RED HERRING PROSPECTUS
Dated February 14, 2005
100% Book Building Issue

PUNJAB NATIONAL BANK

(Constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 as Punjab National Bank on July 19, 1969. On April 13, 1987, the Head Office of our Bank was changed from 5, Sansad Marg, New Delhi 110 001 to 7, Bhikhaiji Cama Place, New Delhi 110 066).

Head Office: 7, Bhikhaiji Cama Place, New Delhi 110 066, India.
Tel: (91 11) 2610 2303; Fax (91 11) 2610 8741 E-mail: fpo@pnb.co.in; Website: www.pnbindia.com

PUBLIC ISSUE OF UP TO 80,000,000 EQUITY SHARES OF RS. 10 EACH FOR CASH AT A PRICE OF RS. [●] PER EQUITY SHARE AGGREGATING RS. [●] MILLION (THE "ISSUE") BY PUNJAB NATIONAL BANK ("THE BANK" OR "THE ISSUER"). THE ISSUE COMPRISES A NET ISSUE TO THE PUBLIC OF UP TO 64,000,000 EQUITY SHARES OF RS. 10 EACH (THE "NET ISSUE"), A RESERVATION FOR EMPLOYEES OF UP TO 8,000,000 EQUITY SHARES OF RS. 10 EACH AND A RESERVATION FOR EXISTING SHAREHOLDERS OF UP TO 8,000,000 EQUITY SHARES OF RS. 10 EACH, AT THE ISSUE PRICE. THE ISSUE WOULD CONSTITUTE 25.37% OF THE FULLY DILUTED POST-ISSUE PAID-UP CAPITAL OF THE BANK AFTER GIVING EFFECT TO THE REDUCTION OF THE SHAREHOLDING OF THE PRESIDENT OF INDIA IN CONNECTION WITH THE CAPITAL REDUCTION AS DESCRIBED ON PAGE 22.

PRICE BAND: RS. [●] TO RS. [●] PER EQUITY SHARE OF FACE VALUE RS. 10. THE PRICE BAND FOR THE ISSUE WILL BE DECIDED BY US IN CONSULTATION WITH THE BRLMS AND ADVERTISED AT LEAST ONE DAY PRIOR TO THE ISSUE OPENING DATE. WITH REGARD TO THE PRICE BAND/FLOOR PRICE, BIDDERS ARE ADVISED TO BE GUIDED BY THE MARKET PRICES OF OUR LISTED EQUITY SHARES.

THE ISSUE PRICE IS [●] TIMES OF THE FACE VALUE AT THE LOWER END OF THE PRICE BAND AND [●] TIMES OF THE FACE VALUE AT THE HIGHER END OF THE PRICE BAND

In case of revision in the Price Band, the Bidding Period will be extended for three additional days after revision of the Price Band subject to the Bidding Period/Issue Period not exceeding 13 days. Any revision in the Price Band and the revised Bidding Period, if applicable, will be widely disseminated by notification to the National Stock Exchange of India Limited and the Stock Exchange, Mumbai, by issuing a press release, and also by indicating the change on the websites of the Book Running Lead Managers ("BRLMs") and at the terminals of the Syndicate.

The Issue is being made through the 100% Book Building Process wherein up to 50% of the Net Issue to the public shall be allocated on a discretionary basis to Qualified Institutional Buyers. Further, not less than 15% of the Net Issue to the public shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Net 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. Up to 8,000,000 Equity Shares shall be available for allocation on a proportionate basis to the Employees, subject to valid Bids being received at or above the Issue Price and the maximum Bid in this portion is limited to 500 Equity Shares. Up to 8,000,000 Equity Shares shall be available for allocation on a proportionate basis to the Existing Shareholders, subject to valid Bids being received at or above the Issue Price.

RISK IN RELATION TO THE ISSUE

The Issue Price (as determined by Punjab National Bank in consultation with the Book Running Lead Managers 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 Punjab National 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 the Bank and the Issue including the risks involved. The Equity Shares offered in the Issue have not been recommended or approved by the Securities and Exchange Board of India ("SEBI"), nor does SEBI guarantee the accuracy or adequacy of this Red Herring Prospectus. Specific attention of the investors is invited to the section titled "Risk Factors" beginning on page x.

ISSUER'S ABSOLUTE RESPONSIBILITY

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

LISTING ARRANGEMENT

The Equity Shares offered through this Red Herring Prospectus are proposed to be listed on the National Stock Exchange of India Limited and the Stock Exchange, Mumbai, where the existing Equity Shares of the Bank are listed. We have received in-principle approval from the National Stock Exchange of India Limited and the Stock Exchange, Mumbai for the listing of our Equity Shares pursuant to letters dated January 18, 2005 and January 28, 2005, respectively.

BOOK RUNNING LEAD MANAGERS

ICICI SECURITIES LIMITED
ICICI Centre,
H.T.Parekh Marg, Churchgate
Mumbai 400 020, India
Tel : (91 22) 2288 2460
Fax : (91 22) 2282 6580
E-mail : pnb_fpo@isecltd.com

DSP MERRILL LYNCH LIMITED
Mafatlal Centre, 10th Floor,
Nariman Point,
Mumbai 400 021, India
Tel: (91 22) 226 21071
Fax: (91 22) 226 21187
E-mail: pnb_ fpo@ml.com

ENAM FINANCIAL CONSULTANTS PVT LTD
801/ 802, Dalamal Towers,
Nariman Point,
Mumbai 400 021, India
Tel : (91 22) 5638 1800
Fax: (91 22) 2284 6824
E-mail: pnb.fpo@enam.com

JM MORGAN STANLEY PRIVATE LIMITED
141, Maker Chambers III,
Nariman Point,
Mumbai 400 021, India
Tel: (91 22) 1600 22 0004/5630 3030
Fax: (91 22) 5630 1694
E-mail: pnbfpo@jmmorganstanley.com

KOTAK MAHINDRA CAPITAL COMPANY LIMITED
Bakhtawar, 3rd Floor,
229, Nariman Point,
Mumbai 400 021, India
Tel: (91 22) 5634 1100
Fax: (91 22) 2284 0492
E-mail: pnb.fpo@kotak.com

REGISTRAR TO THE ISSUE

MCS LIMITED
Sri Padmavati Bhavan
Plot No. 93, Road No. 16,
MIDC Area, Andheri (East)
Mumbai 400 092
Tel: (91 22) 2820 1785
Fax: (91 22) 2820 1783
Email: pnbfpo@mcsind.com

ISSUE PROGRAMME

BID / ISSUE OPENS ON : MONDAY, MARCH 7, 2005

BID / ISSUE CLOSES ON : FRIDAY, MARCH 11, 2005

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DEFINITIONS AND ABBREVIATIONS

DEFINITIONS

Term	Description
"PNB" or "the Bank" or "our Bank" or "Punjab National Bank "	Punjab National Bank, a corresponding new bank constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, and having its Head Office at 7, Bhikhaiji Cama Place, New Delhi 110 066, India.
"we" or "us" and "our"	Refers to Punjab National Bank and, where the context requires, its subsidiaries, which are PNB Housing Finance Limited, PNB Gilts Limited and PNB AMC Limited.

Issue Related Terms

Term	Description
Allotment	Unless the context otherwise requires, the issue and allotment of Equity Shares, pursuant to this Issue.
Auditors	The statutory auditors of the Bank who are M/s. Surendar K. Jain & Co., Chartered Accountants, M/s. Mookherjee Biswas & Pathak, Chartered Accountants, M/s. M.C. Bhandari & Co., Chartered Accountants, M/s. P.K. Chopra & Co., Chartered Accountants, M/s. Ramanlal G. Shah & Co., Chartered Accountants and M/s. B.K. Ramadhyani & Co., Chartered Accountants.
Bank Acquisition Act	Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, as amended from time to time.
Bank Regulations	Punjab National Bank (Shares & Meetings) Regulations, 2000, as amended from time to time, which have been formulated 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 Government.
Bank Scheme	The Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, notified under Section 9 of the Bank Acquisition Act.
Banker to the Issue	Punjab National Bank.
Banking Regulation Act	The Banking Regulation Act, 1949, as amended from time to time.
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 and payable by the Bidder on submission of the Bid in the Issue.
Bid Closing Date /Issue Closing Date	The date after which the Syndicate will not accept any Bids for the Issue, which shall be notified in an English language newspaper with wide circulation and a Hindi language newspaper with wide circulation.
Bid cum Application Form	The form in terms of which the Bidder shall make an offer to subscribe to the Equity Shares and which will be considered as the application for Allotment of the Equity Shares pursuant to the terms of this Red Herring Prospectus.
Bid Opening Date/Issue Opening Date	The date on which the Syndicate shall start accepting Bids for the Issue, which shall be the date notified in an English language newspaper and a Hindi language newspaper with wide circulation.

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.
Board of Directors/Board	The board of directors of our Bank or a committee constituted thereof.
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 ICICI Securities Limited, DSP Merrill Lynch Limited, Enam Financial Consultants Private Limited, JM Morgan Stanley 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.
Capital Reduction	As a condition of the Government Approval, the reduction of 30,000,000 Equity Shares held by the President of India in the Bank as described in the section titled "Capital Structure" on page 22.
Cap Price	The higher end of the Price Band, above which the Issue Price will not be finalized and above which no Bids will be accepted.
Companies Act	The Companies Act, 1956 as amended from time to time.
Constitutional Documents	The Bank Acquisition Act, the Bank Regulations and the Bank Scheme.
Crore	10 million
Cut-off Price	Any price within the Price Band (notified at least one day prior to the Bid Opening Date/Issue Opening Date in Business Standard, an English language newspaper with wide circulation and Hindustan, a Hindi language newspaper with wide circulation) finalised by us in consultation with the BRLMs. A Bid submitted at Cut-off Price is a valid Bid at all price levels within the Price Band.
DSE	The Delhi Stock Exchange Association Limited.
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.
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 Allotment will be made to successful Bidders.
Designated Stock Exchange	National Stock Exchange of India Limited.
Director(s)	Director(s) of Punjab National Bank, unless otherwise specified.
Eligible NRI	An NRI who is a resident of Bahrain, Kuwait or the United Arab Emirates.

Employee	All or any of the following: (a) a permanent employee of the Bank working in India as of January 1, 2005; (b) a director of the Bank, whether a whole time director or otherwise as of January 1, 2005.
Employees Reservation Portion	The portion of the Issue being a maximum of 8,000,000 Equity Shares available for allocation to Employees.
Equity Shares	Equity shares of the Bank of Rs. 10 each unless otherwise specified in the context thereof.
Escrow Account	The account opened with the Escrow Collection Bank and in whose favour the Bidder will issue cheques or drafts in respect of the Bid Amount when submitting a Bid.
Escrow Agreement	The agreement entered into between 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	Punjab National Bank.
Existing Shareholders	Holders of Equity Shares as of February 11, 2005 worth up to Rs.100,000, determined on the basis of the closing price of the Equity Shares in the NSE on February 10, 2005.
Existing Shareholders Reservation Portion	The portion of the Issue being a maximum of 8,000,000 Equity Shares available for allocation to Existing Shareholders.
Financial Year /fiscal year/ fiscal / FY	The period of twelve months ended March 31 of that particular year, unless otherwise stated.
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.
GoI/Government	The Government of India.
Government Approval	The approval letter received by the Bank from the Department of Economic Affairs, MoF, GoI, bearing number F.No.11/29/2004-BOA, dated January 7, 2005, granting permission for the Issue subject to the conditions stated therein.
Head Office	The head office of the Bank being 7, Bhikhaiji Cama Place, New Delhi 110 066, India.
I.T. Act	The Income Tax Act, 1961, as amended from time to time.
Indian GAAP	Generally accepted accounting principles in India.
Issue	The public issue by the Bank of up to 80,000,000 Equity Shares for cash at the Issue Price of Rs. [●] per Equity Share aggregating Rs. [●] million and comprising a Net Issue to the public of up to 64,000,000 Equity Shares, a reservation for Employees of up to 8,000,000 Equity Shares and a reservation for Existing Shareholders of up to 8,000,000 Equity Shares.
Issue Account	Account opened with the Banker to the Issue to receive monies from the Escrow Accounts on the Designated Date.

Issue Price	The final price at which Equity Shares will be allotted in terms of the Red Herring Prospectus, as determined by the Bank in consultation with the BRLMs, on the Pricing Date.
Lac/Lakh	0.1 million
Margin Amount	The amount paid by the Bidder at the time of submission of his/her Bid, being 0% to 100% of the Bid Amount.
NRI/Non-Resident Indian	Non-Resident Indian, is a Person resident outside India, who is a citizen of India or a Person of Indian origin and shall have the same meaning as ascribed to such term in the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000.
NSE	National Stock Exchange of India Limited.
Nedungadi Bank	Nedungadi Bank Ltd., which was merged with PNB in fiscal 2003.
Net Issue/Net Issue to the public	The Issue less the allocation to the Employees and Existing Shareholders.
Non-Institutional Bidders	All Bidders that are not eligible Qualified Institutional Buyers for this Issue, including affiliates of BRLMs and Syndicate Members, or Retail Individual Bidders and who have Bid for an amount more than Rs. 100,000. For the sake of clarity NRIs, other than Eligible NRIs, foreign venture capital investors and Indian venture capital funds are not included within this definition.
Non-Institutional Portion	The portion of the Net Issue to the public and being a minimum of 9,600,000 Equity Shares available for allocation to Non-Institutional Bidders.
Non Residents	Non-Resident is a Person resident outside India, as defined under FEMA and who is a citizen of India or a Person of Indian Origin under Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000.
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 (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000.
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.
Pay-in Date	Bid Closing Date or the last date specified in the CAN sent to Bidders, as applicable.
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 until the closure of the Pay-in Date, as specified in the CAN.
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.

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 Business Standard, an English language newspaper with wide circulation and Hindustan, a Hindi language newspaper with wide circulation, and includes any revisions thereof.
Pricing Date	The date on which the Bank in consultation with the BRLMs finalises the Issue Price.
Promoter	The President of India acting through the MoF, GoI.
Prospectus	The Prospectus, to be 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.
QIB Portion	The portion of the Net Issue to public and up to 32,000,000 Equity Shares of Rs. 10 each at the Issue Price, available for allocation to QIBs.
Qualified Institutional Buyers or QIBs	Public financial institutions as specified in Section 4A of the Companies Act, FIIs, scheduled commercial banks, mutual funds registered with SEBI, multilateral and bilateral development financial institutions, state industrial development corporations, insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with minimum corpus of Rs. 250 million (subject to applicable law) and pension funds with minimum corpus of Rs. 250 million. For the sake of clarity, foreign venture capital funds and Indian venture capital funds are not included within this definition.
RHP or Red Herring Prospectus	Means the document issued in accordance with the SEBI Guidelines, which does not have complete particulars of the Price Band, the Issue Price or the size of the Issue, which will be filed with the Designated Stock Exchange at least three days before the Bid Opening Date/Issue Opening Date and which will become a Prospectus after determination of Issue Price and upon filing with the Designated Stock Exchange.
Registrar /Registrar to the Issue	Registrar to the Issue, in this case being MCS Limited, having its office in Sri Padmavati Bhavan, Plot No. 93, Road No. 16, MIDC Area, Andheri (East), Mumbai 400 092.
Reservation Portion	The portion of the Issue being a maximum of 16,000,000 Equity Shares available for allocation to Employees and Existing Shareholders.
Retail Individual Bidders	Individual Bidders (including HUFs) who have bid for Equity Shares for an amount less than or equal to Rs. 100,000, in any of the bidding options in the Issue. For the sake of clarity, NRIs, other than Eligible NRIs, cannot participate in this Issue and bid for Equity Shares.
Return of Proceeds	The return by the Bank to the Government of the amount raised from the Issue of 30,000,000 Equity Shares in this Issue as required by the condition of the Government Approval as described on page 182.
Retail Portion	The portion of the Net Issue to the public and being a minimum of 22,400,000 Equity Shares of Rs.10 each available for allocation to Retail Individual Bidders.
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).
SEBI Act	Securities and Exchange Board of India Act, 1992, as amended from time to time.

SEBI Guidelines	SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 27, 2000, as amended, and to the extent applicable to this Issue, 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.
Stock Exchanges	BSE and NSE.
Syndicate	The BRLMs and the Syndicate Members.
Syndicate Agreement	The agreement to be entered into among the Bank and the members of the Syndicate, in relation to the collection of Bids in this Issue.
Syndicate Members	ICICI Brokerage Services Limited, DSP Merrill Lynch Limited, Enam Securities Private Limited, JM Morgan Stanley Retail Services Private Limited, and Kotak Securities Limited.
Tier 1 capital	The core capital of a bank. It comprises paid-up capital and reserves consisting of any statutory reserves, free reserves and capital reserves as reduced by equity investments in subsidiaries, intangible assets, and losses in the current period and those brought forward from the previous period.
Tier 2 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.
Tier 2 Bonds or Subordinated Bonds	Unsecured subordinated bonds issued by PNB for Tier 2 capital adequacy purposes.
TRS or Transaction Registration Slip	The slip or document issued by the Syndicate Members to the Bidder as proof of registration of the Bid.
U.S. GAAP	Generally accepted accounting principles in the United States of America.
Underwriters	The BRLMs and the Syndicate Members.
Underwriting Agreement	Agreement among the members of the Syndicate and the Bank to be entered into on or after the Pricing Date.

ABBREVIATIONS

Abbreviation	Full Form
AS	Accounting Standards as issued by the Institute of Chartered Accountants of India
BIFR	The Board of Industrial and Financial Reconstruction
BSE	The Stock Exchange, Mumbai
CAGR	Compounded Annual Growth Rate
CAIIB	Certified Associate of Indian Institute of Bankers
CDSL	Central Depository Services (India) Limited
CRR	Cash Reserve Ratio

DI	Derecognised Interest
DRT	Debt Recovery Tribunal
DSPML	DSP Merrill Lynch Limited
EGM	Extraordinary General Meeting
ENBI	Erstwhile New Bank of India
Enam	Enam Financial Consultants Private Limited
EPS	Earnings per share
FCNR Account	Foreign Currency Non Resident Account
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
FIPB	Foreign Investment Promotion Board
GIR Number	General Index Registry Number
HUF	Hindu Undivided Family
IPO	Initial Public Offering
ISEC	ICICI Securities Limited
JMMS	JM Morgan Stanley Private Limited
Kotak	Kotak Mahindra Capital Company Limited
LC	Letters of Credit
MoF	Ministry of Finance, Government of India
NAV	Net Asset Value
NPA	Non Performing Asset
NRE Account	Non Resident External Account
NRO Account	Non Resident Ordinary Account
NSDL	National Securities Depository Limited
P/E Ratio	Price/Earnings Ratio
PAN	Permanent Account Number
PSU	Public Sector Undertaking
RBI	The Reserve Bank of India
RoNW	Return on Net Worth
SCRR	Securities Contracts (Regulation) Rules, 1957, as amended from time to time
SEBI	The Securities and Exchange Board of India constituted under the SEBI Act, 1992
SI	Suspended Interest
SIA	Secretariat for Industrial Assistance
SLR	Statutory Liquidity Ratio
Supreme Court	Hon’ble Supreme Court of India

CERTAIN CONVENTIONS; USE OF MARKET DATA

Unless stated otherwise, the financial data in this Red Herring Prospectus is derived from our unconsolidated financial statements prepared in accordance with Indian GAAP and included in this Red Herring Prospectus. Unless stated otherwise, 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. The six months ended September 30, 2003 and 2004 are referred to as the first six months of fiscal 2004 and the first six months of fiscal 2005, respectively. In this Red Herring Prospectus, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding.

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. We have not attempted to explain those differences or quantify their impact on the financial data included herein, and we urge 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$"; "U.S. Dollar" or "US Dollars" are to United States Dollars, the official currency of the United States of America.

For additional definitions, please see the section titled "Definitions and Abbreviations" on page i.

Unless stated otherwise, industry data used throughout this Red Herring Prospectus has been obtained from RBI publications and other industry sources. 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 we believe 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 which 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 collateral;
- 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*. 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.

RISK FACTORS

An investment in equity shares involves a high 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. If the following risks actually 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.

Internal Risk Factors and Risks relating to Our Business

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 fiscal 2005, net interest income represented 46.0% of our interest income and 36.7% of our total income. 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 net interest income. Under the regulations of the RBI, we are required to maintain a minimum specified percentage, currently 25.0%, of our net demand and time liabilities, in government or other approved securities. As of September 30, 2004, 38.2% of our net demand and time liabilities and 84.0% of our total investments were in these securities. Yields on these investments, as well as yields on our other interest earning assets, are dependent to a large extent on interest rates. Interest rates are sensitive to many factors beyond our control, including the RBI's monetary policies, deregulation of the financial sector in India, domestic and international economic and political conditions and other factors. Any volatility in interest rates could adversely affect our business and financial performance. On October 26, 2004, the RBI increased the reverse repo rate, which is the rate at which commercial banks lend funds to the RBI, from 4.50% to 4.75%. In a rising interest rate environment, especially if the rise were sudden or sharp, we could be materially adversely affected by the decline in the market value of our government securities portfolio and other fixed income securities and may be required to realize mark to market losses. Additionally, an increase in interest rates may harm the retail and corporate sectors, which may adversely impact our business.

We could be subject to volatility in income from our treasury and trading operations.

Approximately 51.0% of our total income in fiscal 2004 and approximately 43.4% of our total income in the first half of fiscal 2005 was generated by our treasury division. Additionally, we have entered or increased our operations in other trading related businesses such as gold, foreign exchange and derivatives. Our treasury and trading 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 due to volatility in income from these activities could adversely affect our business.

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

Our gross non-performing assets were Rs. 41.5 billion representing 7.65% of our gross advances as of September 30, 2004 and Rs. 46.7 billion representing 9.35% of our gross advances as of March 31, 2004. Our net non-performing assets represented 0.30% of our net advances as of September 30, 2004 and 0.98% of our net advances as of March 31, 2004. Our ten largest gross non-performing assets constituted 13.5% of our gross non-performing assets as of September 30, 2004. Information regarding our ten largest non-performing assets is provided in the section titled "Selected Statistical Information" on page 72.

Although we have been able to reduce our net non-performing assets through recoveries, upgrading the classification of assets into "performing" categories and additional provisioning, we cannot assure you that we will be able to maintain this level of non-performing assets in the future or that we will be able to reduce, or prevent an increase in, our gross or net non-performing assets. A number of factors which are not within our control could affect our ability to control and reduce non-performing assets, including increased competition arising from economic liberalization in India, variable industrial and agricultural growth, declines in commodity and food grain prices, the high level of debt in the capital structures of Indian companies, fluctuations in interest and exchange rates, changes in regulations, including with respect to directed lending, and the high interest rates in the Indian economy during the period in which a large number of borrowers made their borrowings. In addition, the expansion of our business and our entry into new businesses may cause our non-performing loans to increase and the overall quality of our loan portfolio to deteriorate. As of September 30, 2004, approximately 45.3% of our gross non-performing asset portfolio was concentrated in the following sectors: iron and steel (16.0%), textiles (15.9%), chemicals, dyes and paints (5.5%) and engineering (7.9%). These sectors together constituted 14.3% of our total funded credit exposure to accounts larger than Rs. 10 million as of September 30, 2004. These sectors have been adversely affected by economic conditions in recent years in varying degrees. 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 have sold part of our non-performing assets to an asset reconstruction company, Asset Reconstruction Company (India) Limited ("ARCIL"), against security receipts issued by ARCIL. As of September 30, 2004, we had investments of Rs. 303.7 million in security receipts issued by ARCIL. The price at which the assets were sold was determined on an arms length basis and the sale has resulted in the removal of the non-performing assets from our books. The recovery of principal and the rate of return on the investments in security receipts are dependent on the recovery of the underlying assets. These investments in security receipts are required to be valued at the net asset value as declared by ARCIL. There can be no assurance that ARCIL will be able to recover these assets and we will be able to redeem our investments or that there will be no reduction in the value of these investments.

We are required to return the Issue Proceeds corresponding to the issue of 30,000,000 Equity Shares to the Government by March 31, 2005.

One of the conditions for the Government Approval for the Issue requires us to return to the Government a sum corresponding to the Issue Proceeds relating to the issue of 30,000,000 Equity Shares by March 31, 2005. As a result, after the payment of the aforesaid sum to the Government, the shareholding of the President of India in our Bank will be reduced by 30,000,000 Equity Shares. For further details see the section title “Capital Structure” on page 22.

The Return of Proceeds to the Government and the Capital Reduction could have adverse tax or other consequences for us.

Although the Bank Acquisition Act permits us to reduce the share capital of the Government, there is some ambiguity as to whether it permits such reduction from the share premium account. Although we believe that the Bank Acquisition Act permits such reduction to be made from the share premium account and we have obtained independent opinions to such effect, in the event the Bank Acquisition Act were interpreted differently by statutory authorities, it is possible that the part of the payment to the Government which represents the amount debited from the share premium account could be deemed to be a dividend and consequently, there could be tax implications for us. We have obtained independent opinions that the payment should not be deemed to be a dividend and should not in any event be subject to any dividend tax. We have also requested that the Government facilitate a waiver of any such tax implications on the Bank or indemnify the Bank for the same. However, we have, as of the date hereof, not received a response from the Government and neither the Issue nor the Capital Reduction is conditioned on receipt of such a response. The standard tax imposed on a bank in respect of a dividend paid is 12.5% of the amount of the dividend, plus a surcharge of 2.5% and on the total, a further 2% education cess, although the tax authorities have the right to seek or impose additional penalties and other amounts in certain circumstances under applicable laws.

In the event that the Bank Acquisition Act is interpreted so as not to permit the payment to the Government from the share premium account, and the Government does not respond in a satisfactory manner to our request, we could suffer tax or other consequences arising from the characterization of the transaction as to which we are not indemnified, and such consequences could be material.

For further details on the mechanism, modalities and impact of the Capital Reduction please see the sections titled “General Information” on page 7, “Capital Structure” on page 22 and “Objects of the Issue” on page 29. The independent opinions on tax and the letter dated February 7, 2005 written by our Bank to the Government are available for public inspection. See the section titled “Material Contracts and Documents for Inspection” on page 278.

We have substantial activity in the agriculture and other priority sectors and therefore our business could be adversely affected by market and other factors that impact these sectors.

The directed lending norms of the RBI require that every bank should extend at least 40% of its net bank credit to certain eligible sectors, such as agriculture and small-scale industries, which are categorized as "priority sectors". As of the last reporting Friday of September 2004, priority sector credit (including Rural Infrastructure Development Fund ("RIDF")) constituted 47.7% of our net bank credit, and loans to agricultural and small scale industry borrowers constituted 18.8% and 11.3%, respectively, of our net bank credit. As of September 30, 2004, the percentage of our priority sector gross non-performing assets to total priority sector advances was 8.03%. As of September 30, 2004, the percentage of our agricultural gross non-performing assets to total agricultural advances was 4.37% and the percentage of our small scale industry gross non-performing assets to total small scale industry advances was 16.53%, compared to our overall percentage of non-performing assets to total advances of 7.65%. In addition, as of the last reporting Friday of September, 72.5% of our agricultural loan portfolio was concentrated in northern India. Economic difficulties owing to various factors, such as uneven monsoons or other weather conditions, natural calamities and reductions in price supports or other changes in government policy, or other events and conditions, are likely to adversely impact these priority sectors and therefore our business and level of non-performing assets.

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

We have achieved significant growth in our retail loan business in recent years. Between March 31, 2002 and March 31, 2004, our average volume of retail advances grew at a compound annual growth rate of 53.2%. As of September 30, 2004, retail loans represented 19.2% of our total outstanding credit as compared to 19.4% and 16.3% of our total outstanding credit as of 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 fee based services in this sector by offering new products and services and by cross-selling our offerings 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 high rates we have recently experienced.

We face significant challenges in our new businesses and our international expansion plans.

We intend to diversify our products and services, particularly in retail banking. For example, we have recently begun selling credit cards and non-life insurance (i.e., property and casualty) policies. Although we are currently not selling our own products in these areas, we may do so in the future. We also sell mutual fund products through a joint venture. Selling our own products will require us, our subsidiaries or our joint ventures to take balance sheet risk in these areas. The new products that we may develop and sell 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. In addition, we have recently opened representative offices in London (United Kingdom), Almaty (Kazakhstan) and Shanghai (China) and a branch in Kabul (Afghanistan). We may also expand into other countries. The skills required for our international business could be different from those required for our domestic operations. There is a high level of competition in these new businesses, which may impede our growth in these businesses.

We face challenges in restructuring and rationalizing our branch network and improving the productivity rates of our employees.

We have an extensive network of over 4,000 branches, many of which are in rural and semi-urban areas. Several of our older "legacy" branches are undergoing renovation to modernize them and upgrade their technology, which will involve substantial capital expenditure. Because we have these legacy branches, the productivity rate of our employees is lower than many of our private competitors which have newer infrastructure and which initially computerized their branches earlier than us. We are also in the process of rationalizing our branch network which will involve closing or merging some branches and opening others, which we may not be able to fully accomplish within the expected time frames or at the expected cost.

We have high concentrations of loans to certain customers and to certain sectors and if a substantial portion of these loans were to become non-performing, the quality of our loan portfolio could be adversely affected.

As of September 30, 2004, our total outstanding exposure was Rs. 1,129.2 billion. Our total outstanding exposure includes both principal outstanding, interest and other dues on advances and investments (collectively, our fund based exposure) and the outstanding amount of guarantees, letters of credit and other non-fund based exposures (collectively, our non-fund based exposures). Our total exposure (including our funded exposure and 100% of our non-fund based limit or outstandings, whichever is higher) to our ten largest borrowers, which include single borrowers and borrower groups, in the aggregate accounted for approximately 9.6% of our total outstanding exposure as of September 30, 2004. Our exposure to our largest single borrower as of September 30, 2004 accounted for approximately 1.0% of our total outstanding exposure and 17.8% of our capital funds (comprising Tier 1 and Tier 2 capital, as defined in the Indian banking regulations). Our exposure to our largest borrower group as of September 30, 2004 accounted for approximately 1.6% of our total outstanding exposure and 28.6% of our capital funds. Credit losses on these large single borrower and group exposures could adversely affect our business and financial condition.

Our internal policies limit our credit exposure to any particular industry to 10.0% of our total credit. We determine our industry-wise exposures by aggregating our fund based exposures in respect of accounts of Rs. 10 million or larger within each industry. See the section titled "Business - Risk Management - Credit Risk - Prudential Limits" on page 67. As of September 30, 2004, our five largest industry exposures other than priority sector exposures comprised infrastructure, state electricity boards, iron and steel, financial services and housing (including both direct and indirect lending to corporate borrowers, housing development authorities and state governments) and which in the aggregate constituted 40.6% of our total fund based exposures in respect of accounts larger than Rs. 10 million. Our aggregate funded exposure to the top five borrowers in these industries together represented 55.7% of our aggregate funded credit exposure to these industries. Financial difficulties in these industries could adversely affect our business and financial condition. As of September 30, 2004, 16.3% of our advances were to borrowers that we rate as being in the "marginally acceptable grade" and 14.9% of our advances were to borrowers that we rate as "sub-investment grade" under our internal rating system. Our sub-investment grade borrowers, in particular, could be especially vulnerable if economic conditions should worsen or economic growth rates were to slow, which could 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 failure to recover the expected value of the collateral.

Although we typically lend on a cash-flow basis, we take collateral for a large proportion of our loans, consisting of liens on inventory, receivables and other current assets, and in some cases, charges on fixed assets and financial assets, such as marketable securities. As of September 30, 2004, over 86% of our advances were secured by tangible assets, such as real assets (including property, plant and equipment, liens on inventory, receivables and other current assets), fixed assets, the assets being financed or a charge or mortgage of agricultural land or immovable property. In India, foreclosure on collateral generally requires a petition to a court or tribunal. An application, when made, may be subject to delays and administrative requirements that may result, or be accompanied by, a decrease in the value of the collateral. Delays can last for several years, leading to deterioration in the physical condition and market value of the collateral. Although the constitutional validity of the recent Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 ("Securitisation Act") which is intended to strengthen the rights of lenders, has been upheld by the Supreme Court of India, the precise mechanisms for applying the Act are still evolving. As a result of the foregoing factors, as well as other factors such as defects in the perfection of collateral, may not be able to realize the full value of our collateral.

Our funding is primarily through short-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.

Most of our funding requirements are met through short-term and medium-term funding sources, primarily in the form of deposits. As of September 30, 2004, 85.9% of our funding consisted of deposits and 38.9% of our funding consisted of demand deposits and savings deposits. A portion of our assets have long term maturities, creating a potential for funding mismatches. In our experience, a substantial portion of our customer deposits has been rolled over upon maturity and has 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 upon maturity, our liquidity position and business could be adversely affected. The average cost of our deposits was 4.6% for the first six months of fiscal 2005. 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 and our ability to grow.

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

After the completion of this Issue and the Capital Reduction, the Government will own at least 57.80% of our outstanding Equity Shares and will be able to appoint seven directors of a total of thirteen directors. Consequently, the Government will continue to have a controlling interest in us and will also be able to determine a majority of our board of directors. Further, the Bank Acquisition Act limits the voting power of our shareholders by requiring that none of our shareholders other than the Government shall be entitled to exercise voting rights in respect of shares held by them in excess of 1% of the total voting rights of all of our shareholders. Therefore, the outcome of most proposals for corporate action requiring the approval of our Board of Directors or shareholders will be largely controlled by the Government. Furthermore, given the importance of the banking industry to the Indian economy, the Government, through policy directives, could require us to take actions and enter into transactions such as the acquisition of other banks or financial institutions that are in financial difficulty in order to serve the public interest of India and not necessarily to maximize our profits.

We may undertake mergers or acquisitions which may pose management and integration challenges.

We have in the past engaged in acquisitions and strategic partnerships. In February 2003, Nedungadi Bank was merged with us. While we believe that we have since successfully integrated the operations of this bank with our own, the merger increased our gross NPA portfolio by approximately Rs. 5.2 billion. Our gross NPA portfolio as of March 31, 2003 was Rs. 49.8 billion. We may make further acquisitions and investments, which may not necessarily contribute to our profitability and may require us to assume high levels of debt or contingent liabilities, as part of such transactions. We could experience difficulty in combining operations and cultures and may not realize the anticipated synergies or efficiencies from such transactions.

If IFCI Limited ("IFCI") is merged with us without our conditions to the merger being accepted, our business and financial condition could be adversely affected.

IFCI was set up by the Government to provide financial support to the industrial sector in India. As of March 31, 2004, IFCI had Rs. 159.2 billion in assets, Rs. 11.0 billion in total income, Rs. 32.3 billion in loss after provisions and extraordinary items and 119.6 billion gross non performing assets. The Government requested that we examine a proposal to merge IFCI with our bank and our board of directors agreed in principle to consider the proposal, subject to several conditions, which we conveyed to the Government. These conditions include the completion of due diligence, the acquisition of only the performing assets of IFCI, and several other conditions designed to ensure that the merger does not have an adverse financial or operational impact on us. If IFCI is merged with us without our conditions being accepted, our business and financial condition would be adversely affected. It has been reported in the Indian press that the Government is considering various alternatives regarding IFCI, including merging IFCI with the Industrial Development Bank of India. No final decision in this regard has been conveyed to us.

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

As of September 30, 2004, our Core Banking Solution ("CBS") was implemented in 694 branches. We are planning to increase its coverage to between 1,500 and 2,000 branches by March 31, 2006.

Our CBS provides interconnectivity among our branches and is required for us to provide many of the products and services we have introduced to target customers, such as internet banking and our deposit accounts having the "sweep in, sweep out" feature. If we are unable to successfully extend the roll-out of the CBS across our branch network, it will be difficult for us to expand our products and services across our branch network. In addition, we have only recently computerized the operations of all of our branches and we may experience difficulties in adapting to these computerized technologies.

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 caused by our increased use of the internet. Computer break-ins and power disruptions could affect the security of information stored in and transmitted through these computer systems and networks. These concerns will intensify with our increased dependence on technology. We employ security systems, including firewalls and password encryption, designed to minimize the risk of security breaches. To mitigate these risks, we intend to continue to implement adequate security technologies and establish appropriate operational procedures. However, these may not be sufficient to prevent fraud, break-ins, damage and failures. A significant failure in security measures could have an adverse effect on our business.

System failures and calamities could adversely impact our business.

Given the increasing share of retail products and services and transaction banking services to our business, the importance of systems technology to our business has increased significantly. Our principal delivery channels include our branches and ATMs. We have a centralized backup system for our interconnected branches and the back-up systems for our other branches are based locally. 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 significantly affect our operations and the quality of our customer service.

The provisions we have made in our financial statements on account of the impending banking industry wage settlement are estimates based on past experience and our actual expenditure following the wage settlement may vary from the amounts provided for.

There has been no wage settlement in the banking industry since 1997, although one was due in 2002. The Indian Banking Association recently reached a broad understanding with banking industry employees that the maximum wage increase will be 13.25%. As described in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 90 and "Recent Developments" on page 117, we have made provisions in our financial statements on account of the wage settlement for the period after October 31, 2002, which is when the previous wage settlement expired. The understanding reached with the banking industry employees is not final or binding, and the amount of our provisions is an estimate based on our past experience. The actual expenditure we will have to incur following the wage settlement may vary from the amounts we have provided for.

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.

The RBI requires a minimum capital adequacy ratio of 9% to our total risk weighted assets. We must maintain this minimum capital adequacy level to support our continuous growth. The implementation of the Basel II capital adequacy standards could also result in a decline in our capital adequacy ratio. Our capital adequacy ratio as of September 30, 2004 on a historical, unrestated basis was 12.58%. If the Basel II standardized method were applied on a pro forma basis as of September 30, 2004, we would expect our capital adequacy ratio as of that date to be 9.85%. 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.

Our contingent liabilities could adversely affect our financial condition.

As of September 30, 2004, we had contingent liabilities of Rs. 379.5 billion. These included liabilities on account of forward exchange contracts of Rs. 224.1 billion, guarantees of Rs. 59.4 billion and acceptances, endorsements and other obligations of Rs. 90.9 billion. If these contingent liabilities fully materialize, our financial condition could be adversely affected.

Our subsidiary PNB Gilts Ltd. incurred a loss in the first half of fiscal 2005. Further, our subsidiary PNB Asset Management Company (PNB AMC) Limited has negative reserves and surplus.

Our subsidiary PNB Gilts Ltd., which had profits of Rs. 1.13 billion, 0.93 billion and 1.07 billion in fiscal 2002, 2003 and 2004, and incurred a loss of Rs. 0.87 billion in the first six months of fiscal 2005. The main reason for the loss was trading losses incurred by PNB Gilts as a result of increasing interest rates during the period. If these losses were to continue, it could adversely affect our financial performance.

As of March 31, 2004, our subsidiary PNB AMC had negative reserves and surplus of Rs. 71.65 million on account of accumulated losses. The schemes managed by PNB AMC have been merged with the schemes of Principal Mutual Fund. The Board of Directors of our Bank in its meeting held on March 29, 2003 accorded in-principle approval for the merger of PNB AMC with us. For further details see the section titled "Our Promoter, Subsidiaries and Group Companies" on page 127.

Our subsidiary PNB Gilts Ltd. did not meet the promises made in its initial public offering.

Our subsidiary PNB Gilts Ltd. conducted its initial public offering in July 2000. The prospectus for the offering contained financial projections for the financial year ended March 31, 2001 and the same has not been met by the company. The company had projected a profit before tax of Rs. 1399.1 million for fiscal 2001. However the actual profit before tax less than the projected amount by Rs. 592.2 million. For more details, please refer to the section titled "Our Promoter, Subsidiaries and Group Companies – PNB Gilts Limited—Promise v/s Performance" on page 128.

We are involved in a number of legal and regulatory proceedings that, if determined against us, could have a material adverse impact on us.

There are two criminal cases against us and another criminal complaint against Mr. S.S. Kohli, our Chairman and Managing Director. There are two cases against our Bank relating to alleged violations of foreign exchange regulations in India and the total liability of our Bank amounts to Rs 3.5 million.

There are 79 cases filed against us for disputes in relation to forged signatures, non-tallying of signatures, breach of trust and fraudulent withdrawal of money by allegedly unauthorized persons (including our employees) in which the total amount claimed against us amounts to Rs. 313.85 million.

There are 104 cases filed against us relating to disputes on account of alleged non-deposit, non-realization or loss of cheques and alleged wrongful refusal to sanction certain facilities and overdrafts by us or release of sums to certain persons or wrongful debits in a customer's account or refusal to honor bank guarantees, letters of credits, bills of lading and other such instruments including fixed deposit receipts maintained with us. The total amount claimed against us in these cases is Rs. 19,331.15 million.

There are 211 consumer cases filed against us and the total amount claimed in such cases is Rs. 78.85 million. There are six cases pending against us wherein disputes have arisen in relation to the interest charged by us. The total amount claimed in these cases is Rs. 7.49 million.

A number of customers have filed counter claims and counter suits against recovery suits or other actions undertaken by us. There are 24 such cases pending against us and the total amount in dispute is Rs. 230.70 million. 17 cases have been filed against us in relation to arrears or enhancement of the rent of the premises presently or formerly occupied by us. The total amount claimed in such cases is Rs. 53.5 million.

There are 12 cases where our bank has been impleaded as a third party and the total amount claimed against us in such cases is Rs. 28.67 million. There are 13 cases against some branches of our Bank in which irregularities with regard to the public issues of certain other companies in which our Bank was acting as a intermediary and in which action has been taken by regulators against the said branches of the Bank.

There are 701 labour related cases pending against us and the total amount claimed by the plaintiffs in these cases is approximately Rs. 161.77 million. There are 32 other cases pending against us and the total amount claimed in such cases is Rs. 26.05 million.

For details of these legal proceedings, please see the section titled "Outstanding Litigation and Material Developments" on page 185.

We are involved in a number of income tax and sales tax cases which if determined against us could have a material adverse impact on us.

There are disputes relating to income tax assessments for the assessment years 1992-1993, 1994-

1995 to 2003-2004 in which the aggregate amount claimed against us was Rs. 485.94 million as of December 31, 2004. We have already paid the entire amount claimed by the income tax department under protest except Rs. 71 million in relation to assessment year 1997-98 on account of disallowance of software and bond issue expenditure due to rectification application filed and pending with the IT Department.

There are three sales tax cases against us in which the liability imposed on us amounts to Rs. 6.67 million. However, a sum of approximately Rs. 2 million has already been paid as per order of the tax department and therefore, the aforesaid demand is reduced to Rs. 4.58 million.

Our branches have a number of regulatory cases against them.

There are 13 notices against some branches of our Bank in which irregularities with regard to the public issues of certain companies in which our Bank was acting as a intermediary and in which action has been taken by regulators against these branches. These actions include recommendations from SEBI to suspend the registration of some branches and debarring the concerned branches from accepting any merchant banking business. If these cases are adversely determined, or the sanctions continue, they could have an adverse impact on the business of these branches.

Our subsidiaries, joint ventures and associate companies are involved in a number of legal proceedings, which if determined against them could have an adverse impact on their operations.

Our subsidiaries, joint ventures and associate companies are involved in a number of legal proceedings including income tax cases, regulatory cases, criminal cases, consumer cases and service matters, which if determined against them could have a material adverse impact on their operations. The aggregate amount claimed against our associates is approximately Rs. 138.54 million, out of which amounts of Rs. 81.93 million is already deposited, the contingent liabilities of our associates that are not provided for amount to Rs. 5.33 million, the contingent liabilities of our joint ventures that are not provided for amount to Rs. 1.92 million, the aggregate amount claimed against our subsidiaries is approximately Rs. 56.06 million and the contingent liabilities of our subsidiaries that are not provided for amount to Rs. 31.07 million.

Our financial statements for the six months ended September 30, 2003 and 2004 have not been audited.

In terms of the guidelines issued by the RBI applicable to public sector banks and the Listing Agreement, the financial statements of the Bank for the six months ended September 30, 2003 and 2004 have not been audited. However, they have been subjected to a limited review by our Auditors.

The related party disclosures in this document do not include transactions with subsidiaries and the regional rural banks in which we have an interest.

As per RBI circular no. 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 (like our Bank) 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. Further, we are not disclosing transactions with associates in the audited accounts.

We are yet to receive certain statutory approvals required in the ordinary course of our business.

We have applied to the RBI for a one year extension of a license bearing the number BL.LK. 98/2003 relating to an offshore banking unit in the Noida special economic zone.

We have applied to the Governor of the Central Bank of the United Arab Emirates requesting permission to establish a representative office in Dubai.

We have applied to RBI for setting up a joint venture with Principal Financial Group of the United States of America for a life insurance and pension company and an insurance brokerage company.

Some of our immovable properties have certain irregularities in title.

Some of our immovable properties for our branches, offices and residences which are either owned by us or occupied by us have one or more of the following irregularities in title:

- the conveyance deeds for transfer of property have not been executed;
- 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.

For details of disputes relating to our properties, see the section titled "Outstanding Litigation and Material Developments" on page 185.

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

There is a risk that we may be required to finance our growth through additional equity offerings. Any future issuance of our Equity Shares, or sales of a large number of our Equity Shares by major shareholders, could dilute the positions of investors in our Equity Shares and could adversely affect the market price of our Equity Shares.

You will not receive the Equity Shares you purchase in this Issue until several days after you pay for them, which will subject you to market risk.

The Equity Shares you purchase in this Issue will not be credited to your demat account with depositary participants until approximately fifteen days from the Bid Closing Date/Issue Closing Date. You can start trading your Equity Shares only after they have been credited to your demat account. Since the Equity Shares are already 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. 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, within the time period specified above.

However, as stated on page 11, we will pay interest at 15% per annum if there is any delay for crediting the demat shares beyond the above-stated period. This risk factor is for the information of investors and it does not in any way dilute the right of investors and our obligations.

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.

There is competition among public and private sector Indian commercial banks as well as foreign commercial banks in India. Some of these banks are smaller and may be more flexible and better positioned to take advantage of market opportunities than public sector banks. In particular, private banks may have operational advantages in implementing new technologies, rationalizing branches and recruiting employees through incentive-based compensation. Additionally, both the Indian and global financial sector may experience further consolidation, resulting in fewer banks and financial institutions. It has been recently reported in the press that the Government may soon permit foreign banks to establish wholly-owned subsidiaries in India and invest up to 74% in Indian private sector banks and eliminate or modify voting restrictions on shareholders of banks. These measures, if implemented, are likely to further increase competition and may stimulate consolidation in the Indian banking industry. In addition, the Government is actively 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 banking industry as a whole, including our Bank, and our growth will depend in large part on our ability to respond in an effective and timely manner to these competitive pressures.

Banking is a heavily regulated industry and material changes in the regulations which govern us could adversely affect our business.

Banks in India are subject to detailed supervision and regulation by the RBI. In addition, banks are subject generally to changes in Indian law, as well as to changes in regulation and government policies and accounting principles. It has recently been indicated in the press that the laws and regulations governing the banking sector could change in the near future and any such changes could adversely affect 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. For information on the regulations and policies applicable to our Bank see section titled "Regulations and Policies" on page 151.

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

- We can increase our paid up capital only with the consent of the Government and in consultation with the RBI in such manner as may be prescribed and the shareholding of the Government shall not go below 51% of our paid up capital.
- The Government has control over policy matters relating to us and the RBI has the power to caution or prohibit us from entering into any particular transaction or class of transactions.
- Foreign investment is subject to an overall statutory limit of 20% of our paid up capital. The RBI has fixed a cut off point at 18% for the 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%, the RBI cautions all designated bank branches so as not to purchase any more equity shares in the respective bank on behalf of NRIs/PIOs without prior approval of the RBI. For details see the section titled "Regulations and Policies-Restriction on Transfer of Shares" on page 176.
- No shareholder, other than the Government, is entitled to exercise voting rights in respect of any shares held by it in excess of one per cent of the total voting rights of all our shareholders.
- There are restrictions on payment of dividend and on rights relating to unclaimed dividends. For information on these restrictions see section titled "Regulations and Policies - Restrictions on Payment of Dividends" on page 177.
- Certain restrictions on opening a new place of business and transferring an existing place of business, require the approval of RBI (except in certain circumstances) which may hamper the operational flexibility of the Bank. For information on these restrictions see section titled "Regulations and Policies – Regulations relating to the Opening of Branches" on page 168.
- We have to maintain assets in India equivalent to not less than 75% of our 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 Indian 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.

For a comparison of the rights available to shareholders of a company incorporated under the Companies Act with the rights statutorily available to our shareholders, see the section titled "Regulations and Policies - Comparative Table of Rights of Shareholders under Companies Act, 1956 and under Regulations Applicable to Corresponding New Banks" on page 151.

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.

As an Indian bank, 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 our borrowers is higher than in more developed countries. Unlike several developed countries, India's nationwide credit bureau is still at a nascent stage, 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.

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 8.5% in fiscal 2004, 4.0% in fiscal 2003 and 5.8% in fiscal 2002. During the first six months of fiscal 2005, GDP grew at 7.0% compared to 6.9% during the first six months of fiscal 2004. However, growth in industrial and agricultural production in India has been variable. Industrial growth was 6.6% in fiscal 2004 compared to 6.2% in fiscal 2003 and 3.5% in fiscal 2002. Industrial growth was 7.9% during the first six months of fiscal 2005. Agricultural production grew by 9.6% in fiscal 2004 compared to a 5.2% decline in fiscal 2003 and growth of 6.5% in fiscal 2002. Agricultural production grew by 1.5% in the first six months of fiscal 2005. In its mid-term review of annual policy published on October 26, 2004, the RBI reduced its GDP growth forecast for fiscal 2005 from 6.5-7% to 6.0-6.5% as a result of a decline in agricultural growth because of insufficient rainfall, and increased its inflation rate forecast from 5.0% to 6.5%. 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 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, 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 headed by the Indian National Congress and 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 fiscal 2003, the agricultural sector recorded a negative growth of 5.2%. The erratic progress of the monsoon in 2004 has also adversely affected sowing operations for certain crops. Further prolonged spells of below normal 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.

Based on reports to date, the tsunami that struck the eastern coast of India and other Asian countries on December 26, 2004 did not result in any fatalities or serious injuries to our staff nor any damage to our properties, and we do not believe we had significant aggregate loan or other exposure to persons directly affected by the disaster. However, the full effects of the tsunami, particularly its effects on economic conditions in India generally, are not yet known and therefore we cannot predict at this time whether it will have a significant effect on our business.

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, such as the ones that occurred in New York and Washington, D.C. on September 11, 2001, New Delhi on December 13, 2001, Gandhinagar in Gujarat on September 24, 2002, Bali on October 12, 2002 and Mumbai on August 25, 2003 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.

After the December 13, 2001 attack in New Delhi and a terrorist attack on May 14, 2002 in Jammu, India, diplomatic relations between India and Pakistan became strained and there was a risk of intensified tensions between the two countries. The governments of India and Pakistan have recently been engaged in conciliatory efforts. However, any deterioration in relations between Indian and Pakistan 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. Regional or international hostilities, terrorist attacks or other acts of violence of war could have a significant adverse impact on international or Indian financial markets or economic conditions or on Government policy. 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.

Notes:

- The RBI conducts regular inspections of banking companies under the provisions of the Banking Regulation Act. The reports of the RBI are strictly confidential. We are in discussions with the RBI in respect of observations made by the RBI in their reports for prior periods. The RBI does not permit disclosure of its inspection report and all disclosures in this Red Herring Prospectus are on the basis of our management and audit reports.
- Public issue of up to 80,000,000 Equity Shares for cash at a price of Rs [●] per Equity Share aggregating Rs. [●] million. The Issue comprises a Net Issue to the public of 64,000,000 Equity Shares, a reservation, i.e., Employees Reservation Portion of up to 8,000,000 Equity Shares and a reservation, i.e., Existing Shareholders Portion of up to 8,000,000 Equity Shares.
- The net worth of our Bank before the Issue (based on our restated financial statements as of September 30, 2004) was Rs. 50.96 billion (on an unconsolidated basis).
- The average cost of acquisition of Equity Shares by the President of India, acting through the MoF, our Promoter, is Rs. 10 per Equity Share and the book value per Equity Share based on our restated financial statements as of March 31, 2002 was Rs. 130.4, as of March 31, 2003 was Rs. 132.6, as of March 31, 2004 was Rs. 165.2 and as of September 30, 2004 was Rs. 192.10 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 149. Our aggregate related party transactions with key managerial personnel are as follows:

Item	Amount (Rs. in million) (2001-02)	Amount (Rs. in million) (2002-03)	Amount (Rs. in million) (2003-04)
Remuneration	0.9	1.0	1.1

- Further the related party transactions with associates (unaudited) are given below:

Assets Care Enterprises Ltd.

Rs. in million

	FY 2002	FY 2003	FY 2004
Share Capital held by Bank	-	-	13

Principal PNB Asset Management Company Private Limited

Rs. in million

	FY 2003	FY 2004	FY 2005 (as of date)
Share Capital held by Bank	-	-	30

Principal Trustee Company Private Limited

Rs. in million

	FY 2003	FY 2004	FY 2005 (as of date)
Share Capital held by Bank	-	-	0.30

PNB Principal Financial Planners Private Limited

A sum of Rs. 15,000,000 was paid to this company on October 14, 2004 by our Head Office, Treasury Division, towards the Bank's share of capital contribution. Further, the company has paid a sum of Rs. 0.9 million royalty for use of the Bank's name.

Rs. in million

	FY 2003	FY 2004	FY 2005 (as of date)
Capital Contribution to joint venture	-	-	15
Royalty to the Bank	-	-	0.9

Everest Bank Limited

Rs. in million

	FY 2002	FY 2003	FY 2004
Share Capital held by Bank	33.0	39.6	39.6
Dividend received by Bank	-	7.9	7.9
Technical Services fee received by Bank	2	2	2

- None of our directors has, either directly or indirectly, undertaken transactions in our Equity Shares in the six months preceding the date 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 241.

Investors should note that in case of over-subscription in the Issue, allotment will be made on a proportionate basis to Retail Individual Bidders, Employees, Existing Shareholders and Non Institutional Bidders. Please refer to the section titled "Statutory and Other Information - Basis of Allocation" on page 244.

SUMMARY

You should read the following summary together with the section titled "Risk Factors" on page x, our financial statements and the more detailed information about us included elsewhere in this Red Herring Prospectus.

Overview

We are a leading public sector commercial bank in India, offering banking products and services to corporate and commercial, retail and agricultural customers. We started our operations in 1895 and since then have grown to become India's third largest bank in terms of assets and second largest bank in terms of number of branches. Although we began our operations in the agriculturally rich areas of northern India, we have expanded our operations to provide products and services to over 35 million customers across India through more than 4,000 branches.

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 middle market businesses and government entities. We cater to the financing needs of the agricultural sector and have created innovative financing products for farmers. We also provide significant financing to other priority sectors including small scale industries. We offer a wide range of retail credit products including home loans, personal loans and automobile loans. Through our subsidiaries and joint ventures, we deal in Indian government securities and provide housing finance and asset management services. Through our treasury operations, we manage our balance sheet, including the maintenance of required regulatory reserves, and seek to maximize profits from our trading portfolio by taking advantage of market opportunities.

Since 1969, when we became a public sector bank, we have managed to continue to grow our business while maintaining a strong balance sheet. As of September 30, 2004, our total deposits represented 85.9% of our total liabilities. On average, interest free demand deposits and low interest savings deposits represented 43.8% of these deposits in the first six months of fiscal 2005. These low-cost deposits led to an average cost of funds excluding equity for the first six months of fiscal 2005 of 4.7%. As of September 30, 2004, our gross and net non-performing assets constituted 7.65% and 0.30% of our gross and net advances, respectively. In fiscal 2004 our total income was Rs. 96.5 billion and our net profit was Rs. 11.1 billion before adjustment and Rs. 10.6 billion after adjustment as part of the restatement of our financial statements for this Issue. In the first six months of fiscal 2005 our total income was Rs. 51.9 billion and our net profit was Rs. 7.4 billion before adjustment and Rs. 7.9 billion after adjustment. Between fiscal 2002 and 2004, our total income grew at a compound annual rate of 12.5%, our unadjusted and adjusted net profit grew at a compound annual rate of 40.4% and 37.4%, respectively, and our total deposits and total advances grew at a compound annual growth rate of 17.1% and 17.2%, respectively.

We intend to maintain our position as a cost efficient and customer friendly institution that provides comprehensive financial and related services. We seek to achieve this by continuing to adopt technology which will integrate our extensive branch network. We intend to grow by cross-selling various financial products and services to our customers and by expanding geographically in India and internationally. We are committed to excellence in serving the public and also maintaining high standards of corporate responsibility. In line with our philosophy of aiding India's development we have opened branches in many rural areas.

Strategy

Our goal is to further strengthen our position as one of India's premier commercial banks and to increase our profitability by providing a comprehensive range of products and services and superior customer service. Our business strategy emphasizes the following elements:

Expand our business as the Indian economy grows by using our extensive domestic branch network to deliver high quality service that is tailored to the needs of our customers

The Indian economy is currently experiencing a high rate of growth. The consequent increase in the size and incomes of the middle and upper-income classes has resulted in significant expansion in India's banking and financial services industry. We believe that we can benefit from the growth of the Indian economy and increase our market share by continuing to emphasize high quality service through our extensive network of over 4,000 branches and our comprehensive product offerings which are tailored to our customers. To this end, we intend to continue to expand and at the same time restructure and rationalize our branch network to make our services more efficient. We also have introduced specialized branches that cater to the specific needs of various categories of customers. We intend to continue to implement these measures so as to ensure that we have one of the largest, as well as one of the most efficient, delivery networks in India.

Strengthen and expand our corporate and commercial franchise

We seek to build on our historical strength in the corporate and commercial sector by expanding our product and service offerings to large corporate customers and government entities as well as growth-oriented small and medium sized businesses. We seek to increase our customer base by offering innovative products and servicing the needs of our corporate and commercial customers through specialized branches, including those targeted at large and medium sized corporate customers and those targeted at small scale industries. Additionally, we seek to cross-sell our fee-based products and services to our current customer base and thereby increase our income from these products and services.

Expand retail opportunities by effectively leveraging our customer base and increasing our product offerings

With the increase in household income levels in India and the consequent need for diversified financial services, the retail sector has emerged as a rapidly growing opportunity for banks with the skills and infrastructure to adequately service this market. The keys to our retail strategy are wide distribution, convenient customer service, a full range of products and prudent risk management. Cross-selling of a wide range of banking services and insurance, credit and investment products to our customers is a critical aspect of our retail strategy as we leverage our current customer base to expand into new product areas.

Maintain and enhance our franchise in the agriculture sector

We intend to maintain and enhance our position as one of the leading banks for agricultural lending in India. In 2004, we exceeded the national goal for allocation of credit to the agricultural sector. We have introduced innovative products such as our Krishi credit cards, which provide farmers with convenient financing for their production, investment and consumption activities. We have a nationwide franchise in the agriculture sector, with concentration in northern India, one of the country's most fertile areas. We intend to further expand our agriculture lending activities in other areas in India, including those which have historically not been adequately served. We also intend to expand our agriculture lending activities into areas such as horticulture and herbal cultivation. Another aspect of our strategy is to further strengthen our ties with the agricultural community by providing training and social support programs for the rural populace.

Develop our technological capabilities to interconnect our branch network and improve our services

We believe that technology is a critical differentiator in the banking industry and over the past few years have devoted substantial resources to upgrading our technology. We have electronically interconnected over 690 of our branches (as of September 30, 2004), which we believe is significantly more than any other bank in India. We intend to extend this to between 1,500 and 2,000 branches by March 31, 2006. We also intend to expand the delivery channels of our services and have introduced internet banking and set up over 450 ATMs. We aim to improve service by further using interconnectivity to implement centralized credit management, helpdesk services and data backup capabilities.

Maintain high asset quality standards through comprehensive risk management

We have maintained high quality loan and investment portfolios by carefully targeting our customer base and implementing a comprehensive risk assessment process and diligent risk monitoring and remediation procedures. We apply our credit risk rating process to advances in excess of Rs. 2 million. Additionally, we actively monitor our loans and reassess their credit ratings once a year or more frequently if they are at risk. We also apply aggressive remediation policies to recover non-performing loans. Our provisioning policies for non-performing assets are in accordance with the RBI guidelines. As of September 30, 2004 we had floating provisions of Rs. 13.9 billion for non-performing assets, which was significantly in excess of those required under the RBI guidelines. Our gross NPA coverage ratio was 96.4% as of September 30, 2004.

Maintain our low cost of funds

We have one of the lowest overall cost of funds in the Indian banking industry. We have achieved this through a large base of low cost deposits, with total deposits representing 90.7% of our funding as of September 30, 2004. Interest free demand deposits and low interest savings deposits constituted 10.3% and 34.9%, respectively, of our total deposits as of September 30, 2004. We believe we can maintain and enlarge this low-cost funding base by leveraging our extensive branch network and our customer base of over 35 million accounts and by offering a wide range of products and high quality customer service.

SUMMARY FINANCIAL INFORMATION

The following table sets forth summary financial information derived from our unconsolidated financial statements. The financial information as of and for the fiscal years ended March 31, 2002, 2003 and 2004 and as of and for the six months ended September 30, 2003 and 2004 is based on our restated financial statements for those periods, which are included in this Red Herring Prospectus under the section titled "Financial Statements" on page F-1. The restated financial statements have been prepared in accordance with Indian GAAP and the SEBI Guidelines and have been restated as described in the auditors' report attached thereto. The summary financial information presented below should be read in conjunction with the financial statements included in this Red Herring Prospectus, the notes thereto and the sections titled "Selected Statistical Information" on page72, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 90 and "Recent Developments" on page 117. Indian GAAP differs in certain significant respects from U.S. GAAP. For more information on these differences, see the section titled "Summary of Significant Differences between Indian GAAP and U.S. GAAP", on page 270.

SUMMARY PROFIT AND LOSS INFORMATION

(In Rs. million)

	Fiscal year			First six months of fiscal year	
	2002	**2003**	**2004**	**2004**	**2005**
INCOME					
Interest Income					
Interest and discount on advances and bills	33,178.8	37,115.9	38,760.1	19,319.9	20,732.4
Income on investments	30,027.6	32,983.3	36,809.7	17,810.9	19,706.4
Other interest income	3,272.3	4,750.9	2,227.2	1,038.1	992.4
Total interest income	**66,478.7**	**74,850.1**	**77,797.0**	**38,168.9**	**41,431.2**
Other Income					
Commission, exchange and brokerage	4,339.9	4,800.1	5,519.0	2,498.2	3,218.0
Profit on sale of investments (net)	4,379.1	6,722.8	12,363.7	6,989.8	2,786.1
Others	1,058.2	980.2	786.1	1,002.3	4,499.2
Total other income	**9,777.2**	**12,503.1**	**18,668.8**	**10,490.3**	**10,503.3**
Total Income	**76,255.9**	**87,353.2**	**96,465.8**	**48,659.2**	**51,934.5**
EXPENDITURE					
Interest Expenditure					
Interest on deposits	41,216.2	41,625.6	39,264.4	19,744.6	21,006.4
Others	2,309.6	1,987.3	2,285.5	1,113.6	1,373.3
Total interest expenditure	**43,525.8**	**43,612.9**	**41,549.9**	**20,858.2**	**22,379.7**

(In Rs. million)

	Fiscal year			First six months of fiscal year	
	2002	2003	2004	2004	2005
Operating Expenses					
Payment to and provision for employees and wages	13,163.2	14,760.8	16,540.6	7,602.6	9,515.6
Other operating expenses	4,828.9	5,806.5	7,166.7	3,100.9	3,681.9
Total operating expenses	**17,992.1**	**20,567.3**	**23,707.3**	**10,703.5**	**13,197.5**
Total Expenditure	**61,517.9**	**64,180.2**	**65,257.2**	**31,561.7**	**35,577.2**
Gross profit before provisions and contingencies	**14,738.0**	**23,173.0**	**31,208.6**	**17,097.5**	**16,357.3**
Provisions and Contingencies					
Provision for non performing advances	3,913.3	4,729.7	4,010.4	2,405.2	1,182.1
Floating provision against NPAs*	2,400.0	3,600.0	7,930.0	5,730.0	—
Provisions for income tax	1,981.5	3,406.6	6,599.9	2,803.5	2,831.2
Other provisions	819.3	3,014.7	1,581.4	643.6	4,991.8
Total provisions and contingencies	**9,114.1**	**14,751.0**	**20,121.7**	**11,582.3**	**9,005.1**
Net profit	**5,623.9**	**8,422.0**	**11,086.9**	**5,515.2**	**7,352.2**

ADJUSTMENTS ON ACCOUNT OF RESTATEMENT

(In Rs. million)

	Fiscal year			First six months of fiscal year	
	2002	2003	2004	2004	2005
Adjustments for amortization of goodwill on account of amalgamation of Nedungadi Bank	—	(373.3)	373.3	186.7	—
Adjustments for impact of wage revision	—	(460.0)	(1,104.0)	(552.0)	861.0
Tax impact of adjustments	—	306.2	254.9	127.5	(303.9)
Total adjustments	—	**(527.1)**	**(475.8)**	**(237.8)**	**557.1**
Transfer from other reserves	—	—	—	—	**584.9**
Adjusted net profit	**5,623.9**	**7,894.9**	**10,611.1**	**5,277.4**	**8,494.2**

* Floating provisions against NPAs has been explained in the section titled "Management's Discussion and Analysis of Financial Condition and Result of Operations" on page 90.

SUMMARY BALANCE SHEET INFORMATION

(In Rs. million)

	As of March 31,			As of September 30,
	2002	2003	2004	2004
ASSETS				
Investments	282,071.7	340,300.5	421,254.9	460,185.8
Advances	343,694.2	402,281.2	472,247.2	518,705.3
Balance with RBI	43,704.1	59,397.1	60,430.7	60,846.4
Other assets	56,295.3	56,876.3	66,735.3	57,945.4
Total Assets (A)	**725,765.3**	**858,855.1**	**1,020,668.1**	**1,097,682.9**
LIABILITIES				
Deposits	641,234.8	758,135.0	879,163.9	945,886.4
Borrowings	4,085.7	6,621.6	12,890.6	19,520.2
Other liabilities and provisions	38,220.7	41,662.9	59,130.2	55,033.6
Subordinated debt	11,798.6	15,928.6	23,578.6	23,428.6
Total liabilities (B)	**695,339.8**	**822,348.1**	**974,763.3**	**1,043,868.8**
NET ASSETS (C=A-B)	**30,425.5**	**36,507.0**	**45,904.8**	**53,814.1**
Share capital (D)	**3,767.3**	**2,653.0**	**2,653.0**	**2,653.0**
Reserves and surplus (E)	**26,658.2**	**33,854.0**	**43,251.8**	**51,161.1**
TOTAL (D+E)	**30,425.5**	**36,507.0**	**45,904.8**	**53,814.1**

THE ISSUE

Issue	80,000,000 Equity Shares
Of which: Reservation for Employees	Up to 8,000,000 Equity Shares
Reservation for Existing Shareholders	Up to 8,000,000 Equity Shares
Net Issue to the Public	At least 64,000,000 Equity Shares
Of which: Qualified Institutional Buyers Portion	Up to 32,000,000 Equity Shares (allocation on a discretionary basis)
Non-Institutional Portion	At least 9,600,000 Equity Shares (allocation on a proportionate basis)
Retail Portion	At least 22,400,000 Equity Shares (allocation on a proportionate basis)
Equity Shares outstanding prior to the Issue	265,302,500 Equity Shares
Equity Shares outstanding after the Issue, without giving effect to the Capital Reduction	345,302,500 Equity Shares
Equity Shares outstanding after the Issue, giving effect to the Capital Reduction	315,302,500 Equity Shares
Objects of the Issue	Please see the section titled "Objects of the Issue" on page 29.

GENERAL INFORMATION

Authority for the Issue

Our Board of Directors had authorised a fresh issue of up to 50,000,000 Equity Shares pursuant to a resolution passed at its meeting held on September 11, 2004.

Our shareholders subsequently authorised the fresh issue of up to 50,000,000 Equity Shares, by a resolution passed unanimously at the general meeting of our Bank held on October 11, 2004 at New Delhi, subject to the approval of the Government, the RBI, SEBI and other applicable authorities. The shareholder resolution gave the Board the authority and power to accept any modification in the proposal as may be required or imposed by such authorities and as agreed to by the Board.

Our Bank applied to the Government on October 14, 2004 for its sanction to a fresh issue of up to 50,000,000 Equity Shares. By its letter bearing number F.No.11/29/2004-BOA dated January 7, 2005, pursuant to Section 3 (2B) (c) of the Bank Acquisition Act, the Department of Economic Affairs, MoF, GoI conveyed its approval on the terms and conditions requiring an increased issue size of 80,000,000 Equity Shares and containing, as a condition to the approval, that the amount raised for 30,000,000 Equity Shares through the public offer should be returned to the Government at the Issue Price by March 31, 2005. Further, in terms of the Government Approval, the proportionate cost of the public issue to the extent of 30,000,000 Equity Shares is to be borne by the Government. Following the receipt of the Government Approval and in pursuance of the powers granted to the Board by the shareholders of our Bank in the extraordinary general meeting dated October 11, 2004, our Board, through a resolution dated January 13, 2005, authorized the Issue, subject to the conditions specified in the Government Approval. For further details see the sections titled “Risk Factors” on page x, “Capital Structure” on page 22 and “Government Approvals” on page 182.

We have received permission from the Foreign Exchange Department, RBI vide their letter no.FE.CO.FID/4998/10.02.40(8435)/2004-05 dated February 2, 2005 permitting us to issue shares to NRIs / FIIs with repatriation benefits out of our public Issue of 80,000,000 Equity Shares. The RBI has imposed the condition that post-Issue, the non resident equity holding in our Bank should not exceed 20% of the paid up capital. The permission is further subject to the conditions laid down by the Government of India in their approval letter no. F.No.11/29/2004-BOA dated January 7, 2005, condition prescribed/stipulated by SEBI in this connection and the terms and conditions for issue of shares as stipulated in the Schedule 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 3, 2000.

For the details of the conditions specified in the Government Approval, see the section titled “Government Approvals” on page 182.

Prohibition by SEBI

Our Bank, our Directors, our subsidiaries, our affiliates/associates, and companies with which our Directors are associated with as directors or promoters, have not 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, 1970, Banking Companies (Acquisition and Transfer of Undertaking) Act, 1980, State Bank of India Act, 1955 and State Bank of India (Subsidiary Banks) Act, 1959 (hereinafter referred to as “public sector banks”).”

Clause 2.2 referred in the clause above relates to unlisted companies and Clause 2.3 relates to listed companies. Clause 2.3 relating to listed companies is 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 networth 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 fulfill 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 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, ICICI SECURITIES LIMITED, DSP MERRILL LYNCH LIMITED, ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED, JM MORGAN STANLEY 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 (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES, 2000 AS FOR THE TIME BEING IN FORCE. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING AN INVESTMENT IN THE PROPOSED ISSUE. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE BANK IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE RED HERRING PROSPECTUS, THE BOOK RUNNING LEAD MANAGERS ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE BANK DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE BOOK RUNNING LEAD MANAGERS, ICICI SECURITIES LIMITED, DSP MERRILL LYNCH LIMITED, ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED, JM MORGAN STANLEY PRIVATE LIMITED AND KOTAK MAHINDRA CAPITAL COMPANY LIMITED AND HAVE FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED JANUARY 14, 2005 IN ACCORDANCE WITH THE SEBI (MERCHANT BANKERS) REGULATIONS, 1992 WHICH READS AS FOLLOWS:

"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.

ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE BANK, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE BANK,

WE CONFIRM THAT:

(A) THE RED HERRING PROSPECTUS FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;

(B) 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;

(C) 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;

(D) BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE RED HERRING PROSPECTUS ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATIONS ARE VALID; AND

(E) WHEN UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS."

THE WRITTEN CONSENT FROM PROMOTERS I.E. GOVERNMENT OF INDIA IS BEING OBTAINED FOR INCLUSION OF THEIR SECURITIES AS PART OF PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN AND THAT THE SECURITIES PROPOSED TO FORM PART OF PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN, WILL NOT BE DISPOSED/SOLD/ TRANSFERRED BY THE PROMOTERS. THE SAME IS EXPECTED SOON AND THE RED HERRING PROSPECTUS WILL CARRY THE DETAILS OF THE LOCK-IN.

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 LEAD MANAGERS, 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.pnbindia.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 January 13, 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.

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, Eligible 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 New Delhi, 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.

Accordingly, the Equity Shares are only being offered or sold in the United States to "Qualified Institutional Buyers" as defined in Rule 144A under the U.S. Securities Act of 1933 (the "Securities Act") and outside the United States to certain Persons in offshore transactions in compliance with Regulation S under the Securities Act.

Disclaimer Clause of the BSE

As required, a copy of this Red Herring Prospectus has been submitted to BSE. BSE has vide its letter dated January 28, 2005, given 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:

(i) warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; or

(ii) warrant that this Bank's securities will be listed or will continue to be listed on BSE; or

(iii) 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 has been submitted to NSE. NSE has given vide its letter dated January 18, 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 of its Equity Shares offerred as part of this Issue. 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 this Bank, its promoters, its management or any scheme or project of this Bank.

Every Person who desires to apply for or otherwise acquires any of our securities may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against NSE whatsoever by reason of any loss which may be suffered by such Person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

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 the Red Herring Prospectus, along with the documents required to be filed under applicable law, will be delivered for registration to the Designated Stock Exchange and a copy of the Prospectus, along with the documents required to be filed under applicable law, will be delivered for registration to the Designated Stock Exchange.

Listing

Our existing Equity Shares are listed on the BSE and NSE. We had applied for voluntary delisting of our Equity Shares from the DSE vide letter dated October 5, 2004 pursuant to a shareholder resolution dated July 3, 2004. We have received a letter dated October 13, 2004 bearing reference number DSE/LIST/R/96 from the DSE informing the Bank that the securities of the Bank are delisted from the DSE with immediate effect.

Applications have been made to the BSE and NSE for permission for further listing of our Equity Shares. NSE shall be the Designated Stock Exchange with which the Basis of Allocation shall be finalised for the Non-Institutional Portion and the Retail Portion.

If the permission to deal in and for an official quotation of the Equity Shares are not granted by any of the Stock Exchanges, our Bank shall 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 becomes liable to repay it (i.e., from the date of refusal or within 70 days from the date of Issue Closing Date, whichever is earlier), then our Bank shall, on and from expiry of eight days, be jointly and severally liable to repay the money, with interest at the rate of 15% per annum on application money.

Our Bank shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at the Stock Exchanges are taken within seven working days of finalisation and adoption of the Basis of Allotment for the Issue.

Impersonation

Attention of the applicants is specifically drawn to the following:

Any Person who:

(a) makes in a fictitious name, an application to a bank for acquiring or subscribing for, any shares therein, or

(b) otherwise induces a bank to allot, or register any transfer of shares therein to him, or any other Person in a fictitious name,

shall be liable for consequences as prescribed by applicable law.

Minimum Subscription

If we do not receive the minimum subscription of 90% of the Net Issue to the public to the extent of the amount payable on application, including devolvement of 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 at the rate of 15% per annum.

Withdrawal of the Issue

Our Bank, in consultation with the BRLMs, reserves the right not to proceed with the Issue at anytime after the Bid Closing Date, without assigning any reason thereof.

Letters of Allotment or Refund Orders

We shall give credit to the beneficiary account with Depository Participants within two working days from the date of the finalisation of basis of allocation. 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 at the sole or First Bidder’s sole risk within 15 days of the Bid Closing Date/Issue Closing Date.

In accordance the requirements of the Stock Exchanges and SEBI Guidelines, we undertake that:

- Allotment shall be made only in dematerialised form within 15 days from the 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% 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.

Bid/Issue Programme

Bidding Period / Issue Period

BID / ISSUE OPENS ON	**:**	**MONDAY,**	**MARCH**	**7, 2005**
BID / ISSUE CLOSES ON	**:**	**FRIDAY,**	**MARCH**	**11, 2005**

Bids and any revision in Bids shall be accepted **only between 10 a.m. and 3 p.m**. (Indian Standard Time) during the Bidding Period/Issue Period as mentioned above at the bidding centres mentioned on the Bid cum Application Form except that on the Bid Closing Date, the Bids shall be accepted **only between 10 a.m. and 1 p.m.** (Indian Standard Time) and uploaded till such time as permitted by the BSE and NSE.

The Price Band will be decided by us in consultation with the BRLMs and advertised at least one day prior to the Bid Opening Date/Issue Opening Date in Business Standard, an English language newspaper with wide circulation and Hindustan, a Hindi language newspaper with wide circulation, and includes any revisions thereof. With regard to the Price Band/Floor Price, Bidders are advised to be guided by the price of our listed Equity Shares in the secondary market. For details see the section titled "History and Certain Corporate Matters- Stock Market Data" on page 65.

The Bank reserves the right to revise the Price Band during the Bidding Period/Issue Period in accordance with SEBI Guidelines. The cap on the Price Band should not be more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of the Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Red Herring Prospectus.

In case of revision in the Price Band, the Bidding Period/Issue Period will be extended for three additional days after revision of Price Band subject to the Bidding Period/Issue Period not exceeding 13 days. Any revision in the Price Band and the revised Bidding Period/Issue Period, if applicable, will be widely disseminated by notification to BSE and NSE by issuing a press release, and also by indicating the change on the websites of the BRLMs and at the terminals of the Syndicate.

BOOK RUNNING LEAD MANAGERS

ICICI Securities Limited
ICICI Centre,
H.T. Parekh Marg, Churchgate,
Mumbai, 400 020.
Tel : (91 22) 2288 2460
Fax : (91 22) 2282 6580
E-mail : pnb_fpo@isecltd.com

DSP Merrill Lynch Limited
Mafatlal Centre, 10th Floor,
Nariman Point,
Mumbai 400 021.
Tel: (91 22) 5632 8000
Fax: (91 22) 2204 8518
E-mail: pnb_ fpo@ml.com

Enam Financial Consultants Private Limited
801/802, Dalamal Towers,
Nariman Point,
Mumbai 400 021.
Tel : (91 22) 5638 1800
Fax : (91 22) 2284 6824
E-mail: pnb.fpo@enam.com

JM Morgan Stanley Private Limited
141, Maker Chambers III,
Nariman Point,
Mumbai 400 021.
Tel : (91 22) 1600 22 0004/5630 3030
Fax : (91 22) 5630 1694
E-mail: pnbfpo@jmmorganstanley.com

Kotak Mahindra Capital Company Limited
Bakhtawar, 3rd Floor,
229, Nariman Point,
Mumbai 400 021.
Tel : (91 22) 5634 1100
Fax : (91 22) 2284 0492
E-mail: pnb.fpo@kotak.com

CO-MANAGERS

A. K. Capital Services Ltd.
Flat No. « N », Sagar Apartments,
6, Tilak Marg,
New Delhi 110 001
Tel : (91 11) 2338 5704
Fax : (91 11) 2338 5189
E-mail: akcap@bom9.vsnl.net.in

BOB Capital Markets Limited
Ground Floor, Noble Chambers (Vatsa House)
20-C/D. S. A. Brelvi Road, Fort,
Mumbai 400 001
Tel : (91 22) 2284 8492
Fax : (91 22) 2284 5208
E-mail: bobcaps@mtnl.net.in, bobcaps@vsnl.com

Centrum Finance Ltd.
Khetan Bhavan,
5th Floor,
198, J. Tata Road,
Churchgate, Mumbai 400 020.
Tel : (91 22) 2202 3838
Fax : (91 22) 2204 6096
E-mail: info@centrum.co.in

IDBI Capital Market Services Limited
8th Floor, Bhaktawar,
229 Nariman Point
Mumbai 400 021
Tel : (91 22) 5637 1212
Fax : (91 22) 2288 5850

RR Financial Consultants Limited
Indraprakash Building
21, Barakhamba Road,
New Delhi- 110 001
Tel : (91 11) 2335 2496
Fax : (91 11) 2335 3703

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. Due diligence of the Bank's operations/ management/ business plans/ legal, etc.	ISEC, DSPML, ENAM, JMMS and KOTAK	ISEC
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.	ISEC, DSPML, ENAM, JMMS and KOTAK	ISEC
Drafting and approval of all publicity material other than statutory advertisement as mentioned above including corporate advertisement, brochure, etc.	ISEC, DSPML, ENAM, JMMS and KOTAK	ENAM
Appointment of other Intermediaries: (a) Printers; (b) Syndicate Members; (c) Registrar and advertising agency; and (d) Banker to the Issue.	ISEC, DSPML, ENAM, JMMS and KOTAK	(a) Printer: ENAM (b) Syndicate: ENAM (c) Registrar and Advertising Agency: JMMS (d) Banker to the Issue: KOTAK
Domestic institutions/banks/mutual funds marketing strategy: Finalise the list and division of investors for one on one meetings, institutional allocation	ISEC, DSPML, ENAM, JMMS and KOTAK	KOTAK
International institutional marketing strategy, roadshow marketing presentation: Finalise the list and division of investors for one on one meetings, institutional allocation	ISEC, DSPML, ENAM, JMMS and KOTAK	DSPML

Activities	Responsibility	Co-ordinator
Retail/Non institutional marketing strategy which will cover, inter alia, Finalize media, marketing and public relation strategy, Finalize centers for holding conferences for brokers, etc. Finalize collection centers, Follow-up on distribution of publicity and Issue material including form, Prospectus and deciding on the quantum of the Issue material	ISEC, DSPML, ENAM, JMMS and KOTAK	ENAM
Managing the Book, coordination with Stock Exchanges, pricing and allocation to QIB Bidders.	ISEC, DSPML, ENAM, JMMS and KOTAK	JMMS
Post bidding activities including management of Escrow Accounts, co-ordinate non-institutional allocation, intimation of allocation and dispatch of refunds to Bidders, etc.	ISEC, DSPML, ENAM, JMMS and KOTAK	JMMS
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 fulfill their functions and enable them to discharge this responsibility through suitable agreements with the issuer Bank.	ISEC, DSPML, ENAM, JMMS and KOTAK	JMMS

SYNDICATE MEMBERS

ICICI Brokerage Services Limited
ICICI Centre,
H.T. Parekh Marg, Churchgate,
Mumbai 400 020.
Tel: (91 22) 2288 2460
Fax: (91 22) 2282 6580

DSP Merrill Lynch Limited
Mafatlal Centre, 10th Floor,
Nariman Point,
Mumbai 400 021.
Tel: (91 22) 5632 8000
Fax: (91 22) 2204 8518

Enam Securities Private Limited
2nd Floor, Khatau Building,
44, Bank Street, off Shaheed Bhagat Singh Road,
Fort, Mumbai 400 001.
Tel: (91 22) 2267 7901
Fax: (91 22) 2266 5613

JM Morgan Stanley Retail Services Private Limited
141, Maker Chambers III, Nariman Point,
Mumbai 400 021.
Tel: (91 22) 5630 3030
Fax: (91 22) 5630 1689

Kotak Securities Limited
Bakhtawar, 1st Floor, 229, Nariman Point,
Mumbai 400 021.
Tel: (91 22) 5634 1100
Fax: (91 22) 5630 3927

HEAD OFFICE OF OUR BANK

Punjab National Bank
7, Bhikhaiji Cama Place,
New Delhi 110 066, India.
Tel: (91 11) 2610 2303
Fax: (91 11) 2610 8741

COMPANY SECRETARY AND COMPLIANCE OFFICER

Ms. Malathi Mohan,
Share Department,
5, Sansad Marg,
New Delhi 110 001.
Tel : (91 11) 2332 3657
Fax : (91 11) 2371 1663
E-Mail: hosd@pnb.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.

REGISTRAR TO THE ISSUE

MCS Limited,
Sri Padmavati Bhavan
Plot No. 93, Road No. 16,
MIDC Area, Andheri (East)
Mumbai 400 092
Tel : (91 22) 2820 1785
Fax : (91 22) 2820 1783
Email: pnbfpo@mcsind.com

LEGAL ADVISORS TO THE ISSUE

DOMESTIC LEGAL COUNSEL TO THE BANK

Amarchand & Mangaldas & Suresh A. Shroff & Co.,
Amarchand Towers,
216, Okhla Industrial Estate, Phase – III,
New Delhi 110 020.
Tel : (91 11) 2692 0500
Fax : (91 11) 2692 4900

INTERNATIONAL LEGAL COUNSEL TO THE BANK

(Advising on matters pertaining to the laws of the State of New York and the Federal law of the United States of America)

Cravath, Swaine & Moore LLP,
Worldwide Plaza,
825 Eighth Avenue,
New York, New York 10019,
United States of America.
Tel: (1 212) 474 1000
Fax: (1 212) 474 3700

INTERNATIONAL LEGAL COUNSEL TO THE UNDERWRITERS

Herbert Smith,
Exchange House, Primrose Street,
London EC2A 2HS,
United Kingdom.
Tel: (44) 20 7374 8000
Fax: (44) 20 7374 0888

ADVISORS TO THE ISSUE

PNB Gilts Limited,
5, Sansad Marg,
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Banker to the Issue and Escrow Collection Bank

Punjab National Bank,
Branch Office: 5, Sansad Marg,
New Delhi 110 001.

Credit Rating

As the Issue is of equity shares, 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:

(1) The Bank;

(2) Book Running Lead Managers;

(3) 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;

(4) Escrow Collection Bank; and

(5) Registrar to the Issue.

SEBI through its guidelines has permitted an issue of securities to the public through 100% Book Building Process, wherein: (i) upto 50% of the Net Issue to the public shall be allocated on a discretionary basis to QIBs (ii) not less than 25% of the Net Issue to the public shall be available for allocation on a proportionate basis to the Non-Institutional Bidders (iii) not less than 25% of the Net 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. However, as intimated by us to SEBI vide letter dated February 2, 2005, and noted by them in their letter dated February 4, 2005, the Net Issue to the public shall be allocated in the following proportion: upto 50% shall be allocated to QIBs, at least 15% shall be allocated to Non-Institutional Bidders and atleast 35% shall be allocated to Retail Individual Bidders.

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 please refer to the section titled "Terms of the Issue" on page 217.

The Bank shall comply with guidelines issued by SEBI for this Issue. In this regard, our Bank has appointed ICICI Securities Limited, DSP Merrill Lynch Limited, Enam Financial Consultants Private Limited, JM Morgan Stanley Private Limited and Kotak Mahindra Capital Company Limited as the BRLMs to manage the Issue and to procure subscription to the Issue.

The process of book building, under SEBI Guidelines, is relatively new and the investors are advised to make their own judgment about investment through this process of book building prior to making a Bid 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 out of which one bidder has bid for 500 shares at Rs. 24 per share while another has bid for 1,500 shares at Rs. 22 per share. 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	27.77%
1000	23	1500	83.33%
1500	22	3000	166.67%
2000	21	5000	277.78%
2500	20	7500	416.67%

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:

1. Check eligibility for bidding, please refer to the section titled "Issue Procedure - Who Can Bid?" on page 223;
2. Ensure that the Bidder has a demat account; and
3. 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.
4. Ensure that the Bid cum Application Form is accompanied by the PAN, or by Form 60 or Form 61 as may be applicable together with necessary documents providing proof of address. See page 236 for details. Bidders are specifically requested not to submit their GIR number instead of the PAN number as the Bid is liable to be rejected.

Underwriting Agreement

After the determination of the Issue Price and allocation of our 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. It is proposed that pursuant to the terms of the Underwriting Agreement, the BRLMs shall be responsible for bringing in the amount devolved in the event that their respective Syndicate Members do not fulfill their underwriting obligations.

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

Name and Address of the Underwriters	Indicative Number of Equity Shares to be Underwritten	Amount Underwritten (Rs. million)
ICICI Securities Limited ICICI Centre, H.T.Parekh Marg, Churchgate, Mumbai, 400020	15,999,920	[●]
DSP Merrill Lynch Limited Mafatlal Centre, 10th Floor, Nariman Point, Mumbai 400 021	15,999,920	[●]
Enam Financial Consultants Private Limited 801/802, Dalamal Towers Nariman Point Mumbai 400 021	8,500,000	[●]
JM Morgan Stanley Private Limited 141, Maker Chambers III, Nariman Point, Mumbai 400 021.	15,999,920	[●]
Kotak Mahindra Capital Company Limited Bakhtawar, 3rd Floor, 229 Nariman Point, Mumbai 400 021.	15,999,920	[●]
ICICI Brokerage Services Limited ICICI Centre, H.T.Parekh Marg, Churchgate, Mumbai, 400020.	100	[●]
Enam Securities Private Limited 2nd Floor, Khatau Building, 44, Bank Street, Off Shaheed Bhagat Singh Road, Fort, Mumbai- 400 001.	7,500,020	[●]
JM Morgan Stanley Retail Services Private Limited 141, Maker Chambers III, Nariman Point, Mumbai 400 021	100	[●]
Kotak Securities Limited, Bakhtawar, 1st floor, 229, Nariman Point Mumbai- 400 021.	100	[●]

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

In the opinion of the Board of Directors acting through the Chairman and Managing Director or the Executive Director, based on certificates dated [●] given to them by the BRLMs and the Syndicate Members, the resources of the Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. All the above-mentioned Underwriters are registered with SEBI under Section 12(1) of the SEBI Act or registered as brokers with the Stock Exchanges. The above Underwriting Agreement has been accepted by the Board of Directors acting through the Chairman and Managing Director or the Executive Director of our Bank and our Bank has issued letters of acceptance to the Underwriters.

Allocation among Underwriters may not necessarily be in proportion to their underwriting commitments. Notwithstanding the above table, the Underwriters shall be severally responsible for ensuring payment with respect to Equity Shares allocated to investors procured by them. In the event of any default, 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. Allocation to QIB Bidders is discretionary as per the terms of this Red Herring Prospectus and may not be proportionate in any way and the patterns of allocation to the QIB Bidders could be different for the various Underwriters.

CAPITAL STRUCTURE

Share capital as of the date of filing of the Red Herring Prospectus with SEBI (before and after the Issue and without and with giving effect to the Return of Proceeds and the Capital Reduction) is set forth below:

(Rs.)

		Aggregate nominal value	Aggregate Value at Issue Price
A.	**Authorised Capital** [1]		
	1,500,000,000Equity Shares of Rs. 10 each	15,000,000,000	
B.	**Issued, Subscribed and Paid-Up Capital before the Issue**		
	265,302,500Equity Shares of Rs.10 each fully paid-up	2,653,025,000	
C.	**Present Issue in terms of this Red Herring Prospectus**		
	Issue of 80,000,000Equity Shares of Rs. 10 each fully paid-up	800,000,000	
	Out of which		
	(I) 8,000,000 Equity Shares reserved for Employees on a competitive basis	80,000,000	
	(II) 8,000,000 Equity Shares reserved for Existing Shareholders on a competitive basis	80,000,000	
	(III) **Net Issue to the public**		
	64,000,000 Equity Shares of Rs. 10 each	640,000,000	**[●]**
D.	**Equity Capital after the Issue but before the Capital Reduction**		
	345,302,500Equity Shares of Rs.10 each fully paid-up	3,453,025,000	**[●]**
F.	**Capital Reduction**		
	Capital Reduction of 30,000,000 Equity Shares of Rs. 10 each fully paid-up, of the President of India in our Bank.	(300,000,000)	
G.	**Equity Capital after the Issue and the Capital Reduction**		
	315,302,500Equity Shares of Rs.10 each fully paid-up	3,153,025,000	
H.	**Share Premium Account**		
	Before the Issue	1,114,285,200	
	After the Issue without giving effect to the Return of Proceeds and the Capital Reduction	**[●]**	
	After the Issue, giving effect to the Return of Proceeds and the Capital Reduction	[●]	

[1] The authorized share capital of our Bank has remained 1,500,000,000 Equity Shares of Rs. 10 each since the nationalisation of the Bank on July 19, 1969.

- The President of India acting through the MoF, holds 80% of the issued and paid up equity capital of our Bank. After the Issue and before the Capital Reduction, the shareholding of the Promoter will be at least 61.47% of the fully diluted post Issue paid up equity share capital of our Bank. However, following the Issue and the Capital Reduction the shareholding of the Promoter will be at least 57.8% of the fully diluted post-Issue paid up equity share capital of the Bank. The Promoter vide letter no. F.No. 11/29/2004-BOA dated January 20, 2005 issued by the Government of India, MoF, Department of Economic Affairs (Banking Division) has given its approval for lock in of 20% of the fully diluted post Issue paid up equity share capital of our Bank for a period of three years from the date of Allotment.

- Our Board of Directors had authorised a fresh issue of up to 50,000,000 Equity Shares pursuant to a resolution passed at its meeting held on September 11, 2004. Our shareholders subsequently authorised the fresh issue of up to 50,000,000 Equity Shares, by a resolution passed unanimously at the general meeting of our Bank held on October 11, 2004, subject to the approval of the Government, the RBI, SEBI and other applicable authorities. The shareholder resolution gave the Board the authority and power to accept any modification in the proposal as may be required or imposed by such authorities and as agreed to by the Board.

Our Bank applied to the Government on October 14, 2004 for its sanction to a fresh issue of up to 50,000,000 Equity Shares. By its letter bearing number F.No.11/29/2004-BOA dated January 7, 2005, pursuant to Section 3 (2B) (c) of the Bank Acquisition Act, the Department of Economic Affairs, MoF, GoI conveyed its approval on *inter alia* the terms that the Issue size to be increased to 80,000,000 Equity Shares and as a condition to the approval, the amount raised for 30,000,000 Equity Shares through the public offer should be returned to the Government at the Issue Price by March 31, 2005. Further, in terms of the Government Approval, the proportionate cost of public issue to the extent of 30,000,000 Equity Shares, is to be borne by the Government.

Further, in accordance with the provisions of Section 3(2BBA)(a) of the Bank Acquisition Act, the shareholders of the Bank, at an annual general meeting held on August 4, 2003, resolved to return capital to the GoI to the extent of 130,000,000 Equity Shares or such other number of Equity Shares in one or more tranches, and authorized the Board to accept or agree to any modifications in the amount, number of shares or manner of reduction of paid up share capital. This resolution has not been modified or cancelled and permits our Board of Directors to accept the condition of the Government requiring the Capital Reduction.

Following the receipt of the Government Approval pursuant to the authority granted to the Board by the shareholders of our Bank in the extraordinary general meeting dated September 11, 2004, our Board, by its resolution dated January 13, 2005, resolved to accept the condition of the Government Approval that the amount raised through the issue of 30,000,000 Equity Shares out of the total issue of 80,000,000 Equity Shares would be returned to the Government by March 31, 2005, and also resolved that the Bank would reduce 30,000,000 Equity Shares held by the President of India. Accordingly, we shall transfer the amount raised through the issue of 30,000,000 Equity Shares in this Issue to the Government by March 31, 2005. For further details relating to the Capital Reduction, see sections titled “Risk Factors” on page x, “General Information - Authority for the Issue” on page 7, “Objects of the Issue” on page 29, “Government Approvals” on page 182 and “Material Contracts and Documents for Inspection” on page 278.

We shall debit an amount equal to the nominal value of 30,000,000 Equity Shares from our share capital account. Against return of the nominal value of 30,000,000 Equity Shares we will cancel 30,000,000 Equity Shares held by the President of India in our Bank. In addition, we shall debit the difference between the value of 30,000,000 Equity Shares at the Issue Price raised through the Issue and the nominal value of 30,000,000 Equity Shares from our share premium account. In terms of the Government Approval, the proportionate cost of public issue to the extent of 30,000,000 Equity Shares is to be borne by the Government.

Although the Bank Acquisition Act permits us to reduce the share capital of the Government, it is ambiguous on whether it permits reduction from the share premium account. Although we believe that the Bank Acquisition Act permits such reduction to be made from the share premium account and we have obtained independent opinions to such effect, in the event the Bank Acquisition Act were interpreted differently by statutory authorities, it is possible that the part of the payment to the Government which represents the amount debited from the share premium account could be deemed to be a dividend and consequently, there could be tax implications for us. We have received opinions from independent tax experts that there are no accounting or legal issues relating to the payment of the difference between the amount raised at the Issue Price for 30,000,000 million Equity Shares and the nominal value of 30,000,000 million Equity Shares from the share premium account and as the Government is not a taxable entity capable of being considered as an assessee, the amount raised for 30,000,000 Equity Shares through the Issue, which has to be returned to GoI at the Issue Price by March 31, 2005, is not subject to dividend tax.

However, as abundant caution to avoid any impact of tax liability on our Bank in this regard, vide letter dated February 7, 2005, we have communicated to the Government that in the event any such tax liability arises on the Bank, the Government should either facilitate a waiver of such tax implications or as a proportionate cost of the Issue to be borne by Government, indemnify the Bank for the same. As on the date hereof, the proposal is still pending before the Government.

For further details on the experts' opinions on tax and the letter dated February 7, 2005 written by our Bank to the Government, see the section titled "Material Contracts and Documents for Inspection" on page 278.

- Pursuant to the sanction received from the Government of India, MoF, Department of Economic Affairs (Banking Division) vide their letter no. F.No. 12/7/97-BOA dated November 13, 1997, the equity share capital of the Bank was restructured by returning Rs.1383.3 million on November 15, 1997 being part of the capital received from the GoI on January 1, 1994, against redemption of an equivalent amount of 10% recapitalisation bonds subscribed to by the Bank on November 15, 1997.
- We have received permission from the Foreign Exchange Department, RBI vide their letter no.FE.CO.FID/4998/ 10.02.40(8435)/2004-05 dated February 2, 2005 permitting us to issue shares to NRIs / FIIs with repatriation benefits out of our public Issue of 80,000,000 Equity Shares. The RBI has imposed the condition that post Issue the non resident equity holding in our Bank should not exceed 20% of the paid up capital. The permission is further subject to the conditions laid down by the Government of India in their approval letter no. F.No.11/29/2004-BOA dated January 7, 2005, condition prescribed/stipulated by SEBI in this connection and the terms and conditions for issue of shares as stipulated in the Schedule 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 3, 2000.

Notes to the Capital Structure

1. Share Capital History of our Bank since nationalisation on July 19, 1969:

Date/Year of Allotment	No. of Shares (in million)	Face Value (Rs.)	Issue Price (Rs.)	Consideration	Reasons for Allotment	Cumulative Share Premium	Cumulative Paid-up Share Capital (Rs. in million)
July 19, 1969	2	10	10			Nil	20
December 31, 1981	3	10	10	other than cash	capitalisation of reserves	Nil	50
December 31, 1982	2.5	10	10	Cash	allotment of shares to the President of India acting through the MoF against release of funds by GoI	Nil	75
December 31, 1983	2.5	10	10	other than cash	capitalisation of reserves	Nil	100
December 31, 1985	38	10	10	other than cash	allotment of shares to the President of India acting through the MoF in lieu of 7.75% special securities of GoI	Nil	480
December 31, 1986	52	10	10	other than cash	allotment of shares to the President of India acting through the MoF in lieu of special securities of GoI	Nil	1000
December 31, 1990; December 31, 1991; December 31, 1992	12.84	10	10	Cash	allotment of shares to the President of India acting through MoF in lieu of financial assistance for industrial export project from World Bank	Nil	1128.40

Date/Year of Allotment	No. of Shares (in million)	Face Value (Rs.)	Issue Price (Rs.)	Consideration	Reasons for Allotment	Cumulative Share Premium	Cumulative Paid-up Share Capital (Rs. in million)
March 31, 1993	75	10	10	other than cash	allotment of shares to the President of India acting through the MoF in lieu of 7.75% special securities of GoI	Nil	1878.40
March 31, 1994	415	10	10	other than cash	allotment of shares to the President of India acting through the MoF in lieu of 10% recapitalisation bonds 2006 of GoI	Nil	6028.40
March 31, 1994	0.21	10	10	other than cash	allotment of shares to the President of India acting through MoF in lieu of financial assistance for industrial export project from the World Bank	Nil	6030.5
March 31, 1994	(239.43)	10	10	other than cash	adjustment for the capital of New Bank of India	Nil	3636.20
March 31, 1997	(13.05)	10	10	other than cash	transfer of capital to the reserves and surplus earlier increased by allotment of shares in lieu of World bank assistance	Nil	3505.70
November 15, 1997	(138.33)	10	10	other than cash	return of capital to GoI and redemption of equal amount of 10% recapitalisation bonds	Nil	2122.40
April 20, 2002	53.06	10	31	Cash	allotment of shares to the applicants under initial issue of capital	1114.28	2653.02

2. Promoter's contribution and lock-in

(a) Details of Promoter's contribution locked in for three years are as follows:

Name of Shareholder	Date of Allotment/ Acquisition in the previous issue	Date when made fully paid-up	Consideration	No. of Equity Shares (Face Value Rs10/-)	% of Pre-Issue paid-up Capital	% of Post-Issue paid-up Capital	Lock-in Period
President of India acting through the MoF	March 31, 1994	March 31, 1994	Other than cash*	69,060,500*	26.03%	20%	3 years

*These shares were allotted in lieu of 10% recapitalisation bonds received from GoI.

(b) **Details of Promoter's contribution locked in for one year are as follows:**

The Equity Shares of our Bank are listed on the BSE and NSE. Our Promoter is not participating in this Issue, hence, there is no requirement for lock in of the Equity Shares other than those locked in for three years in (a) above.

(c) **The shareholding of the Promoter and the public before and after the Issue is as follows:**

	Before the Issue		After the Issue without Capital Reduction		After the Issue with Capital Reduction	
	Equity Shares	%	Equity Shares	%	Equity Shares	%
Promoters	212,241,300	80.00	212,241,300	61.47	182,241,300	57.80
Public	53,061,200	20.00	133,061,200	38.53	133,061,200	42.20
Total	**265,302,500**	**100**	**345,302,500**	**100**	**315,302,500**	**100**

(d) The list of top ten shareholders of our Bank and the number of Equity Shares held by them is as under:

i. Top ten shareholders of our Bank as on February 10, 2005 the date of filing of this Red Herring Prospectus with the Designated Stock Exchange are as follows:

Sl.No.	Name of Shareholders	Number of shares
1.	President of India	212,241,300
2.	Goldman Sachs Investments (Mauritius) I Limited	5,801,627
3.	Morgan Stanley and Co. International Limited A/C Morgan Stanley Dean Witter Mauritius	5,577,277
4.	UBS Securities Asia Limited A/c Swiss Finance Corporation (Mauritius) Limited	4,028,166
5.	CLSA Merchant Bankers Limited A/c Calyon	3,732,018
6.	Copthall Mauritius Investment Limited	3,445,372
7.	Sanford C Bernstien and Co., Delaware Business Trust- Emerging Markets Value Series	2,459,000
8.	Emerging Markets Management, L. L. C. A/c EMSAF- Mauritius	2,428,663
9.	Alliance Capital Management LP A/c Sanford C Bernstein Fund, INC	2,375,000
10.	The State Teacher Retirement System of Ohio	1,150,000
	Total	**243, 238, 423**

ii. Top ten shareholders of our Bank as on February 4, 2005, ten days before the date of filing of this Red Herring Prospectus with the Designated Stock Exchange are as follows:

Sl.No.	Name of Shareholders	Number of shares
1	President of India	212,241,300
2	Morgan Stanley and Co. International Limited A/C Morgan Stanley Dean Witter Mauritius	6,230,077
3	Goldman Sachs Investments (Mauritius) I Limited	5,802,890
4	UBS Securities Asia Limited A/c Swiss Finance Corporation (Mauritius) Limited	4,031,586
5	CLSA Merchant Bankers Limited A/c Calyon	3,732,018
6	Copthall Mauritius Investment Limited	3,445,322
7	Emerging Markets Management, L.L.C A/C EMSAF- Mauritius	2,428,663
8.	Alliance Capital Management LP A/c Sanford C Bernstein Fund, INC	2,375,000
9	Sanford C Bernstien and Co., Delaware Business Trust – Emerging Markets Value Series	1,844,000
10	The State Teacher Retirement System of Ohio	1,150,000
	Total	**243,280,856**

iii. Top ten shareholders as on February 14, 2003, i.e., two years prior to date of filing of this Red Herring Prospectus with Designated Stock Exchange is as follows:

Sl.No.	Name of Shareholders	Number of shares
1	President of India	212,241,300
2	Alliance Capital Mutual Fund A/C Alliance Equity Fund	1,968,043
3	India Liberalisation Fund (Mauritius) Limited	1,600,000
4	Zurich Trustee Company (I) Private Limited A/C Zurich India Mutual Fund- Zurich India Equity	1,450,000
5	Prudential ICICI Trust –Growth Plan	1,385,510
6.	Birla Sunlife Trustee Company Limited A/c Birla Mutual Fund-Birla Advantage	1,000,600
7.	Emerging Markets Management, LLC A/c EMSAF-Mauritius	989,925
8.	Templeton Mutual Fund A/C Franklin India Blue Chip Fund	926,272
9.	Birla Sunlife Trustee Company Limited A/c Birla Mutual Fund-Birla Balance	790,566
10	Zurich Trustee Company (I) Private Limited A/C Zurich India Mutual Fund- Zurich India	600,000
	Total	**222,952,216**

iv. There are no outstanding warrants, options or rights to convert debentures, loans or other instruments into our Equity Shares.

v. 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 is filed with SEBI. Our Bank, our

Directors and the BRLMs have not entered into any buy-back and/or standby arrangements for purchase of Equity Shares from any Person.

vi. In the Net Issue to the public, in case of over-subscription in all categories, up to 50% of the Net Issue to the public shall be available for allocation on a discretionary basis to Qualified Institutional Buyers, a minimum of 15% of the Net Issue to the public shall be available for allocation on a proportionate basis to Non-Institutional Bidders and a minimum of 35% of the Net 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. Under-subscription, if any, in any portion would be met with spill over from other categories at the sole discretion of our Bank in consultation with the BRLMs.

vii. A total of up to 10% of the Issue size, i.e., up to 8,000,000 Equity Shares, has been reserved for allocation to the Employees on a proportionate basis, subject to valid Bids being received at or above the Issue Price and subject to the maximum Bid in this portion being 500 Equity Shares. Only Employees on the rolls of the Bank as on January 1, 2005 would be eligible to apply in this Issue under reservation for our Employees. Employees may bid in the Net Issue to the public portion as well and such Bids shall not be treated as multiple Bids. Any under subscription in the Equity Shares under the Employees Reservation Portion would be treated as part of the Net Issue to the public in the manner detailed in the section titled "Issue Procedure" on page 223.

viii. A total of up to 10% of the Issue size, i.e., up to 8,000,000 Equity Shares, has been reserved for allocation to the Existing Shareholders on a proportionate basis, subject to valid Bids being received at or above the Issue Price. Only Existing Shareholders as on February 11, 2005 would be eligible to apply in this Issue under reservation for our Existing Shareholders. Existing Shareholders may bid in the Net Issue to the public portion as well and such Bids shall not be treated as multiple Bids. Any under subscription in the Equity Shares under the Existing Shareholders Reservation Portion would be treated as part of the Net Issue to the public in the manner detailed in the section titled "Issue Procedure" on page 223.

ix. An investor in the Net Issue to the public 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. Further an investor applying in the category reserved for the Existing Shareholders or Employees cannot make a Bid for more than the number of Equity Shares offered in the respective category.

x. 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 this Red Herring Prospectus with SEBI until the Equity Shares have been listed.

xi. Other than the Capital Reduction, we presently do not intend or propose to alter our capital structure for a period of six months from the date of opening of the Issue, by way of split or consolidation of the denomination of Equity Shares or further issue of Equity Shares (including issue of securities convertible into or exchangeable, directly or indirectly for Equity Shares) whether preferential or otherwise, except that we may issue options to our employees pursuant to any employee stock option scheme or, if we enter into acquisitions or joint ventures, we may, subject to necessary approvals, consider raising additional capital to fund such activity or use Equity Shares as currency for acquisition or participation in such joint ventures.

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

xiii. As on February 4, 2005 the total number of holders of Equity Shares is 59,928.

xiv. The Bank has not raised any bridge loans against the proceeds of the Issue.

xv. We have not issued any Equity Shares out of revaluation reserves. We have also not issued any shares or debentures for consideration other than cash other than mentioned elsewhere in this Red Herring Prospectus, within the two years preceding the date of this Red Herring Prospectus.

xvi. Other than the Capital Reduction, we have not entered into standby, buyback or similar arrangements for this Issue.

xvii. We have not made any preferential allotments or bonus issues after listing pursuant to our IPO but prior to filing of the Red Herring Prospectus.

OBJECTS OF THE ISSUE

Objects of the Issue

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 1 capital. Our total capital adequacy ratio based on our restated financial statements was 11.91% and our Tier 1 capital adequacy ratio was 7.00% as of March 31, 2003, 12.79% and 6.70% as of March 31, 2004 and 12.45% and 7.31% as of September 30, 2004. The requirements for Tier 1 capital and total capital adequacy ratios are expected to increase with the proposed implementation of the Basel II standards in late 2006 or early 2007 and we will need to augment our capital base to meet these ratios. If the Basel II standards were applied on a pro forma basis as of September 30, 2004, we would expect our total capital adequacy ratio to be 9.85%, compared to 12.58% on a historical, unrestated basis. Further, we would require additional capital for future growth.

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 and our subsidiaries are engaged in banking and other financial services, 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.

An additional object of the Issue is to comply with the conditions specified in the Government Approval letter, which has been accepted by our Board by their resolution dated January 13, 2005, as a result of which our Board has resolved that the amount raised through the issue of 30,000,000 Equity Shares out of the total issue of 80,000,000 Equity Shares would be returned to the Government by March 31, 2005, and that the Bank would reduce 30,000,000 shares held by the President of India in accordance with the provisions of Section 3(2BBA)(a) of the Bank Acquisition Act. Accordingly, we shall transfer the amount raised through the issue of 30,000,000 Equity Shares in this Issue to the Government by March 31, 2005.

We shall debit an amount equal to the nominal value of 30,000,000 Equity Shares from our share capital account. Against return of the nominal value of 30,000,000 Equity Shares we will cancel 30,000,000 Equity Shares held by the President of India in our Bank. In addition, we shall debit the difference between the value of 30,000,000 Equity Shares at the Issue Price raised through the Issue and the nominal value of 30,000,000 Equity Shares from our share premium account. In terms of the Government Approval, the proportionate cost of public issue to the extent of 30,000,000 Equity Shares is to be borne by the Government.

For further details relating to the Capital Reduction, see the sections titled "Risk Factors" on page x, "General Information - Authority for the Issue" on page 7, "Capital Structure" on page 22, "Government Approvals" on page 182 and "Material Contracts and Documents for Inspection" on page 278.

Utilization of Issue Proceeds

The proceeds of the Issue will be utilized for the purposes described under "Objects of the Issue" above.

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.

Requirement and Sources of Funds

Requirement of Funds	**(In Rs. million)**
Augment our capital base to meet our future capital adequacy requirements arising out the proposed implementation of the Basel II standards, the general growth of our business and for other general corporate purposes.	[●]
Return of capital to the Government of India as explained above	[●]
Estimated Issue expenses	[●]
Total	[●]

Sources of Funds	(In Rs. million)
Proceeds of the Issue	[●]
Total	**[●]**

* Will be updated in the Prospectus.

Estimated Issue Expenses

Activity	(In Rs. million)
Estimated lead management, underwriting and selling commission 0.60% of the Issue size(1)	[●]
Estimated other expenses (including advertising fee, registrars fee, legal fee, printing and stationery, distribution, cost of road shows and listing fee)	138.80
Total	[●]

(1) Subject to approval of the RBI.

THE INDIAN BANKING SECTOR

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 the RBI, and has not been prepared or independently verified by us or any of our advisors. Wherever we have relied on figures published by the RBI, unless stated otherwise, we have relied on the RBI Annual Report, 2003-2004 and Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks as of September 2004.

THE INDIAN BANKING SYSTEM

History

The evolution of the modern commercial banking industry in India can be traced to 1786 with the establishment of 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 like Allahabad Bank Limited, Punjab National Bank Limited, Bank of Baroda Limited and Bank of India Limited. In 1921, the three presidency banks were amalgamated to form the Imperial Bank of India, which took on the role of a commercial bank, a bankers' bank and a banker to the government. The establishment of the RBI as the central bank of the country in 1935 ended the quasi-central banking role of the Imperial Bank of India. In order to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state sponsored bank taking over the Imperial Bank of India and integrating with it, the former state-owned and state-associate banks. Accordingly, the State Bank of India ("SBI") was constituted in 1955. Subsequently in 1959, the State Bank of India (Subsidiary Bank) Act was passed, enabling the SBI to take over eight former state-associate banks as its subsidiaries. In 1969, 14 private banks were nationalised followed by six private banks in 1980. Since 1991 many financial reforms have been introduced substantially transforming the banking industry in India.

Reserve Bank of India

The RBI is the central banking and monetary authority in India. The 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, the RBI undertakes certain developmental and promotional activities.

The RBI issues guidelines, notifications, 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. The RBI requires these institutions to furnish information relating to their businesses to the 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 September 2004, there were 291 scheduled commercial banks in the country, with a network of 67,221 branches. Scheduled commercial banks are banks that are listed in the second schedule to the Reserve Bank of India Act, 1934, 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 Ltd. with effect from October, 2004 and is a scheduled commercial bank. Scheduled commercial banks have a presence throughout India, with nearly 70.1% 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 27 public sector banks in India. They include the SBI and its associate banks and 19 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 are referred to as 'corresponding new banks'.

Punjab National Bank is a public sector bank nationalised in 1969 and a corresponding new bank under the Bank Acquisition Act. At the end of September 2004, public sector banks had 46,782 branches and accounted for 74.9% of the aggregate deposits and 70.5% 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 September 2004 with 14,4430 branches, accounting for 3.6% of aggregate deposits and 3.0% of gross bank credit outstanding of scheduled commercial banks.

Private Sector Banks

After the first phase of bank nationalisation was completed in 1969, the majority of Indian banks were public sector banks. Some of the existing private sector banks, which showed signs of an eventual default, were merged with state-owned banks. In July 1993, as part of the banking reform process and as a measure to induce competition in the banking sector, the RBI permitted entry by the private sector into the banking system. This resulted in the 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.

Foreign Banks

At the end of June 2004, there were 32 foreign banks with 217 branches operating in India, accounting for 4.6% of aggregate deposits and 7.0% 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 notification increasing the limit to 74% is however still awaited.

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, the 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. The RBI is currently responsible for 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 Bill, 2003, which was introduced in the Parliament in 2003, proposed the regulation of all co-operative banks by the RBI. The Bill has not yet been ratified by the Indian Parliament and is not in force.

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 Ltd., Infrastructure Development Finance Company Limited, Industrial Investment Bank of India and Industrial Credit Corporation of India Limited (prior to its amalgamation).

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 (Narasimhan 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, the 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, the 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 Ltd. within the meaning of the Bank Regulation Act and the Companies Act with effect from October, 2004. It is currently able to carry on banking operations in addition to the business being transacted by it as a term lending institution.

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. They 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. The 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 in 1969 and thereafter were subject to a high degree of control until reform began in 1991. In addition to controlling interest rates and entry into the banking sector, 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 the banks' 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 the 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. The RBI accepted and began implementing many of these recommendations in October 1998.

The success 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 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.

A number of measures have been taken to reduce the level of NPAs like establishment of DRTs, Lok Adalats and the system of One-Time Settlement (OTS) of dues through mutual negotiation. A system of Corporate Debt Restructuring (CDR), based on the "London Approach" has been put in place as a voluntary process of corporate restructuring. For information on CDR see the section titled "The Indian Banking Sector- Corporate Debt Restructuring Forum" on page 35.

Recent Structural Reforms

Amendments to the Banking Regulation Act

Legislation seeking to amend the Banking Regulation Act was introduced in the Parliament in 2003 but has not yet been ratified by the Indian Parliament and is therefore not in force. The main amendments proposed to:

- Permit banking companies to issue non-redeemable and redeemable preference shares;
- Make prior approval of the RBI mandatory for the acquisition of more than 5.0% of a banking company's paid up capital by any individual or firm or group;
- Prohibit lending to relatives of directors and to non-subsidiary companies that are under the same management as the banking company, joint ventures, associates or the holding company of the banking company. Lending to directors and to companies with directors common to the banking company is already prohibited;
- Remove the minimum statutory liquidity ratio requirement of 25.0%, giving the RBI discretion to reduce the statutory liquidity ratio to less than 25.0%;
- Bring mergers of non-bank finance companies with banking companies into the governance of the Indian Banking Regulation Act. Mergers of non-bank finance companies with banking companies are currently governed by the Companies Act. The Banking Regulations (Amendment) and Miscellaneous Provisions Bill, 2003 will, if passed, require mergers of non-bank

finance companies with banking companies to be approved by the majority of the shareholders of both companies and by the RBI. It also provides, if the merger is approved, for dissenting shareholders at their option to be paid in exchange for their shares the value of their shares as determined by the RBI; and

- Bring all co-operative banks under the supervision of the RBI.

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 the 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 setting up of asset reconstruction companies regulated by the 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, a petition filed before the Supreme Court. 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 under Section 17 in order to challenge the measures taken by the creditor in pursuance of Section 13(4) was unreasonable and therefore, struck down. The RBI has issued guidelines for asset reconstruction companies in respect of their establishment, registration and licensing by the 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 speedy resolution of litigation and 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 the setting up of 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 Forum (CDR)

To put in place an institutional mechanism for the restructuring of corporate debt, the 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 coordinated restructuring program. The corporate debt restructuring system is a non-statutory mechanism and a voluntary system based on debtor-creditor and inter-creditor agreements. Any lender having a minimum 20% exposure in term loan or working capital may make a reference to the Corporate Debt Restructuring Forum.

The system put in place by the 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. The decisions on restructuring are taken by the CDR Empowered Group, which has all the member banks/FIIs 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 on March 31, 2004 is 60, of which there are 14 FIIs, 27 public sector banks and 19 private sector banks.

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", which provides connectivity between branches and helps offer a large number of value-added products, benefiting a larger number of customers. The RBI Annual Report for the year 2003-04 states that the use of automated teller machines ("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 end March 2004 as compared with 5,963 ATMs at the end of March 2003.

The payment and settlement system is also being modernised. The Reserve Bank of India 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". The consolidation efforts have received encouragement from the views publicly expressed recently by the 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 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. Further, 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). 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.

Moving ahead

Bank deposits continue to remain an important instrument of financial saving. The share of bank deposits in household savings has shown an increase from 30.8% in fiscal 2000 to 40.5% in fiscal 2004. The increased use of technology should help banks to reduce transaction costs, and enhance cross-selling of bank products.

It has been recognized that the agricultural sector has not been a major beneficiary of the decade long reform process and a skewed interest rate structure has emerged in case of agricultural loans vis-à-vis consumer loans, mainly as a result of fierce competitive pressures in the consumer finance segment. The GoI intends to address this underlying weakness, considering that 70% of the population is in India's villages and the agro-economy needs more infrastructure investment. Accordingly, the GoI's policy is to double the level of agricultural credit in the next three years and the public sector banks have geared themselves to pursue this objective. This however, is not expected to result in risk concentration as agricultural advances of public sector banks constituted only 15.4% of their net credit at the end of March 2004. Further, being of smaller quantum, agricultural advances help banks to achieve risk-dispersal and it is generally seen that recovery rates have consistently higher. Moreover, banks have been provided tax breaks for boosting agricultural advances (banks can claim income tax exemption on 10% of their average rural advances) and 7.5% of net profit before provisions and tax. More recently, the RBI has also modified the NPA norms for agricultural advances (linking delinquency to the crop cycle).

NEW INITIATIVES IN THE BANKING SECTOR

Risk Management & 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 the Reserve Bank of India 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. The 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. The RBI has also indicated that it will adopt a phased approach to the implementation of the Basel II.

RTGS Implementation in India

With the commencement of operations of the Real Time Gross Settlement i.e. 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. It was a 'soft' launch with four banks, besides the RBI, as participants. As on March 31, 2004, there are 71 direct participants in the RTGS system, including PNB. 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 (PKI) 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.

ANNUAL POLICY STATEMENT

The 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 a circular issued by the RBI in September, 2004, the rate of CRR of scheduled commercial banks has been increased in two stages, i.e., to 4.75% from September 18, 2004 and 5% from October 2, 2004 of net demand and time liabilities as on the last Friday of the second preceding fortnight. The SLR, bank rate and Repo Rate have not been changed in the Annual Policy of the RBI for the year 2003-04. However, in its mid-term review of the annual policy which was published on October 26, 2004, the RBI increased the repo rate to 4.75% from 4.50%.

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

In the mid term review of Annual Policy for the year 2004-05, RBI has stated that the overall stance of monetary policy for the second half of the year 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 and 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 monetary and credit policy for fiscal 2005 as amended by the mid term review of Annual Policy for the year 2004-05, the RBI has introduced the following measures, among others:

- There is no change in the bank rate, which remains at 6.0%. The seven-day repo rate has been increased by 25 basis points from 4.50% to 4.75% effective from October 27, 2004.
- Liquidity adjustment facility ("LAF") scheme: The international usage of "repo" and "reverse repo" terms would be adopted from October 27, 2004. The LAF scheme would be operated with overnight fixed rate repo and reverse repo with effect from November 1, 2004. Accordingly, auctions of 7-day and 14-day repo ('reverse repo' in international parlance) would stand discontinued from November 1, 2004.
- Changes in the interest rate policy relating to ceiling on interest rates on Non-Resident (External) Rupee Deposits, permission to banks to fix interest rates on FCNR(B) deposits on monthly basis for the following month based on the rates prevailing as on the last working day of previous month, reduction of tenor of domestic term deposits.
- Measures for the removal of bottlenecks in credit delivery mechanism. These measures include service area approach, priority sector lending (enhanced lending to agriculture and distribution of inputs, enhanced lending to small and marginal farmers, special agriculture credit plans, enhancement of composite loan limit to SSI Units, enhancement of ceiling of housing loans etc.), rural infrastructure development fund, corporate debt restructuring mechanism, liberalisation of bank finance to NBFCs, gold card scheme for exporters.
- 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.

BUSINESS

Overview

We are a leading public sector commercial bank in India, offering banking products and services to corporate and commercial, retail and agricultural customers. We started our operations in 1895 and since then have grown to become India's third largest bank in terms of assets and second largest bank in terms of number of branches. Although we began our operations in the agriculturally rich areas of Northern India, we have expanded our operations to provide products and services to over 35 million customers across India through over 4,000 branches.

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 middle market businesses and government entities. We cater to the financing needs of the agricultural sector and have created innovative financing products for farmers. We also provide significant financing to other priority sectors including small scale industries. We offer a wide range of retail credit products including home loans, personal loans and automobile loans. Through our subsidiaries and joint ventures, we deal in Indian government securities and provide housing finance and asset management services. Through our treasury operations, we manage our balance sheet, including the maintenance of required regulatory reserves, and seek to maximize profits from our trading portfolio by taking advantage of market opportunities.

Since 1969, when we became a public sector bank, we have managed to continue to grow our business while maintaining a strong balance sheet. As of September 30, 2004, our total deposits represented 85.9% of our total liabilities. On average, interest free demand deposits and low interest savings deposits represented 43.8% of these deposits in the first six months of fiscal 2005. These low-cost deposits led to an average cost of funds excluding equity for the first six months of fiscal 2005 of 4.7%. As of September 30, 2004, our gross and net non-performing assets constituted 7.65% and 0.30% of our gross and net advances, respectively. In fiscal 2004 our total income was Rs. 96.5 billion and our net profit was Rs. 11.1 billion before adjustment and Rs. 10.6 billion after adjustment as part of the restatement of our financial statements for this Issue. In the first six months of fiscal 2005 our total income was Rs. 51.9 billion and our net profit was Rs. 7.4 billion before adjustment and Rs. 7.9 billion after adjustment. Between fiscal 2002 and 2004, our total income grew at a compound annual rate of 12.5%, our unadjusted and adjusted net profit grew at a compound annual rate of 40.4% and 37.4%, respectively, and our total deposits and total advances grew at a compound annual growth rate of 17.1% and 17.2%, respectively.

We intend to maintain our position as a cost efficient and customer friendly institution that provides comprehensive financial and related services. We seek to achieve this by continuing to adopt technology which will integrate our extensive branch network. We intend to grow by cross-selling various financial products and services to our customers and by expanding geographically in India and internationally. We are committed to excellence in serving the public and also maintaining high standards of corporate responsibility. In line with our philosophy of aiding India's development we have opened branches in many rural areas.

Strategy

Our goal is to further strengthen our position as one of India's premier commercial banks and to increase our profitability by providing a comprehensive range of products and services and superior customer service. Our business strategy emphasizes the following elements:

Expand our business as the Indian economy grows by using our extensive domestic branch network to deliver high quality service that is tailored to the needs of our customers

The Indian economy is currently experiencing a high rate of growth. The consequent increase in the size and incomes of the middle and upper-income classes has resulted in significant expansion in India's banking and financial services industry. We believe that we can benefit from the growth of the Indian economy and increase our market share by continuing to emphasize high quality service through our extensive network of over 4,000 branches and our comprehensive product offerings which are tailored to our customers. To this end, we intend to continue to expand and at the same time restructure and rationalize our branch network to make our services more efficient. We also have introduced specialized branches that cater to the specific needs of various categories of customers. We intend to continue to implement these measures so as to ensure that we have one of the largest, as well as one of the most efficient, delivery networks in India.

Strengthen and expand our corporate and commercial franchise

We seek to build on our historical strength in the corporate and commercial sector by expanding our product and service offerings to large corporate customers and government entities as well as growth-oriented small and medium sized businesses. We seek to increase our customer base by offering innovative products and servicing the needs of our corporate and commercial customers through specialized branches, including those targeted at large and medium sized corporate customers and those targeted at small scale industries. Additionally, we seek to cross-sell our fee-based products and services to our current customer base and thereby increase our income from these products and services.

Expand retail opportunities by effectively leveraging our customer base and increasing our product offerings

With the increase in household income levels in India and the consequent need for diversified financial services, the retail sector has emerged as a rapidly growing opportunity for banks with the skills and infrastructure to adequately service this market. The keys to our retail strategy are wide distribution, convenient customer service, a full range of products and prudent risk management. Cross-selling of a wide range of banking services and insurance, credit and investment products to our customers is a critical aspect of our retail strategy as we leverage our current customer base to expand into new product areas.

Maintain and enhance our franchise in the agriculture sector

We intend to maintain and enhance our position as one of the leading banks for agricultural lending in India. In 2004, we exceeded the national goal for allocation of credit to the agricultural sector. We have introduced innovative products such as our Krishi credit cards, which provide farmers with convenient financing for their production, investment and consumption activities. We have a nationwide franchise in the agriculture sector, with concentration in northern India, one of the country's most fertile areas. We intend to further expand our agriculture lending activities in other areas in India, including those which have historically not been adequately served. We also intend to expand our agriculture lending activities into areas such as horticulture and herbal cultivation. Another aspect of our strategy is to further strengthen our ties with the agricultural community by providing training and social support programs for the rural populace.

Develop our technological capabilities to interconnect our branch network and improve our services

We believe that technology is a critical differentiator in the banking industry and over the past few years have devoted substantial resources to upgrading our technology. We have electronically interconnected over 690 of our branches (as of September 30, 2004), which we believe is significantly more than any other bank in India. We intend to extend this to between 1,500 and 2,000 branches by March 31, 2006. We also intend to expand the delivery channels of our services and have introduced internet banking and set up over 400 ATMs. We aim to improve service by further using interconnectivity to implement centralized credit management, helpdesk services and data backup capabilities.

Maintain high asset quality standards through comprehensive risk management

We have maintained high quality loan and investment portfolios by carefully targeting our customer base and implementing a comprehensive risk assessment process and diligent risk monitoring and remediation procedures. We apply our credit risk rating process to advances in excess of Rs. 2 million. Additionally, we actively monitor our loans and reassess their credit ratings once a year or more frequently if they are at risk. We also apply aggressive remediation policies to recover non-performing loans. Our provisioning policies for non-performing assets are in accordance with the RBI guidelines. As of September 30, 2004 we had floating provisions of Rs. 13.9 billion for non-performing assets, which was significantly in excess of those required under the RBI guidelines. Our gross NPA coverage ratio was 96.4% as of September 30, 2004.

Maintain our low cost of funds

We have one of the lowest overall cost of funds in the Indian banking industry. We have achieved this through a large base of low cost deposits, with total deposits representing 90.7% of our funding as of September 30, 2004. Interest free demand deposits and low interest savings deposits constituted 10.3% and 34.9%, respectively, of our total deposits as of September 30, 2004. We believe we can maintain and enlarge this low-cost funding base by leveraging our extensive branch network and our customer base of over 35 million accounts and by offering a wide range of products and high quality customer service.

Overview of Our Operations

We offer products and services to corporate and commercial customers, as well as agricultural and retail customers. The following table presents our outstanding loans by sector and the proportion of these loans to our outstanding total loans, as of the dates indicated:

(Rs. in billions, except for percentages)

	March 31, 2003		March 31, 2004		September 30, 2004	
Sector	**Loans**	**% of total**	**Loans**	**% of total**	**Loans**	**% of total**
Corporate and Commercial	265.9	66.1%	287.1	60.8%	311.3	60.0%
of which Small Scale Industries (SSIs)(1)	47.9	11.9%	57.0	12.1%	57.3	11.0%
Retail	65.6	16.3%	91.5	19.4%	99.7	19.2%
Agriculture(1)	70.8	17.6%	93.6	19.8%	107.7	20.8%
Total outstanding loans	**402.3**	**100.0%**	**472.2**	**100.0%**	**518.7**	**100.0%**

(1) As of the last reporting Friday of the month indicated.

We also undertake treasury operations and offer treasury related products and services to our customers. These include interest rate and currency swaps and foreign exchange transactions.

Services for Corporate and Commercial Customers

General

We provide commercial banking products and services to corporate and commercial customers. Our loan products include term loans for the acquisition, construction or improvement of assets as well as short term loans, cash credit, export credit and other working capital financing and bill discounting. We categorize corporate and commercial borrowers by loan size, with small loans being loans under Rs. 35 million, medium loans being loans between Rs. 35 million and Rs. 120 million and large loans being loans over Rs. 120 million. We also provide credit substitutes such as letters of credit and guarantees. In addition, we provide other services such as cash management services and certain capital markets services. We provide commercial banking products and services to corporate and commercial customers, including mid-sized and small businesses and government entities. Most of our top twenty customers in terms of loan exposure are PSUs and government companies. The average size of rated standard accounts in the corporate and commercial sector with Rs. 5 million or more outstanding was Rs. 79.5 million as of September 30, 2004.

Corporate and Commercial Sector Lending Activities

Term Loans

Our term loans consist primarily of financing for the acquisition, construction or improvement of assets, including project finance. Although most of our loans are denominated in rupees, we provide foreign currency loans which amounted to 4.3% of our total portfolio as of September 30, 2004. 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 installments over the life of the loan. We also provide short term loans with a maturity of three to twelve months for temporary cash flow and other purposes which are repayable with a bullet payment on maturity. These can be denominated in rupees or other currencies and issued at fixed or floating rates. These loans are usually provided to highly rated corporate customers and may be unsecured.

Cash Credit and Other Working Capital Facilities

Cash credit facilities are the most common form of working capital financing in India. These are revolving credit facilities secured by working capital assets, such as inventory and receivables. We sometimes take additional security in the form of liens on fixed assets, 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.

Bill Discounting

Bill discounting involves the financing of short term trade receivables by the issuance of negotiable instruments by the borrower. We discount these instruments and in certain cases, repayment of the bill is assumed by way of a commitment (in the form of a letter of credit) by another bank.

Export Credits

The RBI requires banks to make loans to exporters at predetermined rates of interest. We provide credit in rupees as well as foreign currencies for the pre-shipment and post-shipment requirements of exporters. The RBI provides export credit refinancing for an eligible portion of total outstanding export loans at the bank rate prevailing from time to time. We also earn fees and commissions from other fee-based products and services that we offer exporter customers.

Other Credit and Financing Products

In addition to our lending activities we provide a variety of products to meet the financing needs of our corporate and commercial customers. These include funded products like bridge loans and unfunded products like letters of credit and guarantees.

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.

Other Services for Corporate and Commercial Customers

We also offer the following fee based services to our corporate and commercial customers:

Cash Management Services

We offer our corporate and commercial clients collection, payment and remittance services, allowing them to reduce the time period between collections and remittances, thereby streamlining their cash flows. Our cash management products include physical cheque-based clearing in locations where settlement systems are not uniform, electronic clearing services and central pooling of country-wide collections. Our customers pay us fees for these services based on the volume of the transaction, the location of the cheque collection center and the speed of delivery.

Capital Markets Products

We act as a banker for capital market transactions. These include offerings of equity and debt. The companies involved in these transactions are required to maintain the subscription funds with the bankers to the offering until the allotment and the refund of excess subscription is completed. This process generally takes about 15 to 30 days, resulting in short term deposits with us. We also act as bankers to corporate customers for their interest and dividend payouts, which results in interest-free float balances for us. We also act as the debenture trustee to a number of our corporate customers.

Small Scale Industries

We provide financing to “small scale industries” or “SSIs”. SSIs are defined as manufacturing, processing and servicing businesses with up to Rs. 50 million invested in plant and machinery for certain industries such as hosiery, hand tools, drugs and pharmaceuticals and stationery items and up to Rs. 10 million invested in plant and machinery for other small scale industries. SSIs are also considered a priority sector for directed lending purposes. See the section titled “Business-Directed Lending” below. As of the last reporting Friday in September 2004, SSI loans constituted 11.3% of our net bank credit. As of the last reporting Friday in September, 2004 we had an outstanding loan portfolio of Rs. 57.3 billion in this segment compared to Rs.

48.5 billion as of the last reporting Friday in September 2003, representing growth of approximately 18.1%. We have also received awards and recognition from the Government of India relating to our efforts in financing SSI businesses.

Our products for the SSI sector are intended to facilitate the establishment, expansion and modernization of businesses, including acquiring fixed assets, plant and machinery and meeting working capital needs. We target this sector with specifically designed products such as our Laghu Udayami Credit Card and Artisan Credit Card which provide working capital lines up to Rs. 1 million and Rs. 0.2 million, respectively. We provide flexible security requirements to make credit more accessible to SSI borrowers. For manufacturing, service and information technology SSIs, loans of up to Rs. 2.5 million are guaranteed by the Credit Guarantee Fund Trust for Small Industries, which allows us to be more flexible in our security requirements. In order to complement our strengths in the agricultural sector, we have sought out agriculture based SSIs in areas such as food processing which also enable us to provide financing at multiple levels of the supply chain. We aim to offer efficient loan processing and are working with our peer banks and the Small Industries Development Bank of India (SIDBI) to establish an independent credit risk rating agency to expedite the processing of SSI loans and make the process more objective. The average loan size for SSI loans is approximately Rs. 400,000.

Products and Services for Retail Customers

General

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. We also provide supply chain financing to our retail trade customers. In addition, we provide fee based products and services such as cash management, remittance and collection services and safe deposit lockers to our customers and distribute products such as credit cards, mutual funds and non-life insurance issued and underwritten by other providers.

Retail Lending Activities

Our total outstanding retail loans and advances were Rs. 99.7 billion as of September 30, 2004, representing 19.2% of our total outstanding loans. The following table classifies our outstanding retail loans by category of loan, as of March 31 and September 30, 2004:

(In Rs. million)

	March 31, 2004			**September 30, 2004**		
	Number of loans	**Amount outstanding**	**% of total outstanding retail loans**	**Number of loans**	**Amount outstanding**	**% of total outstanding retail loans**
Housing	104,495	37,112.1	40.56%	118,391	42,278.7	42.43%
Mortgage	7,507	4,154.7	4.54%	9,590	4,762.0	4.78%
Traders	83,126	23,659.9	25.86%	103,084	25,835.1	25.92%
Automobile	56,008	5,953.3	6.51%	56,874	5,752.7	5.77%
Personal loans	90,927	3,985.3	4.36%	97,288	4,521.9	4.54%
Consumer	61,883	2,094.4	2.29%	57,718	1,847.0	1.85%
Pensioners	109,431	2,498.9	2.73%	120,961	2,687.3	2.70%
Education	19,115	3,697.2	4.04%	22,447	4,304.7	4.32%
Lease rentals	272	1,073.4	1.17%	350	2,034.2	2.04%
Gold	25,423	423.6	0.46%	17,740	342.0	0.34%
Doctors	1,781	768.8	0.84%	2,463	1,172.6	1.18%
Other*	N.A	6090.0	6.64%	N.A	4,116.7	4.13%
Total outstanding retail loans	**559,968**	**91,511.6**	**100.00%**	**606,906**	**99,654.9**	**100.00%**

* Includes advances against national savings certificates, mutual fund units and other financial instruments, which have been classified as retail loans from April 1, 2004.

The following is a description of our principal loan products:

Housing Finance

Our housing finance business involves giving long-term loans to individuals to finance the purchase, construction, repairs and renovation of a home. These loans are primarily secured by a charge over the property financed. These loans are extended for maturities up to 25 years and have an average size of approximately Rs. 400,000. We also offer a housing loan product in which, part of the loan is offered as an overdraft facility whereby an additional line of credit up to 20% of the housing loan is available to the customer after a period of five years.

Mortgage Finance

Through our mortgage finance business, we give loans to customers which can be used for personal or business needs against security over real property. These loans are extended for maturities up to six years and are given for amounts up to a maximum of Rs. 10 million.

Trade Finance

Through our trade finance business, we provide financing to individuals, firms, co-operative societies and companies, typically in the form of revolving working capital facilities and term loans with maturities up to seven years. These loans are typically collateralized by a charge over movable or immovable assets. We provide supply-chain financing to this sector through, among others, our new product PNB Supply Chain Management. Such financing entails providing banking services such as overdraft facilities and bill discounting to suppliers and buyers.

Automobile Finance

We provide loans to finance the purchase of new and used automobiles, including two wheelers. Automobile loans are secured by a charge on the purchased automobile and typically also by a personal guarantee of a party other than the borrower. These loans are extended for a term of up to seven years for new vehicles and up to five years for used vehicles and have an average size of approximately Rs. 100,000. We also have non-exclusive arrangements with Hyundai Motors and Hero Honda Motors to provide financing for their products.

Personal and Consumer Loans

We provide personal loans for various purposes in amounts ranging from Rs. 10,000 to Rs. 300,000. These loans are typically made for a period of up to five years and are secured by personal guarantees from a party other than the borrower, including employers. In the case of consumer loans, the item purchased is hypothecated as security. We have introduced several new products in this area including PNB Joy, which is a loan of up to Rs. 200,000 for working couples. We also offer our Gold Loan Scheme, a product under which we make loans secured by gold and silver jewellery and ornaments.

Loans to Pensioners

We provide loans to pensioners in order to meet their personal requirements such as medical expenses and other needs. These loans are typically made for a term of two to four years and for amounts up to Rs. 100,000. Repayments on these loans are made from pension funds deposited in the pensioners' accounts with us.

Education Loans

We provide loans for higher education which are typically for a term of five to seven years excluding the study period and are unsecured up to Rs. 750,000. Typically a parent acts as a co-borrower. The average size of these loans is approximately Rs. 200,000. Additionally, we offer our Sarvottam Shiksha product, which is an education loan with concessionary terms depending on the quality of the institution attended.

Other Retail Products and Services

Credit Cards

We offer a credit card issued by HSBC on a co-branded basis. We earn a fee for sales of the card as well as transactions but do not currently have any balance sheet exposure on the cards. As of September 30, 2004 we had sold over 49,000 cards since the card was introduced in November 2000.

Debit Cards

We offer a debit card which bears the Maestro and Cirrus logos. Currently, our debit card has acceptance at approximately 45,000 merchants' establishments and 4,200 ATMs across 70 cities in India. We had over 248,000 debit card customers as of September 30, 2004.

Insurance

We market the non-life insurance products of New India Assurance Co. Ltd. We earn commissions for these products but do not underwrite them. As of September 30, 2004 we had sold over 324,000 policies.

Mutual Funds

We distribute the mutual fund products of our joint venture Principal PNB Asset Management Co. Ltd. We earn fees for the distribution of the funds.

Depository Services

We provide depository accounts and related services to individual retail customers in connection with the holding of debt and equity securities. We earn fees for maintaining the accounts as a depository participant of National Securities Depositary Ltd. as well as for the related services.

Services to Non-resident Indians

We provide personal financial services for NRIs. We have established a branch in Kabul and representative offices in other cities overseas in order to facilitate services being provided to 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 have introduced our Global Foreign Currency Scheme and Global Rupee Deposit Scheme, which offer benefits and concessions to NRIs and their relatives provided a minimum balance of Rs. 250,000 or US$5,000 is maintained in the account. We also offer various products for facilitating remittances from NRIs to India. We recently entered into an arrangement to facilitate money transfers through Western Union, which is a global leader in money transfer services. We have also entered into an agreement with Times Online Money Ltd., a Times of India group company, with a view to establishing an internet based international remittance service. In addition, we also provide housing loans to NRIs.

Recent Retail Initiatives

We plan to introduce the following products by March 2005:

- *Online Bill Payment.* This service is based on cost sharing arrangements with utility service providers, where we either charge the provider a fixed charge per bill or the provider maintains a balance with us before it uses the funds, resulting in low cost deposits with us.
- *PNB Omni.* Our PNB Omni product will provide concessional rates to customers who transfer all their loans from other lenders to us.
- *PNB My Money.* Our PNB My Money product will function as a personal overdraft facility and will allow customers to borrow from an overdraft account.

Products and Services for Agriculture Customers

General

Agriculture contributes 22% to India's GDP and supports approximately two-thirds of India's population. In fiscal 2004, we surpassed the stated national goal that banks should provide at least 18% of their net bank credit (which is gross credit minus Foreign Currency Non-Resident Bank deposits) to this segment, for which we received an award from India's Finance Minister. Our average credit growth rate in this segment has been 32.2% over the last four years. As of the last reporting Friday of September 2004, agricultural loans constituted 18.8% of our net bank credit.

Currently, our agricultural operations are spread across India with a concentration in northern India, in the fertile areas of Punjab, Haryana, Uttar Pradesh and Rajasthan. These states in the aggregate accounted for 59.2% of our total agricultural loans as of the last reporting Friday of September, 2004. We intend to further increase our customer base in other areas in India.

The following table shows the value and share of our agricultural loan products as of the last reporting Friday of the months indicated:

Geographic Distribution	March 2004			September 2004		
	Number of accounts (in millions)	**Amount outstanding (Rs. in billions)**	**% of total outstanding agricultural loans**	**Number of accounts (in millions)**	**Amount outstanding (Rs. in billions)**	**% of total outstanding agricultural loans**
Northern: Punjab, Haryana, Rajasthan, Himachal Pradesh, Uttar Pradesh, Jammu and Kashmir, Uttranchal, Delhi	1.02	69.5	74.3%	1.09	78.1	72.5%
Eastern: West Bengal, Bihar, Jharkhand, Northeastern states, Orissa	0.24	10.5	11.2%	0.26	11.6	10.8%
Central: Madhya Pradesh, Chattisgarh	0.05	4.5	4.8%	0.06	5.0	4.6%
Western: Gujarat, Maharashtra	0.01	6.1	6.5%	0.01	10.0	9.3%
Southern: Tamil Nadu, Karnataka, Kerala, Andhra Pradesh, Pondicherry	0.06	3.0	3.2%	0.06	3.0	2.8%
Total agriculture portfolio	**1.38**	**93.6**	**100.0%**	**1.48**	**107.7**	**100.0%**

The agriculture sector is also advantageous in terms of risk and credit management, with a comparatively high number of smaller loans. Our gross non-performing assets in the agriculture segment constituted 4.37% of total agricultural advances as of September 30, 2004 as compared to gross NPAs of 7.65% as a percentage of gross advances. We have also been able to minimize our non performing assets through arrangements with different participants in the supply chain. For example, we enter into tripartite arrangements with sugar mills and groups of farmers in which the payments from the mill to the farmers are made through the farmers' accounts with us. Since the sale proceeds are deposited with us, the risk of nonpayment is reduced.

Recent regulatory developments have also improved the efficiency of the agricultural market and made it a more attractive lending sector. Through the National Agricultural Insurance Scheme, which is available in the states in which it has been adopted, farmers can purchase insurance coverage for their crops. This coverage is compulsory for farmers that are borrowers and the lender is a loss payee. For small farmers, 50% of the cost of this insurance is also subsidized by the central and state governments. Of the states listed in the table above Kerala, Maharashtra, Madhya Pradesh, Orissa, Himachal Pradesh, Gujarat, Uttranchal, Uttar Pradesh and Tamil Nadu have implemented this scheme as of the date of this Red Herring Prospectus.

Agricultural Lending

In the agriculture 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. The following table shows the value and share of our agricultural loan products as of the last reporting Friday of March and September 2004, classified by type:

	March 2004			September 2004		
	Number of accounts (in millions)	**Amount outstanding (Rs. in billions) loans**	**% of total outstanding agricultural**	**Number of accounts (in millions)**	**Amount outstanding (Rs. in billions) loans**	**% of total outstanding agricultural**
Direct financing:						
Production financing	0.70	26.7	28.6%	0.74	28.6	26.5%
Investment financing	0.67	38.4	41.0%	0.73	43.9	40.8%
Indirect financing	0.01	28.5	30.4%	0.01	35.2	32.7%
Total agriculture portfolio	**1.38**	**93.6**	**100.0%**	**1.48**	**107.7**	**100.0%**

Production Financing

We provide short-term working capital for agricultural activities such as planting and crop production for a term of 12 to 18 months. This is typically secured by crops or other movable assets for amounts up to Rs. 50,000 and additionally by a mortgage over real property for amounts above Rs. 50,000.

Investment Financing

We provide financing for agricultural investments such as farm mechanization, irrigation, transport vehicles, development of dairy, poultry and fishery facilities and wasteland development. The term of such financing is typically five to seven years. This is typically secured by the assets being purchased and/or a mortgage of or charge on agricultural land or immovable property.

Indirect Financing

We provide indirect financing for infrastructure development and provide credit to dealers or distributors of inputs such as pesticides, seeds and fertilizers. These loans are typically secured by hypothecation of the assets financed and/or a mortgage of real property or a guarantee.

Krishi Credit Cards

In 1998, we introduced our "PNB Krishi card" which is designed to meet the production and consumption credit needs of farmers. The Krishi card is being extended to cover the investment needs of farmers. The card provides farmers a working capital facility up to certain limits. The farmer can withdraw money from any of our branches located in the district where the card issuing branch is located. It also allows them to make payments for supplies without carrying cash or having to process invoices. Additionally, farmers can use this card to meet short term domestic needs. Loans using the Krishi credit card up to Rs. 50,000 are secured by crops and assets financed by the loan, and advances over Rs. 50,000 are additionally secured by a mortgage over the farmer's land. Krishi cards are typically set up for a period of three years but must be fully paid down at least once in 18 months (for long duration crops) and 12 months (for normal crops), except for the investment credit portion which is payable by installments. As of September 30, 2004, we had issued over 1.3 million Krishi credit cards.

Agriculture and Community Support Efforts

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 have established training centers for farmers to inform them of the latest technological developments in agriculture and related activities, educate them about adopting better production and marketing practices and provide them with information about the financing options and services available to them. We have also instituted support programs such as the PNB Farmers Welfare Trust which, in addition to providing training to farmers, provides vocational training to women and youth, animal health treatment and other social services.

Directed Lending

The RBI guidelines require banks to lend at least at least 40% 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%, banks are required to lend a minimum of 18% 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 the 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 the RBI on a quarterly basis. The loans reported are as of the last reporting Friday of the quarter. As of September 17, 2004, which was the last reporting Friday for the quarter ended September 30, 2004 our priority sector loans were Rs. 242.7 billion, constituting 47.7% of our net bank credit against the requirement of 40.0%. The agriculture sector constituted 44.4% of our priority sector credit and small scale industries (SSI) constituted approximately 23.6% of our priority sector credit as of the last reporting Friday of September, 2004.

The following table presents data on our outstanding priority sector lending, including as a percentage of our total net bank credit, as of the last reporting Friday of the months indicated.

(In Rs. billion, except for percentages)

	March 2003		March 2004		September 2004	
	Amount	**% of net bank credit (1)**	**Amount**	**% of net bank credit (1)**	**Amount**	**% of net bank credit (1)**
Agriculture credit	70.8	16.4%	93.6	18.5%	107.7	18.8%
SSI credit	47.9	12.0%	57.0	12.3%	57.3	11.3%
Other priority sector credit	67.8	17.0%	79.3	17.0%	77.7	15.3%
Priority sector credit	186.6	46.7%	229.9	49.4%	242.7	47.7%
Net bank credit	399.7		465.5		508.6	

(1) Net bank credit is gross bank credit less Foreign Currency Non-resident (Bank) deposits.

Our priority sector lending includes the agricultural and SSI lending described above, as well as certain of our loans to individuals for education and other purposes. In addition, priority sector lending includes housing finance up to Rs. 1.5 million.

In addition to the foregoing, our priority sector activities also include micro credit. Our micro credit offerings provide financing to start-up businesses and other small scale entrepreneurs. The credit is primarily disbursed to Self-Help Groups (SHGs) which are composed mainly of women. Our micro credit disbursements up to September 30, 2004 were Rs. 1.2 billion to 24,115 SHGs.

Deposits

Our deposit products include the following:

- demand deposits, which are non-interest bearing;
- 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
- term deposits (which have interest rates determined by banks) including:
  - recurring deposits, which are periodic deposits of a fixed amount over a fixed term that accrue interest at a fixed rate; and
  - certificates of deposit.

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

(Rs. in million, except for percentages)

	March 31, 2003		March 31, 2004		September 30, 2004	
	Balance outstanding	% of total	Balance outstanding	% of total	Balance outstanding	% of total
Demand deposits	98,882.8	13.0%	99,003.9	11.3%	97,482.1	10.3%
Savings deposits	256,479.0	33.9%	304,226.1	34.6%	330,151.0	34.9%
Term deposits	402,773.2	53.1%	475,934.0	54.1%	518,253.3	54.8%
Total deposits	**758,135.0**	**100.0%**	**879,164.0**	**100.0%**	**945,886.4**	100.0%

For a description of the RBI's regulations applicable to deposits in India and required deposit insurance, see sections titled "Regulations and Policies — Regulations Relating to Deposits" and "Regulations and Policies — Deposit Insurance" on page 175.

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

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

"Prudent Sweep" and "Smart Roamer" accounts

These products provide automatic transfer of balances beyond certain minimum amounts, from the demand deposit accounts to term deposit accounts, 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 to meet the shortfall. We refer to this as a "sweep-in, sweep-out" feature. These products also enable the customer to access their account and the associated services from any of our over 690 branches (as of September 30, 2004) that are connected through our CBS system.

PNB Auto-Sweep

This is a current account for government organizations and PSUs with the "sweep-in, sweep-out" feature.

PNB Flexible Rate Deposit Scheme

This is a product which enables our customers to receive a flexible interest rate based on the yield on Government securities, which is reset every six months.

PNB Spectrum

PNB Spectrum is a deposit account which has recently replaced the various term deposit products that were previously offered. It will provide a maturity option or income option to depositors opening accounts.

Zero Balance Salary Account

These special accounts have no minimum balance and offer other concessions to employees of companies that deposit their employees' salaries directly with us.

Cheque Truncation

We have launched an intra-bank, inter-city project, which is intended to enable faster clearance of instruments at our three MICR (magnetic ink character recognition) centers in Chandigarh, Jalandhar and Ludhiana. This is a process in which cheque clearing beyond a certain stage in the cycle occurs on the basis of electronic data and images of the cheque, resulting in faster clearance. To legalize image based cheque payment, the Negotiable Instruments Act, 1881 was amended in December, 2002, paving the way for the clearing of cheques through this process. The project is expected to be extended to other MICR centers across India.

Delivery Channels

We deliver our products and services through a network of 4,034 branches, 452 extension counters and 467 ATMs in 160 cities throughout India, as of September 30, 2004. We also use ATMs, call centers and the Internet.

Generally, our branches are organized into regions that are in turn organized into zones that report directly to our head office. Certain branches report directly to our head office as explained below. The table below shows our regional breakdown by branches, regions and zones as of September 30, 2004.

(In Rs. billion)

	Branches	CBS branches [1]	Regions	Zones	Deposits	Advances
Northern: Punjab, Simla, Northern Delhi, Rajasthan	1,571	287	20	5	453.7	253.9
Eastern: West Bengal, Bihar, Jharkhand, Northeastern states, Orissa	776	46	11	3	105.4	46.8
Central: Central/West/East Uttar Pradesh, Uttranchal, Madhya Pradesh, Chattisgarh	1,121	170	15	6	237.4	77.5
Western: Mumbai, Gujarat	230	126	4	2	99.8	82.1
Southern: Chennai, Kerala	336	65	6	2	49.6	58.4
Total	**4,034**	**694**	**56**	**18**	**945.9**	**518.7**

(1) CBS Branches are those branches where we have implemented our Core Banking Solution, which interconnects our branches.

Branches and Extension Counters

Our branch network is the second largest in India, second only to the State Bank of India. We aim to rationalize our extensive branch network by merging branches which have become unnecessary and opening new branches in which meet our customers' current needs. Our extension counters are small offices primarily within office buildings or on factory premises that provide commercial banking services. 364 of our branches are ISO 2000 certified.

We are in the process of centralizing our loan processing operations at regional processing centers. Using this "hub and spoke" organizational model, a portion of our loan activity will be centered in 25 centers, each covering five to ten branches. We believe this will facilitate faster delivery of credit, standardized decision making and centralized control during the life cycle of the loan. We have already established centers in 13 zones.

We are currently modernizing our branch network with technology in order to increase efficiency and increase profits per employee. Because we have a large legacy branch network, our profits per employee are lower than many of our competitors, especially private banks that have relative new branch networks. We believe that improving productivity by implementing new technology and upgrading our branches is an area where we have significant room to improve, and we expect to realize future improvements in total profit as a result of these efforts. Following is a table of our business (advances plus deposits) per employee and average gross profit per branch for the periods indicated.

(Rs. in thousands, except for employees per branch)

	Fiscal Year			First six months of fiscal year	
	2002	**2003**	**2004**	**2004**	**2005**
Business per employee	16,776	19,564	22,822	20,371	24,855
Business per branch	251,640	285,830	333,886	296,920	361,870
Gross profit per branch	3,821	5,740	7,759	8,560*	8,100*
Employees per branch	15.00	14.61	14.63	14.56	14.56

* Figures provided on an annualized basis.

We also have specialized branches targeting various segments of our customers. We have specialized corporate branches focused on the needs of small, medium and large sized corporations. We have two branches specializing in our large sized corporate customers which report directly to our head office. We currently have five branches targeting trade finance and plan to set up others specializing in SSI, retail finance, housing finance, high value customers, families and senior citizens. We also have 126 "signature" branches which offer personalized service and advanced technology combined with a welcoming décor.

As a part of its branch licensing conditions, the RBI has stipulated that at least 25% of our branches must be located in semi-urban and rural areas. As of September 30, 2004, 2,728, or 67.6% of our branches were located in semi-urban and rural areas.

Interconnectivity of Branches

We have implemented our Core Banking Solution, in which our branches are interconnected electronically, in 694 branches which represent approximately seven million customers and 46.7% of deposits and advances by amount, as of September 30, 2004. We have a centralized server in Delhi to connect these branches and a back-up server in Mumbai. 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 mobility and convenience for our customers and we believe will enhance customer loyalty to us. We believe that this will enable us to provide a greater range and volume of value added services to our customers. We plan to extend this interconnectivity to between 1,500 and 2,000 branches by March 31, 2006.

We have set up a disaster recovery site at Mumbai, India. The site facilitates storage and back-up of data from the CBS branches so that if the data is lost or corrupted, it may be restored by using data at the site. This ensures the continuation of our critical business operations in the event of unforeseen circumstances.

With the implementation of CBS, we have become a leader in IT implementation among public sector banks in India. Our efforts in this direction have been recognized by organizations such as NASSCOM (Best IT User 2004 Award) and CIOL Dataquest (Enterprise Connect Award 2004). We have achieved our target of computerizing all of our branches.

International Branches

We have recently opened a branch in Kabul, Afghanistan and representative offices in London (UK), Almaty (Kazakhstan) and Shanghai (China). These international locations service the needs of Indian communities in other countries and also facilitate import/export trade.

ATMs

We offer our customers an extended network of ATMs with 467 ATMs in 160 cities as of September 30, 2004. We have recently entered into an ATM sharing arrangement called "MITR" with four other banks, namely UTI Bank, Indian Bank, Oriental Bank of Commerce and the erstwhile Global Trust Bank. Karur Vyasa Bank joined MITR on September 21, 2004. This arrangement allows our customers to access over 2,500 ATMs. Similarly, customers of these other banks can also access their bank accounts using our ATM network. We receive fees for this service. In view of the diversity of regional languages used in various parts of India, some of our ATMs offer bilingual screens.

Internet

We believe that Internet access and information is key to satisfying the needs of certain customer segments. We maintain a website at www.pnbindia.com, offering general information on our products and services. Our Internet banking service allows customers to access all their account-related information and also enables them to transfer funds from one account to another account with us, using our website. This facility is available to both individual and corporate customers of our interconnected branches.

Call Center

We provide customer support services through our call center in Gurgaon, near Delhi. The call centre functions 24 hours a day, seven days a week, and offers a self-service option to customers for automated phone banking. In addition, customer service officers offer personalized services for banking customers, credit card holders, bond holders and loan product customers. As part of our cross-selling initiatives, the call center is also used to market our various products. As of September 30, 2004, our call center took an average of 973 calls per day.

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. Income from our treasury and trading operations is subject to volatility, as discussed in the section titled "Risk Factors" on page x.

General

Under the RBI's statutory liquidity ratio (SLR) requirement, we are required to maintain an amount equal to at least 25.0% of our net demand and time liabilities in approved securities, such as Government of India securities, state government securities and other approved securities. As of September 30, 2004, 38.2% of our net demand and time liabilities consisted of Government and other approved securities. Under the 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 the RBI. As of September 30, 2004, 5.1% of our net demand and time liabilities were maintained with the RBI. The 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. For further discussion of these regulatory requirements, see the section titled "Regulations and Policies - Legal Reserve Requirements" on page 175.

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. Our Board of Directors approves our investment and asset liability management policies.

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

Securities	March 31, 2003		March 31, 2004		September 30, 2004	
	In Rs. millions	%	In Rs. millions	%	In Rs. millions	%
SLR						
Government and approved securities	277,530	81.6%	354,183	84.1%	386,691	84.0%
Non-SLR						
Bonds and debentures	54,584	16.0%	57,663	13.7%	57,319	12.4%
Shares	2,701	0.8%	2,667	0.6%	3,030	0.7%
Subsidiaries and joint ventures	2,229	0.7%	2,090	0.5%	3,100	0.7%
Commercial papers, mutual funds and others	3,256	0.9%	4,652	1.1%	10,046	2.2%
Total	**340,300**	**100.0%**	**421,255**	**100.0%**	**460,186**	**100.0%**

The following table presents our investments as a percentage of our total assets and our investment income as a percentage of our total income as of or for the dates indicated.

(Rs. in billions, except percentages)

	March 31, 2003	March 31, 2004	September 30, 2004
Average total interest earning assets	720.9	856.9	1,002.2
of which, Average investments	317.8	403.4	480.0
Average investments as a percentage share of average total interest earning assets	44.1%	47.1%	47.9%

(Rs. in billions, except percentages)

	Fiscal year		First six months of fiscal year	
	2003	2004	2004	2005
Total income	87.4	96.5	48.7	51.9
Income from investments	33.0	36.8	17.8	19.7
Net profit from sale of investments	6.7	12.4	7.0	2.8
Total treasury income*	**39.7**	**49.2**	**24.8**	**22.5**
Treasury income as a percentage of total income	**45.4%**	**51.0%**	**50.9%**	**43.4%**

* The above does not include this income earned on the following:

1. income earned from call money and short term investments;
2. income from derivatives; and
3. dividend earned on investments in subsidiaries and joint ventures.

Foreign Exchange Activities

We provide customer specific products and services and risk hedging solutions in several currencies to meet the trade and service-related requirements of our corporate and commercial clients. The products and services offered include:

- foreign exchange at spot rates for the conversion of foreign currencies without any value restrictions;
- forward foreign exchange contracts for hedging future receivables and payables, without any value restriction; and
- foreign exchange and interest rate derivatives for hedging long-term exposures.

We commenced our derivative operations in fiscal 2003. We offer to our customers forward foreign currency products, single currency interest rate swaps and cross-currency interest rate swaps. We have hedged a part of our fixed liabilities with floating rate swaps. The primary purposes of our trading in interest rate derivatives is hedge our position but we also trade in interest rate derivatives to take advantage of volatility in the market. In fiscal 2004 and the first half of fiscal 2005, our net income from derivatives operations was Rs. 148 million and Rs. 120 million, respectively.

Ratings Information

Our Tier 2 bonds are rated LAAA by ICRA Limited. Our term deposits are rated MAAA by ICRA Limited.

Our Subsidiaries and Affiliates

We provide additional products and services through our subsidiaries and affiliates.

PNB Gilts Ltd

We owned 74.1% of PNB Gilts Ltd. as of September 30, 2004, which was formed in 1996. PNB Gilts Ltd. is licensed as a primary dealer in the government securities market. PNB Gilts. Ltd deals in Government securities, treasury bills, bond and other money market instruments. PNB Gilts Ltd. generated income of Rs. 2,379 million in fiscal 2004 and a loss before operating expenses of Rs. 512 million in the first half of fiscal 2005. It generated a net profit of Rs. 1,070 million in fiscal 2004 and had a loss of Rs. 871 million in the first half of fiscal 2005, which was primarily due to trading losses incurred by it as a result of increasing interest rates during the period.

PNB Housing Finance Ltd.

PNB Housing Finance Ltd., our wholly owned subsidiary formed in 1988, is engaged in providing housing loans for the purchase, construction and renovation of dwellings. The total income of PNB Housing Finance Ltd. was Rs. 904 million in fiscal 2004 and 430 million in the first half of fiscal 2005. Its net profit was Rs. 155 million in fiscal 2004 and Rs. 78 million in the first half of fiscal 2005.

Asset Reconstruction Companies

Legislation in 2002 allowed the creation of asset reconstructions companies (ARCs), which are allowed to buy non-performing assets from banks at a discount from book value. These entities earn returns by aggregating non-performing assets and recovering value from them, which is possible without the use of litigation. Additionally, ARCs use these assets to sell asset backed securities through special purpose vehicles. We own a stake in two such companies. We own 26% of Assets Care Enterprise Ltd., and recently acquired 10% of Assets Reconstruction Company of India Ltd. Assets Reconstruction Company of India Ltd. has begun asset acquisition activities, while Assets Care Enterprise Ltd. has not yet started asset acquisition activities.

Regional Rural Banks

We have promoted 19 regional rural banks, with 1,282 branches spread over seven states of India as of September 30, 2004. We hold 35% of the equity share capital of the regional rural banks and the Government of India and state governments own 50%

and 15%, respectively. As of September 30, 2004 the deposits of these banks were Rs. 54.5 billion and advances were Rs. 22.4 billion. The combined net profit of these regional rural banks improved by 16.1% from Rs. 1.3 billion in fiscal 2003 to Rs. 1.5 billion in fiscal 2004 and was Rs. 0.6 billion in the first six months of 2005. Gross NPAs for these banks amounted to 7.25% of their total advances as of September 30, 2004. Our board has recently approved the amalgamation of some of our regional rural banks in certain states with a view to strengthening them and improving their efficiency.

Risk Management

We believe that the three principal risks to our business are credit, market and operational risk. We have set up a Risk Management Committee of our Board of Directors which manages these principal risks. The Risk Management Committee supervises the implementation of risk management policies and is assisted by three committees of our senior executives: the Credit Risk Management Committee (for credit risk), the Asset Liability Management Committee (for market risk) and the Operational Risk Management Committee (for operational risk).

Credit Risk

Credit risk is defined as the possibility of losses associated with the diminution in the credit quality of the borrower or counter party or failure on its part to meet its obligations in accordance with the agreed terms. To monitor and manage credit risk, we have set up a Risk Management Division at our head office and Credit Risk Management Department at each zonal office. Credit risk is managed through prudent selection of borrowers, delegation of appropriate lending powers and by setting up various prudential limits. The management of credit risk is based on clearly defined responsibilities and procedures approved by our Credit Risk Management Committee. We seek to constantly upgrade the risk evaluation skills of our employees at every level through specialized training programs. For data on our credit risk exposure, see the section titled "Selected Statistical Information" on page 72.

Credit Approval and Monitoring

The principal means of managing credit risk is the credit approval process. We have developed various credit risk rating models. We apply our risk rating criteria to all individual advances over Rs. 2 million (prior to September 2004 we applied these criteria to advances over Rs. 5 million). Every eligible account is assigned a credit rating. We have also developed industry ratings which we use as an element of our rating of individual borrowers. As of September 30, 2004, our individually rated loans amounted in the aggregate to Rs. 249.4 billion or 48.9% of our total outstanding loans and 49.7% of our total standard advances (total loans net of NPAs).

We have seven ratings categories for our loans which we categorize as investment grade, marginally acceptable grade and sub-investment grade. The table below shows the distribution of our loans as of September 30, 2004 by rating and grade.

Rating	**Amount Outstanding (Rs. in millions)**	**Percentage of total outstanding**	**Grade**	**Percentage of total outstanding**
AAA	6,568	2.6%	Investment Grade	68.8%
AA	27,606	11.1%		
A	65,163	26.1%		
BB	72,400	29.0%		
B	40,572	16.3%	Marginally Acceptable Grade	16.3%
C	27,059	10.9%	Sub-Investment Grade	14.9%
D	10,073	4.0%		
Total	**249,441**	**100.0%**		**100.0%**

All rated credits are discussed at our head office and each zonal office by a Credit Committee composed of officers from the Risk Management and Credit Operations divisions. The final approval is granted by a competent authority at different levels of the organization depending on the size of the credit. For example, any loan above Rs. 300 million must be approved by the Management Committee of our Board of Directors. We have 332 loans currently outstanding in excess of Rs. 300 million as of September 30, 2004. For certain good borrowers, we permit certain categories of officials to extend ad hoc facilities in excess of specified limits in exceptional circumstances in order to meet emergent requirements.

Our credit policies are based primarily on statistical analyses of risks with respect to different products and types of customers. We have high volumes of relatively homogeneous, small value transactions in the retail and agricultural areas. We monitor our own and industry experience to determine and periodically revise product terms and desired customer profiles. We then verify that an individual customer meets our lending criteria.

A large number of our loans are also secured by collateral or supported by guarantees. Our trade and commercial loans are typically secured by a charge over inventory or receivables. Longer term loans are usually secured by a charge over fixed assets. Our larger retail loans are typically secured by collateral or guaranteed. Our retail loans are generally either secured, made against delivery of post-dated cheques or debited to an account maintained with the bank in which the debtor's employer directly deposits their salary. In India bouncing of cheques is a criminal offence. In the case of most automobile loans as well as unsecured personal loans, we require that the borrower provide post-dated cheques for all payments on the loan at the time the loan is made. Automobile loans and consumer loans are both secured loans. We will generally lend up to 80% to 90% of the value of the automobile in case of automobile loans and 90% to 95% in the case of two wheeler loans. Our housing loans are secured by mortgages. Although we take collateral, we may sometimes not be able to realize its full value in a default situation. See the section titled "Risk Factors-We may experience delays in enforcing our collateral when borrowers default on their obligations to us, which may result in failure to recover the expected value of the collateral" on page xv.

We aim to improve recovery by implementing our rule based lending system through out our branches. This system analyzes available data to profile areas and categories which we use to make our lending decisions more efficient. We are using software already implemented in our 170 branches which have bulk business in order to appraise and monitor accounts.

The accounts are further reviewed and monitored through our Loan Review Mechanism. We rely on our Preventive Monitoring System which scores accounts based on such factors as financial performance and conduct of accounts on a quarterly basis with a rule based system. Additionally, local task forces monitor accounts that are in arrears or have low credit ratings. Our Credit Audit and Review Section also reviews all accounts above Rs. 35 million and accounts above Rs. 10 million identified as irregular or weak.

Prudential Limits

We have established our own prudential limits for funded exposure to individual industries and for borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. These limits are as follows:

- We have a limit of Rs. 250 million and Rs. 750 million for proprietorship and partnership concerns, respectively.
- Our substantial exposure (the cumulative exposure to those entities that have limits in excess of 10% of our capital funds) is limited to 400% of capital funds, which consists of Tier 1 and Tier 2 capital.
- Our credit exposure to any particular industry is limited to 10% of our total credit. This exposure includes accounts with total limits (fund based and non-fund based) or total outstandings (fund based and non-fund based) of Rs. 10 million and above. The exposure is then arrived at by adding the fund based outstanding of these accounts. As of September 30, 2004, our largest exposure to a single industry was infrastructure, which was 9.9% of our total fund based exposure to accounts of Rs. 10 million and above.
- We have lower limits for certain especially sensitive sectors such as the film industry, real estate, non-banking financial companies and capital markets.

Our exposure limits are typically more conservative than those required by the RBI. Under the RBI guidelines, our exposure to individual borrowers must not exceed 15.0% of capital funds. Exposure to individual borrowers may exceed the exposure norm of 15.0% of capital funds by an additional 5.0% (i.e. up to 20.0%) 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 40.0% of capital funds unless the exposure is in respect of an infrastructure project in which case the ceiling is 50%. Our prudential limits require the exposure to an individual borrower may not exceed 12.5% of capital funds (or 15% for infrastructure) and exposure to a group of companies under the same management may not exceed 30% of capital funds (or 40% for infrastructure). Pursuant to the RBI guidelines, exposure for funded facilities is calculated as the total approved limit or the outstanding funded amount, whichever is higher. Exposure for non-funded facilities is calculated as 100.0% of the approved amount or the outstanding non-funded amount, whichever is higher (until year-end fiscal 2003 this amount was 50.0%). We are currently in compliance with these limits. As of September 30, 2004, we had exposure in excess of the 15% ceiling in two accounts, in which the exposures were 17.8% and 16.5% of our capital funds, for which we obtained RBI approval.

On September 30, 2004, our largest exposure to a single borrower was 17.8% of our capital funds, and our largest group exposure was 28.6% of our capital funds; all these borrowers are currently performing according to the terms of our contracts with them. The RBI has advised that banks may, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower by a further 5% of the capital funds.

Market Risk

Market risk refers to potential losses arising from volatility in interest rates, foreign exchange rates, equity prices and commodity prices. Market risk arises with respect to all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and derivative instruments, as well as from balance sheet or structural positions. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss and to reduce our exposure to the volatility inherent in financial instruments. We consider interest rate risk to be potentially our most significant risk.

A committee of our senior executives, the Asset-Liability Management Committee, is charged with the responsibility of managing liquidity and market risk. 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 the RBI's stipulated norms relating to open positions and exposure ceilings.

Asset Liability Management

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 interbank market, though we are a lender most of the time. We use the majority of our funds to make loans or purchase securities.

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 analyses 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 advised by the RBI, we have also established cumulative gap limits for all maturity buckets.

We measure our exposure to fluctuations in interest rates primarily by way of a gap analysis on a monthly 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.

Liquidity Risk

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. Our treasury group 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.

Price Risk

Price risk is the risk arising from price fluctuations due to market factors, such as changes in interest rates and exchange rates. We consider interest rate risk to be potentially the most significant and for this purpose 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. As stipulated by the RBI, we maintain an Investment Fluctuation Reserve to serve as a buffer against adverse movement in interest rates and to have sufficient capital to meet capital adequacy standards of minimum capital of 9% against total risk weighted assets. We have also begun to manage our risk by hedging through derivative transactions. We have also set prudential limits to manage our exchange risk including our daylight limit of US$44.3 million, our aggregate gap limit of US$1 billion and our overnight open position limit of Rs. 150 million.

Operational Risk

Operational risks are risks arising from matters such as non-adherence to systems and procedures or fraud resulting in financial loss. We have established systems and procedures to reduce operational risk. Compliance with our guidelines is monitored through internal control and a comprehensive audit system. A committee of our senior executives, the Operational Risk Management Committee, has been set up to oversee and monitor implementation of our Operational Risk Management Guidelines. Operational risks at the branch level have been identified and classified as control risks and business risks. Our risk profile format has been developed for preparing the overall operational risk profiles of our branches and to assess their level of risk.

After assessing the overall risk of a branch, we take measures to minimize risk. Based on the level and direction of risk, a branch specific action plan is prepared with specific deadlines for mitigating and controlling the risk. To ensure compliance or rectification, compliance audits are conducted in selected branches. Senior officers also assess and evaluate the mitigating measures taken by the branch during their visits. We target high risk areas and branches for more frequent audit.

Pursuant to RBI guidelines, some activities are required to be audited continuously. More than 60% of our business, measured by transaction volume, is subject to concurrent auditing, including foreign exchange, derivatives, equities, securities transactions, depositary services, retail liability operations, reversals to the profit and loss account and monitoring of inter-branch routing accounts. All other lines of business, our information technology department, and branches are audited on a set schedule, which is usually annual. Our information technology and software is also subject to audit review and certification, including application software and system controls.

We are also subject to inspections conducted by the RBI under the Banking Regulation Act. The RBI has adopted the global practice of subjecting banks to examination on the basis of the CAMELS model, a model that assigns confidential ratings to banks based on their capital adequacy, asset quality, management, earnings, liquidity and systems.

Basel II Requirements

The 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, the adoption of these new rules is still an evolving process. We are regularly in contact with the RBI concerning the process of implementation of the Basel II guidelines and have been nominated by the RBI to be a member of the Steering Committee for the implementation of Basel II.

Competition

We face competition in all of our principal lines of business. 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. The large public sector banks have traditionally been the market leaders in commercial lending. Foreign banks have focused primarily on serving the needs of multinational companies and Indian corporations with cross-border financing requirements including trade, transactional and foreign exchange services, while the large public sector banks have 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 in the case of retail loan products. The other public sector banks have large deposit bases and large branch networks, including the State Bank of India which has 13,593 branches. Private sector and foreign banks compete principally by offering a wider range of products as well as greater technological sophistication in some cases. Foreign banks, while having a small market penetration overall, have a significant presence among non-resident Indians and also compete for non-branch based products such as auto loans and credit cards.

In particular, we face significant competition primarily from private sector banks and to a lesser degree from other public sector banks, in the housing, auto and personal loan segments. In mutual fund sales and other investment related products, our principal competitors are brokers, foreign banks and new private sector banks.

Agriculture and Priority Segments

In the agriculture and priority segments, our principal competitors are the large public sector banks, which have large branch networks and traditionally focused on these areas.

Treasury

In our treasury services for corporate and commercial clients, we compete principally with foreign banks in foreign exchange and derivatives trading, as well as the State Bank of India and other public sector and private banks in the foreign exchange and money markets business.

Employees

As of September 30, 2004 we had 58,747 employees. Our staff strength comprises 17,759 officers, 29,806 clerks and 11,182 sub-staff. Following is a table of our (unconsolidated) total number of employees as of the dates indicated:

	March 31,			September 30,
	2002	**2003**	**2004**	**2004**
Professional/technical employees	408	530	882	877
Other employees	57,451	58,451	57,957	57,870
Total	**57,859**	**58,981**	**58,839**	**58,747**

We do not have a stock incentive plan or discretionary bonus compensation. Bonus is paid in accordance with the Payment of Bonus Act for employees of basic salary and allowances of up to Rs. 3,500 per month. We also have incentive awards generally given to all employees of a branch for performance by the branch in various categories, such as having the lowest NPA levels. Over 95% of our employees are represented by unions or officers' associations. We consider employee relations to be good. Negotiations to set salary and benefit standards for employees takes place at the industry level through the Indian Banks Association, which is an independent body. There is collective bargaining on the industry level. We provide a number of benefits for our employees, including canteen facilities, scholarships, part-time medical consultants, ex-gratia payments and partial adjustments of housing loans in case of death of employees while in service.

We have ten training centers in India which conduct training programs to meet the changing skill requirements of employees in the core areas of treasury, risk management, retail based products and fee based products. We also have an IT training center and 20 Core Banking Solution laboratories for upgrading the IT skills of our employees. Our training programs include orientation sessions for new employees and management development programs for mid-level and senior executives. Our training centers regularly offer courses conducted by faculty, both national and international, drawn from industry, academia and from our own employees. Training programs are also conducted for developing functional as well as managerial skills. We also send our employees to various specialized training programs held in India and abroad.

Properties

Our head office is located at 7, Bhikhaiji Cama Place, New Delhi 110 066, India.

We have a principal network of 4,034 branches, 467 ATMs and 452 extension counters as of September 30, 2004. We own some branches directly, but most of our branches are leased. In addition to these, we own or lease our 18 zonal offices, 56 regional offices, three head office properties and a data centre in New Delhi. We also own residential apartments for the use of our employees.

HISTORY AND CERTAIN CORPORATE MATTERS

History and Major Events

We were incorporated under the Indian Companies Act, 1882 (Act VI of 1882) in 1894 as Punjab National Bank Limited and commenced operations on April 12, 1895 from Lahore. Upon nationalisation in 1969, we were renamed Punjab National Bank.

1904-13

- The Bank expanded from Punjab to Karachi and Peshawar in 1904.
- In 1908, the Bank began its first dealings abroad by asking its Bombay branch to open an account in London.

1914-1921

- In 1914, the Bank made a public issue of 5,000 shares.
- In 1919, the Bank took steps to establish an agency at London and an agency account with the London City & Midland Bank Ltd.

1922-1939

- In 1926, the Bank was admitted to the clearing house of Calcutta.
- In 1928, Bhagat Ishwar Das became the first 'Chairman Emeritus' of the Bank.
- In 1929, a system of continuous audit was introduced to prevent possibility of fraud and the inspection of staff was strengthened.

1940-49

- In January 1940 the Bank made its first acquisition of Bhagwandas Bank Limited.
- On June 29, 1947 the registered office of the Bank was shifted from Lahore to New Delhi.
- In 1949, the Punjab National Bank Workmen's Union came into existence.

1950- till date

- In 1952, Bharat Bank merged with us.
- In 1956, Indo Commercial Bank merged with us.
- The first overseas branch of the Bank was opened in London in 1978 and closed in 1986 under instructions from the RBI.
- In 1961, Universal Bank of India merged with the Bank.
- In 1969, 14 private banks including our Bank were nationalised.
- In 1986, Hindustan Commercial Bank merged with the Bank.
- In 1993, New Bank of India merged with the Bank, which was the first ever merger of a nationalised bank with another.
- In 2002, we had an initial public offering of shares of the Bank which resulted in the reduction of the government's shareholding in the Bank.
- In 2003, the erstwhile Nedungadi Bank, a Kerala based private bank, was amalgamated with the Bank.
- In 2003, PNB Capital Services Limited merged with the Bank.
- The number of branches we operated grew from 619 at the time of nationalisation in 1969 to reach 4,224 by September 2004.

Awards and Recognitions

- In 2000, the 'Bank of the Year Award' given by the Banker's Magazine of Financial Times, London.
- In 2000-2001, second prize in the GoI's Indira Gandhi Rajbhasha Shield Pratiyogita.
- In 2001, 2002 and 2003, 'Niryat Bandhu Gold Trophy Award' by Federation of Indian Exporters Organisation for excellence in export performance.

- In 2002-03, 2003-04 and 2004-05, second for its contribution to lending in the small scale industries sector for the years 2001-02, 2002-03, 2003-04.
- In 2002-03 and 2003-04, first prize from the RBI for the "PNB Staff Journal", the in house journal of our Company.
- In 2002, 2003 and 2004, National Award for Excellence ranking second for our contribution in lending to the small scale industries sector.
- In 2002, Prime Ministers recognition for outstanding contribution to *khadi*, village and cottage industries.
- In 2002, 'Best Bank Award' for excellence in banking technology by Institute of Development and Research in Banking Technology (IDRBT).
- In 2002, 'Best Bank Award' for excellence in promotion of Kisan Credit Card Scheme.
- In 2002, Golden Peacock Award for excellence in corporate governance for the year 2001-02, by the Institute of Directors.
- In 2003, the one of our branches was awarded the 'Best Branch' among public sector banks by IDRBT.
- In 2002-2003, first prize in excellence in lending to the rural employment generation programme of khadi and village industries by the GoI for the year 2001-02.
- In 2004, Golden Peacock National Training Award by Institute of Directors.
- In 2004, Best IT User Award in Banking & Financial Services Industry by National Association of Software and Service Companies.
- In 2004, Enterprise Connect Award from CIOL Dataguest.

Main Objects of Constitutional Documents of the Bank

Section 3(5) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 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, hoondees, 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."

Changes in Memorandum and Articles 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.

Stock Market Data

Stock Market Data of Our Equity Shares

Our Equity Shares are listed on BSE and NSE.

The following table sets forth, for the periods indicated, the high and low of daily closing prices of our Equity Shares on the NSE.

(In Rs.)

Period	High	Low	Average(1)
Fiscal year 2003	105.95	37.15	56.10
Fiscal year 2004	349.35	98.30	189.77
April 2004	387.35	333.25	353.89
May 2004	376.35	228.20	304.35
June 2004	297.75	242.05	264.65
July 2004	288.40	237.95	266.12
August 2004	275.65	243.20	262.02
September 2004	277.15	254.65	269.93
October 2004	268.30	241.95	254.59
November 2004	348.85	246.70	286.21
December 2004	405.60	351.15	371.59
January 2005	434.90	352.10	381.89

(1) Average of the daily closing price of our Equity Shares for the period.

The following table sets forth, for the period indicated, the number of Equity Shares traded on the days high and low prices of our Equity Shares was recorded on NSE for the fiscal years 2004 and 2003.

Fiscal Year	High Date	Number of Shares Traded	Low Date	No of Shares Traded
2003	28/03/03	3,023,682	22/05/02	173,312
2004	30/03/04	5,221,078	1/04/03	2,373,847

The following table sets forth, for the period indicated, the number of Equity Shares traded on the days high and low prices of our Equity Shares was recorded on NSE for the last six months preceding the date of filing of this Red Herring Prospectus with SEBI.

Month	High Date	Number of Shares Traded	Low Date	No of Shares Traded
August 2004	09/08/04	1,044,560	23/08/04	1,213,332
September 2004	07/09/04	728,156	28/09/04	1,051,120
October 2004	05/10/04	1,011,537	25/10/04	353,771
November 2004	30/11/04	3,439,978	01/11/04	1,081,704
December 2004	31/12/04	1,241,595	01/12/04	3,085,911
January 2005	04/01/05	2,458,219	19/01/05	1,245,715

The following table sets forth, for the period indicated, the total volume of Equity Shares traded on the NSE during the fiscal years 2004 and 2003:

Fiscal Year	Number of Shares Traded
2003	255,255,716
2004	887,976,927

The following table sets forth, for the period indicated, total volume of Equity Shares traded on the NSE during the six months preceding the date of filing with the Designated Stock Exchange.

Month	Number of Shares Traded
August 2004	28,957,308
September 2004	26,262,536
October 2004	12,608,057
November 2004	31,467,039
December 2004	36,003,817
January 2005	37,829,919

Promise vs. Performance

We have not made any projections in the offer document of our previous capital issue during the last five years. The funds raised from the capital issue have been utilized for our business as mentioned in the offer documents.

Servicing Behaviour

There has been no default in payment of statutory dues or of interest or principal in respect of our borrowings or deposits.

Other Disclosures

The market price of our Equity Shares on September 10, 2004, the day prior to the day our Board of Directors approved the Issue, was Rs. 276.20. On September 11, 2004, the day our Board of Directors approved the Issue, the Stock Exchanges were closed and there was no trading. Our Equity Shares are actively traded on the BSE and the NSE.

There are no shares held/sold by the Directors and/or their Relatives and Associates during six months from the date of filing of this Red Herring Prospectus with the Designated Stock Exchange.

SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information derived from our unconsolidated financial statements. The financial information as of and for the fiscal years ended March 31, 2000, 2001, 2002, 2003 and 2004 and as of and for the six months ended September 30, 2003 and 2004 is based on our restated financial statements for those periods, which are included in this Red Herring Prospectus under the section titled "Financial Statements" on page F-1. The restated financial statements have been prepared in accordance with Indian GAAP and the SEBI Guidelines and have been restated as described in the auditors' report attached thereto. The selected financial information presented below should be read in conjunction with the financial statements included in this Red Herring Prospectus, the notes thereto and the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations"on page 90 and "Recent Developments" on page 117. Indian GAAP differs in certain significant respects from U.S. GAAP. For more information on these differences, see the section titled "Summary of Significant Differences between Indian GAAP and U.S. GAAP", on page 270.

SELECTED PROFIT AND LOSS INFORMATION

(In Rs. million)

	Fiscal year					First six months of fiscal year	
	2000	**2001**	**2002**	**2003**	**2004**	**2004**	**2005**
INCOME							
Interest Income							
Interest and discount on advances and bills	25,142.3	28,235.4	33,178.8	37,115.9	38,760.1	19,319.9	20,372.4
Income on investments	24,171.0	27,417.8	30,027.6	32,983.3	36,809.7	17,810.9	19,706.4
Interest on balance with RBI and other interbank lending	1,715.4	1,522.9	2,276.3	1,793.8	1,131.3	561.9	656.1
Interest on income tax	168.6	896.8	163.8	2,152.7	191.8	8.4	76.2
Others	348.2	561.9	832.2	804.4	904.1	467.8	260.1
Total interest income	**51,545.5**	**58,634.8**	**66,478.7**	**74,850.1**	**77,797.0**	**38,168.9**	**41,431.2**
Other Income							
Commission, exchange and brokerage	3,817.1	4,193.5	4,339.9	4,800.1	5,519.0	2,498.2	3,218.0
Profit on sale of investments (net)	2,149.2	2,420.3	4,379.1	6,722.8	12,363.7	6,989.8	2,786.1
Profit (loss) on revaluation of investments (net)	(0.1)	(257.5)	(581.7)	(700.8)	(1,178.0)	(7.2)	(520.8)
Profit on sale of land, buildings and other assets (net)	6.8	3.7	3.7	4.1	2.4	1.4	3.8
Profit on exchange transactions (net)	761.6	941.5	922.4	950.8	1,060.2	556.7	669.5
Income from dividends, etc.	202.5	30.0	280.0	237.0	303.0	183.0	163.0
Miscellaneous income	339.5	452.7	433.8	489.1	598.5	268.4	4,183.7
Total other income	**7,276.6**	**7,784.2**	**9,777.2**	**12,503.1**	**18,668.8**	**10,490.3**	**10,503.3**
Total Income	**58,822.1**	**66,419.0**	**76,255.9**	**87,353.2**	**96,465.8**	**48,659.2**	**51,934.5**

(In Rs. million)

	Fiscal year					First six months of fiscal year	
	2000	2001	2002	2003	2004	2004	2005
EXPENDITURE							
Interest Expenditure							
Interest on deposits	33,667.9	36,094.6	41,216.2	41,625.6	39,264.4	19,744.6	21,006.4
Interest on RBI and interbank borrowings	290.7	392.3	478.9	75.3	133.4	34.7	174.1
Others	1,423.4	1,763.6	1,830.7	1,912.0	2,152.1	1,078.9	1,199.2
Total interest expenditure	**35,382.0**	**38,250.5**	**43,525.8**	**43,612.9**	**41,549.9**	**20,858.2**	**22,379.7**
Operating Expenses							
Payment to and provision for employees and wages	11,836.7	14,590.8	13,163.2	14,760.8	16,540.6	7,602.6	9,515.6
Rent, taxes and lighting	719.8	824.1	943.1	1,055.7	1,199.5	580.3	644.9
Printing and stationery	223.4	244.5	285.5	525.1	350.9	169.2	178.9
Advertisement and publicity	43.4	47.1	84.2	78.4	108.5	35.4	58.6
Depreciation on bank properties (net of amounts adjusted against revaluation reserve)	429.9	746.3	852.3	1,289.8	1,814.5	658.8	705.0
Directors' fees, allowances and expenses	1.2	1.7	3.1	2.8	3.5	1.5	2.6
Auditors' fees and expenses	72.0	88.5	133.1	155.7	178.8	73.6	100.7
Law charges	58.4	60.3	76.1	85.8	132.5	61.9	52.7
Postage, telegrams, telephones, etc.	236.6	256.7	285.0	313.1	451.1	197.2	256.2
Repairs and maintenance	136.8	169.7	189.8	199.2	244.2	115.6	136.0
Insurance	305.5	331.1	388.8	461.0	546.6	272.7	413.5
Other expenditure	1,174.8	1,355.6	1,587.9	1,639.9	2,136.6	934.7	1,132.8
Total operating expenses	**15,238.5**	**18,716.4**	**17,992.1**	**20,567.3**	**23,707.3**	**10,703.5**	**13,197.5**
Total Expenditure	**50,620.5**	**56,966.9**	**61,517.9**	**64,180.2**	**65,257.2**	**31,561.7**	**35,577.2**
Gross profit before provisions and contingencies	**8,201.6**	**9,452.1**	**14,738.0**	**23,173.0**	**31,208.6**	**17,097.5**	**16,357.3**
Provisions and Contingencies							
Provision for non performing advances	1,974.6	3,258.0	3,913.3	4,729.7	4,010.4	2,405.2	1,182.1
Provision for standard accounts	515.0	147.0	150.0	140.0	465.0	50.0	130.0
Floating provision against NPAs	0.0	0.0	2,400.0	3,600.0	7,930.0	5,730.0	—
Depreciation on investments	(77.9)	200.8	(352.1)	1,327.5	(308.6)	(177.0)	(429.0)

(In Rs. million)

	Fiscal year					First six months of fiscal year	
	2000	2001	2002	2003	2004	2004	2005
Provisions for income tax	1,240.0	1,108.3	1,983.5	3,406.6	6,599.9	2,803.5	2,831.2
Provision for restructured standard accounts	0.0	0.0	155.3	771.1	1,207.4	510.0	789.5
Others	468.5	101.6	864.1	776.1	217.6	260.6	4,501.3
Total provisions and contingencies	**4,120.2**	**4,815.7**	**9,114.1**	**14,751.0**	**20,121.7**	**11,582.3**	**9,005.1**
Net profit	**4,081.4**	**4,636.4**	**5,623.9**	**8,422.0**	**11,086.9**	**5,515.2**	**7,352.2**
ADJUSTMENTS ON ACCOUNT OF RESTATEMENT							
Adjustments on account of changes in accounting policies:							
Amortization of goodwill on account of amalgamation of Nedungadi Bank	—	—	—	(373.3)	373.3	186.7	—
Impact of wage revision	—	—	—	(460.0)	(1,104.0)	(552.0)	861.0
Tax impact of adjustments	—	—	—	306.2	254.9	127.5	(303.9)
Total adjustments	**—**	**—**	**—**	**(527.1)**	**(475.8)**	**(237.8)**	**557.1**
Transfer from other reserves	—	—	—	—	—	—	584.9
Adjusted net profit	**4,081.4**	**4,636.4**	**5,623.9**	**7,894.9**	**10,611.1**	**5,277.4**	**8,494.2**
APPROPRIATIONS							
Transfer to statutory reserve	1,020.3	1,159.1	1,406.0	2,105.5	2,771.7	—	967.7
Transfer to revenue and other reserve	2,457.5	2,886.4	1,405.7	2,841.5	1,970.1	—	2,903.0
Transfer to investment fluctuation reserve	36.0	0.0	1,755.8	1,900.0	4,648.5	—	—
Transfer to capital reserve	0.0	6.1	419.7	0.4	23.6	—	—
Dividends to central government and public	500.0	530.7	636.7	928.5	1,061.2	—	—
Dividend tax	67.6	54.1	0.0	119.0	136.0	—	—
Balance carried over to balance sheet	0.0	0.0	0.0	0.0	0.0	5,277.4	4,623.5
Total appropriations	**4,081.4**	**4,636.4**	**5,623.9**	**7,894.9**	**10,611.1**	**5,277.4**	**8,494.2**

SELECTED BALANCE SHEET INFORMATION

(In Rs. million)

	As of March 31,					As of September 30,	
	2000	2001	2002	2003	2004	2004	2005
ASSETS							
Cash in hand	4,281.3	4,452.0	5,777.7	6,288.1	6,992.1	5,659.8	5,570.0
Cheques and demand drafts in hand	0.0	0.0	1,532.5	0.0	0.0	0.0	0.0
Balance with RBI	50,492.7	49,204.2	43,704.1	59,397.1	60,430.7	41,429.6	60,846.4
Balance with banks	7,525.8	7,017.3	11,150.7	14,322.4	13,811.9	9,978.8	14,107.6
- In India	1,313.8	2,813.1	5,992.6	13,547.8	12,816.3	5,899.3	13,804.8
- Outside India	6,212.0	4,204.2	5,158.1	774.6	995.6	4,079.5	302.8
Money at call and short notice	0.0	18.6	1,818.3	764.2	6,970.4	6,759.2	50.6
Investments	220,990.7	251,284.2	282,071.7	340,300.5	421,254.9	419,269.3	460,185.8
Advances	225,717.2	280,290.5	343,694.2	402,281.2	472,247.2	401,968.2	518,705.4
Fixed Assets	6,805.3	7,239.2	7,956.1	8,473.7	8,998.4	8,787.8	9,084.2
Less: Revaluation Reserve	3,552.2	3,466.7	3,381.3	3,295.8	3,210.4	3,253.1	3,167.6
Net Fixed Assets	3,253.1	3,772.5	4,574.8	5,177.9	5,788.0	5,534.7	5,916.6
Other Assets	25,472.8	35,545.1	31,441.3	30,323.7	33,172.9	32,554.1	32,300.5
Total Assets (A)	**537,733.6**	**631,584.4**	**725,765.3**	**858,855.1**	**1,020,668.1**	**923,153.7**	**1,097,682.9**
LIABILITIES							
Deposits	474,832.3	561,311.3	641,234.8	758,135.0	879,163.9	801,848.9	945,886.4
- Demand deposits from banks	1,518.1	1,477.2	1,112.5	1,660.2	1,431.8	1,438.1	929.9
- Demand deposits from others	52,851.9	61,636.7	66,471.6	97,222.7	97,572.0	81,190.0	96,552.2
- Savings deposits	158,754.1	185,300.6	216,642.1	256,478.9	304,226.1	279,108.6	330,151.0
- Term deposits from banks	9,778.3	12,424.0	13,161.7	4,847.8	7,178.2	4,592.5	3,512.9
- Term deposits from others	251,929.9	300,472.8	343,846.9	397,925.4	468,755.8	435,519.7	514,740.4
Borrowings	6,624.3	6,732.0	4,085.7	6,621.6	12,890.6	7,452.4	19,520.2
- In India	6,561.3	6,661.0	4,041.7	5,608.9	6,260.0	4,153.7	6,405.1
- Outside India	63.0	71.0	44.0	1,012.7	6,630.6	3,298.7	13,115.1
Other liabilities and provisions	28,605.6	31,417.3	38,220.7	41,662.9	59,130.2	53, 505.5	55,033.6
Subordinated debt	8,497.7	8,898.5	11,798.6	15,928.6	23,578.6	18,578.6	23,428.6
Total liabilities (B)	**518,559.9**	**608,359.1**	**695,339.8**	**822,348.1**	**974,763.3**	**881,385.5**	**1,043,868.8**
NET ASSETS (C=A-B)	**19,173.7**	**23,225.3**	**30,425.5**	**36,507.0**	**45,904.8**	**41,768.2**	**53,814.1**

(In Rs. million)

	As of March 31,					As of September 30,	
	2000	2001	2002	2003	2004	2004	2005
Share capital	2,122.4	2,122.4	2,122.4	2,653.0	2,653.0	2,653.0	2,653.0
Share application money	0.0	0.0	1,644.9	0.0	0.0	0.0	0.0
Total share capital (D)	**2,122.4**	**2,122.4**	**3,767.3**	**2,653.0**	**2,653.0**	**2,653.0**	**2,653.0**
RESERVES AND SURPLUS							
Statutory reserve	4,468.1	5,627.2	7,033.2	9,138.7	11,910.4	9,138.7	12,878.1
Capital reserve	130.5	136.6	556.2	556.6	580.3	556.6	580.3
Revaluation reserve	3,552.2	3,466.7	3,381.3	3,295.8	3,210.4	3,253.1	3,167.6
Investment fluctuation reserve	1,345.4	1,345.4	3,101.3	5,001.3	9,649.8	5,001.3	9,649.8
Revenue and other reserve	11,107.3	13,993.7	15,399.3	17,474.9	19,428.8	17,458.7	21,746.9
Deferred tax reserve	0.0	0.0	568.2	568.2	568.2	568.2	568.2
Balance of profit and loss Account	0.0	0.0	0.0	0.0	0.0	5,277.4	4,623.5
Share premium	0.0	0.0	0.0	1,114.3	1,114.3	1,114.3	1,114.3
Total before revaluation reserve	**20,603.5**	**24,569.6**	**30,039.5**	**37,149.8**	**46,462.2**	**42,368.3**	**54,328.7**
Less revaluation reserve	3,552.2	3,466.7	3,381.3	3,295.8	3,210.4	3,253.1	3,167.6
Total reserves and surplus (E)	**17,051.3**	**21,102.9**	**26,658.2**	**33,854.0**	**43,251.8**	**39,115.2**	**51,161.1**
TOTAL (D+E)	**19,173.7**	**23,225.3**	**30,425.5**	**36,507.0**	**45,904.8**	**41,768.2**	**53,814.1**

SELECTED STATISTICAL INFORMATION

The following information should be read together with our financial statements included in this Red Herring Prospectus as well as the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The amounts presented in this section are based on our unconsolidated 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 monthly average of balances outstanding, as reported to the RBI on Form X. 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. We have not recalculated income that is subject to tax benefits on a tax-equivalent basis.

(In Rs. billions, except percentages)

	Fiscal year								
	2002			2003			2004		
	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	310.91	33.18	10.67%	369.51	37.12	10.04%	427.03	38.76	9.08%
Investments	274.63	30.03	10.93%	317.83	32.98	10.38%	403.40	36.80	9.09%
Others [1][2]	37.56	3.27	8.71%	33.54	4.75	14.16%	26.49	2.24	8.97%
Total interest earning assets	**623.10**	**66.48**	**10.67%**	**720.88**	**74.85**	**10.38%**	**856.92**	**77.80**	**9.08%**
Fixed assets	7.57	—	—	8.29	—	—	8.63	—	—
Other assets [3]	71.83	—	—	78.61	—	—	92.89	—	—
Total assets	**702.50**	**66.48**	**9.46%**	**807.78**	**74.85**	**9.27%**	**958.44**	**77.80**	**8.12%**
Liabilities:									
Deposits	594.06	41.22	6.94%	675.75	41.63	6.16%	783.43	39.26	5.01%
Demand deposits [4]	64.78	—	—	74.59	—	—	83.21	—	—
Savings deposits	195.24	7.04	3.60%	228.19	8.16	3.57%	269.16	8.48	3.15%
Term deposits	334.04	34.18	10.23%	372.97	33.47	8.97%	431.07	30.78	7.14%
Borrowings	16.99	2.31	13.59%	17.80	1.99	11.16%	27.88	2.29	8.20%
Unsecured subordinated bonds ("Tier 2 bonds")	11.18	1.61	14.40%	14.60	1.73	11.85%	17.76	1.95	10.98%
Other borrowings	5.81	0.70	12.05%	3.20	0.25	7.81%	10.12	0.33	3.26%
Total interest bearing liabilities	**611.06**	**43.53**	**7.12%**	**693.55**	**43.61**	**6.29%**	**811.32**	**41.55**	**5.12%**
Capital and reserves	32.67	—	—	42.06	—	—	48.62	—	—
Other Liabilities	58.78	—	—	72.17	—	—	98.50	—	—
Total liabilities	**702.51**	**43.53**	**6.20%**	**807.78**	**43.61**	**5.40%**	**958.44**	**41.55**	**4.34%**
Net interest income	—	**22.95**	—	—	**31.24**	—	—	**36.25**	—
Net interest margin [5]	—	—	**3.68%**	—	—	**4.33%**	—	—	**4.23%**

(In Rs. billions, except percentages)

	First six months of fiscal year					
	2004			2005		
	Average balance	Interest income/ expense	Average yield/ cost	Average balance	Interest income/ expense	Average yield/ cost
Assets:						
Advances	408.82	19.32	9.45%	498.22	20.73	8.32%
Investments	375.21	17.81	9.49%	480.02	19.61	8.17%
Others (1)	30.27	1.04	6.86%	23.93	1.09	9.12%
Total interest earning assets	**814.30**	**38.17**	**9.37%**	**1,002.18**	**41.43**	**8.27%**
Fixed assets	8.57	—	—	8.90	—	—
Other assets (3)	85.60	—	—	114.31	—	—
Total assets	**908.48**	**38.17**	**8.40%**	**1,125.39**	**41.43**	**7.36%**
Liabilities:						
Deposits	748.38	19.74	5.28%	908.97	21.01	4.62%
Demand deposits (4)	80.17	—	—	91.92	—	—
Savings deposits	257.44	4.08	3.17%	306.26	4.86	3.17%
Term deposits	410.76	15.66	7.63%	510.80	16.14	6.32%
Borrowings	25.03	1.11	8.90%	42.34	1.37	6.49%
Unsecured subordinated bonds	16.32	0.93	11.46%	23.55	1.14	9.71%
Other borrowings	8.71	0.18	4.10%	18.79	0.23	2.44%
Total interest bearing liabilities	**773.41**	**20.86**	**5.39%**	**951.32**	**22.38**	**4.70%**
Capital and reserves	40.32	—	—	53.45	—	—
Other Liabilities	94.75	—	—	120.62	—	—
Total liabilities	**908.48**	**20.86**	**4.59%**	**1,125.39**	**22.38**	**3.98%**
Net interest income	—	**17.31**	—	—	**19.05**	—
Net interest margin (5)	—	—	**4.25%**	—	—	**3.80%**

(1) Includes contributions made to Rural Infrastructure Development Fund, interest bearing balances with the RBI and money at call and short notice.

(2) The increase in yield of "other" assets in fiscal 2003 was primarily due to a refund of disputed income tax payments attributable to prior years that we received in fiscal 2003, together with the interest thereon.

(3) Includes cash, balances with banks and non-interest bearing balances with the RBI.

(4) Demand deposits do not bear interest. If this item was excluded from the interest bearing liabilities category, our average cost of interest bearing liabilities for years 2002, 2003 and 2004 and first six months of fiscal 2004 and 2005 would have been 7.97%, 7.05%, 5.71%, 6.02% and 5.2%respectively.

(5) The net interest margin is ratio of net interest income to total interest earning assets.

Analysis of Changes in Interest Income and Interest Expense Volume and Rate Analysis

The following table sets forth, for the periods indicated, the allocation of the changes in our interest income and interest expense between average volume and changes in average rates. The changes in net interest income between periods have been reflected as attributed either to volume or rate changes. For purposes of this table, changes which are due to both volume and rate have been allocated solely to changes in rate.

(In Rs. billions)

	Fiscal 2003 vs. Fiscal 2002			Fiscal 2004 vs. Fiscal 2003			First six months of fiscal 2005 vs. First six months of fiscal 2004		
	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)
Interest income:									
Advances	3.94	6.25	(2.31)	1.64	5.78	(4.14)	1.41	4.22	(2.81)
Investments	2.95	4.72	(1.77)	3.82	8.88	(5.06)	1.80	4.97	(3.17)
Others (1)(2)	1.48	(0.35)	1.83	(2.51)	(1.00)	(1.51)	0.05	(0.22)	0.27
Total interest earning assets	**8.37**	**10.62**	**(2.25)**	**2.95**	**13.66**	**(10.71)**	**3.26**	**8.97**	**(5.71)**
Interest expense									
Deposits	0.41	5.17	(4.76)	(2.37)	6.67	(9.04)	1.26	4.59	(3.33)
Savings deposits	1.12	1.19	(0.07)	0.32	1.46	(1.14)	0.78	0.77	0.01
Term deposits	(0.71)	3.98	(4.69)	(2.69)	5.21	(7.90)	0.48	3.82	(3.34)
Borrowings	(0.33)	0.18	(0.51)	0.30	0.91	(0.61)	0.26	0.62	(0.36)
Unsecured Redeemable Bonds	0.12	0.49	(0.37)	0.22	0.37	(0.15)	0.21	0.41	(0.20)
Other borrowings	(0.45)	(0.31)	(0.14)	0.08	0.54	(0.46)	0.05	0.21	(0.16)
Total interest bearing liabilities	**0.08**	**5.35**	**(5.27)**	**(2.07)**	**7.58**	**(9.65)**	**1.52**	**5.21**	**(3.69)**
Net interest income	**8.29**	**5.27**	**3.02**	**5.02**	**6.08**	**(1.06)**	**1.74**	**3.76**	**(2.02)**

(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.

(3) Includes contributions made to Rural Infrastructure Development Fund, interest bearing balances with the RBI and money at call and short notice.

Yields, Spreads and Margins

The following table sets forth, for the periods indicated, the yields, spreads and interest margins on our interest-earning assets.

(In Rs. billions, except percentages)

	Fiscal year			First six months of fiscal year	
	2002	**2003**	**2004**	**2004**	**2005**
Interest income	66.48	74.85	77.80	38.17	41.43
Average interest-earning assets	623.10	720.88	856.92	814.30	1,002.18
Interest expense	43.53	43.61	41.55	20.86	22.38
Average interest-bearing liabilities(1)	611.06	693.55	811.32	773.41	951.32
Net interest income	22.95	31.24	36.25	17.31	19.05
Average total assets	702.50	807.78	958.44	908.48	1,125.39
Average interest-earning assets as a percentage of average total assets	88.70%	89.24%	89.41%	89.63%	89.05%
Average interest-bearing liabilities as a percentage of average total assets	86.98%	85.86%	84.65%	85.13%	84.53%
Average interest-earning assets as a percentage of average interest- bearing liabilities	101.97%	103.94%	105.62%	105.29%	105.35
Yield(2)	10.7%	10.0%	9.1%	9.4%	8.3%
Cost of funds(3)	7.1%	6.3%	5.1%	5.4%	4.7%
Spread(4)	3.6%	3.7%	4.0%	4.0%	3.6%
Net interest margin(5)	3.7%	4.3%	4.2%	4.2%	3.8%

(1) Includes demand deposits.

(2) Yield of interest earning assets.

(3) Cost of interest bearing liabilities. Excludes equity and includes the cost of our Tier 2 bonds.

(4) Spread is the difference between yield on average interest-earning assets and cost of funds.

(5) 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. billions, except percentages)

	Fiscal year			First six months of fiscal year	
	2002	**2003**	**2004**	**2003**	**2004**
Net profit after tax	5.6	8.4	11.1	5.5	7.4
Average total assets	702.5	807.8	958.4	908.5	1,125.4
Average shareholders' funds	32.7	42.1	48.6	40.3	53.5
Net profit after tax as a percentage of average total assets	0.8%	1.0%	1.2%	1.2%	1.3%
Net profit after tax as a percentage of average shareholders' funds	17.1%	20.0%	22.8%	27.3%	27.5%
Average shareholders' funds as a percentage of average total assets	4.7%	5.2%	5.1%	4.4%	4.7%

The following table sets forth, as of September 30, 2004, 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.

(In Rs. billions, except percentages)

	As of September 30, 2004					
	Up to one year	One to five years	Five to ten years	More than ten years (1)	Total	
	Amount	**Amount**	**Amount**	**Amount**	**Amount**	**Yield**
Government and other approved securities	12.8	67.9	183.7	110.1	374.5	8.6%
Other debt securities	5.8	37.5	17.6	10.0	70.9	7.8%
Total coupon-bearing securities	18.6	105.4	201.3	120.1	445.4	8.5%
Total market value of coupon-bearing securities	—	—	—	—	458.4	—

(1) Includes perpetual maturity securities.

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 3.6% in fiscal 2003, 3.2% in fiscal 2004 and 3.2% in the first six months of fiscal 2005. The average cost of term deposits was 9.0% in fiscal 2003, 7.1% in fiscal 2004 and 6.32% in the first six months of fiscal 2005. Demand deposits do not bear interest, and are therefore carried at zero cost. The following table sets forth, as of the dates indicated, our outstanding deposits and the percentage composition by each category of deposits.

(In Rs. million, except for percentages)

	March 31, 2003		March 31, 2004		September 30, 2004	
	Balance outstanding	% of total	Balance outstanding	% of total	Balance outstanding	% of total
Demand deposits	98,882.8	13.0%	99,003.9	11.3%	97,482.1	10.3%
Savings deposits	256,479.0	33.9%	304,226.1	34.6%	330,151.0	34.9%
Term deposits	402,773.2	53.1%	475,934.0	54.1%	518,253.3	54.8%
Total deposits	**758,135.0**	**100.0%**	**879,164.0**	**100.0%**	**945,886.4**	100.0%

The following table sets forth, as of the dates indicated, the regional exposure of our deposits.

(In Rs. million, except for percentages)

Geographic Distribution	March 31, 2003		March 31, 2004		September 30, 2004	
	Balance outstanding	% of total	Balance outstanding	% of total	Balance outstanding	% of total
Northern	365.8	48.3%	407.9	46.4%	453.7	48.0%
Eastern	95.8	12.6%	108.0	12.3%	105.4	11.1%
Central	200.7	26.5%	238.6	27.1%	237.4	25.1%
Western	57.2	7.5%	80.7	9.2%	99.8	10.6%
Southern	38.6	5.1%	44.0	5.0%	49.6	5.2%
Total	**758.1**	**100.0%**	**879.2**	**100.0%**	**945.9**	100.0%

Total Borrowings

The following table sets forth, for the periods indicated, our average outstanding borrowings with and without Tier 2 bonds.

(In Rs. billions, except for percentages)

	Fiscal year 2003			Fiscal year 2004			First six months of fiscal year 2005		
	Average balance	Interest Expense	Average cost	Average balance	Interest Expense	Average cost	Average balance	Interest Expense	Average cost
Borrowings, excluding Tier 2 bonds	3.20	0.25	7.81%	10.12	0.33	3.26%	18.79	0.23	2.44%
Tier 2 bonds	14.60	1.73	11.85%	17.76	1.95	10.98%	23.55	1.14	9.71%
Total borrowings	**17.80**	**1.98**	**11.16%**	**27.88**	**2.29**	**8.20%**	**42.34**	**1.37**	**6.47%**

Asset-Liability Gap

The following tables set forth our asset-liability gap position as of March 31, 2004 and September 30, 2004.

(In Rs. billions, except for percentages)

	As of March 31, 2004 [1]								
	Total	**1-14 days**	**15-28 days**	**29 days to 3 months**	**>3 to 6 months**	**>6 to 12 months**	**>1 to 3 years**	**>3 to 5 years**	**Over 5 years**
Outflows									
Capital	**2.7**	—	—	—	—	—	—	—	2.7
Reserves and surplus	**47.4**	—	—	—	—	—	—	—	47.4
Deposits [2]	**879.2**	43.0	8.8	34.8	44.3	71.3	451.6	24.6	200.8
Borrowings	**12.9**	0.2	1.2	3.7	1.9	1.3	4.6	0.0	0.0
Other liabilities and provisions	**97.6**	19.2	2.0	3.1	8.7	8.3	17.6	6.7	32.0
A. Total outflows	**1,039.8**	**62.4**	**12.0**	**41.6**	**54.9**	**80.9**	**473.8**	**31.3**	**282.9**
B. Cumulative outflows		**62.4**	**74.4**	**116.0**	**170.9**	**251.8**	**725.6**	**756.9**	**1,039.8**
Inflows									
Cash [3]	**7.0**	7.0	—	—	—	—	—	—	—
Balances with RBI [4]	**60.4**	0.0	4.2	2.6	3.1	4.8	30.6	1.6	13.5
Balances with other Banks	**20.8**	12.1	0.8	2.0	0.0	1.1	4.5	0.0	0.3
Investments (performing) [5] [6] [7]	**421.3**	0.3	5.1	6.0	2.1	3.8	34.1	55.1	314.8
Advances (performing)	**452.8**	43.2	11.1	33.1	53.2	65.5	144.4	49.8	52.5
Net NPAs [8]	**4.5**	0.0	0.0	0.0	0.0	0.0	0.0	4.5	0.0
Fixed assets	**9.0**	—	—	—	—	—	—	—	9.0
Other assets [9]	**64.0**	8.4	3.9	6.1	5.4	15.0	9.6	8.2	7.4
C. Total inflows	**1,039.8**	**71.0**	**25.1**	**49.8**	**63.8**	**90.2**	**223.2**	**119.2**	**397.5**
D. Asset / liability gap (C-A)		**8.6**	**13.1**	**8.2**	**8.9**	**9.3**	**(250.6)**	**87.9**	**114.6**
E. % Asset/liability gap (D as % of A)		**13.8%**	**109.2%**	**19.7%**	**16.2%**	**11.4%**	**(52.9)%**	**280.8%**	**40.5%**
F. Cumulative asset/ liability gap (D cumulative)		**8.6**	**21.7**	**29.9**	**38.8**	**48.1**	**(202.5)**	**(114.6)**	**(0.0)**
G. % Cumulative asset / liability gap (F as % of B)		**13.8%**	**29.2%**	**25.8%**	**22.7%**	**19.1%**	**(27.9)%**	**(15.1)%**	**0.0%**

(In Rs. billions, except for percentages)

	As on September, 2004 (1)								
	Total	1-14 days	15-28 days	29 days to 3 months	>3 to 6 months	>6 to 12 months	>1 to 3 years	>3 to 5 years	Over 5 years
Outflows									
Capital	**2.7**	—	—	—	—	—	—	—	2.7
Reserves and surplus	**54.8**	—	—	—	—	—	—	—	54.8
Deposits (2)	**945.9**	48.6	19.9	41.4	64.4	55.4	478.2	20.4	217.6
Borrowings	**19.5**	0.3	2.4	4.7	2.6	0.1	4.7	4.6	0.1
Other liabilities and provisions	**91.8**	14.6	1.5	2.3	6.2	8.9	17.1	5.9	35.3
A. Total outflows	**1,114.7**	**63.5**	**23.8**	**48.4**	**73.2**	**64.4**	**500.0**	**30.9**	**310.5**
B. Cumulative outflows		**63.5**	**87.3**	**135.7**	**208.9**	**273.3**	**773.3**	**804.2**	**1,114.7**
Inflows									
Cash (3)	**5.6**	5.6	—	—	—	—	—	—	—
Balances with RBI (4)	**60.9**	0.0	5.0	2.9	4.1	3.5	30.2	1.6	13.6
Balances with other Banks	**14.1**	8.5	0.0	0.0	1.1	0.0	4.5	0.0	0.0
Investments (performing) (5) (6) (7)	**459.8**	2.1	1.7	3.7	2.5	17.1	29.1	75.3	328.3
Advances (performing)	**501.6**	56.8	27.8	38.7	44.2	62.0	144.2	45.8	82.1
Net NPAs (8)	**1.9**	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.0
Fixed assets	**9.1**	0.0	—	—	—	—	—	—	9.1
Other assets (9)	**61.7**	8.0	2.4	7.3	5.6	16.9	3.5	8.2	9.8
C. Total inflows	**1,114.7**	**80.9**	**36.9**	**52.6**	**57.5**	**99.6**	**211.5**	**132.8**	**442.9**
D. Asset / liability gap (C-A)		**17.4**	**13.1**	**4.2**	**(15.7)**	**35.2**	**(288.5)**	**101.9**	**132.4**
E. % Asset/liability gap (D as % of A)		**27.4%**	**55.0%**	**8.7%**	**(21.4%)**	**54.7%**	**(57.7%)**	**329.8%**	**42.6%**
F. Cumulative asset/ liability gap (D cumulative)		**17.4**	**30.5**	**34.7**	**19.0**	**54.2**	**(234.3)**	**(132.4)**	**0.0**
G. % Cumulative asset / liability gap (F as % of B)		**27.4%**	**34.9%**	**25.6%**	**9.1%**	**19.8%**	**(30.3%)**	**(16.5%)**	**0.0%**

(1) Assets and liabilities are classified in the applicable maturity buckets based on residual maturity unless specifically mentioned.

(2) Deposit maturities are prescribed by the RBI for demand and savings deposits. For term deposits, we have allocated the maturity by the given term of the account, taking into consideration the projected renewal rate based on previous trends.

(3) Cash on hand is classified in the 1-14 day maturity category.

(4) Cash and cash equivalents include balances with the RBI to satisfy cash reserve ratio requirements. These balances are held in the form of overnight cash deposits but we classify these balances in the applicable maturity buckets on a basis proportionate to the classification of related deposits.

(5) Securities in the trading book are classified in the 1-14 day maturity bucket.

(6) Securities held towards satisfying the statutory liquidity ratio (SLR) prescribed by the RBI are classified in the applicable maturity buckets.

(7) Shares and units of open ended mutual funds are classified in the 1-14 day maturity category.

(8) Net non-performing loans are classified in the >3 to 5 years bucket for substandard assets and over 5 years for all other assets. These net non-performing loans are net of the float provision.

(9) Other assets include interest accrued on advances which is placed in the 1-14 day maturity category, interest accrued on investments as per due dates, tax assets allocated on the timetable of refunds expected and others as the inflow is expected.

Loan Portfolio

As of September 30, 2004, our total outstanding loan portfolio was Rs. 518.7 billion. The following table sets forth, for the dated indicated, our loan portfolio classified by product group.

(In Rs.billions, except percentages)

	March 31,						September 30,	
	2002		2003		2004		2004	
	Amount	%	Amount	%	Amount	%	Amount	%
Bills Purchased/Discounted	24.6	7.2	28.8	7.2	28.0	5.9	25.4	4.9
Cash Credit, overdrafts and others	184.8	53.8	209.0	52.0	218.1	46.2	226.9	43.7
Term Loans	134.3	39.0	164.5	40.8	226.1	47.9	266.4	51.4
Total	**343.7**	**100.0**	**402.3**	**100.0**	**472.2**	**100.0**	**518.7**	**100.0**

The following table presents our outstanding loans by sector and the proportion of these loans to our outstanding total loans, as of the dates indicated:

(In Rs. billions, except percentages)

	March 31, 2003		March 31, 2004		September 30, 2004	
Sector	**Loans**	**% of total**	**Loans**	**% of total**	**Loans**	**% of total**
Corporate and Commercial	265.9	66.1%	287.1	60.8%	311.3	60.0%
of which Small Scale Industries (SSIs)[1]	47.9	11.9%	57.0	12.1%	57.3	11.0%
Retail	65.6	16.3%	91.5	19.4%	99.7	19.2%
Agriculture[1]	70.8	17.6%	93.6	19.8%	107.7	20.8%
Total outstanding loans	**402.3**	**100.0%**	**472.2**	**100.0%**	**518.7**	**100.0%**

(1) As of the last reporting Friday of the month indicated.

Concentration of Loans and Credit Substitutes

Under the RBI guidelines, our exposure to individual borrowers must not exceed 15.0% of capital funds comprising Tier 1 and Tier 2 capital. Exposure to individual borrowers may exceed the exposure norm of 15.0% of capital funds by an additional 5.0% (i.e., up to 20.0%) 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 40.0% of capital funds unless the exposure is in respect of an infrastructure project in which case the ceiling is 50.0%. Our prudential limits are more conservative and require that not more than 12.5% of capital funds (or 15% for infrastructure) for exposure to an individual borrower, and not more than 30% of capital funds (or 40% for infrastructure) for exposure to a group of companies under the same management. For the purposes of measuring these limits, exposure is calculated based on the total fund based (e.g., loans and advances) and non-fund based (e.g., letters of credit and guarantees) credit as well as investments. Either the credit limit or outstanding amount, whichever is higher, is used when computing the exposure ceiling.

The following table sets forth, for the dates indicated, our ten largest single and group exposures as determined by the RBI guidelines, which includes principal outstanding, interest and other dues on advances, investments and 100% of the outstanding amount of non-fund based exposure or the limit, whichever is higher.

(In Rs. billions, except percentages)

	March 31, 2004			September 30, 2004		
	Exposure	% of total outstanding exposure	% of capital funds	Exposure	% of total outstanding exposure	of capital funds
Borrower 1	21.2	2.1%	32.9%	18.4	1.6%	28.6%
Borrower 2	9.2	0.9%	14.3%	13.7	1.2%	21.3%
Borrower 3	12.1	1.2%	18.8%	11.5	1.0%	17.8%
Borrower 4	10.5	1.0%	16.3%	10.6	0.9%	16.5%
Borrower 5	9.8	1.0%	15.2%	9.6	0.9%	15.0%
Borrower 6	10.2	1.0%	15.8%	9.2	0.8 %	14.3%
Borrower 7	8.5	0.8%	13.1%	9.2	0.8%	14.2%
Borrower 8	8.8	0.9%	13.6%	9.2	0.8%	14.2%
Borrower 9	9.2	0.9%	14.3%	9.2	0.8%	14.2%
Borrower 10	6.4	0.6%	9.9%	8.9	0.8%	13.7%
Total	**105.9**	**10.4%**	**164.2%**	**109.5**	**9.6%**	**169.8%**

Our internal policies limit our credit exposure to any particular industry to 10.0% of our total credit. The following table sets forth, for the periods indicated, our ten largest fund-based industry exposures based on accounts with total credit limits (fund and non-fund based), or total outstandings (fund and non-fund based) of Rs. 10 million and above. The exposure to the relevant industry is calculated by adding the fund-based outstandings of the accounts in each industry of Rs. 10 million or above. The table sets forth the percentage of each of the top ten industry exposures to our total credit exposure in respect of accounts larger than Rs. 10 million as of the dates indicated.

(In Rs. billions, except percentages)

Industry	March 31, 2003 Exposure	2003 % of exposure	2004 Exposure	2004 % of exposure	September 30, 2004 Exposure	September 30, 2004 % of exposure
Infrastructure[1]	18.4	7.6%	24.3	8.3%	33.1	9.9%
Electricity (State Electricity Boards)	14.6	6.0%	21.3	7.2%	31.0	9.3%
Iron and steel	22.7	9.4%	23.1	7.9%	27.3	8.2%
Financial services	11.3	4.6%	25.6	8.7%	23.3	7.0%
Housing	9.0	3.7%	17.9	6.1%	20.6	6.2%
Textiles (other than cotton and jute)	14.4	5.9%	17.5	6.0%	18.5	5.6%
Engineering	14.9	6.2%	14.9	5.1%	16.7	5.0%
Petroleum	9.8	4.1%	4.1	1.4%	16.3	4.9%
Food processing	9.2	3.8%	10.4	3.5%	12.5	3.9%
Cotton textiles	8.1	3.3%	10.3	3.5%	8.5	2.5%
Total	132.4	54.6%	169.4	57.7%	207.8	62.5%

(1) Consists of private power projects, telecommunications, roads, ports and others.

The following table shows the percentage share of the ten largest borrowers in the following industries of the total exposure of the respective industry as of September 30, 2004.

Industry

(In Rs. billions, except percentages)

Industry	Total Industry exposure	% exposure of top 10 borrowers to the Industry
Infrastructure(1)	33.1	76.2
Electricity (State Electricity Boards)	31.0	87.7
Iron and steel	27.3	42.3
Financial services	23.3	89.6
Housing	20.6	93.7
Textiles (other than cotton and jute)	18.5	24.8
Engineering	16.7	19.0
Petroleum	16.3	100.0
Food processing	12.5	31.2
Cotton textiles	8.5	44.0
Total	**207.8**	**65.4**

Security

The table below shows the amount of our advances which are secured or covered by guarantees, as of the dates indicated.

(In Rs. billions, except percentages)

	March 31,				September 30,	
	2003		2004		2004	
	Amount	% of advances	Amount	% of advances	Amount	% of advances
Secured by tangible assets (including advances against book debts)	367.1	91.3%	421.2	89.2%	449.3	86.6%
Covered by bank or Government guarantees	6.6	1.6%	3.6	0.8%	5.7	1.1%
Unsecured	28.6	7.1%	47.4	10.0%	63.7	12.3%
Total	**402.3**	**100.0%**	**472.2**	**100.0%**	**518.7**	**100.0%**

Non-Performing Assets

As of September 30, 2004, our gross non-performing assets as a percentage of gross advances was 7.65% and our net non-performing assets as a percentage of net advances was 0.30%. We define net NPAs as gross NPAs less our loan loss provision, interest in suspense, 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 96.4% of our gross non-performing loans. All of our non-performing loans are rupee-denominated. As of September 30, 2004, 45.9% of our gross NPAs were from priority sector advances. We also have significant exposure in the iron and steel and textile industries, which have experienced significant difficulties in recent years, and 31.9% of our non-performing assets are represented by these two industries.

Our merger with Nedungadi Bank in February 2003 adversely impacted our non-performing loan portfolio. Nedungadi Bank had gross non-performing assets of Rs. 5.2 billion which was 55.4% of its gross advances as of the date of the merger February 1, 2003.

The following table set forth, as of the dates indicated, information about our non-performing loan portfolio:

(In Rs. billions, except percentages)

	March 31,									September 30,		
	2002			2003			2004			2004		
	Avances	NPAs	NPAs % of advances	Avances	NPAs	NPAs % of advances	Gross Avances	NPAs	NPAs % of advances	Gross Avances	NPAs	NPAs % of advances
Total gross	**363.8**	**41.4**	**11.39%**	**429.9**	**49.8**	**11.58%**	**499.5**	**46.7**	**9.35%**	**542.5**	**41.5**	**7.65%**
Derecognized interest and suspended interest	3.5	3.5	—	5.5	5.5	—	4.7	4.7	—	4.0	4.0	—
Provisions (as prescribed by RBI)	16.6	16.6	—	22.4	22.4	—	22.6	22.6	—	20.5	20.5	—
As reported on balance sheet	**343.7**	**21.3**	**6.26%**	**402.3**	**22.2**	**5.52%**	**472.2**	**19.4**	**4.11%**	**518.7**	**17.0**	**3.28%**
Float provision[(2)]	2.4	2.4	—	6.0	6.0	—	13.9	13.9	—	14.6	14.6	—
DICGC/ ECGC held[(1)]	0.8	0.8	—	0.9	0.9	—	1.0	1.0	—	0.9	0.9	—
Net	**340.5**	**18.1**	**5.32%**	**395.4**	**15.3**	**3.86%**	**457.3**	**4.5**	**0.98%**	**503.2**	**1.5**	**0.30%**

(1) Represents claims received and held from Deposit Insurance and Credit Guarantee Corporation/Export Credit Guarantee Corporation.

(2) The float provision as of September 30, 2004 includes a provision of Rs. 0.70 billion we have built in anticipation of potential changes in the RBI's NPA norms.

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 instalment 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 crop season longer than one year are long duration crops, and other crops are treated as short duration crops.

Our assets are classified as described below:

Standard assets	Assets that do not disclose any problems or which do not carry more than the normal risk attached to the business of the borrower.
Sub-standard assets	Assets that are non-performing for a period not exceeding 12 months (or 18 months for fiscal 2004 and prior periods).
Doubtful assets	Assets that are non-performing for more than 12 months (or 18 months for fiscal 2004 and prior periods).
Loss assets	Assets (i) with identified losses or (ii) that are considered uncollectible.

The following table provides a break down of our gross advances as of the dates indicated.

(In Rs. billions, except percentages)

	March 31,						September 30,	
	2002		2003		2004		2004	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Standard assets	322.4	88.62%	380.1	88.42%	452.8	90.65%	501.6	92.36%
Non-Performing assets	41.4	11.38%	49.8	11.58%	46.7	9.35%	41.5	7.64%
of which:								
Sub-standard	11.1	3.05%	11.2	2.61%	9.1	1.81%	7.2	1.33%
Doubtful assets	24.0	6.61%	28.9	6.72%	29.0	5.80%	26.1	4.81%
Loss assets	6.3	1.71%	9.7	2.25%	8.7	1.74%	8.2	1.51%
Total Loan assets	**363.8**	**100.0**%	**429.9**	**100.0**%	**499.5**	**100.0**%	**543.1**	**100.0%**

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 programs for a large number of companies, which has resulted in an increase in the level of restructured assets in the Indian financial system, including an increase in our restructured assets.

Following table presents our assets restructured during the periods indicated:

(In Rs. billions)

	Fiscal year			First six months of fiscal year	
	2002	**2003**	**2004**	**2004**	**2005**
CDR restructured assets					
Standard assets	—	4.29	7.30	2.54	1.12
Sub-standard assets	—	1.35	0.32	—	—
Doubtful assets	—	0.13	1.55	0.20	—
Loss assets	—	—	—	—	0.24
Total CDR restructured assets	**—**	**5.77**	**9.17**	**2.74**	**1.36**
Other restructured assets					
Standard assets	4.83	10.85	3.74	0.61	1.15
Sub-standard assets	1.21	0.17	0.43	0.02	0.05
Doubtful assets	0.00	0.00	0.03	0.01	0.00
Total other restructured assets	**6.04**	**11.02**	**4.20**	**0.64**	**1.20**
Total restructured assets	**6.04**	**16.79**	**13.37**	**3.38**	**2.56**

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 : 50% provision

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.

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.
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 float provisions for NPAs. As of March 31, 2004, out of our total provision for NPAs of Rs. 36.5 billion we have Rs. 13.9 billion in excess of the required provision of Rs. 22.6 billion. These provisions account for a coverage ratio for gross NPAs of 90.4% (the coverage ratio is calculated using our total provisions, interest in suspense, Deposit Insurance and Credit Guarantee Corporation/Export Credit Guarantee Corporation (DICGC/ECGC) claims received and held as coverage). This has further increased to 96.4% as on September 30, 2004 by increasing the float provision to Rs. 14.6 billion and providing a build-up provision of Rs. 0.7 billion to meet the revised provisioning norms to be made applicable from March 31, 2005. Provisioning and write -offs have contributed to the reduction in our NPAs.

Further, we have sold part of our non-performing assets to an asset reconstruction company, ARCIL against security receipts issued by ARCIL. As of September 30, 2004, we had investments of Rs. 303.7 million in security receipts issued by ARCIL. The price at which the assets were sold was determined on an arms length basis and the sale has resulted in the removal of the non-performing assets from our books. The recovery of principal and the rate of return on the investments in security receipts are dependent on the recovery of the underlying assets. These investments in security receipts are required to be valued at the net asset value as declared by ARCIL.

The table below shows the changes in our provisions over the past three years.

(In Rs. billions)

	Fiscal year			**First six months of fiscal year**	
	2002	**2003**	**2004**	**2004**	**2005**
Opening Balance	**11.9**	**19.0**	**28.4**	**28.4**	**36.5**
ADD: Provisions taken over from Nedungadi Bank amalgamation	—	1.4	—	—	—
ADD: Provisions made during the year (including float provisions)	6.8	9.4	14.0	8.7	2.8
LESS: Write-off/write-back during the year.	(0.3)	1.4	5.8	1.8	4.2
Closing Balance	**19.0**	**28.4**	**36.5**	**35.3**	**35.1**

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 toward interest on the advances, including derecognized or suspended interest, and then towards arrears in principal payments.

Sector-wise Analysis of Gross Non-Performing Assets

The following table sets forth, as of the dates indicated, the classification of our gross non-performing assets into priority and other sectors.

(In Rs. billions, except percentages)

	March 31,									September 30,		
	2002			2003			2004			2004		
	Gross avances	NPAs	% of NPAs	Gross avances	NPAs	% of NPAs	Gross avances	NPAs	% of NPAs	Gross avances	NPAs	% of NPAs
Agricultural	50.1	4.4	8.86%	60.8	5.1	8.43%	82.8	4.7	5.72%	95.1	4.2	4.37%
SSI	43.2	6.9	15.89%	46.5	9.3	19.98%	56.0	9.3	16.58%	59.3	9.8	16.53%
Other priority sector	48.1	6.0	12.41%	64.5	6.0	9.27%	80.8	5.8	7.14%	83.2	5.1	6.16%
Total priority sector	**141.4**	**17.3**	**12.22%**	**171.8**	**20.4**	**11.88%**	**219.6**	**19.8**	**9.01%**	**237.6**	**19.1**	**8.03%**
Total non-priority sector	222.4	24.1	10.84%	258.1	29.4	11.39%	279.9	26.9	9.61%	305.6	22.5	7.35%
Total gross advances	**363.8**	**41.4**	**11.38%**	**429.9**	**49.8**	**11.58%**	**499.5**	**46.7**	**9.35%**	543.2	41.5	7.65%

The following table sets forth, as of the dates indicated, the classification of our gross non-performing assets by industry sector.

(In Rs. millions, except percentages)

	March 31,									September 30,		
	2002			2003			2004			2004		
Industry	NPAs	% NPAs to adv-ances	Provision	NPAs	% NPAs to adv-ances	Provision	NPAs	% NPAs to adv-ances	Provision	NPAs	% NPAs to adv-ances	Provision
Coal	36.3	7.78%	28.5	39.8	31.92%	19.9	21.1	10.30%	17.7	78.5	40.22%	68.4
Mining	530.7	54.73%	376.9	21.1	2.77%	248.3	69.3	4.97%	61.1	120.9	5.97%	104.3
Iron and steel	4,373.0	18.72%	3,768.2	6,789.4	28.31%	3,589.5	7,185.1	30.22%	6,315.3	6,650.4	25.15%	5,782.4
Other metal and metal products	2,227.1	68.84%	1,852.6	1,304.4	28.06%	769.8	957.9	32.37%	834.6	979.7	25.89%	842.1
Engineering	4,114.7	24.75%	3,184.5	3,560.9	23.84%	1,717.3	2,566.3	16.03%	1,979.9	3,265.2	21.68%	2,717.9
Electricity	1,311.0	25.92%	790.3	583.6	9.92%	390.3	437.1	7.78%	157.9	227.1	1.73%	195.5
Cotton textile	2,810.8	31.24%	2,392.4	2,914.6	33.81%	1,141.9	2,615.9	24.56%	2,239.1	2,536.1	24.65%	2,171.5
Jute textile	227.0	14.88%	1,997.5	71.9	9.31%	35.5	79.3	20.96%	30.0	22.8	2.75%	19.5
Other textiles	2,452.5	20.44%	1,526.7	2,165.1	16.84%	1,353.0	2,090.1	16.43%	1,748.7	4,053.1	28.39%	3,503.7
Sugar	283.0	4.46%	135.2	371.0	6.61%	54.8	276.0	3.33%	158.9	165.7	3.13%	144.7
Tea	153.7	8.08%	130.0	35.0	2.00%	65.1	698.1	40.52%	627.3	672.5	26.81%	591.0
Food processing	1,711.9	15.13%	1,285.1	2,237.7	22.49%	1,052.1	1,481.3	14.70%	1,062.8	1,344.1	14.63%	1,140.5
Vegetable oils and vanaspati	847.9	25.61%	393.2	2,238.3	73.76%	1,052.1	732.2	16.14%	394.6	949.7	18.54%	810.9
Tobacco and tobacco products	157.6	59.60%	118.1	32.8	10.73%	14.5	79.7	34.51%	57.1	44.2	18.26%	37.2
Paper and paper products	645.3	15.30%	563.3	676.7	20.17%	308.0	608.3	14.45%	520.1	745.8	21.75%	644.9
Rubber and rubber products	953.2	39.42%	822.8	450.3	24.36%	179.8	387.1	22.51%	336.2	658.7	36.62%	554.6
Chemicals, dyes, paints	369.2	1.97%	1,118.3	3,722.8	18.77%	1,600.5	2,894.0	17.74%	2,275.1	2,281.7	20.47%	1,923.0
Cement	472.9	17.80%	410.2	412.2	13.12%	123.5	300.5	10.52%	257.2	382.3	21.42%	334.3

(In Rs. millions, except percentages)

	March 31,									September 30,		
	2002			2003			2004			2004		
Industry	NPAs	% NPAs to advances	Provision	NPAs	% NPAs to advances	Provision	NPAs	% NPAs to advances	Provision	NPAs	% NPAs to advances	Provision
Leather and leather products	118.2	3.77%	94.6	295.6	11.29%	119.9	339.1	12.23%	269.8	469.4	17.63%	384.3
Gems and jewelry	235.5	7.71%	124.4	219.9	12.74%	30.0	199.8	7.01%	96.5	113.7	4.51%	97.4
Construction	380.1	9.27%	320.3	831.3	22.25%	411.6	834.9	17.45%	687.1	404.7	1.83%	352.3
Petroleum	1.4	0.03%	1.2	45.9	1.23%	0.0	0.8	0.02%	0.7	60.1	0.39%	51.5
Automobiles including trucks	124.7	4.48%	96.8	657.6	23.14%	403.2	569.2	16.99%	433.0	223.9	11.86%	188.5
Computer software	5.6	0.27%	3.6	461.2	35.39%	204.3	420.8	39.90%	291.0	2.6	0.68%	2.4
Infrastructure	593.7	3.69%	519.6	663.9	5.16%	151.1	654.8	2.97%	585.9	424.9	1.30%	273.5
Other industries	5,657.7	16.50%	3,977.8	4,986.4	14.79%	2,120.8	3,110.8	9.26%	2,320.9	4,613.5	5.96%	3,947.4
Non banking financial companies and trading	1,703.6	5.57%	1,240.7	1,520.8	7.61%	751.9	863.6	3.83%	609.6	796.7	3.73%	562.9
Unclassified advances	8,900.5	6.38%	9,779.9	12,490.5	5.53%	10,444.8	16,228.0	5.84%	12,153.7	9,260.4	3.85%	7,646.2
Total	**41,398.6**	**11.38%**	**37,052.9**	**49,800.6**	**11.58%**	**28,353.3**	**46,701.3**	**9.35%**	**36,521.7**	**41,548.4**	**7.65%**	**35,092.8**

The following table sets forth our ten largest gross non-performing assets as of September 30, 2004. Together, these borrowers constitute 13.41% of our gross NPAs as of September 30, 2004.

(In Rs. million)

	Gross NPA	Derecognized income	Provision	DICGC/ ECGC	Net NPA	Realizable value of collateral	Industry
Borrower A	933.5	28.7	817.5	0.0	904.8	1.75	Iron and Steel
Borrower B	835.6	48.4	585.7	0.0	787.2	0.0	Iron and Steel
Borrower C	835.2	86.8	259.0	0.0	748.4	473.4	Tea and Fertilizer
Borrower D	647.0	69.5	579.4	0.0	577.6	0.0	Textiles
Borrower E	504.3	0.0	412.8	0.0	504.3	117.04	Electronics
Borrower F	395.7	0.0	38.8	0.0	395.7	0.0	Pharmaceuticals
Borrower G	401.7	0.0	401.7	0.0	401.7	1,733.7	Iron and Steel
Borrower H	368.7	30.6	338.1	0.0	338.1	0.0	Iron and Steel
Borrower I	338.9	18.5	188.9	0.0	320.4	0.0	Textiles
Borrower J	310.8	27.8	184.9	0.0	283.0	0.0	Pharmaceuticals
Total	5,571.4	310.2	3,806.8	0.0	5,261.2		

Interest in Suspense

Interest in suspense is the interest due on non-performing loans that has not been recognized in our books of accounts. The following table sets forth, for the periods indicated, the cumulative amount of interest in suspense on existing non-performing loans.

(In Rs. billions)

	Fiscal year				First six months of fiscal year	
	2001	**2002**	**2003**	**2004**	**2004**	**2005**
Interest in suspense	3.2	3.5	5.3	4.7	5.0	4.0

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 report, along with the section titled "Selected Financial Information" beginning on page 67 and the section titled "Selected Statistical Information" beginning on page 72, which presents important statistical information about our 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 and the section titled "Recent Developments"on page 117, which discusses our summary financial results for the quarter ended December 31, 2004. The following discussion relates to Punjab National Bank on a standalone basis, and, unless stated otherwise, is based on our restated unconsolidated financial statements which have been prepared in accordance with Indian GAAP and the RBI guidelines. The following discussion is also based on internally prepared statistical information and on information publicly available from the RBI and other sources. A summary of certain differences between our consolidated and unconsolidated results of operations and financial condition is included below. Our fiscal year ends on March 31 of each year so all references to a particular fiscal year are to the twelve months ended March 31 of that year. The six months ended September 30, 2003 and 2004 are referred to herein as the first six months of fiscal 2004 and the first six months of fiscal 2005, respectively.

Introduction

Overview

We are a leading public sector commercial bank in India, offering banking products and services to corporate and commercial, retail and agricultural customers. Our banking operations for corporate and commercial customers include a range of products and services for large corporations, as well as small and middle market businesses and government entities. We offer a wide range of retail credit products including housing loans, personal loans and automobile loans. We cater to the financing needs of the agricultural sector and have created innovative financing products for farmers. We also provide significant financing to other priority sectors including small scale industries. Through our treasury operations, we manage our balance sheet, including the maintenance of required regulatory reserves, and seek to maximize profits from our trading portfolio by taking advantage of market opportunities.

Our revenue, which is referred to herein and in our financial statements as our income, consists of interest income and other income. Interest income consists of interest on advances (including the discount on bills discounted) and income on investments. Income on investments consists of interest and dividends from securities and our other investments and interest from interbank loans and cash deposits we keep with the RBI. Our securities portfolio consists primarily of Government of India and state government securities. We meet our statutory liquidity reserve ratio 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 expense consists of our interest on deposits as well as borrowings. Our interest income and expense are affected by fluctuations in interest rates as well as the volume of activity. Our interest expense is also affected by 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 other income consists principally of commission, exchange and brokerage income, gains and losses on sales and revaluation of investments, and gain or loss on foreign exchange transactions. Commission, exchange and brokerage income includes fee income for credit-related transactional services, such as service charges and processing fees that we charge our accounts and fees for remittance services, documentary credits, letters of credit and letters of guarantee. It also includes commissions on sales of non-funded products such as credit cards and insurance.

Our non-interest expense consists principally of operating expenses such as expenses for wages and employee benefits, rent paid on premises, insurance, postage and telecommunications expenses, printing and stationery, depreciation on fixed assets, other administrative and other expenses. Provisioning for non-performing assets, depreciation on investments and income tax is included in provisions and contingencies.

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 *72*. Our net interest income represents our total interest income (on advances and investments) net of total interest expense (on deposits and borrowings). Net interest margin represents the ratio of net interest income to the monthly average of total interest earning assets. Our spread represents the difference between the yield on the monthly average of interest earning assets and the cost of the monthly average of interest bearing liabilities. We calculate average yield on the monthly average of advances and average yield on the monthly average of investments, as well as the average cost of the monthly average of deposits and average cost of the monthly average of borrowings. Our cost of funds is the weighted average of the average cost of the monthly average of interest bearing liabilities. For purposes of these averages and ratios only, the interest cost of the unsecured subordinated bonds that we issue for Tier 2 capital adequacy purposes ("Tier 2 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 5.8% in fiscal 2002, 4.0% in fiscal 2003 and 8.5% in fiscal 2004. GDP growth in fiscal 2003 was adversely affected by insufficient rainfall which contributed to a decline in agricultural production. GDP growth picked up in fiscal 2004 due to, among other things, agricultural recovery, resurgence of the industrial sector and continued growth in the services sector. In the first six months of fiscal 2005, GDP growth was 7.0%, compared to 6.9% in the first six months of fiscal 2004.

Industrial growth was 3.5% in fiscal 2002, 6.2% in fiscal 2003 and 6.6% in fiscal 2004. In the first six months of fiscal 2005, industrial growth was 7.9%, compared to 6.2% in the first six months of fiscal 2004. The agriculture sector grew by 6.5% in fiscal 2002, declined by 5.2% in fiscal 2003 and grew by 9.6% in fiscal 2004. In the first six months of fiscal 2005, agricultural growth was 1.5%. We have significant exposure to the industrial and agricultural sectors and adverse developments in either or both of these sectors could impact our results.

The annual rate of inflation measured by the Wholesale Price Index was 1.6% in fiscal 2002, 6.5% in fiscal 2003 and 4.6% in fiscal 2004. Inflation in the first six months of fiscal 2005 was 6.6% compared to 5.3% in the first six months of fiscal 2004.

In its mid-term review of annual policy published on October 26, 2004, the RBI reduced its GDP growth forecast for fiscal 2005 from 6.5-7.0% to 6.0-6.5% as a result of a decline in agricultural growth because of insufficient rainfall and has increased its inflation rate forecast from 5.0 to 6.5%.

The average exchange rate of the Indian rupee to one US dollar was Rs. 47.53 in fiscal 2002, Rs. 48.27 in fiscal 2003 and Rs. 45.83 in fiscal 2004. On December 31, 2004, the exchange rate was Rs. 43.58. Foreign exchange reserves were US$131 billion as of December 31, 2004.

In the last three fiscal years, there has been a general downward movement in interest rates in India, reflecting global economic conditions and policies of the RBI. 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 more market-oriented interest rate regime. Banks have generally followed the direction of interest rates set by the RBI and have adjusted both their deposit rates and lending rates downwards.

The following table sets forth the annual bank rate, repo rate, and the average deposit rates and average prime lending rates of five major public sector banks as of the dates indicated.

(as percentages)

As of	Bank rate	Reverse Repo rate	Deposit rate for 1-3 year term for 5 major public sector banks	Prime lending rate for 5 major public sector banks
March 31, 2002	6.50	6.00	7.50-8.50	11.0-12.0
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
December 31, 2004	6.00	4.75	5.25-6.25*	10.25-10.75

*Relates to rates for major banks for term deposits of more than one year maturity.

Source: Reserve Bank of India statistical data.

Seasonal trends in the Indian economy affect the banking industry and therefore our business. The period from October to March is the busy period in India for economic activity and accordingly we generally experience high volumes of business during this period. Economic activity in the period from April to September is lower than in the busy period; accordingly, our business volumes are generally lower during this period.

Critical Accounting Policies

Interest on advances is recognized on an accrual basis except in respect of advances classified as non-performing, where interest income is recognized upon realization. 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 *72*.

Commissions, interest on overdue bills, income from foreign exchange transactions and merchant banking transactions, income from mutual fund units and other fees are recognized upon realization.

In accordance with the RBI guidelines, we classify our investments into three categories. Securities which 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 amortized in our statement of profit and loss over the remaining years to maturity of the securities. For the fiscal years discussed herein, 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, such as 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 recognized 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. On September 24, 2004, we transferred a certain amount of government securities from the “Available for Sale” category to the “Held to Maturity” category. On the date of transfer, in accordance with the RBI guidelines, we recognized a one-time loss on the sale of investments of Rs. 2.1 billion on account of this transfer, representing the consequential depreciation effect of the transfer as on that date.

Income from swap transactions that we enter into for hedging purposes are accounted for on an accrual basis. Gains or losses on termination of such swaps are recognized over the shorter of the remaining life of the swap contract or of the hedged asset or liability. Swaps that do not hedge assets or liabilities are carried at the lower of cost or market value and are marked to market on a monthly basis.

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, interest rate outlook, expectations and estimates regarding our asset portfolio and its future performance and general prudential principles. As of March 31, 2004, we had a coverage ratio of 90.4% for our non-performing assets and floating provisions against non-performing assets of Rs. 13.93 billion and as of September 30, 2004, we had a coverage ratio of 96.4% for our non-performing assets and floating provisions against non-performing assets of Rs. 13.93 billion. Our provisioning policies are discussed in further detail in the section titled "Selected Statistical Information" on page *72*.

For details of the accounting treatment and related impact of the Capital Reduction, see the section titled "Capital Structure" on page *22*.

Results of Operations

First Six Months of Fiscal 2005 Compared to the First Six Months of Fiscal 2004

Our total income increased by 6.7% from Rs. 48.66 billion in the first six months of fiscal 2004 to Rs. 51.93 billion in the first six months of fiscal 2005 and our total expenditure increased by 12.7% from Rs. 31.56 billion in the first six months of fiscal 2004 to Rs. 35.58 billion in the first six months of fiscal 2005. Our gross profit decreased by 4.3% from Rs. 17.10 billion in the first six months of fiscal 2004 to Rs. 16.36 billion in the first six months of fiscal 2005. Our unadjusted net profit increased by 33.2% from Rs. 5.52 billion in the first six months of fiscal 2004 to Rs. 7.35 billion in the first six months of fiscal 2005.

Net Interest Income

Our net interest income increased by 10.1% from Rs. 17.31 billion in the first six months of fiscal 2004 to Rs. 19.05 billion in the first six months of fiscal 2005. The following table sets forth the components of our net interest income:

(In Rs. million)

	First Six Months of Fiscal	
	2004	**2005**
Interest income	38,168.9	41,431.2
Interest expense	20,858.2	22,379.7
Net interest income	17,310.7	19,051.5

The increase in net interest income was a result of an 8.5% increase in total interest income from Rs. 38.17 billion in the first six months of fiscal 2004 to Rs. 41.43 billion in the first six months of fiscal 2005, which offset a 7.3% increase in total interest expense from Rs. 20.86 billion in the first six months of fiscal 2004 to Rs. 22.38 billion in the first six months of fiscal 2005. The increase in total interest income reflected gains in income from investments, as well as the growth of our loan portfolio. The increase in total interest expense reflected primarily the increase in our deposits.

Our average interest earning assets increased by 23.1% in the first six months of fiscal 2005 compared to the first six months of fiscal 2004. Our net interest margin declined from 4.2% in the first six months of fiscal 2004 to 3.8% in the first six months of fiscal 2005 and our spread decreased from 4.0% in the first six months of fiscal 2004 to 3.6% in the first six months of fiscal 2005.

Interest Income

The following table sets forth the components of our interest income:

(In Rs. million)

	First Six Months of Fiscal	
	2004	**2005**
Interest income from advances and bills	19,319.9	20,732.4
Income from investments	17,810.9	19,706.4
Interest on balances with the RBI and other interbank lending	561.9	656.1
Other interest income	476.2	336.3
Total interest income	**38,168.9**	**41,431.2**

Interest income from advances and bills increased by 7.3% from Rs. 19.32 billion in the first six months of fiscal 2004 to Rs. 20.73 billion in the first six months of fiscal 2005, reflecting an increase in the average volume of advances as a result of the general growth in our business, offset in part by a decline in average yield.

Our average volume of advances increased by 21.9% from Rs. 408.82 billion in the first six months of fiscal 2004 compared to Rs. 498.22 billion in the first six months of fiscal 2005. Our average volume of advances to corporate and commercial customers increased by 13.8% from Rs. 278.30 billion in the first six months of fiscal 2004 compared to Rs. 316.75 billion in the first six months of fiscal 2005. This included small scale industry advances, which increased by 18.0% from Rs. 47.85 billion in the first six months of fiscal 2004 compared to Rs. 56.45 billion in the first six months of fiscal 2005 because of our increased focus on expansion in this sector. Our average retail advances increased by 37.7% from Rs. 68.84 billion in the first six months of fiscal 2004 compared to Rs. 94.78 billion in the first six months of fiscal 2005 primarily because lower interest rates made retail loans more attractive to customers, particularly in the housing and consumer goods segment, in line with trends experienced by the banking industry as a whole, combined with increased marketing efforts on our part. Our average volume of agriculture advances increased by 40.5% from Rs. 61.68 billion in the first six months of fiscal 2004 to Rs. 86.69 billion in the first six months of fiscal 2005 due to our increased focus on this sector.

Yields on our advances decreased from an average of 9.45% in the first six months of fiscal 2004 to 8.32% in the first six months of fiscal 2005. This decline was due to the general decline in interest rates and increased competition in the banking industry.

Investment income increased by 10.6% from Rs. 17.81 billion in the first six months of fiscal 2004 to Rs. 19.71 billion in the first six months of fiscal 2005. Our average volume of investments increased by 27.9% from Rs. 375.21 billion in the first six months of fiscal 2004 to Rs. 480.02 billion in the first six months of fiscal 2005 because the increase in our deposits provided us with an increased amount of funds to invest. The main component of our investment income is interest on government and other approved securities. Income from these securities increased by 13.2% from Rs. 14.42 billion in the first six months of fiscal 2004 to Rs. 16.32 billion in the first six months of fiscal 2005. The increase was primarily a result of a 30.4% increase in the average volume of these investments from Rs. 306.66 billion in the first six months of fiscal 2004 to Rs. 399.85 billion in the first six months of fiscal 2005 offset in part by a decline in yields. Yields from these investments declined from 9.5% in the first six months of fiscal 2004 to 8.6% in the first six months of fiscal 2005, reflecting the general decline in interest rates during this period and the fact that a larger portion of our portfolio in the first half of fiscal 2005 was held in short-term securities such as treasury bills.

Investment income from investments other than government and other approved securities stayed almost even at Rs. 3.38 billion in the first six months of fiscal 2004 compared to Rs. 3.39 billion in the first six months of fiscal 2005 despite an increase in the volume of these investments due to the decline in yields which offset the increase in volume. Yields from investments other than government securities declined from 9.7% in the first six months of fiscal 2004 to 7.8% in the first six months of fiscal 2005, reflecting the general decline in interest rates during this period and the fact that a larger portion of our portfolio in the first half of fiscal 2005 was held in short-term securities such as commercial paper.

Our investment income in future periods may be adversely impacted as the high coupon securities in our investment portfolio mature. As of September 30, 2004, the weighted average yield on all our fixed coupon securities was 8.5% and their weighted average maturity was 5.3 years. As of that date, central government securities constituted 72.9% of our government securities portfolio and the weighted average yield on our central government and state government securities was 8.1% and 9.1%, respectively, and their weighted average maturity was 6.0 years and 5.1 years, respectively.

Interest on balances with the RBI and other interbank lending increased by 17.9% from Rs. 0.56 billion in the first six months of fiscal 2004 to Rs. 0.66 billion in the first six months of fiscal 2005, mainly because of increased interbank lending and because the increase in our deposits required us to maintain higher CRR balances with the RBI.

Interest Expense

Our interest expense increased by 7.3% from Rs. 20.86 billion in the first six months of fiscal 2004 to Rs. 22.38 billion in the first six months of fiscal 2005, reflecting primarily the increase in our deposits. Our average cost of funds was 5.4% in the first six months of fiscal 2004 and 4.7% in the first six months of fiscal 2005.

Our interest expense on deposits increased by 6.4% from Rs. 19.74 billion in the first six months of fiscal 2004 to Rs. 21.01 billion in the first six months of fiscal 2005 as a result of the increase in the volume of our deposits. Our average total deposits increased by 21.5% from Rs. 748.38 billion in the first six months of fiscal 2004 to Rs. 908.97 billion in the first six months of fiscal 2005. Our average cost of deposits declined from 5.3% in the first six months of fiscal 2004 to 4.6% in the first six months of fiscal 2005, reflecting primarily the decline in interest rates.

Our other interest expense, which consists mainly of Tier 2 bonds issued by us, increased by 11.1% from Rs. 1.08 billion in the first six months of fiscal 2004 to Rs. 1.20 billion in the first six months of fiscal 2005 as a result of the issuance in March 2004 of Rs. 5.0 billion in new Tier-2 bonds. Our average cost of borrowings (including our Tier 2 bonds) declined from 8.9% in the first six months of fiscal 2004 to 6.5% in the first six months of fiscal 2005 due to declining interest rates.

Other Income

Our other income remained substantially unchanged at Rs. 10.50 billion in the first six months of fiscal 2005 from Rs. 10.49 billion in the first six months of fiscal 2004. The following table sets forth the components of our other income:

(In Rs. million)

	First Six Months of Fiscal	
	2004	**2005**
Commission, exchange and brokerage	2,498.2	3,218.0
Profit on sale of investments (net)	6,989.8	2,786.2
Profit (loss) on revaluation of investments (net)	(7.2)	(520.8)
Profit on sale of land, buildings and other assets (net)'	1.4	3.8
Profit on exchange transactions (net)	556.7	669.5
Dividends from subsidiaries, companies and joint ventures	183.0	163.0
Miscellaneous income	268.4	4,183.6
Total other income	**10,490.3**	**10,503.3**

Income from commissions, exchange and brokerage increased by 28.8% from Rs. 2.50 billion in the first six months of fiscal 2004 to Rs. 3.22 billion in the first six months of fiscal 2005. The following table sets forth the components of income from commission, exchange and brokerage:

(In Rs. million)

	First Six Months of Fiscal	
	2004	**2005**
Remittances	522.8	536.7
Documentary credits and guarantees	525.2	632.5
Bills	450.1	487.4
Commissions on handling Government business such as tax collection and pension disbursements		214.5230.1
Rent on safe deposit vaults	174.6	176.9
Service charges and processing fees	408.5	615.3
Incidental charges on deposit accounts	185.3	481.2
Others	17.2	57.9
Total	**2,498.2**	**3,218.0**

Income from commissions, exchange and brokerage increased mainly because of an increase in service charges and processing fees from Rs. 0.41 billion in the first six months of fiscal 2004 to Rs. 0.62 billion in the first six months of fiscal 2005 as a result of increased services to corporate and retail customers, and an increase in incidental charges on deposit accounts (which consist mainly of charges for not maintaining minimum balances) from Rs. 0.19 billion in the first six months of fiscal 2004 to Rs. 0.48 billion in the first six months of fiscal 2005.

Net profit on the sale of investments decreased by 60.1% from Rs. 6.99 billion in the first six months of fiscal 2004 to Rs. 2.79 billion in the first six months of fiscal 2005. This decrease was due in part to a 26.0% decrease in the profit on sale of investments from Rs. 7.51 billion in the first six months of fiscal 2004 to Rs. 5.56 billion in the first six months of fiscal 2005. The higher profit in the first six months of fiscal 2004 was partly due to a gain of Rs. 2.93 billion from the repurchase by the Government of some of its outstanding high-coupon securities, which was then used by us to increase our provisioning for non-performing assets. The rest of the decrease in net profit on the sale of investments was primarily due to increased losses from the sale of investments from Rs. 0.52 billion in the first six months of fiscal 2004 to Rs. 2.77 billion in the first six months of fiscal 2005. The higher loss in the first six months of fiscal 2005 was partly due to the transfer of a certain amount of government securities from the "Available for Sale" category to the "Held to Maturity" category, which resulted in a depreciation of Rs. 2.1 billion. Our net profits on the sale of investments may be adversely affected in future periods by interest rate fluctuations, particularly in an environment of rising interest rates.

Revaluation of investments resulted in a net loss of Rs. 520.8 million in the first six months of fiscal 2005 compared to a net loss of Rs. 7.2 million in the first six months of fiscal 2004. The increased loss was primarily because until the end of fiscal 2004 we revalued our investments only at the end of the fiscal year and therefore the net loss on revaluation of investments was reflected only in our full year accounts; however, since the beginning of fiscal 2005 we revalue our investments on a daily basis as a result of which they have been reflected in our six month accounts.

Net profit from foreign exchange transactions increased by 19.6% from Rs. 0.56 billion in the first six months of fiscal 2004 to Rs. 0.67 billion in the first six months of fiscal 2005, primarily due to a higher volume of foreign exchange trading activities.

Dividend income from our subsidiaries and joint ventures decreased by 11.1% from Rs. 0.18 billion in the first six months of fiscal 2004 to Rs. 0.16 billion in the first six months of fiscal 2005, primarily because of higher dividend income in the first six months of fiscal 2004 as the result of an interim dividend from PNB Gilts Ltd.

Miscellaneous income increased significantly from Rs. 0.27 billion in the first six months of fiscal 2004 to Rs. 4.2 billion in the first six months of fiscal 2005. The increase was in large part due to a one-time recognition in our profit and loss account of Rs.

3.87 billion representing accumulated credits related to unclaimed funds arising from inter-branch transactions that are more than five years old. We received specific permission from the RBI to book this amount. Of this amount, Rs 2.90 billion was appropriated to our revenue and other reserves and Rs. 0.97 billion was appropriated to our statutory reserves. We have set aside a reserve of Rs. 0.24 billion in case future claims are made in respect of the unclaimed funds.

Operating Expenses

Total operating expenses increased by 23.4% from Rs. 10.70 billion in the first six months of fiscal 2004 to Rs. 13.20 billion in the first six months of fiscal 2005. As a percentage of our total income, operating expenses increased to 25.4% in the first six months of fiscal 2005 compared to 22.0% in the first six months of fiscal 2004.

The primary component of our operating expenses was wages and other payments to employees which increased by 25.3% from Rs. 7.60 billion in the first six months of fiscal 2004 to Rs. 9.52 billion in the first six months of fiscal 2005. As a percentage of total income, wages and other payments to employees increased to 18.3% in the first six months of fiscal 2005 from 15.6% in the first six months of fiscal 2004. Our headcount was 58,747 employees as of September 30, 2004 compared to 58,800 employees as of September 30, 2003.

Wages and other payments to employees increased mainly because of a Rs. 1.23 billion additional expense for retirement benefits. As of September 30, 2004, this amount is also reflected in our provisions because the funds had not yet been transferred to the benefit trust. We also made a Rs 2.45 billion contingency provision intended for retirement benefits as discussed below, of which we used Rs 1.23 billion in the third quarter of fiscal 2005 and intend to use Rs. 1.22 billion in the fourth quarter of fiscal 2005.

Our expenses for rent, taxes and lighting for our premises increased by 10.3% from Rs. 0.58 billion in the first six months of fiscal 2004 to Rs. 0.64 billion in the first six months of fiscal 2005. As a percentage of total income, these expenses were 1.2% in the first six months of fiscal 2004 and the first six months of fiscal 2005.

Depreciation expenses on our properties increased by 7.6% from Rs. 0.66 billion in the first six months of fiscal 2004 to Rs. 0.71 billion in the first six months of fiscal 2005. As a percentage of total revenues, these expenses were 1.4% in the first six months of fiscal 2004 and the first six months of fiscal 2005.

Gross Profit

For the reasons stated above, our gross profit before provisions and contingencies decreased by 4.3% from Rs. 17.10 billion in the first six months of fiscal 2004 to Rs. 16.36 billion in the first six months of fiscal 2005. As a percentage of total income, our gross profit decreased from 35.1% in the first six months of fiscal 2004 to 31.5% in the first six months of fiscal 2005.

Provisions and Contingencies

The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

(In Rs. million)

	First Six Months of Fiscal	
	2004	**2005**
Provision for non-performing assets*	2,405.2	1,182.1
Floating provision against non-performing assets	5,730.0	-
Provision for standard accounts	50.0	130.0
Depreciation on investments	(177.0)	(429.0)
Provision for income and wealth tax	2,803.5	2,831.2
Others	770.6	5,290.8
Total provisions and contingencies made during the six month period	**11,582.3**	**9,005.1**

* Net of recovery in written-off accounts of Rs. 126.9 million in the first six months of fiscal 2004 and Rs. 156.2 million in the first six months of fiscal 2005.

Provisions and contingencies made in the first six months of fiscal 2005 decreased by 22.2% to Rs. 9.01 billion compared to Rs. 11.58 billion in the first six months of fiscal 2004. Our provisioning in respect of non-performing assets (which is the sum of the provision for non-performing assets and the floating provision against non-performing assets in the table above) decreased from Rs. 8.14 billion in the first six months of fiscal 2004 to Rs. 1.18 billion in the first six months of fiscal 2005. This was mainly because we made float provisions of Rs. 5.73 billion in the first six months of fiscal 2004 and did not make any float provisions in the first six months of fiscal 2005 and because our non-performing assets decreased owing to higher recoveries. Our recoveries increased significantly in the agriculture sector and were also assisted by the Securitization Act.

Our other provisions increased significantly in the first six months of fiscal 2005 to Rs. 5.29 billion from Rs. 0.77 billion in the preceding six month period. This was largely due to provisions of Rs. 2.45 billion for pension and gratuity benefits, Rs. 1.59 billion on account of the upcoming banking industry wage settlement described below and Rs. 0.79 billion for standard restructured accounts.

There has been no wage settlement in the banking industry since 1997, although one was due in 2002. Because a wage settlement has been expected to be reached soon, we provided for a 12% wage increase in our financial statements for the period after October 31, 2002, which is when the previous wage settlement expired. Accordingly, we initially made a provision of Rs. 1.59 billion for the first six months of fiscal 2005 and intended to make further provisions of a similar amount over the remaining quarters of fiscal 2005. However, the Indian Banking Association recently reached a broad understanding with banking industry employees that the maximum wage increase will be 13.25%. Because this understanding was reached, we decided to revise our estimated provision for the first six months of fiscal 2005 to Rs. 2.29 billion from Rs. 1.59 billion and the revision is reflected in our restated financial statements for the period. In addition, in our restated financial statements we have allocated the total 2.29 billion provision among the relevant periods, such that Rs. 0.46 billion has been allocated to fiscal 2003, Rs. 1.10 billion to fiscal 2004 and Rs. 0.73 billion to the first six months of fiscal 2005, as described further below under Adjusted Net Profit. As described in the section titled "Recent Developments"on page 117, we made a provision of Rs.1.07 billion on account of the wage settlement in the third quarter of fiscal 2005. Assuming a wage settlement is not reached, we currently expect to make provisions on account of the wage settlement of Rs. 0.36 billion in the fourth quarter of fiscal 2005. The understanding reached with the banking industry employees is not final and binding, and the amount of our provisions is an estimate based on our past experience. The actual expenditure we will have to incur following the wage settlement could vary materially from the amounts we have provided for.

Income Tax

Our provision for income tax increased by 1.1% from Rs. 2.80 billion in the first six months of fiscal 2004 to Rs. 2.83 billion in the first six months of fiscal 2005.

Net Profit

As a result of the foregoing factors, our net profit increased by 33.2% from Rs. 5.52 billion in the first six months of fiscal 2004 to Rs. 7.35 billion in the first six months of fiscal 2005. As a percentage of total income, our net profit increased from 11.3% in the first six months of fiscal 2004 to 14.2% in the first six months of fiscal 2005. Our earnings per equity share increased by 33.3% from Rs. 20.79 per equity share in the first six months of fiscal 2004 to Rs. 27.71 per equity share in the first six months of fiscal 2005.

Adjusted Net Profit

Our adjusted net profit in the first six months of fiscal 2005 was Rs. 8.49 billion, which is an increase of Rs. 1.14 billion from our previously stated net profit of 7.35 billion. This was due in part to the reallocation of the provision in relation to the upcoming industry wage settlement as described above. The after-tax effect of the reduction in the provision applicable to the first six months of 2005 increased our net profit by Rs. 0.56 billion. The other Rs. 0.58 billion of the increase represented the amount that the RBI allowed us to transfer from our reserves to net profit for building additional provisions towards pension and gratuity benefits. Our adjusted net profit in the first six months of fiscal 2004 was Rs. 5.28 billion, which is Rs. 0.24 billion lower than our previously stated net profit of Rs. 5.52 billion. This was due to the allocation to the first six months of fiscal 2004 of 50% of the adjustments made to the net profit for the full fiscal 2004. These adjustments are described below.

Fiscal Year Ended March 31, 2004 Compared to the Fiscal Year Ended March 31, 2003

Our total income increased by 10.4% from Rs. 87.35 billion in fiscal 2003 to Rs. 96.47 billion in fiscal 2004 and our total expenditure increased by 1.7% from Rs. 64.18 billion in fiscal 2003 to Rs. 65.26 billion in fiscal 2004. Our gross profit increased by 34.7% from Rs. 23.17 billion in fiscal 2003 to Rs. 31.21 billion in fiscal 2004. Our unadjusted net profit increased by 31.7% from Rs. 8.42 billion in fiscal 2003 to Rs. 11.09 billion in fiscal 2004.

Net Interest Income

Our net interest income increased by 16% from Rs. 31.24 billion in fiscal 2003 to Rs. 36.25 billion in fiscal 2004. The following table sets forth the components of our net interest income:

(In Rs. million)

	Year ended March 31,	
	2003	2004
Interest income	74,850.1	77,797.0
Interest expense	43,612.9	41,549.9
Net interest income	31,237.2	36,247.1

The increase in net interest income was a result of a 3.9% increase in total interest income from Rs. 74.85 billion in fiscal 2003 to Rs. 77.80 billion in fiscal 2004, and a 4.7% decrease in total interest expense from Rs. 43.61 billion in fiscal 2003 to Rs. 41.55 billion in fiscal 2004. This reflected significant gains in income from investments, as well as the growth of our loan portfolio and a decline in interest expense on deposits and borrowings.

Our average interest earning assets increased by 18.9% in fiscal 2004 compared to fiscal 2003. Our net interest margin declined slightly from 4.3% in fiscal 2003 to 4.2% in fiscal 2004 and our spread decreased from 4.1% in fiscal 2003 to 4.0% in fiscal 2004.

Interest Income

The following table sets forth the components of our interest income:

(In Rs. million)

	Year ended March 31,	
	2003	2004
Interest income from advances and bills	37,115.9	38,760.1
Income from investments	32,983.3	36,809.7
Interest on balances with the RBI and other interbank lending	1,793.8	1,131.3
Interest on income tax refund	2,152.7	191.8
Other interest income	804.4	904.1
Total interest income	74,850.1	77,797.0

Interest income from advances and bills increased by 4.4% from Rs. 37.12 billion in fiscal 2003 to Rs. 38.76 billion in fiscal 2004, reflecting an increase in the average volume of advances as a result of the general growth in our business, offset in part by a decline in average yield.

Our average volume of advances increased by 15.6% from Rs. 369.51 billion in fiscal 2003 to Rs. 427.03 billion in fiscal 2004. Our average volume of advances to corporate and commercial customers increased by 7.9% from Rs. 264.14 billion in fiscal 2003 to Rs. 284.98 billion in fiscal 2004. This included small scale industry advances, which increased by 17.6% from Rs. 42.46 billion in fiscal 2003 to Rs. 49.95 billion in fiscal 2004 because of our increased focus on expansion in this sector. The overall increase in advances to corporate and commercial customers was limited because of lower borrowing by corporate customers during the fiscal year, in part due to the cheaper access to funds in international markets and the greater use of internal funds by these customers. Our average retail advances increased by 41.1% from Rs. 53.14 billion in fiscal 2003 to Rs. 74.98 billion in fiscal 2004 primarily because lower interest rates made retail loans more attractive to customers, particularly in the housing and consumer goods segment, in line with trends experienced by the banking industry as a whole, combined with increased marketing efforts on our part. Our average volume of agriculture advances increased by 28.4% from Rs. 52.23 billion in fiscal 2003 to Rs. 67.07 billion in fiscal 2004 due to our increased focus on this sector.

Yields on our advances decreased from an average of 10.0% in fiscal 2003 to 9.1% in fiscal 2004. This decline was due to the general decline in interest rates and increased competition in the banking industry.

Investment income increased by 11.6% from Rs. 32.98 billion in fiscal 2003 to Rs. 36.81 billion in fiscal 2004. Our average volume of investments increased by 26.7% from Rs. 317.80 billion in fiscal 2003 to Rs. 403.40 billion in fiscal 2004 because the increase in our deposits provided us with an increased amount of funds to invest. Income from government and other approved securities increased by 16.2% from Rs. 26.9 billion in fiscal 2003 to Rs. 31.2 billion in fiscal 2004. The increase was primarily a result of a 34.2% increase in the average volume of our these investments from Rs. 248.35 billion in fiscal 2003 to Rs. 333.30 billion in fiscal 2004 offset in part by a decline in yields. Yields from these investments declined from 10.8% in fiscal 2003 to 9.4% in fiscal 2004, reflecting the general decline in interest rates during this period.

Investment income from investments other than government and approved securities decreased by 8.4% from Rs. 6.1 billion in fiscal 2003 to Rs. 5.6 billion in fiscal 2004 despite an increase in the volume of these investments because the decline in yields outweighed the increase in volume. Yields from investments other than government securities declined from 8.8% in fiscal 2003 to 8.0% in fiscal 2004, reflecting the general decline in interest rates during this period.

The growth in our investment income may be adversely impacted as the high coupon securities in our investment portfolio mature. As of March 31, 2004, the weighted average yield on all our fixed coupon securities was 9.0% and their weighted average maturity was 5.4 years. As of that date, central government securities constituted 73% of our government securities portfolio and the weighted average yield on our central government and state government securities was 8.5% and 9.7%, respectively, and their weighted average maturity was 6.2 years and 5.1 years, respectively.

Interest on balances with the RBI and other interbank lending decreased from Rs. 1.79 billion in fiscal 2003 to Rs. 1.13 billion in fiscal 2004 because the RBI reduced the cash reserve ratio (which is a percentage of net demand and time liabilities that banks are required to maintain in current accounts with the RBI), as a result of which we were required to maintain lower deposits with the RBI during the year. Interest on income tax decreased significantly from Rs. 2.15 billion in fiscal 2003 to Rs. 0.19 billion in fiscal 2004 because in fiscal 2003 we received a substantial refund of disputed income tax payments attributable to prior years, together with the interest thereon.

Interest Expense

Our interest expense decreased by 4.7% from Rs. 43.61 billion in fiscal 2003 to Rs. 41.55 billion in fiscal 2004, reflecting primarily the decrease in interest rates. Our average cost of funds was 6.3% in fiscal 2003 and 5.1% in fiscal 2004.

Our interest expense on deposits decreased by 5.7% from Rs. 41.63 billion in fiscal 2003 to Rs. 39.26 billion in fiscal 2004 as a result of the decrease in interest rates, offset in part by an increase in volume of deposits. Our average total deposits increased by 15.9% from Rs. 675.75 billion in fiscal 2003 to Rs. 783.43 billion in fiscal 2004. Our average cost of deposits declined from 6.2% in fiscal 2003 to 5.0% in fiscal 2004, reflecting primarily the decline in interest rates and a slight increase in the share of low-cost deposits in our deposit mix.

Our other interest expense, which consists mainly of Tier 2 bonds issued by us, increased by 12.6% from Rs. 1.91 billion in fiscal 2003 to Rs. 2.15 billion in fiscal 2004 as a result of the issuance in fiscal 2004 of two new series of Tier 2 bonds in an aggregate principal amount of Rs. 7.65 billion. Our average cost of borrowings (including our Tier 2 bonds) declined from 11.2% in fiscal 2003 to 8.2% in fiscal 2004 due to declining interest rates.

Other Income

Our other income increased by 49.3% from Rs. 12.50 billion in fiscal 2003 to Rs. 18.67 billion in fiscal 2004. The following table sets forth the components of our other income:

(In Rs. million)

	Year ended March 31,	
	2003	**2004**
Commission, exchange and brokerage	4,800.1	5,519.0
Profit on sale of investments (net)	6,722.8	12,363.7
Profit (loss) on revaluation of investments (net)	(700.8)	(1,178.0)
Profit on sale of land, buildings and other assets'	4.1	2.4
Profit on exchange transactions (net)	950.8	1,060.2
Dividends from subsidiaries, companies and joint ventures	237.0	303.0
Miscellaneous income	489.1	598.5
Total other income	**12,503.1**	**18,668.8**

Income from commissions, exchange and brokerage increased by 15% from Rs. 4.80 billion in fiscal 2003 to Rs. 5.52 billion in fiscal 2004. The following table sets forth the components of income from commission, exchange and brokerage:

(In Rs. million)

	Year ended March 31,	
	2003	**2004**
Remittances	1,055.3	1,077.6
Documentary credits and guarantees	1,004.6	1,102.2
Bills	925.3	949.6
Commissions on handling Government business such as tax collection and pension disbursements'	407.0	479.9
Rent on safe deposit vaults	333.8	340.8
Service charges and processing fees	762.8	1,007.5
Incidental charges on deposit accounts	283.7	518.2
Others	27.6	43.2
Total	**4,800.1**	**5,519.0**

Income from commissions, exchange and brokerage increased mainly because of a 32.1% increase in service charges and processing fees from Rs. 0.76 billion in fiscal 2003 to Rs. 1.01 billion in fiscal 2004 as a result of increased services to corporate and retail customers, and an 83.0% increase in incidental charges on deposit accounts from Rs. 0.28 billion in fiscal 2003 to Rs. 0.52 billion in fiscal 2004.

Net profit on the sale of investments increased by 83.9% from Rs. 6.72 billion in fiscal 2003 to Rs. 12.36 billion in fiscal 2004. Part of this increase was due to a gain in fiscal 2004 of Rs. 2.93 billion from the repurchase by the Government of some of its outstanding high-coupon securities. The Government offered to repurchase these securities from public sector banks at a discount to the market price by issuing new lower-coupon securities, and permitted the banks to use the net gain tax free to increase their provisioning for non-performing assets. The rest of the increase was primarily due to gains from the higher volume of trading activities we undertook. Our trading profits in future periods may be adversely affected by interest rate fluctuations, particularly in an environment of rising interest rates. Revaluation of investments resulted in a net loss of Rs. 1.18 billion in fiscal 2004 compared to a net loss of Rs. 0.70 billion in fiscal 2003. We account for the amortization of premiums paid to acquire "Held to Maturity" securities under this item, and the increased loss was due to amortization of premiums paid to acquire high coupon "Held to Maturity" securities and mark to market losses of our other securities.

Net profit from foreign exchange transactions increased by 11.6% from Rs. 0.95 billion in fiscal 2003 to Rs. 1.06 billion in fiscal 2004, primarily due to a higher volume of foreign exchange trading activities.

Dividend income from our subsidiaries and joint ventures increased by 25% from Rs. 0.24 billion in fiscal 2003 to Rs. 0.30 billion in fiscal 2004, primarily because of higher profits earned by these entities in fiscal 2004.

Operating Expenses

Total operating expenses increased by 15.3% from Rs. 20.57 billion in fiscal 2003 to Rs. 23.71 billion in fiscal 2004. As a percentage of our total income, operating expenses increased to 24.6% in fiscal 2004 compared to 23.5% in fiscal 2003.

The primary component of our operating expenses was wages and other payments to employees which increased by 12.1% from Rs. 14.76 billion in fiscal 2003 to Rs. 16.54 billion in fiscal 2004. As a percentage of total income, wages and other payments to employees increased to 17.1% in fiscal 2004 from 16.9% in fiscal 2003. The increase was due to annual increases in remuneration of 6% to 8% and increased contribution towards retirement benefit funds on the basis of actuarial valuations. Our headcount remained substantially unchanged at 58,839 employees as of March 31, 2004 from 58,981 employees as of March 31, 2003.

Our expenses for rent, taxes and lighting for our premises increased by 13.2% from Rs. 1.06 billion in fiscal 2003 to Rs. 1.20 billion in fiscal 2004. As a percentage of total income, these expenses were 1.2% in fiscal 2003 and fiscal 2004.

Depreciation expenses on our properties increased by 40.3% from Rs. 1.29 billion in fiscal 2003 to Rs. 1.81 billion in fiscal 2004. As a percentage of total revenues, these expenses increased from 1.5% in fiscal 2003 to 1.9% in fiscal 2004. The increase was primarily due to the amortization of goodwill relating to our acquisition of Nedungadi Bank. We amortized Rs. 0.12 billion of this goodwill in fiscal 2003 and wrote off the entire remaining amount of Rs. 0.37 billion in fiscal 2004. As part of the restatement of our financial statements in connection with this Issue, the Rs. 0.37 billion write-off was reversed for fiscal 2004 and allocated to fiscal 2003, as explained below. The increase in our depreciation expenses in fiscal 2004 was also due to our increased investments in technology, consisting primarily of computer hardware and software. We depreciate computer hardware at a rate of 33.3% per year.

Gross Profit

For the reasons stated above, our gross profit before provisions and contingencies increased by 34.7% from Rs. 23.17 billion in fiscal 2003 to Rs. 31.21 billion in fiscal 2004. As a percentage of total income, our gross profit increased from 26.5% in fiscal 2003 to 32.3% in fiscal 2004.

Provisions and Contingencies

The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

(In Rs. million)

	Year ended March 31,	
	2003	**2004**
Provision for non-performing assets*	4,729.7	4,010.4
Floating provision against non-performing assets	3,600.0	7,930.0
Provision for restructured standard accounts	771.1	1,207.4
Provision for standard accounts	140.0	465.0
Depreciation on investments	1,327.5	(308.6)
Provision for income tax	3,406.6	6,599.9
Others	776.1	217.6
Total provisions and contingencies made during the fiscal year	**14,751.0**	**20,121.7**

* Net of recovery in written-off accounts of Rs. 1.02 billion in fiscal 2003 and Rs. 2.07 billion in fiscal 2004.

Provisions and contingencies made in fiscal 2004 increased by 36.4% to Rs. 20.12 billion compared to Rs. 14.75 billion in fiscal 2003. Our provisioning in respect of non-performing assets (which is the sum of the provision for non-performing assets and the floating provision against non-performing assets in the table above) increased by 43% from Rs. 8.33 billion in fiscal 2003 to Rs. 11.94 billion in fiscal 2004. This included an increase of 120.3% in float provisioning against non-performing assets from Rs. 3.60 billion in fiscal 2003 to Rs. 7.93 billion in fiscal 2004. Of this amount, Rs. 2.93 billion represented our gains from the sale of securities back to the Government, the proceeds of which were used for provisioning. The increase in float provisioning was partly offset by a 15.2% decline in our other provisioning for non-performing assets because of the non-performing assets we wrote off. In addition, our provisioning for restructured standard accounts increased by 56.6% because the implementation of the new corporate debt restructuring mechanism led to an increase in our restructured accounts. Our provisioning for standard accounts increased by 236% from Rs. 0.14 billion in fiscal 2003 to Rs. 0.47 billion in fiscal 2004, mainly as a result of a Rs. 0.30 billion provision for one of our standard accounts and an increase in provisioning to meet the RBI's requirement to maintain a 0.25% provision for standard accounts. These increases were partly offset by a release in fiscal 2004 of Rs. 0.31 billion of depreciation on investments previously booked compared to a Rs. 1.33 billion depreciation on investments in fiscal 2003.

Income Tax

Our provision for income tax increased by 93.5% from Rs. 3.41 billion in fiscal 2003 to Rs. 6.60 billion in fiscal 2004. Our tax liability for fiscal 2003 was reduced by Rs. 1.1 billion as a result of tax rulings in our favor in respect of disputed tax amounts for fiscal 2001 and 2002. Further, our tax liability for fiscal 2004 was increased because of provisions of Rs. 0.6 billion that we had to make on account of certain unfavorable tax rulings for earlier years. Without the foregoing adjustments, our provisions for income tax would have increased by 33.9% from fiscal 2003 to fiscal 2004, compared to a 54.4% increase in our taxable income for these periods from Rs. 11.08 billion to Rs. 17.11 billion. Our effective rate of tax was 28.8% in fiscal 2003 and 37.3% in fiscal 2004.

Net Profit

As a result of the foregoing factors, our net profit increased by 31.7% from Rs. 8.42 billion in fiscal 2003 to Rs. 11.09 billion in fiscal 2004. As a percentage of total income, our net profit increased from 9.6% in fiscal 2003 to 11.5% in fiscal 2004. Our earnings per equity share increased by 30.3% from Rs. 32.08 per equity share in fiscal 2003 to Rs. 41.79 per equity share in fiscal 2004.

Adjusted Net Profit

Our adjusted net profit for fiscal 2003 was Rs. 7.89 billion, which is Rs. 0.53 billion lower than our previously stated net profit of Rs. 8.42 billion and our adjusted net profit for fiscal 2004 was Rs. 10.61 billion, which is Rs. 0.48 billion lower than our previously stated net profit of Rs. 11.09 billion. In our restated financial statements, we have allocated to fiscal 2003 a depreciation provision of Rs. 0.37 billion which we made in fiscal 2004. This depreciation provision represented the amount of goodwill relating to our acquisition of Nedungadi Bank which we wrote off in fiscal 2004. In addition, as discussed above, we have allocated Rs. 0.46 billion to fiscal 2003 and Rs. 1.10 billion to fiscal 2004 on account of the provisions made in fiscal 2005 relating to the upcoming wage settlement. These allocations and their tax impact resulted in the net downward adjustments to our net profit for fiscal 2003 and fiscal 2004.

Fiscal Year Ended March 31, 2003 Compared to the Fiscal Year Ended March 31, 2002

Our total income increased by 14.5% from Rs. 76.26 billion in fiscal 2002 to Rs. 87.35 billion in fiscal 2003 and our total expenditure increased by 4.3% from Rs. 61.52 billion in fiscal 2002 to Rs. 64.18 billion in fiscal 2003. Our gross profit increased by 57.2% from Rs. 14.74 billion in fiscal 2002 to Rs. 23.17 billion in fiscal 2003 and our unadjusted net profit increased by 49.8% from Rs. 5.62 billion in fiscal 2002 to Rs. 8.42 billion in fiscal 2003.

We acquired Nedungadi Bank in fiscal 2003 and its results were included in ours for two months in that fiscal year. In fiscal 2002, Nedungadi Bank had total income of Rs. 2.26 billion compared to our total income of Rs. 76.26 billion and as of March 31, 2002, it had total assets of Rs. 15.77 billion compared to our total assets of Rs. 729.15 billion.

Net Interest Income

Our net interest income increased by 36% from Rs. 22.95 billion in fiscal 2002 to Rs. 31.24 billion in fiscal 2003. The following table sets forth the components of our net interest income:

(In Rs. million)

	Year ended March 31,	
	2002	**2003**
Interest income	66,478.7	74,850.1
Interest expense	43,525.8	43,612.9
Net interest income	22,952.9	31,237.2

The increase in net interest income was a result of a 12.6% increase in total interest income from Rs. 66.48 billion in fiscal 2002 to Rs. 74.85 billion in fiscal 2003, and substantially unchanged total interest expense, which was Rs. 43.53 billion in fiscal 2002 and Rs. 43.61 billion in fiscal 2003. This reflected gains in income from advances and income from investments, as well as the growth of our loan portfolio and a decline in interest expense on deposits and borrowings.

Our average interest earning assets increased by 15.7% in fiscal 2003 compared to fiscal 2002. Our net interest margin increased from 3.7% in fiscal 2003 to 4.3% in fiscal 2003 and our spread increased from 3.6% in fiscal 2002 to 4.1% in fiscal 2003.

Interest Income

The following table sets forth the components of our interest income:

(In Rs. million)

	Year ended March 31,	
	2002	**2003**
Interest income from advances and bills	33,178.8	37,115.9
Income from investments	30,027.6	32,983.3
Interest on balances with the RBI and other interbanklending	2,276.3	1,793.8
Interest on income tax	163.8	2,152.7
Other interest income	832.2	804.4
Total interest income	**66,478.7**	**74,850.1**

Interest income from advances and bills increased by 11.8% from Rs. 33.18 billion in fiscal 2002 to Rs. 37.12 billion in fiscal 2003, reflecting an increase in the average volume of advances as a result of the general growth in our business, offset in part by a decrease in average yield.

Our average volume of advances increased by 18.8% from Rs. 310.90 billion in fiscal 2002 to Rs. 369.51 billion in fiscal 2003. Our average volume of advances to corporate and commercial customers increased by 10.2% from Rs. 239.66 billion in fiscal 2002 to Rs. 264.14 billion in fiscal 2003. This included small scale industry advances, which increased by 9.5% from Rs. 38.77 billion in fiscal 2002 to Rs. 42.46 billion in fiscal 2003. These increases reflected a general growth in business with these customer segments. Our average retail advances increased by 66.3% from Rs. 31.96 billion in fiscal 2002 to Rs. 53.14 billion in fiscal 2003 primarily because lower interest rates made retail loans more attractive to customers, particularly in the housing and consumer goods segment, in line with trends experienced by the banking industry as a whole, combined with increased marketing efforts on our part. Our average volume of agriculture advances increased by 32.9% from Rs. 39.29 billion in fiscal 2002 to Rs. 52.23 billion in fiscal 2003 due to our efforts to increase business in this sector.

Yields on our advances decreased from an average of 10.7% in fiscal 2002 to 10.0% in fiscal 2003. This decline was due to the general decline in interest rates and increased competition in the banking industry.

Investment income increased by 9.8% from Rs. 30.03 billion in fiscal 2002 to Rs. 32.98 billion in fiscal 2003. Our average volume of investments increased by 15.7% from Rs. 274.6 billion in fiscal 2002 to Rs. 317.8 billion in fiscal 2003 because the increase in our deposits provided us with an increased amount of funds to invest. Income from investments in government and other approved securities increased by 13.4% from Rs. 23.7 billion in fiscal 2002 to Rs. 26.9 billion in fiscal 2003. The increase was primarily as a result of a 15.3% increase in the average volume of government securities in our portfolio from Rs. 215.34 billion in fiscal 2002 to Rs. 248.34 billion in fiscal 2003, offset in part by a decline in yields. Yields from government securities declined from 11.0% in fiscal 2002 to 10.8% in fiscal 2003, reflecting the general decline in interest rates during this period.

Investment income from investments other than government securities decreased by 3.4% from Rs. 6.4 billion in fiscal 2002 to Rs. 6.1 billion in fiscal 2003 because the decline in yields outweighed the increase in the volume of investments. Yields from these investments declined from 10.7% in fiscal 2002 to 8.8% in fiscal 2003, reflecting the general decline in interest rates during this period.

Interest on balances with the RBI and other interbank lending decreased from Rs. 2.28 billion in fiscal 2002 to Rs. 1.79 billion in fiscal 2003, as a result of the lower cash reserve ratio balances we were required to maintain with the RBI and lower interbank lending during the year. Interest on income tax increased significantly from Rs. 0.16 billion in fiscal 2002 to Rs. 2.15 billion in fiscal 2003 because in fiscal 2003 we received a substantial refund of disputed income tax payments attributable to prior years, together with the interest thereon.

Interest Expense

Our interest expense remained substantially unchanged at Rs. 43.61 billion in fiscal 2003 compared to Rs. 43.52 billion in fiscal 2002. Our weighted average cost of funds was 7.1% in fiscal 2002 and 6.3% in fiscal 2003.

Our interest expense on deposits remained substantially unchanged at Rs. 41.63 billion in fiscal 2003 compared to Rs. 41.22 billion in fiscal 2002 even though deposits increased, as a result of the decline in interest rates. Our average total deposits increased by 13.8% from Rs. 594.06 billion in fiscal 2002 to Rs. 675.75 billion in fiscal 2003. Our average cost of deposits declined from 6.9% in fiscal 2002 to 6.2% in fiscal 2003.

Our interest expense on borrowings from the RBI and other interbank borrowings decreased from Rs. 0.48 billion in fiscal 2002 to Rs. 0.075 billion in fiscal 2003 because of reduced dependence on interbank borrowings. Our other interest expense increased by 4.4% from Rs. 1.83 billion in fiscal 2002 to Rs. 1.91 billion in fiscal 2003 as a result of interest payments on newly issued Tier 2 bonds and interest payments on Rs. 0.25 billion in bonds assumed as part of our acquisition of Nedungadi Bank. Our average cost of borrowings (including our Tier 2 bonds) declined from 13.6% in fiscal 2003 to 11.2% in fiscal 2004.

Other Income

Our other income increased by 27.9% from Rs. 9.78 billion in fiscal 2002 to Rs. 12.50 billion in fiscal 2003. The following table sets forth the components of our other income:

(In Rs. million)

	Year ended March 31,	
	2002	**2003**
Commission, exchange and brokerage	4,339.9	4,800.1
Profit on sale of investments (net)	4,379.1	6,722.8
Profit (loss) on revaluation of investments (net)	(581.7)	(700.8)
Profit on sale of land, buildings and other assets	3.7	4.1
Profit on exchange transactions (net)	922.4	950.8
Dividends from subsidiaries, companies and joint ventures	280.0	237.0
Miscellaneous income	433.8	489.1
Total other income	**9,777.2**	**12,503.1**

Income from commissions, exchange and brokerage increased by 10.6% from Rs. 4.34 billion in fiscal 2002 to Rs. 4.80 billion in fiscal 2003. The following table sets forth the components of our income from commission, exchange and brokerage:

(In Rs. million)

	Year ended March 31,	
	2002	**2003**
Remittances	1,033.5	1,055.3
Documentary credits and guarantees	909.0	1,004.6
Bills	926.1	925.3
Commissions on handling Government business such as tax collection and pension disbursements ‘	375.0	407.0
Rent on safe deposit vaults	323.8	333.8
Service charges and processing fees	542.6	762.8
Incidental charges on deposit accounts	178.8	283.7
Others	51.1	27.6
Total	**4,339.9**	**4,800.1**

Income from commissions, exchange and brokerage increased mainly because of a 40.7% increase in service charges and processing fees from Rs. 0.54 billion in fiscal 2002 to Rs. 0.76 billion in fiscal 2003 as a result of our increased strategic focus from fiscal 2003 onwards on expanding our fee-based services, and an 55.6% increase in incidental charges on deposit accounts from Rs. 0.18 billion in fiscal 2002 to Rs. 0.28 billion in fiscal 2003.

Net profit on the sale of investments increased by 53.4% from Rs. 4.38 billion in fiscal 2002 to Rs. 6.72 billion in fiscal 2003. The increase was primarily due to gains from the higher volume of trading activities we undertook to take advantage of interest rate fluctuations. Revaluation of certain investments resulted in a net loss of Rs. 0.70 billion in fiscal 2003 compared to a net loss of Rs. 0.58 billion in fiscal 2002. The increased loss in fiscal 2003 was due to increased amounts attributable to the amortization of premiums paid to acquire high coupon "Held to Maturity" securities.

Net profit from foreign exchange transactions increased by 3.3% from Rs. 0.92 billion in fiscal 2002 to Rs. 0.95 billion in fiscal 2003, primarily due to a higher volume of foreign exchange transactions.

Dividend income from our subsidiaries and joint ventures decreased by 15.3% from Rs. 0.28 billion in fiscal 2002 to Rs. 0.24 million in fiscal 2003, because in fiscal 2002 we received an interim as well as a regular dividend from our subsidiary PNB Gilts Ltd.

Operating Expenses

Total operating expenses increased by 14.3% from Rs. 17.99 billion in fiscal 2002 to Rs. 20.57 billion in fiscal 2003. As a percentage of our total income, operating expenses remained substantially unchanged at 23.6% in fiscal 2003 compared to 23.5% in fiscal 2002.

The primary component of our operating expenses was wages and other payments to employees which increased by 12.2% from Rs. 13.16 billion in fiscal 2002 to Rs. 14.76 billion in fiscal 2003. The increase was due to annual increases in pay scales of 6% to 8% and the addition of employees of Nedungadi Bank. As a percentage of total income, however, wages and other payments to employees decreased slightly from 17.3% in fiscal 2002 to 16.9% in fiscal 2003. Our headcount increased from 57,859 employees as of March 31, 2002 to 58,981 employees as of March 31, 2003 primarily because of the increased number of employees as a result of our acquisition of Nedungadi Bank.

Our expenses for rent, taxes and lighting for our premises increased by 12.7% from Rs. 0.94 billion in fiscal 2002 to Rs. 1.06 billion in fiscal 2003. As a percentage of total income, these expenses were 1.2% in fiscal 2002 and fiscal 2003.

Depreciation expenses on our properties increased by 51.8% from Rs. 0.85 billion in fiscal 2002 to Rs. 1.29 billion in fiscal 2003. As a percentage of total revenues, these expenses increased from 1.1% in fiscal 2002 to 1.5% in fiscal 2003. The increase was primarily due to the amortization of goodwill relating to our acquisition of Nedungadi Bank, which amounted to Rs. 124.4 million in fiscal 2003, as well as our increased investments in technology which we depreciate at a rate of 33.3% per annum.

Gross Profit

For the reasons stated above, our gross profit before provisions and contingencies increased by 57.2% from Rs. 14.74 billion in fiscal 2002 to Rs. 23.17 billion in fiscal 2003. As a percentage of total income, our gross profit increased from 19.3% in fiscal 2002 to 26.5% in fiscal 2003.

Provisions and Contingencies

The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

(In Rs. million)

	Year ended March 31,	
	2002	**2003**
Provision for non-performing assets*	3,913.3	4,729.7
Floating provision against non-performing assets	2,400.0	3,600.0
Provision for restructured standard accounts	155.3	771.1
Provision for standard accounts'	150.0	140.0
Depreciation on investments	(352.1)	1,327.5
Provisions for income tax	1,981.5	3,406.6
Others	866.1	776.1
Total provisions and contingencies made during the fiscal year	**9,114.1**	**14,751.0**

* Net of recovery in written-off accounts of Rs. 0.48 billion in fiscal 2002 and Rs. 1.02 billion in fiscal 2003.

Provisions and contingencies made in fiscal 2003 increased by 61.9% to Rs. 14.75 billion compared to Rs. 9.11 billion in fiscal 2002. Our provisioning in respect of non-performing assets increased by 32.0% from Rs. 6.31 billion in fiscal 2002 to Rs. 8.33 billion in fiscal 2003. This included a 50% increase in float provisioning against non-performing assets from Rs. 2.40 billion in fiscal 2002 to Rs. 3.60 billion in fiscal 2003 and a 21.0% increase in our other provisioning for non-performing assets from Rs. 3.91 billion in fiscal 2003 to Rs. 4.73 billion in fiscal 2004. In addition, our provisioning for restructured standard accounts increased significantly from Rs. 0.16 billion in fiscal 2002 to Rs. 0.77 billion in fiscal 2003 because of increased proceedings under India's new corporate debt restructuring mechanism. Our provisioning for depreciation on investments was Rs. 1.33 billion in fiscal 2003 compared to a Rs. 0.35 billion release in fiscal 2002 of previously booked depreciation on investments. Part of the depreciation on investments in fiscal 2003 was due to depreciation of Rs. 1.34 billion that we booked upon the restructuring of bonds of IFCI that we held in our investment portfolio.

Income Tax

Our provision for income tax increased by Rs. 1.98 billion in fiscal 2002 to Rs. 3.41 billion in fiscal 2003 mainly because of the increase in our taxable income from Rs. 5.54 billion in fiscal 2002 to Rs. 11.08 billion in fiscal 2003. Our tax liability for fiscal 2003 was reduced by Rs. 1.1 billion as a result of tax rulings in our favor in respect of disputed tax amounts for fiscal 2001 and 2002. Income tax expenses in fiscal 2002 was reduced by Rs. 0.17 billion on account of the release of deferred tax assets which reduced our tax expenditure. Our effective rate of tax was 26.1% in fiscal 2002 and 28.8% in fiscal 2003.

Net Profit

As a result of the foregoing factors, our net profit increased by 49.8% from Rs. 5.62 billion in fiscal 2002 to Rs. 8.42 billion in fiscal 2003. As a percentage of total income, our net profit increased from 7.4% in fiscal 2002 to 9.6% in fiscal 2003. Our earnings per equity share increased by 21.1% from Rs. 26.50 per equity share in fiscal 2002 to Rs. 32.08 per equity share in fiscal 2003.

Adjusted Net Profit

Our adjusted net profit for fiscal 2003 was Rs. 7.89 billion, which is Rs. 0.53 billion lower than our previously stated net profit of Rs. 8.42 billion. In our restated financial statements, we have reallocated to fiscal 2003 a depreciation provision of Rs. 0.37 billion, which we made in fiscal 2004. This depreciation provision represented the amount of goodwill relating to our acquisition of Nedungadi Bank which we wrote off in fiscal 2004. The effect of the reallocation is that the entire goodwill relating to the acquisition of Nedungadi Bank is presented as having been written off in fiscal 2003. In addition, we have allocated Rs. 0.46

billion to fiscal 2003 on account of the provisions made in fiscal 2005 relating to the upcoming wage settlement. These allocations and their tax impact resulted in the net downward adjustment to our net profit for fiscal 2003. There was no adjustment to the net profit for fiscal 2002.

Liquidity and Capital Resources

Our growth over the last three fiscal years has been financed by a combination of cash generated from operations, increases in our customer deposits and borrowings, including our Tier 2 bonds.

The following table sets forth our cash flows, as restated, from operating activities, investing activities and financing activities in a condensed format. We have aggregated certain items set forth in the cash flow statements as restated that are part of our financial statements included elsewhere in this Red Herring Prospectus in order to facilitate understanding of significant trends in our business. This information should be read together with the full cash flow statements and notes to our financial statements included elsewhere herein.

(In Rs. Million)

	Year ended March 31,			First six months of fiscal	
	2002	**2003**	**2004**	**2004**	**2005**
Cash flows from operating activities					
Net profit after tax	5,623.9	7,894.9	10,611.1	5,277.4	7,909.3
Adjustments for taxes (net of deferred tax)	1,983.5	3,100.4	6,345.0	2,676.0	3,135.1
Non cash adjustments to profit before taxes	9,587.5	15,176.9	18,492.8	11,445.1	8,120.7
Cash adjustments to profit before taxes (consisting primarily of interest on Tier 2 bonds and dividends from subsidiaries)	1,304.0	1,450.8	1,648.9	5.9	(266.0)
Operating profit before changes in operating assets and liabilities	18,498.9	27,623.0	37,097.8	19,404.4	18,899.1
Adjustment for net change in operating assets and liabilities					
Decrease / (Increase) in investments	(30,425.5)	(59,726.1)	(80,597.9)	(78,960.8)	(37,492.4)
Decrease / (Increase) in advances	(70,058.1)	(64,339.3)	(76,046.0)	(7,822.2)	(47,640.3)
Increase / (Decrease) in deposits	79,923.5	116,900.2	121,029.0	43,714.0	66,722.4
Increase / (Decrease) in borrowings	(2,646.2)	2,535.9	6,268.9	830.6	6,629.6
Change in other assets, liabilities & provisions	(712.9)	(4,750.1)	7,375.8	5,529.4	(13,777.9)
Net change in operating assets and liabilities	(23,919.2)	(9,379.4)	(21,970.2)	(36,708.6)	(25,558.6)
Cash generated from operations	(5,420.3)	18,243.6	15,127.6	(17,304.2)	(6,659.5)
Tax paid (net of refund)	2,288.3	(1,234.9)	(9,834.7)	506.1	2,817.5
Net cash from operating activities	(3,132.0)	17,008.7	5,292.9	(16,798.1)	(3,842.0)

(In Rs. Million)

	Year ended March 31,			First six months of fiscal	
	2002	2003	2004	2004	2005
Cash flows from investing activities					
Investment in subsidiaries/joint ventures/RRBs	(10.0)	0.0	0.0	168.9	(1,009.5)
Purchase of fixed assets (net of sales)	(1,280.2)	(2,262.6)	(2,048.9)	(827.5)	(829.7)
Dividends received from subsidiaries / joint ventures/RRBs	280.0	273.0	303.0	(183.0)	(163.0)
Loss of PNB Capital taken over	0.0	0.0	(16.1)	(16.1)	
Net cash used in investing activities	(1,010.2)	(1,989.6)	(1,762.0)	(857.7)	(2,002.2)
Cash flows from financing activities					
Tier 2 bonds issued, net of redemptions	2,900.2	4,130.0	7,650.0	2,650.0	(150.0)
Share application money, net of issue expenses	6,699.7	0.0	0.0	0.0	0.0
Interest paid on Tier 2 bonds	(1,529.8)	(1,723.8)	(1,951.9)	(891.2)	(1,102.4)
Payments of dividends / corporate tax on dividends	(636.7)	(636.7)	(1,795.8)	(1,047.5)	(533.9)
Net cash from financing activities	7,433.4	1,769.5	3,902.3	711.3	(1,786.3)
Net change in cash and cash equivalents	3,291.2	16,788.6	7,433.2	(16,944.5)	(7,630.5)
Cash and cash equivalents at the beginning of the year	60,692.1	63,983.3	80,771.9	80,771.9	88,205.1
Cash and cash equivalents at the end of the year	63,983.3	80,771.9	88,205.1	63,827.4	80,574.6

Cash flows from operations

Our net cash from operating activities reflects our net profit, adjustments for provision for tax and non-cash charges such as depreciation, amortization and provisions (mainly for non-performing and standard assets) made during the period, as well as adjustments for cash charges consisting primarily of interest on our Tier 2 bonds (which is included in financing activity) and dividends from subsidiaries (which is included in investing activity). 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 and provisions. Change in borrowings reflects only short term borrowings and not Tier 2 bonds which are included in financing activity. Our net cash from operating activities fluctuated significantly in the periods shown and was negative in fiscal 2002 as well as in the first six months of fiscal 2004 and 2005, principally because of changes in our operating assets and liabilities. Our profit after tax increased in all the periods shown, as did our operating profit before changes in operating assets and liabilities, which is net of the adjustments for provision for tax as well as noncash and cash adjustments. However, our operating assets increased by more than our operating liabilities in all the periods, which thereby decreased our net cash from operating activities. In particular, in the first six months of fiscal 2004 our cash flow from operating activities was negative because the increases in our advances and investments significantly exceeded the increase in our deposits and borrowings by Rs. 42.24 billion, and there was a Rs. 5.99 billion increase in other assets, which was partly offset by an increase in other liabilities and provisions of Rs. 11.52 billion. In the first six months of fiscal 2005, our cash flow from operating activities was negative because the increases in our advances and investments exceeded the increase in our deposits and borrowings by Rs. 11.38 billion, other assets increased by Rs. 5.96 billion and other liabilities and provisions decreased by Rs. 7.82 billion.

Cash flows from investing activities

Our net cash used in investing activities was Rs 1.01 billion, Rs 1.99 billion and Rs 1.76 billion in fiscal 2002, 2003 and 2004, respectively, and Rs 0.9 billion and Rs 2.00 billion in the first six months of fiscal 2004 and 2005, respectively. Our net cash used in investing activities reflects principally investments consisting of the purchase of fixed assets, offset in part by dividends received from our subsidiaries. In the first six months of fiscal 2005, we made an investment of Rs. 1.01 billion in certain joint ventures and investment funds.

Cash flows from financing activities

Our net cash from financing activities was Rs. 7.43 billion, Rs. 1.77 billion and Rs. 3.90 billion in fiscal 2002, 2003 and 2004, respectively, and Rs. 0.7 billion and a negative Rs 1.79 billion in the first six months of fiscal 2004 and 2005, respectively. Our net cash from financing activities reflects principally cash received from the issuance of Tier 2 bonds, which we issue for capital adequacy purposes, issued in each fiscal year shown as well as in the first six months of 2004. We did not issue Tier 2 bonds in the first six months of 2005. In addition, in fiscal 2002 we received Rs. 6.70 billion in share application money from our initial public offering, net of issue expenses, of which we retained Rs. 1.64 billion as issue proceeds. In fiscal 2002 we redeemed Rs. 1.90 billion of Tier 2 bonds at maturity. We also use cash in financing activities to pay interest on Tier 2 bonds and to pay dividends and corporate tax related to dividends. Our dividends increased significantly from fiscal 2003 to fiscal 2004 because we increased our dividend rate and also because we paid an interim dividend.

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 1 capital.

Our regulatory capital and capital adequacy ratios based on our restated financial statements are as follows:

(In Rs. million)

	As of		
	March 31, 2003	**March 31, 2004**	**September 30, 2004**
Tier 1 capital	28,760.1	32,923.5	40,045.3
Tier 2 capital	20,179.4	29,949.5	28,144.5
Total capital	48,939.5	62,873.0	68,189.8
Total risk weighted assets and contingents	410,899.4	491,729.5	547,531.0
Capital adequacy ratios:			
Tier 1	7.00%	6.70%	7.31%
Tier 2	4.91%	6.09%	5.14%
Total capital ratio	11.91%	12.79%	12.45%
Minimum capital ratios required by the RBI:			
Tier 1	4.5%	4.5%	4.5%
Total capital ratio	9.0%	9.0%	9.0%

As shown above, our Tier 2 capital ratio decreased to 5.14% and our total capital ratio decreased to 12.45% as of September 30, 2004, compared to 6.09% and 12.79%, respectively, as of March 31, 2004. The reduction is attributable to the decrease in Tier 2 capital. This decrease is due to the discounting of our Tier 2 bonds in the amount of Rs. 2.57 billion, which is required pursuant to the RBI guidelines applicable to the calculation of capital ratios. In addition, we redeemed Rs. 150 million of our Tier 2 bonds during the first six months of fiscal 2005. Our Tier 2 capital ratio increased to 6.09% and our total capital ratio increased to 12.79% as of March 31, 2004, compared to 4.91% and 11.91%, respectively, as of March 31, 2003. The increase in our Tier 2 capital is primarily due to the issuance of Tier 2 bonds in a principal amount of Rs. 7.65 billion and the transfer of Rs. 4.65 billion of our profits to our investment fluctuation reserve.

The RBI Tier 1 capital and total capital ratios are expected to change with the implementation of the Basel II standards in late 2006 or early 2007. Under Basel II, there will be three methods for determining the risk weighting of assets for purposes of calculating capital adequacy, consisting of one "standardized" method in which external standards are used, and two methods in which a bank's internal standards are used. The RBI has said that Indian banks should first use the standardized method but may later permit banks to change to the internal methods. Our capital adequacy ratio as of September 30, 2004 on a historical, unrestated basis was 12.58%. If the Basel II standardized method were applied on a pro forma basis as of September 30, 2004, we would expect our capital adequacy ratio as of that date to be 9.85%.

Financial Condition

Our net assets, which we define as our total assets less our total liabilities, increased by 25.7% from Rs. 36.51 billion as of March 31, 2003 to Rs. 45.90 billion as of March 31, 2004, and further increased by 17.2% to Rs. 53.81 billion as of September 30, 2004.

Assets

The following table sets forth the principal components of our assets as of March 31, 2003, March 31, 2004 and September 30, 2004, as restated:

(In Rs. million)

	As of		
	March 31, 2003	**March 31, 2004**	**September 30, 2004**
Cash in hand	6,288.1	6,992.1	5,570.0
Balance with the RBI	59,397.1	60,430.7	60,846.4
Balance with banks	14,322.4	13,811.9	14,107.6
Money at call and short notice	764.2	6,970.4	50.6
Investments	340,300.5	421,254.9	460,185.8
Advances	402,281.2	472,247.2	518,705.4
Fixed Assets (net of revaluation reserve)	5,177.9	5,788.0	5,916.6
Other Assets	30,323.7	33,172.9	32,300.5
Total Assets	**858,855.1**	**1,020,668.1**	**1,097,682.9**

Our total assets increased by 18.8% from Rs. 858.86 billion as of March 31, 2003 to Rs. 1,020.67 billion as of March 31, 2004, and further increased by 7.5% to Rs. 1,097.68 billion as of September 30, 2004. The most significant elements of this increase were increases in investments and advances as a result of the general increase in our business activities.

Our investments increased by 23.8% from Rs. 340.3 billion as of March 31, 2003 to Rs. 421.25 billion as of March 31, 2004, and further increased by 9.2% to Rs. 460.19 billion as of September 30, 2004. This was primarily due to increases in our government securities and other investments. Of our total investment portfolio as of September 30, 2004, 84.0% consisted of securities issued by the Government of India and state governments, compared to 84.1% as of March 31, 2004 and 81.5% as of March 31, 2003.

Our advances increased by 17.4% from Rs. 402.28 billion as of March 31, 2003 to Rs. 472.25 billion as of March 31, 2004, and further increased by 9.8% to Rs. 518.71 billion as of September 30, 2004. The reasons for the increase in our advances are discussed above under "Results of Operations".

Our money at call and short notice increased significantly from Rs. 0.76 billion as of March 31, 2003 to Rs. 6.97 billion as of March 31, 2004. This was primarily due to a reciprocal deposit we maintained with Deutsche Bank to match foreign currency funds obtained from that bank to meet foreign currency demands from our customers. Our money on call and short notice decreased to Rs. 0.05 billion as of September 30, 2004 due to the termination of the reciprocal deposit.

Our gross non-performing assets declined from Rs. 49.8 billion as of March 31, 2003 to Rs. 46.70 billion as of March 31, 2004 to Rs. 41.55 billion as of September 30, 2004 or, as a percentage of total advances, from 11.58% to 9.35% to 7.65%. This was due to our increased recovery efforts, upgrading the classification of assets into "performing" categories and selective write-offs of non-performing assets. Our gross non-performing assets in fiscal 2003 included non-performing assets taken over as part of our acquisition of Nedungadi Bank, which amounted to Rs. 5.17 billion as of the date of the acquisition. Our net non-performing assets declined from Rs. 15.27 billion as of March 31, 2003 to Rs. 4.49 billion as of March 31, 2004 to Rs. 1.49 billion as of September 30, 2004, or, as a percentage of total advances, from 3.86% to 0.98% to 0.30%. This was due to higher provisioning for non-performing assets. See the section titled "Selected Statistical Information" on page *72* for a further discussion of our non-performing assets.

Liabilities

The following table sets forth the principal components of our liabilities as of March 31, 2003, March 31, 2004 and September 30, 2004:

(In Rs. million)

	As of		
	March 31, 2003	**March 31, 2004**	**September 30, 2004**
Demand deposits from banks	1,660.2	1,431.8	929.9
Demand deposits from others	97,222.7	97,572.0	96,552.2
Savings deposits	256,478.9	304,226.1	330,151.0
Term deposits from banks	4,847.8	7,178.2	3,512.9
Term deposits from others	397,925.4	468,755.8	514,740.4
Total deposits	758,135.0	879,163.9	945,886.4
Borrowings	6,621.6	12,890.6	19,520.2
Other liabilities and provisions	41,662.9	59,130.2	55,033.6
Subordinated debt	15,928.6	23,578.6	23.428.6
Total liabilities	**822,348.1**	**974,763.3**	**1,043,868.8**

Our total liabilities increased by 18.5% to Rs. 974.76 billion as of March 31, 2004 from Rs. 822.35 billion as of March 31, 2003. This increase consisted mainly of an 18.6% increase in savings deposits, a 48.1% increase in term deposits from banks, a 17.8% increase in term deposits from others, a 94.7% increase in borrowings, a 39.7% increase in other liabilities and provisions and a 48.0% increase in subordinated debt. The increase in our deposits was principally due to general growth in our business, new customers acquired as we expanded our branch network and greater penetration of our customer base achieved through cross sales of our products. The increase in borrowings was mainly as a result of an increase in foreign currency borrowings. Other liabilities include bills payable, interest accrued on deposits and borrowings and interoffice adjustments. Bills payable increased by 47.3% from Rs. 9.48 billion in fiscal 2003 to Rs. 13.96 billion in fiscal 2004. Our total provisions in respect of non-performing assets increased by 28.8% from Rs. 28.35 billion as of March 31, 2003 to Rs. 36.52 billion as of March 31, 2004. The increase in subordinated debt was largely due to the issuance of Rs. 7.65 billion in Tier 2 bonds in fiscal 2004.

Our total liabilities increased by 7.1% from Rs. 974.76 billion as of March 31, 2004 to Rs. 1,043.87 billion as of September 30, 2004. This increase consisted mainly of a 7.6% increase in deposits as a result of the growth in our business and a 51.4% increase in borrowings as a result of a US$191 million line of credit and external commercial borrowings of US$100 million, which were raised during this period.

Off-Balance Sheet Arrangements and Financial Instruments

Contingent Liabilities

The following table sets forth the principal components of our contingent liabilities as of March 31, 2003, March 31, 2004 and September 30, 2004.

(In Rs. million)

	As of		
	March 31, 2003	**March 31, 2004**	**September 30, 2004**
Contingent liabilities			
Claims against the Bank not acknowledged as debt	1,811.5	2,146.8	2,130.8
Disputed income tax demands under appeal, references, etc.	141.9	377.5	375.7
Liability for partly paid investments	3.4	1.8	1.8
Liability on account of outstanding forward exchange contracts	163,640.3	195,434.7	224,095.9
Guarantees given on behalf of constituents in India and outside India	35,325.4	51,265.2	59,447.7
Acceptances, endorsements and other obligations	33,764.3	71,679.4	90,870.4
Other items for which the Bank is contingently liable	1,021.8	1,394.9	2,553.8
Total	**235,708.6**	**322,300.3**	**379,476.1**

Contingent liabilities increased by 36.7% from Rs. 235.7 billion as of March 31, 2003 to Rs. 322.3 billion as of March 31, 2004 and further increased by 17.7% to Rs. 379.5 billion as of September 30, 2004, primarily due to the following:

- A 19.4% increase in liability on account of forward exchange contracts from Rs. 163.6 billion as of March 31, 2003 to Rs. 195.4 billion as of March 31, 2004 and a further 14.7% increase to Rs. 224.1 billion as of September 30, 2004. This was mainly due to the growth of our foreign exchange business.
- A 45.1% increase in guarantees from Rs. 35.3 billion as of March 31, 2003 to Rs. 51.3 billion as of March 31, 2004 and a further 15.8% increase to Rs. 59.4 billion as of September 30, 2004, because of increased focus on our fee-based services business.
- A 112.3% increase in acceptances, endorsements and other obligations from Rs. 33.8 billion as of March 31, 2003 to Rs. 71.7 billion as of March 31, 2004 and a further 26.8% increase to Rs. 90.9 billion as of September 30, 2004, because of increased focus on our fee-based services business.

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 counterparties. Our derivative contracts include rupee-based derivatives and cross-currency derivatives for corporate customers and for our own hedging activities. We earn profit on interbank 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. We use ISDA master agreements for our derivatives transactions.

The aggregate notional principal amount of our forward foreign exchange contracts was Rs. 163.64 billion as of March 31, 2003, Rs. 195.43 billion as of March 31, 2004 and Rs. 224.10 billion as of September 30, 2004. Since these contracts are marked to market, their fair value as of those dates was the same as their notional value. Our notional principal amount of our single currency and cross currency interest rate swap agreements was Rs. 15.45 billion as of March 31, 2004, of which Rs. 0.45 billion represented single currency and Rs. 15.0 billion represented cross currency swaps and was Rs. 57.25 billion as of September 30, 2004, of which Rs. 42.25 billion represented single currency and Rs. 15.0 billion represented cross currency swaps. The losses we could incur if the counterparties of these swaps fail to fulfill their obligations would be Rs. 38.2 million and the expected income from these swaps on an accrual basis is Rs. 94.0 million. We did not have any outstanding swaps as of March 31, 2003.

Our hedging activities are carried out in the interbank market, which is a non-exchange informal market. However, these markets generally do not provide price discovery or sufficient data to reliably estimate the fair values of financial instruments.

Guarantees and Documentary Credits

As a part of our commercial banking activities, we issue guarantees and documentary credits such as letters of credit and guarantees to enhance the credit standing of our customers, for which we charge fees and commissions.

The amounts of guarantees and documentary credits outstanding as of March 31, 2003, March 31, 2004 and September 30, 2004 are set out below:

(In Rs. million)

	As of		
	March 31, 2003	**March 31, 2004**	**September 30, 2004**
Guarantees:			
Financial guarantees	12,817.4	23,848.7	27,999.6
Performance and other guarantees	22,508.0	27,416.5	31,448.2
Documentary credits	16,239.4	26,403.6	36,281.7
Total	**51,564.8**	**77,668.8**	**95,729.5**

Loan Sanction Letters

As part of our business we issue sanction letters to customers, indicating our intent to provide new loans. These letters generally lapse after six months. The letters are issued branch-wise, and we do not compile data on loan sanctions for our bank as a whole. If we were to make these loans, the interest rates would be dependent on lending rates in effect on the date the loans are made. The sanctions are subject to periodic review.

Capital Expenditures

Our capital expenditures consist principally of investments in branch, office and residential premises, investments in other fixed assets such as furniture and fixtures and investments in computer software. Capital expenditures on premises were Rs. 0.18 billion, Rs. 0.43 billion and Rs. 0.19 billion, respectively, in fiscal 2002, 2003 and 2004. Capital expenditures on other fixed assets were Rs. 1.11 billion, Rs. 1.29 billion and Rs. 1.68 billion, respectively, in fiscal 2002, 2003 and 2004. Capital expenditures on computer software were Rs. 0.37 billion, Rs. 0.06 billion and Rs. 0.13 billion, respectively, in fiscal 2002, 2003 and 2004. We have a maximum capital expenditure budget of Rs. 3.58 billion for fiscal 2005.

Selected Financial Data Comparing Standalone to Consolidated Results and Financial Position

The following table presents selected standalone and consolidated financial data of PNB as of and for the fiscal years ended March 31, 2003 and 2004. For ease of comparison and because our consolidated financial statements have not been restated, the data is presented on an unadjusted basis and, in the case of the standalone data presented below, will not match the restated unconsolidated financial statements included in this Red Herring Prospectus.

Assets and Liabilities Data

(In Rs. billions)

	PNB Standalone As of March 31,		PNB Consolidated As of March 31,	
	2003	**2004**	**2003**	**2004**
Investments	340.3	421.3	350.9	435.9
Advances	402.3	472.2	408.0	478.6
Other Assets	119.6	129.8	122.2	132.4
Total Assets	**862.2**	**1,023.3**	**881.1**	**1,046.9**
Capital	2.7	2.7	2.7	2.7
Reserves & Surplus	37.7	47.5	41.3	51.9
Deposits	758.1	879.2	759.5	880.7
Borrowings	6.6	12.8	17.3	26.9
Other Liabilities and Provisions	57.1	81.1	60.3	84.7
Total Liabilities	**862.2**	**1,023.3**	**881.1**	**1,046.9**

Profit and Loss Data

(In Rs. billions)

	PNB Standalone		PNB Consolidated	
	Fiscal 2003	**Fiscal 2004**	**Fiscal 2003**	**Fiscal 2004**
Income				
Interest earned	74.9	77.8	76.7	79.7
Other Income	12.5	18.7	13.4	19.7
Total Income	**87.4**	**96.5**	**90.1**	**99.4**
Expenditure				
Interest expended	43.6	41.6	44.7	42.6
Operating expenses	20.6	23.7	20.7	23.9
Provisions and Contingencies	14.7	20.1	15.5	20.9
Total Expenditure	**78.9**	**85.4**	**80.9**	**87.4**
Share of earnings / loss in associates and other adjustments	–	–	0.2	0.0
Net Profit (unadjusted)	**8.5**	**11.1**	**9.4**	**12.0**

RECENT DEVELOPMENTS

On January 28, 2005, we published our unaudited financial results for the quarter and nine months ended December 31, 2004. These results, together with the results for the quarter and nine months ended December 31, 2003, have been reproduced in this section. Unlike the financial information discussed in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations", the data for the quarters and nine months ended December 31, 2003 and 2004 has not been restated and therefore is not directly comparable to that information. The following is a summary discussion of our financial results for the quarter ended December 31, 2004:

- Total income increased by 0.76% from Rs. 23.62 billion in the quarter ended December 31, 2003 to Rs. 23.80 billion in the quarter ended December 31, 2004.
- Interest income increased by 10.2% from Rs. 19.35 billion in the quarter ended December 31, 2003 to Rs. 21.32 billion in the quarter ended December 31, 2004. This increase consisted of an increase of 15.2% in interest on advances and an increase of 5.5% in interest on investments. These increases were due to a 24.2% increase in the average volume of advances from Rs. 428.15 billion to Rs. 531.69 billion and a 14.4% increase in the average volume of investments from Rs. 411.75 billion to Rs. 471.09 billion, partly offset by a decline in interest rates.
- Other income decreased by 42% from Rs. 4.28 billion in the quarter ended December 31, 2003 to Rs. 2.48 billion in the quarter ended December 31, 2004, primarily because of lower treasury profits.
- Interest expense increased by 4.3% from 10.58 billion in the quarter ended December 31, 2003 to Rs. 11.03 billion in the quarter ended December 31, 2004, reflecting primarily an increase of 18.5% in the average volume of our deposits from Rs. 792.66 billion to Rs. 938.94 billion, offset partly by a decline in interest rates.
- Operating expenses increased by 23.8% from Rs. 5.92 billion in the quarter ended December 31, 2003 to Rs. 7.33 billion in the quarter ended December 31, 2004. This was primarily on account of a Rs. 1.23 billion additional expense for retirement benefits.
- Total expenses increased by 11.3% from Rs. 16.50 billion in the quarter ended December 31, 2003 to Rs. 18.36 billion in the quarter ended December 31, 2004.
- Net interest income increased by 17.3% from Rs. 8.77 billion in the quarter ended December 31, 2003 to Rs. 10.29 billion in the quarter ended December 31, 2004.
- Gross profit before provisions and contingencies decreased by 23.5% from Rs. 7.12 billion in the quarter ended December 31, 2003 to Rs. 5.45 billion in the quarter ended December 31, 2004.
- Net profit increased by 20.8% from Rs. 2.60 billion in the quarter ended December 31, 2003 to Rs. 3.14 billion in the quarter ended December 31, 2004.
- Provisions and contingencies decreased by 49.1% from Rs. 4.52 billion in the quarter ended December 31, 2003 to Rs. 2.30 billion in the quarter ended December 31, 2004. In the quarter ended December 31, 2004, we made a Rs. 1.07 billion provision on account of the impending banking industry wage settlement, which is described in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations". Of this amount, Rs. 0.70 billion related to prior periods. Provisions and contingencies were lower in the quarter ended December 31, 2004 because of lower provisions for non-performing assets as a result of improved recoveries which led to a decrease in our net non-performing assets.

Our capital adequacy ratio as of December 31, 2004 was 13.11%, which reflected in part the increased risk weights on consumer credit and investments in mortgage backed securities pursuant to new directives implemented by the RBI on December 23, 2004.

On January 28, 2005, our board of directors approved an interim dividend of Rs. 3 per Equity Share, which will result in a total payout of Rs. 898 million (of which Rs. 102 million represents dividend tax). The record date for the interim dividend is February 28, 2005 and the dividend will be paid on March 7, 2005.

The following is a reproduction of the financial results that were taken on record by our Board of Directors on January 28, 2005 and filed with the Stock Exchanges. One crore represents ten million.

FINANCIAL RESULTS (REVIEWED)

FOR THE QUARTER/NINE MONTHS ENDED 31st DECEMBER , 2004

Rs. In Crore

S.No.	Particulars	Quarter Ended		Nine Months Ended		Year Ended
		31.12.2004 (Reviewed)	**31.12.2003 (Reviewed)**	**31.12.2004 (Reviewed)**	**31.12.2003 (Reviewed)**	**31.03.2004 (Audited)**
1	**Interest Earned (a+b+c+d)**	**2132.08**	**1934.59**	**6275.20**	**5751.48**	**7779.69**
	a) Interest/discount on advances/ bills	1093.05	948.71	3166.29	2880.70	3876.01
	b) Income on Investments	981.25	929.82	2951.89	2710.91	3680.97
	c) Interest on Balances with RBI & other Inter Bank Funds	43.64	11.86	109.25	68.05	113.13
	d) Others	14.14	44.20	47.77	91.82	109.58
2	Other Income	248.00	427.74	1298.33	1476.77	1866.88
A.	**TOTAL INCOME (1+2)**	**2380.08**	**2362.33**	**7573.53**	**7228.25**	**9646.57**
3	Interest Expended	1102.57	1057.99	3340.54	3143.81	4154.99
4	**Operating Expenses (e+f)**	733.01	592.46	2052.76	1662.81	2370.72
	e) Payments to and provisions for employees	547.24	406.84	1498.80	1167.10	1654.06
	f) Other operating expenses	185.77	185.62	553.96	495.71	716.66
B.	**TOTAL EXPENSES (3+4)** (excluding provisions & contingencies)	**1835.58**	**1650.45**	**5393.30**	**4806.62**	**6525.71**
C.	**Operating Profit (A-B) (Profit before Provisions & Contingencies)**	**544.50**	**711.88**	**2180.23**	**2421.63**	**3120.86**
	Total Provision & Contingencies	230.23	452.08	1130.74	1610.31	2012.17
D.	Other Provisions & Contingencies	132.38	227.08	749.77	1104.60	1351.38
	- of which Provision for Non-Performing Assets	97.35	197.74	231.18	991.26	1401.00
E.	**Provision For Taxes**	97.85	225.00	380.97	505.71	660.79
F.	**NET PROFIT (C-D-E)**	**314.27**	**259.80**	**1049.49**	**811.32**	**1108.69**
5	Paid up equity Share Capital	265.30	265.30	265.30	265.30	265.30
6	Reserves excluding revaluation reserves (As per Balance Sheet of Previous year)					4425.46
7	**Analytical Ratios**					
	(i) Share holding of Govt. of India (%)	80	80	80	80	80
	(ii) Capital Adequacy Ratio (%)	13.11	12.57	13.11	12.57	13.10
	(iii) Earning per Share in Rs.					
	(Non-Annualised, at Face Value of Rs.10/-)	11.85	9.79	39.56	30.58	41.79
	(iv) (a) Amount of gross non-performing assets	4188.20	5171.85	4188.20	5171.85	4670.13
	(b) Amount of net non-performing assets	137.30	883.76	137.30	883.76	448.96
	(c) % of gross NPAs	7.80	11.64	7.80	11.64	9.35
	(d) % of net NPAs	0.28	2.20	0.28	2.20	0.98
	(v) Return on Assets (Annualised) %	1.11	1.09	1.24	1.14	1.08
8	**Aggregate of Non-Promoter Share holding**					
	(i) No. of Shares	53061200	53061200	53061200	53061200	53061200
	(ii) Percentage of Share holding	20	20	20	20	20

Segment Reporting:

(Rs. in crore)

Business Segments	Treasury			Other banking operations			Unallocated			Total		
Particulars	Nine Months Ended 31.12.04	Nine Months Ended 31.12.03	FY 04	Nine Months Ended 31.12.04	Nine Months Ended 31.12.03	FY 04	Nine Months Ended 31.12.04	Nine Months Ended 31.12.03	FY 04	Nine Months Ended 31.12.04	Nine Months Ended 31.12.03	FY 04
Segment Revenue (external revenue)	3183.41	3817.85	4913.87	4390.12	3410.40	4732.71	XXX	XXX	XXX	7573.53	7228.25	9646.58
Segment Results (before Prov and Contingencies & I.Tax)	717.17	1489.07	1912.30	1674.78	1129.62	1501.94	XXX	XXX	XXX	2391.95	2618.69	3414.24
Provisions & Contingencies	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	750.38	1104.60	1351.38
Unallocated Corporate Expenses	XXX	XXX	XXX	XXX	XXX	XXX	211.72	197.06	294.18	211.72	197.06	294.18
Income tax	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	380.36	505.71	659.99
Net Profit	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1049.49	811.32	1108.69
Capital Employed	2370.14	3153.30	2111.76	3065.95	1446.40	2834.22	529.00	161.77	65.82	5965.09	161.77	5011.80

Since the transactions of the newly opened Kabul branch are less than the threshold limit of 10%, the same has not been considered as a separate reportable segment.

Notes:

i. The above financial results were taken on record by the Board of Directors in its meeting held on 28.01.2005. The results were subjected to limited review by the Statutory Central Auditors.

ii. The results have been prepared on the basis of the Accounting policies as were followed in the immediate preceding financial year 2003-04.

iii. Interim dividend @ 30% amounting to an appropriation of Rs.89.79 Crore (including dividend Tax of Rs.10.20 crore), was approved by Board of Directors of the Bank.

iv. The Bank has built up an over and above additional provision of Rs.246 Crores (during the quarter Rs.123 Crore) against pension and gratuity.

v. Results for the nine months period ended 31.12.2004 include Rs.207.70 Crores on account of depreciation on certain Govt. securities transferred from AFS to HTM category in terms of RBI guidelines. The figures of the corresponding period are not comparable to that extent.

vi. Results for the nine months period ended 31.12.2004 include Miscellaneous Income on account of the credit balance to the tune of Rs.387.07 Crore transferred from Inter branch Transactions blocked account. The said Income has been appropriated to Rs.290.30 Crore in Revenue & Other Reserves and Rs.96.77 Crore to Statutory Reserves. The accounting effect of the above has been given as per approval of RBI.

vii. Financial results for the quarter/nine months period ended 31.12.2004 have been arrived at after considering provisions for loan losses and Standard Assets, depreciation on Investments and Fixed assets, Gratuity, Pension, Bonus, Leave Encashment, Tax on Income and amortisation of deferred expenditure on VRS-2000.

viii. Provision and contingencies include an adhoc provision of Rs.265 Crore during the nine months period ended 31st December 2004 (Rs.106.75 Crore during the quarter) towards arrear of salary payable to employees, pending settlement on wage revision, under Industry level negotiations.

ix. Any complaints from the Investors were not pending at the beginning of the quarter. During the quarter ended on 31.12.2004, 482 complaints were received and all such complaint stand resolved at the end of the period.

x. Figures of the corresponding previous period have been regrouped/rearranged/reclassified wherever considered necessary.

xi. Aforesaid notes annexed to and form part of the financial results.

Place: New Delhi
Date: 28.01.2005

Dr. K.C Chakraborty
Executive Director

S.S. Kohli
Chairman & Managing Director

OUR MANAGEMENT

Board of Directors

Under our Constitutional Documents we can have a maximum of 15 Directors. We currently have 9 Directors on our Board of Directors.

The following table sets forth details regarding our Board of Directors:

Name, Designation, Occupation and Term	Age	Address	Other Directorships
Mr. S. S. Kohli, Chairman & Managing Director. Whole time Director. Tenure ends on April 19, 2005.	59 years	20, Rajdoot Marg, Chanakaya Puri, New Delhi 110 021.	• Agricultural Finance Corporation Ltd. • Oriental Insurance Company Ltd. • PNB Gilts Ltd. (Chairman) • PNB Housing Finance Ltd. (Chairman) • Small Industries Development Bank of India. • Export Credit and Guarantee Corporation of India Ltd.
Dr. K.C. Chakrabarty, Executive Director. Whole time Director. Tenure ends on August 26, 2009.	52 years	8, Major Dhyan Chand Marg, Asiad Village, New Delhi 110 049.	• PNB Gilts Ltd • PNB Housing Finance Limited • PNB Assets Management Company Ltd. • Assets Care Enterprises Limited.
Dr. K.V. Rajan, RBI Nominee Director. Tenure will end on further orders from the MoF.	54 years	A-26, RBI Staff Quarters, Char Imli, Bhopal 462 016, Madhya Pradesh	Nil.
Mr. P. K. Nayar, Officer Representative Director. Tenure ends on February 19, 2007 and thereafter until his successor is appointed or till he ceases to be an officer of PNB or until further orders, whichever is earlier, provided that he shall not hold office continuously for a period of six years.	55 years	B-XIX-569, Malerkotla House, Civil Lines, Ludhiana 141 001, Punjab.	Nil.
Dr. Pritam Singh. Shareholder Independent Director. Tenure ends on August 5, 2005.	63 years	F1, Director's Bungalow, Management Development Institute Complex, Mehrauli Road, Sukhrali, Gurgaon, Haryana	• Shipping Corporation of India. • Indian Credit Rating Agency. • Indian Medicines and Pharmaceuticals Ltd. • Local Board of Reserve Bank of India. • Oriental Insurance Company Ltd. • Hindustan Aeronautics Ltd. • Hero Honda Motors Limited.

Name, Designation, Occupation and Term	Age	Address	Other Directorships
Dr. K. B. L. Mathur. Economic Advisor, Government of India- Director. The tenure is till further orders of the Goverrnment, or till he ceases to be an officer of the MoF.	58 years	House no. 9, Upper Ground Floor, Road No. 46A, West Punjabi Bagh, New Delhi- 110026.	● Tourism Finance Corporation of India
Mr. Mohanjit Singh. Shareholder Independent Director. Tenure ends on August 5, 2005.	70 years	11, Mathura Road, Near Rajdoot Hotel, New Delhi 110 014.	● Delfin Finance Ltd. ● Delhi Financiers (Pvt. Ltd.) ● The New India Industrial Corporation Ltd. ● Hexa Estates (P) Ltd. ● PNB Gilts Ltd. ● National Institute of Fashion Technology (Members of Board of Governors).
Mr. A.S.Agarwal. Non Executive Independent Director. Tenure ends on November 24, 2006.	59 years	C/o Swarup Chemicals (P) Ltd. Water Works Road. Aishbagh, Lucknow 226004, Uttar Pradesh.	● Swarup Publications (P) Ltd.
Mr. Mohan Lal Bagga., Workmen Director. Tenure ends on August 31, 2007 and thereafter until his successor is appointed or till he ceases to be a workman employee of the Bank, or until further orders, whichever is earlier provided that he shall not hold office continuously for a period exceeding six years.	55 years	688, Sector 13 Extension, Urban Estate, Karnal, Haryana.	Nil.

Note: All directors except for Mr. S.S. Kohli and Dr. K.C. Chakrabarty are non-executive directors.

Details of Directors

Mr. S. S. Kohli, aged 59 years, the Chairman and Managing Director of the Bank, has a career spanning 34 years in the banking sector. He has degree in mechanical engineering, a diploma in Industrial Finance and CAIIB. He joined the Board of Directors in April 2000.

Dr. K. C. Chakrabarty, aged 52 years, Executive Director, has a career spanning 26 years in the banking sector. He has a bachelors degree and a masters degree in science and a doctorate degree in statistics. He joined the Board of Directors in July 2004.

Dr. K. V. Rajan, aged 54 years, Director, is presently a Regional Director of the RBI, Bhopal. He has a master's degree in economics and doctorate degree and has participated in the advanced studies programme of the Kiel Institute of World Economics, Kiel, Germany. He has served in various capacities in various departments of the RBI including the Department of Banking Operations and Development and the Department of Non-Banking Finance Companies. He has joined the Board of Directors in 2004.

Mr. P. K. Nayar, aged 55 years, Director, he has a bachelor degree in agricultural science. He has 33 years of experience as an employee in the Bank. He has joined the Board of Directors in 2004.

Dr. Pritam Singh, aged 63 years, Director, is a former director of the Indian Institute of Management, Lucknow and is presently the director of Management Development Institute, Gurgaon, Haryana. He has masters in commerce, a masters in business administration and a doctorate degree in management. He has joined the Board of Directors in 2002.

Mr. Mohanjit Singh, aged 70 years, Director, is a former director of UCO Bank. He has experience in industry and exports of more than 40 years. He has a bachelor's degree in economics and law. He has joined the Board of Directors in 2002.

Dr. K. B. L. Mathur, aged 58 years, Director, is presently working as Economic Advisor in the Banking Division of the Department of Economic Affairs, MOF, GoI. He has joined the Board of Directors on January 24, 2005.

Mr. A. S. Agarwal, aged 59 years, Director, is a businessman and a journalist. He has a bachelor's degree in commerce and law and a special diploma in taxation. He joined our Board of Directors in 2003.

Mr. Mohan Lal Bagga, aged 55 years, Director, has 31 years of experience as an employee in the Bank. He has a bachelor's degree in science. He has joined the Board of Directors in 2004.

Shareholding of our Directors in our Bank

Our Constitutional Documents do not require our Directors, except the Directors appointed by shareholders (other than the President of India) to hold any Equity Shares. The shareholding of our Directors as on the date of this Red Herring Prospectus is as follows.

Name of the Director	Number of Equity Shares of Rs. 10 each	Percentage of Outstanding Equity Capital
Dr. Pritam Singh	500	Negligible
Mr. Mohanjit Singh	100	Negligible

There are no transactions by Directors or their relatives in our Equity Shares in the last six months.

Term of Office

The following table has term of office of our Directors:

Name, Status of Director	Term
Mr. S. S. Kohli, Chairman & Managing Director, Whole Time Director	Tenure ends on April 19, 2005.
Dr. K.C. Chakrabarty, Executive Director, Whole Time Director	Tenure ends on August 26, 2009.
Dr. K.V. Rajan, Part time Director, RBI Nominee	Tenure will end on further orders from the MoF.
Mr. P. K. Nayar, Part time Director, Officer Representative	Tenure ends on February 19, 2007.
Dr. Pritam Singh, Non Executive Independent Director	Tenure ends on August 5, 2005.
Dr. K. B. L. Mathur, Government Nominee Director.	Tenure is till further orders of the Goverrnment, or till he ceases to be an officer of the MoF.
Mr. Mohanjit Singh, Shareholder Independent Director.	Tenure ends on August 5, 2005.
Mr. A. S. Agarwal, Non Executive Independent Director	Tenure ends on November 24, 2006.
Mr. Mohan Lal Bagga, Workman Director	Tenure ends on August 30, 2007 until his successor is appointed or till he ceases to be a workman employee of the Bank, or until further orders, whichever is earlier provided that he shall not hold office continuously for a period exceeding six years.

For details of the terms of appointment of our whole time Directors, please refer to the section titled "Statutory and Other Information" on page 243.

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
Mr. V.K. Sibal	February 2, 2002	May 7, 2003	Ceased to be Director pursuant to intimation from the GoI.
Mr. Ramesh Chander	April 2, 2002	July 31, 2003	Ceased to be a Director as per intimation from the GoI.
Mr. V.K. Sharma	July 31, 2003	January 9, 2004	Ceased to be a Director as per intimation from the GoI.
Mr. A. S. Agarwal	November 25, 2003	Continuing	Appointed as a Director.
Dr. K.V. Rajan	January 9, 2004	Continuing	Nominated as Director by Central Government on recommendation by RBI.
Mr. P. K. Nayar	February 20, 2004	Continuing	Nominated as a Director by the GoI.
Mr. T.S. Narayanasami	December 15, 2000	April 20, 2004	Ceased to be Director as he was appointed as the Chairman and Managing Director of Andhra Bank by the GoI.
Dr. K. C. Chakrabarty	August 27, 2004	Continuing	Appointed as a Director by the GoI.
Mr. M.L. Bagga	September 1, 2004	Continuing	Nominated as a Director by the GoI.
Dr. K. B. L. Mathur	January 24, 2005	Continuing	Appointed as Director by the GoI.

Corporate Governance

We had made a public issue of 53,060,700 equity shares in March 2002 and are currently listed on the NSE and the BSE. We had entered into listing agreements with these stock exchanges and we are in compliance with the applicable provisions of the listing agreements with these 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 applicable SEBI Guidelines in respect of corporate governance specially with respect to broad basing of board, constituting the committees such as shareholding/ investor grievance committee details of which are provided hereinbelow. We shall comply with the applicable requirements of SEBI circular bearing number SEBI/CFD/DIL/CG/1/2004 dated October 29, 2004, which notifies revised corporate governance guidelines, by the required date, which is April 1, 2005 for listed entities like our Bank.

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

(a) Audit Committee;

(b) Share Transfer Committee

(c) Shareholder/Investors Grievance Committee

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

(a) *Audit Committee*

The audit committee comprises one executive and three non-executive Directors, namely, Dr. K.C. Chakrabarty, who is an executive Director, Dr. K. B. L. Mathur, nominee of the Government of India, Dr. K.V. Rajan, who is the nominee of the RBI, Mr. Mohanjit Singh and Mr. A.S. Agarwal, both of whom are non executive independent Directors. We have appointed Ms. Malathi Mohan, Company Secretary as the secretary to the Audit Committee as required under the listing agreements. The responsibilities of the audit committee *inter alia* include the following:

- Providing direction and overseeing the total audit function of the Bank and follow up on the statutory/external audit of the Bank and inspections of RBI.
- Obtaining and reviewing half yearly reports from the companies cell.
- Interacting with statutory auditors before finalization of annual/semi-annual/quarterly financial accounts and reports and also follow up on all the issues raised in the long form audit report.
- Reviewing the internal inspection/audit functions of the Bank namely the systems, its quality and effectiveness in terms of follow up.
- Reviewing inspection reports of specialized and extra large branches and all the branches with unsatisfactory rating.
- Acting as per provisions of the listing agreements with the Stock Exchanges and in line with the RBI guidelines.

(b) *Share Transfer Committee*

This committee approves and monitors share transfers, issue of duplicate share certificates and matters relating thereto. It comprises of Dr. K.C. Chakrabarty, who is also chairman of the committee and an executive Director, Mr. P.K. Nayar, an officer Director, and Mr. Mohanjit Singh, a non-executive Director.

(c) *Shareholders/Investors Grievance Committee*

This committee looks into the redressal of shareholders' grievances. It comprises of Mr. Mohanjit Singh, a non-executive Director, who is also chairman of the committee, Dr. K.C. Chakrabarty, an executive Director and Mr. P. K.Nayar, an officer Director. The Board of Directors has nominated Ms. Malathi Mohan, company secretary, as the compliance officer in terms of Clause 47 of the listing agreements with the Stock Exchanges.

Key Managerial Personnel

Mr. S. K. Awasthi, aged 59 years, joined our Bank on August 22, 1966 and is currently General Manager. He has a masters degree in commerce and CAIIB and a diploma in bank management. He has 38 years of experience with our Bank.

Mr. C. P. Swarnkar, aged 56 years, joined our Bank on December 1, 1969 and is currently General Manager. He has a masters degree in commerce and CAIIB-I. He has 35 years of experience with our Bank.

Mr. P. L. Madan, aged 58 years, joined our Bank on July 8, 1967 and is currently General Manager. He has a bachelors degree in commerce, a masters degree in economics and CAIIB. He has 37 years of experience with our Bank.

Mr. K. G. Sathyasingan, aged 57 years, joined New Bank of India on July 1, 1975 which was merged with our Bank in 1993, and is currently General Manager. He has a bachelors degree in arts, masters degree in science and CAIIB-I, Diploma in Systems Management, degree in law and diploma in laws relating to air and outer space. He has 29 years of experience with Bank.

Mr. V. Nagaraja, aged 57 years, joined our Bank on September 9, 1969 and is currently General Manager. He has a masters degree in commerce and CAIIB-I. He has 35 years of working experience with our Bank.

Mr. B. M. Mittal, aged 55 years, joined our Bank on September 1, 1972 and is currently General Manager. He has a bachelor degree in engineering and CAIIB, a post graduate diploma in bank management from National Institute of Bank Management and a post graduate diploma in training and development from Indian Society for Training and Development. He has 32 years of experience with our Bank.

Mr. D. L. Rawal, aged 53 years, joined New Bank of India on February 1, 1972 and is currently General Manager. He has a bachelor degree in science and CAIIB. He has 32 years of experience in the banking sector.

Mr. A. D. Paliwal, aged 58 years, joined our Bank on March 2, 1971 and is currently General Manager. He has a masters degree in business management and CAIIB besides a post graduate diploma in training and development from Indian Society for Training and Development and diploma in management consultancy from Institute of Management Consultants of India. He has 33 years of experience with our Bank.

Mr. U. S. Bhargava, aged 57 years, joined our Bank on March 1, 1971 and is currently General Manager. He has a bachelor degree in technology and CAIIB-I. He has 33 years of experience with our Bank.

Mr. A. Balasubramanian, aged 55 years, joined our Bank on December 11, 1981 and is currently General Manager. He has a bachelor degree in science and he is an associate member of the Institute of Chartered Accountants of India. He has 23 years of experience with our Bank.

Mr. V.K. Nagar, aged 53 years, joined our Bank on February 26, 1983 and is currently General Manager. He has a bachelor degree in technology and CAIIB, a post graduate diploma in marketing and sales management and a masters degree in business administration. He has 21 years of experience with our Bank.

Mr. H. Singh, aged 56 years, joined our Bank on September 1, 1972 and is currently General Manager. He has a masters degree in science (agricultural economics) and CAIIB-I. He has 32 years of experience with our Bank.

Mr. A. Kaul, aged 48 years, joined our Bank on July 25, 1983 and is currently General Manager. He has a bachelors degree in science and a masters degree in business administration and CAIIB-I. He has 21 years of experience with our Bank.

Mr. R.I.S. Sidhu, aged 54 years, joined our Bank on March 1, 1971 and is currently General Manager. He has a masters degree in economics and CAIIB-I and a post graduate diploma in bank management. He has 33 years of experience with our Bank.

Mr. V. P. Choudhary, aged 57 years, joined or Bank on March 1, 1971 and is currently General Manager. He has a bachelors degree in Commerce, masters degree in Economics and CAIIB-I. He has 33 years of experience with our Bank.

Mr. L. P. Agarwal, aged 55 years, joined the Bank on December 19, 1981 and is currently General Manager. He has a bachelors degree in commerce, bachelors degree in law and is an associate member of the Institute of Chartered Accountants of India. He has 23 years of experience with our Bank.

Mr. Ranjan Dhawan, aged 49 years, joined the Bank on June 27, 1983 and is currently General Manager. He has a bachelors degree in commerce, masters degree in business administration, associate member of the Chartered Institute of Management Accountants (U.K.). He has 21 years of experience with our Bank.

Mr. I. D. Singh, aged 54 years, joined the bank on May 20, 1970 and is currently General Manager. He has a Bachelors degree in Commerce and CAIIB. Presently he is the Managing Director of PNB Gilts Ltd., a subsidiary of our Bank. He has around 34 years of experience with our Bank.

Mr. P. K. Mitra, aged 55 years, joined the Bank on September 1, 1972 and is currently General Manager. He has a bachelor's degree in mechanical engineering, CAIIB, post graduate diploma in personnel management and masters in business administration. He has around 32 years of experience with the Bank.

Mr. B.P. Chopra, aged 54 years, joined the Bank on September 5, 1973 and is currently General Manager. He has a masters of sciences degree in physics, and CAIIB. He has around 31 years of experience with the Bank.

Mr. K. S. Bajwa, aged 56 years, joined the Bank on July 8, 1974 and is currently General Manager. He has a masters degree in arts, masters degree in management, and CAIIB. He has around 30 years of experience with the Bank.

None of our key managerial personnel are related to each other. All our key managerial personnel are permanent employees of our Bank. Our key management personnel are entitled to the compensation and benefits are as applicable to our permanent employees. All the Key Management Personnel are of the General Manager grade and hence the compensation falls in the scale of Rs19340-420/2-520-600-21300 per month.

The number of shares held by our key management personnel are given below:

Name of Key Managerial Personnel	No. of Equity Shares held
Mr. L.P. Agarwal	100
Mr. P. K. Mitra	200
Mr. B.M. Mittal	100
Mr. R. Dhawan	100
Mr. A.D. Paliwal	400
Mr. Arun Kaul	100
Mr. U.S. Bhargava	100
Mr. V. Nagaraja	100
Mr. V. P. Choudhary	100
Mr. Harwant Singh	200
Mr. R.I.S Sidhu	200
Mr. B.P. Chopra	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 Appointment/ Promotion as Key Managerial Personnel	Whether continuing, if not, date of cessation	Reason
Mr. K.N. Prithiviraj	June 21, 1996	January 20, 2003	Appointed Executive Director to United Bank of India
Mr. D.P. Singh	September 30, 1998	March 25, 2004	Death
Mr. M. S. Aftab	March 28, 2001	November 2, 2004	Appointed as Executive Director to Vijaya Bank
Mr. A. Balasubramanian	April 16, 2003	Yes	Promotion
Mr. V.K. Nagar	April 16, 2003	Yes	Promotion
Mr. H. Singh	April 16, 2003	Yes	Promotion
Mr. A. Kaul	April 16, 2003	Yes	Promotion
Mr. R.I.S. Sidhu	April 16, 2003	Yes	Promotion
Mr. V. P. Choudhary	May 31, 2004	Yes	Promotion
Mr. L. P. Agarwal	May 31, 2004	Yes	Promotion
Mr. Ranjan Dhawan	May 31, 2004	Yes	Promotion
Mr. I. D. Singh	May 31, 2004	Yes	Promotion
Mr. P. K. Mitra	May 31, 2004	Yes	Promotion
Mr. B.P. Chopra	May 31, 2004	Yes	Promotion
Mr. K. S. Bajwa	May 31, 2004	Yes	Promotion

OUR PROMOTER, SUBSIDIARIES AND GROUP COMPANIES

PROMOTER

Our Promoter is the President of India, acting through the MoF, GoI, which holds 80% of the pre-Issue paid up equity share capital of our Bank and will hold at least 67.31% of the fully diluted post-Issue paid up equity share capital of our Bank. Following the Capital Reduction, the President of India will hold 57.80% of the paid up capital of our Bank. For further details on the Capital Reduction please see the section titled "Capital Structure" on page 22.

SUBSIDIARIES

We have three subsidiaries, namely PNB Housing Finance Limited, PNB Gilts Limited and PNB Asset Management Company Limited.

PNB Housing Finance Limited ("PNB Housing")

PNB Housing, a wholly owned subsidiary of our Bank, was incorporated on November 11, 1988. PNB Housing was set up to meet the financing demand from the housing sector. The total amount of loans given by PNB Housing as of December 31, 2004 was Rs. 8794.6 million.

Shareholding Pattern

The entire share capital is held by the Bank.

Board of Directors

The directors of PNB Housing are Mr. S.S.Kohli, Dr. K.C. Chakrabarty, Mr. R. S. Awasthi, Mr. Man Mohan Singh Rekhrao, Mr. K. B. Sharma, Mr. Bimal Kumar Raizada, Mr. C. P. Swarnkar, and Mr. K. G. Sathyasingan.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Equity share capital	300.0	300.0	300.0
Reserve and surplus	376.1	458.1	575.8
Total income	669.2	803.7	904.4
Profit after tax	91.8	119.2	154.9
Earnings per share (Rs.)	3.06	3.97	5.17
Net asset value per share (Rs.)	22.52	25.27	29.19

PNB Gilts Limited ("PNB Gilts")

PNB Gilts, a subsidiary of our Bank, was incorporated on March 13, 1996 and listed in the NSE and BSE. PNB Gilts is a primary dealer appointed by the RBI to undertake market-making activities in Government securities. It is engaged in the business of trading in Government securities, treasury bills, bonds of public sector enterprises, government guaranteed bonds and state government securities. It is also engaged in money market operations, which includes dealing in call/notice and term money, commercial paper and certificate of deposit. The company has also ventured into other areas of financial services, which include merchant banking activities (viz. project appraisals, loan syndication, placement of debts), advisory services, marketing and distribution of mutual fund products, etc.

Shareholding Pattern

The shareholders of PNB Gilts are PNB holding 74.07% and the public holds the remaining 25.93%.

Board of Directors

The directors of PNB Gilts are Mr. S.S.Kohli, Dr. K.C. Chakrabarty, Dr. Kamal Gupta, Mr. S. K. Soni, Dr. O. P. Chawla, Mr. Mohanjit Singh, Mr. Rajendra Singh Lodha, Mr. Sunil Kant Munjal, Mr. Arun Kaul and Mr. I. D. Singh.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Equity share capital	1,350.1	1,350.1	1,350.1
Reserves and surplus	2,796.6	3,374.4	4,063.2
Total income	2,343.9	2,300.9	2,379.4
Profit after tax	1,125.9	925.1	1,069.6
Earnings per share (Rs.)	8.34	6.85	7.92
Net asset value per share (Rs.)	30.71	34.99	40.10

Promise V/s Performance

PNB Gilts made a public issue in July 2000, which contained projections. A comparison of the projections as given in the prospectus with actual performance is given below.

For the Year Ending March 31, 2001:

(In Rs. million)

	Particulars	Projections	Actuals
A.	**INCOME**		
	Discount on money market instruments	200.0	79.4
	Interest on		
	Government securities	1,953.0	1,741.0
	Public sector units bonds	225.0	93.7
	Others	-	89.7
	Profit on		
	Sale of government dated securities	540.0	170.2
	Sale of public sector bonds	40.0	47.5
	Underwriting fee and other income	30.0	24.5
	TOTAL	2,988.0	2,246.4
B.	**EXPENDITURES**		
	Interest on call notice & short term lending	1,546.5	1,345.6
	Establishment expenses	10.4	10.7
	Administrative and other expenses	28.0	23.8
	Provisions against overdue call lending	-	50.0
	Depreciation on fixed asset	4.0	3.9
	Amortisation of preliminary expenses	-	5.4
	TOTAL	1,588.9	1,439.5

(In Rs. million)

Particulars	Projections	Actuals
Profit before tax	1,399.1	806.9
Provision for tax	538.7	336.3
Profit after tax	860.4	470.5
Equity	1,350.0	1350.0
Reserves and surplus	2,499.5	2,007.9
Net worth	3,849.5	3,358.0
Earnings per share (Rs.)	6.37	3.48
Book value (Rs.)	28.52	24.87
Average net borrowings	19,000.0	14,709.5
Leverages (Average borrowings /Net owned funds)	4.94:1	4.38:1

PNB Gilts could not meet the projections as given in the prospectus for their IPO because of unfavourable market conditions in the first half of FY 2000-01, which resulted in a loss of Rs. 391.6 million. However, PNB Gilts made a profit before tax of Rs. 1198.5 million in the second half of FY 2000-01 ending the year with a profit before tax of Rs. 806.9 million.

Information about Share Price

The equity shares of PNB Gilts were listed on DSE, BSE and NSE. However, the company had its equity shares delisted voluntarily from DSE in March 2004 as there was no trading of its equity shares on DSE since the date of listing. PNB Gilts has complied with the clauses of the listing agreements with the Stock Exchanges.

The market price of the equity shares of PNB Gilts, in the NSE during the six months preceding the filing of this Red Herring Prospectus is as follows:

(In Rs.)

	High	Low
January 2005	**22.60**	**19.50**
December 2004	24.40	18.45
November 2004	18.60	16.90
October 2004	19.20	17.50
September 2004	20.75	18.75
August 2004	21.90	17.90

The market price of the equity shares of PNB Gilts as of February 7, 2005 was Rs. 20.75 at the NSE.

There has been no change in the capital structure of PNB Gilts in the last six months.

Investor Grievance

The company attends to investor grievances/ correspondence expeditiously and usually reply is sent within 10 days of receipt, except in cases that are constrained by dispute or legal impediment. There are no investor grievances pending as of February 1, 2005.

PNB Asset Management Company Limited ("PNB AMC")

PNB AMC, a wholly owned subsidiary of our Bank, was incorporated on March 18, 1994. PNB AMC acted as an investment manager to PNB Mutual Fund. It was responsible for investment decisions and day-to-day operations of PNB Mutual Fund including formulations and launching of new schemes, etc. under the supervision, control and governance of the board of Trustees of the Bank's mutual fund. We received permission from SEBI by a letter dated March 18, 2004 bearing reference number IMD/MHS/5519/2004 for the takeover and merger of the schemes of PNB Mutual Fund into pre-existing select schemes of Principal Mutual Fund and takeover of six redeemed and wound-up schemes of PNB Mutual Fund. The Board of Directors of our Bank in its meeting held on March 29, 2003 accorded in principle approval for the merger of PNB AMC with us. The memorandum of understanding between Principal Financial Services, Inc., us and Vijaya Bank on June 24, 2003 and the business transfer agreement dated August 25, 2003 between Principal AMC, Principal Trustee Company Limited, PNB AMC and the Board of trustees of PNB Mutual Fund, transferred/merged all the schemes of PNB Mutual Fund with the schemes of Principal Mutual Fund on April 30, 2004. Our application dated May 31, 2004 for deregistration of PNB Mutual Fund and de-recognition of PNB AMC is pending before SEBI. We are awaiting SEBI's response on our application.

Shareholding Pattern

PNB AMC is our wholly owned subsidiary, and thus, we hold the entire share capital of PNB AMC.

Board of Directors

The directors of PNB AMC are Dr. K.C. Chakrabarty, Mr. D.L. Rawal, Mr. K.P. Kulkarni, Mr. S.C. Gupta and Mr. B.B. Aggarwal.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Equity share capital	290.00	290.00	290.00
Reserves and surplus	(-)106.70	(-)89.20	(-)77.60
Total income	41.70	35.30	40.20
Profit after tax	15.10	17.5	17.5
Earnings per share (Rs.)	0.52	0.60	0.61
Net asset value per share (Rs.)	6.32	6.92	7.53

ASSOCIATES

We have nine associates, namely (1) Assets Care Enterprises Ltd. (2) UTI Asset Management Company (P) Ltd. (3) UTI Trustee Company (P) Ltd. (4) Principal PNB Asset Management Company Private Limited (5) Principal Trustee Company Private Limited (6) PNB Principal Financial Planners Private Limited (7) Principal-PNB Pensions and Life Insurance Company Limited (8) PNB-Principal Insurance Advisory Company Private Limited and (9) Everest Bank Limited. Of these, Principal PNB Insurance & Pensions Company Ltd and PNB-Principal Insurance Advisory Services Private Limited are yet to be incorporated.

Assets Care Enterprises Ltd. ("Assets Care")

Assets Care was incorporated on June 11, 2002 and its registration from RBI was received on October 17, 2003. The RBI stipulated in the registration letter that the company shall commence business of securitisation/ asset reconstruction only after the RBI is satisfied that a competent person with professional experience is in place as the chief executive officer of the company. The company is in the process of appointing a chief executive officer and hence it has yet to start the business of assets reconstruction/securitisation. However, it has undertaken certain fee-based assignments, including a viability study of two companies and preparation of restructuring schemes during the financial year 2003-04.

Shareholding Pattern

The shareholders of Assets Care, as on September 30, 2004, are Industrial Finance Corporation of India holding 33%, PNB holding 26%, Trade Finance Corporation of India holding 10.2%, Life Insurance Corporation of India holding 10%, Bank of Baroda holding 10%, United Bank of India holding 10% and Madhya Pradesh Consultancy Organisation Ltd. holding 0.8%.

Board of Directors

The directors of the company, as of date are Mr. Jagdish Capoor, Mr. Arvind Pande, Mr. P. B. Nimbalkar, Mr. V. V. Desai, Mr. S. C. Bhargava and Mr. R. M. Malla.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002*	**2003**	**2004**
Capital	N.A.	50.00	50
Reserves and surplus	N.A.	0.60	0.01
Total income	N.A.	8.09	0.36
Profit after tax	N.A.	0.58	0.01
Earnings per share (Rs.)	N.A.	0.12	0.002
Net asset value per share (Rs.)	N.A.	10.12	10.002

* No financials since the company was incorporated in June 2002.

UTI Asset Management Company (P) Ltd. (“UTI Asset Management”)

UTI Asset Management was incorporated on November 14, 2002. The company is registered as an asset management company and manages the schemes of UTI Mutual Fund.

Shareholding Pattern

The shareholders of UTI Asset Management are SBI (through itself or nominees) holding 25%, Life Insurance Corporation of India (through itself or nominees) holding 25%, Bank of Baroda (through itself or nominees) holding 25%, PNB (through itself or nominees) holding 25%.

Board of Directors

The directors of the company are Mr. U.K. Sinha, Mr. S.H. Bhojani, Mr. J.S. Mathur and Mr. Vinayshil Gautam.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004***
Equity share capital	N.A.	N.A.	100
Reserves and surplus	N.A.	N.A.	12,49.4
Total income	N.A.	N.A.	38,01.4
Profit after tax	N.A.	N.A.	12,49.4
Earnings per share (Rs.)	NA	NA	124.94
Net asset value per share (Rs.)	NA	NA	134.94

*The first financials on the company was prepared from November 14, 2002 to March 31, 2004.

UTI Trustee Company (P) Ltd. ("UTI Trustee Company")

UTI Trustee Company was incorporated on November 14, 2002. The company is registered as a trustee company and are trustees of UTI Mutual Fund.

Shareholding Pattern

The shareholders of the company are SBI (through itself or nominees) holding 25%, Life Insurance Corporation of India (through itself or nominees) holding 25%, Bank of Baroda (through itself or nominees) holding 25%, PNB (through itself or nominees) holding 25%.

Board of Directors

The directors are Mr. C. Ramchandran, Dr. Kanta Ahuja, Mr. I.D. Agarwal, Mr. M. P. Radhakrishan and Dr. Pritam Singh.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004***
Equity share capital	N.A.	N.A.	1
Reserves and surplus	N.A.	N.A.	0.029
Total income	N.A.	N.A.	0.057
Profit after tax	**N.A.**	**N.A.**	**0.029**
Earnings per share (Rs.)	N.A.	N.A.	0.29
Net asset value per share (Rs.)	N.A.	N.A.	10.29

*The first accounting year of the company was from November 14, 2002 to March 31, 2004.

Principal PNB Asset Management Company Private Limited ("Principal Asset")

Principal Asset was incorporated on November 20, 1991 as IDBI Indian Investment Company Limited. The name of the company was changed to Principal Asset Management Company Limited with effect from June 27, 2003. Subsequently, on October 20, 2003, the company was converted to a private limited company and the name of the company was changed to Principal Asset Management Company Private Limited. Further, on January 24, 2005, the name of the company was changed to Principal PNB Asset Management Company Private Limited. This company was set up to act as the asset management company for Principal Mutual Fund. The company had entered into a share sale and purchase agreement dated August 25, 2003 with Principal Financial Group (Mauritius) Limited, PNB and Vijaya Bank. The shareholders of the company have approved the proposal to change the name of the company to Principal PNB Asset Management Company Private Limited. Principal Financial Group (Mauritius) Limited has decided to dilute its stake in the company from 65% to 60% and offer 5% stake to Andhra Bank. Accordingly an MOU has been signed amongst the current shareholders and Andhra Bank.

Shareholding Pattern

The shareholders of Principal Asset are PNB holding 30%, Vijaya Bank holding 5% and Principal Financial Group (Mauritius) Limited holding 65%.

Board of Directors

The directors of the company are Mr. Arpan Thanawala, Mr. Sanjay Sachdev, Mr. Rajat Jain, Mr. Rustam Gagrat, Dr. Amit Mitra and Mr. Arun Kaul.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Equity share capital	100.00	100.00	100.00
Reserves and surplus	502.76	557.40	552.97
Total income	174.28	223.71	233.80
Profit after tax	1.46	57.66	51.97
Earnings per share (Rs.)	0.15	5.77	5.19
Net asset value per share (Rs.)	60.28	65.74	65.30

Principal Trustee Company Private Limited ("Principal Trustee Company")

Principal Trustee Company was incorporated on November 6, 2000 as IDBI-Principal Trustee Company Limited and the name was changed to Principal Trustee Company Limited with effect from June 27, 2003. Subsequently on October 20, 2003, the company was converted into a private limited company and its name was changed to Principal Trustee Company Private Limited. It was established to act as the trustee company for the Principal Mutual Fund.

Shareholding Pattern

The shareholders of Principal Trustee Company are PNB holding 30%, Principal Financial Group (Mauritius) Limited holding 65% and Vijaya Bank holding 5%.

Board of Directors

The directors of the company are Mr. B.G. Deshmukh, Dr. S. A. Dave, Mr. S. Ravi, Mr. D. L. Rawal, Mr. H.M.Singh and Mr. Norman Sorensen.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002*	**2003**	**2004**
Equity share capital	1.00	1.00	1.00
Reserves and surplus	-0.08	0.38	1.99
Total income	0.00	0.89	2.75
Profit after tax	-0.08	0.47	1.61
Earnings per share (Rs.)	0.8	4.7	16.1
Net asset value (Rs.)	9.2	13.8	29.9

* The first financial statements were made for the period November 6, 2000 to December 31, 2001. The subsequent financial statements were prepared for the period January 1, 2002 to March 31, 2003.

PNB Principal Financial Planners Private Limited ("PNB Principal Financial")

PNB Principal Financial has been incorporated on October 11, 2004. We have entered into a share subscription agreement with Principal Financial Group Mauritius Ltd. and Vijaya Bank on August 25, 2003 for setting up this joint venture company. The objectives of the company as stated in the agreement to establish a company for the distribution of financial products. We have also entered into a shareholders agreement with Principal Financial Group Mauritius Ltd. and Vijaya Bank on October 14, 2004 which lays down the respective rights and duties of the shareholders of the company.

Shareholding Pattern

The shareholders of PNB Principal Financial are Principal Financial Group Mauritius Limited holding 65%, PNB holding 30% and Vijaya Bank holding 5%.

Board of Directors

The directors of PNB Principal Financial are Mr. Sudhin Padhye, Mr. Ritesh Jain, Mr. Subhashish Sharma, Mr. R.I.S. Sidhu, Mr. P.K. Mitra and Mr. Ratnakar Hegde.

Principal-PNB Pensions and Life Insurance Company Limited

We have entered into a memorandum of understanding dated June 24, 2003 with Principal Financial Group of USA for setting up the above mentioned joint venture in partnership with Vijaya Bank and Berger Paints Limited.

The company is yet to be incorporated. However we have informed RBI vide letter dated October 18, 2004 that the proposed name of the company is Principal-PNB Pensions and Life Insurance Company Limited.

Shareholding Pattern

The shareholders of Principal-PNB Pensions and Life Insurance Company Limited are PNB holding 37%, Principal Financial Group holding 26%, Vijaya Bank holding 12% and Berger Paints Limited holding 25%.

PNB Principal Insurance Advisory Company Private Limited

We have entered into a memorandum of understanding dated June 24, 2003 with Principal Financial Group of USA with Vijaya Bank and Berger Paints Limited for setting up the joint venture.

Shareholding Pattern

The shareholders of PNB Principal Insurance Advisory Company Private Limited are PNB holding 30%, Principal Financial Group holding 26%, Vijaya Bank holding 19% and Berger Paints Limited holding 25%. The company is yet to be incorporated. We have referred to the name of the company as 'PNB Principal Insurance Advisory Company Private Limited' in letter dated October 19, 2004 addressed to the RBI.

Everest Bank Limited ("Everest Bank")

Everest Bank was incorporated in Kathmandu under the laws of Nepal on October 18, 1994. We entered into a Technical Services (Equity & Management Participation) Agreement with the Everest Bank. Under the terms of this agreement we provide organisational set up, systems and procedures of operation and control and supervision and development of personnel with a view to ensuring a sound, efficient and internationally accepted standard of service.

Shareholding Pattern

The shareholders of Everest Bank are Mr. B. K. Shrestha, Mr. M. D. Pathak, Mr. Bhagwanlal Shrestha, Mr. N. K. Shrestha, Mr. Arun Man Sherchan, Mr. K. B. Tuladar and Hotel Snowlion who are the Nepalese promoters to the extent 50%, the general public to the extent of 30% and PNB to the extent of 20%.

Board of Directors

The directors are Mr. B. K. Shrestha, Mr. Arun Man Sherchan, Mr. Bal Gopal Baidya, Mr. Ranjan Dhawan, Mr. Nabin Bhakta Shrestha, Mr. Shiva Sharan K. C., Mr. V. K. Shrestha and Mr. D.V.S.S.Prasad.

Financial Performance

(In Nepali Rupiya in million)*

	As on July,		
	2002	**2003**	**2004**
Equity share capital	399.32	455.0	455.0
Reserves and surplus	131.59	157.82	225.32
Total income	540.93	635.33	785.06
Profit after tax	85.35	94.18	143.57
Earnings per share	21.37	20.70	31.55
Net asset value per share	132.95	134.69	149.52

* As on February 11, 2005, the buying price for Rs. 100 is quoted at 160.0 Nepali Rupaiya as per exchange rates fixed by the Nepal Rastra Bank.

Promise V/s Performance

(In Nepali Rupiya million)*

	Projected on last Public Offer			Audited Actual Figures			Growth Percentage (%)		
	2001/ 2002	**2002/ 2003**	**2003/ 2004**	**2001/ 2002**	**2002/ 2003**	**2003/ 2004**	**2001/ 2002**	**2002/ 2003**	**2003/ 2004**
Income									
Income	419.42	457.17	502.89	443.821	520.173	657.249	5.82	13.78	30.69
Commission & Discount	31.080	35.742	41.103	36.773	61.504	74.331	18.32	72.08	80.84
Other Income	57.430	66.044	75.950	60.337	53.655	53.479	5.06	-18.76	-29.59
Total Income	507.930	558.956	619.943	540.931	635.332	785.059	6.50	13.66	26.63
Expense									
Expenses	260.377	286.415	315.057	257.051	307.639	316.366	-1.28	7.41	0.42
Staff Expenses	28.600	31.460	34.606	32.187	37.368	48.530	12.54	18.78	40.24
Operating Expenses	55.500	61.050	67.155	75.426	93.585	103.807	35.90	53.29	54.58
Net Operating Expenses	4.000	4.200	4.500				-100.00	-100.00	-100.00
Total Expenses	348.477	383.125	421.318	364.664	438.592	468.703	4.65	14.48	11.25
Operating Profit	159.453	175.831	198.625	176.267	196.740	316.356	10.54	11.89	59.27
Less Provisions & exp	57.885	68.523	81.243	48.883	60.845	105.237	-15.55	-11.20	29.53
Profits Before Tax	101.568	107.308	117.382	127.384	135.895	211.119	25.42	26.64	79.86
Provision for Tax	33.517	35.412	38.736	42.037	41.714	67.551	25.42	17.80	74.39
	68.051	71.896	78.646	85.347	94.181	143.568	25.42	31.00	82.55
Preference Share Dividend		12.600	12.600		12.600	12.600		0.00	0.00
Net Profit after Preference	68.051	59.296	66.046	85.347	81.581	130.968	25.42	37.58	98.30

*As on February 11, 2005, the buying price for Rs. 100 is quoted at 160.0 Nepali Rupaiya as per exchange rates fixed by the Nepal Rastra Bank.

Information about Share Price

The equity shares of Everest Bank are listed on the Nepal Stock Exchange. Everest Bank has complied with the clauses of the listing agreement with the Nepal Stock Exchange.

The market price of the shares during the preceding six months at Nepal Stock Exchange is as described in the table below:

(In Nepali Rupaiya)*

Period	High	Low
December 2004	700	650
November 2004	685	625
October 2004	700	680
September 2004	701	665
August 2004	739	671
July 2004	710	660
June 2004	643	552
May 2004	551	516
April 2004	545	488

* As on February 11, 2005, the buying price for Rs. 100 is quoted at 160.0 Nepali Rupaiya as per exchange rates fixed by the Nepal Rastra Bank.

The high and low market price of the equity shares of Everest Bank as on February 11, 2005 is as follows:

(In Nepali Rupaiya)*

High	Low
702	688

* As on February 11, 2005, the buying price for Rs. 100 is quoted at 160.0 Nepali Rupaiya as per exchange rates fixed by the Nepal Rastra Bank.

The closing share price of equity shares of Everest Bank as on January 7, 2005 was 652 Nepali Rupaiya.

There has been no change in the capital structure of Everest Bank in the last six months.

Investor Grievance

Everest Bank does not have any pending grievance of investors as of December 31, 2004.

REGIONAL RURAL BANKS ("RRBS")

The Bank has sponsored 19 RRBs with a network of 1,288 branches spread over 55 districts in seven states of India i.e. Bihar, Haryana, Himachal Pradesh, Punjab, Rajasthan, Uttranchal and Uttar Pradesh.

The equity share capital of each of the RRBs is held to the extent of 50% by the Government, 15% by the respective State government and 35% by the Bank.

The names of the RRBs are as follows:

(1) Bhojpur-Rohtas Gramin Bank; (2) Magadh Gramin Bank; (3) Nalanda Gramin Bank; (4) Patliputra Gramin Bank; (5) Haryana Kshetriya Gramin Bank; (6) Hisar-Sirsa Kshetriya Gramin Bank; (7) Ambala-Kurukshetra Gramin Bank; (8) Himachal Gramin Bank; (9) Shivalik Kshetriya Gramin Bank; (10) Kapurthala-Firozpur Kshetriya Gramin Bank; (11) Gurdaspur-Amritsar Kshetriya Gramin Vikas Bank; (12) Shekhawati Gramin Bank; (13) Alwar-Bharatpur Anchalik Gramin Bank; (14) Kisan Gramin Bank; (15) Devi Patan Kshetriya Gramin Bank; (16) Rani Lakshmibai Kshetriya Gramin Bank; (17) Vidur Gramin Bank (18) Muzaffarnagar Kshetriya Gramin Bank; and (19) Hindon Gramin Bank.

As of December 31, 2004, our Bank has deputed 56 officers to RRBs. Our Bank is running a training centre at Lucknow, India to train the staff of these RRBs.

Bhojpur-Rohtas Gramin Bank

The Bhojpur-Rohtas Gramin Bank was incorporated on December 26, 1975.

Board of Directors

The directors of Bhojpur-Rohtas Gramin Bank are Mr.C.K. Jha, Mr. C.B. Awasthi, Mr. B. B. Malhotra, Mr. Gulab Chand, Mr. Mohammed Ehtesham, Mr. R.Paswan, Mr. Kameshwar Prasad Singh, Mr. Baban Singh Yadav and Mr. Prabhat Kumar.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	231.30	231.30	231.30
Reserves and surplus	132.76	288.18	453.86
Deposits	6177.06	6817.01	7583.84
Advances	1311.79	1636.66	2071.60
Total income	822.32	771.00	756.67
Total expenditure	705.05	618.51	590.99
Profit after tax	117.28	152.48	165.68
Accumulated losses	0.00	0.00	0.00
Contingent liabilities	0.00	0.00	0.00
EPS in Rs.	1172.8	1524.8	1656.8
NAV per share in Rs.	3740.6	5294.8	6951.6

Magadh Gramin Bank

The Magadh Gramin Bank was incorporated on November 10, 1976.

Board of Directors

The directors of Magadh Gramin Bank are Mr. Ramayan Tiwari, Mr. K. I. Singh, Mr. B. L. Sebastian, Mr. Mahadeo Prasad, Mr. Vinay Kumar Sharma, Mr. B. K. Thakur, Mr. Raj Bahadur Singh, Dr. C. Bhashkararan and the deputy development commissioner of Gaya.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	255.00	255.00	255.00
Reserves and surplus	202.37	368.13	548.68
Deposits	5338.07	5508.63	5872.94
Advances	837.54	969.40	1079.98
Total income	703.66	718.05	681.84
Total expenditure	515.18	551.46	499.30
Profit after tax	188.48	166.59	182.84
Accumulated losses	0.00	0.00	0.00
Contingent liabilities	0.00	0.03	0.00
EPS in Rs.	1884.8	1665.9	1828.4
NAV per share in Rs.	4673.7	6331.3	8136.8

Nalanda Gramin Bank

The Nalanda Gramin Bank was incorporated on March 31, 1979.

Board of Directors

The directors of Nalanda Gramin Bank are Mr. D. Singh, Mr. C. B. Awasthi, Mr. N.S.Jain, Mr. A.K.Verma, Mr. Innocent Soren, Mr. Gulab Chand, Mr. Tarkeshwar Rai, Mr. Md. Arshad and Mr. Bijendra Deo.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	73.02	73.02	73.02
Reserves and surplus	0.00	1.29	0.00
Deposits	2321.26	2606.26	2540.09
Advances	403.52	441.54	531.11
Total income	192.08	227.28	211.18
Total expenditure	199.92	211.60	205.97
Profit after tax	-7.84	15.67	5.21
Accumulated losses	443.23	432.82	432.42
Contingent liabilities	0.00	0.00	0.00
EPS in Rs.	-78.4	156.7	52.1
NAV per share in Rs.	830.2	843.1	830.2

Patliputra Gramin Bank

The Patliputra Gramin Bank was incorporated on November 27, 1984.

Board of Directors

The directors of Patliputra Gramin Bank are Mr. J.B.Singh, Mr. B. C. Nigam, Mr. Kumar Rahul, Mr. B. K. Thakur, Mr. Arun Kumar Sinha, Mr. R. B. Singh, Ms. Esabela Bage, Mr. B. Raghunath and Mr. K. B. Singh.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	33.91	33.91	33.91
Reserves and surplus	3.69	22.72	48.07
Deposits	660.41	680.13	848.01
Advances	182.84	243.66	315.29
Total income	69.78	76.35	82.61
Total expenditure	51.05	57.32	57.25
Profit after tax	18.73	19.03	25.35
Accumulated losses	15.04	0.00	0.00
Contingent liabilities	0.68	0.68	0.68
EPS in Rs.	187.3	190.3	253.5
NAV per share in Rs.	476.0	666.3	919.8

Haryana Kshetriya Gramin Bank

The Haryana Kshetriya Gramin Bank was incorporated on October 2, 1975.

Board of Directors

The directors of Haryana Kshetriya Gramin Bank consists of Mr. Vivek Arya, Mr. A.K. Verma, Mr. P.C. Mohanpuria, Mr. N.K. Verma, Mr. Pawan Kumar, Mr. Rishi Prakash Sharma, Mr. Suraj Mal, Mr. Kuljas Rai and Mr. Surjit Singh.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	140.09	140.09	140.09
Reserves and surplus	6.35	4.81	0.00
Deposits	3283.16	3639.51	4214.90
Advances	1585.19	1940.80	2520.74
Total income	354.50	421.29	457.80
Total expenditure	317.96	342.13	327.43
Profit after tax	36.54	79.17	130.37
Accumulated losses	250.05	170.88	40.51
Contingent liabilities	5.20	4.14	0.00
EPS in Rs.	365.4	791.7	1303.7
NAV per share in Rs.	1564.4	1549	1500.9

Hissar Sirsa Kshetriya Gramin Bank

The Hissar Sirsa Kshetriya Gramin Bank was incorporated on October 2, 1984.

Board of Directors

The directors of Hissar Sirsa Kshetriya Gramin Bank are Mr. S. P. Kachhal, Mr. K. C. Salota, Mr. O. P. Goyal, Mr. Sunil Kumar, Mr. Pawan Kumar, Dr. R. K. Patel, Mr. Giriraj Dagar, Mr. T. Ranganthan and Mr. Pankaj Aggarwal.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	41.89	41.89	41.89
Reserves and surplus	107.99	151.14	206.92
Deposits	1200.63	1385.86	1608.90
Advances	924.26	1080.00	1293.01
Total income	174.87	191.70	221.30
Total expenditure	142.52	148.55	165.52
Profit after tax	32.35	43.15	55.78
Accumulated losses	0.00	0.00	0.00
Contingent liabilities	6.10	6.10	6.23
EPS in Rs.	323.5	431.5	557.8
NAV per share in Rs.	1598.8	2030.3	2588.1

Ambala Kurukshetra Gramin Bank

Ambala Kurukshetra Gramin Bank was incorporated on January 18, 1985

Board of Directors

The directors of Ambala Kurukshetra Gramin Bank are Mr. Jagir Singh, Mr. H. L. Arora, Mr. R. S. Sharma, Mrs. Sudesh Vatts, Mr. R. K. Singh, Ms. Keshni Anand Arora, Mr. M. L. Kaushik, Mr. Pawan Kumar and Mr. Ram Prasad.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	0.00	49.09	49.09
Reserves and surplus	22.76	43.18	82.14
Deposits	1210.18	1338.89	1447.20
Advances	764.57	885.75	1017.17
Total income	148.21	151.44	156.15
Total expenditure	130.07	131.02	117.19
Profit after tax	18.14	20.42	38.96
Accumulated losses	0.00	0.00	0.00
Contingent liabilities	0.00	0.00	0.00
EPS in Rs.	181.4	204.2	389.6
NAV per share in Rs.	327.6	1022.7	1412.3

Himachal Gramin Bank

The Himachal Gramin Bank was incorporated on December 23, 1976.

Board of Directors

The directors of Himachal Gramin Bank are Mr. Gurdial Singh, Mr. R. P. Sharma, Mr. R. S. Sharma, Mr. J. C. Sharma, Mr. R. S. Gupta, Mr. Nirmal Singh Suman, Dr. Onkar Shad, Mr. B. K. Sharma and Mr. Malkiat Singh.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	104.00	104.00	106.53
Reserves and surplus	88.55	151.17	264.01
Deposits	4924.04	5464.81	5788.27
Advances	1312.43	1615.63	1373.89
Total income	587.25	550.33	569.14
Total expenditure	521.45	521.50	481.28
Profit after tax	65.80	28.83	87.86
Accumulated losses	0.00	0.00	0.00
Contingent liabilities	0.00	0.50	0.15
EPS in Rs.	658.0	288.3	878.6
NAV per share in Rs.	2025.5	2651.7	3805.4

Shivalik Kshetriya Gramin Bank

The Shivalik Kshetriya Gramin Bank was incorporated on March 30, 1983.

Board of Directors

The directors of Shivalik Kshetriya Gramin Bank are Dr. Phool Singh, Mr.Ved Vyas, Mr. R. S. Virmani, Mr. Jaipal, Mr. Raghubir Singh, Mrs. Amarjit Kaur, Mr. D. R. Bhagat, Mr. J. R. Mahajan and Mr. C. K. Bajaj.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	15.81	15.81	15.81
Reserves and surplus	254.97	345.50	458.03
Deposits	1925.22	2176.12	2454.77
Advances	497.33	629.14	801.10
Total income	256.38	270.74	297.61
Total expenditure	181.28	180.21	198.58
Profit after tax	75.10	90.52	99.03
Accumulated losses	0.00	0.00	0.00
Contingent liabilities	0.08	0.48	0.45
EPS in Rs.	751.0	905.2	990.3
NAV per share in Rs.	2807.8	3713.1	4838.4

Kapurthala-Firozpur Kshetriya Gramin Bank

Kapurthala-Firozpur Kshetriya Gramin Bank was incorporated on March 30, 1983.

Board of Directors

The directors of Kapurthala-Firozpur Kshetriya Gramin Bank are Mr. R. C. Yadav, Mr. R. R. P. Sharda, Mr. Harnek Singh, Mr. Amrit Lal Chhabra, Mr. Chand Singh, Mrs. Amarjit Kaur, Mr. N. N. Sharma, Mrs. Shashi Mahajan and Mr. Ravindra Kumar.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	92.46	92.46	92.46
Reserves and surplus	10.01	95.82	168.94
Deposits	1215.56	1501.84	1855.14
Advances	438.83	568.12	708.76
Total income	177.19	218.71	214.48
Total expenditure	126.72	132.89	141.37
Profit after tax	50.47	85.81	73.12
Accumulated losses	40.47	0.00	0.00
Contingent liabilities	0.17	1.06	0.05
EPS in Rs.	504.7	858.1	731.2
NAV per share in Rs.	1124.7	1982.8	2714

Gurdaspur Amritsar Kshetriya Gramin Vikas Bank

The Gurdaspur Amritsar Kshetriya Gramin Vikas Bank was incorporated on March 31, 1983.

Board of Directors

The directors of Gurdaspur-Amritsar Kshetriya Gramin Vikas Bank are Mr. R.S.Kalaria, Mr. Jagat Ram, Mr. S. K. Mohla, Mr. Sohan Singh, Mr. M. R. Garg, Mrs. Amarjit Kaur, Mr. M.P Singh, Dr. Dilbagh Rai and Mr. Keshav Nand Sharma.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	86.72	86.72	86.72
Reserves and surplus	206.61	326.95	467.61
Deposits	2510.25	2850.73	2884.73
Advances	839.76	1097.95	1311.52
Total income	337.90	358.84	363.49
Total expenditure	230.23	238.49	222.83
Profit after tax	107.67	120.34	140.66
Accumulated losses	0.00	0.00	0.00
Contingent liabilities	1.81	1.08	1.08
EPS in Rs.	1076.7	1203.4	1406.6
NAV per share in Rs.	3033.3	4236.7	5643.3

Shekhawati Gramin Bank

The Shekhawati Gramin Bank was incorporated on October 7, 1976.

Board of Directors

The directors of Shekhawati Gramin Bank are Mr. S.K. Singhvi, Mr. V. K. Gupta, Mr. R. S. Verma, Mr. S. K. Lohra, Mr. B. L. Meena, Mr. Mahesh Bhardwaj, Mr. V. K. Runthala, Mr. Suresh Jain and Mr. Bhiwanram Chaudhary.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	295.29	306.28	306.28
Reserves and surplus	7.20	7.20	116.48
Deposits	3585.93	3777.78	4146.80
Advances	1073.70	1217.34	1495.91
Total income	449.68	487.21	531.35
Total expenditure	360.63	372.50	399.65
Profit after tax	89.05	114.71	131.70
Accumulated losses	129.93	15.22	0.00
Contingent liabilities	1.82	3.44	4.00
EPS in Rs.	890.5	1147.1	1317.0
NAV per share in Rs.	3124.9	3234.8	4327.6

Alwar-Bharatpur Anchalik Gramin Bank

Alwar-Bharatpur Anchalik Gramin Bank was incorporated on February 28, 1981.

Board of Directors

The directors of Alwar-Bharatpur Anchalik Gramin Bank are Mr. C. B. Bhasin, Mr. S. K. Lohra, Mr. Satpal Bhagtiar, Mr. S. L. Gurjar, Mr. B. S. Khatri, Mr. V. K. Gupta, Mr. C.M.Kala and Mr. R. H. S. Yadav.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	113.73	113.73	133.80
Reserves and surplus	0.00	0.00	50.29
Deposits	2416.42	2800.15	3295.74
Advances	1285.86	1581.38	2004.83
Total income	329.31	370.96	404.29
Total expenditure	259.05	273.81	266.04
Profit after tax	70.26	97.15	138.25
Accumulated losses	185.11	87.96	0.00
Contingent liabilities	0.97	1.29	1.01
EPS in Rs.	702.6	971.5	1382.5
NAV per share in Rs.	1237.3	1237.3	1940.9

Kisan Gramin Bank

The Kisan Gramin Bank was incorporated on May 19, 1980.

Board of Directors

The directors of Kisan Gramin Bank are Mr. N.K. Kacker, Mr. V. P. Jain, Mr. S.C. Arora, Mr. S.P. Yadav, Mr. Arun Bhagoliwal Mr. R. K. Yadav, Mr. A. K. Chauhan, Mr. Avnesh Kumar and Mr. Narendra Pal Singh.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	155.39	155.39	163.97
Reserves and surplus	0.00	0.00	0.00
Deposits	1200.94	1279.62	1378.14
Advances	494.70	597.09	683.35
Total income	157.42	160.62	168.30
Total expenditure	125.68	134.19	136.72
Profit after tax	31.74	26.42	31.58
Accumulated losses	101.92	75.50	43.92
Contingent liabilities	0.00	0.00	0.00
EPS in Rs.	317.4	264.2	315.8
NAV per share in Rs.	1653.9	1653.9	1739.7

Devi Patan Kshetriya Gramin Bank

The Devi Patan Kshetriya Gramin Bank was incorporated on January 17, 1981.

Board of Directors

The directors of Devi Patan Kshetriya Gramin Bank are Mr. P.R.Misra, Mr. U. K. Gupta, Mr. S. K. Gakhar, Mr. Bhav Nath Singh, Mr. Ramakant Tewari, Mr. Ajay Misra, Mr. A. K. Srivastava, Mr. Pramod Kumar and Mr. Babu Lal Bharti.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	139.75	139.75	139.75
Reserves and surplus	153.21	223.82	315.50
Deposits	3025.46	3499.15	4021.89
Advances	771.04	928.57	902.37
Total income	318.73	328.09	352.95
Total expenditure	243.28	257.47	261.27
Profit after tax	75.46	70.61	91.68
Accumulated losses	0.00	0.00	0.00
Contingent liabilities	0.10	1.02	1.11
EPS in Rs.	754.6	706.1	916.8
NAV per share in Rs.	3029.6	3735.7	4652.5

Rani Laxmibai Kshetriya Gramin Bank

Rani Laxmibai Kshetriya Gramin Bank was incorporated on March 31, 1982.

Board of Directors

The directors of Rani Laxmibai Kshetriya Gramin Bank are Mr. Girwar Singh, Mr. V.P. Garg, Mr. Arun Bhagoliwal Mr. J. P. Gupta, Mr. S. K. Srivastava, Mr. M. A. Kidwai, Mr. Sunil Kumar Yadav, Mr. Jaswant Singh Solanki and Mr. Rajesh Sahu.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	0.00	0.00	0.00
Reserves and surplus	0.00	0.00	0.00
Deposits	1002.27	1144.89	1308.17
Advances	367.07	470.13	564.01
Total income	81.83	109.82	200.16
Total expenditure	109.21	108.26	197.19
Profit after tax	-27.39	1.56	2.98
Accumulated losses	358.27	356.71	353.73
Contingent liabilities	1.01	0.98	0.96
EPS in Rs.	-273.9	15.6	29.8
NAV per share in Rs.	100.0	100	100

Vidur Gramin Bank

Vidur Gramin Bank was incorporated on January 18, 1983.

Board of Directors

The directors of Vidur Gramin Bank are Mr. A. K. Gupta, Mr. Ramesh Kumar, Mr. Rajendra Mahajan, Mr. Ashok Verma, Mrs. Anita Singh, Mr. Rajiv Kumar Agrawal, Mr. K. S. Bhatti, Mr. V. K. Goel and Mr. Kalika Prasad.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	79.26	79.26	80.95
Reserves and surplus	55.32	105.53	155.71
Deposits	1304.59	1402.62	1667.18
Advances	436.55	529.09	608.02
Total income	161.96	168.21	179.31
Total expenditure	111.79	118.00	129.13
Profit after tax	50.17	50.21	50.18
Accumulated losses	0.00	0.00	0.00
Contingent liabilities	2.71	12.89	6.72
EPS in Rs.	501.7	502.1	501.8
NAV per share in Rs.	1445.8	1947.9	2466.6

Muzaffarnagar Kshetriya Gramin Bank

Muzaffarnagar Kshetriya Gramin Bank was incorporated on July 27, 1984.

Board of Directors

The directors of Muzaffarnagar Kshetriya Gramin Bank are Mr. B.B.Vohra, Mr. A. K. Patnayak, Mr. D. K. Jain, Mr. Sushil Kumar Gakhar, Mr. R. S. Lal, Mr. Vijay Pal Singh, Mr. Rajveer Singh and Mr. Ramphal Singh.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	39.17	39.17	41.19
Reserves and surplus	31.38	57.89	80.10
Deposits	747.12	779.14	903.09
Advances	281.72	329.50	378.09
Total income	97.85	97.51	92.32
Total expenditure	66.74	71.00	70.10
Profit after tax	31.11	26.51	22.22
Accumulated losses	0.00	0.00	0.00
Contingent liabilities	0.00	0.00	0.00
EPS in Rs.	311.1	265.1	222.2
NAV per share in Rs.	805.5	1070.6	1311.9

Hindon Gramin Bank

Hindon Gramin Bank was incorporated on March 28, 1987.

Board of Directors

The directors of Hindon Gramin Bank are Mr. S.M.Shastri, Mr. S. K. Sinha, Mr. S. S. Yadav, Mr. Deepak Agarwal, Mr. Om Bir Singh, Mr. Pradeep Garg, Mr. V.J. Matto, Mr. V. K. Bajpayee and Dr. Shishir Sharma.

Financial Performance

(In Rs. million)

	As of March 31,		
	2002	**2003**	**2004**
Capital	10.00	10.00	10.00
Share capital deposit account	31.38	31.38	32.02
Reserves and surplus	17.92	33.43	52.20
Deposits	527.63	577.16	658.47
Advances	203.80	267.89	320.75
Total income	64.09	66.36	68.19
Total expenditure	48.55	49.83	49.43
Profit after tax	15.55	16.53	18.77
Accumulated losses	0.00	0.00	0.00
Contingent liabilities	0.00	0.00	0.00
EPS in Rs.	155.5	165.3	187.7
NAV per share in Rs.	593.0	748.10	942.2

INFORMATION ON THE GROUP COMPANIES WHICH HAVE BEEN CLOSED IN THE LAST FIVE YEARS.

Two of our group companies have been closed in the last five years. The details of the same are as follows:

PNB Capital Services Limited

PNB Capital Services Limited was a wholly owned subsidiary of our Bank and offered a wide range of services including merchant banking, syndication of loans, commercial papers and external commercial borrowings, debenture trusteeship, advisory services and project appraisal. It also offered services such as placement of debt, advice on mergers, acquisitions and takeovers. RBI had advised closure of PNB Capital Services Limited by way of its letter dated November 8, 1999, in view of the lack of clarity on sustainability of non fund based business. The Bank requested RBI at various points in time to reconsider the matter and accord approval for the company to continue and enter into a joint venture with a strategic partner. The RBI however declined this request and asked the Bank to close down PNB Capital Services Limited at the earliest.

In terms of the scheme of amalgamation, approved by the Board of the Bank in its meeting held on March 1, 2003 and sanctioned by the High Court of Delhi vide order dated August 25, 2003, appropriate filings were made with the Registrar of Companies and PNB Capital Services Limited was merged with the Bank with effect from April 1, 2003.

PNB Capital Services Limited was associated with the public issue of shares of Maha Chemicals Ltd. in April, 1994 as merchant banker. Maha Chemicals Ltd. appears in the list of vanishing companies as identified by SEBI. SEBI had issued a show cause notice in this respect to PNB Capital Services Limited, and post their reply to the show cause notice had directed PNB Capital Services Ltd. vide its letter dated September 7, 2001 to be more careful in future. As stated above, PNB Capital Services Limited has merged with us and is no longer in existence as a separate entity.

PNB Securities Ltd.

PNB Securities Ltd. was incorporated on June 13, 1996 as a wholly owned subsidiary of the Bank with the objective of undertaking the brokerage business. The subscribed capital of the company was Rs. 5,000,000. However, the company, since its inception transacted no business and the company was continuing as a defunct company. The company passed a special resolution for voluntary winding up u/s 484(1)(b) of the Companies Act on August 16, 2001. A liquidator has been appointed and income tax dues have been paid up to March 31, 2001. The assets and liabilities of the company were liquidated in accordance with the liquidator’s statement of accounts dated February 25, 2002 in Form 156 filed with the appropriate Registrar of Companies. The capital of the Bank was returned on March 9, 2002. The Office of the Official Liquidator, Ministry of Law, Justice and Company Affairs, vide letter dated December 24, 2002 has referred the matter to the registrar of companies for the dissolution of the company. The response of the registrar of companies is awaited for final winding up orders.

RELATED PARTY TRANSACTIONS

We have entered into related business transactions with key managerial personnel and associates.

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. Accordingly we are disclosing transactions with key management personnel in the audited accounts in compliance with the relevant accounting standard and extant RBI circular.

Transactions with whole time directors (Mr. S. S. Kohli, Chairman and Managing Director and Mr. T. S. Narayanaswami, erstwhile Executive Director), who have been termed key managerial personnel for the purposes of the audited accounts of the Bank, are as follows (These numbers are from the audited accounts):

In Rs. million

Item	Amount (2001-02)	Amount (2002-03)	Amount (2003-04)
Remuneration	0.9	1.0	1.1

Transactions with our associates are as follows (These numbers are unaudited):

UTI Asset Management Company (P) Ltd.

There have been no transactions between the Bank and this associate.

UTI Trustee Company (P) Ltd.

There have been no transactions between the Bank and this associate.

Principal-PNB Pensions and Life Insurance Company Limited

There have been no transactions between Bank and this associate.

PNB-Principal Insurance Advisory Company Private Limited

There have been no transactions between the Bank and this associate.

Assets Care Enterprises Ltd.

Rs. in million

	FY 2002	FY 2003	FY 2004
Share Capital held by Bank	-	-	13

Principal PNB Asset Management Company Private Limited

Rs. in million

	FY 2003	FY 2004	FY 2005 (as of date)
Share Capital held by Bank	-	-	30

Principal Trustee Company Private Limited

Rs. in million

	FY 2003	FY 2004	FY 2005 (as of date)
Share Capital held by Bank	-	-	0.30

PNB Principal Financial Planners Private Limited

A sum of Rs. 15,000,000 was paid to this company on October 14, 2004 by our Head Office, Treasury Division, towards the Bank's share of capital contribution. Further, the company has paid a sum of Rs. 0.9 million royalty for use of the Bank's name.

Rs. in million

	FY 2003	FY 2004	FY 2005 (as of date)
Capital Contribution to joint venture	-	-	15
Royalty to the Bank	-	-	0.9

Everest Bank Limited

Rs. in million

	FY 2002	FY 2003	FY 2004
Share Capital held by Bank	33.0	39.6	39.6
Dividend received by Bank	-	7.9	7.9
Technical Services fee received by Bank	2	2	2

REGULATIONS AND POLICIES

The main legislation governing commercial banks, the Banking Regulation Act, applies to public sector banks like Punjab National Bank only to a limited extent. Sections 34A, 36AD and Section 51 of the Banking Regulation Act are applicable to corresponding new banks constituted under the Bank Acquisition Act. In turn, Section 51 of the Bank Acquisition Act makes some of its sections applicable to corresponding new banks.

Punjab National Bank, as a corresponding new bank, is governed primarily by the provisions of the Bank Acquisition Act. The Bank Scheme and the Bank Regulations govern our operations.

Other important laws include the Reserve Bank of India Act, 1934. Additionally, the RBI, from time to time, issues guidelines, regulations, policies, notifications, press releases, circulars, etc. to be followed by us and supervises our compliance with these guidelines.

Like all corresponding new banks, we are regulated and supervised by the RBI. The RBI requires us to furnish statements, information and certain details relating to our business. It has issued guidelines for 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 under the provisions of our Constitutional Documents. The table provided below summarises these differences.

COMPARATIVE TABLE OF RIGHTS OF SHAREHOLDERS UNDER COMPANIES ACT, 1956 AND UNDER REGULATIONS APPLICABLE TO CORRESPONDING NEW BANKS*

	COMPANY	CORRESPONDING NEW BANK	
Co. Act	**Rights**	**Provision of Constitutional Documents**	**Important Rights**
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; arid (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 as supplied by the shareholder.
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 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 (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. 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.

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.	
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	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 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 therefor.	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. (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 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. (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	As above

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) A 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
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 s 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.
196	To apply to the central Government for inspection of the minutes books or to be furnished with a copy of minutes of the general meeting.	No corresponding provision.	
203	To apply to the court/ National Company Law Tribunal to restrain fraudulent persons from managing companies.	No corresponding provision.	
205A, 205B	To claim any 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	Section 10A: 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	
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) A director under clause (i) of sub-Section (3) of Section 9 of the Act shall be elected by the shareholders on the register, other than the central Government, from amongst themselves in the general meeting of the bank.
257	To give notice to the company for proposing a resolution at a general meeting to have himself or any other person elected as a director.	Regulation 65	Regulation 65: Nomination of candidates for election (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 and Section 9(3B)	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.	

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.	
395	To have a copy of the notice transmitted to the transferor company together with an instrument of transfer and within one month of the date of registration, be informed of the fact of registration and of the receipt of amount or other consideration.	No corresponding provision.	
396	To have as nearly as may be, the same interests in or rights against the company resulting from the amalgamation, as he had in the company in which he was originally a member, and to receive compensation in case such interests or rights are reduced.	No corresponding provision.	
396	If aggrieved by any assessment of compensation, to prefer an appeal to the National Company Law Tribunal.	No corresponding provision.	
397, 398	To apply to the National Company Law Tribunal if he is of the opinion that the affairs of the company are being conducted in a manner prejudicial to the public interest or in a manner oppressive to any member.	No corresponding provision.	

408	To apply to the National Company Law Tribunal for appointment of nominee director, to safeguard the interests of the company or its shareholders or the public interests.	No corresponding provision.	
433	To resolve along with other members, at a general meeting, 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 & Transfer of Undertakings) Act, 1970, except where otherwise specified.
2. All references to **Regulations** are references to provisions of the Punjab National Bank (Shares and Meetings) Regulations, 2000
3. All references to **Clauses** are references to provisions of the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970

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 corresponding new banks. Accordingly, the Punjab National 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 is 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%, at least half of which must be Tier 1 capital.

The total capital of a banking company and a corresponding new bank is classified into Tier 1 and Tier 2 capital. Tier 1 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 reserve 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 1 capital.

Tier 2 capital i.e. the undisclosed reserves and cumulative perpetual preference shares, revaluation reserves (at a discount of 55%), 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 2 capital and total subordinated debt considered as Tier 2 capital cannot exceed 50% of Tier 1 capital.

With a view to 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% 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 2 capital. Though investment fluctuation reserve is also considered general provision for Tier 2 but the same is not be 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 weighting 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% risk weight. A risk weight of 2.50% 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% 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%. 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%.

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 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 31 March 2005, a sub-standard asset would be one, which has remained 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 will be 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 has 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% 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% 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% to 100% provision is required to be made against the secured asset as follows:
  - Up to one year: 20% provision
  - One to three years: 30% provision
  - More than three years:
    1. In respect of outstanding stock of non performing assets as on March 31, 2004: 50% provision, which will become 60% with effect from March 31, 2005, 75% with effect from March 31, 2006 and 100% 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 is to be 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 asisstance 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. We are in compliance with these requirements.

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, gold/silver jewellery, 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 102.50% 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% of net bank credit with agricultural advances required to be 18% of net bank credit and advances to weaker sections required to be 10% of net bank credit, and 1% 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% 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% of capital funds. Group exposure limit is 40% of capital funds. In case of financing for infrastructure projects, the single borrower exposure limit is extendable by another 5%, i.e., up to 20% of capital funds and the group exposure limit is extendable by another 10%, i.e. up to 50% of capital funds. Capital funds is the total capital as defined under capital adequacy standards (Tier 1 and Tier 2 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. Punjab National 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% 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% of the bank's net worth.

In April 1999, the RBI, in its monetary and credit policy, stated that the investment by a bank in subordinated debt instruments, representing Tier 2 capital, issued by other banks and financial institutions should not exceed 10% of the investing bank's capital including Tier 2 capital and free reserves.

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% 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. Punjab National Bank adopted these guidelines on April 1, 2002. The principal features of these guidelines 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% of capital funds (20% of capital funds provided the additional exposure of up to 5% is for the purpose of financing infrastructure projects);
  - Borrower group exposure limit of 40% of capital funds (50% of capital funds provided the additional exposure of up to 10% is for the purpose of financing infrastructure projects);
  - Deduction from Tier 1 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% 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% 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% 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.

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% of the paid up share capital of that company and 30% 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% 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 0.50% per annum. Further, banks may only pay interest of 3.50% 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% over the interest payable on deposits from the public.

Domestic term deposits have a minimum maturity of 7 days and a maximum maturity of 10 years. Time deposits from NRIs denominated in foreign currency have a minimum maturity of one year and a maximum maturity of 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. 1.50 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 his own 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 his identity card, passport or details of bank accounts with other banks. It must be made incumbent upon him to provide sufficient proof of his antecedents before the account is allowed to be opened.

The Prevention of Money Laundering Act, 2002 has been passed by Indian Parliament and has received the assent of the President of India on January 17, 2003. The Act seeks to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering and for incidental and connected matters.

Legal Reserve Requirements

Cash Reserve Ratio

A corresponding new bank such as us 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% and a maximum of 20% pursuant to Section 42 of the Reserve Bank of India Act, 1934. In September 18, 2004, the cash reserve ratio was made 4.75%. From October 2, 2004, it has been 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% of the demand and time liabilities and pays interest on the eligible cash balances, currently at the rate of 3.50%. 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% of the required cash reserve ratio on any day of the fortnight.

Statutory Liquidity Ratio

In addition to the cash reserve ratio, a corresponding new bank such as us 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% and a maximum of 40% pursuant to Section 24 of the Banking Regulation Act. At present, the RBI requires banking companies to maintain a liquidity ratio of 25%. 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 monthly basis. The RBI has advised banks to actively monitor the difference in the amount of assets and liabilities maturing or being re-priced in a particular period and place internal prudential limits on the gaps in each time period, as a risk control mechanism. Additionally, the RBI has asked banks to manage their asset-liability structure such that the negative liquidity gap in the 1-14 day and 15–28 day time periods does not exceed 20% of cash outflows in these time periods. This 20% 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, our Bank, on the basis of the RBI's direction has laid down internal norms in respect of cumulative negative liquidity gaps. 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' licence 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 enroll as a member of the Foreign Exchange Dealers Association of India, which prescribes the rules relating to foreign exchange business in India.

Authorised dealers, like 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

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 purchases of equity shares of the respective bank by FIIs/NRIs/PIOs reaches the cut off points, which is 2% below the overall limit of 20%, the RBI cautions all designated bank branches so as not to purchase any more equity shares in the respective bank on behalf of NRIs/PIOs without prior approval of the RBI. The link offices are then required to intimate the

RBI about the total number and value of equity shares/convertible debentures of the bank they propose to buy on behalf of FIIs/ NRIs/PIOs. On receipt of such proposals, the RBI gives clearances on a first-come first-serve basis till such investment in banks reach the applicable sectoral caps/statutory ceilings. On reaching the aggregate ceiling limit, the RBI advises all designated bank branches to stop purchases on behalf of their FIIs/NRIs/PIOs clients.

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.

Reserve Fund

Any bank incorporated in India is required to create a reserve fund to which it must transfer not less than 25% 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 Government of India 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, share selling 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. Currently, we have an exemption from the applicability of these requirements granted to us by the Government vide its notification bearing number F.No. 11/29/2004-BOA dated January 10, 2005. We require to secure exemptions from the MoF, GoI from the provisions of the Banking Regulation Act for payment of dividend. Prior approval of the RBI is required for a dividend payment above 25% of face value of a company's shares or for an interim dividend payment.

Further, as per RBI guidelines on payment of dividend, only those banks which comply with the following minimum prudential requirements are eligible to declare dividend with the prior approval of the RBI:

- Capital to risk asset ratio of at least 11% 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 3%.
- The dividend pay out ratio does not exceed 33.33%.
- The proposed dividend is payable out of the current year's ratio.
- 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.

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 (33.33%) computed for the relevant accounting period. Declaration and payment of interim dividend beyond this limit would require the prior approval of the RBI.

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, so however that the Central Government's shareholding does not fall below

51% of the paid up capital of the bank. It may however be noted that the Banking Companies (Acquisition And Transfer Of Undertakings) And Financial Institutions Laws (Amendment) Bill, 2000 contemplates that the shareholding of the Central Government in corresponding new banks may not be less than 33% of the paid up capital. However, the bill has not yet been promulgated as an Act of the legislature and is not in force as on the date hereof.

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 our 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 chief managing director and the chief executive director.

The RBI also conducts on-site supervision of zonal branches, 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. Further, a specified number of directors are appointed by the shareholders. The chairman and managing director are appointed by the Central Government in consultation with the RBI. The other directors appointed by the Central Government include an officer of the Reserve Bank appointed in consultation with the RBI and one employee and one workman director. The whole time directors to be appointed by the Central Government and the official of the Central Government who serves as the nominee director of the Central Government 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 248.

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% 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 thro ugh 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. Currently, all our borrowings including bonds are unsecured.

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. We have an offshore banking unit located in the Santacruz Electronic Exports Promotion Zone, Mumbai. 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 underwriting, 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 purchases of equity shares of the respective bank by FIIs/NRIs/PIOs reaches the cut off points, which is 2% below the overall limit of 20%, the RBI cautions all designated bank branches so as not to purchase any more equity shares in the respective bank on behalf of NRIs/PIOs without prior approval of the RBI. The link offices are then required to intimate the RBI about the total number and value of equity shares/convertible debentures of the bank they propose to buy on behalf of FIIs/NRIs/PIOs. On receipt of such proposals, the RBI gives clearances on a first-come first-serve basis till such investment in banks reach the applicable sectoral caps/statutory ceilings. On reaching the aggregate ceiling limit, the RBI advises all designated bank branches to **stop purchases** on behalf of their FIIs/NRIs/PIOs clients.

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 BIFR.

The Securitisation Act focuses on improving the rights of banks and financial institutions and other specified secured creditors as well as asset reconstruction companies by providing that such secured creditors can take over management control of a borrower company upon default and/or sell assets without the intervention of courts, in accordance with the provisions of the Securitisation Act.

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 of the countries where 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 Joint Venture

We entered into a technical services (equity and management participation) agreement with the Everest Bank Limited, incorporated in Kathmandu under the laws of Nepal on July 3, 2001.

Overseas branches

We have established an overseas branch at Kabul, Afghanistan regulated by Da Afghanistan Bank.

Representative offices

We have representative offices at Almaty in Kazakhstan, Shanghai in China and London in the United Kingdom.

GOVERNMENT APPROVALS

In view of the approvals listed below, we can undertake this Issue and our current business activities and no further major approvals from any Government authority/ RBI is required to continue these activities.

A. Approvals for the Issue

A.1. **Government Approval:** The Banking Division, Department of Economic Affairs, MoF, GoI has given permission for the Issue under Section 3(2B)(c) of the Bank Acquisition Act through letter number F.No.11/29/2004-BOA dated January 7, 2005. The contents of this approval are being reproduced and are as follows:

"*Dated the 7th January, 2005*

To
The Chairman & Managing Director
Punjab National Bank
Head Office
New Delhi.

Subject: *<u>Follow on Public Offer by Punjab National Bank of Rs. 80 crores</u>*

Sir,

I am directed to refer to Punjab National Bank's letter No. Nil dated 14th September, 2004 on the above subject. The approval of the Central Government under Section 3 (2B) (c) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 is hereby conveyed to Punjab National Bank for its follow-on public issue of Rs. 80 crores comprising eight crore equity shares of Rs. 10/- each at a premium to be decided by the bank subject to the following terms and conditions:-

(i) The Bank should comply with the provisions of Section 3 of the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970;

(ii) Central Government's share holding shall not be below 51% at any point of time;

(iii) The timing of the public issue shall be decided by the Bank keeping in view the conditions prevailing in the market; every effort may, however, be made to complete the process by 31st March, 2005.

(iv) The Bank shall obtain necessary approvals from its Board of Directors/Management Committee of the Board of Directors, Securities & Exchange Board of India, and other Regulatory Bodies;

(v) Reservation/firm allotment, if any, to financial institutions, banks, mutual funds, Non-Resident Indians/ Overseas Corporate Borrowers etc., should be advised to the Government of India/Reserve Bank of India before the issue is launched. Allotment to Non-Residents, if any, will be subject to prior approval of Exchange Control Department of Reserve Bank of India and should be within the ceiling of 20% of paid-up capital or any lower ceiling that may be notified by the Government of India under sub-Section (2D) of Section 3 of the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970.

(vi) Out of the above eight crore shares the amount raised for three crore shares through public offer should be returned to Government of India at the issue price by 31st March 2005.

(vii) The proportionate cost of public issue to the extent of three crore shares to be borne by the Government.

(viii) The Bank should restrict its public issue expenses to the bare minimum.

2. As regards, grant of exemption from compliance of the provisions of Section 13 and Section 15(1) of the Banking Regulation Act, 1949, necessary Gazette notification in this regard will be issued separately.

3. The Bank may intimate to the Govt. the final issue structure, time of the offer etc. as soon as these are finalized.

4. The receipt of this letter may kindly be acknowledged.

Yours Faithfully,
(D.P. Bhardwaj)
Under Secretary to the Government of India.
Tel no. 23360357

Copy to the Chief General Manger, Department of Banking Operations and Development, RBI, Central Office, Mumbai with reference to their letter No. DBOD.BP.540/21.01.002/2004-05 dated 19th October, 2004"

A.2. **RBI Approval:** We have received permission from the Foreign Exchange Department, RBI vide their letter no.FE.CO.FID/4998/10.02.40(8435)/2004-05 dated February 2, 2005 permitting us to issue shares to NRIs / FIIs with repatriation benefits out of our public Issue of 80,000,000 Equity Shares. The RBI has imposed the condition that post Issue the non resident equity holding in our Bank should not exceed 20% of the paid up capital. The permission is further subject to the conditions laid down by the Government of India in their approval letter no. F.No.11/29/2004-BOA dated January 7, 2005, condition prescribed/stipulated by SEBI in this connection and the terms and conditions for issue of shares as stipulated in the Schedule 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 3, 2000.

B. Approvals for Our Current Business

Licences and Approvals from the Reserve Bank of India

- 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 corresponding new banks. Accordingly, our Bank does not require a licence in order to carry out banking activities.
- Approval number DBOD No. IBS. 821/23.01.006/95-96 dated January 1, 1996 to establish a representative office at Kazakhstan.
- Approval number DBOD. IBS/ 1111/23.01.006/2003-04 dated January 17, 2004 to establish a branch at Kabul, Afghanistan.
- Approval number DBOD No. IBS. 1039/23.01.006/2002-03 dated December 2, 2002 to establish representative offices at Shanghai, China, Dubai, United Arab Emirates and London, UK. Approval valid for one year. Shanghai and London offices established under this approval.
- Approval number DBOD.IBS/240/23.01.006/2004-05 dated August 23, 2004 extending validity of approval number DBOD No. IBS. 1039/23.01.006/2002-03 dated December 2, 2002 for 6 months till December 1, 2004.
- Licence bearing number BL.M. 1345 vide letter number DBOD (MRO) No. BL 91/22/02/030/2003-04 dated July 29, 2003 to open offshore banking unit at Santacruz Electronic Exports Promotion Zone, Mumbai.
- Approval number DBOD No. IBS IISC/23.37.003/95-96 dated March 16, 1996 to participate in joint venture arrangement with Everest Bank Ltd., Nepal and to enter into a technical/ management service agreement with Everest Bank Ltd.
- The Bank has obtained from the RBI a licence to deal in foreign exchange.
- Licence bearing number BL.LK. 98/2003 vide letter number DBOD No. H.434/22.03.10/2003-2004 dated November 7, 2003 to open an offshore banking unit at the Noida Special Economic Zone. The approval is valid for one year, i.e., till November 6, 2004.
- Approval bearing number DBOD.FSC.No.765/24.11.003/2002-03 dated April 29, 2003 for entering into joint venture with Principal Financial Group of the USA for the purposes of setting up an asset management, trustee company and distribution company.
- In principle approval bearing number DBOD.No.FSC. /24.01.018/2002-03 dated April 21, 2003 to the Bank for acting as corporate agent to undertake distribution of life/non- life insurance products on agency basis without any risk participation.
- In principle approval bearing number DBOD.No.FSC.283/24.01.018/2003-04 for setting up a joint venture insurance broking company with Principal Financial Group, Berger Paints India Ltd., and Vijaya Bank.

Approvals Granted by the Insurance Regulatory and Development Authority

- No objection letter from the Insurance Regulatory and Development Authority dated July 9, 2004 bearing number IRDA/DB208/03 stating that the Insurance Regulatory and Development Authority has no objection to the Punjab National Bank and Vijaya Bank holding equity in a proposed joint venture.
- Licence dated May 7, 2003 bearing number 1174676 for working as a corporate agent for three years from May 7, 2003 for procuring or soliciting insurance business of one general insurer.

Licences and Approvals from the Securities and Exchange Board of India

- Registration certificate dated December 1, 2003 under the SEBI (Bankers to an Issue) Regulations, 1994 for the period December 1, 2003 to November 30, 2006 permitting the bank to be a banker to an issue. The Bank's registration code is INBI00000084.
- Registration certificate dated March 1, 2002 under the SEBI (Underwriters) Regulations, 1993 for the period March 1, 2002 to February 28, 2005 permitting the bank to be an underwriter. The Bank's registration code is INU000000563.
- Registration certificate dated August 1, 2004 under the SEBI (Debenture Trustee) Regulations, 1993 for the period August 1, 2004 to July 31, 2007 permitting the bank to be a debenture trustee. The Bank's registration code is IND000000023.
- Registration certificate dated October 6, 2003 under the SEBI (Depositories and Participants) Regulations, 1996 for the period October 6, 2003 to October 5, 2008 permitting the bank to be a Depository Participant. The Bank's registration code is IN-DP-NSDL-68-98.

Applications made by the Bank

- We have applied for extension of licence bearing number BL.LK. 98/2003 for opening an offshore banking unit at the Noida Special Economic Zone on October 8, 2004 to the RBI for extending the validity of the licence for a further period of one year.
- We have applied to the Governor of the Central Bank of the U.A.E. on August 7, 2003 requesting permission to establish a representative office at Dubai.
- We have applied to RBI vide letter bearing number BMS/INS/JV on August 1, 2003 for setting up a joint venture with Principal Financial Services Inc. for pension and life insurance company and insurance broking company with Principal Financial Services Inc.

Licences and Approvals from foreign regulatory authorities

- Registration certificate dated August 14, 2003 from the Registrar of Companies for England and Wales for the establishment of a branch in England and Wales. The number assigned to the Bank is FCO24714 and to the branch is BR007210.
- Registration certificate number 25301 from Da Afghanistan Bank dated May 11, 2004 for the establishment of a banking branch to carry on the business of commercial banking in Afghanistan.
- Approval from the Supervising Management Committee of China Banking Regulatory Commission dated April 16, 2004 for the establishment of a representative office at Shanghai, China.
- Approval from the National Bank of the Republic of Kazakistan dated July 23, 1998 for the establishment of a representative office.
- Approval from the Nepal Rastra Bank dated August 6, 2001 vide letter B.R.D.2 (Everest) 5/058 approving renewal of the technical services agreement executed between the Bank and Everest Bank Limited.

Approvals for Setting up Branch Offices

We require prior approval from the RBI for opening a new place of business in India or abroad or for otherwise than within the same city, town or village, the location of the existing place of business. Except as stated above, we have obtained the necessary approvals from the appropriate statutory and regulatory authorities for carrying out our business and operations through our branches and representative offices and no further approvals are required from any government authority/ RBI to continue our business and operations.

There are no approvals which have expired, or which have been applied for and have not been granted to the branches of the Bank. We do not require to apply for any other approvals for the purposes of running our business and operations.

OUTSTANDING LITIGATION AND MATERIAL DEVELOPMENTS

Except as described below, there is no outstanding litigation, suits or criminal or civil prosecutions, proceedings or tax liabilities against our Bank, its Directors, our subsidiaries, joint ventures and regional rural banks sponsored by our Bank, 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 other than unclaimed liabilities against our Bank or Directors, our subsidiaries, joint ventures and regional rural banks sponsored by our Bank.

Contingent liabilities not provided for as of March 31, 2004: Rs. 322,300,265 (as compared to Rs. 235,708,644 as of March 31, 2003).

I. Litigation against our Bank

A. Pending Litigation Against Our Bank

1. **Criminal Cases**

(i) There are two criminal cases pending against our Bank. The details of these cases are as follows:

(a) The Department of Banking Operations and Development of the RBI in Trivandrum, Kerala has filed a case against Nedungadi Bank (which has now been merged with our Bank) and the former chairman of Nedungadi Bank, Mr. A.R. Moorthy. The complainant has filed the case, C.R.P 15 of 2002 in the court of the Judicial First Class Magistrate, Kozhikode under Section 46 of the Banking Regulation Act and Section 190 (1) of the Code of Criminal Procedure, 1973. The complainant has alleged that in the course of the annual financial inspection by the officials of the RBI, the inspecting officials found that there were several irregularities of serious nature in the bank's lending and investment operations with reference to the financial position as of December 31, 2000. The complainant has drawn notice to the following directions of the RBI: (a) that investments in and underwriting of shares and debentures of corporate bodies have been permitted only up to 50% of the incremental deposits of the previous year and (b) that the bank should not grant loans, advances, etc to relatives of the chairman, managing director or directors of the bank above Rs. 2.5 million without the approval of the board of directors. The complainant has alleged that Nedungadi Bank has approved a scheme in September 1999 envisaging the sale and purchase of shares in order to take advantage of price difference between the BSE and NSE and other stock exchanges. The Nedungadi Bank allegedly engaged three broking firms for this purpose and as of March 31, 2000, an amount of Rs. 945.2 million had become receivable by Nedungadi Bank, which was shown as 'other assets' in the balance sheets. The RBI has clarified the scope of the entry of 'other assets'. The complainant has alleged that the receivables amounting to Rs. 945.2 million have been wrongly and incorrectly shown in the balance sheet of Nedungadi Bank. The complainant has also alleged that loans, advances above Rs. 2.5 million have been made to relatives of the chairman, managing director or directors of the bank without the approval of the board of directors of Nedungadi Bank. The complaint is dated May 14, 2001, which was prior to the merger of Nedungadi Bank with our Bank. However, as Nedungadi Bank has merged with our Bank, we have been made a party to the case. The case has not come up for hearing and evidence has not been adduced.

(b) UTI Bank has filed a First Information Report (FIR) with Navrangpura Police Station against our Bank in relation to an alleged fraudulent encashment of cheques for an amount of approximately Rs. 95,000 by Nedungadi Bank. The FIR was filed prior to the merger of Nedungadi Bank with our Bank. However, as Nedungadi Bank has merged with our Bank, we have been made a party to the case. The police is yet to conduct an enquiry.

(ii) There is one criminal complaint against Mr. S.S. Kohli, the Chairman and Managing Director of our Bank. The details of this case is as follows:

Mr. M.M. Sehgal has filed a criminal complaint against Mr. S.S. Kohli, Chairman and Managing Director of our Bank among 36 other respondents. Mr. S.S. Kohli has been named as the 13th accused in this complaint. The complaint has been filed in the court of Chief Metropolitan Magistrate as criminal complaint no. 64 of 2002. The complainant is the former chairman of a company (Sehgal Papers Limited), which is under liquidation. The complainant has alleged that the accused have entered into a criminal conspiracy and have acted in a manner so as to bring the complainants company into ruinous state by the abuse of their powers. He has alleged that the support of the banks, including our Bank was essential for the success of his company. It has been alleged that the Bank had promised assistance by way of loan amounting to Rs.7.9 million to Mr. Sehgal's company. He has alleged that the Bank has not provided such support and has therefore filed the said criminal complaint. Notice has not yet been served by the court on the accused in this case.

(iii) A writ petition, WP 6412 of 2004 has been filed by an association of the shareholders of Nedungadi Bank in the High Court of Kerala against our Bank and some employees. The petitioners have prayed for a writ of mandamus to have an enquiry into the alleged grave manipulation of money running into several crores of rupees and to punish these employees under the penal laws of India.

2. **Cases related to statutory authorities.**

A. Income Tax Cases

There are disputes relating to income tax assessments of the assessment years 1992-1993, 1994-1995 to 2003-2004. The total amount claimed against our Bank in relation to income tax as of December 31, 2004 including interest is approximately Rs. 485.94 million and our Bank has already paid the entire amount claimed by the Income Tax Department ("IT Department") under protest except Rs. 71 million in relation to assessment year 1997-98 on account of disallowance of software and bond issue expenditure due to rectification application filed and pending with the IT Department.

There are three main issues, which are points of disputes between the IT Department and our Bank. The total liability of our Bank with regard to these main issues is Rs. 267.52 million. The remaining Rs. 218.42 million is on account of disputes on matters such as guesthouse expenses, holiday home expenses, depreciation on let out buildings, interest tax, etc.

(a) Disallowance of exempted income from interest on loans to infrastructure projects:

Our Bank extends loans to entities involved in infrastructure projects. The income of our Bank from such loans is exempted from computation of total income under Section 10(23G) of the I.T. Act. The exemption is allowed under Section 10(23G) of the I.T. Act only for such infrastructure projects, which have been approved by the central government. Our Bank has claimed exemption from computation of total income for incomes from some infrastructure projects, which have not yet received the approval from the central government. The total liability of our Bank in this regard amounts to Rs.191.27 million. The Commissioner of Income Tax (Appeals), New Delhi ("CIT") has directed the assessing officer vide order dated July 29, 2004 and October 5, 2004 to consider the claim of our Bank in case the approvals from the central government are issued with retrospective effect and pass necessary rectification orders to allow the claims of our Bank on production of necessary approvals. The Bank is awaiting approvals of the Central Board of Direct Taxes for confirming the respective projects as notified projects. In the event a project is so notified, the Bank's claim will be realised.

(b) Disallowance of depreciation on investment in securities:

Our Bank has invested in securities. Our Bank has claimed that under the guidelines of the RBI, the value of the securities is accounted as stock in trade and on the cost price of the securities and the market price of the securities, whichever is lower. In the event the market price is lesser than the cost price of the securities, the difference is treated as depreciation by our Bank in accordance with the applicable RBI guidelines. Hence, treatment of the investments in securities as depreciation results in lowering of the taxable income of our Bank as depreciation of securities is treated as expenditure. The Supreme Court of India has held that such treatment of depreciation as expenditure is allowable in the case of *UCO Bank* v. *Union of India* (24 ITR 355). The IT Department has claimed that the loss is notional in nature and therefore has disallowed the claim of depreciation by our Bank. The issue is pending in Income Tax Appellate Tribunal ("ITAT") and pending the decision of the ITAT, the IT Department has continued to impose liability on our Bank. The total amount of claims against our Bank in this regard amounts to Rs.14.80 million.

(c) Disallowance of provisions for bad and doubtful debts as deductions from taxable income:

Our Bank has made provisions for bad and doubtful debts in its books. The provisions of Section 36(1)(viia) of the I.T. Act, allow deduction in computing the income in respect of any provision for bad and doubtful debts made by a scheduled bank upto an amount which is the aggregate of a certain percentage of the total bank and the average advances made by rural branches of such bank. Our Bank has claimed deduction for provisions for bad and doubtful debts as deduction from income. The assessing officer has disagreed with the extent of the deduction, which can be claimed by our Bank. The total liability of our Bank in this regard amounts to Rs.61.45 million.

The income tax related cases in the various financial years are as follows:

(i) For assessment year 1992-1993:

The IT Department has imposed a liability of Rs.0.34 million on our Bank. The liability has been imposed on account of alleged deficiencies in certificates evidencing payment of tax deductible at source. Our Bank has filed a rectification application with the assessing officer. The matter is pending before the assessing officer.

(ii) For assessment year 1994-1995:

The IT Department has imposed a liability of Rs.39.45 million on our Bank. The liability has been imposed on account of loss claimed by our Bank on certain bonds subscribed to by our Bank and disallowances on interest tax. The matter is pending in the ITAT.

(iii) For assessment year 1995- 1996:

The IT Department has imposed a liability of Rs.2.51 million on our Bank. The liability has been imposed on account of loss claimed by our Bank on certain bonds subscribed to by our Bank and disallowances on interest tax. The matter is pending in the ITAT.

(iv) For assessment year 1996- 1997:

The IT Department has imposed a liability of Rs.91.67 million on our Bank. The liability has been imposed on account of disallowance of provisions for bad and doubtful debts as deductions, disallowance of depreciation on investment in securities, disallowance of holiday home expenditure, etc from taxable income. The matters are pending in the ITAT and before the CIT.

(v) For assessment year 1997-1998:

The IT Department has imposed a liability of Rs.83.04 million on our Bank. The liability has been imposed on account of disallowance of provisions for bad and doubtful debts as deductions, disallowance of depreciation on investment in securities from the income, additions by the assessing officer to the income on account of certain recoveries, which had been treated previously as bad and doubtful debts and which are refunded to the insurer. The matters are pending in the ITAT.

(vi) For assessment year 1998-1999:

The IT Department has imposed a liability of Rs. 24.81 million on our Bank. The liability has been imposed on account of addition of income generated through interest on tax free securities by the assessing officer, addition of income from interest on non performing assets by the assessing officer and disallowance of provisions for bad and doubtful debts as deductions. The matter is pending in the ITAT.

(vii) For assessment year 1999-2000:

The IT Department has imposed a liability of Rs. 26.67 million on our Bank. The liability has been imposed on account of disallowances of expenditure of software and bond issue by the assessing officer. The matter is pending before the Commissioner of Income Tax (Appeals).

(viii) For assessment year 2000-2001:

The IT Department has imposed a liability of Rs. 24.86 million on our Bank. The liability has been imposed on account of disallowances of expenditure of software and bond issue by the assessing officer. The matter is pending before the Commissioner of Income Tax (Appeals).

(ix) For assessment year 2001-2002:

The IT Department has imposed a liability of Rs. 1.32 million on our Bank. The liability has been imposed on account of alleged deficiencies in certificates evidencing payment of tax deductible at source. Our Bank has filed a rectification application with the assessing officer. The assessing officer rejected the application. Our Bank has filed an appeal in the ITAT. The matter is pending in the ITAT.

(viii) For assessment year 2002-2003:

The IT Department has imposed a liability of Rs. 112 million on our Bank. The liability has been imposed on account of disallowance of exempted income from interest on loans to infrastructure projects.

(ix) For assessment year 2003-2004:

The IT Department has imposed a liability of Rs. 79.27 million on our Bank. The liability has been imposed on account of disallowance of exempted income from interest on loans to infrastructure projects.

B. Sales Tax case

The Commercial Sales Tax Department of the Government of Rajasthan has served notice to the Bank for non payment of tax payable for dealing in bullion, vide order dated September 12, 2003. The Commercial Sales Tax Department has imposed a liability of Rs. 66,65,494 on the Bank. However, a sum of Rs. 20,81,341 has already been paid as per order of the tax department and therefore, the aforesaid demand is reduced to Rs. 45, 84,153. Our Bank has appealed against the said order and has filed its appeal before the Deputy Commissioner (Appeals) Zone-II, Commercial Tax Department, Jaipur.

C. Cases relating to Foreign Exchange Regulations

There are two cases against our Bank relating to alleged violations of foreign exchange regulations in India. The total amount claimed against the Bank is Rs.3.5 million. The details of these two cases are as follows:

(i) The Director (Special) Enforcement has imposed a fine of Rs.2.0 million through order dated August 5, 2004 and alleged that in the year 1993-1994, our Bank permitted certain deposits by a holder of a NRE account even though the status of this holder as a NRE had become doubtful and therefore, the Bank was negligent and was liable to pay penalty. Our Bank filed appeal before the appellate tribunal under FEMA. The appellate tribunal has sought the furnishing of a bank guarantee amounting to Rs.2.0 million, which the Bank has furnished on December 4, 2004.

(ii) The Director (Special) Enforcement has imposed a fine of Rs.1.5 million on our Bank through an order dated October 29, 2004. The Director (Special) Enforcement has alleged that our Bank had acted negligently by acting as the authorised branch through which the exporter sought reimbursement from the RBI, even though the goods never reached their intended destination, Russia and were instead unloaded in Dubai. The Bank appealed before the appellate tribunal under FEMA. The matter is pending before the appellate tribunal.

3. **Cases pertaining to fraudulent transactions**

There are 79 cases filed against our Bank for disputes in relation to forged signatures, non-tallying of signatures, breach of trust and fraudulent withdrawal of money by allegedly unauthorised persons including our employees. The total amount claimed by the petitioners in these cases amounts to Rs. 313,850,933 . There are three material cases in this regard. The details of the same are as follows:

(i) Roop Polymers Limited has filed a case, *Roop Polymers Ltd. v. Punjab National Bank*, case number 62/04, against eleven parties including our Bank for recovery of Rs. 26,981,661 before the Civil Court, Gurgaon, on account of alleged fraudulent withdrawals from its account by its employee. The plaintiff claims that the documents related to electronic transfer show that the signatures of the plaintiff's directors were forged and the signatures do not remotely resemble the specimen signatures of the authorized signatories of the plaintiff, which are in the records of the Bank. Hence, the plaintiff has made a claim for damages against our Bank for acting recklessly and negligently while making payments against forged cheques and for making unauthorized electronic transfers. The matter is pending in the Civil Court, Gurgaon.

(ii) Allahabad Bank has filed a suit, *Allahabad Bank* v. *Punjab National Bank*, suit no. 7/99 against our Bank in the District Court, Alipore for recovery of Rs. 255,526,698. The plaintiff has contended that it had issued a bankers cheque without any consideration and the same was wrongfully encashed in the accounts of various parties by our Bank. The case is listed for completion of service of summons.

(iii) Ceat Tyres Limited has filed suit, *Ceat Tyres Limited* v. *Punjab National Bank and others*, suit no. 128/1997 in the Mumbai High Court for recovery of Rs. 17,373,949 alleging that our Bank collected certain forged cheques, acted negligently and was therefore instrumental to the commission of fraud. Our Bank has filed a written statement and the matter is pending hearing in the Mumbai High Court.

4. **Cases pertaining to facilities provided by our Bank**

There are 104 cases filed against our Bank relating to disputes on account of alleged non-deposit, non-realisation or loss of cheques and alleged wrongful refusal to sanction certain facilities/overdrafts by our Bank or release of sums to certain persons or wrongful debits in a customer's account or refusal to honour bank guarantees, letters of credits, bills of lading and other such instruments. Some of these cases also relate to the fixed deposit receipts maintained at our Bank by our customers. The total amount claimed in the aforementioned cases is Rs. 19,331,150,550 . There are eight material cases in this regard. The details of the same are as follows:

(i) Trihut Tannery Private Limited has alleged in *Trihut Tannery Pvt. Ltd* v. *PNB Branch Office (Jawaharlal Road Muzzarffarpur)*, suit no. PT 212/9 before the Civil Court, Muzzarffarpur claiming that as a result of under-financing by our Bank, it could not make payment of dues to its creditors and has therefore, suffered loss of profit, loss of business and loss of reputation. The plaintiff has claimed a sum of Rs. 22,576,445 as damages and compensation for pecuniary loss allegedly caused by our Bank. An application for transfer of the case to Debt Recovery Tribunal, Patna has been filed before the Civil Court, Muzzaffarpur and the same is pending.

(ii) Abhishek Pharmaceuticals has filed a suit, *Abhishek Pharmaceutical v. Punjab National Bank and others*, suit no. 23/1994, against our Bank before the Court of Subordinate Judge, Jehanabad for alleged wrongful refusal by our Bank to enhance the working capital limits previously sanctioned to the plaintiff. The plaintiff has claimed that our Bank acted negligently and did not enhance the sanctioned credit limits. The plaintiff has claimed an amount of Rs. 20,100,000. The case is pending before Court of Subordinate Judge, Jehanabad.

(iii) Savik Vijay Engineering Private Limited has filed a suit, *Savik Vijay Engineering Private Limited v. Punjab National Bank,* suit no 1448/98 in the City Civil Court, Bangalore and claimed that our Bank wilfully delayed the release of the loan and therefore, the factory of the plaintiff could not be rehabilitated and production could not be started. The plaintiff has filed a recovery suit for damages of Rs. 50,000,000 and for a direction to release the sanctioned loan of Rs. 20,000,000. The Bank has filed its reply and the case is pending at the stage of evidence.

(iv) Modi Rubber Limited has filed a case, *Modi Rubber Limited v. Punjab National Bank,* suit no 2761/95 in the Delhi High Court against our Bank for alleged arbitrary appropriation of its fixed deposit receipts worth Rs. 34,961,000 by the Bank towards the bonus term loan account of Modi Spinning and Weaving Mills Limited since the plaintiff was the guarantor for Modi Spinning and Weaving Mills Limited. The amount claimed by the plaintiff is Rs. 54,367,606. The Delhi High Court has *sine die* adjourned this case in light of the fact that the proceedings for Modi Spinning and Weaving Mills Limited are pending before the BIFR.

(v) ATV Projects India Limited has filed a suit *ATV Projects India Limited* v. *Punjab National Bank* bearing number 198/2001 in the Mumbai High Court claiming damages against, *inter alia*, our Bank, alleging that it incurred a total loss of Rs. 3,059,600,000 which has been caused due to delay in the sanctioning and disbursement of working capital to the plaintiff. The claim against our Bank is Rs. 284,800,000. The matter is pending in the Mumbai High Court.

(vi) Ruby Tea Estate has claimed Rs. 43,000,000 in a suit, *Ruby Tea Estate* v. *Punjab National Bank,* suit no. 280/96 before the District Court, Alipore. The plaintiff has alleged that our Bank refused to enhance the credit limit of the plaintiff and the same resulted in significant loss to the plaintiff. The matter is pending hearing and final adjudication in the District Court, Alipore.

(vi) K.R. Steel Union Limited has filed a suit, *K.R. Steel Union Limited* v. *Punjab National Bank,* no. 1933/98 wherein the plaintiff has claimed that our Bank failed to open letters of credit which had been allegedly sanctioned by our Bank and has claimed damages of Rs. 528,479,999on account of loss of business opportunities and compensation for hardship. The suit is pending for hearing in the Mumbai High Court.

(vii) B.S.M. Knit Fab (India) Limited has filed an application to sue as an indigent person in the Court of Civil Judge, Junior Division, Chandigarh against our Bank, Industrial Development Bank of India and Punjab State Industrial Development Corporation, claiming damages of Rs. 18,252,400,000 alongwith interest at the rate of 15% on account of alleged delay in opening of letters of credit and re-scheduling of loans etc. The case is fixed for hearing on March 1, 2005.

(viii) Our Bank and Topline Shoes Limited has filed appeals before the Debt Recovery Appellate Tribunal, Mumbai in the case of *Topline Shoes Limited* v. *Punjab National Bank (W.P. 9842/2004)*. The plaintiff had opened a current account for payment of refunded orders but certain cheques issued by the plaintiff were dishonoured. A sum of Rs. 17,754,990 has been claimed against our Bank. The case is pending hearing and final adjudication.

5. **Consumer Cases**

There are 211 cases filed against our Bank in district, state and national consumer forum alleging, among other things, deficiencies in our services. The total amount claimed in such cases is Rs. 78,854,216. There is one material case in this regard. The details of the same are as follows:

NSIC Limited has filed a case against us in the National Consumer Dispute Redressal Forum, New Delhi. NSIC Limited has claimed an amount of Rs 21,281,971 against our Bank on account of certain letters of credit sent for collection by us and which were lost in transit.

6. **Cases pertaining to interest charges**

There are six cases pending against our Bank wherein disputes have arisen in relation to the interest charged or leviable by our Bank. The cumulative amount claimed in these cases is Rs. 7,491,425 .

7. **Counter claims in recovery suits filed by our Bank**

In the event a customer fails to pay us the amounts due to us within the prescribed time, we take necessary actions to recover such amounts. Such actions include enforcement of the security or filing of recovery suits against the defaulting customers. A number of such customers have filed counter claims and counter suits against recovery suits or other actions undertaken by our Bank. There are 24 such cases pending against our Bank and the total amount in dispute is Rs.230,706,957. There are five material cases in this regard. The details of the same are as follows:

(i) We had filed a suit against R K Solvent for recovery of dues payable to us. However, the R K Solvent has filed a suit, *R K Solvent v. PNB Branch Office (Boring Road, Patna) and others,* against our Bank for recovery of Rs. 22,091,977 on account of loss of expected profits and interests due to alleged vindictive attitude of our Bank, which involved filing of criminal cases against the directors of R K Solvent. R K Solvent has also claimed that our Bank did not act in a timely manner to get the consignment released which resulted in pecuniary loss and loss of goodwill to R K Solvent. The case has been transferred to the DRT, Patna.

(ii) Our Bank had filed recovery suits against the various companies of the SRC Group. SRC Group has filed 11 counter claims in these suits (five of these cases are above Rs. 10,000,000). The Debt Recovery Tribunal, Chennai had dismissed their application on account on non-payment of court fee. The plaintiffs moved an application for restoration and the matter is currently pending in DRT, Chennai. The total amount counterclaimed against our Bank is Rs.47,500,000.

(iii) DIU Steels filed a civil suit, *DIU Steels* v. *Punjab National Bank* in the Kolkata High Court bearing number C.S. 133 of 2001 against us for recovery of Rs.100,000,000. The suit has been filed against our Bank wherein the plaintiff alleges that our Bank has taken over the hypothecated stocks and other assets of the plaintiff, without reasonable notice. Our Bank has filed its written statement and the matter is pending for hearing in the Kolkata High Court.

(iv) Surgiplast Limited has filed a civil suit no. 556/93 in the City Civil Court at Ahmedabad against our Bank for recovery of Rs.16,384,000. The plaintiff has alleged that our Bank converted the hypothecated goods into pledge and as a result, the hypothecated goods lost their validity period. Therefore, the plaintiffs have claimed that it suffered losses to the extent of Rs.16,384,000. Our Bank has filed a written statement and the matter is pending hearing and final adjudication in the City Civil Court at Ahmedabad.

(v) Shree Swaminarayan and company has filed a suit no. 3991/90 against our Bank in the City Civil Court, Ahmedabad against our Bank for recovery of Rs.11,875,520 and also a declaration that mortgaged documents cannot be enforced against the borrower and its sureties. The plaintiff has further alleged that our Bank wrongfully refused to allow the plaintiff to withdraw the pledged goods, which were essential for charging its plant and machinery. The suit has been transferred to the DRT for final disposal.

8. **Property disputes**

A number of our branches are located on rented premises. As a result, 17 cases have been filed against our Bank in relation to arrears/enhancement of the rent of the present/earlier premises occupied by our Bank. The total amount claimed in such cases is Rs. 53,496,631 . There are two material cases in this regard and the details of the same are as follows:

(i) *Mr. Bhagat Ram Arora* v. *PNB* – The landlord of the premises of one of our branches in Kolkata has filed an eviction suit number 591/99 against us at the Kolkata High Court wherein he has claimed damages amounting to Rs.32,290,956 for wrongful use of the premises. The Bank has filed the written statement and the matter is pending for hearing.

(ii) *Chunnilal and Company* v. *PNB* - The plaintiff had rented the premises to one of our branches in Mumbai as a 'sub-tenant' and has filed an eviction suit number 167/176 of 2002 in the Small Causes Court wherein he claimed rent for Rs. 3,63,654 per month and a total amount of approximately Rs. 10,379,319. The Bank has filed a written statement and the matter is pending for hearing.

9. **Cases wherein our Bank has been impleaded as a third party**

Our Bank is often impleaded as a third party in a dispute between two persons wherein one of the persons may be a customer of our Bank and therefore, the court may order the parties to recover the sums due from the assets of such customer at our Bank. There are 12 such cases currently pending at various courts in India and the total amount claimed in such cases is Rs. 28,669,542. There are two material cases in this regard. The details of the same are as follows:

(i) Uniscan Sonics Limited had allegedly drawn various bills in favour of United HealthCare Limited. Uniscan Sonics Limited has also alleged that our Bank has wrongfully co-accepted the same. The plaintiffs failed to honour the bills and therefore, our Bank was asked to pay an amount of Rs.26,710,865 to Canara Bank. However, our Bank has refused to honour the bills in light of Section 22 of the Negotiable Instruments Act, 1938. Hence, the plaintiff has filed a case, *Uniscan Sonics Limited v. Punjab National bank,* suit no. 1260/91 in the District Court. The case has been transferred to the Debt Recovery Tribunal, Mumbai. The DRT has passed a stay order in this case.

(ii) A suit, *NSIC Limited* v. *Moti Industries Limited and Punjab National Bank,* suit no. 3709/99 has been filed by NSIC Limited against Moti Industries Limited and our Bank in the Mumbai High Court, for a decree of Rs.23,592,259. This is the value of two letters of credit opened by our Bank in case the said amount is not paid by Moti Industries Limited to the plaintiff. The matter is pending hearing and final adjudication in the Mumbai High Court.

10. **Labour related cases**

There are 701 labour related cases pending against our Bank in the labour courts and various high courts in India. The total amount claimed by the plaintiffs in these cases is approximately Rs.161.77 million.

The aforesaid cases are classified as follows:

(i) There are 263 cases pending against our Bank wherein employees have claimed payment of arrears, which includes payment of various allowances and reimbursements, gratuity, pension, differences on account of revised pay scales and other dues allegedly denied by us. The total claim arising out of these cases is approximately Rs. 17. 75 million

(ii) There are 183 cases against our Bank for alleged wrongful dismissals and removal from service by us wherein the total amount claimed as compensation is approximately Rs. 90.63 million.

(iii) There are 181 cases pending against our Bank for matters pertaining to issues such as promotion, reduction of grade/post, compulsory retirement, absorption, regularization, reinstatement, suspension, etc of our employees. The total claim against our Bank in these cases amounts to approximately Rs. 23.57 million.

(iv) There are 75 cases filed against our Bank for dues claimed by employees in relation to our voluntary retirement scheme. The total amount of such claims is approximately Rs. 29.81 million. There are two material cases that involve trade unions of our Bank. The details of these cases are as follows:

(a) Mr. S.M. Goel and Punjab National Bank Retired Officers Union, the petitioners, *S.M. Goel and Punjab National Bank Retired Officers Union* v. *Punjab National Bank,* C.W.P. No. 5284/93 before the Delhi High Court, have alleged that our Bank unlawfully started recovering the ad-interim bonus paid by itself in 1974 from the salaries of the officers. This alleged action of our Bank has been challenged in the writ petition. The matter has been admitted by the Delhi High Court and is pending hearing and final adjudication.

(b) A writ petition, *Hindustan Commercial Bank Limited* v. *All India Hindustan Commercial Bank Employee Association and others,* no. 8633186 was filed by Hindustan Commercial Bank Limited (HCB), which was merged with our Bank, in the Allahabad High Court against an award passed by CGIT, Kanpur, whereby HCB was ordered to allow the benefits of past temporary service to certain workmen who were given confirmed employment pursuant to a settlement dated April 25, 1978 entered into between the employees' union of HCB and HCB. The operation of the said award was stayed by the Allahabad High Court. Our Bank has filed an application for impleading in the said writ petition and the same has been accepted by the Allahabad High Court. The Writ Petition will now come up for hearing in due course.

11. There are 13 notices against some branches of our Bank in which irregularities with regard to the public issues of certain other companies in which our Bank was acting as a intermediary and in which action has been taken by regulators against the said branches of the Bank. The details of the same are as follows:

S. No.	Branch of the Bank	Name of issuer company	Irregularities	Action Taken/Development
1	Navrangpura, Ahmedabad	M/s Kangold (India) Ltd.	Branch accepted application money after the closure of the issue during October, 1994	Branch was de-authorised for any type of merchant banking business vide circular dated June 11, 1996. The branch is still de-authorised
2.	Navrangpura, Ahmedabad	M/s Elvis India Ltd.	Branch accepted 40 applications with stock invests after closure of the issue in January, 1995	Bank dismissed from the bank's service the then manager. Another officer was penalized by reducing his scale of pay by four stages. SEBI imposed a penalty of warning to the bank to be more careful in future vide its letter dated September 3, 2002.
3.	M I Road, Jaipur	M/s Asian Industrial Structures Ltd.	Branch accepted 24 applications in stock invests amounting to Rs. 49.8 million after closure of the issue in January, 1996	Branch was de-authorised for any type of merchant banking business for one year vide circular dated June 23, 1997. However, branch was again authorized to handle merchant banking business vide circular dated July 25, 2000 as per recommendations of the zonal manager, Jaipur. Bank imposed upon the erring official of the branch penalty of dismissal from service.

S. No.	Branch of the Bank	Name of issuer company	Irregularities	Action Taken/Development
4.	New Cloth Market, Ahmedabad	M/s Hindustan Fin. Stock Ltd.	19 applications amounting to Rs. 15.1 million were received after closure of the public issue.	In terms of hearing dated August 10, 1999, SEBI recommended suspension of registration of the branch for a period of 3 months. Branch requested SEBI to take a lenient view in the light of the remedial measures taken by the branch. Branch is still deauthorised for accepting merchant banking business.
5.	Ashram Road, Ahmedabad	M/s Renco Gears Ltd.	Application money was released to the company even before stock exchange approval had been obtained in 1995.	Branch was deauthorised for doing all types of merchant banking business till August 4, 2000. Disciplinary authority had imposed a minor penalty on the then chief manager of the branch.
6.	Relief Road, Ahmedabad	M/s Dhanlaxmi Lease Finance Ltd.	Branch accepted applications after closing date of issue and failed to maintain proper records pertaining to the issue in 1995.	Non-maintenance of the record was admitted by the bank. SEBI vide letter dated October 19, 2002 imposed a penalty of debar on the branch for 6 months to undertake any banker to issue business.
7.	Mahajan Gali, Vadodra	M/s Rich Paints Ltd.	Branch issued 6 stock invests of Rs. 56 million each aggregating Rs. 30 million in the names of various persons in violation of guidelines in 1996.	Branch was deauthorised for doing all types of merchant banking business till August 4, 2000. Disciplinary authority had imposed a minor penalty on the then chief manager of the branch.
8.	Raopura, Vadodra	M/s Incap Financial Services Ltd.	Application of M/s Darshan Investments Pvt. Ltd. for 600,000 shares amounting to Rs. 60 million was accepted and released after the closure of the public issue in early nineties.	Branch was deauthorised for acting as banker to an issue for 3 months vide circular dated March 27, 2000. Note of caution had been served to the erring official.
9.	Shahibaug, Ahmedabad	M/s Maha Chemicals Ltd.	Application collected by the branch included 23 applications accompanied by stock invests issued by Tamil Mercantile Bank, Unjha branch and these were	Staff side action was initiated against two officers and minor penalty of 'censure' was imposed upon them by the Bank. 2 months de-authorisation of the branch was imposed by SEBI vide order dated September 10, 2003 effective for 3 weeks from the date of the order.

S. No.	Branch of the Bank	Name of issuer company	Irregularities	Action Taken/Development
			issued in the last week of May, 1994 and in the first week of June, 1994 whereas public issue of the company closed on April 15, 1994.	
10.	Navrangpura, Ahmedabad	M/s Saket Extrusion	Stock invests of Rs. 15 million had 4 different dates as February 22, 1994, March 30, 1994, April 26, 1994 and March 27, 1994 in the columns meant for date of issue whereas their presentation date was March 10, 1994. These were cancelled on May 26, 1994 despite various irregularities.	SEBI on February 20, 2000 had recorded statement of the branch manager. Staff side was decided and the then manager was dismissed. Another officer was penalized by reducing 4 stages in the scale. RBI was informed on May 9, 2001 to close the file.
11.	Sector 17-B, Chandigarh	M/s Majestic Industries	Issue had not been fully subscribed on the day of closure i.e., April 10, 1996. There was a delay of 10-12 days in clearance of cheques enclosed with application.	Delay in clearance was due to rush of closing work at the controlling branch. In personal hearing dated September 6, 2004, SEBI was informed that there were holidays on account of Ambedkar Jayanti, Ram Navmi etc. which also caused the delay. Staff side is decided. SEBI has been requested to close the file. SEBI issued show cause notice on December 15, 2004 in relation to levy of minor penalty of suspension of the branch for undertaking bankers to issue transactions for a period of one month.
12.	Erstwhile PNB Capital Services.	M/s Mefcom Markets Ltd.	PNB Caps as lead manager did not independently verify the claims of the company for charging Rs. 60/- per share for a share of Rs. 10/- but instead relied upon the statement of the company.	SEBI proposed warning to erstwhile PNB Caps for the violation. SEBI has been requested to take lenient view as PNB Caps acted diligently and in compliance with the then existing guidelines of SEBI. Moreover, PNB Capital Services stands merged with PNB.

S. No.	Branch of the Bank	Name of issuer company	Irregularities	Action Taken/Development
13.	Navrangpura, Ahmedabad	M/s Growmore Solvent Ltd.	Branch not only issued stock invests but also accepted applications subscribing to initial public offer & these were also used for another company Saket Extrusions Ltd.	SEBI was informed on January 8, 2004 that Bank has already taken appropriate action against the officer. SEBI vide letter dated March 12, 2004 has recommended a penalty of debarring the branch from carrying out activities of banker to an issue for a period of one month. The branch is already deauthorised by the bank conduct merchant banking business.

12. **Miscellaneous cases**

There are 32 other cases pending against our Bank, which have arisen either in connection with the death of the account holder or under the provisions of the Monopolies and Restrictive Trade Practices Act, 1969 or as a result of consolidation or shifting of our branches. The total amount claimed in such cases is approximately Rs.26.05 million.

II. Litigation against Our Directors

Except as disclosed below, there is no outstanding litigations against the directors of our Bank towards tax liabilities, criminal/civil prosecution for any offences (irrespective of whether they are offences in the nature of those specified under paragraph (i) of Part 1 of Schedule XIII of the Companies Act), disputes, defaults, non payment of statutory dues, proceedings initiated for economic offences, in their individual capacity or in connection with our Bank and other companies with which the Directors are associated:

(i) There is one criminal complaint against Mr. S.S. Kohli, the Chairman and Managing Director of our Bank. For details of the case please see the details of criminal cases.

(ii) A complaint has been filed under Indian Penal Code against M/s. Delfin Finance Ltd, in which Mr. Mohanjit Singh, one of our Directors is director, regarding pre-emptive purchase of property under provisions of the IT Act.

III. Material Developments

(a) Our Board of Directors has accorded in principle approval to a merger between IFCI and our bank, subject to certain terms and conditions. See the section titled “Risk Factors” on page x.

(b) Our Board of Directors had authorised a fresh issue of up to 50,000,000 Equity Shares pursuant to a resolution passed at its meeting held on September 11, 2004. Our shareholders subsequently authorised the fresh issue of up to 50,000,000 Equity Shares, by a resolution passed unanimously at the general meeting of our Bank held on October 11, 2004, subject to the approval of the Government, the RBI, SEBI and other applicable authorities. The shareholder resolution gave the Board the authority and power to accept any modification in the proposal as may be required or imposed by such authorities and as agreed to by the Board.

Our Bank applied to the Government on October 14, 2004 for its consent to a fresh issue of up to 50,000,000 Equity Shares. By its letter bearing number F.No.11/29/2004-BOA dated January 7, 2005, the Department of Economic Affairs, MoF, GoI granted its consent to the fresh issue of 80,000,000 Equity Shares, pursuant to Section 3 (2B) (c) of the Bank Acquisition Act. The Government Approval contained, *inter alia*, a condition that out of the 80,000,000 Equity Shares, the amount raised for 30,000,000 Equity Shares through the public offer should be returned to the Government at the Issue Price by March 31, 2005.

The shareholders of the Bank, at an annual general meeting held on August 4, 2003, had approved a return of capital to the GoI to the extent of 130,000,000 Equity Shares or such other number of Equity Shares in one or more tranches and authorized the Board to accept, agree or otherwise to any modifications in the amount, number of shares or manner of reduction of paid up share capital.

Following the receipt of the Government Approval and in pursuance of the powers granted to the Board by the shareholders of our Bank in the extraordinary general meeting dated September 11, 2004, our Board resolved by resolution dated January 13, 2005 that the amount raised through the issue of 30,000,000 Equity Shares out of the total issue of 80,000,000 Equity Shares would be returned to the Government by March 31, 2005, and that the Bank would reduce 30,000,000 Equity Shares held by the President of India in accordance with the provisions of Section 3(2BBA)(a) of the Banking Companies Acquisition Act 1970. Accordingly, we shall transfer the amount raised through the issue of 30,000,000 Equity Shares out of the total issue of 80,000,000 Equity Shares to the Government by March 31, 2005. For further details, see sections titled "Risk Factors" on page x, "General Information - Authority for the Issue" on page 7, "Capital Structure" on page 22 and "Government Approvals" on page 182 and for details on Section 3(2BBA)(a) of the Banking Companies Acquisition Act 1970, see the section titled "Main Provisions of Constitutional Documents" on page 248.

Except as disclosed above, in the opinion of the Board of our Bank, there have not arisen, since the date of the last financial statements disclosed in this Red Herring Prospectus, any circumstances that materially or adversely affect or are likely to affect the profitability of our Bank taken as a whole or the value of its consolidated assets or its ability to pay its material liabilities within the next twelve months.

IV. Against Our Group Companies

A. Litigation against our subsidiaries

A.1 **PNB Housing Finance Limited**

1. Contingent Liabilities not provided for as of September 31, 2004: Rs. 30,396,759.
2. Litigation against PNB Housing Finance Limited as on February 7, 2005:

Sl. No.	Name and No. of case	Nature of dispute	Amount Involved	Status
1.	Interest Tax	Income Tax Department has raised demand in respect of interest tax on securities for these financial years, which have been duly paid.		Appeal pending in ITAT
	93-94		Rs. 494,618	
	94-95		Rs. 1,420,334	
	95-96		Rs. 1,336,233	
	96-97		Rs. 875,911	
2.	Income Tax	Income Tax Department has raised demand for financial year 95-96, which has been duly paid, on the ground that a write off in GDA account of Rs. 54,235,290 has not been credited in GDA's account.	Rs. 29,655,591	Appeal pending in ITAT
3.	Income Tax	Income Tax Department has raised demand for financial year 96–97, which has been duly paid, in respect of computation u/s 36(1)(viii) by allowing claim of only Rs. 410,876 against Rs. 23,156,460 claimed by us.	Rs. 13,622,902	Appeal pending in ITAT
4.	Income Tax	Income Tax Department has gone into appeal in respect of financial year 97-98, which has been duly paid by withdrawing the MAT credited of financial year 96-97 allowed in the financial year 97-98.	Rs. 1,035,731	Consequential impact of appeal pertaining to financial year 96-97 is pending in ITAT.

Sl. No.	Name and No. of case	Nature of dispute	Amount Involved	Status
5.	Income Tax	Income Tax Department has gone into appeal in respect of financial year 97-98 on the ground that common expenses should be allocated to interest on tax free bonds for computation of deduction under section 36 (1)(viii) of the IT Act.	Rs. 5,011,687	Appeal pending in ITAT.
6.	Income Tax	Income Tax Department has raised a demand in respect of financial year 2001-02 by disallowing deferred revenue expenditure and expenditure in respect of tax-free income.	Rs. 5,00,000	PNB Housing Finance Limited to file an appeal against the said order in the ITAT.

A.2 **PNB Gilts Limited**

1. Contingent Liabilities not provided for as of September 30, 2004: Rs.0.377 million
2. Litigation against as of February 7, 2005 :

Nature of Litigation/ Dispute/ Default/Non-payment	Quantum of claims/ demands	Status/outcome of litigation, dispute
Interest Tax	310,434	A sum of Rs. 31,77,908/- had been paid to the income tax authorities as interest tax for the year 1996-97 against which the company sought refund. The appellate authorities have adjudicated in favour of the company and a refund of Rs. 28.67 lacs has been received along-with interest of Rs. 18.86 lacs. The company has preferred appeal for the remaining amount of Rs. 3.10 lacs. The last appeal has not come up for hearing so far.
Mafatlal Consultancy Services (MCS) for breach of contract that was executed for development of integrated software package.	400,000	The company had filed a case against Mafatlal Consultancy Services for recovery of dues in the Delhi Court. The case was decreed in favour of PNB Gilts Limited. The decree has since been transferred to Mumbai District Court for execution through M/s. D'Lima and Associates, Advocates, High Court Mumbai on August 8, 2001. However, it has been informed that even though around 3 years have elapsed since the decree was transferred to Mumbai, the advocates have not been able to obtain a clarification of the assets of Mafatlal Consultancy Services Ltd. and whether the same can be attached for effectively satisfying the decree. Efforts are being made for the attachment of the assets through our advocate for realization of our dues.
In the past, no negative action/penalties have been imposed by any regulatory authority.		

In addition, a complaint has been filed under Indian Penal Code against M/s. Delfin Finance Ltd, in which Mr. Mohanjit Singh, one of our directors is director, regarding pre-emptive purchase of property under provisions of the IT Act.

A.3 **PNB Asset Management Company Limited**

1. Contingent Liabilities not provided for as of March 31, 2004: Rs. 299,000

2. Litigation against as of February 7, 2005:

In the past, no negative action/penalties have been imposed by any regulatory authority other than mentioned below:

(a) SEBI had referred a case of two schemes to an adjudication officer in which the company exceeded the 10% investment limit (in single scrip) of the Net Asset Value. The adjudication officer levied a penalty of Rs. 0.2 million, which was paid by the PNB Asset Management Company Limited on May 9, 2001.

(b) The IT Department has raised a demand of Rs. 17.05 lacs for the assessment year 2002-2003 vide letter dated November 22, 2004. PNB Asset Management Company Limited has filed an appeal with the Commissioner of Income Tax (Appeals).

B. Litigation against our associates

B1. **M/s. Assets Care Enterprises Ltd.**

2. Contingent Liabilities not provided for as of September 30, 2004: NIL.

3. Litigation and penalties filed against the company as on February 7, 2005: NIL.

B 2. **UTI Asset Management Company (P) Limited.**

1. Contingent Liabilities not provided for as of March 31, 2004: NIL

2. Litigation and penalties filed against the company as on December 31, 2004:

Sr. No.	Forum/ Name and No. of the case	Nature of dispute	Amt. Involved
1.	CGIT, Mumbai – George & Modern Maintenance Services vs. UTI (CGIT 76 of 2004 arising out of W.P. No. 61 of 1996)	Contract workmen engaged in cleaning services seeking regulation in UTI	Nil
2.	CGIT, Mumbai – Property Guards Vs. UTI (CGIT 77 of 2004 arising out of W.P. No. 3435 of 1990)	Contract workmen engaged in security services seeking regularization in UTI	Nil
3.	CGIT, Mumbai – Property Guards Vs. UTI (CGIT 78 of 2004 arising out of W.P. No. 1165 of 1991)	Contract workmen engaged in security services seeking regularization in UTI	Nil
4.	CGIT, Mumbai, George & Modern Maintenance Services Vs. UTI (CGIT 79 of 2004 arising out of W.P. No. 2129 of 1999)	Contract workmen engaged in cleaning services seeking regularization in UTI	Nil
5.	CGIT, Mumbai – Property Guards Vs. UTI (CGIT 80 of 2004 arising out of W.P. No. 2017 of 1992).	Contract workmen engaged in security services seeking regularization in UTI	Nil
6.	Mumbai II.C., Precipe in W.P. Nos. 2017 of 1992, 3435 of 1990 & 1165 of 1991	Contract workmen engaged in security services seeking extension of interim relief till Judge is appointed at CGIT	Nil

Sr. No.	Forum/ Name and No. of the case	Nature of dispute	Amt. Involved
7.	Mumbai II.C., Shantaram B. Ghadi & Ors. Vs. UTI W.P. No. (Lodging) 2708 of 2004 (related to W.P. No. 61 of 1996)	Contract workmen engaged in cleaning services praying to extend the interim relief until such an application in CGIT No. 76 of 2004 is decided.	Nil
8.	Supreme Court – Shri Digvijay Singh Vs. UTI	Intended appeal on the order of Mumbai H.C. refusing to stay the disciplinary enquiry on the ground that criminal proceedings are pending.	Nil
9.	Delhi H.C. – Shri Atul Kumar Jain Vs. UTI (W.P. No. 8778 of 2004)	Seeking not to be relieved under VSS as he has withdrawn his VSS application	Nil
10.	CGIT Mumbai – Shri S.R. Keer Vs. UTI (CGIT No. 1/25 of 2004)	Dismissed employee seeking reinstatement on the ground that he has been acquitted subsequently by criminal court on same charges	Rs. 18 lacs (Assistant dismissed w.e.f. 13.02.1986)
11.	CGIT Mumbai – BKKM Vs. UTI (CGIT No. 1/48 of 2004)	Contract workmen engaged in cleaning/security services seeking regularization in UTI	Nil
12.	CGIT Mumbai – AIUTEA Vs. UTI (CGIT No. 1/20 of 2004)	ATUTEA seeking restoration of additional comm. For P.F. etc.	Nil
13.	CGIT Mumbai – AIUTEA Vs. UTI (CGIT No. 1/26 of 2004)	ATUTEA seeking for 3rd pension option	Rs. 17.5 crores (The option is effective from 2000. The liability is towards additional funding required in respect of left over Class III and Class IV staff based on the average earnings and average service).
14.	Delhi H.C. – Shri A.K. Anand Vs. UTI (W.P. No. 1067 of 1999) (IR-3-35)	Seeking promotion to Gr. ‘C’ retrospectively from 01.01.95. However, he has been subsequently promoted to Gr. ‘C’ on 10.05.1999.	Rs. 50,000/-

Sr. No.	Forum/ Name and No. of the case	Nature of dispute	Amt. Involved
15.	Delhi H.C. – Shri A.K. Anand Vs. UTI (WP No. 6567 of 2002) (The earlier W.P. No. 1369 of 2002 has been disposed off)	Seeking stay of his deputation to UTISI, Navi Mumbai	Nil
16.	Guwahati Civil Court – Shri Mukesh Kapoor Vs. UTI (Title Suit No. 31 of 2004)	Seeking to consider his Promotion to Gr. 'B'	Nil
17.	Allahabad H.C. – Shri Shyamji Mishra & ors. Vs. UTI (WP No. 32954 of 1990)	Ex-temporary employee seeking regularization as permanent employee	Nil
18.	CGIT, Delhi – Shri J.C. Katyal Vs. UTI (ID No. 2 of 1992)	Dismissed employee challenging his dismissal	Rs. 25 lacs (Assistant dismissed in 1987)
19.	Mumbai R.C. – UTI Vs. S.B. Vichare (W.P. No. 2311 of 1999)	UTI challenging the award of the Tribunal ordering reinstatement	Rs. 18 lacs (Assistant dismissed in 1983)
20.	Kolkata H.C. – Shri Ashok Kumar Das Vs. UTI (C.O. No. 4546 of 1996)	Wait listed employee who could not be offered employment due to lack of vacancies. Case filed seeking appointment.	Nil
21.	Kolkata H.C. – Shri Prasanna (Orang Vs. UTI (C.O. No. 11219 (W) of 1996)	Wait listed employee who could not be offered employment due to lack of vacancies. Case filed seeking appointment.	Nil
22.	Kolkata H.C. – Shri Tannjendra Mukherjee Vs. UTI (W.P. No. 1005 of 1997)	Wait listed employee who could not be offered employment due to lack of vacancies. Case filed seeking appointment.	Nil
23.	Patna H.C. – Shri Ravi S. Prasad Vs. UTI (MJC 3208 of 1998) (W.P. No. 9269 of 2001)	Wait listed employee who could not be offered employment due to lack of vacancies. Case filed seeking appointment.	Nil
24.	Hyderabad H.C. – Shri Yani Prasad Vs. UTI (W.P. No. 13104 of 2001)	Wait listed employee who could not be offered employment due to lack of vacancies. Case filed seeking appointment.	Nil
25.	Ahmedabad Civil Court – Shri D.M. Kalwala Vs. UTI (C.S. No. 2126 of 1997)	Wait listed employee who could not be offered employment due to lack of vacancies. Case filed seeking appointment.	Nil

Sr. No.	Forum/ Name and No. of the case	Nature of dispute	Amt. Involved
26.	Mumbai H.C. – BKKM Vs. UTI (W.P. No. 4925 of 2000)	Contract workmen engaged in Electrical/AC maintenance seeking abolition of contract labour system	Nil
27.	Mumbai H.C. – Contract Laghu Udyog Kamgar Union Vs. UTI (W.P. No. 2908 of 2003)	Canteen contract workmen seeking quashing of the order of Tribunal holding that they are not entitled for regularization in UTI	Nil
28.	Mumbai H.C. – UTI Vs. State of Maharashtra (W.P. No. 4078 of 2000)	Appeal of UTI against order of the Magistrate to engage security guards through the Board	Nil
29.	Madras H.C. – UTI Vs. UT SC/ST Association, Chennai (Civil Suit No. 199 of 1999)	Obtaining injunction against demonstration on March 16, 1999.	Nil
30.	Madras H.C. – Shri Selvaraj, UT SC/ST Assn. Chennai Vs. UTI (W.P. No. 24611 of 2003)	SC/ST Assn. Praying that engaging VSS optees at UTI/SL without notification to employment exchange etc. as improper.	Nil
31.	22nd Metropolitan Magistrate, Andheri, Mumbai LEO Vs. UTI (CC No. 120/SLC/ 2003)	Reg. Non display of notices under Contract Labour Act	Nil
32.	Magistrate court, Kolkata LEO Vs. UTI (R.K. Mangla) No. 3465 of 2003)	Non – display of notices under Contract Labour	Nil
33.	Magistrate court, Kolkata LEO Vs. UTI (S.K. Saha) (No. 3888 of 2003)	Regarding not obtaining registration certificate under Contract Labour Act.	Nil
34.	Percipies No. _____ of 2004 in W.P. No. 2017 of 1992, W.P. No. 3435 of 1990, W.P. 1165 of 1991. Mumbai H.C.	Filed by contract workmen (Security Guards) to extend interim relief in view of non posting of Judge in CGIT.	Nil
35.	W.P. No. 19854 of 2004. Yogesth Singh Vs. Union of India and Ors. Delhi H.C.	Assistant Manager, Patna Office, praying to release salary for his absence periods, declare the enquiry as illegal, considering of promotion etc.	
36	Civil Suit No. 48 of 2004, Manmohan Bamania Vs. UTI AMC, District Court, Jodhpur	VSS employee praying that his release under VSS is illegal and for reinstatement.	
37.	CGIT Mumbai ______ of 2005, contract labour Udyog Kamgar Union Vs. UTI AMC, canteen case (Payment of legal dues)	The canteen services discontinued from 25.02.2004. The 39 canteen workmen praying for final legal dues.	

B 3. **UTI Trustee Company (P) Limited.**

1. Contingent Liabilities not provided for as of March 31, 2004: NIL

2. Litigation and penalties filed against the company as on December 31, 2004 are as follows:

A. Criminal cases.

Sr. No.	Nature of Litigation / Dispute / Default / Non Payment	Case No.	Name of the Complainant	Name of the Court
1	Criminal	Criminal Revision Petition 66	Naresh Kumar Sethi	District and Sessions Judge, Jaipur
2	Criminal	Criminal Revision Petition 67	Naresh Kumar Sethi	District and Sessions Judge, Jaipur
3	Criminal	Criminal Revision Petition 68	Naresh Kumar Sethi	District and Sessions Judge, Jaipur
4	Criminal	963/98	D.B. Dutta	Judicial Magistrate -1, Patna
5	Criminal	501/97	K.K.P. Verma	Judicial Magistrate-1, Muzaffarpur
6	Criminal	41/97 Shyam	Sunder Kejriwal CIM,	Muzaffarpur
7	Criminal	142/98	Kiran Devi	Judicial Magistrate -1, Patna
8	Criminal	421/99	Ranjeet Kumar	Judicial Magistrate-1, Patna
9	Criminal	482/97	Krishna Kumar Kejriwal	Judicial Magistrate-1, Bhagalpur
10	Criminal	195/2000	Nawal Kishore Prasad	CIM, Siwan
11	Criminal	44/99 Suresh	Kumar Singh	SDIM Hajipur
12	Criminal	407/96	Deobrat Singh	CIM Dhanbad
13	Criminal	1316/2000	Bhagwan	CIM Dhanbad
14	Criminal	CR. Misc 9008/99	Deobrat Singh	High Court, Ranchi
15	Criminal	160/98 (03.04.98)	Sanjeev Bindal	CIM, Kasganj
16	Criminal	1034/98	Vijay Kumar	Judicial Magistrate-1, Purnea
17	Criminal	CR Case No.954/97	Kailash Aggarwal	Judicial Magistrate, Jamshedpur
18	Criminal	Case No. 8670/98	Jitendra Kumar	CIM, Muzaffarnagar

Sr. No.	Nature of Litigation / Dispute / Default / Non Payment	Case No.	Name of the Complainant	Name of the Court
19	Criminal	Case no.94/97	Teg Bahadur	ACJM-II, Muzaffarnagar
20	Criminal	879/97	Virendra Singh	ACJM, Muzaffarnagar
21	Criminal	1954/95	G.J.Suryawala	JM (FC), Baroda
22	Criminal	1239/01	R.Singh	SDJM, Jamshedpur
23	Criminal	9876/2002	Pratima Sarkar	CJM-I

B. Consumer Cases

Place	Number of Cases
Western Zone	642
Northern Zone	97
Eastern Zone	110
Southern Zone	28
Total	**877**

B 4. **Principal PNB Asset Management Company Private Limited.**

1. Contingent Liabilities not provided for as of September 30, 2004: Rs. 140,215.
2. Litigation and penalties filed against the company as on February 7, 2005:

The total liability of the company with regard to its litigation does not exceed Rs 500,000.

B 5. **Principal Trustee Company Private Limited.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.
2. Litigation and penalties filed against the company as on February 7, 2005: NIL.

B 6. **Everest Bank Limited**

1. Contingent Liabilities not provided for as of September 30, 2004:

   The bank does not have any statutory tax liability except a contingent liability to the tune of Nepali Rupaiya 2,855,953 in relation to the cases where the bank has filed an appeal against the tax assessment orders for 3 years as mentioned below.

2. Litigation against as on February 7, 2005:

   No civil or criminal cases and no cases against directors and employees. Income tax/Interest tax matters: Everest Bank Limited has filed appeals against the decisions of the Inland Revenue Department in which they opened its income tax assessment files for the three years, i.e. 1997-98, 1999-2000, 200-01. While opening the files they have added back the residual amount after payment of statutory bonus which had been transferred to the bank's Employees Provident Fund as per law.

3. No penalties have been imposed by regulatory bodies against the bank in the last three years.

B7 **PNB Principal Financial Planners Limited**

1. Contingent Liabilities not provided for as of February 7, 2005: Nil
2. Litigation and penalties filed against the company as on February 7, 2005: Nil

B8 PNB Principal Insurance Advisory Services Private Limited

1. Contingent Liabilities not provided for as of February 7, 2005: Nil
2. Litigation and penalties filed against the company as on February 7, 2005: Nil

PNB Principal Insurance and Pension Company Limited is yet to be incorporated.

C. Litigation against RRBs:

C.1 **Bhojpur- Rohtas Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.
2. Litigation against as of February 5, 2005 are as follows:

   A. Service Matters:

   There are 38 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal and one case pending before the Supreme Court at various stages of hearing and disposal.

   B. Criminal cases:

   There are 7 cases in which the Bhojpur- Rohtas Gramin Bank has been named a respondent in a criminal appeal. These cases relate to cases in which Bhojpur- Rohtas Gramin Bank had filed criminal complaints against certain persons including employees and these persons have filed appeals against the orders passed by lower courts against them and named Bhojpur- Rohtas Gramin Bank as a respondent.

C 2. **Magadh Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.
2. Litigation and penalties filed against the company as on February 5, 2005 are as follows:

   There are 18 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal.

C 3. **Nalanda Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.
2. Litigation against as of February 5, 2005 are as follows:

   There are 21 cases relating to service and labour matters pending before various forums at various stages of hearing and disposal.

C 4. **Patliputra Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: Bank guarantee of Rs. 0.676 million.
2. Litigation and penalties filed against the company as on February 5, 2005: NIL.

C 5. **Haryana Kshetriya Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.
2. Litigation against as of February 5, 2005 are as follows:

   There are 34 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

C 6. **Hissar Sirsa Kshetriya Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.
2. Litigation against as of February 5, 2005 are as follows:

A. Service Matters:

There are 9 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

C 7. **Ambala Kurukshetra Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.

2. Litigation against as of February 5, 2005 are as follows:

A. Consumer case:

S. No.	Name & No. of Case	Nature of Dispute	Amount Involved	Status
1.	B.O. Lakhnaura – 21 cases filed by different parties in consumer court against the bank.	Fraud detected in branch in 1999	Rs. 1.396 million	Pending with Consumer court. However, an amount of Rs. 2.07 million is outstanding in books of accounts as provision to meet out this liability as well as others.

B. Service Matters:

There are 19 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

C 8. **Himachal Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.

2. Litigation against as of February 5, 2005 are as follows:

S.No.	Name and No. of case	Nature of dispute	Amount involved (Amount in Rs.)	Status
1.	1 civil case	Deposit claim	22,000	Pending in the court
2.	21 employee related cases	Seniority/promotion	NIL	Pending in the court
3.	3 Income tax/interest tax matters	Tax exemption	22,956,000	Appeal with Income tax Commissioner & Himachal Pradesh High Court.

C 9. **Shivalik Kshetriya Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.

2. Litigation against as of February 5, 2005 are as follows:

A. Disputes/Litigations towards Tax liability:

Shivalik Kshetriya Gramin Bank, being a RRB, are claiming the exemption under Sec 80 P (2)(a)(i) of IT Act for the profit earned. But income tax officer, Hoshiarpur while assessing the Income Tax Returns, has not allowed the deduction in respect of interest on investments by treating it as the income from other sources. The income tax officer, Hoshiarpur has so far opened the cases for assessment years 1996-97 to 2001-02. The assessment for the assessment year 2001-02 is still in progress whereas the assessment for the financial year 1996-97 to 2000-01 was completed before 31.03.2004. Shivalik Kshetriya Gramin Bank has deposited the demand raised by income tax officer, Hoshiarpur before 31.03.2004. The assessment year wise detail is as under:

Assessment year	Demand raised	Amount deposited	Date of Deposit	Appeal pending with
1996-1997	5,983,007	5,983,007	11.02.2000	Appellate Tribunal, Amritsar
1997-1998	3,952,128	3,952,128	11.02.2000	Appellate Tribunal, Amritsar
1998-1999	16,819,991	16,819,991	18.03.2002	CIT (Appeal), Jalandhar
1999-2000	23,895,015	23,895,015	19.09.2003	CIT (Appeal), Jalandhar
2000-2001	31,281,093	31,281,093	25.11.2003	CIT (Appeal), Jalandhar
Total	**81,931,234**	**81,931,234**		

The demand raised by assessing officer for the assessment year 2001-2002 is Rs.27,511,398 which was to be deposited before November 24, 2004 and the assessment of the returns for the later years has not been yet reopened by income tax officer, Hoshiarpur. The amount has been deposited without booking the expenditure. The amount is being paid to the debit of income tax paid account and is shown in the balance sheet under Schedule 11 (item III). The amount has been shown as disputed tax liability as the appeals are pending at various levels.

B. Cases relating to employees and service matters:

There are 5 cases relating to service and labour matters pending before various forums, including the state high court at various stages of hearing and disposal.

C 10. **Kapurthala –Firozpur Kshetriya Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: 1.54 million.
2. Litigation against as of February 5, 2005 are as follows:

   There are 11 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

C 11. **Gurdaspur Amritsar Kshetriya Gramin Vikas Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: 1.078 million.
2. Litigation against as of February 5, 2005 are as follows:

   There are 15 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

C 12. **Shekhawati Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.
2. Litigation against as of February 5, 2005 are as follows :

   There are 38 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

C 13. **Alwar Bharatpur Anchalik Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: 1.110 million.
2. Litigation against as of February 5, 2005 are as follows:

   There are 31 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

C 14. **Kisan Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.
2. Litigation against as of February 5, 2005 are as follows:

   A. Service matters:

   There are 13 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

   B. Criminal Cases:

   There are 2 criminal cases pending before various forums at various stages of hearing and disposal.

C 15. **Devi Patan Kshetriya Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.
2. Litigation against as of February 5, 2005 are as follows:

   A. Service Matters

   There are 23 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

   B. Criminal Cases:

   There are 2 cases in which the Devi Patan Kshetriya Gramin Bank has been named a respondent in a criminal appeal. These cases relate to cases in which Devi Patan Kshetriya Gramin Bank had filed criminal complaints against certain persons including employees and these persons have filed appeals against the orders passed by lower courts against them and named Devi Patan Kshetriya Gramin Bank as a respondent.

C 16. **Rani Lakshmibai Kshetriya Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: 0.927 million.
2. Litigation against as of February 5, 2005 are as follows:

   There are 38 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

C 17. **Vidur Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.
2. Litigation against as of February 5, 2005 are as follows:

   There are 41 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

C 18. **Muzaffarnagar Kshetriya Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.
2. Litigation against as of February 5, 2005 are as follows:

   There are 6 cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

C 19. **Hindon Gramin Bank.**

1. Contingent Liabilities not provided for as of September 30, 2004: NIL.
2. Litigation against as of February 5, 2005 are as follows:

   A. Civil cases

   There are 3 civil cases relating to service and labour matters pending before various forums, including the state high court, the industrial tribunal at various stages of hearing and disposal.

   B. Criminal case:

   There is 1 criminal case against the bank pending before judicial magistrate, Ghaziabad.

DIVIDEND POLICY

The declaration and payment of dividends will be recommended by our Board of Directors, at their discretion, and will depend on a number of factors, including but not limited to our profits, capital requirements and overall financial condition, and shall be subject to the guidelines issued by RBI. For further details on restrictions on dividend declaration, refer to the section titled "Regulations and Policies – Restrictions on Payment of Dividends" on page 177.

The dividends declared by our Bank during the last five fiscal have been presented below.

Year ended March 31,	Fiscal 2004	Fiscal 2003	Fiscal 2002	Fiscal 2001	Fiscal 2000
Face value of Equity Shares (in Rs. per share)	10	10	10	10	10
Dividend (in Rs. Million)	1061.2	928.5	636.7	530.7	500.0
Dividend Tax (%)	13.6	11.9	Nil	5.41	6.76
Dividend per Equity Share (Rs)	4.00	3.50	3.00	2.50	2.36
Dividend Rate Approx. (%)	40.00	35.00	30.00	25.00	23.56

In addition our Board has declared interim dividend at the rate of 30%, i.e. Rs. 3 per Equity Share of face value Rs. 10, by its resolution dated January 28, 2005. The record date for the same is February 28, 2005.

The amounts paid as dividends in the past are not necessarily indicative of our dividend policy or dividend amounts, if any, in the future. Future dividends will depend upon our revenues, profits, cash flow, financial condition, capital requirements and other factors.

OTHER REGULATORY DISCLOSURES

Stock Market Data For Our Equity Shares

See the section titled "History and Certain Corporate Matters - Stock Market Data" on page 65.

Particulars Regarding Public Issues During The Last Five Years

Details of the public issues made by our Bank in the previous five years are as follows:

Public Issue of Equity Shares (April 2002)

Public Issue in which 53,061,200 Equity Shares of Rs. 10 each for cash at a premium of Rs. 21 per Equity Share aggregating Rs. 1,644.9 million were allotted to public.

Opening Date	March 21, 2002
Closing Date	March 28, 2002
Date of Allotment	April 20, 2002
Date of Refunds	April 20, 2002
Date of Listing on Stock Exchanges	BSE on April 25, 2002
	NSE on April 24, 2002
	DSE on April 24, 2002*

*We had applied for voluntary delisting of our Equity Shares from the DSE vide letter dated October 5, 2004 pursuant to a shareholder resolution dated July 3, 2004. We have received a letter dated October 13, 2004 bearing reference number DSE/LIST/R/96 from the DSE informing the Bank that the securities of the Bank are delisted from the DSE with immediate effect.

Promise vs. Performance

We have not made any projections in the offer document of our previous capital issues during the last five years. The funds raised from these capital issues have been utilised for our business as mentioned in the offer document for the same.

Servicing Behaviour

There has been no default in payment of statutory dues or of interest or principal in respect of our borrowings or deposits.

Companies Under The Same Management

There are no companies under the same management.

Mechanism For Redressal Of Investor Grievances

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 of at least one year from the last date of dispatch of letters of Allotment, demat credit, refund orders to enable the investors to approach the Registrar to the Issue for redressal of their grievances.

All grievances relating to the Issue may be addressed to the Registrar to the Issue, 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 center where the application was submitted.

Disposal Of Investor Grievances

We estimate that the average time required by us or the Registrar to the Issue for the redressal of routine investor grievances shall be 15 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 December 1, 2004	Received during December 2004	Processed during December 2004	Pending on January 1, 2005
Equity Shares	NIL	138	138	NIL

We have appointed Ms. Malathi Mohan, Company Secretary as the Compliance Officer and she may be contacted in case of any pre-Issue or post-Issue-related problems. She can be contacted at the following address:

Ms. Malathi Mohan,
Punjab National Bank,
Share Department, 2nd Floor,
5, Sansad Marg,
New Delhi 110 001.
Tel: (91 11) 2332 3657
Fax: (91 11) 2371 1663
E-mail: hosd@pnb.co.in

STATEMENT OF TAX BENEFITS

The following tax benefits shall be available to the Bank and the prospective shareholders under the current Direct Tax laws:

A. INCOME TAX

TO THE BANK

1. Subject to the provisions of Section 10(34) read with Section 115-O of the Income Tax Act, 1961, income earned by way of dividends from a domestic company and also under Section 10(35), income received in respect of units of Unit Trust of India and units of a mutual fund specified under Section 10(23)(D) are exempt from tax in the hands of the Bank.
2. Under Section 36(1)(viia) of the Income Tax Act, in respect of any provision made for bad and doubtful debts, the Bank is entitled to a deduction not exceeding:
   (i) 7.5% of the total income (computed before making any deductions under the said clause and Chapter VIA) and
   (ii) 10% of the aggregate average advances made by the rural branches of the bank computed in the prescribed manner.
3. Apart from the deduction available under Section 36(1)(viia) of the Income Tax Act, the Bank is entitled to claim a deduction under Section 36(1)(vii) of the Income Tax Act for the amount of bad debts written off as irrecoverable in its books of account. The deduction is limited to the amount of such debt or part thereof, which exceeds the credit balance in the provision for bad and doubtful debts account made under Section 36(1)(viia) and further provisions of Section 36(2)(v) have to be complied with.
4. As per Section 43(D) of the Income Tax Act, 1961, interest income on certain categories of bad or doubtful debts as specified in Rule 6EA of the Income Tax Rules, 1962 having regard to the guidelines issued by Reserve Bank of India in relation to such debts 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 & Loss Account by the Bank, whichever is earlier.
5. Under the provisions of Section 112 of the Income Tax Act, 1961, taxable long term capital gains (not covered under Section 10(38) of the Act), arising on transfer of listed securities or units, shall be taxed at a rate of 20% (plus applicable surcharge and education cess) after indexation; or at 10% (plus applicable surcharge and education cess), without indexation, in accordance with and subject to provisions of Section 48 of the Income Tax Act.
6. In accordance with and subject to the provisions of Section 10-23(G) of the Income Tax Act, any income by way of dividends (other than dividend referred to in Section 115-O), interest or long term capital gains of the Bank arising from investments made on or after the first day of June 1998, by way of shares or long terms finance in any specified enterprise wholly engaged in the business of (i) developing (ii) maintaining and operating or (iii) developing, maintaining operating, any specified infrastructure facility and which has been approved by the Central Government and which satisfies the prescribed conditions as per Rule 2E of the Income Tax Rules, 1962, is exempted from tax.

   Provided that income by way of dividends, other than dividend referred to in Section 115-O, interest or long-term capital gain of an infrastructure company, shall be taken into account in computing the book profit and income tax payable under Section 115 JB.
7. As per the provisions of Section 80-LA of the Income Tax Act where gross total income, in any previous year, includes any income from an offshore banking unit in a special economic zone and from a business with an undertaking located in a special economic zone or any other undertaking which develops, or develops and operates, or operates and maintains a special economic zone, shall subject to the fulfillment of the conditions specified in the said Section 80 LA, be entitled to 100% deduction of such income for three consecutive assessment years, beginning with the assessment year relevant to the previous year in which the Reserve Bank of India's permission to open the offshore unit shall have been obtained, and after those three years, 50% deduction of such income for the next two consecutive assessment years.
8. As per Sections 54EC and 54ED of the Income Tax Act, subject to the conditions specified therein, tax on capital gains (other than under Section 10 (38)) arising from the transfer of a long-term capital asset in respect of specified securities is exempt from tax, provided that assessee at any time within a period of six months after the date of the transfer, invested the whole of the capital gains in any specified long-term asset for the purposes of Section 54EC or in acquiring shares of a public company offered for subscription by way of a public issue for the purposes of Section 54ED of the Income Tax Act. If only a portion of capital gains is so invested, then the exemption is available proportionately. Further, this is subject to

withdrawal of exemption under the circumstances set out in Sections 54EC(2) & 54ED(2).

9. By virtue of Section 10(38) inserted by Finance (No. 2) Act, 2004, income arising form transfer of long-term capital asset, being an equity share in a company or a unit of an equity oriented fund is exempt form tax, if the transaction of such sale has been entered into on or after 1.10.2004 and such transaction is chargeable to securities transaction tax under the Chapter VII of the Finance (No, 2) Act, 2004.

10. By the virtue of Section 111 A inserted by Finance (No. 2) Act 2004, short term capital gain on transfer of equity share in a Company or a unit of an equity oriented fund shall be chargeable to tax @ 10%, if the transaction of such sale has been entered into on or after 1.10.2004 and such transaction is chargeable to securities transaction tax under the Chapter VII of the Finance (No, 2) Act, 2004.

B. To the members of the Bank

B1. Under the Income Tax Act, 1961

i. All Members

1 By virtue of Section 10(38) inserted by Finance (No. 2) Act, 2004, income arising from transfer of long-term capital asset, being an equity share in the company is exempt from tax, if the transaction of such sale has been entered into on or after 1.10.2004 and such transaction is chargeable to the securities transaction tax under that chapter.

2 By virtue of Section 111 A inserted by Finance (No. 2) Act 2004, short term capital gain on transfer of equity share in the Company shall be chargeable to tax @ 10%, if the transaction of such sale has been entered into on or after 1.10.2004 and such transaction is chargeable to securities transaction tax under that chapter. However, where the income includes any such short-term capital gain, it shall not be considered for deduction under chapter VIA and rebate under Section 88 of Income tax Act, 1961.

3 By virtue of Section 10(34) of the Income Tax Act, income earned by way of dividend income from a domestic company referred to in Section 115O of the Income Tax Act, are exempt from tax in the hands of the shareholders. Further, Section 94(7) of the Income Tax Act provides that loss arising from the purchase and sale of shares purchased within a period of three months prior to the record date and sold within a period of three months after such date, will be disallowed to the extent of dividends on such shares are claimed as tax exempt by the shareholder.

ii. To Our Resident Shareholders

1. Under Section 54EC of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (not covered under Section 10 (38) of the Act) arising on the transfer of shares of the Bank will be exempt from capital gains tax if the capital gain are invested within a period of 6 months from the date of transfer in the bonds issued by

   - National Bank for Agriculture and Rural Development established under Section 3 of the National Bank for Agriculture and Rural Development Act, 1981.
   - National Highway Authority of India constituted under Section 3 of National Highway Authority of India Act, 1988.
   - Rural Electrification Corporation Limited, a Company formed and registered under the Companies Act, 1956.
   - National Housing Bank established under Section 3(1) of the National Housing Bank Act, 1987.
   - Small Industries Development Bank of India established under Section 3(1) of The Small Industries Development Bank of India Act, 1989.

   If only part of the capital gain is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted within three years from the date of their acquisition.

2. Under Section 54ED of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (not covered under Section 10 (38) of the Act) arising on the transfer of shares of the Bank, will be exempt from capital gains tax if the capital gain is invested in equity shares of an Indian public company forming part of an eligible public issue, within a period of 6 months after the date of such transfer. If only a part of the capital gain is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax

subsequently, if the specified assets are transferred or converted within one year from the date of their acquisition.

Where the cost of specified equity shares has been taken into account for the above purpose, a deduction from the amount of income tax with reference to such cost shall not be allowed under Section 88.

3. As per the provisions of Section 54F of the Income Tax Act, 1961, long term capital gains arising (not covered under Section 10 (38) of the Act) in the hand of an individual or a HUF on transfer of shares of the Bank shall be exempt if the net consideration is invested in purchase of a residential house within a period of one year before or two years after the date of transfer or construction of a residential house within a period of three years after the date of transfer. The exemption is available proportionately if only a portion of the net consideration is invested as above. The exemption is subject to other conditions specified in the section.

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

   (i) Cost of acquisition/improvement of the shares as adjusted by the cost inflation index notified by the Central Government and

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

5. Under Section 112 of the Income Tax Act, 1961 and other relevant provisions of the Act, long term capital gains (not covered under Section 10 (38) of the Act) arising on transfer of shares in the Company, if shares are held for a period exceeding 12 months shall be 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 surcharge and education cess) (without indexation), at the option of the shareholders.

iii. To non-resident shareholders including NRIs, OCBs and FIIs

1. Under Section 54EC of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (not covered under Section 10 (38) of the Act) arising on the transfer of shares of the Bank will be exempt from capital gains tax if the capital gain are invested within a period of 6 months from the date of transfer in the bonds issued by

   i. National Bank for Agriculture and Rural Development established under Section 3 of the National Bank for Agriculture and Rural Development Act, 1981.

   ii. National Highway Authority of India constituted under Section 3 of National Highway Authority of India Act, 1988.

   iii. Rural Electrification Corporation Limited, a Company formed and registered under the Companies Act, 1956.

   iv. National Housing Bank established under Section 3(1) of the National Housing Bank Act, 1987.

   v. Small Industries Development Bank of India, established under Section 3(1) of The Small Industries Development Bank of India Act, 1989.

   If only part of the capital gain is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted within three years from the date of their acquisition.

2. Under Section 54ED of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (not covered under Section 10 (38) of the Act) arising on the transfer of shares of the Bank, will be exempt from capital gains tax if the capital gain is invested in equity shares of an Indian Public Company forming part of an eligible public issue, within a period of 6 months after the date of such transfer. If only part of the capital gains is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted within one year from the date of their acquisition.

   Where the cost of specified equity shares has been taken into account for the above purpose, a deduction from the amount of income tax with reference to such cost shall not be allowed under Section 88.

3. As per the provisions of Section 54F of the Income Tax Act, 1961, long term capital gains (not covered under Section 10 (38) of the Act), arising in the hand of an individual on transfer of shares of the Bank shall be exempt if the net

consideration is invested in purchase of residential house within a period of one year before or two years after the date of transfer or construction of a residential house within a period of three years after the date of transfer. The exemption is available proportionately if only a portion of the net consideration is invested as above. The exemption is subject to other conditions specified in the Section.

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

5. Under Section 112 of the Income Tax Act, 1961 and other relevant provisions of the act, long term capital gains (not covered under Section 10 (38) of the Act) arising on transfer of shares in the Company, if shares are held for a period exceeding 12 months shall be 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 surcharge and education cess) (without indexation), at the option of the shareholders. (Indexation will not be available if investments are made in foreign currency in accordance with the first proviso to Section 48 of the Income Tax Act, 1961 as stated above)

6. A non resident Indian (i.e. an individual being a citizen of India or person of Indian Origin) has an option to be governed by the provisions of Chapter XIIA of the Income Tax Act, 1961 viz. "Special Provisions Relating to certain Incomes of Non-Residents."

   (i) Under Section 115E of the Income Tax Act, 1961, where shares in the Company are subscribed to convertible Foreign Exchange by a Non-Resident Indian, long term capital gains arising to the non-resident on transfer of shares shall (in case not covered under Section 10 (38) of the Act) be concessionally taxed at the flat rate of 10% (plus applicable surcharge and education cess) without indexation benefit

   (ii) Under provisions of Section 115F of the Income Tax Act, 1961, long term capital gains (not covered under Section 10 (38) of the Act) arising to a non resident Indian from the transfer of shares of the Bank subscribed to in convertible Foreign Exchange shall be exempt from Income Tax if the net consideration is reinvested in specified assets within six months of the date of transfer. If only a part of the net consideration is so reinvested the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted within three years from the date of their acquisition.

   (iii) Under provisions of Section 115G of the Income Tax Act, 1961, it shall not be necessary for a Non Resident Indian to furnish his return of income if his only source of income is investment income or long term capital gains or both arising out of assets acquired, purchased or subscribed in convertible foreign exchange and tax deductible at source has been deducted there from.

   (iv) Under Section 115H of Income Tax Act, where a NRI becomes assessable as a resident in India, along with his return of Income for that year, he may furnish a declaration in writing to the Assessing Officer under Section 139 of the Income Tax Act to the effect that the provisions of the Chapter-XII-A shall continue to apply to him in relation to income derived from equity shares of the company for that year and subsequent years until such assets are converted into money.

   (v) Under Section 115-I of the Income Tax Act, 1961, a Non Resident Indian may elect not to be governed by the provisions of chapter XIIA for any assessment year by furnishing the return of income under Section 139 of the Income Tax Act declaring therein that the provisions of this chapter shall not apply to him for that assessment year and if he does so the provisions of this chapter shall not apply to him instead the other provisions of the Act shall apply.

7. As per Section 115AD of the Income Tax Act, 1961 long-term capital gains (other than under section 10(38)) arising on transfer of shares purchased by FIIs, in convertible foreign exchange, are taxable at the rate of 10 % (plus applicable surcharge and education cess). Cost indexation benefits will not be available.

8. In accordance with and subject to the provisions of Section 196D(2) of the Income Tax Act, no deduction of Tax at Source will be made in respect of Capital Gains arising from the transfer of the Equity Shares referred to in Section 115 AD from sales proceeds payable to the FIIs.

To Mutual Funds

As per the provisions of Section 10(23D) of the Income Tax Act, tax exemption is available on income of a mutual fund registered under the Securities and Exchange Board of India Act, 1992 and Regulations made there under, or, mutual funds set up by the public sector banks or public financial institutions/authorized by the RBI and subject to the conditions as the Central Government may specify by notification in the Official Gazette.

B2. 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.

B3. Under The Gift Tax Act, 1958

Gifts of the shares of the company made on or after October 1, 1998 are not liable to Gift Tax.

Notes:

i. All the above benefits are as per the current tax law as amended by the Finance Act, 2004 and will be available only to the sole/first name holder in case joint holders hold the shares.

ii. In respect of non-residence taxability of capital gains mentioned above shall be further subject to under the Double Taxation Avoidance Agreements, if any, between India and the country in which the non-resident has fiscal domicile.

iii. In view of the individual nature of tax consequences, each investor is advised to consult his/her/their own tax advisor with respect to specific tax consequences of his/her/ their participation in the Scheme.

FINANCIAL INDEBTEDNESS

Set forth below is a brief summary of our aggregate unsecured borrowings of approximately Rs. 23,428.6 million as on September 30, 2004:

Nature of Borrowing/ Date	Amount Outstanding (in Rs. million)	Date of Repayment	Interest Rate	Security
Series III	3978.6	April 9, 2005	13.95	Unsecured
Series IV	600	April 30, 2007	12.00	Unsecured
NBL 2000	76.5	June 15, 2005	12.25	Unsecured
NBL 2000	23.5	September 1, 2005	12.25	Unsecured
Series V	2400	April 12, 2006	11.95	Unsecured
Series VI	3000	April 1, 2008	10.00	Unsecured
Series VII	1800	April 12, 2007	9.40	Unsecured
Series VIII 8.3%	950	April 18, 2009	8.30	Unsecured
Series VIII 8.8%	2950	April 18, 2012	8.80	Unsecured
Series IX	2650	May 4, 2013	5.80	Unsecured
Series X	5000	June 8, 2013	5.90	Unsecured

Other Borrowings amounting to Rs. 19,520.2 million as on September 30, 2004:

(In Rs. million)

Category of Borrowings	Amount of Borrowing
Borrowings in India	
Overdrafts	5,942.1
SIDBI Refinance	86.7
NABARD Refinance	376.3
Borrowings Outside India	13,115.1
Total	**19,520.2**

External Commercial Borrowing

We have made an external commercial borrowing of USD 100,000,000 from the Bank of America, N.A., Cre¢dit Agricole Indosuz, Hong Kong Branch, Natexis Banques Populares, Singapore Branch, Raiffeisen Zentralbank Osterrich AG, Singapore Branch with BA Asia Limited as Facility Agent. We have entered into a Credit Agreement dated April 30, 2004 for this purpose. The interest rate on the amounts for each term of the loan is the percentage rate per annum equal to the aggregate of the Margin (which is 0.87% p.a. but could change to 0.85% p.a. if a ratings upgrade occurs) and LIBOR (which is either the British Bankers Association Interest Settlement Rate displayed on the Dow Jones Telerate Screen or if no such rate is available, then the rates as quoted by defined reference banks to leading banks in the London interbank market.

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, 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.

Authority for the Issue

Our Board of Directors had authorised a fresh issue of up to 50,000,000 Equity Shares pursuant to a resolution passed at its meeting held on September 11, 2004.

Our shareholders subsequently authorised the fresh issue of up to 50,000,000 Equity Shares, by a resolution passed unanimously at the general meeting of our Bank held on October 11, 2004 at New Delhi, subject to the approval of the Government, the RBI, SEBI and other applicable authorities. The shareholder resolution gave the Board the authority and power to accept any modification in the proposal as may be required or imposed by such authorities and as agreed to by the Board.

Our Bank applied to the Government on October 14, 2004 for its sanction to a fresh issue of up to 50,000,000 Equity Shares. By its letter bearing number F.No.11/29/2004-BOA dated January 7, 2005, pursuant to Section 3 (2B) (c) of the Bank Acquisition Act, the Department of Economic Affairs, MoF, GoI, conveyed its approval for the Issue on *inter alia* the terms that the Issue size be increased to 80,000,000 Equity Shares and as a condition to the approval, that the amount raised for 30,000,000 Equity Shares through the public offer should be returned to the Government at the Issue Price by March 31, 2005. Further, in terms of the Government Approval, the proportionate cost of public issue to the extent of 30,000,000 Equity Shares is to be borne by the Government. Following the receipt of the Government Approval and in pursuance of the powers granted to the Board by the shareholders of our Bank in the extraordinary general meeting dated October 11, 2004, our Board, through a resolution dated January 13, 2005, authorized the Issue, subject to the conditions specified in the Government Approval. For further details see sections titled "Risk Factors" on page x, "Capital Structure" on page 22 and "Government Approvals" on page 182.

We have received permission from the Foreign Exchange Department, RBI vide their letter no.FE.CO.FID/4998/10.02.40(8435)/2004-05 dated February 2, 2005 permitting us to issue shares to NRIs / FIIs with repatriation benefits out of our public Issue of 80,000,000 Equity Shares. The RBI has imposed the condition that post Issue the non resident equity holding in our Bank should not exceed 20% of the paid up capital. The permission is further subject to the conditions laid down by the Government of India in their approval letter no. F.No.11/29/2004-BOA dated January 7, 2005, condition prescribed/stipulated by SEBI in this connection and the terms and conditions for issue of shares as stipulated in the Schedule 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 03, 2000.

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.

Rights of the Equity Shareholder

Subject to applicable laws including, among others, the Bank Acquisition Act, the Bank Regulations, the Bank Scheme and the Banking Regulation Act, the equity shareholders of the Bank shall have the following rights:

- Right to receive dividend, if declared. However the declaration of dividend of the Bank is subject to certain restrictions. Please see the restrictions on the payment of dividend in the section titled "Regulation and Policies - Restrictions on Payment of Dividends" on page 177;

- Right to attend general meetings and exercise voting powers, unless prohibited by law. The Bank Acquisition Act states that no shareholder of the Bank, other than the 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. However the power of shareholders to exercise voting rights is subject to certain restrictions. For information on restrictions on the power of shareholders to exercise voting rights please see the section titled "Regulation and Policies - Restriction on Share Capital and Voting Rights" on page 177;
- Right to vote on a poll either in person or by proxy;
- Subject to the provisions of Clause 3(2D) of the Bank Acquisition Act and Regulations 17 and 19 of the Bank Regulations, the right of free transferability. However the right of free transferability is subject to certain restrictions. For information on these restrictions please see section titled "Main Provisions of Constitutional Documents" on page 248; 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 Exchange. However, please note that all rights available to shareholders of a company are not available to shareholders of a new corresponding bank. For information on these restrictions please see 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 151.

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 248.

Market Lot and Trading Lot

In terms of 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. The Equity Shares of the Bank shall be allotted only in dematerialised form. Allotment through this Issue will be done only in electronic form in multiples of one Equity Shares subject to a minimum Allotment of [●] Equity Shares.

Jurisdiction

Exclusive jurisdiction for the purpose of this Issue is with competent courts/authorities in New Delhi, India.

Nomination Facility to the Investor

In the nature of the rights specified in Section 109A of the Companies Act, the sole or first Bidder, along with other joint Bidder, may nominate any one Person in whom, in the event of the death of sole Bidder or in case of joint Bidders, death of all the Bidders, as the case may be, the Equity Shares allotted, if any, shall vest. A Person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the Equity Share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any Person to become entitled to Equity Share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale/ transfer/ alienation of Equity Share(s) by the Person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at the Head Office or at the Registrar and Transfer Agents of our Bank.

In the nature of the rights stated in Section 109B of the Companies Act, any Person who becomes a nominee in the manner stated above, shall upon the production of such evidence as may be required by the Board of Directors, elect either:

a. to register himself or herself as the holder of the Equity Shares; or
b. 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 us. 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.

Subscription by Non Residents, Eligible NRI, FIIs

It is to be distinctly understood that there is no reservation for any Non-Residents, Eligible NRIs, FIIs and such applicants will be treated on the same basis with other categories for the purpose of allocation.

As per the RBI regulations, OCBs cannot participate in the Issue. Further, NRIs who are not Eligible NRIs, foreign venture capital funds are not permitted to participate in this Issue.

The Equity Shares have not been and will not be registered under the US Securities Act, 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, 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 jurisdiction where those offers and sales occur.

ISSUE STRUCTURE

The present Issue of 80,000,000 Equity Shares comprising of Net Issue to the public of at least 64,000,000 Equity Shares, a reservation for Employees of up to 8,000,000 Equity Shares and a reservation for Existing Shareholders of up to 8,000,000 Equity Shares, at a price of Rs. [▯] for cash aggregating Rs. [▯] million is being made through the Book Building Process.

	Employees	Existing Shareholders	QIBs	Non-Institutional Bidders	Retail Individual Bidders
Number of Equity Shares*	Up to 8,000,000 Equity Shares.	Up to 8,000,000 Equity Shares.	Up to 32,000,000 Equity Shares or Net Issue less allocation to Non-Institutional Bidders and Retail Individual Bidders.	Minimum of 9,600,000 Equity Shares or Net Issue less allocation to QIB Bidders and Retail Individual Bidders.	Minimum of 22,400,000 Equity Shares or Net Issue less allocation to QIB Bidders and Non-Institutional Bidders.
Percentage of Issue size available for allocation	Up to 10% of size of the Issue** .	Up to 10% of size of the Issue** .	Up to 50% of Net Issue or Net Issue less allocation to Non-Institutional Bidders and Retail Individual Bidders.	Minimum 15% of Net Issue or Net Issue less allocation to QIB Bidders and Retail Individual Bidders.	Minimum 35% of Net Issue or Net Issue less allocation to QIB Bidders and Non Institutional Bidders.
Basis of Allocation if respective category is oversubscribed	Proportionate.	Proportionate.	Discretionary.	Proportionate.	Proportionate.
Minimum Bid#	[▯] Equity Shares and in multiples of [▯] Equity Shares thereafter.	[▯] Equity Shares 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.	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 .
Maximum Bid	Such number of Equity Shares such that the total number of Equity Shares Bid for does not exceed 500 Equity Shares.	Such number of Equity Shares not exceeding 8,000,000 Equity Shares, when applying in the Existing Shareholders Reservation Portion.	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.
Mode of Allotment	Compulsorily in dematerialized mode.	Compulsorily in dematerialised mode.	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.	One Equity Share.

	Employees	Existing Shareholders	QIBs	Non-Institutional Bidders	Retail Individual Bidders
Who can Apply ***	Employees as on January 1, 2005	Existing Shareholders as on February 11, 2005 and who hold Equity Shares of upto Rs. 100,000 determined on the basis of the closing price of Equity Shares in the NSE on February 10, 2005.	Public financial institutions, as specified in Section 4A of the Companies Act, scheduled commercial banks, mutual funds, foreign institutional investors registered with SEBI, multilateral and bilateral development financial institutions, and State Industrial Development Corporations, permitted insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with minimum corpus of Rs. 250 million (as permitted by applicable law) and pension funds with minimum corpus of Rs. 250 million in accordance with applicable law.	Eligible NRIs, Resident Indian individuals, HUF (in the name of Karta), companies, corporate bodies, scientific institutions societies and trusts.	Individuals (including HUFs, Eligible NRIs) applying for Equity Shares such that the Bid Amount does not exceed Rs. 100,000 in value.
Terms of Payment	Margin Amount applicable to Employees at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Amount applicable to Existing Shareholders at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Amount applicable to QIB Bidders at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Amount applicable to Non Institutional Bidders at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Amount applicable to Retail Individual Bidders at the time of submission of Bid cum Application Form to the Syndicate Members.
Margin Amount	Full Bid Amount on Bidding.	Full Bid Amount on Bidding.	Nil.	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 portion, would be allowed to be met with spillover from any other portions at the discretion of the Bank, in consultation with the BRLMs.

\# The minimum number of Equity Shares for which Bids can be made by Bidders and the multiples of Equity Shares in which the Bids can be made, shall be advertised at least one day prior to the Bid Opening Date/Issue Opening Date, in Business Standard, an English language newspaper with wide circulation and Hindustan, a Hindi language newspaper with wide circulation.

** An undersubscription for Equity Shares, if any, reserved for Employees and Existing Shareholders would be included in the Net Issue to the public and first be distributed equally between the Retail Portion and the Non-Institutional Portion in accordance with the description in section titled "**Statutory and other Information - Basis of Allocation**" as described in page 244. In the event that the demand in either of the Retail Portion or the Non-Institutional Portion has been met, the Equity Shares shall be allocated to a category in which the demand has not been met. The remaining undersubscribed Equity Shares, if any, after allocation to the Retail Portion and the Non-Institutional Portion as aforesaid, shall be allocated to the QIB Portion in accordance with the description in section titled "**Statutory and other Information - Basis of Allocation**" as described in page 244.

ISSUE PROCEDURE

Book Building Procedure

The Issue is being made through the 100% Book Building Process wherein up to 50% of the Net Issue to the public shall be available for allocation on a discretionary 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. Our Bank in consultation with the BRLMs, reserves the right to reject any Bid procured from QIB Bidders, by any or all members of the Syndicate, without assigning any reason thereof. In case of Non-Institutional Bidders, Retail Individual Bidders, Bids under Employees Reservation Portion and Bids under Existing Shareholders Reservation Portion, our Bank would have a right to reject the Bids only on technical grounds.

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 our Bank to make the necessary changes in this Red Herring Prospectus and the Bid cum Application Form as would be required for filing the Prospectus with the 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 and Retail Individual Bidders	White
Eligible NRIs and FIIs	Blue
Employees	Pink
Existing Shareholders	Green

Who can Bid?

1. Indian nationals resident in India who are majors, in single or joint names (not more than three);
2. 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;
3. Insurance companies registered with the Insurance Regulatory and Development Authority;
4. As permitted by applicable law, provident funds with minimum corpus of Rs. 250 million and who are authorised under their constitution to invest in equity shares;
5. Pension funds with a minimum corpus of Rs. 250 million and who are authorised under their constitution to invest in equity shares;

6. Companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in the equity shares;
7. Indian mutual funds registered with SEBI;
8. Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI regulations and SEBI guidelines and regulations, as applicable);
9. Multilateral and bilateral development financial institutions;
10. State Industrial Development Corporations;
11. Trusts/ societies registered under the Societies Registration Act, 1860, as amended, or under any other law relating to trusts/societies and who are authorised under their constitution to hold and invest in the equity shares;
12. Eligible NRIs and other Non Residents including FIIs on a repatriation basis or a non-repatriation basis subject to applicable laws. NRIs other than Eligible NRIs, domestic venture capital funds and foreign venture capital funds are not permitted to participate in this Issue; and
13. Scientific and/ or industrial research organisations authorised to invest in equity shares.

Note: The BRLMs, the Syndicate Members and any associate of the BRLMs and Syndicate Members (except asset management companies on behalf of mutual funds, Indian financial institutions and public sector banks) cannot participate in that portion of the Issue where allocation is discretionary and will not be eligible in the QIB Portion. Further, the BRLMs and Syndicate Members shall not be entitled to subscribe to this Issue in any manner except towards fulfilling their underwriting obligation.

Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under applicable law.

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 Equity Shares of our Bank.

As per the current regulations, the following restrictions are applicable for investments by FIIs:

Foreign investment in a corresponding new bank is regulated by the provisions of the Bank Acquisition Act as applicable to our 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. For details see the section titled "Regulations and Policies-Restriction on Transfer of Shares" on page 176. 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 happen after the date of this Red Herring Prospectus. Bidders are advised to make their independent investigations and ensure that the number of Equity Shares bid for do not exceed the applicable limits under laws or regulations.

Maximum and Minimum Bid Size

(a) **For Retail Individual Bidders:** The Bid must be for a minimum of [●] 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**: 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. 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.

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 Price'.

(c) **For Bidders in the Employees Reservation Portion**: The Bid must be for a minimum of [●] Equity Shares and in multiples of [●] Equity Shares thereafter. The maximum Bid in this portion cannot exceed 500 Equity Shares. Bidders in the Employees Reservation Portion applying for a maximum Bid in any of the bidding options not exceeding Rs. 100,000 may bid at 'Cut-off Price'.

(d) **For Bidders in the Existing Shareholder Reservation Portion:** The Bid must be for a minimum of [●] Equity Shares and in multiples of [●] Equity Shares thereafter. Bidders in the Existing Shareholders Reservation Portion applying for a maximum Bid in any of the Bidding Options not exceeding Rs. 100,000 may bid at 'Cut-off Price'.

Information for the Bidders

(a) Our 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. 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) Any investor (who is eligible to invest in our Equity Shares according to the terms of this Red Hearing 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.

(e) The Bids should be submitted on the prescribed Bid cum Application Form only. Bid cum Application Forms should bear the stamp of the members of the Syndicate. Bid cum Application Forms which do not bear the stamp of the members of the Syndicate will be rejected.

Method and Process of Bidding

(a) Our Bank and the BRLMs shall declare the Bid Opening Date/ Issue Opening Date, Bid Closing Date/Issue Closing Date at the time of filing the Red Herring Prospectus with the Designated Stock Exchange and also publish the same in two widely circulated newspapers (one each in English and Hindi). This advertisement shall contain the salient features of the Red Herring Prospectus in the nature of the specifications under Form 2A of the Companies Act, the method and process of bidding and the names and addresses of the BRLMs and the Syndicate Members and their bidding centers. The Price Band shall be disclosed at least one day prior to Bid Opening Date/Issue Opening Date. The Syndicate Members shall accept Bids from the Bidders during the Issue Period in accordance with the terms of the Syndicate Agreement.

(b) Investors who are interested in subscribing for the Equity Shares should approach any of the members of the Syndicate or their authorised agent(s) to register their Bid.

(c) The Bidding Period shall be a minimum of three days and not exceed seven days. In case the Price Band is revised, the revised Price Band and Bidding Period will be published in two national newspapers (one each in English and Hindi) and the Bidding Period may be extended, if required, by an additional three days, subject to the total Bidding Period not exceeding 13 days.

(d) Each Bid cum Application Form will give the Bidder the choice to bid for up to three optional prices (for details refer to the section titled "Issue Procedure - Bids at Different Price Levels" on page 226 below) 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 will be treated as multiple Bids and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allocation or allotment of Equity Shares in this Issue. However, the Bidder can revise the Bid through the Revision Form, the procedure for which is detailed under the section titled "Issue Procedure - Build up of the Book and Revision of Bids" on page 228.

(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.

(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 227.

Bids at Different Price Levels

(a) The Price Band shall be advertised at least one day prior to the Bid Opening Date/ Issue Opening Date in Business Standard, an English language newspaper with wide circulation and Hindustan, a Hindi language newspaper with wide circulation. 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 Re. 1.

(b) 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 be more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of the Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Red Herring Prospectus.

(c) 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 13 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 public notice in two national newspapers (one each in English and Hindi), and also by indicating the change on the websites of the BRLMs and at the terminals of the members of the Syndicate.

(d) Our 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.

(e) 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, Employees and Existing Shareholders 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.**

(f) Retail Individual Bidders or Employees or Existing Shareholders who bid at the Cut-off Price agree that they shall purchase the Equity Shares at any price within the Price Band. Retail Individual Bidders or Employees or Existing Shareholders 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 or Employees or Existing Shareholders, 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 or Employees or Existing Shareholders, who Bid at Cut off Price, shall receive the refund of the excess amounts from the respective Escrow Accounts/ refund account(s).

(g) In case of an upward revision in the Price Band announced as above, Retail Individual Bidders or Employees or Existing Shareholders, 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.

(h) In case of a downward revision in the Price Band, announced as above, Retail Individual Bidders or Employees or Existing Shareholders, 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).

(i) 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

Our Bank shall open Escrow Accounts with one or more Escrow Collection Bank(s) 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(s) 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(s) for and on behalf of the Bidders. The Escrow Collection Bank(s) shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On the Designated Date, the Escrow Collection Bank(s) shall transfer the 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(s) and the Registrar to the Issue to facilitate collections from the Bidders.

Terms of Payment and Payment into the Escrow Accounts

Each Bidder, who is required to pay Margin Amount greater than 0% shall, with the submission of the Bid cum Application Form draw a cheque or demand draft for the maximum amount of his/ her Bid in favour of the Escrow Account of the Escrow Collection Bank(s) (for details refer to the section titled "Issue Procedure - Payment Instructions" on page 235 and submit the same to the member of the Syndicate to whom the Bid is being submitted. Bid cum Application Forms accompanied by cash shall not be accepted. The maximum Bid price has to be paid at the time of submission of the Bid cum Application Form based on the highest bidding option of the Bidder.

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, Employees and Existing Shareholders 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 220. 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, 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. If the payment is not made favouring the appropriate Escrow Account within the time 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 and 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 an half hourly 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 Stock Exchanges.

(c) The aggregate demand and price for Bids registered on the electronic facilities of NSE and BSE will be downloaded on an half hourly 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 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 – Employee, Existing Shareholder, Individual, Corporate, FII, Eligible 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.
- 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 members of the Syndicate also have the right to accept the Bid or reject it without assigning any reason. In case of Bids under the Non-Institutional Portion, Bids under the Retail Portion, Bids under the Employees Reservation Portion and Bids under Existing Shareholders Reservation Portion, Bids would not be rejected except 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 our 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 Promoter, 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 half hourly basis.

(b) The book gets built up at various price levels. This information will be available with the BRLMs on a half hourly 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 members of the Syndicate may at their sole discretion waive the payment requirement 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) In case of discrepancy of data between NSE or BSE and the members of the Syndicate, the decision of the BRLMs, based on the physical records of Bid cum Application Forms, 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 at various price levels and discuss pricing strategy with us.

(b) Our Bank, in consultation with the BRLMs, shall finalise the "Issue Price", the number of Equity Shares to be Allotted in each portion and the allocation to successful QIB Bidders. The allocation will be decided based *inter alia*, on the quality of the Bidder, and the size, price and time of the Bid.

(c) The allocation for QIB Bidders for up to 50% of the Net Issue would be discretionary. The allocation to Non-Institutional Bidders and Retail Individual Bidders of not less than 15% and 35% of the Net Issue respectively would be on proportionate basis, in the manner specified in the SEBI Guidelines, in consultation with Designated Stock Exchange, subject to valid Bids being received at or above the Issue Price. The allocation under the Employees Reservation Portion and the Existing Shareholders Portion for up to 10% of the Issue each would be on proportionate basis, in the manner specified in the SEBI Guidelines, in consultation with Designated Stock Exchange, subject to valid Bids being received at or above the Issue Price.

(d) Any undersubscription in the Employees Reservation Portion and Existing Shareholders Reservation Portion would be included in the Net Issue to the public and first be distributed equally between the Retail Portion and the Non-Institutional Portion in accordance with the description in section titled "**Statutory and other Information - Basis of Allocation**" as described in page 244. In the event that the demand in either of the Retail Portion or the Non-Institutional Portion has been met, the Equity Shares shall be allocated to the portion in which the demand has not been met. The remaining undersubscribed Equity Shares, if any, after allocation to the Bidders in the Retail Portion and the Non-Institutional Portion as aforesaid, shall be allocated to the QIB Portion in accordance with the description in section titled "**Statutory and other Information - Basis of Allocation**" as described in page 244.

(e) Allocation to QIBs, Non Residents, FIIs and Eligible NRIs applying on repatriation basis will be subject to the terms and conditions stipulated by the RBI while granting permission for Allotment of Equity Shares to them.

(f) The BRLMs, in consultation with us, 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.

(g) We reserve the right to cancel the Issue any time after the Bid Opening Date/Issue Opening Date without assigning any reasons whatsoever.

(h) In terms of SEBI Guidelines, QIB Bidders shall not be allowed to withdraw their Bid after the Bid Closing Date/ Issue Closing Date.

Signing of Underwriting Agreement and Filing with the Designated Stock Exchange

(a) Our Bank, the BRLMs 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

(a) The BRLMs or 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.

(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 a CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for all the Equity Shares allocated to such Bidder. Those Bidders who have not paid into the Escrow Accounts at the time of bidding shall pay in full the amount payable into the Escrow Accounts by the Pay-in Date specified in the CAN.

(c) Bidders who have been allocated Equity Shares and who have already paid into the Escrow Account at the time of bidding shall directly receive the CAN from the Registrar to the Issue subject, however, to realisation of their cheque or demand draft paid into the Escrow Accounts. The dispatch of a CAN shall be a deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for the Allotment to such Bidder.

Designated Date and Allotment of Equity Shares

(a) Our Bank will ensure that the Allotment of Equity Shares is done within 15 days of the Bid Closing Date/Issue Closing Date. After the funds are transferred from the Escrow Accounts to the Issue Account on the Designated Date, our Bank would ensure the credit to the successful Bidders depository account Allotment of the Equity Shares to the allottees within two working days of the date of Allotment.

(b) As per SEBI Guidelines, **Equity Shares will be issued, transferred and Allotment shall be made only in the dematerialised form to the allottees**. Allottees will have the option to re-materialise the Equity Shares, if they so desire, in the manner stated in the Depositories Act.

Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be Allotted to them pursuant to this Issue.

GENERAL INSTRUCTIONS

Do's:

a) Check if you are eligible to apply;

b) 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 Bid Cum Application Form (pink in colour) or Existing Shareholder Bid cum Application Form (specified pre printed form, green in colour, which shall be mailed to them) as the case may be;

c) Ensure that the details about Depository Participant and Beneficiary Account are correct as Allotment of Equity Shares will be in the dematerialized form only;

d) Ensure that the Bids are submitted at the bidding centers only on forms bearing the stamp of a member of the Syndicate;

e) Ensure that you have been given a TRS for all your Bid options;

f) Submit revised Bids to the same member of the Syndicate through whom the original Bid was placed and obtain a revised TRS;

g) 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. In case the PAN has not been allotted, mention "Not allotted" in the appropriate place; and

h) Ensure that the Demographic Details (as defined hereinbelow) are updated, true and correct in all respects.

Don'ts:

(a) Do not Bid for lower than the minimum Bid size;

(b) Do not Bid/ revise Bid price to less than the lower end of the price band or higher than the higher end of the Price Band;

(c) Do not Bid on another Bid cum Application Form after you have submitted a Bid to the members of the Syndicate;

(d) Do not pay the Bid Amount in cash;

(e) Do not send Bid cum Application Forms by post; instead submit the same to a member of the Syndicate only;

(f) Do not Bid at Cut-off Price (for QIB Bidders, Non-Institutional Bidders, Employees and Existing Shareholders for whom the Bid Amount exceeds Rs 100,000);

(g) Do not fill up the Bid cum Application Form such that the Equity Shares Bid for exceeds the Net 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;

(h) Do not submit Bid accompanied with Stockinvest.

(i) Do not provide your GIR number instead of your PAN.

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:

(a) Made only in the prescribed Bid cum Application Form or Revision Form, as applicable (white colour for Resident Indians, blue colour for Eligible NRIs and FIIs and applying on repatriation basis, pink colour for Employees and the specified pre printed form for Existing Shareholders which shall be mailed to them).

(b) Completed in full, in BLOCK LETTERS in ENGLISH and in accordance with the instructions contained herein, in the Bid cum Application Form or in the Revision Form. Incomplete Bid cum Application Forms or Revision Forms are liable to be rejected.

(c) 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.

(d) For Non-institutional Bidders and QIB 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. Bids cannot be made for more than the Net 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.

(e) For Employees, the Bid must be for a minimum of [] Equity Shares and shall be in multiples of [] Equity Shares thereafter. The maximum Bid Amount in this portionis 500 Equity Shares.

(f) For Existing Shareholders, the Bid must be for a minimum of [] Equity Shares and shall be in multiples of [] Equity Shares thereafter.

(g) In single name or in joint names (not more than three, and in the same order as their Depository Participant details).

(h) 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 Employees

For the sake of clarity, the term "Employees" shall mean all or any of the following:

(a) a permanent employee of the Bank working in India as of January 1, 2005;

(b) a director of the Bank, whether a whole time director, part time director or otherwise as of January 1, 2005.

1. Bids by Employees shall be made only in the prescribed Bid cum Application Form or Revision Form, (i.e. pink colour form).
2. Employees should mention their provident fund number at the relevant place in the Bid cum Application Form.
3. The sole/First Bidder should be an Employee. 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 in the same sequence in which they appear in the Bid cum Application Form.
4. Only Employees on the rolls of the Bank as on January 1, 2005 would be eligible to apply in this Issue under reservation for Employees on a competitive basis.
5. 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 allotment under the Employees Reservation Portion.
6. The maximum Bid in this portion can be for 500 Equity Shares.
7. If the aggregate demand in this category is less than or equal to 8,000,000 Equity Shares at or above the Issue Price, full allocation shall be made to the Employees to the extent of their demand. Any undersubscription in the Employees Reservation Portion would be included in the Net Issue to the public and first be distributed equally between the Retail Portion and the Non-Institutional Portion in accordance with the description in section titled **"Statutory and other Information - Basis of Allocation"** as described in page 244. In the event that the demand in either of the Retail Portion or the Non-Institutional Portion has been met, the Equity Shares shall be allocated to the portion in which the demand has not been met. The remaining undersubscribed Equity Shares, if any, after allocation to the Bidders in the Retail Portion and the Non-Institutional Portion as aforesaid, shall be allocated to the QIB Portion in accordance with the description in section titled **"Statutory and other Information - Basis of Allocation"** as described in page 244.
8. If the aggregate demand in this portion is greater than 8,000,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis subject to a minimum of [] Equity Shares. For the method of proportionate basis of allocation, refer to section titled **"Statutory and other Information - Basis of Allocation"** on page 244.
9. Bidding at Cut-off is allowed only for Employees whose Bid Amount is less than or equal to Rs 100,000.

Bids by Existing Shareholders

For the sake of clarity, the term "Existing Shareholders" shall mean the natural persons, who are holders of Equity Shares of the Bank as of February 11, 2005 and who hold Equity Shares worth up to Rs. 100,000 determined on the basis of closing price of the Equity Shares in the NSE on February 10, 2005.

1. Bids by Existing Shareholders shall be made only in the prescribed Bid cum Application Form or Revision Form, which shall be mailed to them.

2. Existing Shareholders should mention their Registered Folio Number/DP and Client ID number at the relevant place in the Bid cum Application Form.
3. The sole/First Bidder should be an Existing Shareholder. 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 in the same sequence in which they appear in the Bid cum Application Form.
4. Only Existing Shareholders of the Bank as on February 11, 2005 would be eligible to apply in this Issue under reservation for Existing Shareholders on a competitive basis.
5. Existing Shareholders will have to Bid like any other Bidder. Only those Bids, which are received at or above the Issue Price, would be considered for allotment under the Existing Shareholders Reservation Portion.
6. If the aggregate demand in this category is less than or equal to 8,000,000 Equity Shares at or above the Issue Price, full allocation shall be made to the Existing Shareholders to the extent of their demand. Any undersubscription in the Existing Shareholders Reservation Portion would be included in the Net Issue to the public and first be distributed equally between the Retail Portion and the Non-Institutional Portion in accordance with the description in section titled **"Statutory and other Information - Basis of Allocation"** as described in page 244. In the event that the demand in either of the Retail Portion or the Non-Institutional Portion has been met, the Equity Shares shall be allocated to the portion in which the demand has not been met. The remaining undersubscribed Equity Shares, if any, after allocation to the Bidders in the Retail Portion and the Non-Institutional Portion as aforesaid, shall be allocated to the QIB Portion in accordance with the description in section titled **"Statutory and other Information - Basis of Allocation"** as described in page 244.
7. If the aggregate demand in this category is greater than 8,000,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis subject to a minimum of [·] Equity Shares. For the method of proportionate basis of allocation, refer to section titled **"Statutory and other Information - Basis of Allocation"** on page 244**.**
8. Bidding at Cut-off Price is allowed only for Existing Shareholders whose Bid Amount is less than or equal to Rs 100,000.

Bidder's Bank Details

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository the Bidders bank account details. **These bank account details would be printed on the refund order, if any, to be sent to Bidders. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the depository participant**. Please note that failure to do so could result in delays in credit of refunds to Bidders at the Bidders sole risk and neither the BRLMs nor the Bank shall have any responsibility and undertake any liability for the same.

Bidder's Depository Account Details

IT IS MANDATORY FOR ALL THE BIDDERS TO GET THEIR EQUITY SHARES IN DEMATERIALISED FORM. ALL BIDDERS SHOULD MENTION THEIR DEPOSITORY PARTICIPANT'S NAME, DEPOSITORY PARTICIPANT IDENTIFICATION NUMBER AND BENEFICIARY ACCOUNT NUMBER IN THE BID CUM APPLICATION FORM. INVESTORS MUST ENSURE THAT THE NAME GIVEN IN THE BID CUM APPLICATION FORM IS EXACTLY THE SAME AS THE NAME IN WHICH THE DEPOSITORY ACCOUNT IS HELD. IN CASE THE BID CUM APPLICATION FORM IS SUBMITTED IN JOINT NAMES, IT SHOULD BE ENSURED THAT THE DEPOSITORY ACCOUNT IS ALSO HELD IN THE SAME JOINT NAMES AND ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE BID CUM APPLICATION FORM.

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant- Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository demographic details of the Bidders such as address, bank account details for printing on refund orders and occupation ("Demographic Details"). Hence, Bidders should carefully fill in their Depository Account details in the Bid cum Application Form.

These Demographic Details would be used for all correspondence with the Bidders including mailing of the refund orders/ CANs/Allocation Advice and printing of bank particulars on the refund order and the Demographic Details given by Bidders in the Bid cum Application Form would not be used for these purposes by the Registrar.

Hence, Bidders are advised to update their Demographic Details as provided to their Depository Participants and ensure that they are true and correct.

By signing the Bid cum Application Form, Bidder would have deemed to authorise the depositories to provide, upon request, to the Registrar to the Issue, the required Demographic Details as available on its records.

Refund Orders/Allocation Advice/CANs would be mailed at the address of the Bidder as per the Demographic Details received from the Depositories. Bidders may note that delivery of refund orders/allocation advice/CANs may get delayed if the same once sent to the address obtained from the Depositories are returned undelivered. In such an event, the address and other details given by the Bidder in the Bid cum Application Form would be used only to ensure dispatch of refund orders. Please note that any such delay shall be at the Bidders sole risk and neither the Bank nor the BRLMs shall be liable to compensate the Bidder for any losses caused to the Bidder due to any such delay or liable to pay any interest for such delay.

In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity, then such Bids are liable to be rejected.

Bids under Power of Attorney

In case of Bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the memorandum and articles of association and/or bye laws must be lodged along with the Bid cum Application Form. Failing this, the Bank reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefor.

In case of Bids made pursuant to a power of attorney by FIIs, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of their SEBI registration certificate must be lodged along with the Bid cum Application Form. Failing this, our Bank reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefor.

In case of Bids made by insurance companies registered with the Insurance Regulatory and Development Authority, a certified copy of certificate of registration issued by Insurance Regulatory and Development Authority must be lodged along with the Bid cum Application Form. Failing this, our Bank reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefor.

In case of Bids made, subject to applicable law, by provident funds with minimum corpus of Rs. 250 million 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, our Bank reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefor.

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.

Bids by Eligible NRIs and FIIs on a repatriation basis

Bids and revision to Bids must be made:

1. 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.
2. In a single name or joint names (not more than three).
3. 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 224.
4. In the names of individuals, or in the names of FIIs but not in the names of minors, OCBs, firms or partnerships, foreign nationals (including Eligible NRIs) or their nominees, foreign venture capital investors.
5. Refunds, dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges and/or commission. In case of Bidders who remit money through Indian Rupee drafts purchased abroad, such payments in Indian

Rupees will be converted into U.S. Dollars or any other freely convertible currency as may be permitted by the RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid cum Application Form. 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 Eligible NRIs and FIIs. All Eligible NRIs and FIIs will be treated on the same basis with other categories for the purpose of allocation.

PAYMENT INSTRUCTIONS

We shall open Escrow Accounts with the Escrow Collection Bank(s) 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 draw a cheque or demand draft for the amount payable on the Bid and/or on allocation as per the following terms:

PAYMENT INTO ESCROW ACCOUNT

(i) The Bidders for whom the applicable Margin Amount is equal to 100% shall, with the submission of the Bid cum Application Form draw a payment instrument for the Bid Amount in favour of the Escrow Account and submit the same to the members of the Syndicate.

(ii) 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.

(iii) The payment instruments for payment into the Escrow Account should be drawn in favour of:

  (a) In case of Resident Bidders: **"Escrow Account –PNB FPO"**;

  (b) In case of Non Resident Bidders: **"Escrow Account –PNB FPO–NR"**;

  (c) In case of Employees: "**Escrow Account –PNB FPO–Employees"**; and

  (d) In case of Existing Shareholders: "**Escrow Account–PNB FPO–Existing Shareholders**"

  - In case of bids by Eligible NRIs applying on a repatriation basis, the payments must be made through Indian rupee drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in the NRE Accounts or the FCNR Accounts, maintained with banks authorised to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of Non Resident Ordinary (NRO) Account of 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 FCNR 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.

(iv) 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.

(v) The monies deposited in the Escrow Account will be held for the benefit of the Bidders till the Designated Date.

(vi) On the Designated Date, the Escrow Collection Banks shall transfer the funds from the Escrow Account as per the terms of the Escrow Agreement into the Issue Account with the Banker to the Issue.

(vii)On the Designated Date and no later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Banks shall also refund all amounts payable to unsuccessful Bidders and also the excess amount paid on Bidding, if any, 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/ stockinvest/money orders/ postal orders will not be accepted.

Payment by Stockinvest

In terms of the Reserve Bank of India Circular No. DBOD No. FSC BC 42/24.47.00/2003-04 dated November 5, 2003, the option to use the stockinvest instrument in lieu of cheques or bank drafts for payment of Bid money has been withdrawn. Hence, payment through Stockinvest would not be accepted in this Issue.

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.

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.

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.

Bids made by Employees both under Employees Reservation Portion as well as in the Net Issue shall not be treated as multiple Bids. Bids made by Existing Shareholders both under Existing Shareholders Reservation Portion as well as in the Net Issue 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.

Permanent Account Number or PAN

Where Bid(s) is/are for Rs. 50,000 or more, the Bidder or in the case of an 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 cum Application Form. Further, where the Bidder(s) has mentioned "Applied for" or "Not Applicable", the Sole/First Bidder and each of the Joint Bidder(s), as the case may be, would be required to submit Form 60 (Form of declaration to be filed by a person who does not have a permanent account number and who enters into any transaction specified in rule 114B), 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.**

Unique Identification Number ("UIN")

In terms of SEBI (Central Database of Market Participants) Regulations, 2003 as amended from time to time and SEBI Notification dated November 25, 2003 and July 30, 2004, circular dated August 16, 2004 and press release dated December 31, 2004, no specified investor being a body corporate shall subscribe to securities which are proposed to be listed in any recognized stock exchange unless such specified investor, its promoters and directors have been allotted unique identification numbers (UIN) save and except: (i) those promoters or directors who are persons resident outside India, who are required to obtain UIN before December 31, 2005; and (ii) where such specified investor being a body corporate has applied for allotment of a UIN before December 31, 2004 and has not yet been allotted the UIN until the disposal of his application or, where he has filed an appeal, till the disposal of the appeal, as the case may be.

In terms of the above it shall be compulsory for specified investor being a body corporate making application in this Issue to give their UIN. In case where a body corporate has made an application for such number before December 31, 2004 but the same has not been allotted, or where an appeal has been filed, but not disposed off, the investor shall indicate the same in the space provided in the Application form.

Application forms from specified investors being body corporate not providing their UIN or UIN application status in cases which have applied for such UIN before December 31, 2004, shall be liable to be rejected.

OUR RIGHT TO REJECT BIDS

We and the BRLMs reserve the right to reject any Bid without assigning any reason therefor in case of QIB Bidders. In case of Non-Institutional Bidders, Retail Individual Bidders, Employees and Existing Shareholders who Bid, the Bank has a right to reject Bids on technical grounds. Consequent refunds shall be made by cheque or pay order or draft and will be sent to the Bidder's address at the Bidder's risk.

GROUNDS FOR TECHNICAL REJECTIONS

Bidders are advised to note that Bids are liable to be rejected on among others on the following technical grounds:

1. Amount paid does not tally with the amount payable for the highest value of Equity Shares Bid for;
2. Age of First Bidder not given;
3. **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;**
4. **NRIs, except Eligible NRIs, and Foreign Venture Capital Investors and Indian Venture Capital Funds;**
5. **Bids by Persons not competent to contract under the Indian Contract Act, 1872, including minors, insane Persons;**
6. PAN Number not given if Bid is for Rs. 50,000 or more and GIR number given instead of PAN number;
7. Bids for lower number of Equity Shares than specified for that category of investors;
8. Bids at a price less than lower end of the Price Band;
9. Bids at a price more than the higher end of the Price Band;

10. Bids at Cut-off Price by Non-Institutional Bidders and QIB Bidders and Bids at Cut-off Price by Employees and Existing Shareholders whose Bid Amount is more than Rs. 100,000;
11. Bids for number of Equity Shares, which are not in multiples of [●];
12. Category not ticked;
13. Multiple Bids as defined in this Red Herring Prospectus;
14. In case of Bid under power of attorney or by limited companies, corporate, trust etc., relevant documents are not submitted;
15. Bids accompanied by Stockinvest/money order/postal order/cash;
16. Signature of sole and / or joint Bidders missing;
17. Bid cum Application Forms does not have the stamp of the BRLMs or the Syndicate Members;
18. Bid cum Application Forms does not have Bidder's depository account details;
19. 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;
20. 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;
21. Bids for amounts greater than the maximum permissible amounts prescribed by the regulations. See the details regarding the same in the section titled "Issue Procedure – Bids at Different Price Levels" at page 226;
22. Bids by OCBs;
23. Bids by US Persons other than "qualified institutional buyers" as defined in Rule 144A of the Securities Act;
24. Bids under Employees Reservation Portion for more than 500 Equity Shares.
25. Bids by specified investors being body corporates who do not provide their UIN or UIN application status, in cases which have applied for such UIN before December 31, 2004.

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 our Bank, the respective Depositories and the Registrar to the Issue:

a) a tripartite agreement dated November 13, 2001 with NSDL, us and Registrar to the Issue in respect of debt instruments which was extended to cover equity shares vide letter dated February 26, 2002 bearing reference number AS/PM/02/393;
b) a tripartite agreement dated February 25, 2002 with CDSL, us and Registrar to the Issue.

All Bidders can seek Allotment only in dematerialised mode. Bids from any Bidder without relevant details of his or her depository account are liable to be rejected.

a) A Bidder applying for Equity Shares must have at least one beneficiary account with either of the Depository Participants of either NSDL or CDSL prior to making the Bid.
b) The Bidder must necessarily fill in the details (including the Beneficiary Account Number and Depository Participant's identification number) appearing in the Bid cum Application Form or Revision Form.
c) Allotment to a successful Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder
d) Names in the Bid cum Application Form or Revision Form should be identical to those appearing in the account details in the Depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the Depository.
e) If incomplete or incorrect details are given under the heading 'Bidders Depository Account Details' in the Bid cum Application Form or Revision Form, it is liable to be rejected.

f) The Bidder is responsible for the correctness of his or her demographic details given in the Bid cum Application Form vis-à-vis those with his or her Depository Participant.

g) 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. All the Stock Exchanges where our Equity Shares are proposed to be listed have electronic connectivity with CDSL and NSDL.

h) The trading of the Equity Shares of the Bank would be in dematerialised form only for all investors in the demat segment of the respective Stock Exchanges.

COMMUNICATIONS

All future communications in connection with Bids made in this Issue should be addressed to the Registrar to the Issue quoting the full name of the sole or First Bidder, Bid cum Application Form number, 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.

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 basis of allocation;
- that the funds required for dispatch of refund orders or allotment advice by registered post or speed post shall be made available to the Registrar to the Issue by 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.

Our Bank shall not have recourse to the Issue proceeds until the approval for trading of the Equity Shares from all the Stock Exchanges where listing is sought has been received.

DISPOSAL OF APPLICATIONS AND APPLICATIONS MONEY

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 of 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 at the sole or First Bidder’s sole risk.

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 finalisation of the basis 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, MoF 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) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 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. For details see the section titled "Regulations and Policies-Restriction on Transfer of Shares" on page 176.

BASIS FOR ISSUE PRICE

Qualitative Factors

1. We are India's third largest bank in terms of assets and second largest bank in terms of number of branches.
2. We have a pan-India franchise with 4,034 branches, 452 extension counters and 467 ATMs in over 150 cities throughout India servicing 35 million customers.
3. We have a diversified loan portfolio of Rs. 472.2 billion with the corporate and commercial, retail and agriculture sectors constituting 60.8%, 19.4% and 19.8% of our total outstanding loans as on March 31, 2004.
4. Our ratio of net NPAs to net advances declined to 0.98% in fiscal 2004 from 3.86% in fiscal 2003.
5. In fiscal 2004 our interest free demand deposits and low interest savings bank deposits constituted 45% of our total deposits. These low-cost deposits led to an average cost of deposits of 5.0% and an average cost of funds of 5.1% in fiscal 2004.
6. Our deposits increased by 16 % to Rs. 879.16 billion at March 31, 2004 from Rs 758.13 billion as of March 31, 2003.
7. We have had a consistent profitability track record. Our unadjusted net profit in fiscal 2004 increased by 31.6% to Rs. 11.09 billion as compared to Rs. 8.4 billion in fiscal 2003.
8. We have 694 electronically interconnected branches as of September 30, 2004 throughout the country.

Quantitative Factors

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

1. Weighted average earnings per share (EPS)*

	EPS	Weight
Year ended March 31, 2002	26.5	1
Year ended March 31, 2003	30.1	2
Year ended March 31, 2004	40.0	3
Weighted Average	34.4	

*The weighted average number of Equity Shares have 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, 2004 (annualised) is[▯].

b. Industry P/E[1]

i) Highest: 13.9

ii) Lowest: 3.7

iii) Average (composite): 7.0

(1) Source: "Capital Market" Volume XIX/ 22 dated January 3, 2005 to January 16, 2005 for the Category titled 'Banking – Public Sector'. The figures are in respect of fiscal 2004.

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

Sr. No.	Year ended March 31,	Return on Average Net Worth (%)	Weight
1.	2002	22.10	1
2.	2003	25.12	2
3.	2004	26.86	3
	Weighted Average	25.48	

(2) Networth 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 [▯] to [▯].

5. ***Net Asset Value per Equity Share at March 31, 2004 is Rs. 165.25.***

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 for year-end fiscal 2004***

	EPS	P/E	Return On Average Net Worth	Book Value Per Share
Peer Group (public and private sector)				
State Bank of India	68.5	8.2	19.7	384.4
Punjab National Bank	40.0	7.8	26.9	165.3
Bank of Baroda	31.8	7.0	20.3	173.4
Bank of India	20.5	5.8	28.0	78.5
Canara Bank	32.0	5.6	29.2	125.1
Union Bank	15.0	6.1	30.5	56.6
ICICI Bank	21.3	15.6	21.9	110.5
HDFC Bank	17.3	25.0	20.6	94.0
Peer Group (Simple) Average	**30.80**	**10.14**	**24.63**	**148.47**

Source: Our EPS, Return On Average Net Worth and Book Value Per Share have been calculated from our audited restated financial statements. Source for other information is "Capital Market" Volume XIX/ 22 dated January 3, 2005 to January 16, 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.

STATUTORY AND OTHER INFORMATION

Consents

Consents in writing of: (a) the Directors, the Company Secretary and Compliance Officer, the Auditors, Legal Advisors, the Banker to the Issue; and (b) Book Running Lead Managers, Syndicate Members, Escrow Collection Banker and Registrar to the Issue, to act in their respective capacities, have been obtained and shall be filed along with a copy of the Red Herring Prospectus with the 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.

M/s. Surendar K Jain & Co, M/s. Mookherjee Biswas & Pathak, M/s M.C. Bhandari & Co., M/s P.K.Chopra & Co, M/s. Ramanlal G Shah & Co, and M/s. B.K.Ramadhyani & Co, Chartered Accountants, 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 Designated Stock Exchange.

Minimum Subscription

If we do not receive the minimum subscription of 90% of the Net Issue to the extent of the amount including devolvement of the members of the Syndicate, if any, within 60 days from the Bid Closing Date/Issue 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, we shall pay interest at the same rates as prescribed under Section 73 of the Companies Act.

Method of Redressal of Investor Grievances

See section titled “Other Regulatory Disclosures - Mechanism for Redressal of Investor Grievances” on page 209.

Expert Opinion

Except as stated elsewhere in this Red Herring Prospectus, we have not obtained any expert opinions.

Changes in Auditors

The Auditors of our Bank are being appointed by the Reserve Bank of India and his/their remuneration, rights and duties shall be regulated by the Bank Acquisition Act.

There have been no changes of the auditors in the last three years except as detailed below:

Year	Name of the Statutory Auditors	Fresh induction during this Year	Retired during this year	Reasons
2001-2002	M/s Mookherjee Biswas & Pathak M/s Surender K Jain & Co. M/s SBA Associates M/s G P Agarwal & Co. M/s Parekh & Co. M/s Kalani & Co.	M/s Mookherjee Biswas & Pathak M/s Surender K Jain & Co.	M/s M Bhaskara Rao & Co. M/s V Soundaranjan & Co.	Completion of term Completion of term
2002-2003	M/s P K Chopra & Co. M/s M C Bhandari & Co. M/s Kalani & Co. M/s Mookherjee Biswas & Pathak M/s Parekh & Co. M/s Surender K Jain & Co.	M/s P K Chopra & Co. M/s M C Bhandari & Co.	M/s SBA Associates M/s G P Agarwal & Co.	Completion of term Completion of term

2003-2004	M/s G P Kapadia & Co. M/s Kalani & Co. M/s Mookherjee Biswas & Pathak M/s M C Bhandari & Co. M/s P K Chopra & Co. M/s Surender K Jain & Co	M/s G P Kapadia & Co.	M/s Parakh & Co.	Completion of term

Basis of Allocation

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 allocation to Non-Institutional Bidders and QIB Bidders shall be available for allocation 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 22,400,000 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 22,400,000 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 [●] Equity Shares 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 9,600,000 Equity Shares at or above the Issue Price, full Allotment shall be made to Non-Institutional Bidders to the extent of their demand.
- In case the aggregate demand in this category is greater than 9,600,000 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 [●] Equity Shares thereafter. For the method of proportionate basis of allocation refer below.

C. For QIB Bidders

- Bids received from the QIB Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allocation to all the QIB Bidders will be made at the Issue Price.
- The Net Issue size less allocation to Non-Institutional Bidders and Retail Individual Bidders shall be available for allocation to QIB Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- The allocation would be decided by us in consultation with the BRLMs and would be at our sole discretion, based on various factors, such as quality of the Bidder, size, price and date of the Bid.
- The aggregate allocation to QIB Bidders shall not be more than 32,000,000 Equity Shares.

D. For Employees

- Bids received from the Employees at or above the Issue Price shall be grouped together to determine the total demand in this portion. The Allotment to all the Employees who Bid successfully will be made at the Issue Price.
- If the aggregate demand in this portion is less than or equal to 8,000,000 Equity Shares at or above the Issue Price, full Allotment shall be made to the Employees to the extent of their demand.
- If the aggregate demand in this portion is greater than 8,000,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis subject to a minimum of [●] Equity Shares. For the method of proportionate basis of allocation, please refer below.

E. For Existing Shareholders

- Bids received from the Existing Shareholders at or above the Issue Price shall be grouped together to determine the total demand in this portion. The Allotment to all the Existing Shareholders who Bid successfully will be made at the Issue Price.
- If the aggregate demand in this portion is less than or equal to 8,000,000 Equity Shares at or above the Issue Price, full Allotment shall be made to the Existing Shareholders to the extent of their demand.
- If the aggregate demand in this portion is greater than 8,000,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis subject to a minimum of [] Equity Shares. For the method of proportionate basis of allocation, please refer below.

Method of proportionate basis of allocation in the Retail and Non-Institutional 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, which is 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, which is total number of Equity Shares applied for by each Bidder in that portion multiplied by the inverse of the over-subscription ratio.

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

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.

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.

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. millions)
Lead management, underwriting and selling commission *	Rs. []
Advertisement & Marketing expenses	Rs. 71.40
Printing, stationery including transportation of the same	Rs. 39.50
Others(Registrar's fees, Legal fee, listing fee, etc.)	Rs. 112.2
Total estimated Issue expenses	Rs. []

* Will be incorporated after finalisation of Issue Price

Fees Payable to the BRLMs, Brokerage and Selling Commission

The total fees payable to the BRLMs including brokerage and selling commission for the Issue will be as per the memorandum of understanding executed between the Bank and the BRLMs dated January 13, 2005, a copy of which are 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' memorandum of understanding dated January 28, 2005 copies 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.

Previous Rights and Public Issues

For details of the previous public issues by our Bank, see the section titled "Other Regulatory Disclosures" on page 209.

Commission and Brokerage paid on Previous Equity Issues by us

Name of issue	Month and Year	Commission and Brokerage (in Rs.million)
Public Issue of Equity Shares	April, 2002	Rs. 13,823,389

Issues otherwise than for cash

We have not issued any Equity Shares for consideration otherwise than for cash.

Application in Issue

Equity Shares being issued through this Red Herring Prospectus can be applied for in the dematerialized form only.

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 149, we have not purchased any property in which any Directors, have any direct or indirect interest in any payment made thereof.

Remuneration of Whole Time Directors

1. Mr. S.S.Kohli, Chairman and Managing Director:

   Mr. S.S.Kohli was appointed as Chairman and Managing Director of our Bank on April 20, 2000 by Central Government after consultation with the Reserve Bank of India under clause (a) of Sub-Section (3) of Section 9 of the Bank Acquisition Act for a period of five years.

The details of Mr. Kohli's remuneration during the period from April 1, 2003 to March 31, 2004 is as below:

	(Rs.)
Salary and allowances	498,900
Bank's contribution to provident fund	31,200
Medical expenses	34,908
Club fees	4,380
Total	**569,338**

Other perquisites and benefits: In addition to the above, Mr. Kohli is entitled to medical benefits, leave travel assistance, entertainment allowance, city compensatory allowance, residential accommodation and conveyance.

2. Dr. K. C. Chakrabarty, Executive Director:

Dr. K. C. Chakrabarty was appointed as Executive Director of our Bank on August 27, 2004 by the Government after consultation with the Reserve Bank of India under clause (a) of sub-section (3) of Section 9 of the Bank Acquisition Act for a period of five years or until further orders, whichever is earlier.

The details of Dr. Chakrabarty's remuneration with effect from August 27, 2004 to September 30, 2004 is as follow:

	(Rs.)
Salary and Allowances	42,983
Bank's Contribution to Provident Fund	3,841
Total	46,824

Other perquisites and benefits: In addition to the above, Dr. Chakrabarty is entitled to medical benefits, leave travel assistance, entertainment allowance, city compensatory allowance, residential accommodation and conveyance.

Expenditure Incurred By The Directors (Excluding The Whole Time Directors)

The expenditure incurred on traveling, lodging and fees paid to the Directors for the period from April 1, 2003 to March 31, 2004 is Rs. 3.49 million.

Capitalisation of Reserves or Profits

We have not capitalised our reserves or profits at any time.

Revaluation of Assets

We have not revalued our assets in the past five years.

Payment or benefit to officers of our Bank

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.

There is no service contract for the directors providing for benefits on termination on service.

MAIN PROVISIONS OF CONSTITUTIONAL DOCUMENTS

We were constituted as a "corresponding new bank" in 1970 under the provisions of the Bank Acquisition Act. We are not required to have memorandum and articles of association. Since we were constituted under the Bank Acquisition Act we have profiled the salient terms of the Act. Further since the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 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, 1970 was made by S.O. 3793 dated November 16, 1970 by the central government in consultation with the Reserve Bank of India in exercise of the powers conferred by Section 9 of the Bank Acquisition Act.

The Bank Regulations were formulated under Section 19 of the Bank Acquisition Act by our board of directors in consultation with the Reserve Bank of India, and with the previous sanction of the central government.

The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 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 Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970. 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 151.

For complete text of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, Banking Regulation Act, 1949, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 and the Punjab National Bank (Shares and Meetings) Regulations, 2000 as on the date of filing of this Red Herring Prospectus please see the link to our Constitutional Documents on www.pnbindia.com, which is the website of the Bank.

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 see the section titled "Risk Factors – External Risk Factors" on page xxii.

The salient features of the same are as below.

BANKING COMPANIES (ACQUISITION AND TRANSFER OF UNDERTAKINGS) ACT, 1970

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 (d) of Section 2 of the Banking Companies (Acquisition arid Transfer of Undertakings) Act. 1970 (5 of 1970) with the corresponding new bank, such reduction may be done, either prospectively or retrospectively, but not from a date earlier than the date of such amalgamation.

(2BBA)(a) A corresponding new bank may from time to time and after any paid-up capital has been raised by public issue 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, cancelling 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 shareholders;
- (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 arid 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.

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 lit 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.

8. Corresponding new banks to be guided by the Directions of the Central Government

Every corresponding new bank shall, in the discharge of its functions, be guided by such directions in regard to matters of policy involving public interest as the Central Government may, after consultation with the Governor of the Reserve Bank, give.

9. Power of Central Government to make scheme

(1) The Central Government may, after consultation with the Reserve Bank, make a scheme for carrying out the provisions of this Act.

(2) **In particular, and without prejudice to the generality of the foregoing power, the said scheme may provide for all or any of the following matters, namely:—**

(a) the capital structure of the corresponding new bank;

(b) the constitution of the Board of Directors, by whatever name called, of the corresponding new bank and all such matters in connection therewith or incidental thereto as the Central Government may consider to be necessary or expedient;

(c) the reconstitution of any corresponding new bank into two or more corporations, the amalgamation of 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 tour 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.

(3A) The Directors to be nominated under clause (h) or to be elected under clause (1) ofsub-section (3) shall—

(A) have special knowledge or practical experience in respect of one or more of the following matters namely :-

(i) agricultural and rural economy,

(ii) banking,

(iii) 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.

(3B) 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, alter 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).

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 arid 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 lose 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 arc 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 deal an 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 or the working and activities of the bank during the period covered by the accounts

(8) The Central Government shall cause every Auditors report and report on the working and activities of each corresponding new bank to be laid as soon as may be after they are received before each House of Parliament.

(9) Without prejudice to the foregoing provisions, the Central Government may, at any time, appoint such number of Auditors as it thinks fit to examine and report on the accounts of a corresponding new bank and the Auditors so appointed shall have all the rights, privileges and authority it relation to the audit of the accounts of the corresponding new bank which an Auditor appointed by the corresponding new bank has under this section.

10A. Annual general meeting

(1) A general meeting (in this Act referred to as an annual general meeting) of every corresponding new bank which has issued capital under clause (c) of sub-section (2B) of Section 3 shall be held at the place of the head office of the bank in each year at such time as shall from time to time be specified by the Board of Directors:

Provided that such annual general meeting shall be held before the expiry of six weeks from the date on which the balance sheet, together with the profit and loss account and Auditor's report is under sub-section (7A) of Section 10, forwarded to the Central Government or to the Reserve Bank whichever date is earlier.

(2) The shareholders present at an annual general meeting shall be entitled to discuss 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.

11. Corresponding new bank deemed to be an Indian company

For the purposes of the Income-tax Act, 1961 (43 of 1961), every corresponding new bank shall be deemed to be an Indian company and a company in which the public are substantially interested.

15. Certain defects not to invalidate acts of proceedings

(l) 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 be 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.

16. Indemnity

(1) Every custodian of a corresponding new bank and every Officer of the Central Government or of the Reserve Bank and every Officer or other Employee of a corresponding new bank, shall be indemnified by such bank against all losses and expenses incurred by him in or in relation to the discharge of his duties except such as have been caused by his own willful act or default.

(2) A Director or Member of a local Board or Committee of a corresponding new bank shall not be responsible for any loss or expense caused to such bank by the insufficiency or deficiency of the value of, or title to, any property or security acquired or taken on behalf of the corresponding new bank, or by the insolvency or wrongful act of any customer or debtor, or by anything done in or in relation to the execution of the duties of his office, unless such loss, expense, insufficiency or deficiency was due to any willful act or default on the part of such Director or Member.

16A. Arrangement with corresponding new bank on appointment of Directors to prevail

(1) Where any arrangement entered into by a corresponding new bank with a company provides for the appointment by the corresponding new bank of one or more Directors of such Company, such appointment of Directors made in pursuance thereof shall be valid and effective notwithstanding anything to the contrary contained in the Companies Act, 1956 (1 of 1956) or in any other law for the time being in force or in the memorandum, articles of association or any other instrument relating to the Company, and any provision regarding share qualification, age limit, number of Directorship, removal from office of Directors and such like conditions contained in any such law or instrument aforesaid, shall not apply to any Director appointed by the corresponding new bank in pursuance of the arrangement as aforesaid.

(2) Any Director appointed as aforesaid shall—

(a) hold office during the pleasure of the corresponding new bank and may be removed or substituted by any person by order in writing of the corresponding new bank;

(b) and incur any obligation or liability by reason only of his being a Director or for anything done or omitted to be done in good faith in the discharge of his duties as a Director or anything in relation thereto;

(c) not be liable to retirement by rotation and shall not be taken into account for computing the number of Directors liable to such retirement.

(d) Power to make regulations

(3) The Board of Directors of a corresponding new bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, by notification in the Official Gazette make regulations, not inconsistent with the provisions of this Act or any scheme made thereunder, to provide for all matters for which provision is of a expedient for the purpose of giving effect to the provisions of this Act.

(4) Until any regulation is made under sub-section (1), the articles of association of the existing bank and every regulation, rule, bye-law or order made by the existing bank shall, if in force at the commencement of this Act, be deemed to be the regulations made under sub-section (1) and shall have effect accordingly and any reference therein to any authority of the existing bank shall be deemed to be a reference to the corresponding authority of the corresponding new bank and until any such corresponding authority is constituted under this Act, shall be deemed to refer to the Custodian.

(5) Every regulation shall, as soon as may be after it is made under this Act by the Board of Directors of a corresponding new bank, be forwarded to the Central Government and that Government shall cause a copy of the same to be laid before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both houses agree in making any modification in the regulation or both Houses agree that the regulation should not be made, the regulation shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that regulation.

NATIONALISED BANKS (MANAGEMENT AND MISCELLANEOUS PROVISIONS) SCHEME, 1970

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 whole-time Director including Managing Director

(1) A whole-time Director, including the Managing Director shall devote his whole-time to the affairs of the affairs of the Nationalised Bank and shall hold office for such terms not exceeding five years as the Central Government may, after consultation with the Reserve Bank, specify and shall be eligible for re-appointment.

(1-A) Notwithstanding anything contained in sub-clause (1), the Central Government shall have the right to terminate the term of office of a whole-time Director, including the Managing Director, at any time before the expiry of the term specified under that sub-clause by giving to him a notice of not less than three months, in writing or three months salary and allowances in lieu of notice; and the whole-time Director, including the Managing Director, shall also have the right to relinquish his office at any time before the expiry of the term specified under that sub-clause by giving to the Central Government notice of not less than three months in writing.

(1-B) Any reference to a whole-time Director, including the Managing Director, in sub-clause (1-A) shall be construed as including a reference to the person holding office as such at the commencement of the Nationalised Banks (Management and Miscellaneous Provision (Second Amendment) Scheme, 1976.

(2) A whole-time Director, including the Managing director shall receive from the Nationalised Bank such salary, allowance, fees and perquisites and be governed by such terms and conditions as the Central Government may determine, after consultation with the Reserve Bank.

(3) If a whole-time Director including the Managing Director is by infirmity or otherwise rendered incapable of carrying out his duties or is absent on leave or otherwise in circumstances not involving the vacation of his office,

the Central Government may, after consultation with the Reserve Bank, appoint another person to act in his place during his absence.

(4) The Central Government may, if it is satisfied that it is expedient in the interests of the nationalized bank so to do, remove a whole-time Director including the Managing Director from office:

Provided that no such removal shall be made except after—

(a) consultation with the Board, and

(b) giving a reasonable opportunity to the whole-time Director including the Managing director, of showing cause against the proposed action.

9. Term of office of other directors

(1) A director other than a director referred to in Clause (a) and Clause (i) of sub-section (3) of Section 9 of the Act shall hold office during the pleasure of the Central Government.

(2) a) Subject to the provisions of sub-clause (1), 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 (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 shall be eligible for re-nomination.

Provided that no such director shall hold office continuously for a period of six years.

Provided that no such director shall hold office continuously for a period exceeding six years.

(3) Without prejudice to the provisions of sub-clauses (1) and (2), a director referred to in Clause (b) of sub-section (3) of Section 9 of the Act shall retire in the manner specified in Clause 4.

(4) An elected director shall hold office for three years and shall be eligible for re-election:

Provided that no such director shall hold office continuously for a period exceeding six years.

10. Disqualification of Directors

A person shall be disqualified for being appointed as, and for being, a director—

(a) if he has at any time been adjudicated an insolvent or has suspended payment or has compounded with his creditors; or

(b) if he has been found to be of unsound mind and stands so declared by a competent Court; or

(c) if he has been convicted by a Criminal Court of an offence which involves moral turpitude.

11. Vacation of office of Directors, etc.

(1) **If a director becomes subject to any of the disqualifications specified in Clause 10 or is absent without leave of the Board for more than three consecutive meetings thereof he shall be deemed to have vacated his office as such and thereupon his office shall become vacant.**

(2) The Chairman or whole-time director including the Managing Director or a director referred to in Clause (b) or Clause (c) or Clause (d) of sub-section (3) of Section 9 of the Act may resign his office by giving notice thereof in writing to the Central Government and on such resignation being accepted by that Government shall be deemed to have vacated his office; any other director may resign his office by giving notice thereof in writing to the Central Government and such resignation shall take effect on the receipt of the communication of the resignation by the Central Government.

(3) Without prejudice to the provisions of the foregoing sub-clause, the office of a director referred to in Clause (e) or Clause (f) of sub-section (3) of Section 9 of the Act shall become vacant as soon as the director ceases to be a workman or an employee, other than a workman of the nationalized bank of which he is a director.

(4) Where any vacancy occurs in the office of a director, other than an elected director, it shall be filled in accordance with sub-section (3) of Section 9 of the Act.

11-A. Removal from office of an elected director

The shareholders other than the Central Government, may, by a resolution passed by majority of the votes of such shareholders holding in the aggregate not less than one half of the share capital held by all such shareholders, remove any director elected under Clause (i) of sub-section (3) of Section 9 and elect in his stead another person to fill the vacancy.

11-B. Filling of vacancy in the office of an elected director

(1) Where any vacancy occurs before the expiry of the term of office of an elected director, the vacancy shall be filled in by election:

Provided that where the duration of vacancy is likely to be less than six months, the vacancy may be filled in by the remaining directors.

(2) A person elected or cooperated, as the case may be, under sub-clause (1) shall hold office for the unexpired portion of the term of his predecessor.

12. Meetings of the Board

(1) **Meetings of the Board shall ordinarily be held at least six times in a year and at least once in each quarter.**

(2) **A meeting of the Board shall be held at the head office of the nationalised bank or such other place as the Board may decide.**

(3) Ordinarily, not less than fifteen days' notice shall be given of any meeting of the Board and such notice shall be sent to every director at the address specified by him in this behalf.

(4) No business, other than that for which the meeting was convened shall be transacted at a meeting of the Board except with the consent of the Chairman of the meeting and a majority of the directors present, unless one week's notice of such business has been given in writing to the Chairman.

(5) The quorum of a meeting of the Board shall be one-third of the number of directors holding office as such directors of the Board on the day of the meeting, subject to a minimum of three directors, two of whom shall be directors referred to in Clause (b) or Clause (c) or Clause (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; and

(F) One Director nominated by the Board from amongst the Directors referred to in Clauses (e), (f), (h) and (i) of sub-section (3) of Section 9 of the Act.

Provided that the Directors nominated by the Board shall hold office for not more than six months at a time.

(3) The Management Committee shall exercise such powers of the Board including the powers with regard to credit proposals, as may be delegated to it by the Board with the approval of the Central Government and such approval shall be given by the Central Government after consultation with the Reserve Bank of India.

(4) The meetings of the Management Committee may be called by the Chairman of the Management Committee as often as he feels necessary.

(5) Four members shall be the quorum for a meeting of the Management Committee.

(6) The minutes of a meeting of the Management Committee shall be laid before the Board as soon as possible after the meeting.

(7) Save as otherwise provided in sub-clauses (4), (5) and (6) the meetings and proceedings of the Management Committee shall be governed by the provisions contained in this Scheme for regulating the meetings and proceedings of the Board so far as the same are applicable thereto.

(8) Where the Chairman of the Management Committee is of opinion that in view of urgency in any matter, it should be dealt with expeditiously, he may circulate a resolution to that effect to the members of the Management Committee, and such resolution shall be deemed to be the resolution passed by the Management Committee when it is approved by a majority of the Members but shall have effect from the date it is signed by the last signatory to the resolution:

Provided that any resolution passed as aforesaid shall be placed before the next meeting of the Management Committee:

Provided further that if any dissenting member requires in writing that any resolution so passed shall be placed before a meeting of the Management Committee, the resolution shall not be deemed to be valid and effectual as aforesaid unless the same is passed at such meeting.

Explanation— For the purpose of sub-clause (2), "Executive Director" means the whole-time Director, not being the Managing Director, appointed under sub-clause (a) of Clause 3 and designated as such.

18. Resolution without meeting of the Board valid

A resolution in writing signed by the majority of the members of the Board shall be valid and effectual and shall be deemed to be the resolution passed by the Board on the date it was signed by the last signatory to the resolution:

Provided that any resolution passed as aforesaid shall be placed before the next meeting of the Board:

Provided further that if any dissenting member requires in writing that any resolution so passed shall be placed before a meeting of the Board, the resolution shall not be deemed valid and effectual as aforesaid unless the same is passed at such meeting.

20. Increase of paid-up capital

The paid-up capital of a Nationalised Bank may be increased from time to time as in sub-clause (a) or sub-clause (b) or sub-clause (c) below or in combination with any of them:

(a) the Board of Directors of a Nationalised Bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government transfer to its capital a specified amount from the reserve fund establishment by such bank under sub-section (6) of Section 3 of the Act;

(b) the Central Government may, in consultation with the Reserve Bank, make contribution of any specified amount to the paid-up capital of a Nationalised Bank;

(c) the Board may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, raise the paid-up capital by public issue of shares in such manner as may be prescribed; so however, that the Central Government shall at all times hold not less than fifty-one per cent of the paid-up capital of each Nationalised Bank.

PUNJAB NATIONAL BANK (SHARES & MEETINGS) REGULATIONS, 2000

Definition

2(a) “Act” means the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970);

3. Nature of Shares

The shares of the Bank shall be movable property, transferable in the manner provided in the Bank 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 to 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) upto 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 the 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-regulation (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 sec. 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.

7. Parties who may not be registered as shareholders

Except as otherwise provided by the Bank, all persons who are not competent to contract shall not be entitled to be registered as a shareholder and the decision of the board of directors of the Bank ("Board") in this regard shall be conclusive and final.

(i) 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.

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 the sole holder thereof.

11. Inspection of Register

The register of shareholders, except when closed under the Bank Regulations, shall 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.

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 name 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 and shall be singed by two directors and some other officer not below the rank of scale II or the company secretary appointed by the Board for the purpose.

(iii) No share certificate shall be valid unless and until it is so signed.

15. Issue of new or duplicate share certificates

(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 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 the prescribed form 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 officer 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 alongwith a share certificates with a request to register the transfer, the Board or the committee designated by the Board shall forward the said instrument of transfer alongwith 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 alongwith 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.

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 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:

e. if it has formed the opinion that such registration ought not to be so refused, effect such registration; and

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.

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 a succession certificate issued under Part X of the Indian Succession Act, 1925, or the holder of any legal representation or a person in whose favour a valid, instrument of transfer was executed by the deceased sole holder during the latter's lifetime shall be the only person who may be recognised by the Bank as having any title to such share.

(ii) In the case of shares registered in the name of two or more shareholders, the survivor or survivors and on the death of the last survivor, his executors or administrators or any person who is the holder of 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 lifetime, shall be the only person who may be recognised by the Bank as having any title to such share.

(iii) The Bank shall not be bound to recognise 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 letters of probate or letters of administration or 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 a share in consequence of death of a shareholder and any person becoming entitled to a share in consequence of the insolvency, bankruptcy or liquidation of a shareholder 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 of Directors 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 shareholders in respect of all moneys remaining unpaid on the shares held by them, which are by the conditions of allotment not made payable at fixed times, and each shareholder shall pay the amount of every call so made on him to the person and at the time and place appointed by the Board. A call may be payable by installments.

23. Calls to date from resolution

A call shall be deemed to have been made at the time when the resolution of the Board authorising 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.

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 e 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 requirement 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 31. Such forfeiture shall include all dividends declared in respect of the 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, re-allotted or otherwise disposed of to any person upon such terms and in such manner as the Board may decide.

35. Powers to annul forfeiture

The Board may, at any time, before any share so forfeited under Regulation 32 shall have been sold, re-allotted 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 shall and 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 the 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 share extinguishes all claims against Bank

The forfeiture of a share shall involve extinction, at the time of the 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, re-issue, re-allotment or other disposal under the provision of the preceding regulations 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 in 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, fulfillment, 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 of Directors may at any time declare any share to be wholly or in part exempt from 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 company has a lien:

a) if a sum in respect of which the lien exists is presently payable, and

b) after the expiration of fourteen days after a notice in writing stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder for the time being of the share or the person entitled thereto by reason of his death or insolvency.

(ii) To give effect to any such sale, the Board may authorise 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, or Company Secretary or any other officer of the Bank not below the rank of Scale II duly authorised in this behalf, that the call in respect of a share was made 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, re-allotment or other disposition thereof and the person to whom such share is sold, re-allotted 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, re-allotment 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.

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 shall be published at least twenty one clear days before the meeting in not less than two daily newspapers having wide circulation in India.

(ii) Every such notice shall state the time, date and place of such meeting and also the business that shall be transacted at that meeting.

(iii) The time and date of such meeting shall be as specified by the Board. The Meeting shall be held at the place of head office of the Bank.

58. Quorum of general meeting

(i) No business shall be transacted at any meeting of the shareholders unless a quorum of at least five shareholders entitled to vote at such meeting in person are present at the commencement of such business.

(ii) If within half an hour after the time appointed for the holding of a meeting, a quorum is not present in the case of a meeting called by a requisition of shareholders other than the Central Government, the meeting shall stand dissolved.

(iii) In any other case if within half an hour after the time appointed for the holding of a meeting, a quorum is not present, the meeting shall stand adjourned to the same day in the next week, at the same time and place or to such other day and such other time and place as the Chairman may determine. If at the adjourned meeting a quorum is not present within half an hour from the time appointed for holding the meeting, the shareholders who are present in person or by proxy or by duly authorised 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(l) 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 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 authorised representative at such time shall form the quorum.

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 or proportion of the votes cast in favour of, or against, such resolution.

(iv) Before or on the declaration of the result of the voting on any resolution on a show of hands, a poll may be ordered to be taken by the chairman of the meeting of his own motion and shall be ordered to be taken by him on a demand made in that behalf by any shareholder or shareholders present in person or by proxy and holding shares in 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 a poll may be withdrawn at any time by the person or persons who made the demand.

(vi) A poll demanded on a question of adjournment or election of chairman of the meeting shall be taken forthwith.

(vii) A poll demanded on any other question shall be taken at such time not being later than forty eight hours from 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.

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.

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.

65. Nomination of candidates for election

(i) No nomination of a candidate for election as a director shall be valid unless,

a. he is a shareholder holding not less than 100 (one hundred) shares in the Bank;

b. he is on the last date for receipt of nomination, not disqualified to be a director under the Act or under the Scheme;

c. he has paid all calls in respect of the shares of the Bank held by him, whether alone or jointly with others, on or before the last date fixed for the payment of the call;

d. the nomination is in writing signed by at least one hundred shareholders entitled to elect directors under the Act or by their duly constituted attorney, provided that a nomination by a shareholder who is a company may be made by a resolution of the directors of the said company and where it is so made, a copy of the resolution certified to be a true copy by the Chairman of the meeting at which it was passed shall be despatched to the Head Office 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 an Officer of the Reserve Bank of India or any nationalised 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 on a working day not less than fourteen days before the date fixed for the meeting.

66. Scrutiny of nominations

(i) Nominations shall be scrutinised 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 therefor. 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 intimation under sub-regulation (1), 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 clauses (b) & (c) of sub-section (3) of Section 9 of the Act.

(iii) The committee referred to in sub-regulation (ii) shall make such enquiry as it deems necessary and if it finds that the election was a valid election, it shall confirm the declared result of the election or, if it finds that the election was not a valid election, it shall, within 30 days of the commencement of the enquiry, make such order and give such directions including the holding of a fresh election as shall in the circumstances appear just to the committee.

(iv) An order and direction of such committee in pursuance of this regulation shall be conclusive.

68. Determination of voting rights

(i) Subject to the provisions contained in Section 3 (2E) of the Act, each shareholder who has been registered as a shareholder on the date of closure of the register prior to the date of a general meeting shall, at such meeting, have one vote on show of hands and in case of a poll shall have one vote for each share held by him.

(ii) Subject to the provisions contained in Section 3 (2E) of the Act, every shareholder entitled to vote as aforesaid who, not being a company, is present in person or by proxy or who being a company is present by a duly authorised representative, or by proxy shall have one vote on a show of hands and in case of a poll shall have one vote for each share held by him as stated hereinabove in sub-regulation (i)

Explanation - For this Chapter, "Company" means any body corporate.

(iii) Shareholders of the Bank entitled to attend and vote at a general meeting shall be entitled to appoint another person (whether a shareholder or not) as his proxy to attend and vote instead of himself but a proxy so appointed shall not have any right to speak at the meeting.

69. Voting by duly authorised representative -

(i) A shareholder, being the Central Government or a company, may by a resolution, as the case may be, authorise any of its officials or any other person to act as its representative at any general meeting of the shareholders and the person so authorised (referred to as a 'duly authorised 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 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.

(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 as 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 not less than four days before the date fixed for the meeting.

FINANCIAL STATEMENTS

1. Auditors Report dated January 29, 2005.

2. Unconsolidated Restated Financial Statements of Punjab National Bank as of and for the fiscal years 2000, 2001, 2002, 2003 and 2004 and the six month period ended September 30, 2004 and September 30, 2003 and notes thereto.

   Annexure A

   I: Summary Statement of Profit and Loss as Restated

   II: Summary Statement of Assets and Liabilities as Restated

   III: Statement of Cash Flow as Restated

   IV: Significant Accounting Policies as at 31st March, 2004

   V: Notes to Adjustments Carried Out

   VI: Adjustments not carried out in the statement of profit & loss and assets & liabilities

   VII: Material Notes on Accounts

   VIII: Related Party Transactions

   IX: Segment Reporting

   Annexure B

   Statement of Dividends declared by the Bank

3. **Annexure C:** Financial Statements of PNB Gilts Limited and notes thereto

4. **Annexure D:** Financial Statements of PNB Housing Finance Limited and notes thereto

5. **Annexure E:** Financial Statements of PNB Assets Management Company Limited and notes thereto

6. **Annexure F:** Financial Statements of PNB Capital Services Limited and notes thereto

7. **Annexure G:** Financial Statements of PNB Securities Limited and notes thereto

8. **Annexure H:** Consolidated Financial Statements of Punjab National Bank and notesthereto for fiscal years 2002, 2003 and 2004

9. **Annexure I:** Summary of Accounting Ratios

10. **Annexure J:** Capitalization Statement

11. **Annexure K:** Statement of Tax Shelters

12. **Annexure L:** Statement of Borrowings

29th January 2005

The Board of Directors
Punjab National Bank
HO: Bhikhaiji Cama Place
New Delhi-110066.

Dear Sirs,

We have been engaged to examine and report on the financial information of Punjab National Bank (the Bank), which have 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 in pursuance of section 11 of the SEBI Act, 1992, (the SEBI Guidelines). The preparation and presentation of this financial information is the responsibility of Bank's management. These financial information are proposed to be included in the offer document of the Bank in connection with its proposed follow on public offer of equity shares.

1. For our examination, we have placed reliance on the following: -

   a) The financial statements of the Bank for the financial years ended on March 31, 2000, 2001, 2002, 2003 and 2004 which were audited and reported upon by the respective auditors, names of whom and the period of their audit are furnished below:

Year	**Name of Auditors**
1999-00	M/s Raj K Aggarwal & Associates, S.Mann & Co, V.Soundararajan & Co, SBA Associates, G.P Agrawal & Co, Parakh & Co
2000-01	M/s SBA Associates, GP Agrawal & Co., Parakh & Co., V. Soundararajan & Co, Kalani & Co., M Bhaskara Rao & Co.
2001-02	M/s SBA Associates, GP Agrawal & Co., Parakh & Co., Kalani & Co., Surendar K Jain & Co., Mookherjee Biswas & Pathak
2002-03	M/s Parakh & Co., Kalani & Co., Surendar K Jain & Co, Mookherjee Biswas & Pathak, M C Bhandari & Co, P K Chopra & Co
2003-04	M/s Kalani & Co, Surendar K Jain & Co, Mookherjee Biswas & Pathak, M C Bhandari & Co, P K Chopra & Co, G P Kapadia & Co

   b) The financial statements of the Bank for the half-year ended 30th September 2004, was subject to a limited review by us vide our report dated 2nd December 2004. The aforesaid financial statements incorporated the relevant returns of 20 branches reviewed by us and unreviewed returns in respect of 3,978 branches and 58 other offices. In the conduct of our review, we had taken note of the review reports in respect of the non-performing advances received from the concurrent auditors of 774 branches. These review reports covered (i)69.34 % of the advances portfolio of the Bank excluding advances portfolio of asset recovery and outstanding food credit and (ii) 91.85 % of non-performing advances.

   c) The financial statements of the Bank were last reviewed upto 30th September 2004. Since no financial statements have been reviewed subsequent to 30th September 2004 till date, prior to three months before the issue of the prospectus, the said financial statements of the Bank for the half-year ended 30th September 2004 have been incorporated.

2 The audit of the financial statements for the periods 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 said review of the financial statements for the period referred to in paragraph1 (b) above consisted principally of applying analytical procedures to financial data and making enquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with 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 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 1999-2000 to 2003-2004 and unaudited financial statements for the half-years ended 30th September 2003 and 2004 as prepared by the bank.

5. We report that the profits of the Bank as restated for the above periods are as 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 subject to the accounting policies and notes thereon furnished.

6 We report that the assets and liabilities of the Bank as restated for the above periods are also as set out in annexure A after making such adjustments and regroupings as in our opinion are appropriate and are subject to accounting policies and notes thereon furnished.

7 Annexure A has been subdivided as under: -

a) Summary statement of Profit and Loss as restated.

b) Summary statement of Assets and Liabilities as restated.

c) Statement of Cash Flows as restated for the years 2001-02, 2002-03 and 2003-04 and the half years ended 30th September 2003 and 2004. The Bank did not prepare Cash Flow Statements for the years 1999-2000 and 2000-01 since the Accounting Standard 3 issued by the Institute of Chartered Accounts of India was not mandatory for those years.

d) Significant accounting policies as at 31st March 2004.

e) Notes on adjustments carried out

f) Adjustments not carried out in the Statements of Profits and Losses and Assets and Liabilities.

g) Material notes on accounts.

h) Related Party transactions.

i) Segment Reporting for the years 2001-02, 2002-03, 2003-04 and the half-year ended 30th September 2004. The Bank did not prepare segment reports for the years 1999-2000 and 2000-01 since the relevant accounting standard was not mandatory for those years.

8. We report that the dividends (subject to deduction of tax at source, wherever applicable) declared by the Bank for the five financial years ended March 31, 2004 are as set out in annexure B.

9. In accordance with the SEBI Guidelines, please find attached in annexures C, D, & E summary financial statements of subsidiaries of the Bank - PNB Gilts Ltd, PNB Housing Finance Ltd and PNB Asset Management Co. Ltd for the five years ended March 31, 2004 and the half-year ended 30th September 2004, wherever available. We understand that on 30th April 2004, all schemes of Punjab National Bank Mutual Fund were transferred to the Principal Financial Group. As per business transfer agreement, PNB Asset Management Company Limited has received a retirement fees of Rs 32 million. We further understand that there is a proposal to merge PNB Asset Management Company Limited with the bank.

10. The summary financial statements of PNB Capital Services Ltd., an erstwhile subsidiary of the Bank for the four years ended 31st March 2003 as prepared by the bank are enclosed in annexure F. This company was amalgamated with the Bank vide orders of the honorable high court of Delhi dated 25th August, 2003, with 1st of April 2003 as the appointed day.

11. The summary financial statements of PNB Securities Limited, an erstwhile subsidiary of the Bank for the financial years ended 31st March 2000 and 31st March 2001 and the period ended 16th August 2001 as prepared by the bank are enclosed in annexure G. This company went into liquidation on 16th of August 2001.

12. The holdings of the Bank in each of the above subsidiaries are set out below:

Name of the subsidiary	Percentage of holding as on 31st March				
	2000	2001	2002	2003	2004
PNB Gilts Limited *	74.79	74.79	74.79	74.79	74.07
PNB Capital Services Limited	100	100	100	100	N.A.
PNB Housing Finance Limited	100	100	100	100	100
PNB Asset Management Co. Limited	100	100	100	100	100
PNB Securities Limited	100	100	N.A.	N.A.	N.A.

* including holdings of subsidiaries of the Bank.

13. Annexures C, D and E are as per reports of the respective auditors detailed under:

Annexure number	Name of subsidiary	Name of auditor	Report dated
Annexure C	PNB Gilts Limited	Raj K. Aggrawal & Associates, Chartered Accountants	10th January 2005
Annexure D	PNB Housing Finance Limited	Grover, Lalla & Mehta, Chartered Accountants	13th October 2004
Annexure E	PNB Asset Management Company Limited	Gupta Goel & Khanna Chartered Accountants	15th October 2004

We have not carried out any audit or review of the same. Annexures F to G are as per the audited financial statements of two subsidiaries referred to therein and furnished to us by the bank. These have not been audited, reviewed or subject to adjustments by us. The profits, losses, assets and liabilities as per annexures C to G relate to the entire individual subsidiaries.

14. We set out in annexure H a summary of the consolidated assets, liabilities, income and expenditure of the Bank (as a group) for the years 2003- 2004, 2002-2003 and 2001- 2002. Where as the consolidated financial information of the group for the years 2002-03 and 2003-04 are based on audited accounts for those years, information for the year 2001-02 is based upon the audited accounts regrouped / rearranged / reclassified, wherever considered necessary, while furnishing previous years figures for the year 2002-03. The consolidated financial statements were audited and reported upon by the respective auditors, names of whom and the period of their audit are given below:

Year	Name of Auditors
2001-02	M/s SBA Associates, GP Agrawal & Co., Parakh & Co., Kalani & Co., Surendar K. Jain & Co., Mookherjee Biswas & Pathak
2002-03	M/s Parakh & Co., Kalani & Co., Surendar K. Jain & Co, Mookherjee Biswas & Pathak, M.C.Bhandari & Co, P.K.Chopra & Co
2003-04	M/s Kalani & Co, Surendar K Jain & Co, Mookherjee Biswas & Pathak, M C. Bhandari & Co, P.K.Chopra & Co, G.P.Kapadia & Co

The Bank did not prepare consolidated financial statements for the years 1999-2000 and 2000-2001 since the relevant accounting standard was not mandatory for those years and hence the same are not set out in this report. The bank also has not prepared consolidated financial statements for the six months ended 30th September 2004.

15. Annexure H is as per the consolidated financial statements of the Bank for the respective years as detailed in paragraph 14 above. We have not carried out any review, audit or adjustments to the same. However we have compared the financial information in annexure H with the Bank's consolidated financial statements as detailed in paragraph 14 above.

16. Further we have examined the following financial information relating to the Bank on a standalone basis, proposed to be included in the offer documents, as prepared and approved by the Bank and annexed to this report.

(i) Summary of accounting ratios based on the adjusted profits relating to earnings per share, net asset value and return on net worth enclosed as annexure I

(ii) Capitalization statement as at 31st March 2004 of the Bank enclosed as annexure J

(iii) Statement of tax shelters enclosed as annexure K

(iv) Statement of borrowings enclosed as annexure L

All the above data relate to the bank as a whole on a stand-alone basis.

17. a) In our opinion, the financial information of the Bank as stated in annexure A above read with respective significant accounting policies, after making groupings and 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 L have been properly extracted from Bank's audited financial statements, unaudited financial statements as prepared by the bank for the half years ended 30th September 2003 and 2004 or have been correctly prepared from the financial information in annexure A as applicable and in all cases are in accordance with the SEBI guidelines.

18. This report is intended solely for your information and for inclusion in the offer document in connection with the 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.

19 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.

20 This is in super cessation of our report dated 10th January 2005.

For Surendar K Jain & Co Chartered Accountants	For Mookherjee Biswas & Pathak Chartered Accountants
Sanjeev Chaudhary (Partner) Membership No 85761	S. K. Pathak (Partner) Membership No 2480
For M C Bhandari & Co Chartered Accountants	For P K Chopra & Co Chartered Accountants
M R Jain (Partner) Membership No 50919	Arvind Mongia (Partner) Membership No 85176
For Ramanlal G Shah & Co Chartered Accountants	For B K Ramadhyani & Co Chartered Accountants
Vivek S Shah (Partner) Membership No 112269	Shyam Ramadhyani (Partner) Membership No 19522

Annexure A

I SUMMARY STATEMENT OF PROFIT AND LOSS AS RESTATED

(Rs. in Million)

S. NO.		AUDITED					LIMITED REVIEW	
		FINANCIAL YEARS ENDED 31ST MARCH					HALF YEAR	
		2000	2001	2002	2003	2004	30th Sept 2003	30th Sept 2004
A	**INCOME**							
1	**Interest Earned**	**51,545.5**	**58,634.8**	**66,478.7**	**74,850.1**	**77,797.0**	**38,168.9**	**41,431.2**
1.1	Interest & Discount on advances/bills	25,142.3	28,235.4	33,178.8	37,115.9	38,760.1	19,319.9	20,732.4
1.2	Income on Investment	24,171.0	27,417.8	30,027.6	32,983.3	36,809.7	17,810.9	19,706.4
1.3	Interest on balance with RBI and other Inter Bank Lending	1,715.4	1,522.9	2,276.3	1,793.8	1,131.3	561.9	656.1
1.4	Interest on Income Tax	168.6	896.8	163.8	2,152.7	191.8	8.4	76.2
1.5	Others	348.2	561.9	832.2	804.4	904.1	467.8	260.1
2	**OTHER INCOME**	**7,276.6**	**7,784.2**	**9,777.2**	**12,503.1**	**18,668.8**	**10,490.3**	**10,503.3**
2.1	Commission, Exchange & Brokerage	3,817.1	4,193.5	4,339.9	4,800.1	5,519.0	2,498.2	3,218.0
2.2	Profit on sale of investments (Net)	2,149.2	2,420.3	4,379.1	6,722.8	12,363.7	6,989.8	2,786.1
2.3	Profit on revaluation of investments (Net)	-0.1	-257.5	-581.7	-700.8	-1,178.0	-7.2	-520.8
2.4	Profit on sale of land,bldg & other assets (Net)	6.8	3.7	3.7	4.1	2.4	1.4	3.8
2.5	Profit on exchange transaction (Net)	761.6	941.5	922.4	950.8	1,060.2	556.7	669.5
2.6	Income earned by way of dividends etc. from subsidiaries/companies/ jt. Ventures in India	202.5	30.0	280.0	237.0	303.0	183.0	163.0
2.7	Amount transferred from interbranch transactions blocked account							3,870.7
2.8	Miscelleneous Income	339.5	452.7	433.8	489.1	598.5	268.4	313.0
	TOTAL INCOME	**58,822.1**	**66,419.0**	**76,255.9**	**87,353.2**	**96,465.8**	**48,659.2**	**51,934.5**

(Rs. in Million)

S. NO.		AUDITED					LIMITED REVIEW	
		FINANCIAL YEARS ENDED 31ST MARCH					HALF YEAR	
		2000	2001	2002	2003	2004	30th Sept 2003	30th Sept 2004
B	**EXPENDITURE**							
1	**Interest Expended**	**35,382.0**	**38,250.5**	**43,525.8**	**43,612.9**	**41,549.9**	**20,858.2**	**22,379.7**
1.1	Interest on deposits	33,667.9	36,094.6	41,216.2	41,625.6	39,264.4	19,744.6	21,006.4
1.2	Interest on RBI / Inter-Bank borrowings	290.7	392.3	478.9	75.3	133.4	34.7	174.1
1.3	Others	1,423.4	1,763.6	1,830.7	1,912.0	2,152.1	1,078.9	1,199.2
	Operating expenses	**15,238.5**	**18,716.4**	**17,992.1**	**20,567.3**	**23,707.3**	**10,703.5**	**13,197.5**
1	Payment to & provision for employees	11,836.7	14,590.8	13,163.2	14,760.8	16,540.6	7,602.6	9,515.6
2	Rent, Taxes & Lighting	719.8	824.1	943.1	1,055.7	1,199.5	580.3	644.9
3	Printing and Stationery	223.4	244.5	285.5	525.1	350.9	169.2	178.9
4	Advertisement and Publcity	43.4	47.1	84.2	78.4	108.5	35.4	58.6
5	Depreciation on Banks Properties (net of amounts adjusted against revaluation reserve)	429.9	746.3	852.3	1,289.8	1,814.5	658.8	705.0
6	Director's Fees, Allowances & Expenses	1.2	1.7	3.1	2.8	3.5	1.5	2.6
7	Auditors' fees & Expenses	72.0	88.5	133.1	155.7	178.8	73.6	100.7
8	Law Charges	58.4	60.3	76.1	85.8	132.5	61.9	52.7
9	Postage, Telegrams, Telephones etc.	236.6	256.7	285.0	313.1	451.1	197.2	256.2
10	Repairs & Maintenance	136.8	169.7	189.8	199.2	244.2	115.6	136.0
11	Insurance	305.5	331.1	388.8	461.0	546.6	272.7	413.5
12	Other Expenditure	1,174.8	1,355.6	1,587.9	1,639.9	2,136.6	934.7	1,132.8
	TOTAL EXPENDITURE	**50,620.5**	**56,966.9**	**61,517.9**	**64,180.2**	**65,257.2**	**31,561.7**	**35,577.2**
	Gross Profit before provisions & contigencies	8,201.6	9,452.1	14,738.0	23,173.0	31,208.6	17,097.5	16,357.3
	LESS: Provisions & Contingencies (other than floating provision for NPAs)	4,120.2	4,815.7	6,714.1	11,151.0	12,191.7	5,852.3	9,005.1
	Profits after provisions and contingencies	4,081.4	4,636.4	8,023.9	12,022.0	19,016.9	11,245.2	7,352.2
	Less: Floating provision for NPAs	0.0	0.0	2,400.0	3,600.0	7,930.0	5,730.0	0.0
	Net Profit for the Year / half year As per Financial Statements	**4,081.4**	**4,636.4**	**5,623.9**	**8,422.0**	**11,086.9**	**5,515.2**	**7,352.2**

(Rs. in Million)

S. NO.		AUDITED					LIMITED REVIEW		
		FINANCIAL YEARS ENDED 31ST MARCH					HALF YEAR		
		2000	2001	2002	2003	2004	30th Sept 2003	30th Sept 2004	
	Adjustments due to change in accounting policies/wage revision								
	Adjustments on account of :								
	(a) Changes in Accounting Policies								
	Amortisation of Goodwill on account of amalgamation of eNBL	0.0	0.0	0.0	-373.3	373.3	186.7	0.0	
	(b) Impact of wage revision	0.0	0.0	0.0	-460.0	-1,104.0	-552.0	861.0	
	Total	**0.0**	**0.0**	**0.0**	**-833.3**	**-730.7**	**-365.3**	**861.0**	
	Tax impact of adjustments	0.0	0.0	0.0	306.2	254.9	127.5	-303.9	
	Total adjustments	**0.0**	**0.0**	**0.0**	**-527.1**	**-475.8**	**-237.8**	**557.1**	
	Total PROFIT	4,081.4	4,636.4	5,623.9	7,894.9	10,611.1	5,277.4	7,909.3	
	Transfer from Other Reserves							**584.9**	
	Total Adjusted Net Profit	**4,081.4**	**4,636.4**	**5,623.9**	**7,894.9**	**10,611.1**	**5,277.4**	**8,494.2**	
	APPROPRIATIONS TRANSFER TO								
	Statutory Reserve	1,020.3	1,159.1	1,406.0	2,105.5	2,771.7		967.7	*
	Revenue & Other Reserve @	2,457.5	2,886.4	1,405.7	2,841.5	1,970.1		2,903.0	*
	Transfer to Invest. Fluctuation Reserve	36.0	0.0	1,755.8	1,900.0	4,648.5			*
	Transfer to Capital Reserve - Investment (HTM)	0.0	6.1	419.7	0.4	23.6			**
	Dividends to Central Government /Public	500.0	530.7	636.7	928.5	1,061.2	0.0	0.0	
	Dividend Tax	67.6	54.1	0.0	119.0	136.0	0.0	0.0	
	Balance carried over to balance Sheet	0.0	0.0	0.0	0.0	0.0	5,277.4	4,623.5	
	TOTAL	**4,081.4**	**4,636.4**	**5,623.9**	**7,894.9**	**10,611.1**	**5,277.4**	**8,494.2**	

(Rs. in Million)

S. NO.		AUDITED					LIMITED REVIEW	
		FINANCIAL YEARS ENDED 31ST MARCH					HALF YEAR	
		2000	2001	2002	2003	2004	30th Sept 2003	30th Sept 2004
^ ^	**Break-up of provisions and contingencies**							
	Provision for Non Performing Advances	1,974.6	3,258.0	3,913.3	4,729.7	4,010.4	2,405.2	1,182.1
	Provision for Standard Accounts	515.0	147.0	150.0	140.0	465.0	50.0	130.0
	Depreciation on Investments	-77.9	200.8	-352.1	1,327.5	-308.6	-177.0	-429.0
	Provisions for income tax	1,240.0	1,108.3	1,983.5	3,406.6	6,599.9	2,803.5	2,831.2
	Provision for Restructured Standard Accounts	0.0	0.0	155.3	771.1	1,207.4	510.0	789.5
	Others	468.5	101.6	864.1	776.1	217.6	260.6	4,501.3
		4,120.2	**4,815.7**	**6,714.1**	**11,151.0**	**12,191.7**	**5,852.3**	**9,005.1**
	Floating Provision for NPAs (in addition to norms)	0.0	0.0	2,400.0	3,600.0	7,930.0	5,730.0	0.0
	Total	**4,120.2**	**4,815.7**	**9,114.1**	**14,751.0**	**20,121.7**	**11,582.3**	**9,005.1**

* As per convention, appropriation are generally carried out at the end of the financial year, except for Rs.967.7 million tranfered to Statutory Reserves and Rs.2903.0 million transfered to Revenue and Other Reserves, out of Blocked Accounts, as per RBI's permission.

** In terms of the Bank's accounting policies, profit on sale of investments in "Held to Maurity" category is initially credited to Profit & Loss Account and an equivalent amount is appropriated to "Capital Reserve Account" at the end of the year

@ Revision in profits in the years 2002-03 and 2003-04 due to adjustments made have been notionally adjusted in 'Transfer to revenue & other reserves.

II SUMMARY STATEMENT OF ASSETS AND LIABILITIES AS RESTATED

(Rs. in Million)

S. NO.	As at March 31	AUDITED 2000	2001	2002	2003	2004	LIMITED REVIEW 30th Sept 2003	30th Sept 2004
(A)	**ASSETS**							
1	Cash in Hand	**4,281.3**	**4,452.0**	**5,777.7**	**6,288.1**	**6,992.1**	**5,659.8**	**5,570.0**
	Cheques/DDs in hand	**0.0**	**0.0**	**1,532.5**	**0.0**	**0.0**	**0.0**	**0.0**
2	Balance with RBI	**50,492.7**	**49,204.2**	**43,704.1**	**59,397.1**	**60,430.7**	**41,429.6**	**60,846.4**
3	Balance with Banks	**7,525.8**	**7,017.3**	**11,150.7**	**14,322.4**	**13,811.9**	**9,978.8**	**14,107.6**
	- In India	1,313.8	2,813.1	5,992.6	13,547.8	12,816.3	5,899.3	13,804.8
	- Outside India	6,212.0	4,204.2	5,158.1	774.6	995.6	4,079.5	302.8
4	Money at call and Short Notice	**0.0**	**18.6**	**1,818.3**	**764.2**	**6,970.4**	**6,759.2**	**50.6**
5	Investments							
	- In India	220,903.1	251,197.2	281,970.5	340,206.7	421,161.3	417,339.6	460,092.2
	- Outside India	87.6	87.0	101.2	93.8	93.6	1,929.7	93.6
	TOTAL	**220,990.7**	**251,284.2**	**282,071.7**	**340,300.5**	**421,254.9**	**419,269.3**	**460,185.8**
6	Advances							
	- In India	**225,717.2**	**280,290.5**	**343,694.2**	**402,281.2**	**472,247.2**	**401,968.2**	**518,705.3**
	- Outside India	0.0	0.0	0.0	0.0	0.0		0.1
7	Fixed Assets	6,805.3	7,239.2	7,956.1	8,473.7	8,998.4	8,787.8	9,084.2
	Less Revaluation Reserve	3,552.2	3,466.7	3,381.3	3,295.8	3,210.4	3,253.1	3,167.6
	Net Fixed Assets	**3,253.1**	**3,772.5**	**4,574.8**	**5,177.9**	**5,788.0**	**5,534.7**	**5,916.6**
8	Other Assets	**25,472.8**	**35,545.1**	**31,441.3**	**30,323.7**	**33,172.9**	**32,554.1**	**32,300.5**
	TOTAL (A)	**537,733.6**	**631,584.4**	**725,765.3**	**858,855.1**	**1,020,668.1**	**923,153.7**	**1,097,682.9**
(B)	**LIABILITIES**							
1	**DEPOSITS**	**474,832.3**	**561,311.3**	**641,234.8**	**758,135.0**	**879,163.9**	**801,848.9**	**945,886.4**
	Demand Deposits From Banks	1,518.1	1,477.2	1,112.5	1,660.2	1,431.8	1,438.1	929.9
	Demand Deposits From others	52,851.9	61,636.7	66,471.6	97,222.7	97,572.0	81,190.0	96,552.2
2	Saving Deposits	158,754.1	185,300.6	216,642.1	256,478.9	304,226.1	279,108.6	330,151.0
3	Term Deposits From Banks	9,778.3	12,424.0	13,161.7	4,847.8	7,178.2	4,592.5	3,512.9
	Term Deposits From others	251,929.9	300,472.8	343,846.9	397,925.4	468,755.8	435,519.7	514,740.4
4	**Borrowings**	**6,624.3**	**6,732.0**	**4,085.7**	**6,621.6**	**12,890.6**	**7,452.5**	**19,520.2**
	- In India	6,561.3	6,661.0	4,041.7	5,608.9	6,260.0	4,153.8	6,405.1
	- Outside India	63.0	71.0	44.0	1,012.7	6,630.6	3,298.7	13,115.1
5	Other liabilities and Provisions	28,605.6	31,417.3	38,220.7	41,662.9	59,130.2	53,505.5	55,033.6
6	Subordinate Debts	8,497.7	8,898.5	11,798.6	15,928.6	23,578.6	18,578.6	23,428.6
	TOTAL (B)	**518,559.9**	**608,359.1**	**695,339.8**	**822,348.1**	**974,763.3**	**881,385.5**	**1,043,868.8**

(Rs. in Million)

S. NO.	As at March 31	AUDITED 2000	2001	2002	2003	2004	LIMITED REVIEW 30th Sept 2003	30th Sept 2004
(C)	**NET ASSETS (C=A-B)**	**19,173.7**	**23,225.3**	**30,425.5**	**36,507.0**	**45,904.8**	**41,768.2**	**53,814.1**
(D)	**Share Capital**	2,122.4	2,122.4	2,122.4	2,653.0	2,653.0	2,653.0	2,653.0
(E)	**Share Application Money**	0.0	0.0	1,644.9	0.0	0.0	0.0	0.0
(F)	**RESERVES AND SURPLUS**							
1	Statutory Reserve	4,468.1	5,627.2	7,033.2	9,138.7	11,910.4	9,138.7	12,878.1
2	Capital Reserve	130.5	136.6	556.2	556.6	580.3	556.6	580.3
3	Revaluation Reserve	3,552.2	3,466.7	3,381.3	3,295.8	3,210.4	3,253.1	3,167.6
4	Investment Fluctuation Reserve	1,345.4	1,345.4	3,101.3	5,001.3	9,649.8	5,001.3	9,649.8
5	Revenue and other Reserve	11,107.3	13,993.7	15,399.3	17,474.9	19,428.8	17,458.7	21,746.9
6	Deferred Tax Reserve	0.0	0.0	568.2	568.2	568.2	568.2	568.2
7	Balance of Profit & Loss Account	0.0	0.0	0.0	0.0	0.0	5,277.4	4,623.5
8	Share Premium	0.0	0.0	0.0	1,114.3	1,114.3	1,114.3	1,114.3
	TOTAL	20,603.5	24,569.6	30,039.5	37,149.8	46,462.2	42,368.3	54,328.7
	Less Revaluation Reserve	3,552.2	3,466.7	3,381.3	3,295.8	3,210.4	3,253.1	3,167.6
	TOTAL (F)	**17,051.3**	**21,102.9**	**26,658.2**	**33,854.0**	**43,251.8**	**39,115.2**	**51,161.1**
	TOTAL (D+E+F)	**19,173.7**	**23,225.3**	**30,425.5**	**36,507.0**	**45,904.8**	**41,768.2**	**53,814.1**
(G)	**CONTINGENT LIABILITIES**							
1	Claims against the Bank not acknowledged as debt	2,727.5	2,507.4	2,464.1	1,811.5	2,146.8	2,041.5	2,130.8
2	Disputed income tax demand under appeal/ references etc.	6,557.6	3,338.6	3,120.5	141.9	377.5	141.9	375.7
3	Liability for partly paid investments	1.8	1.8	3.4	3.4	1.8	1.8	1.8
4	Liability on account of outstanding forward exchange contracts	39,420.4	126,187.3	164,314.5	163,640.3	195,434.7	182,276.2	224,095.9
5	Guarantees given on behalf of constituents In india	19,470.6	21,191.3	26,162.4	31,501.9	39,950.7	38,492.0	47,064.6
	Outside India	6,131.2	4,307.7	4,494.2	3,823.5	11,314.5	9,433.3	12,383.2
6	Acceptances,Endorcements and other Obligations	19,777.6	24,409.0	28,074.5	33,764.3	71,679.4	42,009.7	90,870.3
7	Other items for which the bank is contingently liable	1,550.9	133.9	214.8	1,021.8	1,394.9	1,802.1	2,553.8
	TOTAL (G)	**95,637.6**	**182,077.0**	**228,848.4**	**235,708.6**	**322,300.3**	**276,198.5**	**379,476.1**
	Bills for collection	25,305.1	26,879.7	29,928.6	33,347.6	48,130.8	33,575.8	48,721.7

III STATEMENT OF CASH FLOW AS RESTATED

(Rs. in Million)

S. NO.		AUDITED			LIMITED REVIEW	
		YEARS ENDED 31ST MARCH			HALF YEAR ENDED	
		2002	**2003**	**2004**	**30.9.2003**	**30.9.2004**
A.	**Cash Flow from Operating Activities**					
(I)	**Net Profit after Tax**	**5,623.9**	**7,894.9**	**10,611.1**	**5,277.4**	**7,909.3**
	Add Provision for Tax (net of deferred tax)	1,983.5	3,100.4	6,345.0	2,676.0	3,135.1
	Profit before taxes	**7,607.4**	**10,995.3**	**16,956.1**	**7,953.4**	**11,044.4**
(ii)	**Adjustment for :**					
	Depreciation Charges (Gross)	938.4	1,375.3	1,899.9	514.8	747.8
	Less : Amount drawn from Revaluation Reserve	(85.5)	(85.5)	(85.5)	(42.7)	(42.7)
	Provision for NPAs, Floating Provision towards NPAs	6,795.6	9,352.3	14,008.2	8,135.2	1,483.3
	Provision on Standard Assets	605.3	1,211.1	1,672.4	560.0	919.5
	Other Provisions (net)	576.2	306.1	589.3	812.7	3,339.2
	Depreciation/ (Release) on Investments (net)	(378.3)	1,497.4	(356.5)	(177.1)	(429.0)
	Dividend from Subsidiary/Others (Investing Activity)	(280.0)	(273.0)	(303.0)	183.0	163.0
	Interest on Subordinate debts (Financing Activity)	1,529.8	1,723.8	1,951.9	891.1	1,102.3
	Amortisation Expenses/Deferred Revenue Expenses	1,139.5	1,523.6	767.4	575.4	575.1
	Issue Expenses	54.2	0.0	0.0	0.0	(3.8)
	Profit / Loss on sale of Fixed Assets (net)	(3.7)	(3.4)	(2.4)	(1.4)	
		10,891.5	**16,627.7**	**20,141.7**	**11,451.0**	**7,854.7**
	Operating Profit before Changes in Operating Assets andLiabilities	**18,498.9**	**27,623.0**	**37,097.8**	**19,404.4**	**18,899.1**
iii	**Adjustment for net change in Operating Assets and Liabilities**					
	Decrease / (Increase) in Investments	(30,425.5)	(59,726.1)	(80,597.9)	(78,960.6)	(37,492.4)
	Decrease / (Increase) in Advances	(70,058.1)	(64,339.3)	(76,046.0)	(7,822.2)	(47,640.3)
	Increase / (Decrease) in Deposits	79,923.5	116,900.2	121,029.0	43,714.0	66,722.4
	Increase / (Decrease) in Borrowings	(2,646.2)	2,535.9	6,268.9	830.8	6,629.6
	Decrease / (Increase) in Other Assets	54.9	(1,898.2)	(612.9)	(5,991.6)	(5,960.5)
	Increase / (Decrease) in Other Liabilities & Provisions	(767.8)	(2,851.9)	7,988.7	11,521.0	(7,817.4)
		(23,919.2)	**(9,379.4)**	**(21,970.2)**	**(36,708.6)**	**(25,558.6)**
	Cash generated from Operations	**(5,420.3)**	**18,243.6**	**15,127.6**	**(17,304.2)**	**(6,659.5)**
	Tax Paid (net of refund)	2,288.3	(1,234.9)	(9,834.7)	506.1	2,817.5
	Net Cash from Operating Activities	**(3,132.0)**	**17,008.7**	**5,292.9**	**(16,798.1)**	**(3,842.0)**
B.	**Cash Flow from Investing Activities**					
	Investment in Subsidiary Cos/ JV/RRBs	(10.0)	0.0	0.0	168.9	(1,009.5)
	Purchase of Fixed Assets (net of Sales)	(1,280.2)	(2,262.6)	(2,048.9)	(827.5)	(829.7)
	Dividend recd from Subsidiaries / JV / RRBs	280.0	273.0	303.0	(183.0)	(163.0)
	Loss of PNB Caps taken over	0.0	0.0	(16.1)	(16.1)	
	Net Cash used in investing Activities	**(1,010.2)**	**(1,989.6)**	**(1,762.0)**	**(857.7)**	**(2,002.2)**

(Rs. in Million)

S. NO.		AUDITED			LIMITED REVIEW	
		YEARS ENDED 31ST MARCH			HALF YEAR ENDED	
		2002	**2003**	**2004**	**30.9.2003**	**30.9.2004**
C.	**Cash Flow from Financing Activities**					
	Subordinate Bonds Issued	4,800.0	4,150.0	7,650.0	2,650.0	0.0
	Redemption of Subordinate Bonds	(1,899.8)	(20.0)	0.0	0.0	(150.0)
	Share Application Money	6,753.9	0.0	0.0	0.0	0.0
	Issue Expenses	(54.2)	0.0	0.0	0.0	0.0
	Interest paid on Subordinate Debts	(1,529.8)	(1,723.8)	(1,951.9)	(891.2)	(1,102.4)
	Payments of Dividends / Corporate tax on Dividend	(636.7)	(636.7)	(1,795.8)	(1,047.5)	(533.9)
	Net Cash from Financing Activities	**7,433.4**	**1,769.5**	**3,902.3**	**711.3**	**(1,786.3)**
D	**Net Change in Cash and Cash Equivalents**	**3,291.2**	**16,788.6**	**7,433.2**	**(16,944.5)**	**(7,630.5)**
	Cash and Cash Equivalents at the beginning of the year	60,692.1	63,983.3	80,771.9	80,771.9	88,205.1
	Cash and Cash Equivalents at the end of the year	63,983.3	80,771.9	88,205.1	63,827.4	80,574.6
		3,291.2	**16,788.6**	**7,433.2**	**(16,944.5)**	**(7,630.5)**

Note :-

1 All figures in bracket represent “Cash Outflow”

2 Direct taxes paid (net of refund) are treated as arising from operating activities and are not bifurcated between investing and financing activities.

3 Cash Flow Statements have not been furnished for the years 1999-2000 and 2000-2001, since accounting standard - 3 issued by the Institute of Chartered Accountants of India was not mandatory for the years.

4 Cash flows for the year 2001-02 are as previous years regrouped figures published for the year 2002-03

IV SIGNIFICANT ACCOUNTING POLICIES as at 31ST MARCH 2004

1. ACCOUNTING CONVENTIONS

The accompanying financial statements are prepared on historical cost basis and conform to the statutory provisions and prevailing practices, except as otherwise stated.

2. TRANSACTIONS INVOLVING FOREIGN EXCHANGE

2.1 Monetary assets and liabilities, guarantees, acceptances, endorsements and other obligations are translated in Indian Rupee equivalent at the exchange rates prevailing at the end of the year as per Foreign Exchange Dealers' Association of India (FEDAI) guidelines except (i) foreign currency deposits under various schemes and equivalent currency investments and other balances which are stated at notional rates, and (ii) advances of erstwhile London branches which are accounted for at the exchange rate prevailing on the date of parking in India.

2.2 Non-monetary items other than fixed assets are translated at exchange rate prevailing on the date of transaction.

2.3 Forward exchange contracts are translated at the exchange rate prevailing on the date of commitment. Gain/loss on evaluation of outstanding forward exchange contracts is taken to revenue as per FEDAI guidelines.

2.4 Income and expenditure items are accounted for at the exchange rate prevailing on the date of transaction.

3. INVESTMENTS

3.1 Investments are classified into six categories as stipulated in the Form A of the third schedule to the Banking Regulation Act, 1949.

3.2 The Investments are categorised into "Held to Maturity", "Available for Sale" and "Held for Trading" in terms of RBI guidelines.

3.3 a) The securities acquired by the Bank with the intention to hold till maturity, not exceeding 25% of total investments, are classified under "Held to Maturity". The securities acquired by the Bank with the intention to trade by taking advantage of short-term price/ interest rates movements are classified under "Held for Trading". The securities, which do not fall within the above two categories, are classified under "Available for Sale".

b) Transfer of securities from one category to another is carried out at least of acquisition cost/book value/market value on the date of transfer. The depreciation if any, on such transfer is fully provided for.

3.4 Investments are valued on the following basis:

i)	Held to Maturity:	Valued at acquisition cost, unless more than the face/ maturity values, in which cases the premium is amortised over the remaining years to maturity.
ii)	Available for Sale:	ii)&iii)Valued scrip wise and depreciation/ appreciation is aggregated classification wise in each category . While net depreciation is provided for, net appreciation is ignored.
iii)	Held for Trading:	

3.5 Investments under "Available for Sale" and "Held for Trading" are valued as follows:

a)	Govt.Securities	
	I. Central Govt. Securities	At market price as per quotations put out by Fixed Income Money Market and Derivatives Association of India (FIMMDA)
	II. State Govt.Securities	On appropriate yield to maturity basis as per FIMMDA guidelines
b)	Securities guaranteed by Central/ State Government, PSU Bonds (not in the nature of advances)	On appropriate yield to maturity basis as per FIMMDA guidelines
c)	Treasury Bills	At carrying cost
d)	Equity Shares	At market price, if quoted, otherwise at Break up value of the Share as per latest Balance Sheet (not more than one year old), otherwise at Re.1 per company

e)	Preference Shares	At market price, if quoted, or on appropriate yield to maturity basis not exceeding redemption value as per FIMMDA guidelines
f)	Debentures (not in the nature of advances)	At market price, if quoted, otherwise on appropriate yield to maturity basis as per FIMMDA guidelines
g)	Mutual Fund	As per stock exchange quotation, if quoted; at repurchase price/NAV, if unquoted
h)	Commercial Papers	At carrying cost
i)	Investment in sponsored Regional Rural Banks	At carrying cost
j)	Investment in subsidiaries and joint ventures	At carrying cost less diminution
k)	Other Investments	At carrying cost less diminution

3.6 Investments are subject to appropriate provisioning/ de-recognition of income, in line with the prudential norms of NPA classification. Debentures/Bonds in the nature of advances are subjected to usual prudential norms.

3.7 Profit/ Loss on sale of Investments in any category is taken to Profit and Loss account. However, in case of profit on sale of investments in "Held to Maturity" category, an equivalent amount is appropriated to "Capital Reserve Account".

3.8 Securities repurchased/resold under buy back arrangement are accounted at original cost.

3.9 As per RBI guidelines the different category of swaps are valued as under:

Hedge Swaps

Interest rate swaps which hedges interest bearing asset or liability are accounted for 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 statement.

Gain or losses on the termination of swaps are recognised over the shorter of the remaining contractual life of the swap or the remaining life of the asset/liability.

Trading Swaps

Trading swap transactions are marked to market with changes recorded in the financial statements.

3.10 Incentive/ Front-end fees etc. received on subscription to securities are deducted from the cost of securities.

4. ADVANCES

4.1 Advances are classified as performing and non-performing assets and provisions are made in accordance with prudential norms prescribed by RBI.

4.2 Advances are stated net of provisions and de-recognised/ suspended interest relating to non-performing assets.

5 FIXED ASSETS

5.1 Premises including freehold/leasehold land and capital work-in-progress and other fixed assets are stated at historical cost except such premises, which have been revalued. The appreciation on revaluation is credited to Revaluation Reserve and depreciation provided thereon is deducted there from.

5.2 (a) Depreciation on assets (including land where value is not separable) is provided on straight-line method based on estimated life of the asset. Premises, including Land & Buildings, acquired on leasehold basis are amortised over the lease period. In respect of assets taken over from erstwhile New Bank of India and Nedungadi Bank Ltd., the estimated life has been determined in broad groups/ categories instead of individual asset.

(b) Depreciation on additions to assets is provided for full year irrespective of date of acquisition and no depreciation is provided on assets sold/disposed off during the year.

5.3 Cost of acquisition of Computer Software Systems is amortised over a period of its economic life, maximum upto 5 years, except software costing upto Rs.5000/-, is charged to revenue.

6. STAFF BENEFITS

Expenses on Gratuity, Pension and Leave encashment are accounted for on the basis of actuarial valuation.

7. AMORTISATION OF VRS EXPENDITURE

Payments under Voluntary Retirement Scheme are amortised over a period of 5 years as per RBI guidelines.

8. REVENUE RECOGNITION

8.1 Income/expenditure is generally accounted for on accrual basis.

8.2 Income on non-performing assets is recognised on realisation as per RBI guidelines.

8.3 Recovery in non-performing advances is appropriated first towards interest including de-recognised/ suspended interest and recorded interest and thereafter towards (i) arrears of instalment in term loans and (ii) principal irregularity in other accounts. However, recovery in suit filed, decreed accounts and compromise cases is first appropriated towards principal or as per terms of decree/settlement.

8.4 Commission, interest on overdue bills, exchange, locker rent, income from merchant banking transactions and dividend income on mutual fund are accounted for on realisation.

8.5 Income from interest on refund of income tax and interest tax is accounted for in the year the order is passed by the concerned authority.

9. TAXES ON INCOME

Taxes on income for the year comprises of current tax liability and deferred tax which recognises, subject to the consideration of prudence in respect of deferred tax assets, timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

10. OTHERS

10.1 Interest on matured term deposits for overdue period is accounted for as and when such deposits are renewed, as per Bank's rules.

10.2 Gain/loss on sale of shares is accounted for net of brokerage.

V. NOTES TO ADJUSTMENTS CARRIED OUT:

a) As per significant accounting policies declared for the year 2002-03, goodwill arising out of amalgamation of erstwhile Nedungadi Bank Ltd. (eNBL) with the Bank was being amortized over a period of four years. Due to change in the accounting policy in the year 2003-04, the balance amount has been charged in that year itself.

b) Pending settlement of wage revision of employees, as a prudent measure, an adhoc provision of Rs. 1,590 million (debited to provisions and contingencies) had been made by the bank during the half year ended 30th September 2004. Subsequently, the Indian Banks Association had announced that an understanding had been reached with the Workmen unions and Officers' association. However, we have been informed by the bank that a memorandum of understanding is yet to be executed in this respect and that several matters, which would in turn materially affect the quantification of liability upto 30th September 2004, are yet to be finalized. However, based on the bank's best estimate of liability, an additional provision of Rs.703 million is considered necessary. Year wise estimated liability as made by the bank is as under: -

Rs. In million

Year	Managements best estimate of Liability	Provision made in books	Difference adjusted in restated Profit & Loss Account
2002-03	460		-460
2003-04	1,104		-1,104
Half year ended 30/9/2004	729	1,590	861
Half year ended 30/9/2003	552		-552

Consequential adjustments have been made.

VI. ADJUSTMENTS NOT CARRIED OUT IN THE STATEMENT OF PROFIT & LOSS AND ASSETS & LIABILITIES:

A. Accounting Policies

1. During the year 2002-03, bank had changed the method of accounting of leave encashment from cash to accrual method based on actuarial valuation. Since actuarial valuation for earlier years was not available, the effect could not be quantified. The unprovided liability relating to earlier years of Rs.765.9 million was debited to 'Other Reserves" in the year 2002-03.
2. During the five years period ended March 31, 2004 and half-year ended 30TH Sept 2004 Reserve Bank of India (RBI) has issued various guidelines on income recognition, asset classification and provisioning in respect of non-performing advances and valuation of/ depreciation on investments. The Bank has carried out necessary amendments in its accounting policies in the relevant years to be in conformity with the said RBI guidelines. Accordingly, the amounts for respective years are based on RBI guidelines prevailing in the respective years.
3. From the year 2001-02, cost of acquisition of computer software systems is amortized over a period of its economic life, up to a maximum of 5 years. However, from the year 2002-03, software costing up to Rs.5000/ is charged to revenue. In earlier years i.e. prior to 2001-02, software expenditure was charged to revenue in the year of purchase. The effect of the same could not be quantified and adjusted.
4. From 01st April 2002, guarantees, acceptances, endorsements and other obligations in foreign currency are translated in Indian rupees equivalent at the exchange rates prevailing at the end of the year as per Foreign Exchange Dealers' Association of India (FEDAI). Prior to this these were translated at the exchange rate prevailing on the date of commitment.

B. Auditors' Report

1. Unrealized gain of Rs.76.8 million arising out of revaluation of Investments under "HFT category" 'was recognized in the year 2000-01. Since the same had been carried out as per RBI guidelines, effect has not been given in the aforesaid restated financial information.

C. Amalgamation of PNB Capital Services Limited (appointed day 1.4.2003) and Nedungadi Bank Limited (appointed day 1.2.2003)

1. *The working results of these companies for the periods prior to their respective appointed day have not been adjusted in the restated Profit and Loss Account.*

D. Others

1. Provisions for tax expense for each of the five years have been adopted from their respective financial statement. For want of necessary information, they have not been recast depending on assessed liabilities taking into account appellate orders.
2. The bank is in the process of identifying impaired assets, if any as required by Accounting Standard 28 issued by the Institute of Chartered Accountants of India. No effect has been given in the accounts for adjustments required if any. However a provision of Rs.50 million has been made on an adhoc basis.

VII MATERIAL NOTES ON ACCOUNTS

YEAR ENDED 31ST MARCH 2000

1. The liability towards pension fund determined on the basis of actuarial valuation has been contributed in full save and except that in respect of employees retired up to 31st March 1998, contribution has been made to the extent of Rs.1517.7 million which is inclusive of Rs.550.0 million contributed during the year as against actuarial valuation of such liability at Rs. 1907.7 million. Balance liability of Rs.390.0 million to be contributed by the year ending 31ST March 2001.
2. Consequent upon change in the procedure of calculation of interest on term deposits (multi benefit scheme) on completed quarter basis as against anniversary date basis followed previously, at a number of branches, interest pertaining to earlier years is accounted for during the year, the quantum of which could not be determined in view of large number of account involved.

YEAR ENDED 31ST MARCH 2001

1. In accordance with RBI guidelines, securities in HFT category have been revalued and a sum of Rs.76.8 million remaining unrealized has been taken to profit resulting in increase in profit by an equivalent amount
2. Other Assets include a sum of Rs. 122.1 million recovered by State Bank of India out of TT remittances, towards interest on wrong/ double payments of TTs, which has been disputed by the Bank and hence no provision has been made. This was expensed out in a subsequent year on finalization of the matter.

YEAR ENDED 31ST MARCH 2002

1. In accordance with principles enunciated in AS-26 “Intangible Assets”, the Bank changed accounting policy in respect of acquisition of software system, the cost of acquisition whereof has been treated as Intangible Assets, to be amortized over the economic life of such assets, maximum up to 5 years. Up to the previous year, such expenses were charged to revenue. Had the bank continued the earlier policy, the profit for the year would have been lower by Rs 371.6 million.
2. Leave encashment was accounted for on cash basis. However the bank has made an adhoc provision of Rs 250.0 million during the year in this respect.
3. a) During the year, the Bank has come out with a public issue of Rs. 1,644.9 million comprising of 53,060,700 fully paid up equity shares of Rs 10/- each at a premium of Rs 21/-. The issue opened on 21st March 2002 and was closed on 28th March 2002. Out of subscription of Rs 6,964.3 million, a sum of Rs 1,644.9 million being the amount to the extent of issue size has been shown as “Share application money” in Balance Sheet. The balance amount net of stock Invest, over and above the issue size has been included in “Other Liabilities & Provisions - Others”.

   b) The issue expenses Rs 54.2 million incurred during the year have been charged to Profit & Loss Account.

YEAR ENDED 31ST MARCH 2003

1. The bank has approved the restructuring of the Investment in IFCI, carried in “Available for Sale” category. The same involved rollover of the principal, conversion of the interest not due on bonds including zero coupon bonds, reduction of coupon rate for preference shares and bonds, effective 1st April 2002.

   In terms of permission granted by the Reserve Bank of India for the year, the post restructuring exposure to IFCI, has been shifted to “ Held to maturity” category at book value. As per policy consistently followed by the bank for transfer of securities, the difference between the market value and book value amounting to Rs.1,341.9 million has been provided for, though the bank had obtained permission from Reserve Bank of India that the restructuring and transfer of IFCI bonds to ‘ Held to maturity’ category will not attract the prudential norms.
2. The erstwhile Nedungadi Bank Ltd. (eNBL) was amalgamated with the Bank as per the scheme vide Government of India, Ministry of Finance & Company Affairs, Department of Banking Affairs (Banking Division) notifications no. 15/21/2002-BOA (i) & (ii) dated 31st January 2003 on the prescribed date i.e. 1st February 2003. As per scheme the business, properties, assets and liabilities of eNBL stand transferred to the Bank.

In terms of the scheme of amalgamation, the Bank undertook due diligence exercise for valuation of assets and determination of liabilities of eNBL. The details of assets & liabilities taken over are as under:

ASSETS	Amount (Rs.'000)	LIABILITIES	Amount (Rs.'000)
Cash & Balance with RBI	761,749	Deposits	13,561,516
Balance with Bank, Money at call & short notice	493,243	Borrowings	9,644
Investments	5,696,019	Other Liabilities & Provisions	780,785
Advances	6,257,207	TOTAL	14,351,945
Fixed Assets	317,000	Excess of Liabilities over the Assets being Cost of business taken as Goodwill	497,682
Other Assets	329,045		
TOTAL	13,854,263		

In terms of the scheme, the advances including Bills purchased and discounted are classified into two categories (i) "Advances considered good and readily realizable", included in Advances and (ii) "Advances considered not readily realizable and/ or bad or doubtful of recovery" taken on collection basis. The recovery in collection accounts will be appropriated in terms of the scheme.

The accounting treatment for the amalgamation is given on the basis of purchase method. The asset classification, income recognition and provisioning norms in respect of advances categorized as 'Advances considered good and readily realizable have been applied on ongoing basis. Depreciation on fixed assets acquired from eNBL is provided for the period, such assets are held by the bank.

3. During the year, bank has changed the accounting of leave encashment from cash to accrual method. The liability ascertained on the basis of actuarial valuation amounting to Rs.765.9 million (net of Rs.250 million provided in previous year and Rs.51.9 million provision of eNBL) pertaining to the year up to 31st March 2002 has been charged to Revenue and Other Reserve. Liability of Rs239.2 million for the current year been charged to revenue. Had the bank continued the earlier policy, profit for the year would have been higher by Rs.239.2 million.

YEAR ENDED 31ST MARCH 2004

1. In terms of scheme of amalgamation, approved by the Board in its meeting held on 1st March 2003 and sanctioned by the Hon'ble High Court of Delhi vide order-dated 25th August 2003, PNB Capital Services Ltd, a wholly owned subsidiary of the Bank was merged with the Bank w.e.f. the appointed date 1st April 2003. The amalgamation has been accounted for under "Pooling of Interest Method" as prescribed in AS-14.The accumulated losses amounting Rs.16.1 million (net of Reserves) have been debited to Reserves (Revenue & Other Reserves).
2. a) Premises consisting of Land & Buildings held and capitalized prior to 31st March 1994 were revalued as on 31st March 1995 and such revaluation by the approved valuers resulted in an appreciation in the value of said land & buildings by Rs.4,007.0 million, which was credited to Revaluation reserve account – capital reserve.
   b) Incremental depreciation attributable to revaluation cumulative upto 31st March 2004 Rs.796.6 million has been set off against the revaluation reserve.
3. Other assets as at 31st March 2004 includes expenditure on VRS of Rs.1,160.8 Million to be amortized in subsequent periods / years.
4. Pending registration of title deeds, properties amounting to Rs.309.6 million are included in premises.
5. The inter branch reconciliation system prevalent in the bank prior to October 1996 was not able to provide details of outstanding credit entries. However, as per RBI guidelines, the bank worked out the amount of such credit entries for more than 5 years on the basis of available records as on 31st March 2004 and got the same verified by a firm of Chartered Accountants. Taking the same as base, an amount of Rs. 4,589.7 million (net of adjustments since carried out) has been included under 'other liabilities'.

6 Profits earned by the bank under the Government debt buy back program.. Rs 2,930.1 million.

7 Profit on securities, which were categorized as Held to Maturity and sold under the said Government's debt buy back program of Rs 1408.8 million was not been transferred to capital reserve in terms of clarification from the Reserve Bank of India.

HALF YEAR ENDED 30TH SEPTEMBER 2004

1 The Bank has provided an additional amount of Rs 1,230 million by debiting Profit and Loss Account towards pension and gratuity during the period.

2 Consequent upon transfer of certain government securities from available for sale AFS) to held to maturity (HTM) category in terms of Reserve Bank of India (RBI) circular number BP.BC.37/21.04.141/2004-05, depreciation amounting to Rs 2,077 million has been charged to Profit and Loss Account.

3 In terms of RBI' s approval, an amount of Rs 3,870.7 million has been transferred to Profit and Loss Account from inter branch transactions blocked account and thereafter appropriated to statutory reserve (Rs 967.7 million) and revenue and other reserves (Rs. 2,903 million). Based on expert opinion, no provision for tax on such credit has been considered.

HALF YEAR ENDED 30TH SEPTEMBER 2003

1 In terms of the scheme of amalgamation sanctioned by the honorable high court of Delhi vide order-dated 25.8.2003, PNB Capital Services Limited, a wholly owned subsidiary of the bank was merged with the bank with effect from 1.4.2003.

Disclosure in terms of RBI guidelines:

			31st March 2004
i)	**Share holding of Govt. of India -**		80%
ii)	**Lending to Sensitive Sectors:**		**(Rs. in million)**
	a)	Capital Market Sector	145.4
	b)	Real Estate Sector	4,027.8
	c)	Commodity Sector	4,205.8

(Rs. in million)

iii)	Movement of NPAs:	2003-04	
		Gross NPAs	**Net NPAs***
	Opening Balance at the beginning of the year	49,800.6	15,269.1
	Reduction during the year	13,543.8	16,238.8
	Additions during the year	10,444.5	5,459.3
	Closing Balance at the end of the year	46,701.3	4,489.6

*including floating provision of Rs. 793 million for NPA

iv)	Maturity Pattern						(Rs. in million)
	Maturity Pattern	**Loans & Advances**	**Investment in Securities**	**Deposits**	**Borrowings**	**Foreign currency Assets**	**Foreign currency Liabilities**
	1-14 days	43,225.5	350.0	42,976.6	162.4	8,768.4	893.3
	15-28 days	11,066.1	5,096.2	8,789.4	1,161.7	1,482.8	163.9
	29 days to 3 months	33,136.7	6,020.0	34,844.5	3,657.6	6,059.0	485.0
	Over 3 Months to 6 months	53,186.3	2,079.4	44,341.9	1,907.9	7,084.3	682.7
	Over 6 Months to 12 months	65,511.0	3,759.5	71,343.2	1,305.2	1,285.6	1,760.7
	Over 1 Year to 3 Years	145,361.0	34,073.0	451,566.5	4,673.5	584.2	4,459.4
	Over 3 Years to 5 Years	54,331.9	55,063.0	24,529.9	17.3	158.7	93.4
	Over 5 Years	66.428.7	314,813.8	200,771.9	5.0	41.2	88.4
	Total	**472,247.2**	**421,254.9**	**879,163.9**	**12,890.6**	**25,464.2**	**8,626.8**

(Rs. in million)

v)	Restructuring undertaken during:	2003-04
	Total amount of Loan assets subjected to restructuring	4,197.0
	The amount of Standard assets subjected to restructuring	3,741.9
	The amount of Sub-Standard assets subjected to restructuring	427.2
	The amount of Doubtful assets subjected to restructuring	27.9

(Rs. in million)

vi)	Corporate Debt Restructuring undertaken during:	2003-04
	Total amount of Loan assets subjected to restructuring	9,163.5
	The amount of Standard assets subjected to restructuring	7,294.8
	The amount of Sub-Standard assets subjected to restructuring	318.8
	The amount of Doubtful assets subjected to restructuring	1,549.9

vii) Bank's net funded exposure for risk category-wise country exposures for each country is less than 2% of bank's assets as on 31st March 2004 and as such no provision is required in terms of RBI Cir. No. DBOD.BP.BC.71/21.04.103/2002-2003 dated 19th February 2003

viii) Movement of Provisions

(Rs. in million)

(a)	**Provisions for NPAs (excluding provisions on standard assets)2003-04**	
	Opening balance	28,353.3
	Add: Provisions made during the year*	14,016.5
	Less: Write off/ write back during the year	5,848.1
	Closing balance	36,521.7
	{*including floating provision of Rs.7,930 million for NPAs}	
(b)	**Provisions for depreciation on Investments:**	
	Opening balance	2,170.2
	Add: Provisions taken over from PNB Capital Services Ltd. on amalgamation:	125.3
	Add: Provisions made during the year	129.1
	Less: Write off/write back of excess provisions during the year	437.7
	Closing balance	1,986.9

ix) Details of financial assets sold during the year to Securitisation or Reconstruction Company (SC/RC) for asset reconstruction:

(Rs. in million)

i)	No. of accounts:	3
ii)	Aggregate value (net of provisions) of accounts sold to SC/RC	196.4
iii)	Aggregate consideration	148.6
v)	Aggregate Gain/Loss over net book value:	(-) 47.8

xii) Other Disclosures relating to Investments:

a.	**Non Performing Non-SLR Investments**	**(Rs. in million)**
	GROUP-A Investments	
	Opening Balance as at 01st April 2003	50.0
	Additions during the year ended 31st March 2004 (*identified during the year)*	714.0
	Reduction during the above period	NIL
	Closing Balance as at 31st March 2004	764.0
	Total Depreciation held	388.6
	GROUP-B- Investments matured & Receivable-Parked under "Other Assets"	
	Opening Balance as at 1st April 2003	333.7
	Additions during the year ended 31st March 2004	89.1
	Reduction during the above period	75.6
	Closing Balance as at 31st March 2004	347.2
	Total Provisions held	347.2

b.	**Repo/ Reverse Repo**				**(Rs. in million)**
		Minimum outstanding during the year	**Maximum outstanding during the year**	**Daily average outstanding during the year**	**As on 31.03.04**
	Securities purchased under reverse repos	2,000.0	51,000.0	15,051.6	NIL

c.	**Derivatives**		**(Rs. in million)**
			HEDGE SWAPS
	a.	Notional principal of Swap Agreements	15,454.0
	b.	Nature & Terms of the swaps including information on credit and market risk	Interest rate swaps for hedging Tier II Bonds & Back to Back Swaps
	c.	Losses which could be incurred if counter parties failed to fulfill their obligations	6.9
	d.	Collateral required by the entity upon entering into swaps	NIL
	e.	Whether any concentration of credit risk arising from the swaps	NIL
	f.	Fair value of the total swaps book (Accrual basis for hedge swaps)	10.2

d. Issuer composition of Non-SLR investments **(Rs. in million)**

	Issuer	Amount	Extent of private placement	Extent of 'below investment grade' securities	Extent of 'unrated' securities	Extent of 'unlisted' securities
1.	PSUs	35,934.0	26,354.5	1,301.4	1,637.1	15,523.0
2.	Fis	12,224.6	10,486.3	510.9	1,033.9	6,488.6
3.	Banks	4,500.0	4,500.0	NIL	1,200.6	2,795.2
4.	Private Corporates	6,858.6	6,700.0	NIL	547.6	3,008.2
5.	Subsidiaries/joint ventures*	2,064.6	NA	NA	NA	NA
6.	Others**	13,702.7	1,281.7	NA	149.5	492.5
7.	Provision held towards depreciation-Non SLR	(-)196.55	XXX	XXX	XXX	XXX
	Total:	**73,319.0**	**49,322.5**	**1,812.3**	**4,568.7**	**28,307.5**

*Excludes Rs.66.5 million relating to RRBs' approved securities included in Subsidiary/JV category

**Includes Recapitalisation Bonds included in "Govt.Securities" amounting to Rs.6,250.7 Million.

e. In accordance with RBI guidelines, the Bank's Investment portfolio has been classified into three categories. The position of holding as on 31st March 2004 was as follows:

Sl.No.	Particulars	%
i)	Held to Maturity (inclusive of 2.02% in exempted category)	25.81
ii)	Available for Sale	72.80
iii)	Held for trading	01.39

f. Investment in equity shares and equity like instruments outstanding is as under:

(Rs. in million)

	Description	As at 31st March 2004
i)	Equity shares including Investments in subsidiaries and joint ventures	3,307.3
ii)	Units of equity oriented Mutual Funds	1,253.6
iii)	Regional Rural Banks	778.1
iv)	Venture Capital Fund	225.0
	Total	**5,564.0**

g. The position of profit booked on sale of the securities categorized in "Held to maturity" category is given hereunder:

Security	Sale Date	Profit (Rs. in Million)
GOI- 10.45	22nd July 2003	304.3
GOI-11.50	22nd July 2003	609.8
GOI-10.47	22nd July 2003	494.7
PRVUNL-11.70	12th August 2003	10.9
PRVUNL-11.70	4th September 2003	12.7
Total		**1432.4**

Out of above the profit on securities sold under Government's Debt Buyback programme was Rs.1,408.8 million not being transferred to Capital Reserve in terms of clarification received from RBI. Balance amount of Rs.23.6 million, been appropriated to capital reserve

VIII. RELATED PARTY TRANSACTIONS:

A. Key Management Personnel:

i)	Shri S.S. Kohli	Chairman & Managing Director
ii)	Shri T.S. Narayanasami	Executive Director

Item	Amount (Rs. in million) (2001-02)	Amount (Rs. in million) (2002-03)	Amount (Rs. in million) (2003-04)
Remuneration	0.9	1.0	1.1

B. Name of associates

Assets Care Enterprises Limited

Everest Bank Limited

Details of transactions:

Rs. in million

Type of Transaction	FY 2002	FY 2003	FY 2004
Capital Contributed	15.0	13.0	-
Dividend received	-	7.9	7.9
Technical Services fees received	2.0	2.0	2.0

IX. Segment Reporting

A. For the year ended 31st March:

(Rs. in million)

Business Segments	Treasury			Other banking operations			Unallocated			TOTAL		
Particulars	2004	2003	2002	2004	2003	2002	2004	2003	2002	2004	2003	2002
Segment Revenue (external revenue)	49,138.7	40,638.0	35,744.2	47,327.1	46,715.1	40,511.7	XXX	XXX	XXX	96,465.8	87,353.1	76,255.9
Segment Results (before Prov & Contingencies)	19,123.0	12,192.7	7,630.3	15,019.4	12,869.2	8,447.6	XXX	XXX	XXX	34,142.4	25,061.9	16,077.9
Provisions & Contingencies	(328.3)	1,504.7	(176.8)	13,842.1	9,839.6	7,300.5	1,104.0	460.0	XXX	14,617.8	11,804.3	7,123.7
Segment Results after Prov & Contingencies- before tax	19,451.3	10,688.0	7,807.1	1,177.3	3,029.6	1,147.1	(1,104.0)	(460.0)	XXX	19,524.6	13,259.6	8,954.2
Unallocated Corporate Expenses	XXX	XXX	XXX	XXX	XXX	XXX	2,568.5	2,262.3	1,339.0	2,568.5	2,262.3	1,339.9
Income tax	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	6,345.0	3,100.4	1,990.4
Net Profit	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	10,611.1	7,894.9	5,623.9
OTHER INFORMATION												
Segment Assets *	433,726.8	353,463.5	293,354.5	582,112.1	498,450.5	428,092.5	8,039.6	10,236.9	7,776.4	1,023,878.5	862,150.9	729,223.4
Segment Liabilities	412,609.2	321,130.2	285,223.4	553,769.9	495,486.4	400,262.3	8,384.2	5,731.5	9,930.9	974,763.3	822,348.1	695,416.6
Capital Expenditure incurred during the year	23.3	4.5	3.7	1,700.7	1,526.5	1,160.7	286.3	190.0	129.8	2,010.3	1,721.0	1,294.2
Depreciation and amortisation	8.8	213.6	2.0	1,144.8	870.8	818.2	287.6	454.2	32.1	1,441.2	1,538.6	852.3

* Includes increase in asset value due to revaluation.

B) For the period ended 30th September 2004:

(Rs. In million)

Business Segments / Particulars	Treasury	Other banking operations	Unallocated	Total
Segment Revenue (external revenue)	22,383.4	29,551.1	XXX	51,934.5
Segment Results (before Prov & Contingencies)	5,823.3	11,898.9	XXX	17,722.2
Provisions & Contingencies			5,312.9	5,312.9
Segment Results after Provisions & contingencies	5,823.3	11,898.9	(5,312.9)	12,409.30
Unallocated Corporate Expenses	XXX	XXX	1,364.90	1,364.9
Income tax	XXX	XXX	XXX	3,135.1
Net Profit	XXX	XXX	XXX	7,909.3

Note:

1. The Bank does not have any secondary (geographical) segment.
2. Assumptions made by the management for segmental disclosure are not verifiable. Above date are as certified by the management.
3. Segmental information for the years ended 31st March 2000 and 31st March 2001 were not prepared by the bank.
4. The Bank has not computed segment assets, liabilities, capital expenditure incurred for the relevant period.
5. Provision for wage arrears has been treated as unallocated, pending apportionment of liability between two segments.

ANNEXURE B

STATEMENT OF DIVIDENDS DECLARED BY THE BANK

Year Ended	Equity Capital (Rs.in Million)	No. of share in million	Rate of Dividend %	Amount of dividend Rs. In Million
31.3.2000	2122.4	*	23.56	500.0
31.3.2001	2122.4	*	25.00	530.7
31.3.2002	2122.4	212.2	30.00	636.7
31.3.2003	2653.0	265.3	35.00	928.5
31.3.2004	2653.0	265.3	40.00	1061.2

* Consolidated capital not bifurcated in number of shares.

ANNEXURE C

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23267547
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E-mail: rajkagg@yahoo.com

RAJ K.AGGARWAL & ASSOCIATES
CHARTERED ACCOUNTANTDS

3072/41, Gola market
Near Golcha Cinema
Darya Ganj
New Delhi-110 002

The Managing Director,
PNB Gilts Ltd.,
5, Sansad Marg
New Delhi

Sub: Authentication of Information of PNB Gilts Ltd.

We have reviewed the accompanying statements of "Summarized Profit and Loss Account" and "Summarized Statements of Assets and Liabilities" of PNB Gilts Ltd. for the Five and half years' period ending 30th September 2004. Further. We have also reviewed the changes in accounting policies and notes to accounts for the said period on the basis of the records produced before us.

FOR M/S RAJ. K. AGGARWAL & ASSOCIATES
CHARTERED ACCOUNTANTS

DATE : 10th January 2005
PLACE : New Delhi

S d / -
PARTNER

PNB GILTS LIMITED

SUMMARIZED PROFIT AND LOSS ACCOUNT

(Rs. in millions)

For the Year Ended March 31	2000	2001	2002	2003	2004	Half year ended 30.09.2004
INCOME						
Discount on:						
- Certificate of Deposits	1.2	0.9	0.0	0.0	12.1	31.1
- Commercial Paper	1.2	0.8	0.5	0.0	9.3	21.2
- Bills rediscounted	0.0	0.0	0.0	0.0	0.0	0.0
- Treasury Bills	171.2	77.9	122.4	67.4	83.0	151.0
	173.6	**79.6**	**122.9**	**67.4**	**104.4**	**203.3**
Interest on:						
- Call & Notice Money	101.8	83.2	5.6	2.0	4.1	1.0
- Short-term	9.3	0.7	3.2	0.0	0.0	0.0
- Repo Lending	1.8	6.0	0.0	0.0	0.0	0.0
- Government Dated Securities	1,435.5	1,741.1	790.9	1,076.2	1,017.8	318.8
- PSU Bonds	86.6	93.7	123.7	119.5	92.7	28.3
	1,635.0	**1,924.7**	**923.4**	**1,197.7**	**1,114.6**	**348.1**
Profit on:						
- Sale of Government Dated Securities	492.1	170.2	1,231.3	899.5	1,088.3	-827.6
- Sale of PSU Bonds	38.8	47.5	49.2	118.4	44.7	-36.8
	530.9	**217.7**	**1,280.5**	**1,017.9**	**1,133.0**	**-864.4**
Other Income:	24.0	24.6	17.2	18.0	25.1	9.9
TOTAL INCOME	**2,363.5**	**2,246.6**	**2,344.0**	**2,301.0**	**2,377.1**	**-303.1**
EXPENDITURE						
Interest on:						
- Call & Notice Money	752.3	809.3	250.8	551.3	469.1	94.8
- Interest on Repo Borrowing	2.6	28.4	27.1	94.1	99.6	196.5
- Interest on RBI Borrowing	446.3	407.0	100.9	25.6	0.0	0.0
- Short Term Borrowing	59.2	100.9	127.7	35.7	47.6	24.3
	1,260.4	**1,345.6**	**506.5**	**706.7**	**616.3**	**315.6**

(Rs. in millions)

For the Year Ended March 31	2000	2001	2002	2003	2004	Half year ended 30.09.2004
Interest Rate Swap MTM	0.0	0.0	0.0	0.3	(2.4)	216.8
Establishment Expenses	9.3	10.7	14.5	18.9	18.4	7.7
Administrative & Other Expenses	31.5	23.9	48.5	49.4	48.9	23.1
Share Issue Expenses written off	0.0	5.4	5.4	16.2	0.0	0.0
Provision against overdue call lending	0.0	50.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0
- On Fixed Assets	3.9	3.9	6.3	9.4	9.4	4.7
	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EXPENSES	**1,305.1**	**1,439.5**	**581.2**	**800.9**	**690.6**	**567.9**
Profit before Taxation	**1,058.4**	**807.1**	**1,762.8**	**1,500.1**	**1,686.5**	**-871**
Less: Provision for Taxation (including Deferred tax adjustment)	400.8	336.3	636.7	575.0	616.9	0.3
Profit after Taxation	**657.6**	**470.8**	**1,126.1**	**925.1**	**1,069.6**	**-871.3**
Balance Brought forward from last year	6.7	160.8	232.6	682.9	696.8	0
Amount Available for Appropriations	**664.3**	**631.6**	**1,358.7**	**1,608.0**	**1,766.4**	**0**
APPROPRIATIONS:						
General Reserve	250.0	36.0	112.6	92.6	107.0	0
Statutory Reserve Fund	131.6	95.0	225.2	185.1	214.0	0
Market Fluctuation Reserve	0.0	0.0	0.0	270.0	360.0	0
Interim Dividend	109.7	0.0	135.0	135.0	162.0	0
Proposed Dividend	0.0	243.0	189.0	202.5	175.5	0
Income Tax on Interim Dividend	12.2	0.0	13.8	0.0	20.7	0
Income Tax on Proposed Dividend	0.0	24.8	0.0	26.0	22.5	0
	503.5	**398.8**	**675.6**	**911.2**	**1,061.7**	0
Balance Carried to Balance Sheet	**160.8**	**232.8**	**683.1**	**696.8**	**704.7**	0

SUMMARIZED STATEMENT OF ASSETS AND LIABILITIES

(Rs. in millions)

AS AT March 31	2000	2001	2002	2003	2004	As at 30.09.2004
SOURCES OF FUNDS						
1. Shareholders Funds:						
- Share Capital	1000.0	1350.1	1350.1	1350.1	1350.1	1350.1
- Reserves & Surplus	1105.1	2008.0	2812.8	3374.4	4063.2	3192.0
	2105.1	**3358.1**	**4162.9**	**4724.5**	**5413.3**	**4542.1**
2. Loan Funds:						
- Secured Loans	8900.0	6310.0	3231.1	0.0	0.0	4538.3
- Unsecured Loans	5536.8	439.5	405.5	6986.6	9795.8	8124.9
	14436.8	**6749.5**	**3636.6**	**6986.6**	**9795.8**	**12663.2**
TOTAL	**16541.9**	**10107.6**	**7799.5**	**11711.1**	**15209.1**	**17205.3**
APPLICATION OF FUNDS						
1. Fixed Assets:						
Gross Block	45.7	56.8	83.9	101.4	113.2	114.9
Less: Depreciation	10.4	14.2	20.0	28.6	37.3	41.9
	35.3	**42.6**	**63.9**	**72.8**	**75.9**	**73.0**
Capital Work in Progress	0.0	0.0	1.0	0.0	0.0	0.0
	35.3	**42.6**	**64.9**	**72.8**	**75.9**	**73.0**
2. Investments	0.0	0.0	53.6	53.6	53.6	53.6
3. Current Assets, Loans and Advances:						
A. Current Assets						
(a) Stock in Trade	16006.5	9287.9	7001.7	11342.3	14983.6	17058.4
(b) Accrued Income	394.6	238.0	224.7	326.8	283.6	53.4
(c) Cash and Bank Balances	5.2	54.2	13.2	29.4	10.4	8.4
	16406.3	**9580.1**	**7239.6**	**11698.5**	**15277.6**	**15277.6**
B. Loans & Advances	724.1	1496	1993	1687.5	1903.3	1382.9
Total Current Assets	**17130.4**	**11076.1**	**9232.6**	**13386**	**17180.9**	**18503.1**
Less: Current Liabilities & Provisions:						
- Liabilities	32.6	24.5	18.4	40.5	71.8	39.0
- Provisions	591.2	1008.2	1564.8	1775.3	2042.6	1398.4
	623.8	**1032.7**	**1583.2**	**1815.8**	**2114.4**	**1437.4**
Net Current Assets	**16506.6**	**10043.4**	**7649.4**	**11570.2**	**15066.5**	**17065.7**
Deferred Tax	0.0	0.0	15.4	14.5	13.1	13.0
Misc. Expenditure	0.0	21.6	16.2	0.0	0.0	0.0
TOTAL	**16541.9**	**10107.6**	**7799.5**	**11711.1**	**15209.1**	**17205.3**

SIGNIFICANT CHANGES IN ACCOUNTING POLICIES/MATERIAL NOTES TO ACCOUNTS QUALIFICATIONS IN AUDITORS' REPORT DURING THE FIVE AND HALF YEAR PERIOD ENDING 30TH SEPTEMBER 2004.

CHANGES IN ACCOUNTING POLICIES

1. During the Financial Year 2000-01, the company had changed its accounting policy for valuation of stock-in-trade. Accordingly, the company has adopted the rates provided by FIMMDA/PDAI for determining the market value of securities. Prior to the change, the market value of securities was determined on the basis of market rates as available at NSE/RBI SGL trades. Wherever the market rates were not available, the securities were valued at book rate. The change in accounting policy of valuation of stock-in-trade as mentioned above has resulted in reduced depreciation of Rs.23.010 million. Accordingly, profits of the Financial Year 2000-01 are higher to the said extent.
2. During the Financial Year 2001-02, the company had implemented a revised accounting policy on accounting for taxes on income in order to comply with the requirements of Accounting Standard 22 on "Accounting for taxes on income". Accordingly, the accumulated deferred tax as on 01st April 2001 had been adjusted against the General Reserve and the adjustment for the Financial year 2001-02 amounting to Rs.1.292 million has been made out of the profits for the said financial year. The profits for the financial year 2001-02 have been reduced by the same amount.
3. During the Financial Year 2002-03, the company had revised its accounting policy with respect to amortisation of share issue expenses. Share issue expenses as per the revised accounting policy would be amortised in the year in which it is incurred as against the earlier policy of amortising the same over a period of five years. Accordingly, an additional write-off of Rs.10.786 million has been made during the Financial Year 2002-03. Consequently, the profit for the Financial Year 2002-03 is understated to the said extent.
4. During the Financial Year 2003-04, in terms with the requirements of AS-26 on accounting for Intangible Assets, software acquired in the earlier years which was included as part of Computers has been classified under the head "Intangible Assets". During the said financial year, the company has amortized a sum of Rs.1.027 million. The amortisation rate adopted is consistent with the practice followed in the earlier years, hence, it has no impact on the current year's profitability.
5. During the Financial Year 2003-04, in conformity with the Guidelines formulated by RBI (applicable from 01st April 2003), the company has revised the method for valuation of securities under repo and reverse repo contracts outstanding as at the year-end. Under the new method, provision for contracts wherein second leg of repo transaction is outstanding, is lesser by Rs.0.551 million as compared to the earlier practice. Accordingly, the profits of the Financial Year 2003-04 are higher to the said extent.
6. During the Financial Year 2003-04, the company had initiated transactions in Interest Rate Swaps (IRS). To account for the same, the company has adopted the following accounting practice:

   Assets and Liabilities in respect of notional principal amount of IRS is nullified. The related interest is recognized on accrual basis. Any other charges relating to Interest Rate Swaps are charged to Profit and Loss Account. Trading Interest Rate Swaps outstanding at balance sheet date are marked to market and the resultant loss, if any, is recorded in Profit and Loss Account.

MATERIAL NOTES TO ACCOUNTS

1. An amount of Rs.100 million was lent in Call Money to Madhavpura Mercantile Cooperative Bank Limited, which was overdue as on 31st March 2001. Therefore, a provision of Rs.50 million had been made against the same during the Financial year 2000-01. In the Financial Year 2001-02, a reconstruction sheme was formulated under the aegis of Government of India and the lending inclusive of interest upto date of implementation of scheme has been converted into term deposit of Rs.103.658 million carrying interest at the rate of 7.50% (payable semi-annually) and principal repayable in 5 equal installments starting from the 5th year. However, as a matter of prudence, the existing provision has not been reversed till date.
2. The company had purchased and obtained possession of three Residential flats in Chennai for Rs.5.196 million during the Financial Year 2002-03 from Tamil Nadu Housing Board (TNHB). The TNHB has not decided the amount of stamp duty leviable on the registration of said property. In the absence of any decision in this regard by the Housing Board, the

amount of the stamp duty remains unascertained and the flats are yet to be registered in the company's name.

3. During the Financial Year 2002-03, the company has voluntarily decided to build a special reserve over a period of time designated as "Market Fluctuation Reserve" equivalent to a maximum of the equity capital to meet market fluctuations. Accordingly, a sum of Rs.270 million has been appropriated towards market fluctuation reserve out of the net profits of the Financial Year 2002-03 and Rs.360 million has been appropriated out of the net profits of the Financial Year 2003-04, thereby allocating a total of Rs.630 million.

QUALIFICATIONS IN AUDITORS' REPORT

There have been no statements in the nature of qualifications in the Auditors' Reports during the five and half year period ending 30th September 2004.

ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS AS ON 30.09.2004

A. SIGNIFICANT ACCOUNTING POLICIES

1. Method of Accounting

The company follows accrual system of accounting and the financial statements are prepared on historical cost basis, in accordance with generally accepted accounting principles and Reserve Bank of India guidelines as applicable to the Primary Dealers.

2. Sales / Purchases of Treasury Bills and Government Dated Securities, as disclosed in Profit & Loss Account includes repo transactions.

3. Revenue Recognition

i). The difference between the acquisition cost and maturity value of Certificates of Deposit, Commercial Papers, Bills Re-discounted, Treasury Bills and Zero Coupon Bonds is apportioned on time basis. The above is recognised as accrued income and included in the carrying cost of the securities.

ii). Interest accrued on Government Dated Securities and Corporate Bonds and Debentures is recognised at its coupon rate and that of floating rate bonds is recognised on the yield of instruments to which these are linked.

iii). Purchase and sale price of fixed income securities is bifurcated into cost and accrued interest paid or realised. Accrued interest paid on purchase & received on sale is netted and reckoned as expense/income.

iv). Profit/loss on sale of securities is accounted on weighted average cost method and is recognised on settlement date. Profit on sale of securities is netted with loss on sale of securities.

v). Brokerage and front-end fee received on subscription of securities is deducted in arriving at the cost of relevant securities. Underwriting fee earned in respect of devolvments in respect of underwriting commitments is proportionately reduced from the cost of securities devolving and the remaining amount is directly recognised as income.

4. Expenses Recognition

The brokerage paid in connection with acquisition of securities is added to the cost of acquisition and on sale of securities it is charged to profit & loss account.

5. Valuation of Stock-in-Trade

i). All securities in which the Company deals are regarded as Current Assets (Stock-in-Trade).

ii). Each type of Central Government, State Government securities and Corporate Bonds and Debentures is regarded as a separate category. Each category of securities is valued scripwise and depreciation or appreciation is aggregated under each category. Net depreciation, if any, for each category of securities is provided for and charged to profit and loss account. Net appreciation, if any, is ignored. The depreciation in one category of securities is not set off against appreciation in another category. The market value of Central Government, State Government securities and Corporate Bonds & Debentures is determined as per the rates provided by FIMMDA/PDAI.

iii). Certificates of Deposit, Commercial Papers, Bills Re-discounted, Treasury Bills and Zero Coupon Bonds held on the balance sheet date are valued at carrying cost.

6. Accounting for repo Transactions

Securities sold under repo transactions are excluded from stock-in-trade and the securities purchased under reverse repo are included in the stock-in-trade.

The securities purchased under reverse repo is valued in accordance with the valuation norms applicable for the respective category of security.

In case of securities sold under repo, the notional loss, if any, arising out of the difference between the transaction price and book value in the first leg of the repo transaction is provided for, notional gains if any are ignored .

7. Interest Rate Swaps (IRS)

Assets and Liabilities in respect of notional principal amount of IRS is nullified. The related interest is recognised on accrual basis. Any other charges relating to Interest Rate Swaps are charged to Profit and Loss Account.

Trading Interest rate swaps outstanding at balance sheet date are marked to market and the resultant loss, if any, is recorded in Profit and Loss Account.

8. Investment

Long Term Investment in debt is valued at carrying cost. However, provision for diminution is made, when there is a decline other than temporary in the value of long term investment.

9. Deferred Tax

Deferred tax is recognized in accordance with the provisions of Accounting Standard 22 issued by Institute of Chartered Accountants of India on “Accounting for Taxes on Income”.

10. Depreciation

Depreciation on fixed assets is charged on written down value method in accordance with the rates specified in Schedule XIV to the Companies Act, 1956. Intangible Assets comprises of software acquired by the company to facilitate its operations these are depreciated @40% on WDV basis.

11. Preliminary Expenses

Preliminary expenses are written off in the year in which these are incurred.

12. Share Issue Expenses

Share issue expenditure is charged to Profit and Loss account in the year it is incurred.

13. Tax on Dividend

Corporate Dividend Tax payable on dividend declared in terms of Section 115-O of the Income Tax Act, 1961, is accounted for in the year to which the dividend relates.

14. Retirement Benefits – Provident Fund, Gratuity & Leave Encashment

(i) Gratuity contribution made under the Employee Group Gratuity cum life insurance scheme of LIC is charged to revenue.

(ii) Leave Encashment is accounted for on acturial valuation carried at year- end.

(iii) Contribution to recognised provident fund is charged to revenue.

B. NOTES TO ACCOUNTS

1. In terms of Accounting Policy No 5(ii) the company has adopted rates provided by FIMMDA/PDAI for determining market value of securities. Accordingly, net depreciation in the value of securities as on 30th September 2004 amounts to Rs. 1.457 million. The same stands fully provided for in the valuation of the closing stock.

2. Repo transactions outstanding are as under:

(Rs. in million)

	As at 30 September 2004	
	Face Value	**Book Value**
Purchases (Rev. Repo)	NIL	NIL
Sales(Repo)	2494.00	2489.116

In terms with RBI guidelines for uniform accounting for Repo Transactions, there has been no loss on outstanding repo transactions as on 30th September 2004.

3. Managerial Remuneration for the Managing Director

	For the half-year 30th Sep 2004 (Rs. in million)
Salaries and allowances	0.192
Company's contribution to Provident Fund	0.013
Other perquisites	0.023

Computation of Net Profits under Section 349 of the Companies Act, 1956 has not been made as commission by way of percentage of profits is not payable to the Managing Director.

4. In the interest tax case involving an amount of Rs.3.177 million, the appellate authorities had adjudicated in favour of the company and a refund of Rs.2.867 million was received along-with interest of Rs.1.886 million during FY 2003-04. The company had preferred appeal for the remaining amount which is yet to come up for hearing.

5. The interest on the term deposit of Rs. 103.658 million with Madhavpura Mercantile Cooperative Bank has been serviced regularly. However, as a matter of abundant caution being guided by the accounting concept of prudence, the management has decided not to reverse the existing provision of Rs. 50 million made in earlier year.

6. Reportable segments in respect of business operations of the company have been identified on the basis of varied risk and return profile attached to each segment. During the half-year ended 30th September 2004, the company had identified "Derivatives" as an additional segment for reporting purposes in terms with Accounting Standard – 17 of the Institute of Chartered Accountants of India on Segment Reporting.

The Segment information is as under:

Rs in million

	Half year ended 30th September 2004					
	T-Bills / Commercial Paper/ Certificate of Deposit	**Corporate Bonds & Debentures**	**Government Securities**	**Derivatives**	**Others**	**Total**
Segment Revenue/(Loss)	203.264	(8.468)	(508.803)	(208.812)	10.900	**(511.919)**
Total Allocable Expenses	138.532	15.234	170.502	8.008	0.014	332.290
Segment Results	64.732	(23.702)	(679.305)	(216.820)	10.886	(844.209)
Less : Unallocable Expenses						26.763
Profit/(Loss) Before Tax						(870.972)
Segment Assets *	12598.362	178.782	4335.215	(15.837)	104.446	17200.968
Segment Liabilities	9263.127	131.452	3187.529	0.004	76.796	12658.908

Note: Depreciation of Rs. 1.457 million on Government Securities as on 30.09.2004 has been provided for.

* Segment assets under Others comprise of investments and interest accruals thereupon

7. Related Party Transactions

i. As per Para 9 of the Accounting Standard 18 on Related Party Disclosures, the company being a state controlled enterprise is not required to make disclosures of related party relationships with other state controlled enterprises and transactions with such enterprises. Other information as per the Standard is as under:

a. The overall supervision and control of company vests with Board of Directors. The Managing Director of the company is on deputation from Punjab National Bank and is working full time with the company. Details of managerial remuneration is disclosed vide Note No. 3 above in the Notes to Accounts.

b. Out of a total of 9 directors on the Board of the company as at 30th September 2004, 5 are independent directors. Only the independent directors are paid sitting fees for the board / committee meetings at the rate of Rs 3000/ - per meeting. During the current reporting period, the company has paid a sum of Rs 0.118 million towards sitting fee.

8. Earnings per share (EPS)

Computation of EPS is as under:

	Half year ended 30.09.2004
Number of shares outstanding (of Rs 10/- each)	135007600
Profit/(Loss) after Tax (Rs in million)	(871.266)
Earning per share (Basic)	(6.45)

There has been no change in the share capital during the reporting period. There are no potential equity shares outstanding. Hence there is no dilution of the Basic EPS.

9. Deferred Tax

Calculation of deferred tax as per Accounting Standard 22 of The Institute of Chartered Accountants of India is as under:

Rs in million

	September 30, 2004
Deferred Tax Asset	
Provision against Investments	18.296
Other Provisions	0.145
Preliminary Expenses	0.441
Total Deferred Tax Asset	**18.882**
Deferred Tax Liability	
Fixed Assets	5.844
Total Deferred Tax Liability	**5.844**
Net Deferred Tax Asset	**13.038**

An adjustment for the current half-year amounting to Rs. 0.094 million has been charged to P&L Account.

10. Disclosure on Interest Rate Swaps

	Amt Rs in million
Notional Principal (Trading Swaps)	84750.000
Fair Value	84592.334
Associated Credit Risk	423.750
Default Risk (as per Credit Exposure Method)	1021.358

Market risk — In the event of 100 basis point adverse movement in interest rates there will be a negative impact of Rs. 132.200 million on the swap book.

Collateral — No Collateral is insisted upon from counterparty

11. During the earlier year, in conformity with the Guidelines formulated by RBI (applicable from 1st April, 2003), the company has revised the method for valuation of securities under repo and reverse repo contracts outstanding as at the year-end. The same method has been continued during the present half-year also.

12. In the previous year ended 31.03.2004, in terms with the requirements of AS-26 on accounting for Intangible Assets, software acquired in the earlier years which was included as part of Computers had been classified under the head “Intangible Assets”. The amortisation rate adopted was consistent with the practice followed in the earlier years, hence, it had no impact on the profitability. During the current half-year also, the same amortisation rate adopted earlier has been followed.

13. In the absence of any government notification the company has not provided for cess envisaged in terms with the Section 441A (1) of the Companies Act, 1956.

14. The company had purchased and obtained possession of three Residential flats in Chennai for Rs. 5.196 million during 2002-03 from Tamil Nadu Housing Board (TNHB). The TNHB has not decided the amount of stamp duty leviable on the registration of said property. In the absence of any decision in this regard by the Housing Board, the amount of the stamp duty remains unascertained and the flats are yet to be registered in the company’s name.

15. Contingent liability:

- Claims made against not acknowledged as debts — Rs. 0.377 million

ANNEXURE D

GROVER, LALLA & MEHTA
CHARTERED ACCOUNTANTS

The Managing Director,
PNB Housing Finance Ltd.
9th Floor, Antriksh Bhawan,
22 Kasturba Gandhi Marg,
New Delhi – 110 001

Dear Sirs,

In terms of our appointment for the purpose of certification of statement of accounts to be incorporated in the offer document proposed to be issued by Punjab National Bank in connection with the follow on offer of Equity Shares, we state as follows:-

1. We have examined the audited financial statements of PNB Housing Finance Ltd. for the five financial years ending 31.03.2004, being the last date up to which the accounts have been made and audited by the statutory auditors of the company of those respective years and Financial Statements for the half year ending 30th September, 2004 which have been compiled from the unaudited half yearly returns received from the twenty eight branches and books maintained at Corporate Office at New Delhi. We clarify that financial statements are the responsibility of the Company's management and these financial statements for the six months ending 30th September 2004 have not been subjected by us to a complete audit, in accordance with the generally accepted auditing practices necessary for expressing an opinion whether the statements show a true and fair view.
2. The aforesaid financial statements read with significant Notes on Accounts have been prepared in accordance with the prudential norms issued by the National Housing Bank from time to time and subject to limitation of disclosure required therein. We have however conducted a limited review for the six months ending 30th September 2004, to obtain moderate assurance as to whether the financial statements are free of material mis- statements. A review is limited primarily to inquiries of company personnel and procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and accordingly, we do not express an opinion on the same.
3. Based on the limited review for the six months ending 30th September, 2004, conducted by us as aforesaid, nothing has come to our notice that causes us believe that the accompanying statements do not give a true and fair view in accordance with the accounting standards, other recognized accounting policies and practices and relevant statutory requirements.

For Grover, Lalla & Mehta
Chartered Accountants

Sd/

(A.K.Grover)
Partner

Place: New Delhi
Date: 13-10-2004

PNB HOUSING FINANCE LIMITED

PART – 1: COMPARATIVE PROFIT AND LOSS ACCOUNT

(Rs in millions)

	YEAR ENDED ON 31ST MARCH					PERIOD ENDED ON	
INCOME	**2000**	**2001**	**2002**	**2003**	**2004**	**30.06.04**	**30.09.04**
Interest on Housing Loans	334.7	412.4	565.1	691.5	773.1	190.6	377.8
Interest on Investments	18.9	68.0	52.2	53.6	63.2	13.3	26.3
Interest on Bank Deposits	30.3	3.4	0.9	1.8	0.0	0.1	2.5
Int.on Loans Against Company Deposits	1.3	1.3	1.2	1.3	1.8	0.2	0.7
Fee and Other Charges	16.4	28.0	48.7	49.5	49.2	11.1	22.4
Other Income	1.7	1.9	0.3	1.2	6.0	0.4	0.7
Profit on sale of Assets	0.0	0.0	-0.1	0.2	0.0	0.0	0.0
Profit on sale of Investments	4.5	2.1	0.0	3.8	10.6	0.0	0.0
Dividend	6.8	7.0	0.9	0.8	0.5	0.0	0.0
Recovery of Int.derecognised in previous year	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recovery of Debt Written off	92.6	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL INCOME	**507.2**	**524.1**	**669.2**	**803.7**	**904.4**	**215.7**	**430.4**
EXPENDITURE							
Interest on T.loans/overdraft	68.1	64.1	110.6	87.1	126.0	31.6	66.1
Interest on Refinance from NHB	39.7	90.3	156.4	204.3	191.4	38.6	84.9
Interest on Bonds	0.0	0.0	22.4	90.7	102.5	24.0	47.6
Interest on Deposits	189.9	175.9	165.5	168.9	167.2	39.9	75.7
Bank and Commitment charges	5.2	4.6	8.4	4.5	6.9	0.6	1.5
Interest Tax	7.4	0.0	0.0	0.0	0.0	0.0	0.0
Staff Expenses	14.1	17.8	19.9	24.8	31.0	8.0	16.7
Rent, Rates & Taxes	3.3	3.7	5.6	8.1	8.5	1.8	4.4
Repairs and Maintenance	1.5	1.5	4.1	4.3	2.6	0.5	1.4
Electricity & Water Charges	1.1	1.2	2.0	2.6	2.9	0.5	1.7
Insurance	0.1	0.1	0.2	0.2	0.3	0.1	0.3
Travelling and Conveyance	1.0	1.4	2.1	2.8	3.8	0.9	2.4
Printing & Stationery	1.0	1.1	1.5	1.3	1.7	0.3	0.9
Postage & Telephone	0.9	1.2	1.8	2.2	3.3	0.6	1.9

(Rs in millions)

	YEAR ENDED ON 31ST MARCH					PERIOD ENDED ON	
	2000	**2001**	**2002**	**2003**	**2004**	**30.06.04**	**30.09.04**
Advertisements	1.7	4.6	11.0	7.2	9.0	0.8	4.0
Loss on sale of Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General Office Expenses	1.1	1.5	1.9	3.3	3.5	0.9	1.7
Auditors Remuneration	0.1	0.2	0.3	0.3	0.5	0.0	0.0
Professional and Legal Charges & Other Certification charges	0.7	0.8	2.0	3.8	3.7	1.3	3.1
Depreciation on Fixed Assets	2.1	3.1	4.9	5.9	6.9	2.1	4.2
Depreciation on Investments	0.0	9.0	0.0	0.0	0.0	0.0	0.0
Misc. Expenses	0.8	0.7	0.6	0.9	0.6	0.5	0.3
Interest Derecognised	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provision for NPA	9.9	6.3	10.7	8.8	20.1	5.0	14.0
Provision for Contingencies	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Bad Debts Written off	73.4	8.7	14.2	8.0	0.0	0.0	0.0
Preliminary Exp.written off	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EXPENDITURE	**423.2**	**397.8**	**546.1**	**640.0**	**692.4**	**158.0**	**332.8**
Profit (Loss)Before Tax	84.0	126.3	123.1	163.7	212.0	57.7	97.6
Prior Period Adjustments	-1.0	-0.6	0.4	0.2	-0.1	0.0	0.0
Provision for Income Tax of earlier years written back	0.0	0.0	0.8	-4.9	-2.4	0.0	0.0
Provision for Income Tax	26.7	27.0	28.0	45.3	60.3	15.2	27.7
Deferred Tax	0.0	0.0	4.5	-5.5	-5.7	0.0	-7.6
Profit (Loss)after Tax/ Profit available for Apportionment	**56.3**	**98.7**	**91.8**	**119.2**	**154.9**	**42.5**	**77.5**
Surplus Brought forward from Prev. Year	13.3	2.3	6.0	2.5	10.3	18.4	18.4
Transfer to Special Reserves u/s 36(1)(viii) of Income Tax Act, 1961	29.0	28.2	42.3	59.2	74.6	0.0	0.0
Transfer to General Reserves	5.0	30.0	20.0	15.0	35.0	0.0	0.0
Dividend on Equity shares	30.0	30.0	33.0	33.0	33.0	0.0	0.0
Dividend Distribution Tax	3.3	6.8	0.0	4.2	4.2	0.0	0.0
Surplus Carried to Balance Sheet	**2.3**	**6.0**	**2.5**	**10.3**	**18.4**	**60.9**	**95.9**

STATEMENT OF ASSETS AND LIABILITIES

PART-II : COMPARATIVE BALANCE SHEET

(Rs. millions)

	AS ON 31ST MARCH					AS ON	AS ON
	2000	2001	2002	2003	2004	30.06.04	30.09.04
LIABILITIES							
Share Capital	300.0	300.0	300.0	300.0	300.0	300.0	300.0
Special Reserves	167.7	195.9	239.8	299.0	373.7	373.7	373.7
General Reserves	70.0	100.0	133.8	148.8	183.7	183.7	183.7
Profit & Loss Account	2.3	6.0	2.5	10.3	18.4	60.9	95.9
Term Loan from NHB	348.7	1131.9	1558.1	1827.1	1904.2	2889.4	1794.0
Term Loan from PNB	585.0	555.0	1365.0	700.0	1340.6	826.2	1356.4
Term Loan from Other Banks	0.0	0.0	0.0	653.7	1057.4	1018.6	1479.7
Commercial paper	0.0	0.0	0.0	0.0	0.0	247.0	246.8
Secured Redeemable Bonds	0.0	0.0	500.0	1250.0	1250.0	1250.0	1250.0
Interest Accrued and Due on Deposits	7.5	6.5	8.0	9.8	10.6	1.8	9.7
Short Terms Loans from PNB/NHB	0.0	0.0	0.0	0.0	0.0	0.0	120.0
Home Loan Account	0.3	0.3	0.2	0.0	0.0	0.0	0.0
Non-Cumulative Deposit	176.1	158.2	190.3	259.1	334.3	469.9	310.2
Cumulative Deposit	1095.2	1005.5	1197.6	1266.7	1205.4	1035.0	1143.4
Current Liabilities	333.6	357.6	281.9	319.7	387.4	392.3	285.0
Provisions	16.6	23.1	65.2	78.8	99.4	104.4	76.2
TOTAL LIABILITIES	**3103.0**	**3840.0**	**5842.4**	**7123.0**	**8465.1**	**9152.9**	**9024.7**
ASSETS							
Fixed Assets	7.5	23.5	30.3	29.4	31.9	30.6	29.5
Investments	595.0	502.6	431.2	431.2	546.3	423.7	423.7
Housing Loans	2005.3	2912.6	4919.0	6261.9	7545.5	7860.6	8210.1
Loans and Advances	318.9	340.7	335.1	199.6	243.7	313.6	303.1
Cash In Hand	0.5	0.6	1.3	2.5	3.6	1.2	1.6
Cash at Bank	87.0	29.9	114.1	143.5	32.4	-10.5	-37.6
Fixed Deposit	86.1	30.0	0.0	0.0	0.0	460.0	0.0
Other Current Assets	2.7	0.1	10.9	54.9	61.7	73.7	94.3
Miscellaneous Expenses to the extent not written off	0.0	0.0	0.5	0.0	0.0	0.0	0.0
TOTAL ASSETS	**3103.0**	**3840.0**	**5842.4**	**7123.0**	**8465.1**	**9152.9**	**9024.7**

(Rs. millions)

	AS ON 31ST MARCH					AS ON	AS ON
	2000	2001	2002	2003	2004	30.06.04	30.09.04
Contingent Liability not provided for :							
1. For Contracts unexecuted o/s	5.4	0.1	1.5	1.3	0.2	0.2	0.1
2. For Others	0.1	0.1	0.00	0.00	0.00	0.00	0.00
3. Income Tax matter under dispute *	42.00	46.9	62.8	43.3	23.3	23.3	26.2
4. Interest Tax matter under dispute *	3.8	5.4	6.1	4.1	4.1	4.1	4.1

* The company has paid advance taxes and as per the opinion of tax consultants, the company has a good case and the disallowances made by the Tax Authorities are arbitrary and appropriate reliefs will be available at appellate level. Hence no provision was considered necessary.

For **PNB HOUSING FINANCE LTD.**

(SANJAY JAIN)
EVP (F) & CO. SECRETARY

SIGNIFICANT ACCOUNTING POLICIES

1. GENERAL METHOD AND SYSTEM OF ACCOUNTING

The accounts of the company are prepared under the Historical Cost convention on accrual method of accounting on the principle of going concern and in accordance with the Companies Act, 1956, the applicable accounting standards issued by The Institute of Chartered Accountants of India, and The Housing Finance Companies (NHB) Directions, 2001 issued by National Housing Bank.

2. (a) FEE AND OTHER CHARGES

Income from fee and other charges viz. Administrative Fee, Processing Fee, Penal Interest on Overdues /Additional Interest on Defaults, Pre-payment charges etc. is recognised on receipt basis.

(b) DIVIDEND INCOME

Dividend is accounted for in the year in which the same is received.

(c) OTHER INCOME

Interest on tax refunds and other incomes are accounted for on receipt basis.

(d) INTEREST ON HOUSING LOANS

In housing loans, the repayment is received by way of Equated Monthly Instalments (EMIs) comprising principal and interest. Interest is calculated on the outstanding balance at the beginning of the year/ month. EMIs generally commence once the entire loan is disbursed. Pending commencement of EMIs, Pre-EMI interest is charged every month.

3. UNCLAIMED DEPOSITS

Deposits, which have become due but have not been presented for payment or renewal are transferred to unclaimed deposits. Interest for the period from last maturity date till the date of renewal of unclaimed deposits is accounted for during the year of its renewal.

4. INVESTMENTS

Investments are capitalised at cost inclusive of brokerage and stamp charges excluding interest/dividend accruing till the date of purchase. The difference between the carrying amount and disposal proceeds of investments, net of expenses, is recognised in the Profit & Loss Account. Investments are classified as long term investments and current investments and are valued in accordance with guidelines of National Housing Bank and Accounting Standard on Accounting for Investments (AS-13), issued by The Institute of Chartered Accountants of India. Long term investments are valued at cost. However, when there is a decline, other than temporary, in the value of long term investment, the carrying amount is reduced to recognise the decline. Current investments have been valued at lower of cost or market value determined on individual investment basis.

5. DERIVATIVE TRANSACTIONS

(i) The derivative transactions entered for hedging interest bearing liabilities are accounted for on accrual basis.

(ii) Gains or losses on swaps are accounted for on the date of unwinding and are adjusted in the Interest Expenditure account.

6. FIXED ASSETS

(i) Fixed Assets used in the business are capitalised at cost inclusive of all related expenses.

(ii) As per the National Housing Bank Directions 2001, the land and buildings, including Assets / Properties acquired from NPA Advances in settlement of Housing Loans, are held at cost as " Other Current Assets" till their disposal. These assets are required to be disposed off within 3 years from the date of acquisition unless and until extended by the NHB. All the expenses incurred on the upkeep of the property including safeguarding , insurance, rates & taxes etc are charged to Profit & Loss Account in the year of incurrence.

7. DEPRECIATION

(i) Depreciation on Fixed Assets is provided on the Written Down Value Method at the rates prescribed in Schedule XIV of the Companies Act, 1956 on prorata basis. Wherever the depreciation rates are not prescribed, the rates prescribed by Income Tax Act & Rules are used.

(ii) Assets costing upto Rs. 5000/- are being depreciated fully in the year of acquisition.

8. SHARE/ BOND ISSUE EXPENDITURE

Expenditure incurred on issue of shares/bonds is charged to Profit & Loss Account in the year it is incurred.

9. TAXES ON INCOME

Current tax is determined as the amount of tax payable in respect of the taxable income for the period. Deferred tax is recognised in accordance with the provisions of Accounting Standard on Accounting for taxes on income (AS-22).

10. RETIREMENT BENEFITS AND LEAVE ENCASHMENT

(i) The company has taken LIC Policy to cover the accumulated gratuity liability till 30.9.2004 of its employees. Premium on this policy has been accounted for on accrual basis in line with the Accounting Standard on Accounting for Retirement Benefits (AS-15), issued by the Institute of Chartered Accountants of India.

(ii) Provision for leave encashment is made on the basis of actuarial valuation with respect to privilege leaves which are encashable.

(iii) Retirement benefits of employees on deputation from Punjab National Bank are borne by PNB and hence no provision is considered necessary by the company.

11. INSTALMENTS - ACCOUNTING OF LOANS

(i) Loans to the extent, the instalments have not become due as at the year end are being shown under “Housing Loans.”

(ii) Loans to the extent the instalments have become due on or before 30th September, 2004 are being shown under “Loans and Advances”.

12. PRUDENTIAL NORMS

Income recognition and Provision for Non Performing Assets have been made on the basis of prudential norms laid down by National Housing Bank (NHB).

13. TRANSACTION INVOLVING FOREIGN EXCHANGE

(i) Foreign currency monetary liabilities are translated at the rate which reflects the liability of the company in Indian Rupee which is likely to be repaid at the balance sheet date.

(ii) Income and expenditure items are accounted for at the exchange rate prevailing on the date of transaction.

(iii) Generally Exchange differences arising on Foreign Currency transactions are recognised as income or expense as the case may be in the period in which they arise. However, in case of forward exchange contracts, the Exchange difference between the forward rate and the exchange rate at the date of transaction is recognised as an income or expense over the life of the forward contract in line with Accounting Standard on Accounting for the Effects of Changes in Foreign Exchange Rates (AS-11).

SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

This is to certify based upon our examination and review of audited accounts of PNB Housing Finance Ltd., New Delhi from financial years 1999-2000 to 2003-2004, that there is only one change in the significant accounting policies, which is given below :

Share/ Bond Issue Expenditure

Accounting Policy on Share/ Bond Issue Expenses- as deferred Revenue Expenses was changed in the year 2002-03. Now such expenses are written off in the year of incurrence.

Material Adjustments resulting from Statutory Auditor's Report for previous years are as under :-

(Rs. in millions)

Year ended 31st March	2000	2001	2002	2003	2004
Net Profit for the year	56.3	98.7	91.8	119.2	154.9
Less : Adjustments	0.00	0.00	0.00	0.00	0.00
Adjusted Profit	**56.3**	**98.7**	**91.8**	**119.2**	**154.9**

NOTES TO ACCOUNTS

With regards to notes on accounts of PNB Housing Finance Ltd. New Delhi for its audited accounts for the years 1999-2000 to 2003-2004, we observe that most of the notes are explanatory in nature and have been included in the relevant schedule to the respective year's audited accounts due to disclosure requirements of Companies Act 1956, Accounting Standards and NHB Guidelines, relevant regulations and management's disclosure to the reader of Accounts.

Year 1999-2000

Note 11: Contingent liabilities not provided for

Rs in millions

Particulars	As at March 31, 2000	As at March 31, 1999
- Estimated amount of contracts remaining unexecuted (net of advance)	5.4	3.2
- For Others	0.1	0.2
- Income tax matters under dispute	42.0	29.0
- Interest tax matters under dispute	3.8	3.0

(the company has paid advance taxes and as per the opinion of tax consultants, the company has a good case and the disallowances made by the Tax Authorities are arbitrary and appropriate relief will be available at appellate level. Hence no provision was considered necessary.)

Year 2000-01

Note 1 : The age-wise analysis of loans in respect of which the instalments (including interest) have become due are as under:-

Rs in millions

Particulars	For the year Ended March 31, 2001	For the year Ended March 31, 2000
Outstanding for over six months	235.1	200.8
Outstanding for six months or less	61.1	73.3
	296.2	**274.1**

Note 3 : Provision for non-performing assets has been made in accordance with guidelines on prudential norms issued by National Housing Bank (NHB). Classification of loans and provisions made for non-performing assets is given hereunder:

(Rs. in millions)

Loans	Standard	Sub Standard	Doubt-ful	Total
Housing Loans (including instalments due from borrowers)				
Individuals (Previous Year)	2757.7 (1766.5)	21.0 (9.6)	0.9 (0.6)	2779.6 (1776.7)
Corporate Bodies (Previous Year)	292.1 (366.5)	77.0 (141.0)	60.0 (5.0)	429.1 (512.5)
Other Loans (Previous Year)	9.9 (9.3)	0.00 (0.00)	0.00 (0.00)	9.9 (9.3)
Total Loans (Previous Year)	**3059.7** (2142.3)	**98.0** (150.6)	**60.9** (5.6)	**3218.6** (2298.5)
Provisions (as per NHB guidelines) (Previous Year)	0.00 (0.00)	9.8 (15.0)	12.7 (1.1)	22.5 (16.1)
Total Provisions (Previous Year)	**0.00** (0.00)	**9.8** (15.0)	**12.7** (1.1)	**22.5** (16.1)

Note 4 : Interest on non-performing assets is recognized on realization basis as per the NHB Guidelines. Accordingly the total interest not recognized as at the Balance Sheet date is summarized as under:-

Particulars	**Rs in millions**
Cumulative interest B/F from last Balance Sheet	83.7
Less: Recovered/ written back during the year	55.1
	28.6
Add: Interest not recognised for the current year on Sub Standard Assets	17.8
- Doubtful Assets	7.5
Total interest not recognised as on 31.03.2001	**53.9**

Note 5 : The company has entered into " One Time Settlement" (OTS) with Allahabad Development Authority wherein, interalia, U.P.Government were to issue following Bonds during the year w.e.f. 1-4-2000

(a) 10% Bonds of Rs.50 millions (Redeemable in 10 Equal Annual Instalments) and

(b) 0% Bonds of Rs 62.5 millions (Redeemable in 6 Equal Annual Instalments).

Despite vigorous follow up by the company, U.P.Govt. has not yet issued these bonds on account of procedural & Administrative delays. However, the interest on these bonds alongwith Annual Instalments of redemption, as per OTS terms, for both kinds of Bonds, have been received during the year. U.P.Govt. has assured that the Bonds for the balance amount due will be issued shortly and will be effective from 1-4-2001. Pending issuance of Bonds the remaining outstandings have been included in "Loans & Advances" in Schedule 7 as shown in the previous year.

Note 8 : Contingent liabilities not provided for

Rs in millions

Particulars	**As at March 31, 2001**	**As at March 31, 2000**
- Estimated amount of contracts remaining unexecuted (net of advance)	0.1	5.4
- For Others	0.1	0.1
- Income tax matters under dispute*	46.9	42.0
- Interest tax matters under dispute*	5.3	3.8

* As advised by Tax Consultant, no provision has been made.

Year 2001-02

Note 1 : The age-wise analysis of loans in respect of which the instalments (including interest) have become due are as under: -

Rs in millions

Particulars	**As at March 31, 2002**	**As at March 31, 2001**
Outstanding for over six months	200.4	235.1
Outstanding for six months or less	80.3	61.1
	280.7	**296.2**

Note 3 : Provision for non-performing assets has been made in accordance with guidelines on prudential norms issued by National Housing Bank (NHB). Classification of loans and provisions made for non-performing assets is given hereunder:

(Rs. in millions)

Loans	**Standard**	**Sub Standard**	**Doubt-ful**	**Total**
Housing Loans (including instalments due from borrowers)				
Individuals (Previous Year)	4832.8 (2757.7)	76.4 (21.0)	5.5 (0.9)	4914.7 (2779.6)
Corporate Bodies (Previous Year)	157.1 (292.1)	52.2 (77.0)	75.6 (60.0)	284.9 (429.1)
Other Loans (Previous Year)	13.4 (9.9)	0.00 (0.00)	0.00 (0.00)	13.4 (9.9)
Total Loans **(**Previous Year)	**5003.3** (3059.7)	**128.6** (98.0)	**81.1** (60.9)	**5213.0** (3218.6)
Provisions (as per NHB guidelines) (Previous Year)	0.00 (0.00)	12.9 (9.8)	18.3 (12.7)	31.2 (22.5)
Total Provisions (Previous Year)	**0.00** (0.00)	**12.9** (9.8)	**18.3** (12.7)	**31.2** (22.5)

Note 4 : Interest on non-performing assets is recognized on realization basis as per the NHB Guidelines. Accordingly the total interest not recognized as at the Balance Sheet date is summarized as under:-

Particulars	**Rs in millions**
Cumulative interest B/F from last Balance Sheet	53.9
Less: Recovered/ written back/ written off during the year	21.3
	32.6
Add: Interest not recognised for the current year on	
- Sub Standard Assets	9.2
- Doubtful Assets	14.7
Total interest not recognised as on 31.03.2002	**56.6**

Note 14 : Contingent liabilities not provided for

Rs in millions

Particulars	As at March 31, 2002	As at March 31, 2001
- Estimated amount of contracts remaining unexecuted (net of advance)	1.5	0.1
- For Others	0	0.1
- Income tax matters under dispute*	62.8	46.9
- Interest tax matters under dispute*	6.1	5.3

* As advised by Tax Consultant, no provision has been made.

Year 2002-03

Note 1 : The age-wise analysis of loans in respect of which the instalments (including interest) have become due are as under :-

Rs in millions

Particulars	As at March 31, 2003	As at March 31, 2002
Outstanding for over six months	97.5	200.4
Outstanding for six months or less	57.9	80.3
	155.4	**280.7**

Note 3 : Provision for non performing assets has been made in accordance with guidelines on prudential norms issued by National Housing Bank (NHB). Classification of loans and provisions made for non performing assets is given hereunder :

(Rs. in millions)

Loans	Standard	Sub Standard	Doubtful	Total
Housing Loans (including instalments due from borrowers)				
Individuals	6169.1	163.4	12.4	6344.9
(Previous Year)	(4832.8)	(76.4)	(5.5)	(4914.7)
Corporate Bodies	12.1	0.00	60.3	72.4
(Previous Year)	(157.1)	(52.2)	(75.6)	(284.9)
Other Loans	18.5	0.00	0.00	18.5
(Previous Year)	(13.4)	(0.00)	(0.00)	(13.4)
Total Loans	**6199.7**	**163.4**	**72.7**	**6435.8**
(Previous Year)	(5003.3)	(128.6)	(81.1)	(5213.0)
Provisions (Housing Loan)	0.00	16.3	23.7	40.0
(Previous Year)	(0.00)	(12.9)	(18.3)	(31.2)
Total Provisions	**0.00**	**16.3**	**23.7**	**40.0**
(Previous Year)	(0.00)	(12.9)	(18.3)	(31.2)

Note 4 : Interest on non-performing assets is recognised on realisation basis as per the NHB Guidelines. Accordingly the total interest not recognised as at the Balance Sheet date is summarised as under:-

Particulars	Rs in millions
Cummulative interest B/F from last Balance Sheet	56.6
Less : Recovered/ written back/ written off during the year	12.1
	44.5
Add : Interest not recognised for the current year on	
- Sub Standard Assets	17.1
- Doubtful Assets	0.0
Total interest not recognised as on 31.03.2003	**61.6**

Note 11: During the current year, consequent to OTS, the company has taken the vacant possession of mortgaged property consisting of Land & Building in Mumbai, in full satisfaction of Company's claim as per the MOU/ Agreement at the valuation of Rs.35.0 millions. The shortfall in recovery amounting to Rs.8.0 millions has been adjusted in Books of Account as "write off", with the requisite approvals. The property held as on year end has been shown as "other assets" in schedule 7.

Note 13: With respect to company's borrowing in FCNR(B)- Term Loan Account, the company has paid/ incurred interest amounting to Rs. 5.3 millions (Previous year Nil) in foreign currency. Further the company has taken a foreign currency fluctuation cover by way of Forward Exchange Contract from reputed approved dealer. Rs.6.2 millions being the liability of company with respect to exchange difference for the Forward Exchange Contract as on 31.03.2003 has been ascertained and accounted for as per the guidelines laid down by the Accounting Standard on accounting for the effects of changes in Foreign Exchange rates (AS-11) issued by The Institute of Chartered Accountants of India.

Note 16: Contingent liabilities not provided for

Rs in millions

Particulars	**As at March 31, 2003**	**As at March 31, 2002**
- Estimated amount of contracts remaining unexecuted (net of advance)	1.3	1.5
- Claim against the company not acknowledged as debt	0	0
- Income tax matters under dispute	43.3	62.8
- Interest tax matters under dispute	4.1	6.1

Year 2003-2004

Note 1 : The age-wise analysis of loans in respect of which the instalments (including interest) have become due are as under: -

Rs in millions

Particulars	**For the year Ended March 31, 2004**	**For the year Ended March 31, 2003**
Outstanding for over six months	110.9	97.5
Outstanding for six months or less	93.0	57.9
	203.9	**155.4**

Note 3 : Provision for non-performing assets has been made in accordance with guidelines on prudential norms issued by National Housing Bank (NHB). Classification of loans and provisions made for non-performing assets is given hereunder:

(Rs. in millions)

Loans	**Standard**	**Sub Standard**	**Doubtful**	**Total**
Housing Loans (including instalments due from borrowers)				
Individuals	7295.6	246.0	17.0	7558.6
(Previous Year)	(6169.1)	(163.4)	(12.4)	(6344.9)
Corporate Bodies	132.1	0.00	58.7	190.8
(Previous Year)	(12.1)	(0.00)	(60.3)	(72.4)
Other Loans	12.8	0.00	0.00	12.8
(Previous Year)	(18.5)	(0.00)	(0.00)	(18.5)
Total Loans	**7440.5**	**246.0**	**75.7**	**7762.2**
(Previous Year)	(6199.7)	(163.4)	(72.7)	(6435.8)
Provisions (as per NHB guidelines)	0.00	24.6	25.5	50.1
(Previous Year)	(0.00)	(16.3)	(23.7)	(40.0)
Floating Provision (over and above NHB Provisioning norms)				10.0
(Previous Year)				(0.00)
Total Provisions	**0.00**	**24.6**	**25.5**	**60.1**
(Previous Year)	(0.00)	(16.3)	(23.7)	(40.0)

Note 4 : Interest on non-performing assets is recognised on realisation basis as per the NHB Guidelines. Accordingly the total interest not recognised as at the Balance Sheet date is summarised as under:-

Particulars	**Rs in millions**
Cumulative interest B/F from last Balance Sheet	61.6
Less: Recovered/ written back/ written off during the year	9.2
	52.4
Add: Interest not recognised for the current year on	
- Sub Standard Assets	25.7
- Doubtful Assets	0.4
Total interest not recognised as on 31.03.2004	**78.5**

Note 11: During the previous year, the Company had taken the vacant possession of mortgaged property consisting of Land & Building in Mumbai, in full satisfaction of Company's claim as per the MOU/ Agreement at the valuation of Rs.35.0 millions which has been shown as "Other Assets" in Schedule 7.

Note 13: With respect to company's borrowing in FCNR(B)- Term Loan Account and ECB, the company has paid/ incurred interest amounting to Rs.16.2 millions (Previous year Rs.5.3 millions) in foreign currency. Further the company has taken a foreign currency fluctuation cover by way of Forward Exchange Contract from reputed approved dealer. Rs.0.1 million (Previous year Rs.6.2 million) being the liability of company with respect to exchange difference for the Forward Exchange Contract as on 31.03.2004 has been ascertained and accounted for as per the guidelines laid down by the Accounting Standard on accounting for the effects of changes in Foreign Exchange rates (AS-11) issued by The Institute of Chartered Accountants of India.

Note 18: Contingent liabilities not provided for

Rs in millions

Particulars	As at March 31, 2004	As at March 31, 2003
- Estimated amount of contracts remaining unexecuted (net of advance)	0.2	1.3
- Income tax matters under dispute	23.3	43.3
- Interest tax matters under dispute	4.1	4.1

NOTES ON ACCOUNTS

1. The age-wise analysis of loans in respect of which the instalments (including interest) have become due are as under:

Rs in millions

	For the half year Ended September 30, 2004	For the year Ended March 31, 2004
Outstanding for over six months	136.2	110.9
Outstanding for six months or less	117.2	93.0
	253.4	**203.9**

2. Housing loans and instalments due from borrowers shown under Loans and Advances are secured wholly or partly by:

(a) Equitable Mortgage of Property

(b) Pledge of shares, units, NSCs, other securities, assignment of life insurance policies.

(c) Bank guarantees, corporate guarantees, government guarantee or personal guarantees.

(d) Undertaking to create a security.

3. Provision for non-performing assets has been made in accordance with guidelines on prudential norms issued by National Housing Bank (NHB). Classification of loans and provisions made for non-performing assets is given hereunder:

(Rs. in millions)

Loans	Standard	Sub Standard	Doubtful	Total
Housing Loans (including instalments due from borrowers)				
Individuals (Previous Year)	7793.5 (7295.6)	357.1 (246.0)	45.9 (17.0)	8196.5 (7558.6)
Corporate Bodies (Previous Year)	208.3 (132.1)	0.00 (0.00)	58.7 (58.7)	267.0 (190.8)
Other Loans (Previous Year)	11.7 (12.8)	0.00 (0.00)	0.00 (0.00)	11.7 (12.8)
Total Loans (Previous Year)	**8013.5** (7440.5)	**357.1** (246.0)	**104.6** (75.7)	**8475.2** (7762.2)
Provisions (as per NHB guidelines) (Previous Year)	0.00 (0.00)	35.7 (24.6)	38.4 (25.5)	74.1 (50.1)
Floating Provision (over and above NHB Provisioning norms) (Previous Year)				0.00 (10.0)
Total Provisions (Previous Year)	**0.00** (0.00)	**35.7** (24.6)	**38.4** (25.5)	**74.1** (60.1)

4. Interest on non-performing assets is recognised on realisation basis as per the NHB Guidelines. Accordingly the total interest not recognised as at the Balance Sheet date is summarised as under:-

	Rs in millions
Cumulative interest B/F from last Balance Sheet	78.5
Less: Recovered/ written back/ written off during the half year	-
Add: Interest not recognised for the half year on	
- Sub Standard Assets (Net)	18.3
- Doubtful Assets	0
Total interest not recognised as on 30.09.2004	**96.8**

5. Managerial remuneration (paid in accordance with the regulations of Punjab National Bank):-

Rs in millions

	For the half year Ended September 30, 2004	For the half year Ended March 31, 2004
Salaries and Allowances	0.2	0.3
Contribution to Provident Fund	0.0	0.0
Total	**0.2**	**0.3**
Value of perquisites (Car, Accommodation etc)	0.0	0.0
Travelling Expenses	0.1	0.2

6. Related Party Transactions:

In view of the exemption available to the company under para 9 of Accounting Standard on Related Party Disclosures (AS-18), related party relationships with other state controlled enterprises and transactions with such enterprises are not being disclosed. However, the company has identified all other related parties having transactions during the year as given below:

a) Key Management Personnel

(Rs. in millions)

S.No	Name of transacting related party		Amount
1	Sh. V. K. Sood & Relatives (Managing Director joined on 17-10-2003. Assumed charge as MD on 16-12-2003 Resigned on 3-6-2004)	Salary & Allowances Cont. to PF Value of perquisites Travelling exp.	0.0 0.0 0.0 0.0
2	Sh. K.G. Sathyasingan & Relatives (Managing Director joined on 3-6-2004. Assumed charge as MD on 20-7-2004)	Salary & Allowances Cont. to PF Value of perquisites Travelling exp.	0.1 0.0 0.0 0.1

b) Only the independent directors are paid sitting fees for the board / committee meetings at the rate of Rs.3000/- per meeting besides out of pocket expenses. During the year the Company has paid a sum of Rs.0.1 million towards sitting fees.

7. Deferred Taxes

i) The break up of net deferred tax asset as at 30.9.2004 is as under:

(**Rs in millions**)

	Deferred Tax Asset	Deferred Tax Liability
Timing Differences on account of :		
Differences between book depreciation and depreciation under the Income Tax Act, 1961	0.3	0
Interest not recognised on NPAs	29.4	0
Total	**29.7**	**0**
Net deferred tax asset	**29.7**	

8. Earning per share (EPS) calculation (basic and diluted)

	Unit	For Half Year ended 30.09.2004	2003-04
a. Amount used as the numerator Profit after tax	Rupees	77,479,547	154,965,052
b. Weighted average number of equity shares used as the denominator	Number	30,000,000	30,000,000
c. Nominal value of shares	Rupees	300,000,000	300,000,000
d. Earning per share (EPS)	Rupees	2.58*	5.17

* not annualised

9. Segment Reporting : Company's prime business is to provide loans for purchase, construction, repairs & renovations of Houses/ Flats etc. There are no business operations located "Outside India". Hence all the activities are considered as a " Single business/ Geographical Segment" for the purposes of Accounting Standard on Segment Reporting (AS-17), issued by The Institute of Chartered Accountants of India.

10. The provision for Income Tax has been made on the basis of the accounting practices consistently followed by the Company after allowing benefits under section 36(1)(viii) of the Income Tax Act, 1961. The method of bifurcation of income & expenses for long term housing finance is the same as that of last years'.

11. During the previous year, the Company had taken the vacant possession of mortgaged property consisting of Land & Building in Mumbai, in full satisfaction of Company's claim as per the MOU/ Agreement at the valuation of Rs.35.0 millions which has been shown as "Other Assets" in Schedule 7.

    Profit or loss on sale of the property shall be ascertained and accounted for in the year of its disposal.

12. As per the information available with the company, there are no amounts payable to small scale industrial undertaking.

13. With respect to company's borrowing in FCNR(B)- Term Loan Account and ECB, the company has paid/ incurred interest amounting to Rs.8.5 millions (Previous year Rs. 16.2 millions) in foreign currency. Further the company has taken a foreign currency fluctuation cover by way of Forward Exchange Contract from reputed approved dealer. Rs.0.5 million (Previous year Rs.0.1 million) being the liability of company with respect to exchange difference for the Forward Exchange Contract as on 30.09.2004 has been ascertained and accounted for as per the guidelines laid down by the Accounting Standard on accounting for the effects of changes in Foreign Exchange rates (AS-11) issued by The Institute of Chartered Accountants of India.

14. All Computer Software purchased from outsiders are being amortised as per Accounting Standard 26 (AS-26) as laid down by The Institute of Chartered Accountants of India. Considering the technological risks and issues of technological obsolescence, the Depreciation at the rate of 60% p.a. is being provided.

    All subsequent expenditure on software after its purchase and /or installation are recognised as expenditure whenever incurred.

15. Government Notification about Cess payable under section u/s 441-A of the Companies Act, 1956, being not available, necessary provision has not yet been made.

16. Amount due from officers as at 30.9.2004 was Rs.1,100/- (Previous year Rs.4,400/-). Maximum amount due from officers at any time during the year was Rs.4,400 /- (Previous year Rs. 5,500/-).

17. Contingent liabilities not provided for

Rs in millions

	As at September 30, 2004	As at March 31, 2004
- Estimated amount of contracts remaining unexecuted (net of advance)	0.1	0.2
- Claims against the Company not acknowledged as debt	0.1	0.0
- Income tax matters under dispute	26.2	23.3
- Interest tax matters under dispute	4.1	4.1

19. Previous year figures have been rearranged/regrouped wherever necessary.

20. Figures have been rounded off to the nearest rupee.

21. BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. REGISTRATION DETAILS

Registration No.	55-33856	State Code	55
Balance Sheet Date	30.09.2004		

II. CAPITAL RAISED DURING THE YEAR

(Amount in Rs. millions)

Public Issue	NIL	Right issue	NIL
Bonus Issue	NIL	Private Placement	NIL

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS

(Amount in Rs. millions)

Total Liabilities	**8296.6**	**Total Assets**	**8296.6**
SOURCE OF FUNDS			
Paid up Capital	300.0	Reserves & Surplus	653.3
Secured Loans	5880.0	Unsecured Loans	1463.3
APPLICATION OF FUNDS			
Net Fixed Assets	29.5	Investments	423.7
Net Current Assets	7843.4	Miscellaneous Expenditure	0
Accumulated Losses	0		

IV. PERFORMANCE OF THE COMPANY

Amount in Rs. millions)

Turnover and other income	430.4	Total Expenditure	332.8
Profit before tax	97.6	Profit After Tax	77.5
Earning per share (rupees)	2.58	Dividend Rate (%)	0

V. GENERIC NAME OF THREE PRINCIPAL PRODUCTS/SERVICES OF COMPANY

(As per Monetary terms)

Item code No.	N.A.
Product Description	Housing Finance Activities

ANNEXURE- E

GUPTA GOEL & KHANNA
Chartered Accountants
68, DARYAGANJ, NEW DELHI 110002
Ph.23275830, 35214455 Fax: 23260007

The Board of Directors
PNB Asset Management Company Limited
4th floor, PNB Building
5 Sansad Marg, New Delhi-110001

Sir,

As desired for the purpose of certification of statement of accounts to be incorporated in the offer document proposed to be issued by Punjab National Bank in connection with the follow on public offer of the Equity Shares, We stated as follows:-

1. We have examined the audited financial statement of PNB Asset Management Company Ltd., for the five financial year ending with 31st March, 2004 being the last date up to which accounts have been made and audited by the auditors of the company of those respective years and unaudited financial statement for the half year ending 30th September, 2004. We certify that the financial statement for the six months ending 30th September, 2004 has not been subjected by us to a complete audit in accordance with the generally accepted auditing practices necessary for expressing an opinion whether the statement show a true and fair view.
2. The aforesaid financial statement have been prepare in accordance with the Companies Act, 1956 and as per SEBI Regulation issued from time to time and subject to the limitation for disclosure required therein. We however, conducted a limited review of the six months ending on 30th September, 2004 to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to the enquiries of the Company personnel and procedures applied to financial data and thus provide less assurance than audit. We have not performed an audit and accordingly, we do not express an opinion on the same.
3. The profit & Loss for the five financial years ending on 31st March, 2004 and the Balance Sheet as at the end of the respective years and the significant accounting policies are prepared from the aforesaid accounts and making such adjustments and regrouping which were in our opinion considered appropriate, subjects to notes on accounts as per audit reports of respective years and various qualifications made in the audit's report of respective years. Based on the limited review for the six months ending 30th September, 2004 conducted by us as aforesaid, nothing has come to our notice that causes us to believe that the accompanying statements do not give a true and fair view in accordance with the accounting standards, other recognized accounting policies and practices and relevant statutory requirements. The figures of five years have been complied and verified from the audited statement of account of the company.

For Gupta Goel & Khanna
Chartered Accountants

Vinod Khanna
Partner
M.no.81148

New Delhi
15.10.2004

PNB ASSETS MANAGEMENT CO. LTD

I. SUMMARIZED PROFIT AND LOSS ACCOUNT

Rs. In millions

	Audited					Reviewed
Year ended March 31	**2000**	**2001**	**2002**	**2003**	**2004**	**30.9.04**
INCOME						
Management fees	26.7	19.0	13.6	14.1	15.9	1.1
Dividend	0.4	0.1	1.9	1.6	1.5	0.2
Interest	17.0	17.8	17.4	15.1	13.2	6.2
Profit on sale of Inv.	9.6	0.8	7.8	1.1	2.8	0.0
Profit on sale of Assets	0.0	0.0	-	-	-	0.0
Int. on Income tax refund	0.4	0.5	0.5	0.3	-	0.3
Miscellaneous Income	0.0	0.1	0.5	0.0	0.0	32.0
Provision for expenses written back	0.1	0.0	0.0	0.1	0.0	0.1
Provision for fall in value of Inv. Written back	0.0	0.0	0.0	3.0	6.8	-
TOTAL INCOME	**54.2**	**38.3**	**41.7**	**35.3**	**40.2**	**39.9**
EXPENDITURE						
Employees remuneration & benefits	5.5	6.4	6.1	6.1	6.8	4.5
Legal & Prof. Charges	0.5	1.6	1.1	1.0	0.9	0.1
Security Expenses	0.1	0.1	0.1	0.1	0.1	0.0
Rent	3.0	2.0	2.0	2.0	2.0	0.0
Electricity & Water charges	0.1	0.0	0.0	0.0	0.0	-
Insurance	0.0	0.3	0.0	0.0	0.1	0.3
Communications	1.4	1.5	1.4	1.4	1.3	0.3
Auditor’s fees	0.1	0.0	0.1	0.1	0.3	0.1
Printing & Stationery	0.2	0.3	0.3	0.3	0.3	0.1
Repairs & Maintenance	0.5	0.5	0.7	0.6	0.8	0.1
Travelling & Conveyance	1.2	1.1	1.4	1.7	1.3	0.6
Business Promotion	0.0	0.0	0.2	0.2	0.1	0.0
Entertainment	0.2	0.3	0.2	0.3	0.1	-
Initial Issue Exp. Amortised	0.2	0.2	0.2	0.2	0	-

Rs. In millions

Year ended March 31	Audited					Reviewed
	2000	**2001**	**2002**	**2003**	**2004**	**30.9.04**
Miscellaneous Exp.	0.2	0.1	0.1	0.1	1.2	0.3
Scheme mgmt. Exp.						
A) on account of assured returns	52.1	22	8.5	0	0	-
B) others	6.4	1	1.1	0.6	1.2	0.4
Depreciation	0.8	0.9	1.5	1.4	1.4	0.6
Loss on sale of fixed Assets	0.2	0.1	0	0	0	-
Loss on sale of inv.	0.3	1.1	0.1	0.1	3.7	-
TOTAL	**73.0**	**39.5**	**25.1**	**16.2**	**21.6**	**7.4**
Profit/(loss) for the yr. Before tax	**-18.8**	**-1.2**	**16.6**	**19.1**	**18.6**	**32.5**
App./Dep. In investment	2.0	-7.1	0.0	0.0	0.0	-1.3
Less prior period adj.	0.0	0.9	-0.5	0.1	0.0	0.0
Less short prov. Of Income	0.0	0.0	0.0	0.0	0.0	0.0
Tax for earlier years	0.0	0.0	0.0	0.0	0.0	-
Profit/loss before tax	**-16.8**	**-7.4**	**16.1**	**19.2**	**18.6**	**31.2**
Prov. For tax	0.0	0.0	1.1	1.7	1.1	0.7
Profit/loss after tax	**-16.8**	**-7.4**	**15.0**	**17.5**	**17.5**	30.5
Profit/loss brought forward	-97.5	-114.4	-121.7	-106.7	-89.2	-71.7
Profit/loss available for appropriation	**-114.3**	**-121.8**	**106.7**	**-89.2**	**-71.7**	**-41.2**

II. SUMMARIZED STATEMENT OF ASSETS AND LIABILITIES

Rs. in millions

	Audited					Reviewed
AS AT MARCH 31	**2000**	**2001**	**2002**	**2003**	**2004**	**30.9.04**
LIABILITIES						
Share capital	290.0	290.0	290.0	290.	290.0	290.0
Reserves & Surplus	0.0	0.0	0.0	0.0	0.0	0.0
Profit & Loss Account	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities	2.3	4.8	1.8	0.9	1.3	0.2
Provisions	0.0	0.0	0.0	0.0	0.0	-
A) for assured returns	13.6	10.9	0.0	0.0	0.0	-
B) others	0.2	0.1	1.2	3	4.3	2.3
TOTAL LIABILITES	**306.1**	**305.8**	**293.0**	**293.9**	**295.6**	**292.5**
ASSETS						
Fixed Assets (net of dep.)	2.6	8.2	6.3	8.0	6.7	6.0
Investments	114.9	119.3	32.7	28.4	35.1	24.6
Interest/div.Accrued	3.7	6.6	3.8	1.7	2.2	4.5
Cash & Bank balance	23.6	39.6	135.3	156.4	149.4	208.1
Loans & Advances	16.5	8.5	7.6	8.6	21.8	8.1
Prepaid Expenses	0.3	0.3	0.1	0.1	0.1	0.0
Interest Recoverable	4.3	0.9	0.1	0.0	0.3	-
Other current assets (including sundry debtors)	25.3	0.3	0.2	1.5	8.3	-
Preliminary/Preop. exps. (to the extent written off)	0.5	0.4	0.2	0.0	0.0	-
Profit & loss account	114.4	121.7	106.7	89.2	71.7	41.2
TOTAL ASSETS	**306.1**	**305.8**	**293.0**	**293.9**	**295.6**	**292.5**

III. No adjustments resulting from Audit Qualifications, changes in accounting policies and other matters are required.

IV SIGNIFICANT ACCOUNTING POLICIES

1. (a) Basis of Accounting

The financial statements are prepared under the historical cost convention on accrual basis and are in accordance with the requirements of the Companies Act, 1956.

(b) Fixed Assets

Fixed Assets are stated at cost of acquisition. Depreciation is provided on straight line method at the rates not less than as specified in Schedule XIV of the Companies Act, 1956.

(c) Investments

(a) Long-term investments of the Company are intended to be held till maturity. However Govt. Securities/PSU Bonds/Equity Shares may be sold even before maturity keeping in view the market conditions, interest scenario or as per requirements.

(a) Investments are stated at cost on the date of Balance Sheet. However, provision is made for diminution in the value of investments as per market rates and on YTM basis for non-traded debt on the date of Balance Sheet. Appreciation, if any, has been ignored.

(b) NCDs bought from PP 91, RIPS 90 (Rollover) and RIPS 94(schemes of PNB Mutual Fund) were valued at cost on the date of Balance Sheet as on 31.3.2002 and no provision was made for the diminution in the value of these NCDs. As per the purchase agreement, net shortfall, if any, either of Principal at the time of realisation of these securities or of interest may be met out of future realisations/income earned in respective schemes.

2. **REVENUE RECOGNITION**

(a) Revenue is recognised on accrual basis as per the recognised mercantile system of Accounting. However, the accrual of interest in the default debentures is not being done. Income in these cases is being recognised on actual receipt basis.

(b) Management fee is recognised on accrual basis as certified by the auditors of PNB Mutual Fund and as per the rates agreed between Board of Trustees and PNB Asset Management Company Ltd. in terms of SEBI regulations.

3. PRELIMINARY EXPENSES

Preliminary expenses incurred on incorporation of the Company are amortised over a period of ten years in equal instalments. Expenses incurred post incorporation are being amortised over a period of five years in equal instalments.

4. EXPENSES OF SCHEMES MANAGEMENT

Initial issue cost/expenses under each scheme exceeding prescribed limits as per SEBI (Mutual Funds) Regulations, 1996 and Asset Management Company agreement with PNB Mutual Fund, if any, are absorbed as revenue expenditure in the year in which the same are incurred.

5. RETIREMENT BENEFITS

(a) Valuation of Leave Encashment is based on actuarial valuation.

(b) The Company has taken the policy of Life Insurance Corporation under Group Gratuity Scheme to cover the liability for gratuity for its employees only and not for the employees on deputation from PNB.

V SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

Changes between Ist April, 1999 and 30th September, 2004 - NIL –

However, during the year financial year 2001-2002, the rates of Depreciation have been revised. The category wise changes in the rates of depreciation are given below:

Category	Previous Rates	Revised/ Current rates
Furniture and Fittings	6.33%	10.00%
Vehicles	9.50%	20.00%
EDP	16.21%	33.33%
Equipment	6.33%	6.33%
Software	-	20.00

VI. MATERIALNOTES ON ACCOUNTS FOR THE PERIOD 1.4.99 TO 30.09.2004

1. Contingent Liabilities as on 30.09.2004 –NIL
2. The Company being an Asset Management Company of PNB Mutual Fund, the main source of income is the management fee charged from various schemes floated by PNB Mutual Fund. Simultaneously the company is earning interest / dividend on funds invested in Bank FDRs, debt and equity.
3. The Managing Director-Shri Ranjan Dhawan was on deputation from Punjab National Bank till 05/07/03. After 05/07/03 Managing Director Shri B B Aggarwal is on Deputation from Punjab National Bank and remuneration of both is in accordance with the service rules of the Bank. Perquisites have been calculated as per the Income Tax Act amended up to date.
4. Regulation 52(6) of SEBI Mutual Funds regulations provide that total annual recurring expenses and management fees including additional fee shall at all time be within the limits prescribed under the regulations. The AMC is required to bear the excess recurring expenditure. Accordingly the excess recurring expenditure of Rs.250,000/- of BGF-99 scheme have been borne by AMC in the financial year ended 2004 though provision of Rs. 300,000/- was made in the books of the AMC. For the half year ended Sep. 2004 the excess expenditure borne by the AMC is Rs. 56,200/-

   Initial issue expenses for BGF 99 and Debt Fund 99 were incurred to the tune of Rs.265,908/- and Rs. 5,354,992/- respectively in the financial year ending March 31, 2000. As per the offer document AMC is entitled to charge an additional management fee upto 1% of weekly average net assets till the initial issue expenses borne by AMC have been recovered. In case the fund introduces an entry load at a later stage, the additional management fee will be charged only for/till the time no entry load is imposed on sale of units.
5. The company was managing four schemes of PNB Mutual Fund and NAV of all the schemes are above par as on 31.3.2004. The net worth of the company as on 31.3.2004 is Rs.218.3 millions against paid up capital of Rs.290 millions.
6. Legal and professional charges includes professional charges and legal charges on account of suits filed by the Company on behalf of Mutual Fund.
7. Actuarial Liability of leave encashment upto 31.03.2004 was assessed at Rs.260,392/-. The total liability has been fully provided for. However, the Company has taken a policy from Life Insurance Corporation of India for Group Gratuity Scheme and had paid a sum of Rs. 55,452/- as premium of this Group Gratuity Scheme.
8. Leave Travel Concession (LTC) benefits payable to the employees are being accounted on cash basis.
9. (a) Rent, at the prevailing market rate, amounting to Rs.1,986,600/- was paid to PNB for the year 2003-04 on account of office premises.

   (a) Bank accounts are being maintained mainly with PNB for carrying out day to day operations and services of PNB GILTS have been utilised for transactions/custody of Government securities.
10. Gross interest for Rs.13.25 million shown as other income (Schedule 11) includes Interest on deposits Rs.11.09 million and Interest on investment Rs.2.15 million, however these figures are inclusive of deductions of income tax amounting to Rs.2.36 million and Rs.0.04 million respectively.

11. The year-wise breakup of TDS (Schedule 7) is as under:

Assessment year	Amount
2000-2001	2,587,096
2001-2002	54,197
2002-2003	47,147
2003-2004	81,408
2004-2005	3,152,052
Total	**5,921,900**

While the assessment for the year 2004-05 is yet to be done by the income-tax authorities, assessments for the earlier years have been completed and the refunds are pending for want of certain formalities.

12. As per the requirements of Accounting Standard 22 (AS-22) "Accounting for Taxes on Income" which became applicable w.e.f. 1.04.2002, the difference between written down value of Fixed Assets as per Financial Accounts & as per the Income Tax Act 1961 deferred tax liability of Rs.0.5 million and Rs. 195,593/- for the year ending 31.3.2003 and 31.3.2004 respectively have been transferred from Profit & Loss A/c to Deferred Tax Liability.

13. Provision for Income Tax has been made as per Minimum Alternate Tax.

14. On 30th April 2004 all the schemes of PNB Mutual Fund have been transferred to Principal Financial Group. Now PNB Asset Management Company Limited is to be merged back in its holding Company Punjab National Bank. As per business transfer agreement, the company has received retirement fee of Rs. 3.20 Crores.

15. Miscellaneous expenses for the half year ended 30.9.2004 includes Rs. 200,000/- as printing charges and Rs. 436,416/- as postage charges for sending 76500 letters to all scheme holders for giving information about transfer of schemes to Principal Financial Group on 30/4/04.

16. Consequent on application of Accounting Standard 26 – Intangible Assets (AS-26) prescribed by Institute of Chartered Accountant of India which became applicable from 01/04/03: -

All Intangible items should be written off against opening Revenue Reserves, but due to non-availability of Reserves, Intangible items amounting to Rs. 42901/- cannot be written off, so these items are written off by debiting P&L A/c in usual manner.

17. No provision for CESS on turnover under section 441A of the Companies Act 1956 (as amended by Second Amendment Act 2002) has been made in the books of account in the absence of any notification regarding the applicable tax rate on the company. However, the maximum liability could be of Rs.33, 375/-.

18. Return of 12.5% was assured under the PNB Regular Income Plus Scheme-1990(Rollover). The distribution of the return is done on 31st August every year. The amount of shortfall borne for the year ended 31.8.2001 was Rs.30,443,515/-. The scheme was matured on 31.8.2001.

19. NCDs of RIPS 90(Rollover) were purchased by company during the year ending March 2002 amounting to Rs.1.66 millions on yield to maturing basis for arranging immediate liquidity for redemption of the scheme.

20. NCDS of RIPS 94 were purchased by the company during the year ending March 2002 amounting to Rs.2.32 millions on yield to maturity basis for arranging immediate liquidity for redemption of the scheme.

21. NCDs of PP 91 were purchased by AMC at Rs.33.1 millions on yield to maturity basis for arranging immediate liquidity for redemption of the scheme during the financial year 1999-2000. As per the purchase agreement, the net shortfall (if any) at the time of realisation/redemption of these NCDs (i.e.overall realisation below Rs.33.1millions) is to be met by future realisations/incomes in respect of pp-91 redemption fund under the trust. As such provision for any diminution in value of these NCDs is not being accounted for and these securities are being valued at cost.

The shortfall has since been recovered from the scheme as per the scheme of arrangement approved by the Board of Trustees and Board of AMC.

22.

	AS of March 31			
	2002	**2003**	**2004**	**30.9.2004**
Earning per share(Rs.)	0.52	0.60.	0.61	1.05
Net Asset Value per Share(Rs.)	6.32	6.92	7.53	8.37

PNB CAPITAL SERVICES LIMITED

ANNEXURE - F

SUMMARIZED PROFIT & LOSS ACCOUNT ACCOUNT

Rs. in million

	2000	2001	2002	2003
INCOME				
i. Lease and Hire Purchase	66.7	38.0	56.3	3.0
ii. Investments	49.8	44.6	17.4	(8.4)
iii. Non Fund Based	13.6	10.2	5.2	7.9
iv. Others				
Interest On Deposits	1.5	0.5	0.1	2.7
Miscelleneous Income	8.5	7.7	21.9	41.9
Provision No Longer Required	17.0	26.9	52.7	0.0
Profit on sale of assets	0.0	0.0	0.0	0.0
TOTAL	**157.1**	**127.9**	**153.6**	**47.1**
EXPENDITURE				
Personnel & other administrative expenses	20.0	14.6	9.8	5.6
Provision and other expenses	68.6	47.0	79.1	0.6
Intt on deposits and borrowings	95.3	54.6	23.2	0.3
TOTAL	**183.9**	**116.2**	**112.1**	**6.5**
PBDT	**(26.8)**	**11.7**	**41.5**	**40.6**
Less Depreciation	(31.8)	25.9	10.1	0.9
PBT	**(58.6)**	**(14.2)**	**31.4**	**39.7**
Provison for Tax	0.0	0.0	2.2	8.3
TDS Certificate Not Acknowledged	0.0	0.0	0.2	0.0
PAT	**(58.6)**	**(14.2)**	**29.0**	**31.4**
Less: Tax for previous years provided/ paid	(0.1)	0.0	0.0	0.0
Add: Excess provision for tax written back	0.9	0.0	0.0	0.0
Profit/ (Loss)	(57.8)	(14.2)	29.0	31.4
Loss Appropriated from General Reserve	0.0	0.0	0.0	0.0
Profit/ (Loss) carried over to Balance Sheet	(57.8)	(14.2)	29.0	31.4

Note:

Merged with Punjab National Bank with effect from 1st April 2003

SUMMARIZED STATEMENT OF ASSETS AND LIABILITIES

Rs. in millions

AS AT MARCH 31	2000	2001	2002	2003
LIABILITIES				
Capital	200.0	200.0	200.0	200.0
Reserves & Surplus	15.0	15.0	15.0	15.0
Secured Loans	128.7	54.8	25.4	0.0
Unsecured Loans	471.8	243.1	0.0	0.0
TOTAL	**815.5**	**512.9**	**240.4**	**215.0**
APPLICATION OF FUNDS				
FIXED ASSETS				
Gross Block	1,376.5	1,347.0	951.7	337.1
Less: Depreciation	1,150.8	1,209.5	868.3	264.7
Net Block	225.7	137.5	83.4	72.4
INVESTMENTS	565.4	392.1	250.4	191.4
Less: Depreciation	173.6	176.3	183.4	153.4
Net Investments	391.8	215.8	67.0	38.0
CURRENT ASSETS, LOANS & ADVANCES				
Inventory	24.4	9.5	0.0	0.0
Sundry Debtors	62.3	79.6	20.5	0.5
Loans & Advances	50.6	66.0	63.9	63.8
Cash & Bank Balances	2.1	5.0	13.0	80.2
Other Current Assets	126.6	61.2	26.1	5.3
Total	266.0	221.3	123.5	149.8
LESS: CURRENT LIABILITIES & PROVISIONS				
Current Liabilities	93.4	70.7	14.5	4.6
Provisions	51.9	82.6	81.4	71.7
Total	145.3	153.3	95.9	76.3
Net Current Assets	120.7	68.1	27.5	73.5
Profit & Loss Account (Dr Balance)	77.3	91.5	62.5	31.1
TOTAL	**815.5**	**512.9**	**240.4**	**215.0**

Note:

Merged with Punjab National Bank with effect from 1st April 2003

SIGNIFICANT ACCOUNTING POLICIES (2002/2003)

1. Accounting Convention

The accounts have been drawn up on the historical cost convention conforming to the statutory provisions and prevailing practices. Revenue, costs, rights and liabilities are recognized as they are earned or incurred and recorded in the financial statements of the period to which they relate.

2. Revenue Recognition

Income remaining unrealized as at the end of the year for more than stipulated period in terms of the NBFC Prudential Norms (RBI) Directions, 1998 issued by Reserve Bank Of India on 31.1.98 has not been organized. In compliance thereof income from NPA/ sub standard assets is recognized on receipt basis. Subject to above, income under various heads is recognized as follows:

i) Merchant Banking:

a) Issue Management Fee:

Income is considered in full wherever the Public/ Rights issues are closed for subscription on or before the year-end. Non-refundable advance is recognized as income upon receipt.

b) Underwriting Commission

Income is considered on the basis of minimum underwriting commission upon opening of the issue; wherever subscription list has closed before the year-end and there is no devolvement income is recognized in full.

ii) Leasing Finance

Primary Lease Rentals are accounted for on accrual basis and secondary lease rentals are accounted for on receipt basis. Assets purchased and given on lease, which do not require erection, are capitalized at cost upon confirmation of delivery. Assets requiring installations/ erection are capitalized on receipt of confirmation of installation/ erection from the lessee.

Lease rentals are considered from the date of capitalization based on a constant prevailing rate of return on the company's investment outstanding on the lease. Finance charges accrue for intervening period on related advances till capitalization of leased assets.

The interest on overdue lease rentals has been accounted for as Income when the collection for the same is reasonably certain.

Lease Management Fee is recovered in full in the year in which lease agreements are executed. This is recognized as income in the year of receipt.

iii) Hire Purchase

Hire charges on Hire Purchase transactions due during the year are taken to Income generally on Equal Spread method and Capital Recovery method as per specific terms of agreement.

iv) Intercorporate Deposit

Income on ICD is accounted for on accrual basis on the amount of deposits outstanding.

v) Trusteeship Fees

Acceptance fee is considered as income in full in the year of acceptance of Trusteeship. Annual Trust Management Fee is taken as income on accrual basis from the date of allotment of securities.

vi) Equity Parking

Service charges on funds deployed on Equity parking are taken as income on accrual basis.

vii) Project Appraisal

Income relating to project appraisals is considered in two stages, 25% on acceptance of the assignment and 75% upon completion of the appraisal.

viii) Mergers and Acquisitions

Income is recognized on completion of assignment or on receipt of fees which ever is earlier.

ix) Placement of Shares / Debentures/ Bonds

Income is recognized on completion of assignment or on receipt of fees which ever is earlier.

3. Fixed Assets

Fixed Assets including assets given on lease are stated at historical cost, inclusive of installation charges, net of depreciation and lease equalization charge.

4. Depreciation

Depreciation on fixed assets other than leased assets is provided on return down value method at rates prescribed in schedule XIV of the Companies Act.

Depreciation on leased assets is provided on straight-line method at the rates prescribed in schedule XIV of the Companies Act.

Pro rata depreciation is considered on assets acquired/ disposed off during the year

5) Stock on Hire

Stock on Hire represents the cost of hire purchase assets less margin contributed by the hirer and installments falling due during the year.

6) Investments

Investments, which are intended to be held as per permanent investments, i.e on long term basis or till maturity, are valued at costs, except in case of permanent diminution in value.

Investments are capitalized at cost plus brokerage and stamp charges.

Current Investments are valued at lower of cost or market value (Net of Expenses necessarily to be incurred on or before disclosure) for each investment, individually. Suitable provisions are made as per RBI Guidelines in case of doubtful/ disputed investments.

All those listed securities, which have not been quoted for substantial period, have been considered as “Unquoted” Investments.

“Unquoted” Investments are valued as under;

(a) Equity Shares – At Cost or Break up value of the share as per the last audited balance sheet of the company concerned whichever is less. Incase the latest Balance Sheet is not available; the shares are valued at Rs. 1/- per company.

(b) Preference Share – at cost or ace Value which ever is less.

(c) Debentures – at carrying cost if interest thereon is received regularly, where interest servicing is not regular, depending on the tenor they are treated as long term loans or other credit facilities for the purpose of income recognition and asset classification.

On the basis of methods of valuation as stated above, the resultant figure of depreciation (class- wise) is charged to the profit and loss account; and appreciation, if any ignored. The NPA guidelines are also applied and provisions if any, are charged to profit and loss account.

7. Categorization of / provisioning for loans, advances, investments etc:

As per RBI guidelines NBFC Prudential Norms (RBI) Directions, 1998 as revised from time to time, loans, advances, investments, debts and other amounts recoverable are categorized into standard, sub standard, doubtful and loss assets, and provision based on a percentage thereof is made other than for standard assets as under:

Categorization	**Provisions**
(a) Sub Standard -	10%
(b) Doubtful Assets	100% on unsecured portion
	20% - 50% on the secured portion depending on the age of the non-performing assets.
(c) Loss Assets	100%

Provision for Lease Assets

In term of the RBI Guidelines, Provisioning for lease/ Hire purchase assets has been made as follows

Categorization	**Provisions** *
If lease rental / Hire Purchase are over due for	
- More than 12 months but upto 24 months	10% of the net book value
- More than 24 months but upto 36 months	40% of the net book value
- More than 36 months but upto 48 months	70 % of the net book value
- More than 48 months	100 % of the net book value

* In addition to 100% provision of the amount of overdue net lease rentals taken to the credit of P& L Accounts in the earlier years.

8) Retirement Benefits

The company has only Gratuity and PF as retirement benefits. Provision for Gratuity Liability in respect of eligible employees who are recruited by the company is made on the basis of actuarial valuation and policy of the same has been taken with LIC and premium paid. Company's contribution to PF has been charged to Profit and loss Account. Regarding Employees on deputation from Punjab National Bank, the retirement benefit accrue and are accounted for at Punjab National Bank.

Notes forming part of accounts (2002/2003)

1. There are contingent liabilities on a/c of

Rs in million

	31.03.03	31.03.02
A) Bank Guarantee in respect of Lease / HP Finance	0.100	0.100
B) Claim against company not acknowledged as Debts	0.675	0.675
c) Demand raised by sales tax authorities which are under appeal	0.609	2.00

2. The sales tax levied by various governments on Leased transactions is recoverable form the lessee. Whatever sales tax recovered by the company has been deposited as per rule. However, there is certain demand amounting to Rs. 0.609 million raised by Sales Tax authorities of UP which are under dispute and appeals for revision / rectification have been filed. No liability can be ascertained at this stage.

3. Managerial Remuneration

   a. The Managing Director is on deputation from Punjab National Bank and her remuneration is in accordance with the service rule of the bank: (Break up of remuneration is as follows)

(Rs in million)

	31.03.03	31.03.02
Salary	0.336	0.303
Contribution to PF	0.022	0.022
Other Perquisites	0.00	0.048

A Chauffeur driven car has been provided to the Managing Director for official use.

	31.03.03	31.03.02
Directors sitting Fees	0.018	0.003
Directors Traveling Fees	0.099	0.025

4.a The company's investment in shares, bonds and Government Securities aggregate to Rs. 202.9 million (Previous Year: 250.4 million). The company's investment other than in the course of Merchant Banking business or devolvement of underwriting obligation aggregate to Rs. 78.0 million as on 31/03/2003 (Previous Year: 90.4 million), the details of which are shares Rs. 31.9 million, Bonds – Rs 7.0 million, Units- Rs. 0.7 million, NCDs/ FCDs – Rs. 38.4 million).

4.b Investment include shares having book value Rs. 239 Lacs (Previous – Rs. 23.9 million) Held under Equity Parking with buy back commitment by the contracting parties as per the terms of the respective agreements. Buy back is over due in four case (Previous year – 4 cases) and aggregate outstanding services charges is Rs. 25.2 million (Previous year – 25.2 million). Suits of specific performance have been filed in these cases. In the meantime depreciation have been provided in these investments as per RBI prudential norms.

4.c The company's investment in shares of other body corporate aggregate to Rs. 146.2 million on 31/03/03 (Previous year – 179.6 million) which includes share worth 114.3 million due to devolvement in respect of underwriting obligation as part of Merchant banking activity of the company. As such, the company's remaining investment in shares of Rs. 31.9 million is well within the levels stipulated in term of section 372 of the Companies Act 1956. However if the total figure of investment of Rs. 179.6 million is considered the same is beyond the limits specified under section 372 of the Companies Act 1956.

5. Disputed Demand of Tax

   a. Interest Tax

   The additions were made by the income tax authorities treating the interest on securities as chargeable interest under Interest Tax Act 1974 and the demand for Rs. 1964987.00 were raised related to the assessments years 1994 – 95 and 1995-96. The said demands have been adjusted against the refund due / payment made as per income tax returns filed by the company.

The above noted demands have been quashed by Commissioners of Income Tax (Appeals), however the department has filed the appeals before the tribunal and the said appeals are pending. Hence the alleged interest tax has neither been accounted for nor appropriated.

b. Income Tax

The demand of Rs. 38177707.00 has been made by the Income Tax Department for the assessment year 1994-95 has been paid by the company and the same are under appeal. Further, appeal against the demand of Rs. 200533722/- made by the Income Tax partly. Hence the alleged demands have neither been accounted for nor appropriated.

6. The financial statements have been prepared on the basis of going concern concept. The company has however stopped taking any fresh fee based business also following the RBI's advice to the sponsor bank to take steps to close the Company. Further, the sponsor bank has approved the draft scheme of amalgamation of the company with itself.

7. Balances shown under loan, advances, deposits, debtors and creditors are subject to the confirmation reconciliation and consequential adjustments. In the opinion of he management, the value of current assets, loans, and advances on realization in the ordinary course of business will not be less than the value at which these are stated in the Balance Sheet.

8. The company has no liabilities towards bonus payment as no employee is covered under he Payment of Bonus Act.

9. Public deposits Rs. 2145982/- (previous year Rs.7143322/-) including interest due there on are unclaimed deposits as on 31.3.2003.

10. Net value of Lease Assets for Rs. 71.7 million include assets of 71.7 million (previous year Rs.78.0 million) where the primary and secondary lease period are already over. Transfer of assets is pending due to non-receipt of request from the lessee/Nominee.

11. In compliance with the prudential norms, No income (last year Rs. nil million) has been derecognised during the year 2002-03.

12. Provisions for the Non-Performing Accounts (NPAs) have been made as per NBFC - Prudential Norm Reserve Bank Directions 1998 amended from time to time.

13. During the year, the company accepted one time settlement (OTS) in one lease finance and hire purchase accounts namely – Sumac International Ltd. in terms of its Compromise Policy, the payment as compromise approved is yet to be received by the company.

14. Chennai and Mumbai branches of the company were closed w.e.f 31st August 2002 and 31st December 2002 respectively.

15. There are unabsorbed losses brought forward from earlier years amounting to Rs. 14.5 million. Further, tax credit available to the company u/s 115JAAis Rs. 21.4 million. The provision for Income Tax has been made after taking into consideration the brought forward losses.

16. Reportable segments in respect of business operations of the company have been identified on the basis of nature of activities attached to each segment.

The segment wise information is as under:

Rs. In million

	Leasing & Hire Purchase	**Investments**	**Non-fund base**	**Others**	**Total**
Segment Revenue	306.2	-844.5	789.9	4458.0	4709.6
Allocable expenses	Not Available	Not Available	Not Available	Not Available	Not Available
Segment Results	306.2	-844.5	789.9	4458.0	4709.6
Unallocable expenses	-	-	-	-	737.9
Segment Assets	7173.3	3806.6	NIL	15037.1	260173.0
Segment Liabilities	Not Available	Not Available	Not Available	Not Available	7630.4

17 **Related Party Transactions**

As per Para 9 of the Accounting Standard 18 on Related Party Disclosures, the company being a state controlled enterprise is not required to make disclosures of related party relationships with other state controlled enterprises and transactions with such enterprises.

Other information as per standard is as under:

The overall supervision and control of company vests with Board of Directors. All key managerial personnel including Managing Director of the company who are on the roll of the company are on deputation from Punjab National bank. They are working full time with the company. Details of managerial remuneration are disclosed vide Note No. 3 in Schedule 'J' above.

Out of the total of Six Directors, One is independent director. Only the independent director is paid sitting fee for the Board/Committee meetings at the rate of Rs.3000 per meeting.

18 Accounting Standard 22 in regard to creation of deferred tax asset/liabilities is mandatory and became applicable to the company w.e.f 1.4.2001 and in accordance with the said Accounting Standard the calculation for accounting purposes of the deferred taxes asses are as under :

	As at 31.3.2003	**As at 31.3.2002**
FIXED ASSETS		
As per Companies Act	72260620	83403056
As per Income Tax Act	74782936	105261470
Difference	2522316	21858414
LEASE RENT NOT RECOGNISED	21921611	25952905
Total	24446930	47811319
Tax Rate	36.75%	35.70%
Tax Asset	8984215	17068641
Round off	Rs. 8.984 million	Rs.17.069 million

However, on consideration of principle of prudence, reading with clauses 15 to 18 and various other clauses of the Accounting Standard 22, the deferred tax assets is not required to be created because there is no reasonable level of certainty supported by the evidences that the company shall have sufficient future taxable income on the realistic estimate of profit. Further, as per the instruction of RBI, company has stopped accepting new business. Hence, the said deferred tax assets for Rs. 8.984 million have not been raised and accounted for in the books of accounts. The same shall be created and accounted for as and when company has reasonable certainty about the profit.

19 In accordance with the Companies (Amendment) Act 2000, deleting the provisions relating to deemed public companies, the company made an application to the Registrar of Companies for modification in its Certificate of Incorporation. After getting the Certificate of Incorporation modified, the status of the company has become private limited.

20 Previous year figures have been regrouped/rearranged wherever necessary.

PNB SECURITIES LTD.

ANNEXURE - G

SUMMARIZED PROFIT & LOSS ACCOUNT

(Rs. in million)

Year ended March 31		2000	2001	16.08.01
A.	**INCOME**			
	i) Interest on FDR	0.4	0.3	0.1
B.	**EXPENDITURE**			
	i) Filing fee	0.0	0.0	0.0
	ii) Audit fee	0.0	0.0	0.0
	iii) Pre-Operative Exp. W/Off	0.0	0.0	0.0
	iv) Preliminary Exp. W/Off	0.2	0.0	0.0
	TOTAL	0.2	0.0	0.0
C.	Profit/Loss before tax	0.2	0.3	0.1
	Provision for tax	0.3	0.1	0.0
	Income tax paid	0.0	0.1	0.0
	Profit/Loss after tax	(0.1)	0.1	0.1
	Add:Opening balance	0.3	0.2	0.3
	Balance Carried to Balance Sheet	0.2	0.3	0.4

STATEMENT OF ASSETS AND LIABILITIES

Rs. in millions

AS AT MARCH 31	2000	2001	16.8.01
LIABILITIES			
Share Capital	5.0	5.0	5.0
Reserves & Surplus (As per P/L a/c)	0.2	0.3	0.4
Current Liabilities & Provisions	0.5	0.2	0.1
Total	**5.7**	**5.5**	**5.5**
ASSETS			
Fixed assets	0.0	0.0	0.0
Cash in hand	0.0	0.0	0.0
Balance with Scheduled banks in	5.3	5.4	5.4
FDR	0.0	0.0	0.0
Balance with Scheduled bank in C/A	0.2	0.0	0.0
Intt. Accrued on FDR	0.2	0.0	0.0
Advance Tax paid	0.0	0.1	0.1
Misc expenditure (to the extent of not written off)	0.0	0.0	0.0
Total	**5.7**	**5.5**	**5.5**

Note:

The company was liquidated on 16.8.2001

SIGNIFICANT ACCOUNTING POLICIES

- The Accounts of the company are prepared on accrual basis except otherwise stated in accordance with the normally accepted accounting principles.
- The company has passed a special resolution in their 5th Annual General Meeting held on August 16, 2001 for members voluntary winding up u/s 484(1)(b) of the companies Act, 1956. Therefore the company has not followed going concern concept and has shown the assets and liabilities at net realizable value during the period under consideration.

Annexure-H

I. STATEMENT OF CONSOLIDATED PROFIT AND LOSS

(Rs. in million)

Financial Year ended March 31		2002	2003	2004
A	**INCOME**			
	Interest Earned	**68,025.8**	**76,751.1**	**79,721.2**
	Interest & Discount on advances/bills	33,619.3	37,732.8	39,466.0
	Income on Investment	31,137.8	34,321.7	38,067.7
	Interest on balance with RBI and other Inter-Bank Lending	2,276.3	1,793.8	1,092.1
	Interest on Income tax Others	992.4	2,902.8	1,095.4
	OTHER INCOME	**10,981.9**	**13,350.7**	**19,721.4**
	Commission, Exchange & Brokerage	4,396.9	4,857.7	5,577.8
	Profit on sale of investments (Net)	5,667.6	7,731.0	13,506.3
	Profit on revaluation of investments (Net)	-581.7	-697.8	-1,171.2
	Profit on sale of land,bldg & other assets (Net)	3.7	4.2	2.3
	Profit on exchange transaction (Net)	922.4	950.8	1,060.1
	Miscelleneous Income	573.0	504.8	746.1
	Total	79,007.7	90,101.8	99,442.6
B	**EXPENDITURE**			
1	**Interest Expended**	**44,358.8**	**44,732.6**	**42,639.9**
	Interest on deposits	41,388.7	41,789.9	39,431.6
	Interest on RBI /Inter-Bank borrowings	817.4	597.9	562.1
	Others	2,152.7	2,344.8	2,646.2
	Operating expenses	18,160.0	20,736.8	23,879.2
	I Payment to & provision for employees	13,207.8	14,813.5	16,596.7
	ii Amortisation of VRS Expenditure /goodwill	-	124.4	373.3
	iii Rent, Taxes & Lighting	950.5	1,066.0	1,209.4
	iv Insurance	389.5	461.6	547.2
	v Printing and Stationery	289.7	529.7	355.4
	vi Advertisement	98.9	87.8	118.8
	vii Postage, Telegrams, Telephones etc.	294.9	321.9	459.0
	viii Repairs & Maintenance	196.4	206.8	250.3
	ix Law Charges	79.1	87.8	134.1
	x Director's Fees, Allowances & expenses	3.8	3.8	3.8
	xi Auditors' fees & Expenses	133.9	156.4	179.9
	xii Other Expenditure	1,638.3	1,691.4	2,189.7
	xiii Depreciation on Banks Properties	877.2	1,185.7	1,461.6
	TOTAL EXPENDITURE	**62,518.8**	**65,469.4**	**66,519.1**

(Rs. in million)

Financial Year ended March 31	2002	2003	2004
Gross Profit before provisions & Contingencies	**16,488.9**	**24,632.4**	**32,923.5**
Add: Share of earnings / lossess in associates	392.4	468.2	139.0
Less: Provisions & Contingencies	9,885.9	15,478.2	20,911.1
Consolidated Net Profit before minnorities' interest	**6,995.4**	**9,622.4**	**12,151.4**
Less Minorities' interest	280.4	226.7	171.6
Consolidated Profit attributable to Group	**6,715.0**	**9,395.7**	**11,979.8**
Add: Brought forward consolidated profit / loss attributable to group	25.3	908.6	1,447.4
	6,740.3	**10,304.3**	**13,427.2**
APPROPRIATIONS			
Statutory Reserve	1,631.2	2,290.6	2,985.7
Revenue & Other Reserve	3,550.4	5,488.7	8,034.0
Intirim Dividend	-	-	663.3
Proposed Dividend	636.7	928.6	398.0
Dividend Tax	13.4	149.0	183.5
Balance carried over to Consolidated Balance Sheet	908.6	1,447.4	1,162.7
	6,740.3	**10,304.3**	**13,427.2**

II. STATEMENT OF CONSOLIDATED ASSETS AND LIABILITIES

(Rs. in million)

AS AT MARCH 31	2002	2003	2004
(A) ASSETS			
1 Cash in Hand	7,311.4	6,290.6	6,995.7
2 Balance with RBI	43,706.7	59,399.5	60,433.6
3 Balance with Banks			
- In India	6,152.1	13,749.0	12,941.6
- Outside India	5,158.1	774.6	995.7
4 Money at call and Short Notice	1,818.3	764.2	6,970.4
5 Investments			
- In India	287,853.5	350,762.4	435,712.8
- Outside India	116.4	128.0	144.4
6 Advances			
- In India	347,451.7	407,981.3	478,622.8
- Outside India	-	-	-
7 Fixed Assets	8,139.7	9,025.1	9,107.2
Less: Revaluation Reserve	3,381.3	3,295.8	3,210.4
	4,758.4	5,729.3	5,896.8
8 Other Assets*	33,865.8	32,207.1	34,932.8
TOTAL (A)	**738,192.40**	**877,786.0**	**1,043,646.6**
* includes Rs.455.82Cr. Being unamortised VRS expenditure			
(B) LIABILITIES			
1 Demand Deposits From Banks	1,112.5	1,660.2	1,431.8
Demand Deposits From others	66,466.1	97,178.5	97,602.2
2 Saving Deposits	216,642.0	256,479.0	304,226.1
3 Term Deposits From Banks	13,161.7	4,847.8	7,178.2
Term Deposits From others	345,234.3	399,351.8	470,295.5
4 Borrowings			
- In India	9,736.4	16,326.3	20,039.3
- Outside India	44.0	1,012.7	6,858.8
5 Other liabilities and Provisions	14,027.4	15,008.4	22,601.6
6 Subordinate Debts	37,584.6	44,040.7	60,603.0
TOTAL (B)	**704,009.0**	**835,905.4**	**990,836.5**
(C) NET ASSETS (C=A-B)	34,183.4	41,880.6	52,810.1
Represented by :			
(D) Share Capital	2,122.4	2,653.0	2,653.0
(E) Minority Interst	1,093.6	1,238.6	1,449.2
(F) Share Application money/Share Premium	1,644.9	-	-
(G) RESERVES AND SURPLUS			
I. Statutory Reserve	7,715.2	10,005.8	12,991.5
ii Capital Reserve			
a) Revaluation Reserve	3,381.3	3,295.8	3,210.4
b) Others	1,256.4	1,256.8	1,280.5

(Rs. in million)

AS AT MARCH 31		2002	2003	2004
	Capital Reserve-on consolidation	581.1	581.1	581.1
iii	Investment Fluctuation Reserve	3,101.3	5,271.3	10,279.8
iv.	Share Premium	-	1,114.3	1,114.3
v	Revenue and other Reserve	15,759.9	18,312.3	21,298.0
vi	Balance of Profit & Loss Account	908.6	1,447.4	1,162.7
	Total	32,703.8	41,284.8	51,918.3
	Less: Revaluation Reserve	3,381.3	3,295.8	3,210.4
	TOTAL (G)	**29,322.5**	**37,989.0**	**48,707.9**
(H)	**TOTAL (C TO G)**	**34,183.4**	**41,880.6**	**52,810.1**

III. CONTINGENT LIABILITIES

(Rs. in million)

AS AT MARCH 31		2002	2003	2004
i)	Claims against the Bank not acknowledged as debt	2535.8	1861.7	2146.9
ii)	Disputed income tax demand under appeal/ references etc.	3120.5	141.9	377.5
iii)	Liability for partly paid investments	3.4	3.4	1.8
iv)	Liability on account of outstanding forward exchange contracts	164314.5	163640.3	195434.7
v)	Guarantees given on behalf of constituents	30989.6	35446.8	51265.2
vi)	Acceptances,Endorcements and other Obligations	28081.9	33768.8	71679.4
vii)	i) Other items for which the bank is contingently liable	221.3	1025.1	1395.6
TOTAL	**(I)**	229,267.0	235,888.0	322,301.1
Bills for collection		29928.6	33347.6	48130.8

IV. CONSOLIDATED CASH FLOW STATEMENT

(Rs.In Million)

For the years ended 31st March			2002	2003	2004
A.	**Cash Flow from Operating Activities**				
	(i)	**Net Profit after Tax**	6,603.0	9,154.3	12,012.4
		Add Share of Earning in Associates	392.4	468.1	139.0
		Net Profit before Minority's Interest	6,995.4	9,622.4	12,151.4
		Add Provision for Tax (net of deferred tax)	2,656.2	4,036.4	7,282.8
		Profit before taxes (i)	**9,651.6**	**13,658.8**	**19,434.2**
	(ii)	**Adjustment for :**			
		Depreciation Charges (Gross)	963.1	1,271.2	1,920.4
		Less : Amount drawn from Revaluation Reserve	(85.5)	(85.5)	(85.4)
		Provision for NPAs, Floating Provision towards NPAs	6,795.6	9,352.4	11,996.2
		Provision on Standard Assets	605.3	1,211.1	475.0
		Other Provisions (net)	628.9	287.1	1,417.0
		Depreciation/ (Release) on Investments (net)	(381.6)	1,862.9	(259.9)

(Rs.In Million)

For the years ended 31st March			2002	2003	2004
	Reserve utilised for accumulated loss on PNB Caps Taken Over		0.0	0.0	(16.1)
	Interest on Subordinate debts (Financing Activity)		1,529.8	1,723.8	1,951.9
	Amortisation Expenses / Deferred Revenue Expenses/Issue Exp		1,199.4	1,291.6	(1,140.8)
	Profit / Loss on sale of Fixed Assets (net)		(3.6)	(4.0)	(2.3)
		(ii)	**11,251.4**	**16,910.6**	**16,256.0**
	Operating Profit before Changes in Operating Assets and Liabilities	**(i+ii)**	**20,903.0**	**30,569.4**	**35,690.2**
	Adjustment for net change in Operating Assets and Liabilities				
	Decrease / (Increase) in Investments		(28,229.5)	(60,077.0)	(84,706.9)
	Decrease / (Increase) in Advances		(73,440.3)	(65,152.0)	(74,707.7)
	Increase / (Decrease) in Deposits		79,756.5	116,900.6	121,216.5
	Increase / (Decrease) in Borrowings		427.4	6,868.2	9,559.1
	Decrease / (Increase) in Other Assets		(2,891.5)	(6,598.3)	1,484.0
	Increase / (Decrease) in Other Liabilities & Provisions		(1,037.2)	(3,208.4)	7,351.0
		(iii)	**(25,414.6)**	**(11,266.9)**	**(19,804.0)**
	Cash generated from Operations	**(i+ii+iii)**	**(4,511.6)**	**19,302.5**	**15,886.2**
	Tax Paid (net of refund)		1,649.4	(1,881.6)	(10,351.7)
	Net Cash from Operating Activities	**(A)**	**(2,862.2)**	**17,420.9**	**5,534.5**
B.	Cash Flow from Investing Activities				
	Investments in Subsidiary Companies / JV / RRBs		(10.0)	0.0	0.0
	Purchase of Fixed Assets (net of Sales)		(1,276.7)	(2,277.5)	(2,000.2)
	Net Cash used in investing Activities	**(B)**	**(1,286.7)**	**(2,277.5)**	**(2,000.2)**
C.	Cash Flow from Financing Activities				
	Share Application Money Recd.		6,753.9	0.0	0.0
	Issue Expenses		(54.2)	0.0	0.0
	Subordinate Bonds Issued		4,800.0	4,130.0	7,650.0
	Redemption of Subordinate Bonds		(1,899.8)	0.0	0.0
	Interest paid on Subordinate Debts		(1,529.8)	(1,723.8)	(1,951.9)
	Payments of Dividends / Corporate tax on Dividend		(626.0)	(718.4)	(1,873.2)
	Net Cash from Financing Activities	**(C)**	**7,444.1**	**1,687.8**	**3,824.9**
D	Net Change in Cash and Cash Equivalents	(A+B+C)	3,295.2	16,831.2	7,359.2
	Cash and Cash Equivalents at the beginning of the year		60,851.4	64,146.6	80,977.8
	Cash and Cash Equivalents at the end of the year		64,146.6	80,977.8	88,337.0
			3,295.2	**16,831.2**	**7,359.2**

Note :-

1 All figures in bracket represent "Cash Outflow"

2 Direct taxes paid (net of refund) are treated as arising from operating activities and are not bifurcated between investing and financing activities.

V. SIGNIFICANT ACCOUNTING POLICIES AS ON 31ST MARCH 2004

Significant accounting policies adopted in preparation of these consolidated financial statements are set out below:

1. BASIS OF PREPARATION OF ACCOUNTS:

The accompanying financial statements have been prepared to comply, in all material aspects, with applicable statutory regulatory provisions, Accounting Standards and generally accepted accounting principles and practices prevailing in India, except otherwise stated.

2. CONSOLIDATION PROCEDURE:

2.1 Consolidated financial statements of the group have been prepared on the basis of audited financial statements of Punjab National Bank (Parent) and its three subsidiaries namely (i) PNB Gilts Ltd, (ii) PNB Housing Finance Ltd., (iii) PNB Asset Management Co., Ltd and after eliminating intra group transactions unrealized profit / loss and making necessary adjustments wherever required to conform to the uniform accounting policies. The financial statements of the subsidiaries are drawn upto the same reporting date as that of parent i.e. 31st March 2004.

2.2 The differences between cost to the group of its investments in the subsidiary entities and the group's portion of the equity of the subsidiaries is recognized in the financial statement as Goodwill / Capital Reserve.

2.3 Minority interest in the net assets of consolidated subsidiaries consists of:

a) The amount of equity attributable to the minority at the date on which investments in a subsidiary is made.

b) The minority share of movements in equity since date of parent subsidiary relationship came into existence.

2.4 Investments in associates, where the group holds more than 20% of equity, are accounted for using equity method.

3. TRANSACTIONS INVOLVING FOREIGN EXCHANGE

3.1 Monetary assets and liabilities, guarantees, acceptances, endorsements and other obligations are translated in Indian Rupee equivalent at the exchange rates prevailing at the end of the year as per Foreign Exchange Dealers' Association of India (FEDAI) guidelines except (i) foreign currency deposits under various schemes and equivalent currency investments and other balances which are stated at notional rates, and (ii) advances of erstwhile London branches which are accounted for at the exchange rate prevailing on the date of parking in India.

3.2 Non-monetary items, other than fixed assets, are translated at exchange rate prevailing on the date of transaction.

3.3 Income and expenditure items are accounted for at the exchange rate prevailing on the date of transaction.

3.4 Forward exchange contracts are translated at the exchange rate prevailing on the date of commitment. Gain/loss on evaluation of outstanding forward exchange contracts is taken to revenue as per FEDAI guidelines.

4. INVESTMENTS

The Investments are categorized and valued as per the applicable RBI norms.

5. ADVANCES

5.1 Advances are classified as performing and non-performing assets and provisions are made in accordance with prudential norms prescribed by RBI.

5.2 Advances are stated net of provisions and de-recognized/ suspended interest relating to non-performing assets.

6. FIXED ASSETS

6.1 Fixed assets are stated at cost except such premises, which have been stated at revalued price.

6.2 Depreciation on Fixed assets is provided for on straight-line method based on estimated life of the asset. Leasehold land and premises are amortized over the period of the lease.

6.3 Depreciation on the leased out assets is provided on straight-line method at the rates prescribed in schedule XIV to the Companies Act, 1956.

6.4 While depreciation on additions to assets is charged for full year, it is ignored in the year of sale/ disposal. In case of assets taken over from eNBL depreciation has been charged for the post taken over period.

6.5 (a) Cost of acquisition of Computer Software Systems is amortized over a period of its economic life, subject to a maximum upto 5 years, except software costing upto Rs.5000/-, is charged to revenue.

(b) Goodwill arising on amalgamation of erstwhile Nedungadi Bank Ltd. is amortized over a period of 4 years upto 31st March 2003. The balance was written off in the year 2003-04.

7. LEASED ASSETS

Provisions against income on assets given on lease are made as per prudential norms for leasing prescribed by RBI.

8. STAFF BENEFITS

Expenses on Gratuity, Pension and Leave encashment are accounted for on accrual basis considering actuarial valuation.

9. AMORTISATION OF VRS EXPENDITURE

Payments under Voluntary Retirement Scheme are amortized over a period of 5 years as per RBI guidelines, wherever applicable.

10. REVENUE RECOGNITION

Income and expenditures are accounted for on accrual basis except Income on non-performing assets is recognised on realisation basis as per prudential norms prescribed by RBI. Commission, interest on overdue bills, exchange, locker rent, income from merchant banking transactions and dividend income on mutual fund and others are accounted for on realisation. Income from interest on refund of income tax and interest tax is accounted for in the year the order is passed by the concerned authority. Interest on matured term deposits for overdue period is accounted for as and when such deposits are renewed, as per Bank's rules. The interest on overdue lease rentals has been accounted for as income when the collection of the same is reasonably certain. Income in respect of placement of shares/debentures/bonds is recognised on completion of assignment or on receipt of fees whichever is earlier.

11. LEASE RENTALS:

Lease rentals are considered from the date of capitalization based on a constant prevailing rate of return on the group's investments outstanding on the lease. Finance charges accrue for the intervening period on related advances till capitalization of leased assets.

12. HIRE PURCHASE

Hire charges on Hire Purchase transactions due during the year are taken to income generally on equal spread method and capital recovery method as per specific terms of agreement.

13. TAXES ON INCOME

Taxes on income for the year comprise of current tax liability and deferred tax which recognise, subject to the consideration of prudence in respect of deferred tax assets, timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

VI. CHANGES IN ACCOUNTING POLICIES:

1. Goodwill arising out of amalgamation was earlier amortized over a period of 4 years. However, the parent has written off the balance amount of Rs.373.3 million in the year 2003-04, but for the said change, the profits would have been higher by Rs.248.9 million.
2. During the year 2002-03, bank has changed the accounting of Leave Encashment from Cash to accrual method. The liability ascertained on the basis of actuarial valuation amounting to Rs.765.9 million (net of Rs.250 million provided in previous year and Rs.51.9 million provision of eNBL) pertaining to the year upto 31st March 2002 has been charged to Revenue and Other Reserve. Liability of Rs239.2 million for the current year been charged to revenue. Had the bank continued the earlier policy, profit for the year 2002-03 would have been higher by Rs.239.2 million.

3. In accordance with principles enunciated in AS-26 "Intangible Assets", the Bank changed accounting policy in respect of acquisition of software system, the cost of acquisition whereof has been treated as Intangible Assets, to be amortized over the economic life of such assets, maximum up to 5 years. Up to the previous year, such expenses were charged to revenue. Had the bank continued the earlier policy, the profit for the year would have been lower by Rs 371.6 million.

VII NOTES ON CONSOLIDATED ACCOUNTS

1. The subsidiaries (which alongwith Punjab National Bank, the Parent, constitute the Group), considered in the preparation of the consolidated financial statements are:

Name of the Company	Country of incorporation	% Voting power held as at 31st March, 2002	% Voting power held as at 31st March, 2003	% Voting power held as at 31st March, 2004
i) PNB Gilts Ltd. (PNB Gilts)	India	74.79	74.79	**74.07**
ii) PNB Housing Finance Ltd. (PNB Housing)	India	100	100	100
iii) PNB Asset Management Co.Ltd. (PNB AMC)	India	100	100	100
iv) PNB Capital Services Ltd. (PNB Caps)	India	100	100	NA
v) PNB Securities Ltd.	India	100	NA	NA

2. Accounting for investment in following associates has been considered in consolidation based on equity method as provided in Accounting Standard-23

S.No.	Name of the Associate Company	Country of incorporation	Proportion of ownership percentage 31.03.2002	Proportion of ownership percentage 31.03.2003	Proportion of ownership percentage 31.03.2004
1.	Bhojpur Rohtas Grameen Bank.	India	35%	35%	35%
2.	Magadh Grameen Bank	India	35%	35%	35%
3.	Nalanda Grameen Bank	India	35%	35%	35%
4.	Pataliputra Grameen Bank	India	35%	35%	35%
5.	Haryana Kshetriya Grameen Bank	India	35%	35%	35%
6.	Hissar Sirsa Kshetriya Grameen Bank.	India	35%	35%	35%
7.	Ambala Kurukshetra Grameen Bank.	India	35%	35%	35%
8.	Kapurthala Ferozpur Kshetriya Grameen.Bank	India	35%	35%	35%
9.	Gurdaspur and Amritsar Kshetriya Grameen Bank	India	35%	35%	35%
10.	Shekhawati Grameen Bank	India	35%	35%	35%
11.	Alwar Bharatpur Anchalik Grameen Bank	India	35%	35%	35%
12.	Kisan Grameen Bank	India	35%	35%	35%
13.	Devipatan Kshetriya Grameen Bank	India	35%	35%	35%
14.	Muzaffarnagar Kshetriya Grameen Bank	India	35%	35%	35%
15.	Hindon Grameen Bank	India	35%	35%	35%
16.	Vidur Grameen Bank	India	35%	35%	35%
17.	Himanchal Grameen Bank	India	35%	35%	35%
18.	Rani Laxmibai Kshetriya Grameen bank	India	35%	35%	35%
19.	Shivalik Kshetriya Grameen Bank	India	35%	35%	35%
20.	Everest Bank Ltd.	Nepal	20%	20%	20%
21.	Asset Care Enterprises Ltd	India	NA	NA	26%

3. **Related party disclosures (AS-18):**

Name of the related party and their relationship with PNB Group:

Key Management Personnel:

Punjab National Bank:

Shri S.S.Kohli, Chairman & Managing Director

Shri T.S.Narayanasami, Executive Director

PNB Gilts Ltd.

Shri Arun Kaul, Managing Director (upto May 2003)

Shri I.D.Singh, Managing Director (w.e.f. May 2003)

PNB Housing Finance Ltd.

Shri V.P.Chaudhary, Managing Director (upto 21st Oct.2003)
Shri V.K.Sood, Managing Director (w.e.f. 16th Dec.2003)
Shri R.Nambirajan (Retired on 31st Aug.2002)
Shri Manu Chadha, Director

PNB Assets Management Co. Ltd.
Shri Ranjan Dhawan, Managing Director (upto 05th July 2003)
Shri B.B.Aggarwal, Managing Director (after 05th July 2003)

PNB Capital Services Ltd
Mrs. Sudeshna Sharma, Managing Director

Transactions of Key Management Personnel:

Amount (Rs. In million)

Item	**31.03.2002**	**31.03.2003**	**31.03.2004**
Remuneration	2.5	2.6	2.4
Intt on Deposits	Not significant	Not significant	Not significant
Deposits	Not significant	-	0.1
Loans and Advances	-	-	0.3
Sitting Fee, out of pocket exp & Concurrent audit fee	0.6	-	-

4) **Earning per Share (AS-20):**

		31.03.2002	**31.03.2003**	**31.03.2004**
a)	Earning per Share (In Rs.)			
	i) Basic	Rs.31.64	Rs.35.79	Rs.45.15
	ii) Dilutive*	Rs.31.64	Rs.35.79	Rs.45.15
b)	Amount used as numerator Profit after tax (Rs in Million)	6,715.0	9,395.7	11,979.8
c)	Nominal value of shares	Rs.10/- per share	Rs.10/- per share	Rs.10/- per share
d)	Weighted average number of equity shares used as the denominator	212,241,300	262,540,410	265,302,500

*There are no dilutive potential shares

5. Pending final clearance/ adjustment, the impact of reconciliation of inter-branch transactions, draft paid without advice, clearing imprest, refund paid/payable, balancing of subsidiary ledgers with control ledgers at some of the branches, could not be ascertained exactly but may not be significant.

6. Pending registration of title deeds, properties amounting to Rs.314.8 million (31st March 2004) are included in Premises.

7. a) In compliance with Accounting Standard-22 on "Accounting for Taxes on Income" issued by Institute of Chartered Accountants Of India, Deferred Tax Assets and Deferred Tax Liabilities have been recognised as per accounting policy of the Bank and its subsidiaries. Major components of which are set out below:

(Rs.in Million)

Particulars	**As on 31st March 2002**	**As on 31st March 2003**	**As on 31st March 2004**
Deferred Tax Assets			
Provision for Bad & Doubtful Debts	1303.6	410.9	571.4
Provision for Restructured Accounts	0	392.3	433.1
Statutory Liability	6.3	6.4	13.1
Provision for leave encashment	91.9	480.2	561.6
Others	20.6	19.4	18.6
Total	**1422.4**	**1309.2**	**1597.8**
Deferred Tax Liabilities			
Depreciation on Fixed Assets	290.9	240.0	220.5
VRS Expenditure	363.3	242.7	119.2
Software Expenditure	1.0	115.9	80.0
Others	5.5	-	0.7
Total	**660.7**	**598.6**	**420.4**
Deferred Tax Assets (Net)	**761.7**	**710.6**	**1177.4**

b) No provision is considered necessary in respect of disputed Income Tax demands of Rs.1503.4 million (31st March 2002), Rs.200.2 million (31st March 2003), Rs.405.2 Million (31st March 2004) as in the Bank's view, duly supported by expert opinion and decision on bank's own appeals on same issues, additions/ disallowances made by the Assessing Officer are not sustainable.

8. "Other Assets – Others", includes expenditure on VRS Rs.1160.8 million as on 31st March 2004 to be amortised in subsequent accounting years.

9. In terms of Govt. of India notification dated 31st January 2003, the erstwhile Nedungadi Bank Ltd. was amalgamated with the Bank and accordingly as on and from the prescribed date i.e. 01st Feb. 2003 the business, properties, assets and Liabilities have been taken over by PNB in terms of scheme of amalgamation.

The accounting treatment for the amalgamation is given on the basis of 'Purchase Method' in the year 2002-03. The asset classification, income recognition and provisioning norms in respect of advances categorized as 'Advances considered good and readily realisable' have been applied on ongoing basis. Depreciation on fixed assets acquired from eNBL is provided for the period, such assets are held by the bank. Excess of liabilities over the Assets amounting to Rs.497.7 million, being cost of business have been considered as Goodwill.

10. The bank has approved the restructuring of the Investment in IFCI, carried in "Available for Sale" category. The same involves rollover of the principal, conversion of the interest not due in bonds including Zero coupon bonds, reduction of coupon rate for preference shares and bonds, effective 01st April 2002.

In terms of permission granted by the Reserve Bank of India for the year, the post restructuring exposure to IFCI, has been shifted to " Held to maturity" category at book value in the year 2002-03. As per policy consistently followed by the bank for transfer of securities, the difference between the market value and book value amounting to Rs.1341.9 Million as been provided for, though the bank has obtained permission from Reserve Bank of India that the restructuring and transfer of IFCI bonds to ‘ Held to maturity’ category will not attract the prudential norms.

11. The financial statements of PNB Caps for the year 2002-03 have been prepared on the basis of going concern concept, though the Company has stopped accepting any fresh business following RBI’s advice to the bank to take steps to close the Company.

12. In terms of scheme of amalgamation, approved by the Board of Punjab National Bank in its meeting held on 01st March 2003 and sanctioned by the Hon’ble High Court of Delhi vide order-dated 25th August 2003, PNB Capital Services Ltd, a wholly owned subsidiary was merged with the Parent w.e.f. the appointed date 01st April 2003. The amalgamation has been accounted in the year 2003-04 for under “Pooling of Interest Method” as prescribed in AS-14.The accumulated losses amounting Rs.16.1 Million (net of Reserves) have been debited to Reserves (Revenue & Other Reserves).

13. Financial information for the year ended 31st March 2002 are as regrouped / rearranged / reclassified in the year ended 31st March 2003.

ANNEXURE I

SUMMARY OF ACCOUNTING RATIOS

(all values are in terms of Rs. in million except otherwise stated)

Year ended 31st March	2000	2001	2002	2003	2004	9/2003 (half year)	9/2004 (half year)	
1. EARNINGS PER SHARE								
Profit after tax	4,081.4	4,636.4	5,623.9	7,894.9	10,611.1	5,277.4	7,909.3	
Weighted average number of equity shares (no.)	*	*	212,241,300	262,540,410	265,302,500	265,302,500	265,302,500	
Earning Per Share (Rs.)			26.5	30.1	40.0	19.9	29.8	$
2. NET ASSET VALUE								
Share Capital	2,122.4	2,122.4	2,122.4	2,653.0	2,653.0	2,653.0	2,653.0	
Total Reserves and Surplus	20,603.5	24,569.6	30,039.5	37,149.8	46,462.2	42,368.3	54,328.7	
Less: Revaluation Reserves	3,552.2	3,466.7	3,381.3	3,295.8	3,210.4	3,253.1	3,167.6	
Intangible Assets	-	-	371.6	339.5	359.3	328.2	381.6	
Deferred Tax Assets	-	-	735.5	986.5	1,704.0	1,365.3	2,469.1	
Net Asset Value	19,173.7	23,225.3	27,673.5	35,181.0	43,841.5	40,074.7	50,963.4	
3. RETURN ON NETWORTH (%)	21.3	20.0	20.3	22.4	24.2	13.2	15.5	$

*** unclassified consolidated**

$ half yearly figures not annualized

As per the guidelines of the Reserve Bank Of India, unamortised expenditure on voluntary retirement scheme is not to be subtracted while computing capital adequacy (Tier I Capital). Similar principle has been applied while calculating net asset value / networth.

Key financial ratios during period are as under:

	Year ended 31st March					Half years ended*****	
	2000	2001	2002	2003	2004	Sep-03	Sep-04
Net NPA to Net Advances Ratio (%)	8.52	6.74	5.32	3.86	0.98	2.47	0.30
Interest Income / working Fund (%)	10.12	9.84	9.50	9.27	8.12	4.21	3.69
Non Interest Income / working Fund (%)	1.43	1.31	1.40	1.55	1.95	1.16	0.94
Return on Assets (%)	0.75	0.73	0.77	0.92	1.04	0.57	0.72
Operating Profit / working funds (%)	1.61	1.59	2.11	2.82	3.30	1.88	1.45
Business per employee (Rs.million)	10.65	14.20	16.80	19.56	22.82	20.37	24.85
Net Profit per employee (Rs million)	0.06	0.08	0.10	0.13	0.18	0.09	0.13
Capital Adequacy Ratio (%)	10.31	10.24	10.70	11.91	12.79	12.35	12.45
Tier I (%)	6.73	6.84	6.34	7.00	6.70	7.65	7.31
Tier II (%)	3.58	3.40	4.36	4.91	6.09	4.70	5.14

OTHER KEY RATIOS

	Year ended 31st March					Half years ended*****	
	2000	2001	2002	2003	2004	Sep-03	Sep-04
Credit/Deposit Ratio (%) (net)	47.54%	49.93%	53.60%	53.06%	53.72%	50.13%	54.84%
Interest spread/Average working fund (%)	3.17	3.42	3.28	3.87	3.78	1.91	1.69
Gross profit/Average working fund (%)	1.61	1.59	2.11	2.82	3.30	1.90	1.45
Operating exp./Avg. working funds (%)	2.99	3.14	2.57	2.55	2.47	1.18	1.17
Return on Average net worth (%)	23.49	21.87	22.10	25.12	26.86	14.03	16.69
Yield on advances(%)	11.99	11.12	10.67	10.04	9.08	4.73	4.16
Yield on investments(%)	11.73	11.24	10.93	10.38	9.12	4.75	4.11
Cost of deposits(%)	7.69	7.09	6.94	6.16	5.01	2.64	2.31
Cost of Borrowings (%)	5.94	6.04	8.24	2.37	1.32	0.40	0.93
Gross profit per employee (Rs. million)	0.13	0.16	0.25	0.39	0.54	0.29	0.28
Business per branch (Rs.million)	178.89	213.38	251.66	285.83	333.86	296.85	361.87
Gross profit per branch (Rs. million)	2.13	2.44	3.82	5.65	7.85	4.28	4.05

****** Unaudited and not annualised.

ANNEXURE J

CAPITALISATION STATEMENT

Rs in million

Particulars	**As on 31st March 2004**
Loan Funds	
Long Term	28,940.3
Short Term	8,364.4
Total debts	**37,304.7**
Shareholders' Fund	
Share Capital	2,653.0
Reserves & Surplus	41,188.5
Total Equity	**43,841.5**
Long term debt/Equity Ratio	**0.66**

Notes:

1. Deposits outstanding as on 31st March 2004 of Rs. 879,163.9 million not considered for computing Loan funds.
2 Reserves and surplus are after excluding revaluation reserve, intangible assets and deferred tax asset.
3. As per the guidelines of the Reserve Bank Of India, unamortised expenditure on voluntary retirement scheme is not to be subtracted while computing capital adequacy (Tier I Capital). Similar principle is applied while while calculating shareholder's funds.
4. Post issue long term debt to equity ratio cannot be determined pending completion of book building process

ANNEXURE K

STATEMENT OF TAX SHELTERS

Amount in million

		FINANCIAL YEAR ENDED 31ST MARCH					Half Years Ended*****	
		2000	**2001**	**2002**	**2003**	**2004**	**2003 SEPT**	**2004 SEPT**
TAX RATE (%)		38.5	39.6	35.7	36.8	35.9	35.9	36.6
TAX AT ACTUAL RATE ON PROFIT ADJUSTMENTS		2,080.8	2,272.0	2,715.8	4,209.8	6,479.1	2,984.3	3,726.4
PERMANENT DIFFERENCES								
I	INTEREST ON TAX FREE BONDS	(862.6)	(927.7)	(897.3)	(873.7)	(836.9)	(428.1)	(250.6)
ii	Dividends (EXEMPT FROM TAX)	(691.2)	(309.9)	(527.7)	(475.9)	(581.7)	(267.3)	(247.6)
iii	INTEREST INCOME FROM INFRASTRUCTURE PROJECT	(715.4)	(1,339.3)	(906.6)	(755.5)	(1,041.2)	(300.0)	(565.2)
iv	Others	0.0	6.4	295.7	206.5	187.3	3.0	(1,372.0)
	TOTAL (A)	(2,269.2)	(2,570.5)	(2,035.9)	(1,898.6)	(2,272.5)	(992.4)	(2,435.4)
TIMING DIFFERENCE								
I	DIFFERENCE BETWEEN BOOK DEPRECIATION AND TAX DEPRECIATION	(38.5)	58.5	(107.0)	121.5	63.0	(45.5)	(41.8)
II	PROVISION FOR BAD AND DOUBTFUL DEBTS/ WRITTEN OFF ACCOUNTS	0.0	(1,070.0)	0.0	1,591.3	974.9	745.6	(156.2)
III	AMORTISATION OF VRS , LEAVE ENCASHMENT, SOFTWARE EXP	0.0	(1,297.6)	187.4	680.4	661.2	342.4	304.0
IV	Goodwill	0.0	0.0	0.0	373.3	(373.3)	70.0	0.0
V	Others	(55.4)	0.7	11.9	(149.3)	85.3	76.0	2,820.0
	TOTAL (B)	(93.9)	(2,308.4)	92.3	2,617.2	1,411.1	1,188.5	2,926.0
	NET ADJUSTMENTS (A+B)	(2,363.1)	(4,878.9)	(1,943.6)	718.6	(861.4)	196.1	490.6
	TAX SAVINGS THEREON	(909.8)	(1,929.6)	(693.9)	264.1	(309.0)	70.4	179.5

Amount in million

	FINANCIAL YEAR ENDED 31ST MARCH					Half Years Ended*****	
	2000	**2001**	**2002**	**2003**	**2004**	**2003 SEPT**	**2004 SEPT**
TOTAL TAXATION - Current Year	1,171.0	342.4	2,022.0	4,473.9	6,170.0	3,054.7	3,905.9
Tax relating to Previous Year	69.0	765.9	128.9	(1,122.5)	892.5		(5.7)
Deferred Tax (net)	0.0	0.0	(167.4)	55.2	(462.6)	(251.2)	(1,069.0)
Debited to Provisions & Contingencies as per profit and loss account before restatement	1,240.0	1,108.3	1,983.5	3,406.6	6,599.9	2,803.5	2,831.2
Impact of adjustments				(306.2)	(254.9)	(127.5)	303.9
Adjusted Amount debited to Profit and Loss a/c	**1,240.0**	**1,108.3**	**1,983.5**	**3,100.4**	**6,345.0**	**2,676.0**	**3,135.1**

***** Unaudited

ANNEXURE L

Statement of Borrowings

Rs. In Million

	FINANCIAL YEAR ENDED 31ST MARCH					Half Years Ended***	
	2000	**2001**	**2002**	**2003**	**2004**	**30.9.03**	**30.9.04**
Reserve Bank of India	5,133.5	3,000.0	2,690.0	-	43.4	-	-
Other Banks	107.7	436.5	319.6	1,842.1	5,724.9	3,546.5	5,942.1
IDBI Refinance	0.2	0.1	-	-	-	-	-
SIDBI Refinance	380.6	2,163.1	97.5	3,123.9	116.6	116.1	86.7
NABARD Refinance	846.3	1,006.6	928.3	642.9	375.0	491.2	376.3
EXIM Refinance	93.1	54.7	6.4	-	-	-	-
Borrowings Outside India	62.9	71.0	43.9	1,012.7	6,630.7	3,298.7	13,115.1
Sub total	**6,624.3**	**6,732.0**	**4,085.7**	**6,621.6**	**12,890.6**	**7,452.5**	**19,520.2**
VRS Bonds	-	2,025.1	946.6	886.8	835.5	859.9	815.9
Tier -II Bonds	8,497.7	8,898.5	11,798.6	15,928.6	23,578.6	18,578.6	23,428.6
TOTAL	**15,122.0**	**17,655.6**	**16,830.9**	**23,437.0**	**37,304.7**	**26,891.0**	**43,764.7**
Break up for tier II bonds							
Series I	1,999.2	-	-	-	-	-	-
Series II	1,899.9	1,899.9	-	-	-	-	-
Series III	3,998.6	3,998.6	3,998.6	3,978.6	3,978.6	3,978.6	3,978.6
Series IV	600.0	600.0	600.0	600.0	600.0	600.0	600.0
Series V	-	2,400.0	2,400.0	2,400.0	2,400.0	2,400.0	2,400.0
Series VI	-	-	3,000.0	3,000.0	3,000.0	3,000.0	3,000.0
Series VII	-	-	1,800.0	1,800.0	1,800.0	1,800.0	1,800.0
Series VIII	-	-	-	950.0	950.0	950.0	950.0
Series VIII	-	-	-	2,950.0	2,950.0	2,950.0	2,950.0
Series IX	-	-	-	-	2,650.0	2,650.0	2,650.0
Series X	-	-	-	-	5,000.0	-	5,000.0
Series 97 (eNBL)	-	-	-	150.0	150.0	150.0	-
Series 97 (eNBL)	-	-	-	76.5	76.5	76.5	76.5
Series 2000 (eNBL)	-	-	-	23.5	23.5	23.5	23.5
	8,497.7	8,898.5	11,798.6	15,928.6	23,578.6	18,578.6	23,428.6

Notes

*** Unaudited

1. All the above loans are unsecured. This statement excludes deposits(demand and term deposits, savings bank)

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN INDIAN GAAP AND U.S. GAAP

The summarized financial information and financial statements included in this Red Herring Prospectus have been prepared in accordance with the requirements of the Companies Act and the Banking Regulation Act and accounting principles generally accepted in India (collectively "Indian GAAP"), which differ in certain respects from the accounting principles generally accepted in the United States (or "U.S. GAAP").

The following table summarizes significant measurement differences between U.S. GAAP and Indian GAAP insofar as they affect financial information reported in this Red Herring Prospectus.

Various U.S. GAAP and Indian GAAP pronouncements have been issued for which the mandatory application date is later than the reporting dates in this Red Herring Prospectus. These, together with standards that are in the process of being developed in both jurisdictions, could have a significant impact on future comparisons between U.S. GAAP and Indian GAAP.

Particulars	Indian GAAP	U.S. GAAP
Format and content of financial statements	Entities are required to present balance sheets, profit and loss accounts and, if listed or proposing listing, cash flows for two years together with accounting policies, schedules and notes. Entities seeking a listing are required to present five years of adjusted financial information. Format for presentation of financial statements is as prescribed by the relevant statute.	All entities are required to present balance sheets, income statements, statements of shareholders' equity, cash flows and comprehensive income, together with accounting policies and notes to the financial statements. The extent of disclosures in the notes to financial statements generally is far more extensive than under Indian GAAP. No specific format is mandated, generally items are presented on the face of the Balance Sheet in decreasing order of liquidity. Income statement items may be presented using a single-step or a multiple step format. Expenditure must be presented by function.
Allowance for credit losses	Allowance for credit losses are based on defaults expected both on principal and interest. The allowance does not consider present value of future inflows. The allowances are made in accordance with the prudential norms prescribed by the Reserve Bank of India (RBI).	Loans are identified as non- performing and placed on non- accrual basis, where management estimates that payment of interest or principal is doubtful of collection. Non-performing loans are reported after considering the impact of impairment. The impairment is measured by comparing the carrying amount of the loan to the present value of expected future cash flows or the fair value of the collateral (discounted at the loan's effective rate).
Investments in securities	Securities are classified as held to maturity, available for sale and held for trading as per RBI guidelines. Held to maturity are valued at cost unless more than face value in which case the premium is amortized over the remaining period / years of maturity. Held for trading securities are valued scrip- wise and net depreciation is accounted for. Available for sale are valued scrip- wise and net depreciation under each category is provided for while net appreciation is ignored.	Investments in marketable equity and all debt securities are classified according to management's holding intent, into one of the following categories: trading, available for sale, or held to maturity. Trading securities are marked to fair value, with the resulting unrealized gain or loss recognized in the income statement.

Particulars	Indian GAAP	U.S. GAAP
	Amortisation of purchase premium is required in respect of 'Held to Maturity' category	Available-for-sale (AFS) securities are marked to fair value, with the resulting unrealized gain or loss recorded directly in a separate component of equity called 'Other Comprehensive Income' until realized, at which time the gain or loss is reported in income. Held-to-maturity (HTM) debt securities are carried at amortized cost. Other than temporary impairments in the value of HTM and AFS investments are accounted for as realized losses. Amortisation of purchase premium and discount is required for all the categories of debt securities.
Loan origination fees/costs	Loan origination fees and costs are taken to the income statement in the year accrued/ incurred.	Loan origination fees (net of loan origination costs) are deferred and recognized as an adjustment to yield over the life of the loan.
Consolidation and investments in subsidiaries	In India, the reporting entity generally follows legal form, and under the Companies Act is considered to be the legal entity rather than a group. Accordingly, there is no legal requirement to prepare consolidated financial statements. In stand alone financial statements, investments in subsidiaries, if classified as long term investments, are accounted at cost less an allowance for permanent impairments. If disclosed as current investments, they are valued at lower of cost and fair value. Accounting Standard (AS21) on "Consolidated Financial Statements", does not require consolidation, but sets out the standards to be followed in the event that consolidated financial statements are presented or required by law or regulation. SEBI requires listed companies and those seeking a listing to publish consolidated financial statements in accordance with AS21 in addition to the separate financial statements of the parent.	Under U.S. GAAP, there is a presumption that consolidated financial statements present more meaningful financial information for a parent and subsidiaries than separate financial statements of the parent. Accordingly, consolidation is required for entities where the parent has majority financial control, generally when it controls more than 50% of the outstanding voting stock, except when control is likely to be temporary or is impaired. Separate financial statements of the parent only are not presented. Entities where the minority shareholder has substantive participating rights overcome the presumption that the majority shareholder controls the entity thus precluding consolidation of the results of that entity. In such cases, the equity method of accounting applies. Entities where the minority shareholder has protective rights only are consolidated. For the purposes of identifying the voting interests held in an investee, all direct and indirect interests are considered. Accordingly, certain investees may be considered as

Particulars	Indian GAAP	U.S. GAAP
	For the purposes of identifying the voting interests held in an investee, direct interests and those indirect interests held through a subsidiary are considered. Unlisted entities with subsidiaries will continue to have the option of not presenting consolidated financial statements.	subsidiaries to be consolidated under U.S. GAAP, which may be treated as equity affiliates under Indian GAAP. In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" an interpretation of Accounting Research Bulletin (ARB) 51 that applies to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. A variable interest entity to be consolidated is one in which a party could face risk of loss without having an equity interest, and includes many entities that would previously have remained off-balance sheet.
Investments in associates or affiliates	The equity method of accounting for investments in associates is required in consolidated financial statements of listed companies. The definition of associates and equity accounting are essentially similar to US GAAP. There is no requirement to apply the equity method of accounting in the standalone financial statements of the parent and the same are accounted for in the same manner as other investments in the stand alone financial statements of a parent. Unlisted companies that do not prepare consolidated financial statements could continue to account joint venture investments as before.	Investments over which the investor can exert significant influence, generally presumed when the investor owns between 20% and 50% of the voting stock, are required to be accounted for using the equity method. The equity method requires investors to record their investment in the associate as a one-line asset and reflect their share of the investee's net income/loss in their earnings. Dividends received reduce the investment account. This method is also followed for unconsolidated subsidiaries.
Interests in joint ventures	Investment in jointly controlled entities is accounted in stand alone financial statements of the parent in the same manner as stated in 'Consolidation and investment in subsidiaries' above. Interests in jointly controlled entities of a venture should be recognized in its consolidated financial statements on a proportionate consolidation basis unless by virtue of a contractual arrangement joint control is established over an entity which is a subsidiary of that enterprise within the meaning of AS 21, in which case the entity is consolidated by the said enterprise and is not treated as joint venture. Additionally,	An incorporated joint venture is treated as a subsidiary or an affiliate, depending on the level of control of the joint venturer, and either consolidated or accounted for using the equity method, respectively. Accounting for interests in jointly-controlled assets and jointly-controlled operations of a venture is similar to Indian GAAP.

Particulars	Indian GAAP	U.S. GAAP
	interests in jointly-controlled assets and jointly-controlled operations of a venture are required to be recognized in the separate financial statements and consequently in its consolidated financial statements. Unlisted companies that do not prepare consolidated financial statements could continue to report joint venture investments as before.	
Business combination	Business combinations are accounted for either as pooling of interests or as acquisitions. Accounting for business combinations as pooling of interests is permitted only on fulfillment of certain conditions. Non-fulfillment of one or more conditions results in the combination being accounted for as an acquisition using the 'purchase method' of accounting. Under the pooling of interest method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts after making changes for uniformity of accounting policies. Under the purchase method, assets and liabilities are recorded either at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities on the basis of their fair values at the date of acquisition.	The 'Purchase method' of accounting is required for all business combinations. SFAS No. 141 requires intangible assets to be recognized if they arise from contractual or legal rights or are "separable", i.e., it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. Under APB Opinion No. 16, the pooling of interest method is required in respect of combination of entities under common control in a manner similar to Indian GAAP. Under purchase accounting, the consideration is measured at fair value, the purchase price allocated to the fair values of the next assets acquired including intangibles, and goodwill recognized for the difference between the consideration paid and the fair value of the net assets acquired.
Acquired Goodwill	Goodwill arising on amalgamation is amortised to income on a systematic basis over its useful life, not exceeding five years unless a longer period can be justified. (AS 14) The amount of goodwill recognized is the difference between the consideration paid and the book value of the net assets acquired. Negative goodwill is credited to a capital reserve. Goodwill arising on the acquisition of shares of a company is generally not separately recognized, but is included in the cost of the investment.	Under SFAS No. 142, effective for fiscal years beginning after December 15, 2001, goodwill arising on new acquisitions and any unamortized balance for prior acquisitions will no longer be subject to amortization. Instead, such goodwill will be tested for impairment on an annual basis or whenever triggers indicating impairment arise. The impairment test is based on estimates of fair value at a reporting unit level.

Particulars	Indian GAAP	U.S. GAAP
	For companies that prepare consolidated financial statements, goodwill arising on consolidation is recognized upon consolidation. Such goodwill is not amortized. Additionally, goodwill needs to be tested for impairment on annual basis, as required by AS 28 "Impairment of Assets".	
Impairment of assets	Applicable for accounting periods beginning from April 1, 2004 onwards. The standard required companies to assess whether there is any indication that an asset is impaired at each balance sheet date. If such an indication exists, the company is required to estimate the recoverable amount of the asset. If the recoverable amount of an asset is less than its carrying amount, that carrying amount of the asset should be reduced to its recoverable amount. That reduction is reported as an impairment loss.	SFAS No.144 develops one accounting model for long-lived assets other than goodwill that are to be disposed of by sale, as well as addresses the principal implementation issues. SFAS No.144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. The impairment review is based on undiscounted cash flows at the lowest level of independent cash flows. If the undiscounted cash flows are less than the carrying amount, the impairment loss must be measured using discounted cash flows.
Property, plant and equipment	Fixed assets are recorded at historical costs or revalued amounts. On revaluation, an entire class of assets is revalued, or a selection of assets for revaluation is made on a systematic basis. There is no restriction on the frequency of revaluation. However, revaluation should not exceed the recoverable amount of assets.	Revaluations are not permitted.
Issuance and redemption costs for borrowings	Debt issuance costs may be amortized, charged as an expense or charged to the Securities Premium Account. Redemption premiums payable on the redemption of debt may be accrued over the life of the debt.	Debt issuance costs are treated as a deferred charge and amortized using the effective interest rate method over the life of the debt. Redemption premiums are accrued as a yield adjustment over the life of the debt.
Foreign exchange	AS11 "The Effects of Changes in Foreign Exchange Rates" deals with accounting for foreign exchange transactions. Transactions in foreign currency are recorded at the	Under US GAAP gains or losses arising from foreign currency transactions are included in determining net income. Foreign exchange gains or losses are not included in interest cost.

Particulars	Indian GAAP	U.S. GAAP
	exchange rate prevailing on the date of the transaction. Monetary items are restated at year-end exchange rates. Exchange differences arising on transactions and translation of monetary items are recognized as income or expense in the year in which they arise. Foreign exchange losses that relate to foreign borrowings incurred to finance an asset are treated as a part of borrowing cost and are capitalised. With the revision of this standard, with effect from accounting periods commencing on or after April 1, 2004, translation differences arising on a monetary item that, in substance, forms part of an enterprise's net investment in a non-integral foreign operation should be accumulated in a foreign currency translation reserve in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognized as income or as expenses. Guidance relating translation of foreign operations integral to the reporting enterprise requires foreign exchange gains or losses to be recognized in the income statement.	For the purposes of consolidating a foreign subsidiary, its financial statements are translated into the parent's reporting currency. Assets and liabilities are translated using the balance sheet rate of exchange. Amounts in the income statements are translated using the weighted average rate for the period. Translation differences that arise are reported in a separate component of shareholders' equity.
Deferred taxation	Deferred taxes are required to be provided for the tax effect of timing differences between taxable income and accounting income using substantively enacted tax rates. Deferred tax assets arising due to unabsorbed depreciation or carry forward of losses are recognized only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Other deferred tax assets are recognized and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.	Deferred tax liabilities and assets are recorded for the tax effect of temporary differences between the tax and book bases of assets and liabilities and operating loss carry-forwards, at currently enacted tax rates expected to be in force when the temporary differences reverse. Changes in tax rates are reported in the income statement in the period of enactment. A valuation allowance is made against deferred taxes if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Particulars	Indian GAAP	U.S. GAAP
Proposed dividend	Proposed dividends are recognised in the financial statements in the period to which they relate, even if they are subject to shareholders' approval.	Dividends are recorded in the year of declaration.
Vacation accrual	Vacation accrual, or leave encashment, is viewed as a retirement entitlement and is generally reported at the actuarially determined present value of future benefits.	Vacation earned but not taken is reported as a liability based on the number of days entitlement, priced at the balance sheet salary rate.
Retirement benefits	The liability for defined benefit retirement plans is reported at an actuarial valuation. Several alternative methodologies are considered acceptable for the purposes of the valuation, and the actuary has considerable latitude in selecting assumptions to be used. Expenditure incurred on voluntary retirement scheme may be deferred.	The liability for defined benefit retirement plans is reported at the present value of future benefits using the projected unit credit method, with a stipulated method to determine assumptions. Expenditure incurred on voluntary retirement scheme should be expensed in the period incurred.
Depreciation	Depreciation is generally charged at rates prescribed by the Companies Act. These rates are the minimum rates, and companies are permitted to charge depreciation at higher rates, in order to write off the cost of assets over their useful lives, if shorter.	Depreciation is provided in a systematic and rational manner over the estimated useful economic life of the assets.
Derivative financial instruments and hedging	The Guidance note on Accounting for Equity Index Options and Equity Stock Options and the guidance note on accounting for equity index futures are the pronouncements, which address the accounting for derivatives. RBI Guidelines on Forward Rate Agreements / Interest Rate Swaps requires the transactions to be classified in to hedging and trading. The swap that is accounted for like a hedge should be accounted for 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 should be marked to market with the resulting gain or loss recorded as an adjustment to the market value of designated asset or liability. Gains or losses on the termination of swaps should be recognised when the offsetting gain or loss is recognised on the designated asset or liability. This	All derivatives are required to be recognised as assets or liabilities in the balance sheet and measured at fair value. The accounting for changes in the fair value of a derivative (that is gain and losses) depends on the intended use of the derivative and the resulting designation. Derivatives based on the intended use are broadly classified into three classes' viz. Fair value hedge, Cash flow hedge and Foreign currency hedge. Gains and losses on fair value hedges, for both the hedging instrument and the item being hedged, are recognised in the income statement. Gain and losses on effective portion of cash flow hedges is initially reported as a component of other comprehensive and subsequently reclassified in to earnings when the forecasted transaction affects earnings.

Particulars	Indian GAAP	U.S. GAAP
	implies that any gain or loss on the terminated swap would be deferred and recognised over the shorter of the remaining contractual life of the swap or the remaining life of the asset/ liability. Trading swaps should be marked to market with changes recorded in the income statement. Income and expenses relating to these swaps should be recognised on the settlement date. Gains or losses on the termination of trading swaps should be recorded as immediate expense or income.	In case of hedging the foreign currency exposure of a net investment in a foreign operation, the same accounting treatment is given as in the case of Cash flow hedge. The gains or losses on the ineffective portion of any hedge are written off as income or expense. Derivatives that are not designated as a hedging instrument, the gain or losses is recognised in earnings in the period of change.
Off-balance sheet items	There is no specific guidance or the accounting and reporting for of-balance sheet items. Commitments and contingencies are required to be disclosed.	SEC registrants are required to provide extensive disclosures of material off-balance sheet items, contingent liabilities and financial guarantees. Commitments and contingencies are required to be disclosed.
Fair values of financial instruments	There is no requirement to disclose the fair value of financial instruments.	Extensive disclosures are required of the fair values of financial instruments and the methodologies or determining fair values.

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 office of our Bank situated at 5, Sansad Marg, New Delhi 110 001 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. Letters of appointment dated October 26, 2004 to ICICI Securities Limited, DSP Merrill Lynch Limited, Enam Financial Consultants Private Limited, JM Morgan Stanley Private Limited and Kotak Mahindra Capital Company Limited from our Bank appointing them as BRLMs.
2. Letters of appointment dated October 25, 2004 to the Registrar to the Issue.
3. Memorandum of Understanding amongst our Bank and the BRLMs dated January 13, 2005.
4. Memorandum of Understanding executed by our Bank and the Registrar to the Issue dated January 28, 2005.
5. Escrow Agreement dated [•] , 2005 between the Bank, the BRLMs, Escrow Collection Bank and the Registrar to the Issue.
6. Syndicate Agreement dated [•] , 2005 between the Bank, the BRLMs and the Syndicate Members.
7. Underwriting Agreement dated [•] , 2005 between the Bank, the BRLMs and the Syndicate Members.

Material Documents

1. Opinion from Mr. R. Ganeshan, Chartered Accountant, dated February 5, 2005.
2. Opinion from Mr. Kanwaljit Singh, Chartered Accountant, dated February 2, 2005.
3. Letter dated February 7, 2005 from Punjab National Bank to the Ministry of Finance, Government of India seeking certain clarifications with regard to the Return of Proceeds and the Capital Reduction.
4. Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 as amended from time to time.
5. Punjab National Bank (Shares & Meetings) Regulations, 2000 as amended from time to time.
6. Letter number F.No.11/29/2004-BOA dated January 7, 2005 from the Banking Division, Department of Economic Affairs, MoF, GoI whereby GoI has given permission for the Issue under Section 3(2B)(c) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.
7. Letter number FE.CO.FID/4998/10.02.40(8435)/2004-05 dated February 2, 2005 from the Foreign Exchange Department, RBI permitting us to issue shares to NRIs / FIIs with repatriation benefits out of our public Issue of 80,000,000 Equity Shares.
8. Shareholders' resolution dated October 11, 2004 in relation to this Issue and other related matters.
9. Resolutions of the Board of Directors dated September 11, 2004 and January 13, 2005 in relation to this Issue and other related matters.
10. Reports of the statutory Auditors dated January 29, 2005 prepared as per Indian GAAP and mentioned in this Red Herring Prospectus.
11. Copies of annual reports of our Bank and our subsidiaries for the last five financial years.
12. Consents of the Auditors being (1) M/s. Surendar K Jain & Co (2) M/s. Mookherjee Biswas & Pathak (3) M/s M.C. Bhandari & Co, (4) M/s P.K.Chopra & Co (5) M/s. Ramanlal G Shah & Co, and (6) M/s. B.K.Ramadhyani & Co for inclusion of their report on accounts in the form and context in which they appear in this Red Herring Prospectus.
13. General 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.
14. Consents of BRLMs, Syndicate Members, Registrar to the Issue, Escrow Collection Bank(s), Banker to the Issue, Domestic Legal Counsel to the Bank, International Legal Counsel to the Bank, Directors, Company Secretary and Compliance Officer, as referred to, in their respective capacities.

15. Listing applications dated January 17, 2005 filed with NSE and BSE.
16. In-principle listing approvals dated January 18, 2005 and January 28, 2005 from NSE and BSE respectively.
17. Tripartite agreement between NSDL, our Bank and the Registrar to the Issue dated November 13, 2001 in respect of debt instruments and the cover letter extending the same to cover equity shares dated February 26, 2002 bearing reference number AS/PM/02/393
18. Tripartite agreement between CDSL, our Bank and the Registrar to the Issue dated February 25, 2002.
19. Due diligence certificate dated January 14, 2005 to SEBI from ICICI Securities Limited, DSP Merrill Lynch Limited, Enam Financial Consultants Private Limited, JM Morgan Stanley Private Limited and Kotak Mahindra Capital Company Limited.
20. SEBI observation letter no. CFD/DIL/UR/3290/2005 dated February 4, 2005 and our reply to the same dated February 9, 2005.

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 with the applicable laws.

DECLARATION

All the relevant provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, Punjab National Bank (Shares & Meetings) Regulations, 2000, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 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, 1970, Punjab National Bank (Shares & Meetings) Regulations, 2000, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, the Securities and Exchange Board of India Act, 1992 or rules made thereunder or guidelines issued, as the case may be. We further certify that all statements in this Red Herring Prospectus are true and fair.

SIGNED BY ALL DIRECTORS

Mr. S.S. Kohli

Dr. K.C. Chakrabarty

Dr. K.V. Rajan*

Mr. P. K. Nayar*

Dr. Pritam Singh*

Mr. Mohanjit Singh*

Mr. A.S. Agarwal*

Mr. Mohan Lal Bagga*

Dr. K. B. L. Mathur**

* Through their constituted attorney Mr. C.P Swarnkar, General Manager, through the respective powers of attorney dated October 18, 2004.

** Through his constituted attorney Mr. C.P Swarnkar, General Manager, through the power of attorney dated January 28, 2005.

SIGNED BY MR. ARUN KAUL

GENERAL MANAGER, FINANCE

Date: February 14, 2005

Place: New Delhi.

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