1107 of 2001) before the High Court of Delhi on May 24, 2001, claiming Rs. 4,156,560 as compensation for the loss arising out of a fire accident that destroyed the premises. The matter is listed on January 24, 2006 for evidence.

14. Mr. Kumundchandra Ishwarlal Sheravia and Mr. Pranav Kumudchandra Sheravia, filed a defamation suit (Civil Suit No: 4294 of 1997) on October 9, 1997 before the City Civil Court, Ahmedabad for the recovery of Rs. 1,000,000 as damages and also prayed for a direction to the Bank to hold a departmental inquiry against an officer (Mr. Sambha Shivram Rao) of the Bank and for the cost of the suit. The case is pending and has not yet come on board.

15. An appeal (Appeal Suit No: 2666 of 2001) was filed before the High Court of Andhra Pradesh by the State Bank of India against the dismissal of a suit (O.S. No 33 of 1994) that was filed before the Senior Civil Judge, Machilipatnam on July 20, 2001, for the recovery of Rs. 1,776,902.30 against the Bank alleging vicarious liability for acting negligently by collecting amounts due from demand drafts that were found missing from the State Bank of India and paying the same without verifying the bonafides of the account holders. The amount involved in the said matter is Rs. 3,603,000. The appeal has not yet been listed before the High Court.

16. A suit (Suit No: 123/2005) was filed before the Civil Court, New Delhi, by Airports Authority of India against M/s R4 Security Services (P) Limited and the Bank praying for a prohibitory injunction restraining the Bank from releasing the security amount of Rs 2,000,000 held through a bank guarantee bearing ref no: BFFIN/2001/00139 dated March 14, 2002, which had expired on March 13, 2005 to M/s R 4 Security Services. The plaintiff also seeks a direction to the Bank to withhold Rs. 2,000,000 from the current account of M/s R 4 Security Services until the accounts and outstanding amounts of Airports Authority are not cleared. The matter is still pending and suit is listed for January 9, 2006.

17. A suit (O.S. No 1233 of 1997) was filed before the Civil Court, Hyderabad on May 2, 1997 by Ms. Indumati M. Jani against an erstwhile manager of the Bank, the Bank and certain others for the repayment of Rs 7,122,055 which was allegedly mis-utilised and misappropriated by the erstwhile employees of the Bank and certain others. Interim application (I.A. No 1471 of 1997) has been filed seeking an attachment of property (Hotel Urvasi, 6-3-665/A/2, Punjagutta, Hyderabad) in case a suitable security is not furnished. The matter is posted to December 30, 2005 for evidence.

    A suit (O.S. No 1234 of 1997) was filed before the City Civil Court, Hyderabad on May 2, 1997 by Madhusudam K. Jani against an erstwhile Manager of the Bank, the Bank and certain others for repayment of amount of Rs 5,184,850 which allegedly was misappropriated and mis-utilised by the defendants. An interim application (I. A. No 942 of 1997) for the attachment of property (Hotel Urvasi, 6-3-665/A/2, Punjagutta, Hyderabad) in case a suitable security is not furnished. The matter is still pending. The matter is posted to December 30, 2005 for evidence.

Eviction Cases

1. A suit (M.J.C. No. 7/2003) was filed before the Civil Court, Amravati on October 20, 2003 by Swarnamala (the owner of the property in which the Bank's Branch office in Amravati was situated) for the recovery of Rs. 1,595,000 as damages for the wrongful occupation of the premises after the expiry of the lease and for the loss sustained by the plaintiff on account of deprivation of the use of the premises. A claim for Rs. 58,112 as damages has also been made for the repairs to be carried out to the structure in order to make it habitable. The suit is listed for January 9, 2006 for evidence.

2. A suit (T.E & R. Suit No. 288/303 of 2001) was filed before the Small Cause Court, Bombay on May 9, 2001, by Manorama Jayant Sariya and others (owners of the premises in which the Matunga Branch is situated) for the

vacation and peaceful possession of the premises. A claim for mesne profits of Rs 2,736,000 has also been made. The suit is posted for arguments on January 17, 2006 for evidence.

Security Related Offences

1. ABN AMRO Bank has filed a suit against the Bank and Naresh K. Aggarwal & Co in the Delhi High Court (Suit No. 590/1995) on March 2, 1995 for recovery of Rs. 156,666,591. The suit is relating to security transactions between the plaintiff and another for the purchase of NPC Bonds for Rs. 100 million and the cheque was drawn in favour of the Bank. It is alleged that the Bank has credited the amount to H.P. Dalal's account against the banking practice and without any authority. The Bank has moved the Special Court for impleading H.P. Dalal as a defendant as he is a necessary and proper party to the case. The Special Court at Bombay issued chambers summons (No. 31/2002) on November 2, 2002 ordering H.P. Dalal to be added as a party to the suit. The Bank has filed a petition on June 17, 2004 for dismissal of the suit as the plaintiff could not produce the required documents. The case is pending and is yet to come for hearing.

2. Standard Chartered Bank has filed a suit against the Bank and other defendants in the Bombay High Court (Suit No. 3811/1992) on November 27, 1992 for recovery of Rs. 913,624,630.29 issued as pay orders to the defendants in consideration of certain bonds. Since the defendants failed to deliver the stocks, the plaintiffs filed suit. The case was brought before the Special Court (Trial of Offences relating to Transactions in Securities) Act 1992 (Suit No. 32/1994). The plaintiff reduced their claim to Rs. 5 million in its affidavit dated August 9, 1999 before the Special Court. The Bank alleges that the transactions related to one H.P. Dalal and so he ought to be impleaded as a necessary and proper party. The Special Court (in Suit No. 11 of 1996) by its order dated January 17, 2002 held that the transactions of the plaintiff were in reality transactions with H.P. Dalal. The Plaintiffs filed an appeal against this before the Supreme Court of India (C.A.No. 2275/2002). The special court issued a Chambers Summons (No. 06/2002) dated June 4, 2002 ordering stay of proceedings (in Suit No. 32/1994) pending the hearing and final disposal of the appeal before the Supreme Court.

3. Standard Chartered Bank has filed a suit against the Bank and against its wholly owned subsidiary, ABFSL in the Bombay High Court (Suit No. 3829/1992) on November 30, 1992 claiming a sum of Rs. 1,203,517,322.86 issued as pay orders to the second defendant in consideration of certain bonds. Since ABFSL is not a member of the clearing house, payments that were to be made to ABFSL were issued in the name of the Bank. The plaintiffs thus filed suit against both the Bank and ABFSL. The Bank had filed its written statement claiming that it is not liable to the plaintiff only by reason of having collected the proceeds of the said pay order and having credited the same to the account of H.P. Dalal who is the real counter party. The suit was transferred to the Special Court (Trial of Offences relating to Transactions in Securities) Act 1992 (Suit No. 45/1994) which has added H.P Dalal as a party to the suit. The case is not yet listed for hearing before the Special Court, Bombay.

Consumer Cases

1. CG World Wide Impex has filed a complaint against the Bank and two other parties before the National Consumer Disputes Redressal Commission (Complaint No.1195/2002) on May 25, 2002 claiming a sum of Rs. 2,380,000 for allegedly failing to honour its commitments made under various irrevocable revolving letter of credit which the Bank had opened in favour of the Complainant Company at the instance of M/s. Core Organics. The Bank has filed its reply and the case has been posted to January 4, 2006.

2. M/s Vaman Agro Products (P) Limited filed a complaint (CC No: 373 of 2002) before the National Consumer Disputes Redressal Commission, New Delhi claiming an amount of Rs 5,350,000 for the loss suffered by them due to the deficiency of services by the Bank in renewing the insurance policies in time, in renewing and raising the credit limits and for dishonouring the cheques and thereby causing damage to their goodwill in the market. The matter is listed for February 6, 2006.

3. Mr. K. Lakshminarayana and Mr. K. Sathyanarayana (partners of M/s Sree Balaha Chemical Agencies) filed a complaint (O.P. No 16 of 2004) before the Consumer Disputes Redressal Commission, Chennai against the Bank and others, claiming an amount of Rs 2,500,000 for the financial loss caused due to the Bank allowing certain partners to withdraw monies from the partnership account, in spite of specific instructions of the complainants not to allow any transaction of monies through the account, without prior intimation to the complainants. The case is listed for enquiry before the State Commission and has been posted to January 10, 2006.

4. M/s. Mega Industries has filed a case (C.D. No. 69 of 2005) before the State Consumer Dispute Redressal Commission at Cuttack claiming compensation of Rs. 4,155,001.50 against the Branch Manager, Andhra Bank, Orissa and the Chief Manager (Credit) Bhubaneswar alleging deficiency in service on the part of the Bank for having charged

interest on the soft loan component of the loan sanctioned to M/s. Mega Industries which is contrary to the circular issued by the Small Industries Development Bank of India. The case has been listed on March 3, 2006 for filing of counter-affidavit.

Debt Recovery Cases

1. United Western Bank has filed an application before the Debt Recovery Tribunal, Delhi against the Bank and two other defendants (O.A.No. 177/2002) on August 12, 2002 claiming a sum of Rs. 1,484,170 for failure to honour the letter of credit given in favour of CG World Wide Impex at the instance of M/s. Core Organics Limited. The applicant is the holder in due course and holder for value of all the bills of exchange drawn under the inland revolving letter of credits which were subsequently dishonoured for non-payment and hence the application. The Bank has filed its written statement and the matter is listed on January 4, 2006.

2. One Nirmal Kanti Guha filed a suit (Civil Suit No. 70 of 1997) before the High Court of Calcutta against the Bank for suffering a financial loss of Rs 9,150,000 due to the inaction of the Bank in sanctioning credit as requested by him from time to time, which was within the credit limits allotted to him. The case has been transferred to the Debt Recovery Tribunal, Calcutta to be heard together with an application made by the Bank before the Tribunal (O.A. No. 61 of 1997) seeking a recovery of Rs. 1,402,562.61 and the payment of an interim interest and interest on judgment costs at the rate of 20% per annum with quarterly rests on and from December 31, 1996 and injunction and sale orders of the hypothecated goods and machinery. The matter has been listed on January 20, 2006 for hearing.

Tax Cases

1. The Income Tax Department (ITD) in its assessment order (AO) for the assessment year (AY) 2000-2001 made the following orders in relation to the income earned by the Bank:

   - Disallowance of Rs. 523,098,104 which was claimed by the Bank in relation to bad debts written off;
   - Disallowance of Rs. 145,929,303 which was claimed by the Bank to be the expenditure relating to the exempted income as per Section 14A of the Income Tax Act; and
   - Depreciation of Rs. 20,980,000 on investments written back.

   Against the said assessment order, the Bank preferred an appeal before the Commissioner of Income Tax (Appeals) II, Hyderabad (CIT (A)) on April 24, 2003. The appeal is still pending and the aggregate disputed amount on account of the above is Rs. 690,007,407. In the appeal filed against the IT Assessment Order 2000-2001, the ground for disallowance of bad debts written off (for Rs. 523,098,104) has been withdrawn by the Bank on October 6, 2005.

2. The ITD in its AO for the AY 2001-2002 has made the following orders in relation to the income earned by the Bank:

   - Disallowance of Rs. 231,749,002 which was claimed by the Bank to be the expenditure relating to the exempted income as per Section 14A of the Income Tax Act;
   - Disallowance of deduction of Rs. 11,445,507 claimed under Section 35D of the Income Tax Act in relation to expenditure incurred in establishing business operations;
   - Disallowance of premium of Rs. 79,578,266 that was debited to the profit and loss account of the Bank on account of certain HTM investments;
   - Depreciation of Rs. 4,482,000 on investments written back; and
   - Levy of interest of Rs. 498,460 charged under Section 234C of the Income Tax Act in relation to the payment of advance tax.

   Against the said assessment order, the Bank preferred an appeal before the CIT (A) on April 27, 2004. The appeal is still pending and the aggregate disputed amount on account of the above is Rs. 327,753,235.

3. In the case of ABHFL, which was merged with the Bank in 2003, the ITD in it's AO for the AY 2000 - 2001 and the AY 2001- 2002 disallowed interest on certain securities/deposits claimed by erstwhile ABHFL as deduction under Section 36(1)(viii) of the Income Tax Act holding that as such interest is not derived from the business activity of long term housing finance, the deduction on account of the same was not allowable. Upon appeal by the Bank against the said AOs, the CIT (A) upheld the orders passed by the ITD for both the assessment years. Aggrieved by the same, the Bank filed an appeal before Income Tax Appellate Tribunal, Hyderabad (ITAT) on June 14, 2004 in relation to the assessments for both AYs 2000-2001 and 2001-2002. The said appeal is still pending and the amounts involved are Rs.3,563,287 and Rs. 5,309,896 for the AYs 2000-2001and 2001-2002 respectively.

4. The ITD in its AO for the AY 2002-2003 has made the following orders in relation to the income earned by the Bank:
   - Disallowance of Rs. 321,899,389 which was claimed by the Bank to be the expenditure relating to the exempted income as per Section 14A of the Income Tax Act;
   - Disallowance of deduction of Rs. 11,445,507 claimed under Section 35D of the Income Tax Act in relation to expenditure in establishing business operations;
   - Disallowance of premium of Rs.132,353,412 that was debited to the profit and loss account of the Bank on account of certain HTM investments; and
   - Levy of interest of Rs. 16,706,233 charged under Section 234B of the Income Tax Act in relation to the payment of advance tax.

   Against the said assessment order, the Bank preferred an appeal before the CIT(A)on April 27, 2004. The appeal is still pending and the aggregate disputed amount on account of the above is Rs.482,404,541.
5. In the case of ABHFL, which was merged with the Bank in 2003, the ITD in its AO for the AY 2002-2003 made the following orders in relation to the income earned by the erstwhile ABHFL:
   - Disallowance of expenditure of Rs. 1,513,078 incurred on account of payment made by ABHFL to the National Housing Bank towards the requirement of maintenance of liquid assets;
   - Levy of interest of Rs. 128,876 charged under Section 234 C of the Income Tax Act in relation to the payment of advance tax;
   - Treating expenditure of Rs. 1,751,270 incurred on account of purchase of software as capital expenditure; and
   - Disallowance of expenditure of Rs. 852,884 for earning exempted income under Section 14A of the Income Tax Act.

   Aggrieved by the same, the Bank filed an appeal before the CIT(A) on January 23, 2005 and the aggregate disputed amount based on account of the above is Rs. 4,246,108. The appeal is still pending.

The following table sets forth the compiled position of all the claims (including the claims below Rs. 1 million) against the Bank as at December 15, 2005:

(Rs. in million)

Particulars	No. of Cases	Suit Amount
Security Scam Cases	3	1,089.40
Premises	6	12.00
Consumer Forum Cases	6	10.00
Fraud Cases	2	12.30
Violation of Terms and conditions	2	12.20
Fradulent encashment of cheques	4	5.20
Cases pending in High Court	3	5.20
Civil suits	14	95.60
Insurance Claim cases	3	4.50
Miscellaneous cases (in which suit amount is less than Rs.5.00 lacs)	222	15.10
Total	**265**	**1,261.50**

Litigation against our Subsidiary

Andhra Bank Financial Services Limited

1. Contingent Liabilities not provided for as at September 30, 2005:

   Claims not acknowledged as debt - Rs. 2,144.80 million

2. Litigation against ABFSL as atDecember 15, 2005:

   Securities Related Cases:

   Please refer to the disclosure against item 3 in the section titled "Outstanding Litigation and Material Developments - Security Related Offences" appearing above on page 218 of this Red Herring Prospectus.

Litigation against our RRBs

Rushikulya Gramya Bank

1. Contingent Liabilities not provided for as at March 31, 2005:
   - Guarantees provided on behalf of constituents in India - Rs. 12,457,000
2. Litigation against the bank as at December 15, 2005:

   Civil Cases

   P. Sadasiva Rao and P. Jasoda, customers of the bank have filed a suit on September 30, 2002 in the Court of Civil Judge, Junior Division, Chatrapur, Orissa challenging the withdrawal of Rs. 100,000 from their savings account with the bank. The case is at the hearing stage and the liability involved is Rs. 100,000.

   Labour Cases

   There are 21 writ petitions that have been filed against the bank before the High Court of Orissa by its employees in relation to their promotion. These cases are at various stages of hearing and the exact amount of financial liability to the bank on account of the same cannot be accurately determined.

Godavari Grameena Bank

1. Contingent Liabilities not provided for as at March 31, 2005:
   - Guarantees provided on behalf of constituents in India - Rs. 1,672,000
2. Litigation against the bank as at December 15, 2005:
   - Criminal Cases: A criminal complaint has been filed against two employees of the Godavari Grameena Bank in the Court of the Judicial Magistrate, Rajahmundry. (No. 131/2005). The complainant is one G. Vasantha Kumari who is a clerk cum cashier in the Godavari Grameena Bank. The accused are one K. Ramana Murthy, the then Chairman of the Grameena Bank and V.V.V.S.H. Prasad, the then Branch Manager of the Grameena Bank. The accused are alleged of sexual harassment under Section 509 IPC read with Sections 34 and 120-B IPC. The case is under trial and is posted to January 4, 2006.
   - Consumer Disputes:

     There is one consumer dispute (Case No. 663/2004) that has been filed by Joka Venata Laxmi, a customer of the Bank against United India Insurance Company Limited wherein she has impleaded Godavari Grameena Bank as a party in relation to settlement of insurance claims in relation to dead milch cattle. The amount claimed by the party is Rs. 35,000.
   - Employee Cases:

     A writ petition has also been filed by G. Vasantha Kumari, the complainant in the aforementioned criminal case before the Andhra Pradeh High Court (WP 13663/2004) requesting the High Court to declare the action of the inquiry committee in relation to the alleged sexual harassment void and to direct the GoI to institute an independent enquiry against the two officials of the Godavari Grameena Bank.

Chaitanya Grameena Bank

1. Contingent Liabilities not provided for as at March 31, 2005:
   - Guarantees given on behalf of constitutents - Rs. 12,880,000
   - Bills for collection - Rs. 1,483,000
2. Litigation against the bank as at December 15, 2005: NIL

Show Cause Notice from the RBI

The RBI has issued a show cause notice (SCN) by its letter number DBS.BMD-II No.7227/14.01.035/2005-06 dated November 8, 2005 to the Chairman and Managing Director. The said notice has been issued in relation to Section 19(2) of the Banking Regulation Act under which the Bank is not allowed to hold more than 30% of the shares in any company. RBI has indicated in the said SCN that the Bank was holding equities in excess of 30% of the paid up capital of each of Styles India Limited, Plaza Hotels and Rithwick Energy Systems Limited.

The RBI noted that the Bank continued to violate the said provisions despite an earlier letter of displeasure on May 6, 2004 by the RBI with regard to a similar case of NCS Sugars Limited and was asked to show cause as to why action should not be taken against the Bank and why a monetary penalty of Rs. 1.5 million (0.5 million per violation) should not be imposed on the Bank. The RBI also stated in the SCN that the Bank may request for personal hearing.

The Bank has, by its letter dated November 25, 2005, responded to the same and apologised for the aforementioned aberrations/deviations. It has further requested the RBI to condone the matter and not to levy any penalty on the Bank and has also requested RBI for a personal hearing.

Cases against the Directors

None of our Directors are involved in any civil or criminal or tax litigations.

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 RBI does not take any responsibility for our financial soundness or for the correctness of any of the statements made or opinions expressed in this behalf.

Approvals for the Issue

1. Letter no. F.No.11/24/2005-BOA dated November 21, 2005, from the GoI, Ministry of Finance, Department of Economic Affairs (Banking Division), granting its approval for the Issue. The approval is subject to the Bank complying with certain conditions, including:
   - compliance with the provisions of Section 3 of the Bank Acquisition Act;
   - ensuring that the Central Government's shareholding does not fall below 51% at any point of time;
   - the Issue would have to be to be timed with due consideration to the prevailing market conditions;
   - obtaining necessary approvals from its Board of Directors, SEBI and other regulatory bodies;
   - post-Issue non-resident equity holding in the Bank shall not exceed 20% of the paid up capital;
   - restricting the Issue expenses to the bare minimum;
   - that the Central Government shall not consider any proposal for disinvestment of its shares in the Bank; and
   - public issue expenses should be restricted to a bare minimum.
2. Letter no. FE.CO.FID/12810/10.78.012/2005-06 dated December 12, 2005, from RBI permitting the Bank to issue shares to NRIs/FIIs with repatriation benefits out of the issue of Equity Shares of Rs. 10 each amounting to Rs. 850 million. The permission is subject to ensuring that the post-Issue non-resident equity holding in the Bank shall not exceed 20% of the post-Issue paid up capital. The permission is further subject to conditions laid down by the Government of India in their approval F.No.11/24/2005-BOA dated November 21, 2005, conditions prescribed by SEBI and terms and conditions for issue of shares as stipulated in Schedules 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 3, 2000, as amended from time to time.

Approvals for our Business

Licences and Approvals from the GoI

Appointment and Remuneration of Directors

1. Notification dated June 9, 2005 issued by the Department of Economic Affairs (Banking Division), MoF, GoI appointing K. Ramakrishnan as Chairman and Managing Director of the Bank up to March 31, 2008 or until further orders, whichever is earlier.
2. Notification no. F.No.9/18/2002-B.O.I dated December 11, 2002 issued by the Department of Economic Affairs (Banking Division), MoF, GoI appointing R. Balakrishnan, as the Executive Director of the Bank up to January 31, 2006 or until further orders, whichever is earlier.
3. Notification no. F.No.9/3/2002-B.O.I dated June 13, 2003 issued by the Department of Economic Affairs (Banking Division), MoF, GoI nominating Rakesh Singh as a Director of the Bank until further orders or until he ceases to be an officer of the MOF, whichever is earlier.
4. Notification no. F.No.9/2/2004-B.O.I dated January 12, 2004 issued by the Department of Economic Affairs (Banking Division), MoF, GoI nominating Dr. Deepali Pant Joshi as a Director of the Bank until further orders.
5. Notification no. F.No.9/20/2001-BOI dated April 1, 2003 issued by the Department of Economic Affairs (Banking Division), Ministry of Finance and Company Affairs, GoI nominating K.V. Subbaiah as the officer employee director for a period of three years or until the appointment of his successor, whichever is earlier. The said notification mentions that the appointment is subject to the decision of the Mumbai High Court in writ petition no. 5394 of 2001 filed by the Bank of Maharashtra Officers Association.
6. Notification no. F.No.15/6/2001-IR dated September 24, 2003 issued by the Department of Economic Affairs (Banking Division), MoF, GoI appointing B.S.R Mohan Reddy, Clerk at the Head Office of the Bank, as a workmen employee Director of the Bank for a period of three years with immediate effect and thereafter until his successor is appointed

or until he ceases to be a workman employee of the Bank or until further orders, whichever is earliest, provided that he would not hold office for a period exceeding six years.

7. Letter no. F. No.20/9/2004-BOI dated July 11, 2005 issued by the Department of Economic Affairs (Banking Division), MoF, GoI to the Chairman and Managing Director intimating him of his remuneration package as the Chairman and Managing Director of the Bank. Attached to this letter are appendices that specify the details of remuneration of the Chairman and Managing Director including the salary, dearness allowance and other perquisites.

8. Letter no. F. No.20/6/2002-BOI dated December 6, 2002 issued by the Department of Economic Affairs (Banking Division), MoF, GoI to R. Balakrishnan intimating him of his remuneration package as the Executive Director of the Bank. Attached to this letter are appendices that specify the details of remuneration of the Executive Director including the salary, dearness allowance and other perquisites.

9. Letter no. F.No.26/2/2000-B.O.I dated January 15, 2004 issued by the Department of Economic Affairs (Banking Division), MoF, GoI, to the Chairman and Managing Directors/ Executive Directors of the nationalised banks stating that the sitting fees payable to the directors nominated by MoF, GoI, shall be Rs. 5,000 per meeting of the board and Rs. 2,500 per meeting of board committees.

10. Notification no. F.No. 11/24/2005-BOA dated December 7, 2005 issued by the Department of Economic Affairs (Banking Division), MoF, GoI stating that the provisions of Sections 13 and 15(1) of the Banking Regulation Act (dealing with the payment of dividend) would not apply to the Bank for a period of two years from the date thereof.

11. Notification no. F.No.9/45/2005-BOI dated November 30, 2005 issued by the Department of Economic Affairs (Banking Division), MoF, GoI appointing Dr. K. Anjanappa as part-time non-official Director of the Bank for a period of three years from the date of the said notification or until his successor is appointed, whichever is earlier.

Taxation

1. Permanent Account No. (PAN) AABCA7375C allotted by the Department of Income Tax to the Bank.

2. Letter no. 718010156/TANDUP/696 dated March 30, 2004 from the NSDL stating that the Income Tax Department has allotted Tax Deduction No. (TAN) HYDA03153D to the Bank.

3. Certificate of Registration dated October 20, 2004 granted by the Superintendent of Central Excise, Hyderabad to the Bank for the payment of service tax on banking and financial services. The registration number is AABCA7375CST042 and the said license has been granted only in relation to the premises at our Head Office.

<u>Licences and Approvals from RBI</u>

1. 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 corresponding new banks after nationalisation of banks. Accordingly, our Bank does not require a license in order to carry out banking activities.

2. Notification no. DBOD.IBS/308/23.01.063/2003-2004 dated September 1, 2003 issued by the RBI approving the proposal of the Bank to establish a representative office in Dubai, UAE.

3. Circular DGBA dated July 15, 2002 issued by RBI to the Bank authorising it to collect income and other direct taxes in the state of Andhra Pradesh including corporate tax, interest tax, expenditure tax, estate duty, wealth tax, gift tax, hotel receipts tax, etc.

4. Letter no. DGBA.GAD.No.919/42.04.013/2003-04 dated February 9, 2004 issued by the RBI to the Bank authorising the Bank to conduct state government business.

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. We have obtained the requisite approvals from the appropriate statutory and regulatory authorities. Except as disclosed hereunder, there are no approvals which have expired, or which have been applied for and have not been granted to the Bank. We are not required to apply for any other approvals for the purposes of running our business and operations.

<u>Registration with SEBI</u>

1. Certificate of Registration dated July 4, 2003 granted by SEBI to the Bank for carrying on the activities of a debenture trustee with the registration code IND000000009. The license is valid till May 31, 2006.

2. Certificate of Registration dated November 29, 2003 granted by SEBI to the Bank for carrying on the activities of a banker to an issue with the registration code INBI00000031. The license is valid till November 30, 2006.

3. Certificate of Registration dated November 29, 2003 granted by SEBI to the Bank for carrying on the activities of a merchant banker category-I with the registration code INM000003507. The license is valid till December 15, 2005.

<u>Approvals granted by the Insurance Regulatory and Development Authority</u>

1. Licence no.1053650 dated February 24, 2003 issued by the IRDA authorizing the Bank to act as a corporate agent for procuring/soliciting insurance business of one general insurer for three years from February 24, 2003. Attached thereto is an authorization permitting the Bank to sell insurance products of United India Insurance Company Limited up to February 23, 2006.

2. Licence no.1989730 dated May 31, 2005 issued by the IRDA authorizing the Bank to act as a corporate agent for procuring/soliciting insurance business of one life insurer for three years from May 31, 2005. Attached thereto is an authorization permitting the Bank to sell insurance products of Life Insurance Corporation of India up to May 30, 2008.

<u>Trademark Registration</u>

1. Certificate of Registration of Trademark No. 295107 dated April 23, 1999 issued by the Trade Marks Registry at Mumbai certifying that the Andhra Bank logo, as appearing on the cover page of this Red Herring Prospectus, has been duly registered as trade mark no. 852872.

Licences and Approvals from foreign regulatory authorities

1. Letter no. 13/200/2005 dated October 11, 2005 issued by the Central Bank of the United Arab Emirates authorizing the Bank to open a representative office in Dubai subject to the Bank undertaking that it would assume all liability against it arising on account of the operations of such representative office. The said license is valid for a period of one year from the date thereof.

Intimations by the Bank to RBI

1. Letter no. 666/25/P.109/1139 dated March 11, 2003 from the Bank to the Director (Banking Operations), Department of Economic Affairs (Banking Division), MoF, GoI RBI stating that at the EGM of the Bank held on March 10, 2003, Anil Kumar Sood, Mallineni Rajaiah, S. Swaminathan and T. Navaneeth Rao were elected as shareholder Directors of the Bank. It was stated that the said Directors had assumed office effective March 11, 2003 and would hold office up to March 10, 2006 as per the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1980 read with Banking Companies (Acquisition and Transfer of Undertaking) Act, 1980, Andhra Bank (Shares and Meetings) Regulations, 2003 and the Banking Regulation Act, 1949.

Miscellaneous

1. Letter no. LR.No.G1/16619/2003 dated January 12, 2004 issued by the Commissioner and Inspector General of Registration and Stamps, Andhra Pradesh directing the Bank to undertake collection of stamp duty and registration fees.

2. Notification no. TRC.6/2004-28848/F. dated July 5, 2004 issued by the Principal Secretary to the Government of Orissa authorising the Bank to engage in government cash transactions in place of the Sub-Treasury at Chikiti, Orissa.

3. Certificate of registration dated March 10, 2003 issued to the Bank registering it with the Association of Mutual Funds of India as an "AMFI Registered Mutual Fund Advisor". The Bank has been assigned registration number ARN - 2122.

Authority for the Issue

Our Board of Directors authorised a fresh issue of up to 85,000,000 Equity Shares of Rs. 10 each pursuant to a resolution passed at its meeting held on September 27, 2005. Our shareholders subsequently authorised the fresh issue of up to 85,000,000 Equity Shares of Rs. 10 each, by a resolution passed unanimously at the EGM of our Bank held on October 24, 2005, subject to the approval of the GoI, the RBI, SEBI and other relevant authorities.

Our Bank applied to the GoI for its consent to a fresh issue of up to 85 million Equity Shares by its letter bearing number 666/25/646/544 dated September 28, 2005. The GoI, Ministry of Finance, Department of Economic Affairs (Banking Division) has granted its approval for the present Issue of 85,000,000 Equity Shares through its letter no. F.No.11/24/2005-BOA dated November 21, 2005, inter alia on the conditions that the holding of GoI shall not fall below 51% at any point of time and allotment to Non-Residents, if any, will be subject to the prior approval of the Exchange Control Department of RBI and should be within the ceiling of 20% of the paid-up capital or any lower ceiling that may be notified by the Government of India under sub-section (2D) of the Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980.

Our Bank has applied to the Chief General Manager, Foreign Exchange Department (Foreign Investment Division) by letter no. 666/25/646/617 dated November 8, 2005 seeking approval of the RBI to issue Equity Shares under this Issue to the public including NRIs and FIIs with repatriation benefits. The RBI has, by its letter no. FE.CO.FID/12810/10.78.012/2005-06 dated December 12, 2005, permitted us to issue shares to NRIs/FIIs with repatriation benefits out of the issue of Equity Shares of Rs. 10 each amounting to Rs. 850 million. The permission is subject to ensuring that the post-Issue non-resident equity holding in the Bank shall not exceed 20% of the post-Issue paid up capital. The permission is further subject to conditions laid down by the Government of India in their approval F.No.11/24/2005-BOA dated November 21, 2005, conditions prescribed by SEBI and terms and conditions for issue of shares as stipulated in Schedules 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 3, 2000, as amended from time to time. However, in the absence of specific approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid up capital of the Bank.

Prohibition by SEBI

Neither we, nor our Directors or our Associates and our Subsidiary, or companies with which our Directors are associated with as directors or promoters, have been prohibited from accessing or operating in the capital markets under any order or direction passed by SEBI.

Eligibility for the Issue

As a corresponding new bank set up under the Bank Acquisition Act, we are exempt from the eligibility norms specified under clause 2.2 and 2.3 of the SEBI Guidelines to make a public issue of equity shares.

The relevant extract of the SEBI Guidelines is set out below:

“ 2.4 Exemption from Eligibility Norms

2.4.1 The provisions of clauses 2.2 and 2.3 shall not be applicable in case of;

(ii) a corresponding new bank set up under the Banking Companies (Acquisition and Transfer of Undertaking) Act, 1980, 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”).”

Clause 2.2 referred in the clause above relates to unlisted companies and Clause 2.3 relates to listed companies. The clauses are reproduced below:

“2.3. Public Issue by Listed Companies

2.3.1 A listed company shall be eligible to make a public Issue of equity shares or any other security which may be converted into or exchanged with equity shares at a later date.

Provided that the aggregate of the proposed Issue and all previous issues made in the same financial year in terms of size (i.e. offer through offer document + firm allotment + promoters’ contribution through the offer document), Issue size does not exceed 5 times its pre-Issue net worth as per the audited balance sheet of the last financial year.

Provided that in case there is a change in the name of the issuer company within the last 1 year reckoned from the date of filing of the offer document), the revenue accounted for by the activity suggested by the new name is not less than 50% of its total revenue in the preceding 1 full-year period)

2.3.2. A listed company which does not fulfil the conditions given in the provisos to Clause 2.3.1 above, shall be eligible to make a public Issue subject to complying with the conditions specified in Clause 2.2.2)"

Therefore, since our Bank is a corresponding new bank and is exempt under clause 2.4 of the SEBI Guidelines, we are eligible to make this Issue.

Disclaimer Clause

AS REQUIRED, A COPY OF THE RED HERRING PROSPECTUS HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THE RED HERRING PROSPECTUS TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE RED HERRING PROSPECTUS. THE BOOK RUNNING LEAD MANAGERS, SBI CAPITAL MARKETS LIMITED, CITIGROUP GLOBAL MARKETS INDIA PRIVATE LIMITED, DSP MERRILL LYNCH LIMITED, ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED AND KOTAK MAHINDRA CAPITAL COMPANY LIMITED HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THE RED HERRING PROSPECTUS ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURES AND INVESTOR PROTECTION) GUIDELINES, 2000 AS FOR THE TIME BEING IN FORCE. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING AN INVESTMENT IN THE PROPOSED ISSUE. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE BANK IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE RED HERRING PROSPECTUS, THE BOOK RUNNING LEAD MANAGERS ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE BOOK RUNNING LEAD MANAGERS, SBI CAPITAL MARKETS LIMITED, CITIGROUP GLOBAL MARKETS INDIA PRIVATE LIMITED, DSP MERRILL LYNCH LIMITED, ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED AND KOTAK MAHINDRA CAPITAL COMPANY LIMITED HAVE FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED NOVEMBER 28, 2005 IN ACCORDANCE WITH THE SEBI (MERCHANT BANKERS) REGULATIONS, 1992, WHICH READS AS FOLLOWS:

1. **"WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE RED HERRING PROSPECTUS PERTAINING TO THE SAID ISSUE.**
2. **ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE BANK.**
3. **WE CONFIRM THAT:**
   - **THE RED HERRING PROSPECTUS FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;**
   - **ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH;**
   - **THE DISCLOSURES MADE IN THE RED HERRING PROSPECTUS ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE;**
   - **BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE RED HERRING PROSPECTUS ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATIONS ARE VALID; AND**

- **WHEN UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS."**

4. **ALL LEGAL REQUIREMENTS PERTAINING TO THE ISSUE WILL BE COMPLIED WITH AT THE TIME OF FILING OF THE RED HERRING PROSPECTUS WITH THE DESIGNATED STOCK EXCHANGE IN ACCORDANCE WITH APPLICABLE LAW, AS ALSO ANY GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, GOI AND ANY OTHER COMPETENT AUTHORITY. ALL LEGAL REQUIREMENTS PERTAINING TO THE ISSUE WILL BE COMPLIED WITH AT THE TIME OF REGISTRATION OF THE PROSPECTUS WITH THE DESIGNATED STOCK EXCHANGE IN ACCORDANCE WITH APPLICABLE LAW, AS ALSO ANY GUIDELINES, INSTRUCTIONS, ETC., ISSUED BY SEBI, GOI AND ANY OTHER COMPETENT AUTHORITY."**

   THE FILING OF THE RED HERRING PROSPECTUS DOES NOT, HOWEVER, ABSOLVE THE BANK FROM ANY LIABILITIES IN THE NATURE OF LIABILITIES UNDER SECTION 63 AND SECTION 68 OF THE COMPANIES ACT OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY AND OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP AT ANY POINT OF TIME, WITH THE BOOK RUNNING, ANY IRREGULARITIES OR LAPSES IN THE RED HERRING PROSPECTUS.

Note:

Our Bank, our 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.andhrabank-india.com, would be doing so at his or her own risk.

The BRLMs accept no responsibility, save to the limited extent as provided in the Memorandum of Understanding entered into among the BRLMs and us dated November 28, 2005 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 available for a section of the investors in any manner whatsoever including at road show presentations, in research or sales reports or at Bidding centres.

We shall not be liable to the Bidders for any failure in downloading the Bids due to faults in any software/hardware system or otherwise.

Disclaimer in Respect of Jurisdiction

This Issue is being made in India to Persons resident in India (including Indian nationals resident in India), who are majors, HUFs, companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), or trusts under the applicable trust law and who are authorised under their constitution to hold and invest in shares, permitted insurance companies and pension funds and to permitted non residents including FIIs, NRIs and other eligible foreign investors. This Red Herring Prospectus does not, however, constitute an offer to sell or an invitation to subscribe to Equity Shares offered hereby in any other jurisdiction to any Person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any Person into whose possession this Red Herring Prospectus comes is required to inform himself or herself about and to observe, any such restrictions. Any dispute arising out of this Issue will be subject to the jurisdiction of appropriate court(s) in Hyderabad, India only.

No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Red Herring Prospectus has been filed with SEBI for observations and SEBI has given its observations. Accordingly, the Equity Shares, 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 our affairs from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

The Equity Shares have not been and will not be registered under the US Securities Act of 1933 ("the Securities Act") or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, "U.S. persons" (as defined in Regulation S under the Securities Act), except pursuant

to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares are only being offered and sold (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.

Disclaimer Clause of the BSE

As required, a copy of this Red Herring Prospectus will be submitted to BSE. BSE has given vide its letter dated December 14, 2005 permission to the Bank to use BSE's name in this Red Herring Prospectus as one of the stock exchanges on which our further securities are proposed to be listed. BSE has scrutinised this Red Herring Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to us. BSE does not in any manner:

1. Warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; or
2. Warrant that this Bank's securities will be listed or will continue to be listed on BSE; or
3. Take any responsibility for the financial or other soundness of this Bank, its promoters, its management or any scheme or project of this Bank;

   and it should not for any reason be deemed or construed to mean that this Red Herring Prospectus has been cleared or approved by BSE. Every Person who desires to apply for or otherwise acquires any securities of this Bank may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against BSE whatsoever by reason of any loss which may be suffered by such Person consequent to or in connection with such subscription/ acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

Disclaimer Clause of the NSE

As required, a copy of this Red Herring Prospectus will be submitted to NSE. NSE has given in its letter dated December 1, 2005 permission to us to use NSE's name in this Red Herring Prospectus as one of the stock exchanges on which our further securities are proposed to be listed, subject to the Bank fulfilling the various criteria for listing including the one related to paid up capital and market capitalization (i.e. the paid up capital shall not be less than Rs. 100 million and the market capitalization shall not be less than Rs. 250 million at the time of listing). The NSE has scrutinised this Red Herring Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to 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 this Red Herring Prospectus has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; nor does it warrant that 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 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 the HSE

The Hyderabad Stock Exchange (HSE) vide its letter dated December 7, 2005 has given permission to the company to use the name of the Exchange in this Offer Document as one of the stock exchanges on which this Company securities are proposed to be listed. HSE has scrutinised this prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the company.

HSE does not in any manner -

1. warrant, certify or endorse the correctness or completeness of any of the contents of this prospectus or
2. warrant that this Company's securities will be listed or will continue to be listed on Exchange or
3. take any responsibility for the financial or other soundness of this Company, its promoters, its management or any scheme or project of this Company

It should not, for any reason be deemed or construed that this prospectus has been cleared or approved by HSE. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the HSE 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.

Filing

A copy of this Red Herring Prospectus has been filed with SEBI at Corporation Finance Department, Ground Floor, Mittal Court, "A" Wing, Nariman Point, Mumbai 400 021.

A copy of this Red Herring Prospectus, along with the documents required to be filed under applicable law, will be delivered for registration to the Designated Stock Exchange located at Mumbai 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

Our existing Equity Shares are listed on the HSE, BSE and the NSE.

Applications have been made to the NSE, BSE and HSE 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 pursuance of this Red Herring Prospectus. If such money is not repaid within eight days after our Bank become liable to repay it, i.e. from the date of refusal or within 70 days from the Bid/Issue Closing Date, whichever is earlier, then the Bank, and every Director of the Bank who is an officer in default shall, on and from such expiry of eight (8) days, be liable to repay the money, with interest at the rate of 15.0% per annum on application money, as prescribed under Section 73 of the Companies Act.

Our Bank shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges mentioned above are taken within seven (7 working days of finalization of 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, Co-Managers, 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, Directors, Company Secretary and Compliance Officer 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 has not been withdrawn up to the time of delivery of this Red Herring Prospectus for filing with the SEBI.

Expert Opinion

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, statutory advertisement expenses 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.	[●]	[●]	[●]
Others	[●]	[●]	[●]
Total estimated Issue expenses	[●]	[●]	[●]

* Will be incorporated after finalisation of Issue Price

Fees Payable to the BRLMs, Brokerage and Underwriting Commission

The total fees payable to the BRLMs including brokerage and underwriting commission for the Issue will be as per the memorandum of understanding executed between the Bank and the BRLMs dated November 28, 2005, 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 Registrar's memorandum of understanding dated November 26, 2005, a copy of which is available for inspection at our Head Office.

Adequate funds will be provided to the Registrar to the Issue to enable them to send refund orders or allotment advice by registered post or speed post or under certificate of posting.

Bidding Period / Issue Period

BID / ISSUE OPENS ON	JANUARY 16, 2006
BID / ISSUE CLOSES ON	JANUARY 20, 2006

Bids and any revision in Bids shall be accepted **only between** 10 **a.m. and** 5 p.m. (Indian Standard Time) during the Bidding Period/Issue Period as mentioned above at the bidding centres mentioned on the Bid cum Application Form except that on the Bid Closing Date, the Bids shall be accepted **only between 10 a.m. and 1 p.m**. (Indian Standard Time) and uploaded till such time as permitted by the BSE and NSE.

We reserve the right to revise the Price Band during the Bidding Period/Issue Period in accordance with SEBI Guidelines. The cap on the Price Band should not exceed the floor of the Price Band by more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of the Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Red Herring Prospectus.

In case of revision in the Price Band, the Bidding Period/Issue Period will be extended for three additional days after revision of Price Band subject to the Bidding Period/Issue Period not exceeding 10 days. Any revision in the Price Band and the revised Bidding Period/Issue Period, if applicable, will be widely disseminated by notification to BSE and NSE by issuing a press release, and also by indicating the change on the websites of the BRLMs, Co-Managers and at the terminals 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 Closing Date/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.

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 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 Closing Date/Issue Closing Date, and adequate funds for the purpose shall be made available to the Registrar by us.

In accordance the requirements of the Stock Exchanges and SEBI Guidelines, we undertake that:

- Allotment shall be made only in dematerialised form within fifteen days from the 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-day time period 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-day time prescribed above, provided that the beneficiary particulars relating to such Bidders as given by the Bidders is valid at the time of the upload of the 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. 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

Except our Subsidiary, there are no companies under the same management. For further details, please refer to the section titled "Our Subsidiary - Our Promoter, Subsidiary and Associates" on page 113 of this Red Herring Prospectus.

Particulars Regarding Public Issues during the Last Five Years

We made a public issue of our Equity Shares in 2001, the details of which are as under:

Public Issue in which 150,000,000 Equity Shares of Rs. 10 each for cash at par aggregating Rs. 1,500 million were allotted to public.

Opening Date	February 14, 2001
Closing Date	February 23, 2001
Date of Allotment	March 24, 2001
Date of Refunds	March 24, 2001
Date of Listing on Stock Exchanges	April 4, 2001

Promise vs. Performance

The prospectus of our initial public offering in February 2001 did not contain any promises and accordingly, a comparison of promises vis-à-vis performance can not be furnished.

Issue of Bonds

Details	**Deemed date of allotment**	**Amount allotted (Rs. in million)**	**Description**	**Allotment Date**	**Date of Redemption**	**Credit Rating**	**Rating**
Bond Series A	May 3, 1999	1500.00	Unsecured, Non-Convertible, Redeemable, Subordinated Bonds	May 3, 1999	August 3, 2006	CARE	CARE AA+
Bond Series B	May 27, 2000	650.00	Unsecured, Non-Convertible, Redeemable, Subordinated Bonds	May 27, 2000	August 27, 2007	CARE	CARE AA+
Bond Series C	December 1, 2001	750.00	Unsecured, Non-Convertible, Redeemable, Subordinated Bonds	December 1, 2001	March 1, 2009	CARE	CARE AA+

Bond Series D	September 28, 2002	1,400.00	Unsecured, Non-Convertible, Redeemable, Subordinated Bonds	September 28, 2002	December 28, 2009	Fitch	AA+ (ind)
						Care	CARE AA+
Bond Series E	January 5, 2005	2,000.00	Unsecured, Non-Convertible, Redeemable, Subordinated Bonds	January 5, 2005	April 5, 2014	Fitch	AA+ (ind)

Commissions and Brokerages paid on previous issues by us

Name of the Issue	***Month and Year***	***Commission and Brokerage (Rs. in million)***
Initial Public Offer	February, 2001	20.25

In case of our bond issues, no separate commission and brokerage is paid apart from the composite lead management fees that is paid to the lead mangers.

Issues otherwise than for cash

We have not issued any Equity Shares for consideration otherwise than for cash in the last five years.

Remuneration Payable to the Directors

Please refer to the section titled "Our Management- Remuneration of Directors" on page 104 of this Red Herring Prospectus.

Purchase of Property

Except as stated in the section titled "Objects of the Issue" and elsewhere in this Red Herring Prospectus, 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.

Except as stated in the section titled "Related Party Transactions" on page 117 of 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.

Stock Market Data for our Equity Shares

Our Equity Shares are listed on BSE, NSE and HSE.

The following table sets forth, the high and low of daily closing prices of our Equity Shares on BSE and the NSE, for a period of three years, for the periods indicated

Period	**BSE**			**NSE**		
	High	**Low**	**Average**	**High**	**Low**	**Average**
2002-2003	31.60	8.90	17.05	31.55	8.95	17.05
2003-2004	64.00	27.80	41.12	64.00	27.80	41.12
2004-2005	123.10	30.00	62.84	122.95	33.00	62.85

The following table sets forth, the number of shares traded on the days when the high and low prices were recorded of our Equity Shares on BSE and the NSE, in the past three years, on the dates indicated:

Period	BSE				NSE			
	High		Low		High		Low	
	Date	No. of shares traded	Date	No. of shares traded	Date	No. of shares traded	Date	No. of shares traded
2002-03	24.02.2003	4755755	05.04.2002	26000	24.02.2003	9474257	05.04.2002	187655
2003-04	15.01.2004	777911	02.04.2003	635920	15.01.2004	2988915	24.04.2003	2423670
2004-05	17.03.2005	2305421	17.05.2004	1188475	17.03.2005	11696123	17.05.2004	4658311

The following table sets forth, the high and low of daily closing prices of our Equity Shares on BSE and the NSE and the number of shares traded, in the last six months, for the periods indicated:

Period	BSE				NSE			
	High	Low	Average*	Volume	High	Low	Average*	Volume
Jun 2005	106.90	93.75	94.30	200947	106.35	93.85	99.69	871286
Jul 2005	115.00	95.00	109.83	212711	120.05	94.70	101.75	1262230
Aug 2005	110.00	91.15	99.15	282090	109.30	90.00	98.89	1056225
Sep 2005	107.00	94.00	100.90	132033	107.00	86.25	100.42	844755
Oct 2005	109.50	83.00	96.80	117822	108.80	83.15	97.54	750925
Nov 2005	94.75	88.00	91.67	105545	94.3	86.70	91.44	708563

* Average of the daily closing share price

The following table sets forth, the number of shares traded on the days when the highs and low prices were recorded of our Equity Shares on BSE and the NSE, in the past six months, on the dates indicated:

Period	BSE				NSE			
	High		Low		High		Low	
	Date	No. of shares traded	Date	No. of shares traded	Date	No. of shares traded	Date	No. of shares traded
Jun 2005	09.06.2005	275841	30.06.2005	105696	08.06.2005	2300137	30.06.2005	1185508
Jul 2005	27.07.2005	398634	01.07.2005	93221	20.07.2005	1559463	01.07.2005	648357
			11.07.2005	68664				
Aug 2005	03.08.2005	503922	24.08.2005	137094	02.08.2005	1414695	31.08.2005	322107
Sep 2005	29.09.2005	273504	21.09.2005	251608	29.09.2005	1578628	23.09.2005	463476
Oct 2005	05.10.2005	138917	28.10.2005	166540	04.10.2005	1173216	28.10.2005	1136858
Nov 2005	17.11.2005	51537	02.11.2005	52146	17.11.2005	609950	02.11.2005	232849

The HSE has, by its letter dated November 19, 2005 informed us that for the period between April 1, 2002 to September 30, 2005, no trading in the Equity Shares of the Bank has taken place on the HSE.

As at September 27, 2005, the day after our Board approved this Issue, the closing market price of our Equity Shares on the BSE was Rs. 101.05 and the NSE was Rs. 100.75.

Mechanism for Redressal of Investor Grievances

Investor grievance will be settled expeditiously and satisfactorily by us. The agreement between the Registrar to the Issue and us will provide for retention of records with the Registrar to the Issue for a period as specified under the SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 from the last date of dispatch of letters of allotment, demat credit and refund orders to enable the investors to approach the Registrar to the Issue for redressed of their grievances.

All grievances relating to the Issue may be addressed to the Registrar to the Issue, MCS 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

We estimate that the average time required by us or the Registrar to the Issue to address routine investor grievances shall be seven days from the date of receipt of the complaint. In case of non-routine complaints and complaints where external agencies are involved, we will seek to redress these complaints as expeditiously as possible.

The details of the investor grievances are as follows:

Category	Pending on March 31, 2005	Received up to December 15, 2005	Processed during December 15, 2005	Pending on December 16, 2005
Complaints Directly from the shareholders	Nil	14	14	Nil
Complaints received from SEBI	-	1	1	Nil
Complaints received from Stock Exchanges	-	-	-	Nil

We have appointed K. Sethu Prasad 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:

Head Office
Dr. Pattabhi Bhavan
5-9-11, Saifabad
Hyderabad - 500 004
Andhra Pradesh, India
Tel: (91 40) 2323 1171
Fax: (91 40) 2323 1385
Email: eco@andhrabank.co.in

Changes in Auditors

Our auditors are appointed by the RBI from time to time and his/their remuneration, rights and duties are regulated by the Bank Acquisition Act.

There have been no changes in our auditors in the last three years, except as detailed below:

Sl. No.	Year of appointment/ cessation	Name	Reason for appointment/cessation
1.	2002-03	M/s. M.R. Narain & Company	Appointment by RBI
2.	2002-03	M/s. K.C. Bhattacherjee & Paul	Cessation on completion of tenure
3.	2003-04	M/s. Chaturvedi & Shah	Appointment by RBI
4.	2003-04	M/s. SRB & Associates	Appointment by RBI
5.	2003-04	M/s. Wahi & Gupta, New Delhi	Cessation on completion of tenure
6.	2003-04	M/s. C.R. Sagdeo & Company	Cessation on completion of tenure
7.	2004-05	M/s. S.C. Vasudeva & Company	Appointment by RBI
8.	2004-05	M/s. Sunil K Gupta & Associates	Appointment by RBI
9.	2004-05	M/s. H. Gambhir & Company	Cessation on completion of tenure
10.	2004-05	M/s. S.R. Mohan & Company	Cessation on completion of tenure

Capitalisation of Reserves or Profits

We have not capitalised any reserves or profits during the last five financial years.

Revaluation of Assets

There has been no revaluation of assets in the last five years.

FINANCIAL INDEBTEDNESS

Details of Tier II Capital of the Bank

(Rs. in million)

Issue Series*	Date of Issue	Amount Outstanding as at September 30, 2005	Date of Repayment	Coupon (%)	Security	Servicing Behaviour
Bond Series I	May 3, 1999	1,500.00	August 3, 2006	13.60	Unsecured	On time
Bond Series II	May 27, 2000	650.00	August 27, 2007	11.10	Unsecured	On time
Bond Series C	December 1, 2001	750.00	March 1, 2009	9.70	Unsecured	On time
Bond Series D	September 28, 2002	1,400.00	December 28, 2009	7.75	Unsecured	On time
Bond Series E	January 5, 2005	2,000.00	April 5, 2014	7.25	Unsecured	On time

* The said bonds have been issued on a private placement basis and IDBI Trusteeship Service Limited (ITSL) is the trustee for the holders of the aforementioned bonds. Pursuant to an agreement dated March 26, 2004 with ITSL for the aforementioned purpose, the Bank is prohibited from declaring/paying any dividend during the period the bonds are outstanding unless all dues to the bondholders/trustees have been paid or satisfactory provisions therefore have been made.

Investments by Our Subsidiary/RRBs in Our Bond Offerings

No investments have been made by our Subsidiary / Associates in the aforementioned bond issues of the Bank.

Details of Unsecured Liabilities

Set forth below is a brief summary of our aggregate unsecured borrowings as at September 30, 2005: (Rs. in million)

Particulars	September 30, 2005
Demand Deposits from Banks	1,536.12
Demand Deposits from Others	22,900.39
Savings Bank Deposits	82,773.92
Term Deposits from Banks	430.35
Term Deposits from Others	191,051.04
Subordinated Debts	6,300.00
Borrowings from Banks / Other financial institutions and agencies	4,384.79
Borrowings outside India	6,250.84
Total	315,627.45

Borrowings in India

Borrowings within India comprise of borrowings from the RBI, borrowings from banks and other financial institutions and agencies. These borrowings are in the ordinary course of the Bank's business comprising of money market operations, refinance availed, etc. Some of these borrowings are against the security of Government securities that are held by the Bank while others are unsecured. In addition, the Bank also has certain borrowings in foreign exchange.

Borrowings in Foreign Exchange

RBI has opened avenues for authorized banks (including the Bank) to generate foreign currency resources by way of bilateral borrowings from overseas correspondent banks for the purposes of export financing.

The Bank has, under a facility agreement dated February 25, 2005, borrowed US$ 75,000,000 as a one-year syndicated loan from a consortium of overseas banks including Bank Muscat, Bank of America and DZ Bank AG. The said loan is repayable within 364 days. The said loan is secured by the following charges:

- charge over housing loan portfolio of the Bank that has been refinanced by NHB;
- the charge over SSI Advances by the Bank have been refinanced by SIDBI; and
- the charge over agricultural loans by the Bank that have been refinanced by NABARD.

The loan agreement for the aforementioned borrowings stipulates that in the event that the GoI shareholding reduces to below 51%, amounts sanctioned to the Bank by members of the consortium would have to be repaid.

TERMS OF THE ISSUE

The Equity Shares being offered are subject to the provisions of the Banking Regulation Act, Constitutional Documents, the terms of this Red Herring Prospectus, Red Herring Prospectus, Prospectus, Bid cum Application Form, the Revision Form, the CAN and other terms and conditions as may be incorporated in the allotment advice and other documents/ certificates that may be executed in respect of the Issue. The Equity Shares shall also be subject to laws as applicable, guidelines, notifications and regulations relating to the issue of capital and listing and trading of securities issued from time to time by SEBI, the Government, Stock Exchanges, RBI, and/or other authorities, as in force on the date of the Issue and to the extent applicable.

Ranking of Equity Shares

The Equity Shares being offered shall be subject to the provisions of our Constitutional Documents and shall rank pari passu in all respects with the existing Equity Shares of the Bank including rights in respect of dividend. The Persons in receipt of Allotment will be entitled to dividend or other benefits, if any, declared by our Bank after the date of Allotment.

Face Value and Issue Price

The Equity Shares with a face value of Rs. 10 each are being offered in terms of this Red Herring Prospectus at a total price of Rs. [●] per Equity Share. At any given point of time, there shall be only one denomination for the Equity Shares.

The face value of the shares is Rs. 10 and the Floor Price is [●] times of the face value and the Cap Price is [●] times of the face value.

Rights of the Equity Shareholder

Subject to applicable laws, the Equity Shareholders shall have the following rights:

- Right to receive dividend, if declared. 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 93 of this Red Herring Prospectus;
- Right to attend general meetings and exercise voting powers, unless prohibited by law. However, the power of shareholders to exercise voting rights is subject to certain restrictions. The Bank Acquisition Act states that no shareholder of the Bank, other than the Central Government 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. 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 93 of this Red Herring Prospectus;
- Right to vote on a poll either in person or by proxy;
- Right of free transferability, subject to the provisions of Section 3(2D) of the Bank Acquisition Act and Regulations 17 and 19 of the Bank Regulations. 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 263 of this Red Herring Prospectus; and
- Such other rights, as may be available to a shareholder of a listed corresponding new bank under the Banking Regulation Act and our Constitutional Documents and under the listing agreements with the Stock Exchanges. However, please note that all rights available to shareholders of a company are not available to shareholders of a corresponding new bank. For information on these restrictions please refer to section titled "Regulation and Policies - Comparative Table of Rights of Shareholders of Companies Act, 1956 and under Regulations applicable to Corresponding New Banks" on page 72 of this Red Herring Prospectus. For a detailed description of the main provisions of our Constitutional Documents dealing, among other things, with voting rights, dividend, forfeiture and lien, transfer and transmission, see the section titled "Main Provisions of Constitutional Documents" on page 263 of this Red Herring Prospectus.

Market Lot and Trading Lot

In terms of Section 68B of the Companies Act, the Equity Shares shall be allotted only in dematerialized form. As per the existing SEBI Guidelines, the trading in the Equity Shares shall only be in dematerialised form for all investors. Since trading of our Equity Shares is in dematerialised form, the tradable lot is one Equity Share. Allotment through this Issue will be done only in electronic form in multiples of one Equity Share subject to a minimum Allotment of [●] Equity Shares. For details of allocation and allotment, see the section titled "Issue Procedure- Basis of Allotment" on page [●] of this Red Herring Prospectus.

Nomination Facility to the Investor

In the nature of the rights specified in Regulation 20 of the Andhra Bank (Shares and Meetings) Regulations, 2003, the sole or first Bidder, along with other joint Bidder, may nominate any one Person in whom, in the event of the death of sole Bidder or in case of joint Bidders, death of all the Bidders, as the case may be, the Equity Shares allotted, if any, shall vest. A Person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the Equity Share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any Person to become entitled to Equity Share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale/transfer/alienation of Equity Share(s) by the Person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at the Head Office of the Bank or at the Registrar and Transfer Agents of our Bank.

Any Person who becomes a nominee in the manner stated above, shall upon the production of such evidence as may be required by the Board of Directors, elect either:

- to register himself or herself as the holder of the Equity Shares; or
- to make such transfer of the Equity Shares, as the deceased holder could have made.

Further, the Board of Directors may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the Equity Shares, and if the notice is not complied with, within a period of 90 days, the Board of Directors may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the Equity Shares, until the requirements of the notice have been complied with.

Notwithstanding anything stated above, since the allotment in the Issue will be made only in dematerialised mode, there is no need to make a separate nomination with the Bank. Nominations registered with the respective depository participant of the applicant would prevail. If the investors require to change the nomination, they are requested to inform their respective depository participant.

Minimum Subscription

If we do not receive the minimum subscription of 90% of the Issue to the public to the extent of the amount payable on application, including devolvement on Underwriters, if any, within 60 days from the Bid Closing Date, we shall forthwith refund the entire subscription amount received. If there is a delay beyond eight days after we become liable to pay the amount (i.e. 60 days from the Bid Closing Date), we shall pay interest prescribed under Section 73 of the Companies Act.

Jurisdiction

Exclusive jurisdiction for the purpose of this Issue is with competent courts/authorities in Hyderabad, India.

Subscription by Eligible Non Residents

There is no reservation for any Non Residents including NRIs, FIIs, foreign venture capital investors registered with SEBI and multilateral and bilateral development financial institutions and such NRIs, FIIs, foreign venture capital investors registered with SEBI and multilateral and bilateral development financial institutions will be treated on the same basis with other categories for the purpose of allocation.

The shareholding of Non Residents in the Bank cannot exceed 20% of the paid up capital of the Bank in terms of Section 3 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 shares of the Bank. For further details, please refer to the section on “Main Provisions of Our Constitutional Documents” on page [●] of this Red Herring Prospectus.

Our Bank had applied to the Chief General Manager, Exchange Department (Foreign Investment Division) through our letter no. 666/25/646/617 dated November 8, 2005 seeking approval of the RBI to issue Equity Shares under this Issue to the public including NRIs and FIIs with repatriation benefits. The RBI has, by its letter no. FE.CO.FID/12810/10.78.012/2005-06 dated December 12, 2005, permitted us to issue shares to NRIs/FIIs with repatriation benefits out of the issue of Equity Shares of Rs. 10 each amounting to Rs. 850 million. The permission is subject to ensuring that the post-Issue non-resident equity holding in the Bank shall not exceed 20% of the post-Issue paid up capital. The permission is further subject to conditions laid down by the Government of India in their approval F.No.11/24/2005-BOA dated November 21, 2005, conditions prescribed by SEBI and terms and conditions for issue of shares as stipulated in Schedules 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 3, 2000, as amended from time to time.

As per RBI regulations, OCBs cannot participate in the Issue.

Application in Issue

Equity Shares being issued through this Red Herring Prospectus can be applied for in the dematerialized form only.

Withdrawal of the Issue

Our Bank, in consultation with the BRLMs, reserves the right not to proceed with the Issue at anytime including after the Bid Closing Date, without assigning any reason thereof.

The Equity Shares have not been and will not be registered under the US Securities Act of 1933 ("the Securities Act") or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, "U.S. persons" (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state laws. Accordingly, the Equity Shares are only being offered and sold (i) in the United States to "qualified institutional buyers", as defined in Rule 144A under 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.

Notice to QIBs: Allotment Reconciliation and Revised CANs

After the Bid/Offer Closing Date, an electronic book will be prepared by the Registrar on the basis of Bid applications received. Based on the electronic book, QIBs will be sent a CAN on or prior to January 25, 2006, 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 physical book prepared by the Registrar. Subject to SEBI Guidelines, certain Bid applications may be rejected due to technical reasons, non-receipt of funds, cancellation of cheques, cheque bouncing, incorrect details, etc., and these rejected applications will be reflected in the reconciliation and basis of Allotment as approved by the Designated Stock Exchange and specified in the physical book. In addition, there are foreign investment limitations applicable to the Bank, which may result in a change (including potentially a decrease) in the number of Equity Shares being finally Allotted to QIBs (including FIIs) that are Non-Resident Investors. As a result, a revised CAN may be sent to QIBs, on or prior to February 1, 2006, and the allocation of Equity Shares in such revised CAN may be different from that specified in the earlier CAN. It is not necessary that a revised CAN will be sent. 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 Allotment of Equity Shares. The CAN will constitute the valid, binding and irrevocable contract (subject only to the issue of a revised CAN) for the QIB to pay the entire Issue Price for all the Equity Shares allocated to such QIB. The revised CAN, if issued, will supersede in entirety the earlier CAN.

ISSUE STRUCTURE

The present Issue of 85,000,000 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*	Up to 38,250,000 Equity Shares	Minimum of 11,475,000 Equity Shares	Minimum of 26,775,000 Equity Shares	Up to 8,500,000 Equity Shares
Percentage of Issue Size available for allocation*	Up to 50% of Net Issue	Minimum 15% of Net Issue	Minimum 35% of Net Issue	Up to 10% of the Issue Size
Basis of Allocation (subject to compliance with sectoral caps)	Proportionate	Proportionate	Proportionate	Proportionate
Minimum Bid	Such number of Equity Shares that the Bid Amount is equal to or exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter.	Such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter.	[●] Equity Shares and in multiples of [●] Equity Share thereafter.	[●] Equity Shares and in multiples of [●] Equity Share thereafter.
Maximum Bid	Such number of Equity Shares not exceeding the Net Issue, subject to applicable limits.	Such number of Equity Shares not exceeding the Net Issue, subject to applicable limits.	Such number of Equity Shares whereby the Bid Amount does not exceed Rs. 100,000.	Such number of Equity Shares not exceeding the Employee Reservation Portion
Mode of Allotment	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.
Trading Lot	One Equity Share	One Equity Share	One Equity Share	One Equity Share
Who can Apply	Public financial institutions, as specified in Section 4A of the Companies Act, scheduled commercial banks, mutual funds, foreign institutional investors registered with SEBI, multilateral and bilateral development financial institutions, and State Industrial Development Corporations, permitted insurance companies registered with the Insurance Regulatory and Development	NRIs, Resident Indian individuals, HUF (in the name of Karta), companies, corporate bodies, scientific institutions societies, trusts	Individuals (including HUFs, NRIs) applying for Equity Shares such that the Bid Amount does not exceed Rs. 100,000 in value.	Eligible Employees

	QIBs	Non-Institutional Bidders	Retail Individual Bidders	Employee Reservation Portion
	Authority, provident funds with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million in accordance with applicable law.			
Terms of Payment	QIB Margin Amount shall be payable at the time of submission of Bid cum Application Form to the BRLMs.	Margin Amount shall be payable at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Amount shall be payable at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Amount applicable to Eligible Employees shall be payable at the time of submission of Bid cum Application Form to the Syndicate Members.
Margin Amount	10% of the Bid Amount	Full Bid Amount on bidding	Full Bid Amount on bidding	Full Bid Amount on bidding

- Subject to valid Bids being received at or above the Issue Price. Under-subscription, if any, in any category, would be allowed to be met with spillover from any other portions at the discretion of the Bank in consultation with the BRLMs. Under-subscription, if any, in the Employee Reservation Portion, would be allowed to be met first with spill over from the Retail Portion and then from any other category.

Bids by QIBs shall be submitted only to the BRLMs or Syndicate Members duly appointed by them in this regard.

Allotment in the manner detailed hereinabove shall be subject to the condition that the Non Resident shareholding in the Bank immediately after the Allotment shall not exceed a maximum of 20% of its post Issue paid up capital.

Book Building Procedure

The Issue is being made through the 100% Book Building Process wherein up to 50% of the Net Issue to the Public shall be available for allocation on a proportionate basis to QIB Bidders. Further not less than 35% of the Net Issue to the public shall be available for allocation on a proportionate basis to the Retail Individual Bidders and not less than 15% of the Net Issue to the public shall be available for allocation on a proportionate basis to Non-Institutional Bidders, subject to valid Bids being received at or above the Issue Price.

Bidders are required to submit their Bids through the Syndicate. However, the Bids by QIB shall be submitted only to the BRLMs or Co-Managers or Syndicate Members duly appointed by them in this regard. 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 Bids under the Non-Institutional Portion, Bids under the Retail Portion and Bids under Employee Reservation Portion, Bids would not be rejected except on the technical grounds listed in this Red Herring Prospectus.

Investors should note that Allotment to all successful Bidders will only be in the dematerialised form. Bidders will not have the option of getting Allotment in physical form. The Equity Shares, on Allotment, shall be traded only in the dematerialised segment of the Stock Exchanges.

Bid cum Application Form

Bidders shall only use the specified Bid cum Application Form bearing the stamp of a member of the Syndicate for the purpose of making a Bid in terms of this Red Herring Prospectus. The Bidder shall have the option to make a maximum of three Bids in the Bid cum Application Form and such options shall not be considered as multiple Bids. Upon the allocation of Equity Shares, dispatch of the CAN, and filing of the Prospectus with the 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 us to make the necessary changes in this Red Herring Prospectus and the Bid cum Application Form as would be required for filing the Prospectus with the Designated Stock Exchange and as would be required by 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 including resident QIBs, Non Institutional Bidders, Retail Individual Bidders and eligible NRIs applying on a non-repatriation basis	White
Eligible NRIs, Non Resident QIBs, etc. applying on a repatriation basis	Blue
Eligible Employees	Pink

The Bids received under the Employee Reservation Category would not be considered in the Book Building process and the determination of the Issue Price.

Who can Bid?

- Indian nationals resident in India who are majors, in single or joint names (not more than three);
- Hindu Undivided Families or HUFs, in the individual name of the Karta. The Bidder should specify that the Bid is being made in the name of the HUF in the Bid cum Application Form as follows: "Name of Sole or First bidder: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the Karta". Bids by HUFs would be considered at par with those from individuals;
- Companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in the Equity Shares;
- Mutual Funds registered with SEBI;
- Indian Financial Institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission, as applicable);
- Venture Capital Funds registered with SEBI;

- Foreign Venture Capital Investors registered with SEBI;
- State Industrial Development Corporations;
- Trusts registered under the Societies Registration Act, 1860, as amended, or under any other law relating to Trusts and who are authorised under their constitution to hold and invest in equity shares;
- NRIs and FIIs on a repatriation basis or a non-repatriation basis subject to applicable laws;
- Scientific and/or Industrial Research Organisations authorised to invest in equity shares;
- Insurance Companies registered with Insurance Regulatory and Development Authority;
- Provident Funds with minimum corpus of Rs. 250 million and who are authorised under their constitution to hold and invest in equity shares;
- Pension Funds with minimum corpus of Rs. 250 million and who are authorised under their constitution to hold and invest in equity shares;
- Multilateral and Bilateral Development Financial Institutions;
- Eligible Employees; and
- Pursuant to the existing regulations, OCBs are not eligible to participate in the Issue.

Note: The BRLMs, Co-Managers and Syndicate Members shall not be entitled to subscribe to this Issue in any manner except towards fulfilling their underwriting obligation. However, associates and affiliates of BRLMs, Co-Managers and Syndicate Members may issue derivative instruments such as participatory notes, equity linked notes or any other similar instruments against Equity Shares allocated to them in the Issue and may receive commissions and other fees in connection with the issuance, offer and sale of such derivative instruments.

Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under applicable law.

Application by Mutual Funds

As per the current regulations, the following restrictions are applicable for investments by mutual funds:

No mutual fund scheme shall invest more than 10% of its net asset value in the Equity Shares or equity related instruments of any company provided that the limit of 10% shall not be applicable for investments in index funds or sector or industry specific funds. No mutual fund under all its schemes should own more than 10% of any company's paid-up share capital carrying voting rights. These limits would have to be adhered to by the mutual funds for investment in the Equity Shares.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

Application by 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. 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.

The above information is given for the benefit of the Bidders. Our 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 do not exceed the applicable limits under laws or regulations.

Application by NRIs

Bid cum application forms have been made available for NRIs at the Head Office of the Bank.

NRI applicants may please note that only such applications as are accompanied by payment in free foreign exchange shall be considered for Allotment. The NRIs who intend to make payment through Non Resident Ordinary (NRO) accounts shall use the form meant for Resident Indians.

Application by FIIs

As per the current regulations, the following restrictions are applicable for investments by FIIs:

The shareholding of a single FII should not exceed 10% of our post-Issue issued capital (i.e. 10% of 485,000,000 Equity Shares of Rs. 10 each) Equity Shares. In respect of an FII investing in our 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, together with the existing shareholding of such sub account.

Applications by 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 prescribe investment restrictions on venture capital funds and foreign venture capital investors registered with SEBI. Accordingly, the holding by any individual venture capital fund or foreign venture capital investor registered with SEBI should not exceed the limits under these regulations.

Maximum and Minimum Bid Size

(a) **For Retail Individual Bidders:** The Bid must be for a minimum of [●] Equity Shares and in multiples of [●] Equity Share thereafter, so as to ensure that the Bid Amount payable by the Bidder does not exceed Rs. 100,000. In case of revision of Bids, the Retail Individual Bidders have to ensure that the Bid Amount does not exceed Rs. 100,000. In case the Bid Amount is over Rs. 100,000 due to revision of the Bid or revision of the Price Band or on exercise of cut-off option, the Bid would be considered for allocation under the Non Institutional Bidders portion. 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 Non-Institutional Bidders and QIB Bidders:** In case of a Non-Institutional Bidder, the Bid must be for a minimum of such number of Equity Shares such that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter. In case of a QIB Bidder, the Bid must be for a minimum of such number of Equity Shares such that the Bid Amount is equal to or exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter. A Bid cannot be submitted for more than the Net Issue to the public. However, the maximum Bid by a QIB Bidder should not exceed the investment limits prescribed for them by applicable laws. **Under existing SEBI Guidelines, a QIB Bidder cannot withdraw its Bid after the Bid Closing Date/Issue Closing Date and is required to pay the QIB Margin upon submission of the Bid cum Application Form.**

    In case of revision in Bids, the Non Institutional Bidders, who are individuals, have to ensure that the Bid Amount is greater than Rs. 100,000 for being considered for allocation in the Non Institutional Portion. In case the Bid Amount reduces to Rs. 100,000 or less due to a revision in Bids or revision of the Price Band, Bids by Non Institutional Bidders who are eligible for allocation in the Retail Portion would be considered for allocation under the Retail Portion. Non Institutional Bidders and QIB Bidders are not allowed to Bid at 'cut-off'.

(c) **For Employee Reservation Portion:** The Bid must be for a minimum of [●] Equity Shares and in multiples of [●] Equity Shares thereafter. A single Bid under the Employee Reservation Portion shall not exceed 8,500,000 Equity Shares.

Information for the Bidders

(a) The Bank will file the Red Herring Prospectus with the Designated Stock Exchange at least three days before the Bid Opening Date/ Issue Opening Date.

(b) The Price Band shall be advertised at least one day prior to the Bid Opening Date/Issue Opening Date in Financial Express, an English language newspaper with wide circulation, Jansatta, a Hindi language newspaper with wide circulation and Andhra Jyothi, a Telugu language newspaper with wide circulation. With regard to the Price Band, the Bidders can be guided by the secondary market prices of the Equity Shares.

(c) The members of the Syndicate will circulate copies of the Red Herring Prospectus along with the Bid cum Application Form to potential investors.

(d) Investors other than QIBs, who are interested in subscribing for our Bank's Equity Shares should approach any of the BRLMs or Co-Managers or Syndicate Members or their authorized agent(s) to register their Bid. QIBs interested in subscribing to our Bank's Equity Shares should only approach any of the BRLMs to register their Bid.

(e) Any investor (who is eligible to invest in our Equity Shares according to the terms of this Red Herring Prospectus and applicable law) who would like to obtain the Red Herring Prospectus and/or the Bid cum Application Form can obtain the same from our Head Office or from any of the members of the Syndicate.

(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.

Method and Process of Bidding

(a) The Bank, the BRLMs shall declare the Bid Opening Date/Issue Opening Date, Bid Closing Date/Issue Closing Date and Price Band at the time of filing the Red Herring Prospectus with the Designated Stock Exchange and also publish the same in Financial Express, an English language newspaper with wide circulation, Jansatta, a Hindi language newspaper with wide circulation and Andhra Jyothi, a Telugu language newspaper with wide circulation. The BRLMs and Syndicate Members shall accept Bids from the Bidders during the Issue Period in accordance with the terms of the Syndicate Agreement. QIBs should submit their BID to BRLMs or Syndicate Members duly appointed by them in this regard.

(b) Investors other than QIBs, who are interested in subscribing for the Equity Shares should approach any of the members of the Syndicate or their authorized agent(s) to register their Bid. QIBs shall register their Bids only through a BRLM or a Syndicate Member duly appointed by it in this regard.

(c) The Bidding Period shall be a minimum of three working days and not exceed seven working days. In case the Price Band is revised, the revised Price Band and Bidding Period will be published in Financial Express, an English language newspaper with wide circulation, Jansatta, a Hindi language newspaper with wide circulation and Andhra Jyothi, a Telugu language newspaper with wide circulationand the Bidding Period may be extended, if required, by an additional three days, subject to the total Bidding Period not exceeding ten working days.

(d) Each Bid cum Application Form will give the Bidder the choice to bid for up to three optional prices (for details see the section titled "Issue Procedure-Bids at Different Price Levels" on page 246 of this Red Herring Prospectus) within the Price Band and specify the demand (i.e. the number of Equity Shares Bid for) in each option. The price and demand options submitted by the Bidder in the Bid cum Application Form will be treated as optional demands from the Bidder and will not be cumulated. After determination of the Issue Price, the maximum number of Equity Shares Bid for by a Bidder at or above the Issue Price will be considered for allocation and the rest of the Bid(s), irrespective of the Bid Price, will become automatically invalid.

(e) The Bidder cannot bid on another Bid cum Application Form after Bids on one Bid cum Application Form have been submitted to any member of the Syndicate. Submission of a second Bid cum Application Form to either the same or to another member of the Syndicate may be treated as multiple Bids and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allocation or Allotment of Equity Shares in this Issue. However, the Bidder can revise the Bid through the Revision Form, the procedure for which is detailed under the section titled "Issue Procedure-Build up of the Book and Revision of Bids" on page 248 of this Red Herring Prospectus.

(f) The Syndicate Members will enter each Bid option into the electronic bidding system as a separate Bid and generate a Transaction Registration Slip, ("TRS"), for each price and demand option and give the same to the Bidder. Therefore, a Bidder can receive up to three TRSs for each Bid cum Application Form.

(g) During the Bidding Period, Bidders may approach the members of the Syndicate to submit their Bid. Every member of the Syndicate shall accept Bids from all clients / investors who place orders through them and shall have the right to vet the Bids. In case of Bids by QIB, the same shall be submitted only through the BRLMs or Syndicate Members duly appointed by them in this regard.

(h) Along with the Bid cum Application Form, all Bidders will make payment in the manner described under the section titled "Issue Procedure - Terms of Payment and Payment into the Escrow Accounts" on page 254 of this Red Herring Prospectus.

Bids at Different Price Levels

1. The Price Band shall be advertised at least one day prior to the Bid Opening Date/ Issue Opening Date in Financial Express, an English language newspaper with wide circulation, Jansatta, a Hindi language newspaper with wide circulation and Andhra Jyothi, a Telugu language newspaper with wide circulation and also on the websites of the BRLMs and the Bank, as appearing on the cover page. Bidders are advised to be guided by the price of our listed Equity Shares in the secondary market for the purposes of making a decision to invest in the Equity Shares offered as part of this Issue. The Bidders can bid at any price within the Price Band, in multiples of [●].

2. In accordance with SEBI Guidelines, the Bank reserves the right to revise the Price Band during the Bidding Period. The cap on the Price Band should not exceed the floor of the Price Band by more than 20%. Subject to compliance with the immediately preceding sentence, the floor of the Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Red Herring Prospectus.

3. In case of revision in the Price Band, the Issue Period will be extended for three additional days after revision of Price Band subject to a maximum of 10 working days. Any revision in the Price Band and the revised Bidding Period/Issue Period, if applicable, will be widely disseminated by notification to NSE and BSE, by issuing a public notice in Financial Express, an English language newspaper with wide circulation, Jansatta, a Hindi language newspaper with wide circulation and Andhra Jyothi, a Telugu language newspaper with wide circulation and also by indicating the change on the websites of the BRLMs and at the bidding terminals of the members of the Syndicate.

4. The Bank in consultation with the BRLMs can finalise the Issue Price within the Price Band in accordance with this clause, without the prior approval of, or intimation, to the Bidders.

5. Bidders can bid at any price within the Price Band. Bidders have to bid for the desired number of Equity Shares at a specific price. **Retail Individual Bidders and Bidders in the Employee Reservation Portion applying for a maximum Bid in any of the bidding options not exceeding Rs. 100,000 may bid at Cut-off Price. However, bidding at Cut-off Price is prohibited for QIB Bidders and Non-Institutional Bidders and such Bids from QIB Bidders and Non Institutional Bidders shall be rejected.**

6. Retail Individual Bidders who bid at the Cut-off Price and employees bidding under the Employee Reservation Portion at Cut-Off agree that they shall purchase the Equity Shares at any price within the Price Band. Retail Individual Bidders bidding at Cut-off Price shall deposit the Bid Amount based on the Cap Price in the respective Escrow Accounts. In the event the Bid Amount is higher than the subscription amount payable by the Retail Individual Bidders who Bid at Cut-off Price (i.e. the total number of Equity Shares allocated in the Issue multiplied by the Issue Price), the Retail Individual Bidders, who Bid at Cut off Price, shall receive the refund of the excess amounts from the respective Escrow Accounts/refund account(s).

7. In case of an upward revision in the Price Band announced as above, Retail Individual Bidders and Eligible Employees bidding under the Employee Reservation, who had bid at Cut-off Price could either (i) revise their Bid or (ii) make additional payment based on the cap of the revised Price Band (such that the total amount i.e. original Bid Amount plus additional payment does not exceed Rs. 100,000 if the Bidder wants to continue to bid at Cut-off Price), with the Syndicate Member to whom the original Bid was submitted. In case the total amount (i.e. original Bid Amount plus additional payment) exceeds Rs. 100,000, the Bid will be considered for allocation under the Non-Institutional Portion in terms of this Red Herring Prospectus. If, however, the Bidder does not either revise the Bid or make additional payment and the Issue Price is higher than the cap of the Price Band prior to the revision, the number of Equity Shares Bid for shall be adjusted downwards for the purpose of Allotment, such that the no additional payment would be required from the Bidder and the Bidder is deemed to have approved such revised Bid at Cut-off Price.

8. In case of a downward revision in the Price Band and employees bidding under the Employee Reservation, announced as above, Retail Individual Bidders, who have bid at Cut-off Price could either revise their Bid or the excess amount paid at the time of bidding would be refunded from the respective Escrow Accounts/refund account(s).

9. In the event of any revision in the Price Band, whether upwards or downwards, the minimum application size shall remain [●] Equity Shares irrespective of whether the Bid Amount payable on such minimum application is not in the range of Rs. 5,000 to Rs. 7,000.

Escrow Mechanism

We shall open Escrow Accounts with one or more Escrow Collection Bank in whose favour the Bidders shall make out the cheque or demand draft in respect of his or her Bid and/or revision of the Bid. Cheques or demand drafts received for the full Bid Amount from Bidders in a certain category would be deposited in the respective Escrow Account. The Escrow Collection Bank will act in terms of this Red Herring Prospectus and the Escrow Agreement. The monies in the Escrow Accounts shall be maintained by the Escrow Collection Bank for and on behalf of the Bidders. The Escrow Collection Bank shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On the Designated Date, the Escrow Collection Bank shall transfer the monies from the Escrow Accounts to the Issue Account as per the terms of the Escrow Agreement. Payments of refund to the Bidders shall also be made from the Escrow Accounts/refund account(s) as per the terms of the Escrow Agreement and this Red Herring Prospectus.

The Bidders should note that the escrow mechanism is not prescribed by SEBI and has been established as an arrangement between us, the members of the Syndicate, the Escrow Collection Bank and the Registrar to the Issue to facilitate collections from the Bidders.

Terms of Payment and Payment into the Escrow Accounts

Each Bidder shall provide the applicable Margin Amount, with the submission of the Bid cum Application Form either by drawing a cheque or demand draft for such Margin Amount of his/her Bid in favour of the Escrow Account of the Escrow Collection Bank(s) (for details see the section titled "Issue Procedure-Payment Instructions" on page 254 of this Red Herring Prospectus) and submit the same to the member of the Syndicate to whom the Bid is being submitted. The Bidder may also provide the applicable Margin Amount by way of an electronic transfer of funds through RTGS mechanism. Each QIB shall provide their QIB Margin Amount only to a BRLM. Bid cum Application Forms accompanied by cash shall not be accepted. The Margin Amount based on the Bid Amount has to be paid at the time of submission of the Bid cum Application Form.

The members of the Syndicate shall deposit the cheque or demand draft with the Escrow Collection Bank(s), which will hold the monies for the benefit of the Bidders till the Designated Date. On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds equivalent to the size of the Issue from the Escrow Accounts, as per the terms of the Escrow Agreement, into the Issue Account with the Banker(s) to the Issue. The balance amount after transfer to the Issue Account shall be held for the benefit of the Bidders who are entitled to refunds on the Designated Date, and not later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Bank(s) shall refund all monies to unsuccessful Bidders and also the excess amount paid on bidding, if any, after adjustment for Allotment to the Bidders.

Each category of Bidders, i.e. QIB Bidders, Non-Institutional Bidders, Retail Individual Bidders and permanent employees in the Employee Reservation Portion, would be required to pay their applicable Margin Amount at the time of the submission of the Bid cum Application Form. The Margin Amount payable by each category of Bidders is mentioned in the section titled "Issue Structure" on page 240 of this Red Herring Prospectus. Where the Margin Amount applicable to the Bidder is less than 100% of the Bid Amount, any difference between the amount payable by the Bidder for Equity Shares allocated at the Issue Price and the Margin Amount paid at the time of Bidding, shall be payable by the Bidder not later than the Pay-in-Date. QIB Bidders will be required to deposit a margin of 10% at the time of submitting of their Bids.

If the payment is not made favouring the appropriate Escrow Account within the time and in the manner stipulated above, the Bid of the Bidder is liable to be rejected. However, if the members of the Syndicate do not waive such payment, the full amount of payment has to be made at the time of submission of the bid form.

Where the Bidder has been allocated lesser number of Equity Shares than he or she had Bid for, the excess amount paid on bidding, if any, after adjustment for allocation, will be refunded to such Bidder within 15 days from the Bid Closing Date/ Issue Closing Date, failing which we shall pay interest at 15% per annum for any delay beyond the periods as mentioned above.

Electronic Registration of Bids

(a) The Syndicate Members will register the Bids using the on-line facilities of NSE and BSE. There will be at least one on-line connectivity in each city, where a stock exchange is located in India and where Bids are being accepted.

(b) NSE and BSE will offer a screen-based facility for registering Bids for the Issue. This facility will be available on the terminals of the Syndicate Members and their authorised agents during the Bidding Period/Issue Period. Syndicate Members can also set up facilities for off-line electronic registration of Bids subject to the condition that they will subsequently download the off-line data file into the on-line facilities for book building on a regular basis. On the Bid Closing Date/ Issue Closing Date, the Syndicate Members shall upload the Bids till such time as may be permitted by the NSE and BSE.

(c) The aggregate demand and price for Bids registered on the electronic facilities of NSE and BSE will be downloaded on a regular basis, consolidated and displayed on-line at all bidding centers. A graphical representation of the consolidated demand and price would be made available at the bidding centers and the websites of the NSE and BSE during the Bidding Period/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, FII, NRI or mutual fund, etc.;
- Numbers of Equity Shares Bid for;
- Bid price;
- Bid cum Application Form number;
- Whether payment is made upon submission of Bid cum Application Form;
- Margin Amount; and
- Depository Participant identification no. and client identification no. of the demat account of the Bidder.

(e) A system generated TRS will be given to the Bidder as a proof of the registration of each of the bidding options. **It is the Bidder's responsibility to obtain the TRS from the members of the Syndicate.** The registration of the Bid by the member of the Syndicate does not guarantee that the Equity Shares shall be allocated either by the members of the Syndicate or the Bank.

(f) Such TRS will be non-negotiable and by itself will not create any obligation of any kind.

(g) In case of QIB Bidders, the BRLMs also have the right to accept the Bid or reject it. However, such rejection should be made at the time of receiving the Bid and only after assigning a reason for such rejection. Additionally, Bids would be liable to be rejected on the technical grounds listed in this Red Herring Prospectus.

(h) It is to be distinctly understood that the permission given by NSE and BSE to use their network and software of the Online IPO system should not in any way be deemed or construed to mean that the compliance with various statutory and other requirements by the Bank or the BRLMs are cleared or approved by NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the statutory and other requirements nor does it take any responsibility for the financial or other soundness of our Bank, our management or any scheme or project of our Bank.

(i) It is also to be distinctly understood that the approval given by NSE and BSE should not in any way be deemed or construed that this Red Herring Prospectus has been cleared or approved by the NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; nor does it warrant that the Equity Shares will be listed or will continue to be listed on the NSE and BSE.

Build Up of the Book and Revision of Bids

(a) Bids registered by various Bidders through the Syndicate Members shall be electronically transmitted to the NSE or BSE mainframe on a regular basis.

(b) The book gets built up at various price levels. This information will be available with the BRLMs on a regular basis.

(c) During the Bidding Period, any Bidder who has registered his or her interest in the Equity Shares at a particular price level is free to revise his or her Bid within the Price Band using the printed Revision Form, which is a part of the Bid cum Application Form.

(d) Revisions can be made in both the desired number of Equity Shares and the Bid price by using the Revision Form. Apart from mentioning the revised options in the Revision Form, the Bidder must also mention the details of all the options in his or her Bid cum Application Form or earlier Revision Form. For example, if a Bidder has Bid for three options in the Bid cum Application Form and he is changing only one of the options in the Revision Form, he must still fill the details of the other two options that are not being changed, in the Revision Form unchanged. Incomplete or inaccurate Revision Forms will not be accepted by the members of the Syndicate.

(e) The Bidder can make this revision any number of times during the Bidding Period. However, for any revision(s) in the Bid, the Bidders will have to use the services of the same member of the Syndicate through whom he or she had placed the original Bid. Bidders are advised to retain copies of the blank Revision Form and the revised Bid must be made only in such Revision Form or copies thereof.

(f) Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft for the incremental amount, if any, to be paid on account of the upward revision of the Bid. The excess amount, if any, resulting from downward revision of the Bid would be returned to the Bidder at the time of refund in accordance with the terms of this Red Herring Prospectus. In case of QIB Bidders, the BRLMs shall collect additional payment, if any, in the form of cheque or demand draft for the incremental amount in the QIB Margin Amount, if any, to be paid on account of the upward revision of the Bid at the time of one or more revisions by the QIB Bidders.

(g) When a Bidder revises his or her Bid, he or she shall surrender the earlier TRS and get a revised TRS from the members of the Syndicate. **It is the responsibility of the Bidder to request for and obtain the revised TRS, which will act as proof of his or her having revised the previous Bid.**

(h) Only Bids that are uploaded to the online IPO system of NSE/BSE shall be considered for allocation/Allotment. In the event of a discrepancy in data between the Bids registered on the online IPO system and the physical Bid cum Application Form, the decision of the Bank in consultation with the BRLMs based on the physical Bid cum Application Form shall be final and binding on all concerned.

Price Discovery and Allocation

(a) After the Bid Closing Date/Issue Closing Date, the BRLMs will analyse the demand generated on the basis of electronic registration of Bids, at various price levels and discuss pricing strategy with us.

(b) Our Bank, in consultation with the BRLMs, shall finalise the "Issue Price" and the number of Equity Shares to be allotted in each investor category.

(c) QIB Bidders will be required to deposit a margin of 10% at the time of submitting of their Bids.

(d) The allocation to all Bidders would be on proportionate basis, in the manner specified in the SEBI Guidelines and subject to sectoral caps. The basis for Allotment would be finalized by the Bank in consultation with Designated Stock Exchange.

(e) Under subscription in any category would be allowed to be met with spill over from any of the other categories at the discretion of the Bank and the BRLMs. Undersubscription, if any, in the Employee Reservation Portion, would be allowed to be met first with spill over from the Retail Portion and then from any other category.

(f) Allocation to Non Residents including FIIs, NRIs, etc applying on repatriation basis will be subject to the terms and conditions stipulated by RBI while granting permission for Allotment of Equity Shares to them.

(g) The BRLMs in consultation with the Bank shall notify the members of the Syndicate of the Issue Price and allocations to their respective Bidders, where the full Bid Amount has not been collected from the Bidders.

(h) The Bank reserves the right to cancel the Issue any time after the Bid Opening Date/Issue Opening Date but before Allotment without assigning any reasons whatsoever.

(i) In terms of SEBI Guidelines, QIB Bidders shall not be allowed to withdraw their Bid after the Bid Closing Date/Issue Closing Date.

(j) The allotment details shall be put on the website of the Registrar to the Issue.

Allotment to Non Residents including NRIs, FIIs, FVCIs, etc.

Allocation to QIBs, Non Residents, FIIs and NRIs applying on repatriation basis would be subject to the terms and conditions stipulated by RBI while granting permission for allotment of Equity Shares to them.

The RBI has, by its letter no. FE.CO.FID/12810/10.78.012/2005-06 dated December 12, 2005, permitted us to issue shares to NRIs/FIIs with repatriation benefits out of the issue of Equity Shares of Rs. 10 each amounting to Rs. 850 million. The permission is subject to ensuring that the post-Issue non-resident equity holding in the Bank shall not exceed 20% of the post-Issue paid up capital. The permission is further subject to conditions laid down by the Government of India in their approval F.No.11/24/2005-BOA dated November 21, 2005, conditions prescribed by SEBI and terms and conditions for issue of shares as stipulated in Schedules 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 3, 2000, as amended from time to time.

However, in the absence of specific approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid up capital of the Bank.

Signing of Underwriting Agreement and Filing with the Designated Stock Exchange

(a) The Bank, the BRLMs, the Co-Managers and the Syndicate Members shall enter into an Underwriting Agreement on finalisation of the Issue Price and allocation(s) to the Bidders.

(b) After signing the Underwriting Agreement, we 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.

Advertisement regarding Issue Price and Prospectus

A statutory advertisement will be issued by the Bank 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

Subject to the section entitled "Notice to QIBs: Allotment Reconciliation and Revised CANs" as set forth below:

(a) upon approval of the basis of allotment by the Designated Stock Exchange, the BRLMs or the Registrar to the Issue shall send to the members of the Syndicate a list of their Bidders who have been allocated Equity Shares in the Issue. Investors should note that the Bank shall ensure that the demat credit of Equity Shares pursuant to allotment shall be made on the same date to all investors in this Issue;

(b) the BRLMs or members of the Syndicate would then send the CAN to their Bidders who have been allocated Equity Shares in the Issue. The dispatch of CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for all the Equity Shares allocated to such Bidder; and

(c) such Bidders who have been allocated Equity Shares and who have already paid the Margin Amount for the said Equity Shares into the Escrow Account at the time of bidding shall directly receive the CAN from the Registrar to the Issue subject, however, to the realisation of their cheque or demand draft paid into the Escrow Accounts. The dispatch of a CAN shall be a deemed a valid, binding and irrevocable contract for the Bidder.

Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be allotted to them pursuant to this Issue.

Notice to QIBs: Allotment Reconciliation and Revised CANs

After the Bid/Offer Closing Date, an electronic book will be prepared by the Registrar on the basis of Bid applications received. Based on the electronic book, QIBs will be sent a CAN on or prior to January 25, 2006, 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 physical book prepared by the Registrar. Subject to SEBI Guidelines, certain bid applications may be rejected due to technical reasons, non-receipt of funds, cancellation of cheques, cheque bouncing, incorrect details, etc., and these rejected applications will be reflected in the reconciliation and basis of Allotment as approved by the Designated Stock Exchange and specified in the physical book. In addition, there are foreign investment limitations applicable to the Bank, which may result in a change (including potentially a decrease) in the number of Equity Shares being finally Allotted to QIBs (including FIIs) that are Non-Resident Investors. As a result, a revised CAN may be sent to QIBs, on or prior to February 1, 2006, and the allocation of Equity Shares in such revised CAN may be different from that specified in the earlier CAN. It is not necessary that a revised CAN will be sent. 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. The revised CAN, if issued, will supersede in entirety the earlier CAN.

GENERAL INSTRUCTIONS

Do's:

- Check if you are eligible to apply;
- Read all the instructions carefully and complete the Resident Bid cum Application Form (White in colour) or Non Resident Bid cum Application Form (Blue in colour) or Employee Reservation Portion Bid cum Application Form (Pink in colour), as the case may be;

- Ensure that the details about Depository Participant and Beneficiary Account are correct as Allotment of Equity Shares will be in the dematerialized form only;
- Ensure that the Bids are submitted at the bidding centres only on forms bearing the stamp of a member of the Syndicate;
- Ensure that you have been given a TRS for all your Bid options;
- Submit revised Bids to the same member of the Syndicate through whom the original Bid was placed and obtain a revised TRS;
- Ensure that the bid is within the Price Band;
- Ensure that you mention your Permanent Account Number (PAN) allotted under the I.T. Act where the maximum Bid for Equity Shares by a Bidder is for a total value of Rs. 50,000 or more and attach a copy of the PAN Card and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating Allotment of PAN along with the application for the purpose of verification of the number, with the Bid cum Application Form. In case you do not have a PAN, ensure that you provide a declaration in Form 60 prescribed under the I.T. Act along with the application;
- Ensure that the Demographic Details (as defined hereinbelow) are updated, true and correct in all respects; and
- QIBs shall submit their Bids only to the BRLMs, or Syndicate Members duly appointed by them in this regard.

Don'ts:

- Do not Bid for lower than the minimum Bid size;
- Do not Bid/ revise Bid price to less than the lower end of the price band or higher than the higher end of the Price Band;
- Do not Bid on another Bid cum Application Form after you have submitted a Bid to the members of the Syndicate;
- Do not pay the Bid Amount in cash;
- Do not provide your GIR number instead of your PAN;
- Do not send Bid cum Application Forms by post; instead submit the same to a member of the Syndicate only;
- Do not Bid at Cut-off Price (applicable to QIB Bidders and Non-Institutional Bidders, and for Eligible Employees where the Bid Amount exceeds Rs. 100,000);
- Do not fill up the Bid cum Application Form such that the Equity Shares Bid for exceeds the Issue size and/or investment limit or maximum number of Equity Shares that can be held under the applicable laws or regulations or maximum amount permissible under the applicable regulations;
- Do not submit Bid accompanied with Stockinvest; and
- Do not submit the Bid without the applicable Margin Amount.

Instructions for Completing the Bid Cum Application Form

Bidders can obtain Bid cum Application Forms and/or Revision Forms from the members of the Syndicate.

Bids and Revisions of Bids

Bids and revisions of Bids must be:

- Made only in the prescribed Bid cum Application Form or Revision Form, as applicable (white colour for Resident Indians and eligible NRIs applying on a non-repatriation basis, blue colour for Non Resident QIBs, NRIs, FIIs, etc. and applying on repatriation basis and pink colour for Bidders under Employee Reservation portion).
- Completed in full, in BLOCK LETTERS in ENGLISH and in accordance with the instructions contained herein, in the Bid cum Application Form or in the Revision Form. Incomplete Bid cum Application Forms or Revision Forms are liable to be rejected.
- The Bids from the Retail Individual Bidders must be for a minimum of [●] Equity Shares and in multiples of [●] thereafter subject to a maximum Bid Amount of Rs. 100,000.

- For Non-Institutional Bidders, Bids must be for a minimum of such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter. For QIB Bidders, Bid Amount must be a minimum of such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter. Bids cannot be made for more than the Issue size. Bidders are advised to ensure that a single Bid from them should not exceed the investment limits or maximum number of Equity Shares that can be held by them under the applicable laws or regulations.
- For Employee Reservation Category, the Bid must be for a minimum of [●] Equity Shares and in multiples of [●] Equity Shares thereafter subject to a maximum of the Employee Reservation Portion being 8,500,000 Equity Shares.
- In single name or in joint names (not more than three, and in the same order as their Depository Participant details).
- Thumb impressions and signatures other than in the languages specified in the Eighth Schedule of the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal.

Bids by Eligible Employees

For the purpose of the Employee Reservation Portion, Eligible Employee means permanent employees of the Bank and its Subsidiary, who are Indian Nationals, are based in India and are physically present in India on the date of submission of the Bid- cum-Application Form.

Bids under Employee Reservation Portion by eligible Employees shall be:

- Made only in the prescribed Bid cum Application Form or Revision Form (i.e. pink colour Form).
- Eligible Employees, as defined above, should mention the following at the relevant place in the Bid cum Application Form:
- Name of the employer
- Employee Number
- The sole/ first bidder should be an Eligible Employee as defined above.
- Only Eligible Employees would be eligible to apply in this Issue under the Employee Reservation Portion.
- Eligible Employees will have to bid like any other Bidder. Only those Bids, which are received at or above the Issue Price, would be considered for allocation under this category.
- Eligible Employees who apply or bid for securities of or for a value of not more than Rs. 100,000 in any of the bidding options can apply at Cut-Off. This facility is not available to other Eligible Employees whose Bid Amount exceeds Rs. 100,000.
- Bid/ Application by Eligible Employees can be made also in the "Net Issue to the Public" and such Bids shall not be treated as multiple Bids.
- If the aggregate demand in this category is less than or equal to 8,500,000 Equity Shares at or above the Issue Price, full allocation shall be made to the Eligible Employees to the extent of their demand.
- Undersubscription, if any, in the Employee Reservation Portion, would be allowed to be met first with spill over from the Retail Portion and then from any other category. In case of under-subscription in the Net Issue, spillover to the extent of under-subscription shall be permitted from the Employee Reservation Portion.
- If the aggregate demand in this category is greater than 8,500,000 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, refer to para "Basis of Allotment" on page 257 of this Red Herring Prospectus.
- This is not an issue for sale within the United States of any equity shares or any other security of the Bank. Securities of the Bank, including any offering of its equity shares, may not be offered or sold in the United States in the absence of registration under U.S. securities laws or unless exempt from registration under such laws.

Bidder's Bank Details

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository the Bidders bank account details. **These bank account details would be printed on the refund order, if any, to be sent to Bidders. Hence, Bidders are advised to immediately update their**

bank account details as appearing on the records of the depository participant. Please note that failure to do so could result in delays in credit of refunds to Bidders at the Bidders sole risk and neither the BRLMs nor the Bank shall have any responsibility and undertake any liability for the same.

Bidder's Depository Account Details

IT IS MANDATORY FOR ALL THE BIDDERS TO GET THEIR EQUITY SHARES IN DEMATERIALISED FORM. ALL BIDDERS SHOULD MENTION THEIR DEPOSITORY PARTICIPANT'S NAME, DEPOSITORY PARTICIPANT IDENTIFICATION NUMBER AND BENEFICIARY ACCOUNT NUMBER IN THE BID CUM APPLICATION FORM. INVESTORS MUST ENSURE THAT THE NAME GIVEN IN THE BID CUM APPLICATION FORM IS EXACTLY THE SAME AS THE NAME IN WHICH THE DEPOSITORY ACCOUNT IS HELD. IN CASE THE BID CUM APPLICATION FORM IS SUBMITTED IN JOINT NAMES, IT SHOULD BE ENSURED THAT THE DEPOSITORY ACCOUNT IS ALSO HELD IN THE SAME JOINT NAMES AND ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE BID CUM APPLICATION FORM.

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository demographic details of the Bidders such as address, bank account details for printing on refund orders and occupation ("Demographic Details"). Hence, Bidders should carefully fill in their Depository Account details in the Bid cum Application Form.

These Demographic Details would be used for all correspondence with the Bidders including mailing of the refund orders/ CANs/Allocation Advice and printing of bank particulars on the refund order and the Demographic Details given by Bidders in the Bid cum Application Form would not be used for these purposes by the Registrar.

Hence, Bidders are advised to update their Demographic Details as provided to their Depository Participants and ensure that they are true and correct.

By signing the Bid cum Application Form, Bidder would have deemed to authorise the depositories to provide, upon request, to the Registrar to the Issue, the required Demographic Details as available on its records.

Refund Orders/Allocation Advice/CANs would be mailed at the address of the Bidder as per the Demographic Details received from the Depositories. Bidders may note that delivery of refund orders/allocation advice/CANs may get delayed if the same once sent to the address obtained from the Depositories are returned undelivered. In such an event, the address and other details given by the Bidder in the Bid cum Application Form would be used only to ensure dispatch of refund orders. Please note that any such delay shall be at the Bidders sole risk and neither the Bank nor the BRLMs shall be liable to compensate the Bidder for any losses caused to the Bidder due to any such delay or liable to pay any interest for such delay.

In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity, then such Bids are liable to be rejected.

Bids under Power of Attorney

In case of Bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the memorandum and articles of association and/or bye laws must be lodged along with the Bid cum Application Form. Failing this, we reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made pursuant to a power of attorney by FIIs, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of their SEBI registration certificate must be lodged along with the Bid cum Application Form. Failing this, we reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made by insurance companies registered with the IRDA, a certified copy of certificate of registration issued by the IRDA must be lodged along with the Bid cum Application Form. Failing this, we reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made by provident funds with minimum corpus of Rs. 250 million (subject to applicable law) and pension funds with minimum corpus of Rs. 250 million, a certified copy of certificate from a chartered accountant certifying the corpus of the provident fund/ pension fund must be lodged along with the Bid cum Application Form. Failing this, we reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

We, in our absolute discretion, reserve the right to relax the above condition of simultaneous lodging of the power of attorney along with the Bid cum Application Form, subject to such terms and conditions that we and the BRLMs may deem fit.

We, in our absolute discretion, reserve the right to permit the holder of the power of attorney to request the Registrar that for the purpose of printing particulars on the refund order and mailing of the refund order/CANs/allocation advice, the Demographic Details given on the Bid cum Application Form should be used (and not those obtained from the Depository of the Bidder). In such cases, the Registrar shall use Demographic Details as given in the Bid cum Application Form instead of those obtained from the depositories.

Bids by NRIs

NRI bidders to comply with the following:

- Individual NRI bidders can obtain the Bid cum Application Forms from the Registrar to the Issue or BRLMs whose addresses are printed on the cover page.
- NRI bidders may please note that only such bids as are accompanied by payment in free foreign exchange shall be considered for Allotment under the NRI category. The NRIs who intend to make payment through Non Resident Ordinary (NRO) accounts shall use the form meant for resident Indians.

Bids by NRIs and FIIs on a repatriation basis

Bids and revision to Bids must be made:

- On the Bid cum Application Form or the Revision Form, as applicable (blue in color), and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.
- In a single name or joint names (not more than three).
- By FIIs for a minimum of such number of Equity Shares and in multiples of [●] thereafter that the Bid Amount exceeds Rs. 100,000. For further details see section titled "Issue Procedure - Maximum and Minimum Bid Size" on page 244 of this Red Herring Prospectus.
- In the names of individuals, or in the names of FIIs but not in the names of minors, firms or partnerships, foreign nationals (including NRIs) or their nominees, foreign venture capital investors.
- Refunds, dividends and other distributions, if any, will be payable in Rupees only and net of bank charges and/or commission. In case of Bidders who remit money through Rupee drafts purchased abroad, such payments in Rupees will be converted into U.S. Dollars or any other freely convertible currency as may be permitted by RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post or speed post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid cum Application Form. We will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.

It is to be distinctly understood that there is no reservation for NRIs and FIIs and other Non Residents and NRIs and FIIs will be treated on the same basis with other categories for the purpose of allocation.

As per RBI regulations, OCBs cannot participate in the Issue.

Payment Instructions

We shall open Escrow Accounts with the Escrow Collection Bank for the collection of the Bid Amounts payable upon submission of the Bid cum Application Form and for amounts payable pursuant to allocation in the Issue.

Each Bidder shall either draw a cheque or demand draft or remit the funds electronically through the RTGS mechanism for the amount payable on the Bid and/or on allocation as per the following terms:

(a) Payment into Escrow Account

- The Bidders for whom the applicable Margin Amount is equal to 100% or 10% as the case may be, shall, with the submission of the Bid cum Application Form draw a payment instrument for the Margin Amount in favour of the Escrow Account and submit the same to the members of the Syndicate.
- QIB Bidders will be required to deposit a margin of 10% at the time of submitting of their Bids.

- In case the above Margin Amount paid by the Bidders during the Bidding Period is less than the Issue Price multiplied by the Equity Shares allocated to the Bidder, the balance amount shall be paid by the Bidders into the Escrow Account within the period specified in the CAN which shall be subject to a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs.
- The payment instruments for payment into the Escrow Account should be drawn in favour of:
  - In case of Resident QIB Bidders : AB FPO - QIB
  - In case of Non Resident QIB Bidders : AB FPO - QIB (NR)
  - In case of Resident Retail and Non Institutional Bidders : AB FPO
  - In case of Non Resident Retail and Non Institutional Bidders applying on a non-repatriation basis: AB FPO (NR)
  - In case of Eligible Employees: AB FPO - EMP

  In case of bids by NRIs applying on a repatriation basis, the payments must be made through Rupee drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in the NRE Accounts or the Foreign Currency Non Resident Accounts, maintained with banks authorised to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of Non Resident Ordinary (NRO) Account of the Non Resident Bidder bidding on a repatriation basis. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to the NRE Account or the Foreign Currency Non Resident Account.

  In case of Bids by FIIs, the payment should be made out of funds held in Special Rupee Account along with documentary evidence in support of the remittance. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to Special Rupee Account.
- Where a Bidder has been allocated a lesser number of Equity Shares than the Bidder has Bid for, the excess amount, if any, paid on bidding, after adjustment towards the balance amount payable on the Equity Shares allocated, will be refunded to the Bidder from the Escrow Accounts.
- The monies deposited in the Escrow Account will be held for the benefit of the Bidders till the Designated Date.
- On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds from the Escrow Account as per the terms of the Escrow Agreement into the Issue Account with the Banker to the Issue.
- On the Designated Date and no later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Bank(s) shall also refund all amounts payable to unsuccessful Bidders and also the excess amount paid on Bidding after adjusting for allocation to the Bidders

Payments should be made by cheque, or demand draft drawn on any bank (including a Co-operative bank), which is situated at, and is a member of or sub-member of the bankers' clearing house located at the centre where the Bid cum Application Form is submitted. Outstation cheques/bank drafts drawn on banks not participating in the clearing process will not be accepted and applications accompanied by such cheques or bank drafts are liable to be rejected. Cash/ money orders/postal orders will not be accepted.

Submission of Bid cum Application Form

All Bid cum Application Forms or Revision Forms duly completed and accompanied by account payee cheques or drafts shall be submitted to the members of the Syndicate at the time of submission of the Bid. Each member of the Syndicate may, at its sole discretion, waive the requirement of payment at the time of submission of the Bid cum Application Form and Revision Form; provided however that the QIB Bidders shall pay the QIB Margin Amount only to the BRLMs or Syndicate Members duly authorized by them in this regard who would deposit the same in the Escrow Account.

No separate receipts shall be issued for the money payable on the submission of Bid cum Application Form or Revision Form. However, the collection center of the members of the Syndicate will acknowledge the receipt of the Bid cum Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid cum Application Form for the records of the Bidder.

Other Instructions

Joint Bids in the case of Individuals

Bids may be made in single or joint names (not more than three). In the case of joint Bids, all payments will be made out in favour of the Bidder whose name appears first in the Bid cum Application Form or Revision Form. All communications will be addressed to the First Bidder and will be dispatched to his or her address.

Multiple Bids

A Bidder should submit only one Bid (and not more than one) for the total number of Equity Shares required. Two or more Bids will be deemed to be multiple Bids if the sole or First Bidder is one and the same.

Bid/ Application by Eligible Employees can also be made in the "Net Issue to the Public" and such bids shall not be treated as multiple bids.

We reserve the right to reject, in our absolute discretion, all or any multiple Bids in any or all portion.

PAN

Where Bid(s) is/are for Rs. 50,000 or more, the Bidder or in the case of a Bid in joint names, each of the Bidders, should mention his/her Permanent Account Number (PAN) allotted under the I.T. Act. **The copy of the PAN card or PAN allotment letter is required to be submitted with the application form.** Applications without this information and documents will be considered incomplete and are liable to be rejected. **It is to be specifically noted that Bidders should not submit the GIR number instead of the PAN as the Bid is liable to be rejected on this ground.** In case the Sole/First Bidder and Joint Bidder(s) is/are not required to obtain PAN, each of the Bidder(s) shall mention "Not Applicable" and in the event that the sole Bidder and/or the joint Bidder(s) have applied for PAN which has not yet been allotted each of the Bidder(s) should mention "Applied for" in the Bid each of the Joint Bidder(s), as the case may be, would be required to submit Form 60 (Form of declaration to be filed by a person who does not have a permanent account number and who enters into any transaction specified in rule 114B), or, Form 61 (form of declaration to be filed by a person who has agricultural income and is not in receipt of any other income chargeable to income tax in respect of transactions specified in rule 114B), as may be applicable, duly filled along with a copy of any one of the following documents in support of the address: (a) Ration Card (b) Passport (c) Driving License (d) Identity Card issued by any institution (e) Copy of the electricity bill or telephone bill showing residential address (f) Any document or communication issued by any authority of the Central Government, State Government or local bodies showing residential address (g) Any other documentary evidence in support of address given in the declaration. **It may be noted that Form 60 and Form 61 have been amended vide a notification issued on December 1, 2004 by the Ministry of Finance, Department of Revenue, Central Board of Direct Taxes. All Bidders are requested to furnish, where applicable, the revised Form 60 or 61, as the case may be.**

Right to Reject Bids

In case of QIB Bidders, the Bank, in consultation with the BRLMs may reject Bids at the time of acceptance of the bid provided that the reasons for rejecting the same shall be provided to such Bidder in writing. In case of QIB Bidders, Non-Institutional Bidders and Retail Individual Bidders who Bid, we have a right to reject Bids on technical grounds. Consequent refunds shall be made by cheque or pay order or draft and will be sent to the Bidder's address at the Bidder's risk.

Grounds for Technical Rejections

Bidders are advised to note that Bids are liable to be rejected on among others on the following technical grounds:

- Amount paid does not tally with the amount payable for the highest value of Equity Shares Bid for;
- Age of First Bidder not given;
- In case of partnership firms, shares may be registered in the names of the individual partners and no firm as such, shall be entitled to apply;
- Bids by Persons not competent to contract under the Indian Contract Act, 1872, including minors, insane Persons;
- PAN photocopy/ PAN Communication/ Form 60 declaration along with documentary evidence in support of address given in the declaration, not given if Bid is for Rs. 50,000 or more;
- Submission of the GIR number instead of the PAN;
- Bids for lower number of Equity Shares than specified for that category of investors;

- Bids at a price less than lower end of the Price Band;
- Bids at a price more than the higher end of the Price Band;
- Bids at Cut-off Price by Non-Institutional Bidders and QIB Bidders.
- Bids for number of Equity Shares, which are not in multiples of [●];
- Category not ticked;
- Multiple Bids as defined in this Red Herring Prospectus;
- In case of Bid under power of attorney or by limited companies, corporate, trust etc. relevant documents are not submitted;
- Bids accompanied by money order/postal order/cash
- Signature of sole and /or joint Bidders missing;
- Bid cum Application Forms does not have the stamp of the BRLMs, or the Co-Managers or the Syndicate Members;
- Bid cum Application Forms does not have Bidder's depository account details;
- Bid cum Application Forms are not delivered by the Bidders within the time prescribed as per the Bid cum Application Forms, Bid Opening Date/Issue Opening Date advertisement and this Red Herring Prospectus and as per the instructions in this Red Herring Prospectus and the Bid cum Application Forms;
- In case no corresponding record is available with the Depositories that matches three parameters namely, names of the Bidders (including the order of names of joint holders), the Depositary Participant's identity (DP ID) and the beneficiary's identity;
- Bids for amounts greater than the maximum permissible amounts prescribed by the regulations. See the details regarding the same in the section titled "Issue Procedure-Bids at Different Price Levels" on page 246 of this Red Herring Prospectus;
- Bids by OCBs;
- Bids by employees of the Bank or its Subsidiary who are not Eligible Employees;
- Bids without the applicable Margin Amount;
- Bids by QIBs are not made to the BRLMs,   or Syndicate Members duly appointed by them in this regard; and
- Bids by US Persons other than "qualified institutional buyers" as defined in Rule 144A under the Securities Act.

Basis of Allotment

The Designated Stock Exchange along with the post-Issue Book Running Lead Manager and the Registrar to the Issue shall be responsible to ensure that the basis of Allotment is finalised in a fair and proper manner and the drawal of lots (where required), to finalise the basis of Allotment, would be done in the presence of a public representative on the governing board of the Designated Stock Exchange.

The final 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 applicable foreign investment limits as specified in "Restriction on Transfer of Shares - Regulations and Policies" as appearing on page 92 of this Red Herring Prospectus.

A. For Retail Individual Bidders

- Bids received from the Retail Individual Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The Allotment to all the successful Retail Individual Bidders will be made at the Issue Price.
- The Net Issue size less Allotment to Non-Institutional Bidders and QIB Bidders shall be available for Allotment to Retail Individual Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this portion is less than or equal to 26,775,000 Equity Shares at or above the Issue Price, full Allotment shall be made to the Retail Individual Bidders to the extent of their demand.

- If the aggregate demand in this category is greater than 26,775,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis up to a minimum of [●] Equity Shares and in multiples of one (1) Equity Share thereafter. For the method of proportionate basis of allocation, refer below.

B. For Non-Institutional Bidders

- Bids received from Non-Institutional Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The Allotment to all successful Non-Institutional Bidders will be made at the Issue Price.
- The Net Issue size less allocation to QIB Bidders and Retail Individual Bidders shall be available for allocation to Non-Institutional Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 11,475,000 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 11,475,000 Equity Shares at or above the Issue Price, allocation shall be made on a proportionate basis up to a minimum of [●] Equity Shares and in multiples of 1 Equity Shares thereafter. For the method of proportionate basis of allocation refer below.

C. For QIB Bidders

- Bids received from the QIB Bidders at or above the Issue Price shall be grouped together to determine the total demand under this category. The Allotment to all the QIB Bidders will be made at the Issue Price.
- The Issue size less allocation to Non-Institutional Portion and Retail Portion shall be available for proportionate allocation to QIB Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- However, eligible Bids by Mutual Funds only shall first be considered for allocation proportionately in the Mutual Fund Portion. After completing proportionate allocation to Mutual Funds for an amount of up to 1,912,500 Equity Shares (the Mutual Fund Portion), the remaining demand by Mutual Funds, if any, shall then be considered for allocation proportionately, together with Bids by other QIBs, in the remainder of the QIB Portion (i.e. after excluding the Mutual Fund Portion). If the aggregate demand by Mutual Funds is less than 1,912,500 Equity Shares, the balance Equity Shares available for allocation in the Mutual Fund Portion will first be added to the QIB Portion and allocated proportionately to the QIB Bidders. In the event that the aggregate demand in the QIB Portion has been met, under-subscription, if any, would be allowed to be met with spill-over from any other category or combination of categories at the discretion of our Bank, in consultation with the BRLMs and the Designated Stock Exchange. For the purposes of this paragraph it has been assumed that the QIB Portion for the purposes of the Issue amounts to 50% of the Net Issue size, i.e. 38,250,000 Equity Shares.
- Subject to the applicable limits on shareholding of various categories of shareholders, allotment shall be undertaken in the following manner:

  (a) In the first instance allocation to Mutual Funds for 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 form Mutual Funds is less than 5% of the QIB Portion then all Mutual Funds shall get full allotment to the extent of valid bids received above the Issue Price.

    (iii) Equity Shares remaining unsubscribed, if any, not allocated to Mutual Funds shall be available to all QIB Bidders as set out in (b) below;

  (b) In the second instance allocation to all QIBs shall be determined as follows:

    (i) 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;

(iv) In the event, allocation to remaining QIB Bidders on a proportionate basis results in us breaching applicable foreign investment limits for the Bank, QIBs (including FIIs) that are Non Residents shall receive such lower proportion of the allocation such as to comply with the applicable foreign investment limits. Such additional Equity Shares would be allocated to the remaining QIB Bidders on a proportionate basis.

- Except for any Equity Share allocated to QIB Bidders due to undersubscription in the Retail Portion and/or Non Institutional Portion, the aggregate allocation to QIB Bidders shall be made on a proportionate basis up to a maximum of [●] Equity Shares and in multiples of [●] Equity Shares thereafter. For the method of proportionate basis of allocation refer below.

D. For Employee Reservation Portion

- Bids received from the Eligible Employees at or above the Issue Price shall be grouped together to determine the total demand under this category. The allocation to all the successful Employees will be made at the Issue Price.
- If the aggregate demand in this category is less than or equal to 8,500,000 Equity Shares at or above the Issue Price, full allocation shall be made to the Employees to the extent of their demand.
- If the aggregate demand in this category is greater than 8,500,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis up to a minimum of [●] Equity Shares. For the method of proportionate basis of allocation, refer below.
- Only Eligible Employees are eligible to apply under Employee Reservation Portion.

Method of proportionate basis of allocation in the QIB, Retail, Non-Institutional and Employee Reservation Portions

Bidders will be categorized according to the number of Equity Shares applied for by them.

(a) The total number of Equity Shares to be allotted to each portion as a whole shall be arrived at on a proportionate basis, being the total number of Equity Shares applied for in that portion (number of Bidders in the portion multiplied by the number of Equity Shares applied for) multiplied by the inverse of the over-subscription ratio.

(b) Number of Equity Shares to be allotted to the successful Bidders will be arrived at on a proportionate basis, being the total number of Equity Shares applied for by each Bidder in that portion multiplied by the inverse of the over-subscription ratio.

(c) If the proportionate Allotment to a Bidder is a number that is more than [●] but is not a multiple of one (which is the market lot), the decimal would be rounded off to the higher whole number if that decimal is 0.5 or higher. If that number is lower than 0.5, it would be rounded off to the lower whole number. Allotment to all Bidders in such categories would be arrived at after such rounding off.

(d) In all Bids where the proportionate Allotment is less than [●] Equity Shares per Bidder, the Allotment shall be made as follows:

- Each successful Bidder shall be Allotted a minimum of [●] Equity Shares; and
- The successful Bidders out of the total Bidders for a portion shall be determined by draw of lots in a manner such that the total number of Equity Shares Allotted in that portion is equal to the number of Equity Shares calculated in accordance with (b) above; and
- Each successful Bidder shall be Allotted a minimum of [●] Equity Shares.

(e) If the Equity Shares allocated on a proportionate basis to any portion are more than the Equity Shares allotted to the Bidders in that portion, the remaining Equity Shares available for Allotment shall be first adjusted against any other portion, where the Equity Shares are not sufficient for proportionate Allotment to the successful Bidders in that portion. The balance Equity Shares, if any, remaining after such adjustment will be added to the portion comprising Bidders applying for minimum number of Equity Shares.

Equity Shares in Dematerialised Form with NSDL or CDSL

The Allotment of Equity Shares in this Issue shall be only in a de-materialised form, (i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through the electronic mode).

In this context, two agreements have been signed among the Bank, the respective Depositories and the Registrar to the Issue:

- a tripartite agreement dated December 29, 2000 with NSDL, us and MCS Limited; and
- a tripartite agreement dated November 15, 2000 with CDSL, us and MCS Limited.

All Bidders can seek Allotment only in dematerialised mode. Bids from any Bidder without relevant details of his or her depository account are liable to be rejected.

- A Bidder applying for Equity Shares must have at least one beneficiary account with either of the Depository Participants of either NSDL or CDSL prior to making the Bid.
- The Bidder must necessarily fill in the details (including the Beneficiary Account Number and Depository Participant's identification number) appearing in the Bid cum Application Form or Revision Form.
- Allotment to a successful Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder.
- Names in the Bid cum Application Form or Revision Form should be identical to those appearing in the account details in the Depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the Depository.
- If incomplete or incorrect details are given under the heading 'Bidders Depository Account Details' in the Bid cum Application Form or Revision Form, it is liable to be rejected.
- The Bidder is responsible for the correctness of his or her Demographic Details given in the Bid cum Application Form vis-à-vis those with his or her Depository Participant.
- It may be noted that Equity Shares in electronic form can be traded only on the stock exchanges having electronic connectivity with NSDL and CDSL. Of the Stock Exchanges where our Equity Shares are proposed to be listed, only the NSE and the BSE have electronic connectivity with CDSL and NSDL.
- The trading of the Equity Shares of the Bank would be in dematerialised form only for all investors in the demat segment of the respective Stock Exchanges.

Communications

All future communications in connection with Bids made in this Issue should be addressed to the Registrar to the Issue quoting the full name of the sole or First Bidder, Bid cum Application Form number, details of Depository Participant, number of Equity Shares applied for, date of Bid form, name and address of the member of the Syndicate where the Bid was submitted and cheque or draft number and issuing bank thereof.

Impersonation

Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Companies Act, which is reproduced below:

"Any person who:

(a) makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or

(b) otherwise induces a company to allot, or register any transfer of shares, therein to him, or any other person in a fictitious name,

shall be punishable with imprisonment for a term which may extend to five years."

Undertakings by the Bank

We undertake as follows:

- that the complaints received in respect of this Issue shall be attended to by us expeditiously and satisfactorily;

- that all steps will be taken for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges where the Equity Shares are proposed to be listed within seven working days of finalisation of the Allotment;
- that the funds required for dispatch of refund orders or Allotment advice by registered post or speed post shall be made available to the Registrar to the Issue by us;
- that the refund orders or Allotment advice to the successful Bidders shall be dispatched within specified time; and
- that no further issue of Equity Shares shall be made till the Equity Shares offered through the Red Herring Prospectus are listed or until the Bid monies are refunded on account of non-listing, under-subscription etc.

Utilisation of Issue Proceeds

The Bank shall not have any recourse to the Issue proceeds until the approval for trading the Equity Shares is received from the Stock Exchanges.

Disposal of Applications and Applications Money and Interest in Case of Delay in Despatch of Allotment Letters/ Refund Orders

We shall ensure dispatch of Allotment advice, refund orders and give benefit to the beneficiary account with Depository Participants and submit the documents pertaining to the Allotment to the Stock Exchanges within two working days of date of finalisation Allotment of Equity Shares. We shall dispatch refund orders, if any, of value up to Rs. 1,500, "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 and adequate funds for the purpose shall be made available to the Registrar by us.

We shall use best efforts to ensure that all steps for completion of the necessary formalities for listing and commencement of trading at the Stock Exchanges where the Equity Shares are proposed to be listed are taken within seven working days of Allotment.

In accordance with the requirements of the Stock Exchanges and SEBI Guidelines, we further undertake that:

- Allotment shall be made only in dematerialised form within 15 days of the Bid Closing Date/Issue Closing Date;
- dispatch refund orders within 15 days of the Bid Closing Date/Issue Closing Date would be ensured; and
- we shall pay interest at 15% per annum (for any delay beyond the 15 day time period as mentioned above), if Allotment is not made and refund orders are not dispatched and/or demat credits are not made to investors within the 15 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.

Refunds will be made by cheques, pay orders or demand drafts drawn on the Escrow Collection Bank(s) and payable at par at places where Bids are received. Bank charges, if any, for cashing such cheques, pay orders or demand drafts at other centers will be payable by the Bidders.

RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES

Foreign investment in corresponding new banks is regulated by the provisions of the Bank Acquisition Act. Under Section 3(2D) of these statutes, 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) 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 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 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 prescribed that foreign investment in the aggregate is permitted in the correspondent new bank, like our Bank only till 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 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.

MAIN PROVISIONS OF CONSTITUTIONAL DOCUMENTS

We were constituted as a "corresponding new bank" in 1980 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 (Management and Miscellaneous Provisions) Scheme, 1980 and the Bank Regulations deal with the management of corporate affairs in our Company, 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, 1980 was made by S.O. 875(E) dated November 4, 1980 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 correspondent new bank like our Bank see the section titled "Regulations and Policies" on page [●] of this Red Herring Prospectus.

For more details, investors are advised to refer to the complete text of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, Banking Regulation Act, 1949, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1980 and the Andhra Bank (Shares and Meetings) Regulations, 2003.

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 xvii of this Red Herring Prospectus.

The salient features of the same are as below.

Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980

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 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 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 corresponding new bank.

(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 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 arid Transfer of Undertakings) Act. 1980 (40 of 1980) 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 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 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.

(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 is 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.

(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 arid 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 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 (a), by itself or through any agent approved by the Reserve Bank.)

S 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 hank 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 emolument 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.

S 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.

S 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 arty 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;

(d) such incidental, consequential and supplemental matters as may be necessary to carry out the provisions of this Act.

(3) Every Board of Director of a corresponding new bank constituted under any scheme made under sub-section (1), shall include-

(a) not more than two 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, 1980 (40 of 1980);

(c) one Director who is an Officer of the Reserve Bank 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) not more than two Directors to be nominated by the Central Government from amongst the Securities and Exchange Board of India established under Section 3 of the Securities and Exchange hoard of India Act, 1992 (15 of 1992), the National Bank for Agriculture and Rural Development established under Section 3 of the

National Bank for Agriculture and Rural Development Act, 1981 (61 of 1981), public financial institutions as specified in sub-section (1), or notified from time to time under sub-section (2) of Section 4A of the Companies Act, 1956 (1 of 1956) and other institutions established or constituted by or under arty Central Act or incorporated under the Companies Act, 1956 and having not less than fifty one per cent of the paid-up share capital held or controlled by the Central Government;

(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 twenty per cent of the total paid-up capital, not more than two Directors.

(II) more than twenty per cent but not more than forty per cent of the total paid-up capital, not more than four Directors,

(III) more than forty per cent of the total paid-up capital, not more than six 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.

(3-A) The Directors to be nominated under clause (h) or to be elected under clause (i) of sub-section (3-A) 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) economics,

(iv) co-operation,

(v) finance,

(vi) law,

(vii) small-scale industry,

(viii) any other matter the special knowledge of, arid 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.

(3-B) Where the Reserve Bank is of the opinion that any Director of a corresponding new bank elected under clause (1) of sub-section (3) does not fulfill the requirements of sub-section (3A), 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-section (3A) 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, 1980 (40 of 1980).

S 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 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

(a) the balance-sheet shall not be treated as not disclosing a true and fair view of the affairs of the corresponding new bank, and

(b) 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 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.

S 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 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.

S 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.

S 15. Certain defects not to invalidate acts of proceedings

(1) All acts done by the Custodian, acting in good faith, shall, notwithstanding any defect in his appointment or in the procedure, be valid.

(2) 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.

(3) 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.

S 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.

S 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.

Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1980

3. Constitution of the Board

(2) (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 terms 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.

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.

(2) 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.

(3) 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.

(4) 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.

(5) 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 and thereafter until his successor has been nominated and 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 thereafter until his successor shall have been duly elected 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 Director, 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 (d) 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 Directors

(D) The Directors referred to in Clauses (b), (c) and (g) of sub-section (3) of Section 9 of the Act.

(E) One 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.

17. 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.

19. 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.

Andhra Bank (Shares and Meetings) Regulations, 2003

3. NATURE OF SHARES

The shares of Andhra 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 alteration in 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:

a) 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.

b) 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.

a) 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 S, 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'.)

b) 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.

c) 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:

a) 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.

b) 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.

c) 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.

d) 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.

e) 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:

a) 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.

b) 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.

c) Not withstanding anything contained in sub-regulation (b), 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: - "Illustrations of 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 ANNUAL 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.

c) 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 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.

CHAPTER III

SECURITIES OF THE BANK HELD IN A DEPOSITORY

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.

CHAPTER IV

MEETINGS OF SHAREHOLDERS

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 atleast 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 atleast 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 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

CHAPTER V

ELECTION OF DIRECTORS

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 atleast 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.

CHAPTER VI

VOTING RIGHTS OF SHAREHOLDERS

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 Closing Date/Issue Closing Date.

Material Contracts

1. Letter of appointment dated November 14, 2005 to SBI Capital Markets Limited, Citigroup Global Markets India Private Limited, DSP Merrill Lynch Limited, Enam Financial Consultants Private Limited and Kotak Mahindra Capital Company from our Bank appointing them as BRLMs.
2. Letter of appointment dated November 14, 2005 for the Registrar to the Issue.
3. Letter of appointment dated December 24, 2005 for the Co-Managers to the Issue.
4. Memorandum of Understanding amongst our Bank and the BRLMs dated November 28, 2005.
5. Memorandum of Understanding executed by our Bank and the Registrar to the Issue dated November 26, 2005.
6. Escrow Agreement dated [●] between the Bank, the BRLMs, Co-Managers, Escrow Collection Bank and the Registrar to the Issue.
7. Syndicate Agreement dated [●] between the Bank, the BRLMs, Co-Managers and the Syndicate Members.
8. Underwriting Agreement dated [●] between the Bank, the BRLMs, Co-Managers and the Syndicate Members.

Material Documents

1. Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, as amended from time to time.
2. Andhra Bank (Shares and Meetings) Regulations, 2003, as amended from time to time.
3. Shareholders' resolution dated October 24, 2005 in relation to this Issue and other related matters.
4. Resolution of the Board of Directors dated September 27, 2005 in relation to this Issue and other related matters.
5. Letter no. F.No. 11/24/2005-BOA dated November 21, 2005 from the GoI, Ministry of Finance, Department of Economic Affairs (Banking Division), granting its approval for the Issue.
6. Letter no. FE.CO.FID/12810/10.78.012/2005-06 dated December 12, 2005 issued by the RBI permitting us to issue shares to NRIs/FIIs with repatriation benefits out of the issue of Equity Shares of Rs. 10 each amounting to Rs. 850 million.
7. Reports of the Auditors dated November 26, 2005 prepared as per Indian GAAP and disclosed on page 119 of 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. 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.
11. Consents of BRLMs, Co-Managers, Advisors to the Issue, 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, Directors, Company Secretary and Compliance Officer, as referred to, in their respective capacities.
12. In-principle listing applications dated November 28, 2005 and approvals dated December 1, 2005, December 14, 2005 and December 7, 2005 from NSE, BSE and HSE respectively.
13. Tripartite agreement between NSDL, our Bank and the Registrar to the Issue dated December 29, 2000.
14. Tripartite agreement between CDSL, our Bank and the Registrar to the Issue dated November 15, 2000.
15. Due diligence certificate dated November 28, 2005 to SEBI from the BRLMs.

16. Tax benefit report dated November 26, 2005 provided by the Auditors.
17. SEBI observation letter no. CFD/DIL/ISSUES/V/55947/2005 dated December 19, 2005 issued in relation to the DRHP.
18. Management Reports (including Internal Management Information System) and Audit Reports Of the Bank in relation to all the Cases against the Bank

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, 1980, and subsequent amendments made thereto, Andhra Bank (Shares and Meetings) Regulations, 2003, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1980 and the guidelines issued by the Government of India or the guidelines issued by 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, 1980 and subsequent amendments made thereto, Andhra Bank (Shares and Meetings) Regulations, 2003, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1980, 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 till the filing of the 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

K. Ramakrishnan	
R. Balakrishnan	*
Rakesh Singh	*
Dr. Deepali Pant Joshi	*
Anil Kumar Sood	*
T. Navaneeth Rao	*
S. Swaminathan	*
Mallineni Rajaiah	*
K.V. Subbaiah	*
B.S.R Mohan Reddy	*
K. Anjanappa	*

* Through their constituted attorney K. Ramakrishnan, Chairman and Managing Director, through the respective powers of attorneys.

SIGNED BY V. RAMGOPAL, GENERAL MANAGER, FUNDS AND FOREIGN EXCHANGE

Date: December 29, 2005

Place:Hyderabad

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