Centurion Bank Limited

(Incorporated on June 30, 1994 under the Companies Act, 1956)
Registered Office: Durga Niwas, M G Road, Panaji - 403 001, Goa, India
Tel. No. (+91-0832) 222 9112 / 222 9113 **Fax No.** (+91-0832) 222 9114
(The registered office was shifted from T-2, Shabana Chambers, Panaji, Goa, India
to present registered office in January 1995)
Corporate Office: 1201, Raheja Centre, Free Press Journal Marg, Nariman Point, Mumbai 400 021, India
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For private circulation to the Equity Shareholders of the Company only

LETTER OF OFFER

ISSUE OF 226,988,077 EQUITY SHARES OF RE. 1 EACH AT A PREMIUM OF RS. 3 PER SHARE AGGREGATING RS. 90.80 CRORES TO THE EQUITY SHAREHOLDERS ON RIGHTS BASIS IN THE RATIO OF 2 EQUITY SHARES FOR EVERY 5 EQUITY SHARES HELD ON THE RECORD DATE i.e. JULY 23, 2004

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 Issuer and the Issue including the risks involved. The securities 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 document. **Investors are advised to refer to "Risk Factors" on page iii before making an investment in this Issue.**

ISSUER'S ABSOLUTE RESPONSIBILITY

The Issuer, having made all reasonable inquiries, accepts responsibility for and confirms that this Letter of Offer contains all information with regard to the Issuer and the Issue, which is material in the context of this Issue, that the information contained in this Letter of Offer is true and correct in all material respects 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 Letter of Offer as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING

The existing Equity Shares of the Company are listed on The Stock Exchange, Mumbai ("Designated Stock Exchange"), The National Stock Exchange of India Limited and the Mangalore Stock Exchange. The Company has received "in-principle" approvals from The Stock Exchange, Mumbai, The National Stock Exchange of India Limited and the Mangalore Stock Exchange for listing the Equity Shares arising from this Issue vide letters dated April 22, 2004, April 15, 2004 and April 07, 2004, respectively.

LEAD MANAGER TO THE ISSUE	REGISTRARS TO THE ISSUE
JM Morgan Stanley Private Limited 141, Maker Chambers III, Nariman Point, Mumbai 400 021, India Tel. : (+91-022) 5630 3030; Fax. : (+91-022) 2202 8224 Email: **centurionbankrights@jmmorganstanley.com** **Contact Person : Ms. Ami Parikh**	**Karvy Computershare Private Limited** Unit: Centurion Bank - Rights Karvy House, 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad - 500 034, India Tel. No. (+91-40) 2332 0751-53 Fax.: (+91-40) 2331 1968 E-Mail: **murali@karvy.com** **Contact Person: Mr. Murali Krishna**

ISSUE PROGRAMME

ISSUE OPENS ON	LAST DATE FOR REQUEST FOR SPLIT APPLICATION FORMS	ISSUE CLOSES ON
August 24, 2004	**September 07, 2004**	**September 22, 2004**

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ABBREVIATIONS

Act	The Companies Act, 1956
Articles	Articles of Association of the Company
ADB	Asian Development Bank
AGM	Annual General Meeting
ALCO	Asset-Liability Management Committee
ALM	Asset Liability Management
ATM	Automated Teller Machine
Board	Board of Directors of Centurion Bank Limited
Bank Muscat Bangalore	The Bangalore Branch of Bank Muscat which has been merged with us with effect from April 1, 2003 in terms of the Scheme of Arrangement
Bank Muscat	Bank Muscat (SAOG)
BR Act	The Banking Regulation Act, 1949
BSE	The Stock Exchange, Mumbai
CAF	Composite Application Form
CAGR	Compounded Annual Growth Rate
CAR	Capital Adequacy Ratio
Capital or Share Capital	Capital of the Company
CDR	Corporate Debt Restructuring
CDSL	Central Depository Services (India) Limited
Centurion Bank or CBL or the Bank or the Company or the Issuer	Centurion Bank Limited, a company incorporated on June 30, 1994, under The Companies Act, 1956
CSGL	Constituents' Subsidiary General Ledger
CMD	Chairman and Managing Director
Co-Lead Manager	SSKI Corporate Finance Pvt. Ltd.
CRR	Cash Reserve Ratio
CV/CE	Commercial Vehicle/Consumer Equipment
Designated Stock Exchange	BSE
Draft Letter of Offer	Letter of Offer as filed with SEBI for its comments
DP	Depository Participant
EMI	Equal Monthly Installment
Equity Shareholder	Equity Shareholders means a holder of Equity Shares of the Bank
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999
FII(s)	Foreign Institutional Investors registered with SEBI under applicable laws
Fiscal/FY	Financial Year ending March 31
FITCH	A global credit rating agency
GOI	Government of India
ICRA	Indian Credit Rating Agency
INR	Indian Rupee
Issue/ Rights Issue	Issue of 226,988,077 Equity Shares of Re. 1 each for cash at a premium of Rs. 3 per share on rights basis to existing Equity Shareholders of the Company in the ratio of 2 Equity Shares for every 5 shares held on Record Date aggregating Rs. 90.80 crores
Issue Price	Rs. 4 per Equity Share
IT Act	The Income-tax Act, 1961 and amendments thereto
Keppel	Kephinance Investment Pte. Limited

Lead Manager	JM Morgan Stanley Private Limited
Letter of Offer/Offer Document	Letter of Offer dated August 10, 2004 circulated to the Shareholders
MD	Managing Director
Memorandum	Memorandum of Association of the Company
MgSE	Mangalore Stock Exchange
NAV	Net Asset Value
NBFC	Non-Banking Financial Institution
NPA	Non-Performing Asset
NR	Non-Resident
NRI(s)	Non-Resident Indian(s)
NSE	National Stock Exchange of India Limited
NSDL	National Securities Depository Limited
OCB(s)	Overseas Corporate Body(ies)
PDC's	Post Dated Cheques
PSL	Priority Sector Lending
RBI	The Reserve Bank of India
Record Date	July 23, 2004
Registrars to the Issue/Registrar	Karvy Computershare Private Limited
ROC	Registrar of Companies
Rights Entitlement	The number of securities that a shareholder is entitled to in proportion to his/her existing shareholding in the Company
Sabre	Sabre Capital Worldwide Inc., a Company incorporated in the British Virgin Island and having its office at 2nd Floor, Berkeley Square House, Berkeley Square, London WIJ6BD, United Kingdom and includes Mr. Rana Talwar, Mr. Rajiv Maliwal, Mr. Harpal Randhawa and Mr. Nigel Kenny, the founder members of Sabre Capital Worldwide Inc.
Sabre Investor Group	The nomenclature given in the Scheme, collectively to various individuals and entities who were identified by Sabre and who have invested as financial investors in the first tranche of capital infusion under the Scheme
SARFAESI Act	The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
Scheme/Scheme of Arrangement	The Scheme of Arrangement amongst Bank Muscat (SAOG), Centurion Bank Ltd. and Shareholders of Centurion Bank Ltd. pursuant to ss. 391-394 of the Act, approved by the High Courts of Mumbai (Goa Bench), Karnataka and the RBI
SEBI	Securities and Exchange Board of India
SEBI Guidelines	The Guidelines for Disclosure and Investor Protection issued by SEBI on January 19, 2000 read with amendments issued subsequent to that date
SLR	Statutory Liquidity Ratio
TCFC	20th Century Finance Corporation Limited
TFL	TCFC Finance Limited

In this Letter of Offer, the terms "we", "us", "our", "the Bank" or "the Company", unless the context otherwise implies, refer to Centurion Bank Limited.

All references to "Rs." refer to Rupees, the lawful currency of India, "USD" or "US$" refer to the United States Dollar, the lawful currency of the United States of America, references to the singular also refers to the plural and one gender also refer to any other gender, wherever applicable, and the words "Lakh" or "Lac" mean "one hundred thousand" and the word "million" means "ten lakh" and the word "crore" means "ten million" or "one hundred lakhs". Any discrepancies in any table between total and the sums of the amount listed are due to rounding off.

RISK FACTORS

Investors should consider the following risk factors together with all other information included in this Letter of Offer carefully, in evaluating us and our business before making any investment decision. Any projections, forecasts and estimates contained herein are forward looking statements and are based on certain assumptions that we consider reasonable. This Letter of Offer contains forward-looking statements that involve risks and uncertainties. Such statements can be identified by the use of forward-looking terminology such as "may", "believes", "will", "expect", "anticipate", "estimate", continue", "plan", "likely" or other similar words. Our actual results could differ from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the following risk factors and elsewhere in this Letter of Offer.

An investment in Equity Shares involves a high degree of risk. You should carefully consider all the information in this Letter of Offer, including the risks and uncertainties described below, before making an investment in our Equity Shares. If any of the following risks actually occur, our business, results of operations and financial condition could suffer, the price of our Equity Shares could decline, and you may lose all or part of your investment. The financial and other implications of material impact of risks concerned, wherever quantifiable have been disclosed in the risk factors mentioned below. However there are a few risk factors where the impact is not quantifiable and hence the same has not been disclosed in such risk factors.

This Letter of Offer also includes statistical and other data regarding the Indian Banking industry. This data was obtained from industry publications, reports and other sources that we and the Lead Manager believe to be reliable. Neither we nor the Lead Manager have independently verified such data.

INTERNAL RISK FACTORS

1. ***Our previous rights issue was not fully subscribed***

   Due to adverse developments in the capital markets in February 2001, our rights issue which opened on February 14, 2001 was not adequately subscribed and we were required to refund the subscriptions received to the applicants. This, among other factors, necessitated a recapitalization of the bank through a Scheme of Arrangement under which Rs.154 crores of capital was raised from financial investors prior to the current Rights Issue.

Risk Relating To Regulatory Investigations And Pending Litigation

2. ***Risk Arising out of Litigation against us, our Directors***

   There are a total of 73 suits filed against the Bank and are pending as on June 30, 2004. The total exposure in these suits for the Bank is approximately Rs. 14.94 crores. Brief particulars of the cases filed against us is provided on page 138 under section "Outstanding Litigation and Defaults".

   Except 4 litigations pending against certain of our Directors (the details of which are provided in the section "Outstanding Litigation & Defaults" on page 138 of the Letter of Offer, there are no pending litigation against the Directors on the date of the Letter of Offer.

   We have filed 94 civil and criminal cases for recoveries of bad loans. We have made provisions in excess of the regulatory requirements in a majority of the pending matters as on the date of this Letter of Offer. We are aggressively pursuing recoveries at the Debt Recovery Tribunal and other fora in respect of all these matters. A brief summary is provided below:

   Number of cases filed by us: 94

   Total amount involved: Rs. 256.86 crores

   In addition, we have also filed 1,846 cases under section 138 of the Negotiable Instruments Act, 1872 for dishonour of cheques, mostly against retail customers of the Bank involving a total claim amount of Rs. 30.01 crores.

   One of our customers filed a civil suit against us for cancellation of a Bank Guarantee of Rs. 1 crore issued in their favour. They claimed an interest of Rs.44 lakhs. The Party has also filed a criminal suit under Section 409 of the IPC against us and three officials (including Mr. Dev Ahuja, former Chairman of the Bank and two former employees of the Bank) in the same matter, and all these parties have currently secured bail. Discharge applications for Mr. Ahuja and one of the former employees (the other person is out of the country) have been filed and we are informed that the same is coming up for hearing on November 22, 2004.

   Certain capital market related transactions of our Bank were commented upon by the Joint

Parliamentary Committee (JPC) probing the Stock Exchange scam in 2001. We have provided the regulators with all requisite information in this regard. Till date, no penalties or prosecution have been levied or initiated against us in this respect. SEBI had from time to time summoned information from the Bank on a few transactions in the Capital Market conducted when the Bank was under the management of its erstwhile promoters. The Bank has promptly provided such information and until the date of this Letter of Offer, the Bank has not received any show cause notice from SEBI and no proceedings have been initiated. The JPC had made certain observations regarding our trading in certain scrips like Ranbaxy Limited, Aftek Infosys, etc. but no proceedings were initiated in this connection, nor were any penalties levied or punishments meted in this respect. Neither the RBI nor any other regulatory authority has taken any action against us in this regard.

SEBI has from time to time called for information from the Bank and had personal meetings with officials of the Bank on various issues, including in respect of entities of the Ketan Parekh group of companies, preferential issue of shares of Pentamedia Graphics Limited for the period between 1999 to 2002. While summons have been issued to the Bank in this respect, no proceedings or prosecution has been launched against the Bank. We are informed that SEBI, in its investigation into the dealings in the scrip of Ranbaxy Laboratories Limited for the period January to October 1999, has seen dealings by us, and has noted that these transactions were in the nature of arbitrage/trading in nature, and that we have dealt through brokers connected/ associated with the entities of the Ketan Parekh group and most of these transactions were in the nature of cross-deals, and has also informed RBI about the same. Neither the RBI nor any other regulatory authority has taken any action against us in this regard.

3. ***Risk arising out of pending litigation in respect of Income Tax and Sales Tax liability of approximately Rs. 225.10 crores***

As of March 31, 2004, we have 35 cases pending before various courts/tribunals involving mainly disallowance of depreciation on leased assets, claims for deduction and lease tax on rental turnover for interstate lease transactions. Currently, there is a total of approximately Rs. 225.10 crores in contested income and sales tax liabilities, of which we face a total contingent tax liability of Rs. 77.41 crores. Based on the independent assessment by a firm of chartered accountants, we have made provisions for disputed income tax demands of earlier years amounting to Rs. 33.05 crores out of which Rs. 7.05 crores was towards tax demands for assessment year 1998-99 (Financial year ended 1998). In respect of certain disputed sales tax demands of earlier years, contested in appeals, we have made a provision of Rs. 5 crores during the year 2003-04 after an internal assessment of the likely liability that may devolve on us. In the previous year 2002-2003, a provision of Rs. 1 crore was made towards this contingent liability. While we will contest all these claims to the best of our ability and resources, any adverse ruling in their respect will have a negative impact on our financials and profitability.

4. ***Penalty imposed by RBI in October 2003***

The RBI has during October 2003 levied a penalty of Rs. 2 lakhs on the Bank for improper remittance of foreign currency out of India.

Risk Relating To Our Business

5. ***We incurred a net loss of Rs. 162.14 crores, Rs. 43.33 crores and Rs. 105.90 crores in fiscal 2002, fiscal 2003 and fiscal 2004, respectively***

For fiscal 2002, fiscal 2003 and fiscal 2004, our net loss amounted to Rs. 162.14 crores, Rs. 43.33 crores and Rs. 105.90 crores, respectively. This was primarily on account of provisioning related to our corporate assets and reconciliation of certain differences relating to the merger of TCFC with us. We have identified most of these areas of concern and have made suitable provisions. With the infusion of capital under the Scheme, we expect to improve our business prospects in future and thereby turnaround our performance. However, we cannot assure that similar problems may not arise in future and that we will be able to turnaround in business performance and make profits.

6. ***Our Subscribed and Paid-up capital is 18.92% of the Authorised Capital in stead of 50% of Authorised Capital as required under section 12(1)(ii) of the BR Act. We have obtained exemption from Government of India/RBI from the applicability of section 12(1)(i) of the BR Act***

Section 12(1)(i) of the BR Act requires that our subscribed capital should not be less than one half of the authorized capital and our paid-up capital should not be less than one half of our subscribed capital. Presently our subscribed and paid-up share capital constitutes 18.92% of our authorized share capital of Rs. 300 crores. We have received approval from Government of India, Ministry of Finance, Department of Economic Affairs (Banking Division) vide their notification no. F.No.15/21/2003-BOA dated January 06, 2004, granting time upto December 31, 2004 for complying with the same. Our failure to comply with the said directive by the stated timeline may require us to either reduce our authorized share capital or seek further extension of time for compliance, or comply by issuance of fresh capital. In this regard, at the meeting held on June 30, 2004, the Board of Directors have decided to reduce the Authorised Capital from Rs. 300 crores to Rs. 150 crores subject to the approval of the shareholders. Should the proposal to reduce the Authorised Capital be approved by the shareholders, our subscribed and paid-up capital would be 53.03% of our Authorised Capital after the present Rights Issue.

7. ***The recently circulated draft of a comprehensive policy framework for ownership and governance in private sector banks by RBI, if becomes a law, may require us to further capitalize our operations***

The RBI has recently circulated a draft of a comprehensive policy framework for ownership and governance in private sector banks ("Draft Comprehensive Policy Framework") relating to ownership and governance of Indian private sector banks. The aforesaid policy envisages, inter-alia, that private banks should have a minimum net worth of Rs. 300 crores at all times. Our net worth as on March 31, 2004 was Rs. 61.56 crores, which, assuming there are no further provisioning shall increase to Rs. 152.36 crores, if the present Rights Issue is fully subscribed. If the Draft Comprehensive Policy Framework becomes law, we would have to raise further capital in a time-bound manner to raise our networth to the prescribed levels. This may result in dilution in our outstanding Equity Share capital and thereby dilute the effective ownership of our other shareholders proportionately and bring down our earnings on per share basis.

8. ***The recently circulated draft of a comprehensive policy framework for ownership and governance in private sector banks by RBI, if becomes a law, may require a dilution in shareholding by some of our major shareholders***

The RBI has recently circulated a Draft Comprehensive Policy Framework relating to ownership and governance of Indian private sector banks. The aforesaid policy envisages, *inter-alia*, that notwithstanding the applicable ceiling of 10% on the voting rights of any Equity Shareholder in a commercial bank in India, no single entity or group of related entities should have shareholding in excess of 10% in a bank's paid up capital, unless specifically approved by the RBI. Although our shareholding pattern has been expressly considered by the RBI before approving the Scheme of Arrangement, we cannot assure whether the same would be required to be changed if the Draft Comprehensive Policy Framework becomes law. Further, we believe that in such a scenario, RBI would allow sufficient time for such large shareholders to reduce their shareholding. However, we can not rule out the possibility that RBI may require such large shareholders to reduce their shareholding in a short timeframe and offload it in the stock market. This may have immediate impact on our shareholding pattern and potentially on our market price.

9. ***Some of our major shareholders control a significant percentage of our share capital and may exercise substantial influence over board decisions***

Kephinance Investment (Mauritius) Pte. Ltd., along with Sabre Capital and Bank Muscat, have infused substantial capital in our Bank in the course of our recent capital restructuring exercise pursuant to the Scheme. These three shareholders together own 55.31% of our equity at present and have 5 Directors out of our total strength of 11 Directors. These three shareholders have entered into a shareholders agreement between themselves, to which we are not a party. While we are a Bank run by professional management under the supervision of a Board of Directors and the aforesaid shareholders are individually mere minority investors, these shareholders together may be able to exercise substantial control over our Board and over matters that are subject to a shareholder vote. Besides, as per our Subscription Agreement with IFC, so long as IFC holds any Equity Share(s) in the Bank, they are, subject to RBI approval, entitled to nominate one Director who will not be required to retire by rotation. Similarly, as per our Articles, so long as ADB holds 7.5% of the Equity Share(s) in the Bank, they are, subject to RBI approval, entitled to nominate one Director.

10. ***We have outstanding warrants amounting to 13.50 crore, issued to Sabre, which if exercised could result in an issuance of a significant number of Equity Shares***

As per the terms of the Scheme, we have issued on February 06, 2004, 13.50 crore warrants to Sabre which, at their option, shall be convertible into 13.50 crores Equity Shares of the face value of Re 1 per share at a premium of Rs. 3 per share for a cash consideration. These warrants may be exercised at any time after the completion of the capital infusion as per the Scheme, including this Rights Issue, and upto the expiry of sixty months from the date of issuance of such warrants. Whenever such warrants are exercised, the number of shares that would be issued could increase our Equity Share capital outstanding and could dilute the effective ownership of our other shareholders proportionately.

11. *Some of the shareholders have been issued shares at prices below the Issue price during the last twelve months*

Under the Scheme, the following persons have been issued and allotted shares at prices that are below the market price during the last twelve months prior to the date of this Letter of Offer.

Entity	No. of Shares	Price
Sabre Capital (Mauritius) Ltd.	19,000,000	Re. 1
Sabre Capital Worldwide Mauritius Ltd.	21,000,000	Re. 1

12. *As a consequence of the merger of Bank Muscat Bangalore with us and significant changes to our business in terms of the Scheme of Arrangement, there is limited comparable financial data presented in this Letter of Offer, which may make it difficult to properly evaluate our financial condition*

Our business strategy today is significantly different from our business strategy prior to the implementation of the Scheme, including the mix of our asset portfolio and the mix of our funding and liabilities. This has happened following infusion of Rs. 154 crores of capital by new and existing investors, merger of Bank Muscat Bangalore with effect from April 01, 2003 and strengthening the management team by appointment of senior management personnel including the Managing Director. While we shall continue to grow our existing lines of business, we also propose to undertake various initiatives to drive future growth. The merger was accounted for under the purchase method of accounting effective April 01, 2003. As a result, data from the fiscal 2001, fiscal 2002 and fiscal 2003 financial statement data included in this Letter of Offer reflects a period prior to the merger while the income statement for the fiscal 2004 and the balance sheet as on March 31, 2004 reflect the merged entity. Accordingly, comparison of the financial statement data included in this Letter of Offer with or between periods prior to the Scheme may not be strictly representative.

13. *We need to maintain our capital adequacy at a minimum of 9% of risk-weighted assets which stands at 4.41% as on March 31, 2004*

Under the prudential norms prescribed by RBI, a capital adequacy requirement of 9% is prescribed for banks. Our capital adequacy ratio, on March 31, 2002, March 31, 2003 and March 31, 2004, was 4.16%, 1.95% and 4.41%, respectively. Based on our Capital Adequacy as on June 30, 2004 (as per the unaudited quarterly results filed with the Stock Exchanges) and upon completion of this Rights Issue, we would meet the prescribed norm. In the event of failure of this Issue, we will not be in a position to reach the prescribed capital adequacy requirements immediately. This may have adverse impact on our financials and growth.

14. *Our business is vulnerable to volatility in interest rates*

Our results from operations depend to a great extent on our net interest income. Net interest income represents excess of interest earned from interest-bearing assets (performing loans and investments) over the interest expended on customer deposits and borrowings. Our net interest income for fiscal 2002, fiscal 2003 and fiscal 2004 was Rs. 103.49 crores, Rs. 102.04 crores and Rs. 129.97 crores, respectively. Ratio of our net interest income as a percentage of our average interest earning assets for fiscal 2002, fiscal 2003 and fiscal 2004 was 2.80%, 3.56% and 4.15%, respectively. Changes in interest rates could affect the interest rates charged on our interest-earning assets in a manner different from the interest rates paid on our interest-bearing liabilities. This difference could result in an increase in interest expense as compared with interest income, leading to a reduction in our net interest income. Interest rates are highly sensitive to many factors beyond our control, including inflation, money supply, the RBI's monetary policies, de-regulation 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 our future financial performance.

15. *We run a credit risk on our lending portfolio*

Our main business of lending carries an inherent credit risk, which involves inability or unwillingness of a customer or the counterparty to meet their commitments. Though our diversified loan portfolio is managed by personnel with experience in the respective areas and we have in place appropriate Credit Appraisal/Control mechanism and Risk Management System, these procedures may fail. Also certain factors that are beyond our control may increase our credit risk. Any such failures or developments may have negative impact on our working results.

16. *Our funding is primarily short and medium-term; in case we move to long term financing and we do not find new depositors and / or depositors do not roll over deposited funds upon maturity, our business could be adversely affected*

Most of our funding requirements are met through short-term (upto one year)/medium-term (upto three years) funding sources, primarily in the form of retail deposits. However, while currently a portion of our assets have medium-term maturities, we may decide to pursue loan products with long term maturities. In such an event, we may face a potential asset-liability mismatch. In our experience, we find new depositors and / or a substantial portion of our customer deposits has been rolled over upon maturity and therefore these funds have over time been a stable source of funding. However, if we are unable to find new depositors and / or if a substantial number of our existing depositors do not roll over deposited funds upon maturity, our liquidity position due to this funding mismatch could be adversely affected.

17. *We have high concentrations of funded exposures to the retail sector and to retail loan products*

At March 31, 2004, more than 75% of our loans comprised retail advances. Within retail advances, we are primarily focused on financing Two Wheelers, CV/CE, which together constituted 77% of our retail loans as on March 31, 2004. In the event that there are industry-specific difficulties in these sectors such as reduced demand or change in consumer preferences, this could result in reduced demand for our loans to these sectors and thereby adversely affect our business and our future financial performance. Also increased competition and declining spreads in these sectors could adversely affect our business. Corporate banking portfolio helps in diversifying our loan portfolio and also helps us in leveraging these relationships for cross selling other bank products. Our inability to enhance value from corporate relationships could result in our over dependence on the retail segment.

18. *Since our business is concentrated in Southern and Western regions, any slow down in business in these regions could affect our business*

Our business is concentrated in the Southern and Western regions of India and as at March 31, 2004, these two regions together constituted about 63% of our total advances and 52 % of our total deposits. If the credit or deposit business in these regions slows down significantly, or our assets and liabilities in the other regions do not correspondingly increase, our operations and our financials could be adversely impacted.

19. *Any downgrade in our ratings by the rating agencies could affect our ability to raise funds on competitive basis*

In May 2004, FITCH has upgraded our short term ratings from F3 (ind) to F2+ (ind) and assigned us a long term rating of A-(ind) with a stable outlook for our Tier II sub-ordinated debt issue aggretating Rs. 70 crores. In June 2004, FITCH has assigned a rating of AAA(SO) to our securtisation issue aggregating Rs. 58 crores.

In the past, in October 2002, the rating committee of ICRA, in view of the developments in our Bank at that time, had downgraded the rating from “A2” to “A3” for our Certificate of Deposit Program. ICRA observed that the revised rating indicated adequate safety and adequate prospects of timely payment of interest and instalment, though any adverse change in business/economic conditions may affect our fundamental strength. For the same program, FITCH had downgraded our rating from F2 to F3 at that time.

Any downgrade in our ratings in future may affect our ability to raise funds through Certificates of Deposit or any such similar program and therefore affect our business and financials.

For explanation regarding the rating symbols and for further details of ratings for our securities, please refer page 8 of this Letter of Offer.

20. *If we are not able to control the level of NPAs in our portfolio, which stood at Rs. 68.90 crores (net) as on March 31, 2004, our business will suffer*

Our net NPAs at March 31, 2004 were Rs. 68.90 crores (including NPAs of Bank Muscat, Bangalore) representing 4.30% of our net customer assets, as compared to Rs. 104.09 crores representing 7.51% of our net customer assets at year-end fiscal 2003. While we have already made provisioning with respect to 71% of our corporate loans, which includes provisions in excess of the regulatory standards, we may need to make further provisioning as may be required.

Our NPAs can be attributed to several factors, including increased competition arising from economic liberalisation in India, factors affecting industrial growth, a sharp decline in commodity prices, high level of debt in the financing of projects, capital structures of companies in India and significant fall in interest rates in the Indian economy after a large number of customers contracted their borrowings, which disincentivised repayments by customers. Further, our growth-oriented strategy would involve a significant increase in our asset portfolio, especially retail loans. While most of these loans are backed by tangible collaterals, there can be no assurance that there will be no additional NPAs in our portfolio on account of these new loans. The factors that could cause NPAs in our retail loan portfolio to increase are substantially similar to those factors relevant in developed countries which include a rise in unemployment, prolonged recessionary conditions in India and a sharp rise in interest rates. Although we are increasing our efforts to improve collections and to foreclose on existing NPAs, there is no assurance that we will be successful in our efforts or that the overall quality of our loan portfolio will not deteriorate in the future. If we are not able to control and reduce our NPAs, our business, our future financial performance and our shareholders' funds could be adversely affected.

Around 8% of our retail loans have been transferred to us from Bank Muscat, Bangalore. These are relatively new and there is no assurance that there will be no additional non-performing loans on account of this portfolio and that such non-performing loans will not have a materially adverse impact on the quality of our overall loan portfolio.

21. We may experience delays in enforcing our collateral when borrowers default on their obligations to us

A substantial portion of our loans to retail customers is secured by tangible collaterals, predominantly vehicles and equipment financed by us. Although in general our loans are collateralised, an economic downturn could result in a fall in realisable collateral values.

A portion of our loans to corporate customers is secured by assets, including property, plant and equipment. Our loans to corporate customers also include working capital credit facilities that are typically secured by a first lien/charge on inventory, receivables and other current assets. In some cases, we may have taken further security of a first or second lien/charge on fixed assets, a pledge of financial assets like marketable securities, corporate guarantees and personal guarantees.

In India, foreclosure on collateral for retail loans is relatively easier than in case of corporate loans, which generally involves a court process. This approach may be subject to delays and administrative requirements that may result, or be accompanied by, a decrease in the value of the collateral. In the event a corporate borrower makes a reference to a specialised quasi-judicial authority called the Board for Industrial and Financial Reconstruction or a Corporate Debt Restructuring cell, foreclosure and enforceability of collateral can be stalled. These delays can last for several years leading to deterioration in the physical condition and market value of the collateral. We cannot guarantee that we will be able to realise the full value on our collateral, as a result of, among other factors, delays in bankruptcy foreclosure proceedings, defects in the perfection of collateral and fraudulent transfers by borrowers. A failure to recover the expected value of collateral security could expose us to a potential loss. Any unexpected losses could adversely affect our business, our future financial performance and our shareholders' funds.

The SARFAESI Act has strengthened the ability of lenders to resolve non-performing assets by granting them greater rights as to enforcement of security and recovery of dues from borrowers including removal of reference to the Board for Industrial and Financial Reconstruction and stay thereto. Petitions challenging the constitutional validity of this legislation are currently pending before the Supreme Court of India. There can be no assurance that the legislation in its current form will be upheld by the Supreme Court of India or that it will have a favourable impact on our efforts to resolve non-performing assets.

22. We have not met the export credit targets laid down by the RBI

As per the norms fixed by RBI, export credit should be 12% of total credit. We have not been able to meet the export credit targets fixed by RBI for the last five years. While no action has been taken by RBI in this regard till date, any enforcement action by RBI in this respect may have an adverse impact on our profitability.

23. We are exposed to fluctuation in foreign exchange rates

As a bank we are exposed to exchange rate risk. While we do not have significant foreign exchange exposures and we comply with regulatory norms on hedging of foreign currency exposure, we are exposed to fluctuation in foreign currency rates on our unhedged exposure. Adverse movements in foreign exchange rates may also impact our borrowers and this may, in turn, impact the quality of our exposure to these borrowers. Volatility in foreign exchange rates could adversely affect our business and our future financial performance.

24. Bank's internal control systems and processes have been found inadequate in the past

We had made an internal review to determine the causes of systemic failure that happened in the past. An internal review to determine the causes of our systemic failure had highlighted lapses in accounting, deviations in credit appraisal, disbursement and utilisation of funds in certain cases. Since then, we have taken a number of measures to improve the checks and balances in the internal system including revising the credit approval process and making it more stringent and undertaking organizational restructurings. Though we believe that the current systems and processes will prevent any such recurrences on a large scale, there can be no assurance that the new systems and processes are robust and will achieve the objective with which they have been designed. Any recurrences will impact our business and profitability.

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

Although we seek to protect our computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused, *inter alia*, 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 network infrastructure. We employ security systems, including firewalls and password encryption, designed to minimise the risk of security breaches. Although we intend to continue to implement security technology and establish operational procedures to prevent break-ins, damage and failures, by the sheer nature of such technology, there can be no assurance that these security measures will be successful. A significant failure in security measures could have a material adverse effect on our business and our future financial performance. Our business operations are based on a high volume of transactions. Although we take adequate measures to safeguard against system-related and other frauds, there can be no assurance that we would be able to prevent frauds. Our reputation could be adversely affected by significant frauds that may be committed by employees, customers or outsiders.

26. Technology system failures could adversely impact our business

Given the increasing share of retail products and services and transaction banking services in our business, the importance of technology systems to our business has increased significantly. Apart from branches, our principal delivery channels include centralized banking solutions, ATMs, mobile phones and the Internet. Any failure in our technology systems, particularly for retail products and services and transaction banking, could significantly affect our operations and the quality of customer service and could result in business and financial losses.

27. Inability to attract and retain talented professionals may impact our business

Attracting and retaining talented professionals is a key element of our strategy and we believe it to be a significant source of competitive advantage. An inability to attract and retain talented professionals or the resignation or loss of key management personnel may have an adverse impact on our business and financial performance.

28. We have received adverse publicity in the press in the past due to investigation by the Joint Parliamentary Committee and SEBI in certain matters

We have in the past been investigated by the Joint Parliamentary Committee and SEBI in certain matters pertaining to our capital market transactions. Though no penalties have been imposed till date, we have received negative publicity in the press in the past. This had adversely affected our ability to conduct business in the normal course. We believe that our efforts to aid these investigations, the recent capital infusion and re-organisation of management have had a positive impact on our image. However, we cannot assure you that we have overcome the impact created by negative publicity in the press in the past.

29. Fall in our market price may require us to make additional provision in our financial statements

TCFC Finance Limited had pledged its total holding of 4 crores Equity Shares with the Bank in full and final settlement of their obligations under the

Financial Support Agreement dated April 08, 1999 entered into between TCFC Finance Limited and the Bank. These shares are now vested in the Centurion Bank Stock Trust to be held for the benefit of the Bank pursuant to the Scheme of Arrangement. As on March 31, 2004 the market value of these shares is Rs. 39 crores (Market Value as on July 23, 2004 was Rs. 33.88 crores). We have made a provision of Rs. 5 crores for the diminution in the value of these shares. Any further decline in the market value of these shares may require us to make additional provisioning in our financial statements.

30. ***We compete directly with banks that are much larger than we are***

We face strong competition in all of our principal lines of business and many of our competitors are much larger than we are. Our primary competitors are some of the public sector banks, other private sector banks, foreign banks and, in some product areas, non-banking financial institutions, which generally have much larger deposit bases, more capital and larger customer bases than we do. The Government of India has recently announced measures that would permit foreign banks to establish wholly-owned subsidiaries in India and invest up to 74% in Indian private sector banks, which may increase competition from foreign banks. Due to competitive pressures, we may be unable to successfully execute our growth strategy and offer products and services at reasonable returns, which may impact our business and our future financial performance.

31. ***We intend to enter new product lines in which we may not be successful***

We intend to explore new business opportunities primarily in the retail banking segment. For example, we are evaluating the mortgage loans business. We cannot assure you that we would be able to accurately estimate the profitability, risks and costs of this business. We are also planning to offer Wealth Management Services including Bancassurance (selling insurance products of other players through our banking channels). Given that the retail segment is very competitive, we may not be able to enlarge our existing customer base or we may be able to do so only after incurring high launch costs or on earning low margins. We cannot assure you that we will be able to develop the skills and management information systems necessary to successfully manage our new products and services. Our inability to grow in new business areas could adversely affect our revenues and profitability.

32. ***We could be subject to volatility in income from our treasury operations.***

Treasury revenue is vulnerable to volatility in exchange rates, interest rates, equity prices and other factors. Any increase in interest rates could have an adverse effect on the value of our fixed income securities portfolio and may have an adverse effect on our net interest revenue. In view of this, we have brought the average maturity of our marked to market book to below 1 year. Any decrease in our income from these activities could have a material adverse effect on our financial performance.

33. ***Contingent Liabilities amounting to Rs. 1,126.57 crores***

At March 31, 2004, we had contingent liabilities of Rs. 1,126.57 crores, which included Rs. 1,033.91 crores on account of items such as outstanding forward exchange contracts, guarantees given on behalf of constituents in India, acceptances, endorsements and other obligations, which are normal for the banking business. Our contingent liabilities included disputed tax demands (net of reliefs based on the alternative claims estimated by the management) of Rs. 69.40 crores in excess of the provision made in our accounts and disputed sales tax demand of Rs. 8.01 crores in excess of the provision made in our accounts. We have appealed each of these tax demands. There can be no assurance that these matters will be settled in our favour, and that no further liability will arise out of these claims. Of the Rs. 69.40 crores aggregate tax demand in excess of the provision made in our accounts, a major portion relates to the treatment of depreciation claim on leased assets and acceptability of our claim for non-compete fee to be treated as capital receipt. For details of these disputed tax demands, please see "Outstanding Litigation and Defaults" on page 138 of the Letter of Offer. Our contingent liabilities also include claims against us, which we have not acknowledged as debt, aggregating Rs. 15.25 crores.

Crystallisation of any of the above liabilities may require us to honour the demands raised, if any, which may adversely impact our profitablility and may have a material adverse impact on our financial resources and net worth.

34. ***Banking is a heavily regulated industry and material changes in the regulations, which govern us could cause our business to suffer***

Banks in India are subject to detailed supervision and regulation by the RBI. Banks are in general subject to the risk of changes in Indian law, changes in regulations and government policies as well as changes in accounting principles. The laws and regulations governing the banking sector could change in the future and any such changes could adversely affect our business, our future financial performance and our shareholders' funds, by requiring a restructuring of our activities, increasing costs or otherwise.

The directed lending norms of the RBI require that every bank should extend 40% of its net bank credit to certain eligible sectors, such as agriculture, small-scale industries and housing finance up to certain limits, which are categorised as "priority sectors". We may experience a significant increase in non-performing loans in our directed lending portfolio, particularly loans to the agriculture sector and small-scale industries, since economic difficulties are likely to affect those borrowers more severely and we would be less able to control the quality of this portfolio.

There are a number of restrictions under the BR Act, which impede our operating flexibility and affect investors' rights. These include the following:

- Section 15(1) of the BR Act, states that "no banking company shall pay any dividend on its shares until all its capitalised expenses (including preliminary expenses, organisation expenses, share-selling commission, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off." Recently, RBI vide its circular no. DBOD.NO.BP.BC.80/ 21.02.067/2003-04 dated April 23, 2004 has revised the guidelines for payment of dividend by shifting regulatory focus with regard to payment of dividend by banks from 'quantum of dividend' to 'dividend payout ratio'. Only those banks, which comply with the minimum prudential requirements in terms of the circular would be eligible to declare dividends without prior approval of RBI.
- Section 12(2) of the BR Act, states that "no person holding shares in a banking company shall exercise voting rights on poll in excess of 10% of the total voting rights of all the shareholders of the banking company".
- The forms of business in which our subsidiaries and we may engage are specified and regulated by the BR Act. Pursuant to the provisions of section 8 of the BR Act, we cannot directly or indirectly deal in the buying, selling or bartering of goods by ourselves or for others, except in connection with the realisation of security given to us or held by us, or in connection with bills of exchange received for collection or negotiation, or in connection with the administration of estates as executor, trustee or otherwise, or in connection with any business specified under section 6(1)(o) of the BR Act. Goods for this purpose means every kind of movable property, other than actionable claims, stocks, shares, money, bullion and specie and all instruments referred to in section 6(1)(a) of the BR Act. Unlike a company incorporated under the Act which may amend the objects clause of its Memorandum to commence a new business activity, banking companies may only carry on business activities permitted by Section 6 of the BR Act or specifically permitted by the RBI. This may restrict our ability to pursue profitable business opportunities as they arise.
- Section 17(1) of the BR Act requires every banking company to create a Reserve Fund and out of the balance of the profit of each year as disclosed in the profit & loss account transfer a sum equivalent to not less than 20% of such profit before paying any dividend.
- Section 19 of the BR Act restricts the opening of subsidiaries by banks, which may prevent us from exploiting emerging business opportunities. Similarly, section 23 of the BR Act contains certain restrictions on banking companies regarding the opening of new places of business and transfers of existing places of business, which may hamper our operational flexibility.
- Section 25 of the BR Act requires each banking company to maintain assets in India equivalent to not less than 75% of its demand and time liabilities in India, which in turn may restrict us from building overseas asset portfolios and exploiting overseas business opportunities.
- We are required to obtain approval of the RBI for the appointment and remuneration of our Chairman, Managing Director and other whole time Directors. We are also required to obtain approval of the RBI for the creation of floating charges for our borrowings, thereby hampering leverage.Banks may have to resort to unsecured debt instruments for borrowings The BR Act also contains provisions regarding production of documents and availability of records for inspection.

- In addition to the above, various rights/powers of the shareholders available under the Act are not available to the shareholders of the Banks. Shareholders Rights like requistion of general meetings, inspection of minutes and other material records, application by members for investigation of affairs of a company, application for relief in cases of oppression and mis-management, voluntary winding up, right to receive dividend within 42 days, etc. are not available to shareholders of a Bank.
- The Letter of Offer contains extensive information and covers *inter alia* information regarding the industry, business, management and financials of the company. Investors should note that such detailed disclosures and information as stated in the Letter of Offer will not be available to shareholders after listing, on a continuous basis.
- Other restrictions, which *inter-alia* include disclosures in the profit and loss account and balance sheet to be made as per the format prescribed under the BR Act, reconstruction of banks through amalgamations etc., issuance of further capital including issue of bonus shares/right shares only with prior approval of RBI.

35. Utilisation of Funds is at the discretion of the Bank

The utilisation of the funds proposed to be raised through this Rights Issue is entirely at the discretion of the Bank and no monitoring agency has been appointed to monitor the deployment of funds.

EXTERNAL RISK FACTORS

36. 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 real GDP growing at 8.1% in fiscal 2004, 4.3% in fiscal 2003 and 5.6% in fiscal 2002 . During the first half of fiscal 2004, real GDP grew at 7.1% compared to 5.2% during the first half of fiscal 2003. However, growth in industrial production in India has been variable. The Index of Industrial Production grew at 5.8% in fiscal 2003 compared to 2.7% in fiscal 2002 and 5.1% in fiscal 2001. The Index of Industrial Production grew by 6.1% during the first half of fiscal 2004. Any slowdown in the Indian economy or future volatility in global commodity prices, in particular oil and steel prices, could adversely affect our borrowers and contractual counterparties. With the increasing importance of retail loans to our business, any slowdown in the growth of sectors like housing and vehicles could adversely impact our performance. Growth in agricultural production in India has been variable. Agricultural production grew by 4.1% in the first half of fiscal 2004 compared to a decline of 3.2% during fiscal 2003. Any slowdown could adversely affect our business, including our ability to grow our asset portfolio, the quality of our assets, our future financial performance, our shareholders' funds and our ability to implement our strategy.

37. Material changes in Indian banking regulations could harm our business

We operate in a highly regulated environment in which the Reserve Bank of India extensively supervises and regulates all banks. Our business could be directly affected by any changes in policies for banks in respect of directed lending and reserve requirements. In addition, we could be subject to other changes in laws and regulations such as those affecting the extent to which we can engage in specific businesses, as well as changes in other governmental policies, income tax laws and accounting principles. We cannot assure you that laws and regulations governing the banking sector will not change in the future or that any changes will not adversely affect our business and our future financial performance.

38. Any downgrading of India's debt rating by an international rating agency could cause our business to suffer

Any adverse revisions to India's credit ratings for domestic and international debt by international rating agencies may adversely affect our borrowers' businesses and our future financial performance.

39. Indian law limits our ability to raise capital outside India and may limit the ability of others to acquire us, which could prevent us from growing our business or entering into a transaction that is in the best interests of our shareholders

Indian law restricts our ability to raise capital outside India through the issuance of equity or convertible debt securities and we may not be able to raise sufficient funds within India to support our growth. Generally, any foreign investment in, or an acquisition of, an Indian bank requires approval from relevant government authorities in India including the RBI. As a result, our ability to seek and obtain additional equity investment by foreign investors is constrained. In addition, these restrictions may prevent us from entering into a transaction, such as an acquisition by a non-Indian company, which would otherwise be beneficial for us and the holders of our Equity Shares.

40. ***Sensitivity to the economy and extraneous factors***

The Bank's performance is highly correlated to the performance of the economy and the financial markets. The health of the economy and the financial markets in turn depends on the domestic economic growth, state of the global economy and business & consumer confidence, among other factors. Any event disturbing the dynamic balance of these diverse factors would directly or indirectly affect the performance of the Bank including the quality and growth of its assets.

41. ***Our limited capital base could expose us to higher risk in the event of sudden changes in the Indian financial markets***

We are relatively a small participant in the Indian banking industry. Our limited capital base restricts our ability to absorb sudden changes in the financial markets such as tightening of monetary policy, increases in interest rates and significant reductions in deposits. The Indian economy is prone to these sudden changes as a result of its political and economic situation and geographic location. Therefore, any sudden change in the Indian economy could have a material adverse effect on our business, results of operations and financial position.

Notes to risk factors:

1. Networth of the Bank as on March 31, 2004 is Rs. 61.56 crores. The size of the issue is Rs. 90.80 crores. The Book Value per share as on March 31, 2004 for Re. 1/- face value is Rs. 1.08.
2. Inspection by RBI is a regular exercise and is carried out periodically by RBI for all Banks and Financial Institutions. The reports of RBI are strictly confidential. The Bank is in dialogue with RBI in respect of observations made by RBI in their report for previous years. RBI does not allow disclosure of its inspection report and all disclosures in the Offer Document are on the basis of our management and audit reports.
3. No person holding shares in a banking company shall exercise voting rights on poll in excess of 10% of the total voting rights of all the shareholders of the banking company
4. We had entered into certain related party transactions for fiscal 2003 and fiscal 2004, as below.

   Bank Muscat (SAOG)

   a) 187,500,000 Equity Shares of Re.1/- each at a premium of Rs. 3/- per share were allotted by the Bank in favour of Bank Muscat (SAOG) as per the Scheme of Arrangement.
   b) Foreign Exchange purchase and sale transactions of Rs. 93.29 Crores. (Rupee Equivalent)
   c) Outstanding Foreign Currency borrowings from them as on 31st March 2004, Rs.43.72 Crores (Rupee equivalent)
   d) Guarantees received from them against Advances to parties in India Rs.1.10 Crores.
   e) Interest paid on foreign currency borrowings from them Rs. 0.20 Crores.

   The remuneration paid to/ provided in respect of key management personnel during the year ended March 31, 2004 and March 31, 2003 was as under:

	2003-2004	**2002-2003**
Mr. V. Janakiraman	Rs. 0.44 Crores	Rs 0.30 Crores
Mr. Shailendra Bhandari	Rs. 0.17 Crores	Nil

   Other transactions with key management personnel during the year ended March 31, 2004 were as under:

Particulars	**Rs. in Crores**
Deposits accepted during financial year 2003-2004.	0.46
Interest paid by Bank during 2003-2004	0.003

5. Details of the acquisition/sale transaction in the shares of the Bank by Directors and their relatives, during the last six months, are as follows:

Name of the Directors / their relative	Shares acquired / sold	Actual Rate (Rs.)	Amount	Shares (No.)
Mr. J.S. George	Allotted as per the Scheme of Arrangement	Rs. 4.00	3,456,000	864,000
Mr. S. Venkiteswaran	Allotted as per the Scheme of Arrangement	Rs. 4.00	2,000	500
Mrs. Ena Maliwal	Allotted as per the Scheme of Arrangement	Rs. 4.00	2,500,000	62,500
Mrs. Ena Maliwal (Face Value – Rs. 10)	Sold	Rs. 12.50	62,500	5,000
Mr. Lalit Maliwal	Allotted as per the Scheme of Arrangement	Rs. 4.00	2,500,000	62,500
Mr. Amar Talwar	Allotted as per the Scheme of Arrangement	Rs. 4.00	1,000,000	250,000
Mr. Rajindra Singh Talwar	Allotted as per the Scheme of Arrangement	Rs. 4.00	500,000	125,000
Mr. Prashant Modi (son of Mr. Y. K. Modi, Director)	Allotted as per the Scheme of Arrangement	Rs. 4.00	1,400,000	350,000
Mr. Prashant Modi (son of Mr. Y. K. Modi, Director)	Sold	Rs. 11.33	1,359,600	120,000
Sara Advisory Services Pvt. Ltd. (Company in which Mr. Rajiv Maliwal, Director of the Bank is a Director)	Allotted as per the Scheme of Arrangement	Rs. 4.00	7,200,000	1,800,000
Ms. Tania Soni	Allotted as per the Scheme of Arrangement	Rs. 4.00	1,000,000	250,000
Mr. S. K. Jain	Purchase of Shares	Rs. 9.94	1,988,000	200,000

6. You are advised to refer to “Basis for Issue Price” on page 136 of this Letter of Offer.

7. You may contact the Lead Manager and Co-Lead Manager for any complaints pertaining to the Issue including any clarification or information relating to the Issue. The Lead Manager and Co-Lead Manager are obliged to provide the same to you.

Centurion Bank Limited

(Incorporated on June 30, 1994 under the Companies Act, 1956)
Registered Office : Durga Niwas, M G Road, Panaji - 403 001, Goa, India
Tel. No. (+91-0832) 222 9112/222 9113 **Fax No.** (+91-0832) 222 9114
Corporate Office : 1201, Raheja Centre, Free Press Journal Marg, Nariman Point, Mumbai 400 021, India
Tel: (+91-022) 2204 7234 / 2204 7238 **Fax:** (+91-022) 2284 5860
e-mail: investors@centurionbank.com website: www.centurionbank.com

Dear Shareholder(s),

Pursuant to the Scheme, as detailed on page 75, the resolution passed by the Board of Directors on March 03, 2004 and the resolution passed by the Securities Transfer, Allotment & Grievance Redressal Committee of the Board at its meeting held on March 26, 2004, it has been decided to make the following Issue:

ISSUE OF 226,988,077 EQUITY SHARES OF RE. 1 EACH AT A PREMIUM OF RS. 3 PER SHARE AGGREGATING RS. 90.80 CRORES TO THE EQUITY SHAREHOLDERS ON RIGHTS BASIS IN THE RATIO OF 2 EQUITY SHARES FOR EVERY 5 EQUITY SHARES HELD ON THE RECORD DATE I.E. JULY 23, 2004

I. GENERAL INFORMATION

IMPORTANT

1. This Rights Issue is pursuant to the Scheme of Arrangement, as detailed on page 75, the resolution passed by the Board of Directors on March 03, 2004 and resolution passed by the Securities Transfer, Allotment & Grievance Redressal Committee of Board of Directors at its meeting held on March 26, 2004.
2. This Offer is applicable only to those Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the shares held in the electronic form and on the Register of Members of the Company in respect of the shares held in physical form as on the Record Date.
3. Your attention is drawn to RISK FACTORS appearing on page iii of this Letter of Offer.
4. Please ensure that you have received the CAF with this Letter of Offer.
5. Please read this Letter of Offer and the instructions contained herein and in the CAF carefully, before filling it in. The instructions contained in the CAF are an integral part of this Letter of Offer and must be carefully followed. Any application is liable to be rejected for any non-compliance with the terms of the Letter of Offer or the CAF.
6. All enquiries in connection with this Letter of Offer or CAF should be addressed to the Registrars to the Issue, quoting the Registered Folio Number / Depository Participant (DP) Number and Client ID Number and the CAF Numbers as mentioned in the CAF.

ELIGIBILITY FOR THE ISSUE:

We are an existing listed company whose Equity Shares are listed on the BSE, NSE and MgSE. We are eligible to offer this Rights Issue in terms of Clause 2.4.1(iv) of the SEBI Guidelines.

We, our Directors and companies in which the Directors of the Company are associated as Director(s) are not prohibited from accessing the capital market under any order or direction passed by SEBI or any other regulatory authority. Further, our Directors and companies in which the Directors of the Company are associated as Director(s) are not detained as willful defaulters by RBI/ Government Authorities.

APPROVALS FOR THE BUSINESS ACTIVITY & THE ISSUE

The following approvals, required under various statutes and regulations applicable to our business have been obtained by us:

1. Banking Licence No. BOM 57 vide letter No. DBOD/4577/ 16.01.104/95 allowing us to carry on banking business in India, pursuant to Section 22(1) of the BR Act, 1949.
2. Approval from Ministry of Finance vide letter No. DO-1/24/94-FB, VI dated September 30, 1994 and No. F.9/2/94-ADB dated September 27, 1994 for issue of Equity Shares to IFC and ADB respectively.
3. Approval from Secretariat of Industrial Approvals, Ministry of Industry vide letter No: FC/II/717(94)/606(94) dated May 04, 1995, approving equity participation by Keppel Bank of Singapore Ltd., (now Keppel Tatlee Bank Ltd.) through Kephinance Investment (Mauritius) Pte. Ltd.
4. RBI Approvals for issue of shares to IFC, ADB and Keppel.
5. RBI (Exchange Control Deptt.) approval letter dated December 17, 1999, Ref.No: EC/3274/10.02.40 (9026) 99-2000 granting us permission u/s 19 (I) (d) of the FERA 1973, to issue 27.787 Equity Shares to the shareholders of TCFC with repatriable and non-repatriable benefits out of total issue of 174,70,191 subject to the terms of the Scheme of Arrangement approved by the High Court at Mumbai. 'In principle Approval' (RBI Ref.No:DBOD No.1159/21.01.063/98 dated October 27, 1998 for TCFC's merger with us.
6. Final Approval from the RBI (Ref.BP.1009/21.01.062/99) dated October 22, 1999, to the TCFC's merger with us.

7. Licences for setting up its 61 branches and 20 Extension Counters.
8. Approvals for setting up its 66 ATMs including off site ATM.
9. RBI Approval No. EC.PNJ/2793/01.05.A.D.Licence/99-2000 dated January 28, 2000 issuing permanent Licence No. EC.PNJ.AD.1/95.
10. Order dated September 12, 2003 of the Mumbai HC (Goa Bench) and order dated October 27, 2003 of the Karnataka HC approving the Scheme.
11. RBI approval no. DBOD. No. 318/08.99.001/2003-04 dated December 29, 2003 for the appointment of Mr. Shailendra Bhandari as the Managing Director of the Bank.
12. SEBI Registration to act as Bankers to the Issue vide our licence no. INBI00000085 dated March 18, 2004 valid upto March 17, 2007 and also act as a Depository Participant vide certificate of registration number IN-DP-NSDL-62-98 dated July 14, 1998 further renewed vide SEBI letter dated August 27, 2003 ref "MIRSD/DR2/NSDL/CBL/16166/2003" for NSDL and Registration Number IN-DP-CDSL-123-2000 dated December 05, 2000 valid upto December 04, 2005 for CDSL.
13. Approval from Government of India, Ministry of Finance, Department of Economic Affairs (Banking Division) vide their notification no. F.No.15/21/2003-BOA dated January 06, 2004, granting time upto December 31, 2004 for complying with Section 12(1)(i) of the BR Act.
14. In-principle approval dated August 06, 2003 and final approval dated January 19, 2004 from the RBI for the Scheme.
15. Approval for acting as Bankers to the Issue vide certificate number 00247 dated March 18, 2004 valid from March 18, 2004 to March 17, 2007.
16. SEBI's In-principal approval dated March 19, 2004 for registration as Share Transfer Agent – Category II (In-house) and final approval vide registration no. INR000003936 dated March 31, 2004.
17. RBI Approval no. DBOD.No.749/08.99.001/2003-2004 dated June 30, 2004 for appointment of Mr. Rana Talwar as the Chairman of the Bank.
18. RBI Approval no. DBOD.BL2049/22/03/059/2003-2004 dated June 01, 2004 for converting 14 of our marketing offices into full fledged banking branches.

The Bank can undertake the activities proposed by it in view of the present approvals and no further approvals from any government authorities/RBI are required by the Company to undertake the proposed activities.

It must be distinctly understood, however, that the issuing of license and granting of approval by RBI should not, in any way, be deemed or construed to be an approval by RBI to this Letter of Offer nor should it be deemed that RBI has approved it nor does RBI take any responsibility either for the financial soundness of the Bank or for the correctness of the statements made or opinions expressed in this connection.

DISCLAIMER CLAUSE

AS REQUIRED, A COPY OF THIS DRAFT LETTER OF OFFER HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THIS DRAFT LETTER OF OFFER TO SEBI SHOULD NOT IN ANY WAY BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE, OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE DRAFT LETTER OF OFFER. THE LEAD MANAGER TO THE ISSUE, M/S JM MORGAN STANLEY PRIVATE LIMITED HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE DRAFT LETTER OF OFFER, THE LEAD MANAGER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE LEAD MANAGER, JM MORGAN STANLEY PRIVATE LIMITED HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED APRIL 01, 2004 IN ACCORDANCE WITH SEBI (MERCHANT BANKERS) REGULATIONS 1992 WHICH READS AS FOLLOWS:

1. WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE DRAFT LETTER OF OFFER PERTAINING TO THE SAID ISSUE;
2. ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, IT'S DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF 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 COMPANY.

   WE CONFIRM THAT:

   a) THE DRAFT LETTER OF OFFER 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; AND
   c) THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE.

3. WE CONFIRM THAT BESIDE OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE DRAFT LETTER OF OFFER ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATION IS VALID.

The filing of Draft Letter of Offer does not, however, absolve the Company from any liabilities under Section 63 or Section 68 of the 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 Lead Manager any irregularities or lapses in the Draft Letter of Offer.

CAUTION

The Company and the Lead Manager accept no responsibility for statements made otherwise than in this Letter of Offer or in the advertisements or any other material issued by or at the instance of the Company and that anyone placing reliance on any other source of information would be doing so at his/her/their own risk.

All information shall be made available by the Lead Managers and the Issuer to the shareholders and no selective or additional information would be made available for a section of the shareholders or investors in any manner whatsoever including at presentations, research or sales reports etc.

The Lead Manager and us shall update the offer document and keep the public informed of any material change till the listing and trading commences.

All the legal requirements as applicable till the filing of the Letter of Offer with the Designated Stock Exchange have been complied with.

DISCLAIMER IN RESPECT OF JURISDICTION

This Letter of Offer has been prepared under the provisions of Indian Law and the applicable rules and regulations thereunder.

The distribution of the Letter of Offer and the offering of the securities on a rights basis to persons in certain jurisdictions outside India may be restricted by the legal requirements prevailing in those jurisdictions. Persons into whose possession this Letter of Offer may come are required to inform themselves about and observe such restrictions. Any disputes arising out of this Issue will be subject to arbitration by a sole arbitrator in terms of the Arbitration and Conciliation Act, 1996, and subject to the foregoing, to the jurisdiction of the court(s) in Mumbai, India only.

The securities offered on a rights basis in terms of this Letter of Offer have not been, and will not be, registered under the US Securities Act of 1933 or under the securities laws prevailing in any state of the United States of America.

No action has been, or will be taken to permit an offering of these securities in any jurisdiction where action would be required for that purpose, except that this Letter of Offer has been filed with SEBI and SEBI has given its observations and that the Letter of Offer would be filed with the relevant Stock Exchanges in India. Accordingly, the Equity Shares may not be offered or sold, directly or indirectly, and this Letter of Offer may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither will the delivery of this Letter of Offer, nor any sale hereunder, shall under any circumstances, create any implication that the affairs of the Company have remained unchanged since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

DISCLAIMER CLAUSES OF STOCK EXCHANGES

BSE, NSE and MgSE have given their permission to the Company to use their respective names in the Letter of Offer as one of the Stock Exchanges on which the Company's shares issued in terms of this Issue are proposed to be listed. The Stock Exchanges have scrutinized this Letter of Offer for their limited internal purpose of deciding on the matter of granting the aforesaid permission to Centurion Bank Limited. The Stock Exchanges, who have given their Disclaimer clauses are mentioned below:

BSE, NSE and MgSE (Stock Exchanges) have vide their letters dated April 5, 2004, April 15, 2004 and April 7, 2004 , respectively, given their permission to Centurion Bank Limited to use their respective names in the Letter of Offer as one of the Stock Exchanges on which Centurion Bank Limited's securities are proposed to be listed.

Disclaimer Clause of the BSE

The Stock Exchange, Mumbai ("the Exchange") has given vide its letter dated April 5, 2004 permission to the Company to use the Exchange's name in this Letter of Offer as one of the stock exchanges on which this Company's securities are proposed to be listed. The Exchange has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. The Exchange does not in any manner:

(i) warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; or

(ii) warrant that this Company's securities will be listed or will continue to be listed on the Exchange; or

(iii) take any responsibility for the financial or other soundness of this Company, its management or any scheme or project of this Company;

And it should not for any reason be deemed or construed that this Letter of Offer has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange 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 Letter of Offer has been submitted to National Stock Exchange of India Limited (hereinafter referred to as NSE). NSE has given vide its letter dated April 15, 2004, permission to the Issuer to use the Exchange's name in this Letter of Offer as one of the Stock Exchanges on which this Issuer's securities are proposed to be listed. The Exchange has scrutinised this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Issuer. It is to be distinctly understood that the aforesaid permission, given by NSE, should not in any way be deemed or construed that the Letter of Offer 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 Letter of Offer; nor does it warrant that this Issuer' securities will be listed or will continue to be listed on the Exchange; nor does it take any responsibility for the financial or other soundness of this Issuer, its management, or any scheme or project of this Issuer.

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

Disclaimer Clause of the MgSE

MgSE has given vide its letter no. MSE/LCF-49/2004-05/031 dated April 7, 2004, permission to the Bank to use the name of the Exchange in this offer document as one of the Stock Exchanges on which the Bank's securities are proposed to be listed. The Exchange has scrutinized this offer document for its limited purpose of deciding on the matter of granting the aforesaid permission to the Bank. The Exchange does not in any manner –

1. Warrant, certify or endorse the corrections of any of the contents of this offer document or
2. Warrant that this Bank's securities will be listed or will continue to be listed on the Exchange or
3. Take any responsibility for the financial or other soundness of this Bank, its management or any other scheme or project of this Bank;

And it should not be for any reason be deemed or construed that this offer document has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange 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 in the offer document or for any other reason whatsoever.

IMPERSONATION

As a matter of abundant caution, attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Act, which is reproduced below:

"68A. (1) Any person who

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

(b) otherwise induces a company to allot, or register any transfer of shares therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years."

MINIMUM SUBSCRIPTION

If the Company does not receive the minimum subscription of 90% of the Issue size, the entire subscription will be refunded to the applicants within 42 days from the date of closure of the Issue.

If there is a delay in the refund of subscription by more than 8 days after the Company becomes liable to pay the subscription amount (i.e. 42 days after closure of the Issue) the Company will pay interest for the delayed period at the rates prescribed in sub-sections (2) and (2A) of Section 73 of the Act.

LISTING

The existing Equity Shares of the Company are listed on the BSE, NSE and MgSE. The Company has paid the current annual listing fees to each of the stock exchanges where its Equity Shares are listed. Applications will be made to the BSE, NSE and MgSE for permission to deal in and for an official quotation for the securities being offered through this Letter of Offer.

If the permission to deal in and for an official quotation of the Equity Shares is not granted by the stock exchanges mentioned above, the Company shall forthwith repay, without interest, all monies received from the applicants in pursuance of this Letter of Offer. If such money is not repaid within eight days after the Company becomes liable to repay it (i.e. 42 days after closure of the Issue), then the Company and every Director of the Company who is an officer in default shall, on and from expiry of eight days, be jointly and severally liable to repay the money, with interest as prescribed under sub-sections (2) and (2A) of Section 73 of the Act.

FILING

A copy of the Letter of Offer has been filed with SEBI at Mittal Court, Nariman Point, Mumbai, 400 021 and also with the stock exchanges where the Equity Shares to be issued in terms of this Letter of Offer are proposed to be listed.

COMPULSORY DEMATERIALISED TRADING

The Equity Shares of the Company have been under compulsorily dematerialized trading for all investors with effect from June 26, 2000. The Company has an agreement with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and, w.e.f. February 05, 2004, the Equity Shares bear the ISIN No. INE484A01026.

ALLOTMENT AND REFUND

The Company will issue and despatch the Letter of Allotment/Share Certificates/Demat Credit and/or Letter of Regret, alongwith the Refund Order or credit the allotted shares to the respective beneficiary accounts, if any, within a period of six weeks from the date of closure of the Issue. If such monies are not repaid within eight days from the day the Company becomes liable to pay, it shall, as stipulated under Section 73(2A) of the Act, be required to pay interest on the same at a rate of 15% p.a. In accordance with the SEBI guidelines, the Company will ensure that the dispatch of Letter of Allotment/Refund Order of value exceeding Rs.1,500 would be sent by registered post/speed post to the sole/first applicant's registered address and adequate funds for the purpose shall be made available to the Registrars by the issuer company. Refund Orders up to the value of Rs.1,500 would be sent under Certificate of Posting.

Further, the Company shall dispatch allotment advice, share certificate refund order and give benefit to the Beneficiary Account with Depository Participants and submit the listing documents to the stock exchanges within two working days of finalization and adoption of basis of allotment.

Such Refund Orders would be payable at par at all places where the applications were originally accepted. The same would be marked "Account Payee only" and would be drawn in favour of the sole/first applicant. Adequate funds would be made available to the Registrar to the Issue for dispatch of Letters of Allotment/share certificates/refund orders.

In case the Company issues Letters of Allotment, the corresponding Security Certificates will be kept ready within three months from the date of allotment thereof or such extended time as may be approved by the Central Government under Section 113 of the Act or other applicable provisions, if any. Allottees are requested to preserve such Letters of Allotment, which would be exchanged later for the Security Certificates.

ISSUE PROGRAMME

The subscription will open upon the commencement of banking hours and will close upon the close of banking hours on the dates mentioned below:

ISSUE OPENS ON	LAST DATE FOR RECEIVING REQUESTS FOR SPLIT FORMS	ISSUE CLOSES ON
August 24, 2004	**September 07, 2004**	**September 22, 2004**

ISSUE MANAGEMENT TEAM

Lead Manager to the Issue

JM Morgan Stanley Private Limited
141, Maker Chambers III,
Nariman Point, Mumbai- 400 021, India
Tel No: (+91-022) 5630 3030
Fax No: (+91-022) 2202 8224
Email: centurionbankrights@jmmorganstanley.com
Contact Person: **Ms. Ami Parikh**

Co-Lead Manager to the Issue

SSKI Corporate Finance Pvt. Ltd.
701-2 Tulsiani Chambers,
Nariman Point, Mumbai – 400 021, India
Tel :(+91-022) 5638 3333
Fax: (+91-022) 2204 0282
E-mail: cblrights@sski.co.in
Contact Person: **Mr. Prashant Shetty**

***Inter se* allocation of Responsibilities between JM Morgan Stanley Private Limited ("JMMS"), and SSKI Corporate Finance Private Limited ("SSKI") for this Rights Issue**

Activity	Responsibility	Co-ordinator
Capital structuring with the relative components and formalities such as composition of debt and equity, type of instruments	JMMS	JMMS
Drafting and Design of the Offer Document and of advertisement / publicity material including newspaper advertisements and brochure / memorandum containing salient features of the Offer Document. The designated Lead Merchant Banker shall ensure compliance with the Guidelines for Disclosure and Investor Protection and other stipulated requirements and completion of prescribed formalities with Stock Exchange, Registrar of Companies and SEBI.	JMMS	JMMS
Marketing of the Issue, which will cover, *inter alia*, formulating marketing strategies, preparation of publicity budget, arrangements for selection of (i) ad-media, (ii) centres of holding conferences of brokers, investors etc., (iii) bankers to the issue, (iv) collection centres and (v) brokers to the issue, distribution of publicity and issue material including application form, prospectus and brochure, and deciding on the quantum of issue material.	JMMS, SSKI	JMMS
Selection of various agencies connected with the issue, namely Registrars to the Issue, printers and advertisement agencies.	JMMS	JMMS
Follow-up with bankers to the issue to get quick estimates of collection and advising the issuer about closure of the issue, based on the correct figures.	JMMS	JMMS
The post-issue activities will involve essential follow-up steps, which must include finalisation of basis of allotment / weeding out of multiple applications, listing of instruments and despatch of certificates and refunds, with the various agencies connected with the work such as registrars to the issue, bankers to the issue, and bank handling refund business. Even if many of these post-issue activities would be handled by other intermediaries, the designated Lead Merchant Banker shall be responsible for ensuring that these agencies fulfil their functions and enable him to discharge this responsibility through suitable agreements with the issuer company.	JMMS	JMMS

Registrars to the Issue
Karvy Computershare Private Limited
Unit: Centurion Bank - Rights
Karvy House, 46, Avenue 4, Street No. 1,
Banjara Hills, Hyderabad - 500 034, India
Tel. : (+91-40) 2332 0751-53
Fax.: (+91-40) 2331 1968
E-Mail: murali@karvy.com
Contact Person: Mr. Murali Krishna

Legal Advisors to the Issue
J. Sagar Associates
Advocates & Solicitors
Vakils House, 1st Floor, 18 Sprott Road
Ballard Estate, Mumbai 400 001, India
Tel. : (+91-022) 5656 1500
Fax. : (+91-022) 5656 1515
Email: mumbai@jsalaw.com
Contact Person: Mr. Somasekhar Sundaresan / Mr. Srinivas Parthasarathy

Statutory Auditors to the Company
V. Sankar Aiyar & Co.
Chartered Accountants
2-C, Court Chambers, 35, New Marine Lines
Mumbai 400 020, India
Tel. : (+91-022) 2200 4465
Fax : (+91-022) 2200 0649
Email : vsa@bom5.vsnl.net.in
Contact Person: Mr. N. Sampath Ganesh

Bankers to the Issue
ICICI Bank Limited
Capital Market Division
30 Mumbai Samachar Marg, Fort
Mumbai 400 001, India
Tel: (+91-022) 2265 5285
Fax: (+91-022) 2261 1138
E-mail: sidhartha.rautray@icici.com
Contact Person: Mr. Sidhartha Rautray

Collecting Bank
Centurion Bank Ltd.
Bandukwala Building, Ground Floor
British Hotel Lane
Off. Mumbai Samachar Marg
Fort, Mumbai 400 023, India
Tel: (+91-022) 2270 5036
Fax: (+91-022) 2270 5736
Contact Person: Mr. H.V.T. Pai

BRANCH LIST

Branch No.	Branch Name	Branch No.	Branch Name
0002	Mumbai - Nariman Point	0045	Rajkot
0003	Goa – Panjim	0046	Sriperumbudur
0004	Goa – Vasco	0047	Calicut
0005	Goa – Mapusa	0048	Goa – Calangute
0006	Chennai – Nandanam	0049	Bhopal
0007	Bangalore	0050	Trivandrum
0008	Chandigarh	0051	Thrissur
0009	Cochin	0052	Panchkula
0010	Kolkata	0053	Delhi – Ashok Vihar
0011	Delhi	0054	Goa – Ponda
0012	Mohali	0055	Jalandhar
0013	Goa – Margao	0056	Mumbai – Juhu
0014	Cochin – WI	0057	Gurgaon
0015	Delhi – Noida	0058	Mumbai – Kandivili
0016	Kolkata – CIT Road	0059	Sahibabad
0017	Chennai – Annanagar	0060	Lucknow
0018	Bangalore – Jayanagar	0061	Bangalore – Infantry Road
0019	Pune	1001	Mumbai- Fort
0020	Hyderabad		
0021	Ahmedabad		
0022	Mumbai – Borivli		**EXTENSION COUNTERS**
0023	Kolkata – Jadhavpur		
0024	Bangalore – Peenya	3001	HNL – Velloor – Kottayam District
0025	Guruvayoor	3002	Chennai Ispahani
0026	Jaipur	3003	Astron- Ahmedabad
0027	Mumbai – Thane	3004	Tripunithara – Cochin
0028	Delhi – Nehru Place	3005	Kunnamkulam – Guruvayoor
0029	Chennai – Parrys	3006	Sun N Step – Ahmedabad
0030	Ludhiana	3007	Dharwad – Hubli
0031	Siliguri	3008	Ambattur – Annanagar
0032	Indore	3009	Pithampur – Indore
0033	Baroda	3010	Amar Public – Noida
0034	Kolkata - India Ex. Place	3011	St. Mary School – Hyderabad
0035	Visakhapatnam	3012	Waltair Club – Visakhapatnam
0036	Vapi	3013	Thoppumpady – W.I (Cochin)
0037	Vellore	3014	Melvishram – Vellore
0038	Nasik	3015	Kolenchery – Cochin
0039	Hubli	3016	Poonamallee – Chennai
0040	Nagpur	3017	Lourdes School -Bangalore
0041	Surat	3018	Thiruvottiyur – Parrys
0042	Coimbatore	3019	St. Germains – Bangalore
0043	Jamnagar	3020	Irinjalakuda- Thrissur
0044	Bhubaneshwar		

Please note that RBI vide letter no. DBOD.BL2049/22/03/059/2003-2004 dated June 01, 2004 has granted its approval for converting 14 of our marketing offices into full fledged banking branches. While we are presently in the process of converting these marketing offices into full fledged branches, the following marketing offices would be converted into branches shortly:

Branch Name	Branch Name
Salem	Udaipur
Mangalore	Durgapur
Madurai	Mysore
Kolhapur	Raipur
Gandhidham	Pondicherry
Erode	Jamshedpur
Trichy	Jabalpur

Company Secretary & Compliance Officer

Mr. N E Venkitakrishnan
1201, Raheja Centre
Free Press Journal Marg,
Nariman Point, Mumbai- 400 021, India
Tel: (+91-022) 2204 7234 / 38
Fax: (+91-022)2288 0064
Email: nevenkit@centurionbank.com

Note : Investors are advised to contact the Registrar to the Issue/ Compliance Officer in case of any pre-issue/post-issue related problems such as non-receipt of Letter of Offer/Letter of Allotment/ Share Certificate(s)/ refund orders/demat credit, etc.

Credit Rating

As this is an Issue for Equity Shares, a credit rating is not required. The details of the ratings received by the Company for other securities/instruments in the last 3 years are as follows:

Borrowing Program/Security	Amount (Rs. crores)	Rating Agency	Rating	Date of Rating Letter
Certificate of Deposit Programme	300	Fitch	F2+(ind)	May 2004
Certificate of Deposit Programme	300	Fitch	F3(ind) (Rating Watch positive)	March 2, 2004
Certificate of Deposit Programme	300	Fitch	F3	2002-2003
Certificate of Deposit Programme	300	Fitch	D2 (Rating Watch negative)	2001-2002
Certificate of Deposit Programme	300	ICRA	A3&	July 12, 2004
Certificate of Deposit Programme	300	ICRA	A3	January 2004
Certificate of Deposit Programme	300	ICRA	A3	2002-2003
Certificate of Deposit Programme	300	ICRA	A2-Rating Watch	2001-2002
Subordinated Debt Programme	70 [1]	Fitch	A-(Ind)	April 28, 2004
Senior Pass Through Certificates (PTCs) pursuant to the Securitisation and Servicing Agreement	57.54	Fitch	AAA(SO)	July 19, 2004

[1]Rs. 43 crores have been raised in June 2004

Rating by FITCH

F3(ind) indicates fair credit quality. It indicates that the capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

D2 indicates fair credit quality. It indicates that the liquidity factors and company fundamentals are sound and risk factors are small.

F2+(ind) indicates good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin safety is not as great as in the case of the higher ratings.

A-(ind) indicates adequate credit quality and that there is currently a low expectation of credit risk. The capacity for time repayment of financial commitment is considered adequate. This capacity may, nevertheless be more vulnerable to changes in circumstances or in economic conditions than in the case for higher ratings.

AAA(SO) indicates the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. SO indicates Structure Obligation.

This capacity is highly unlikely to be adversely affected by foreseeable events.

Rating By ICRA

A3 indicates adequate safety with developing implications. It indicates that the prospect of timely payment of interest and installment is adequate, but any adverse changes in business/economic conditions may affect the fundamental strength.

A2-Rating Watch indicates relative safety marginally lower than A1 rating and A1 being of higest safety.

A3& indicates rating watch with developing implications.

Consent

To the best of our knowledge there are no consents required for making this Issue. However should the need arise, necessary consents will be obtained by us.

Underwriting / Standby Arrangements

The present issue is not underwritten.

UTILISATION OF ISSUE PROCEEDS

The Board of Directors of the Bank certifies that:

a) All monies received out of the Issue shall be transferred to a separate bank account other than the bank account referred to in sub-section (3) of Section 73 of the Act;

b) Details of all monies utilised out of the Issue referred to in sub-item (a) above shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such monies had been utilised; and

c) Details of all unutilized monies out of the Issue, if any, referred to in sub-item (a) above shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the form in which such unutilised monies have been invested.

The funds received against this Issue will be kept in a separate bank account and the Bank will not have any access to such funds unless it satisfies the Designated Stock Exchange with suitable documentary evidence that the minimum subscription of 90% of the Issue has been received by the Bank.

DECLARATION BY THE COMPANY

We undertake that:

a) The complaints received in respect of the Issue shall be attended to by expeditiously and satisfactorily by the Company;

b) All steps for completion of the necessary formalities for listing and commencement of trading at all stock exchanges where the securities are to be listed are taken within seven working days of finalisation of basis of allotment;

c) Funds required for dispatch of refund orders/allotment letters/ certificates by registered post shall be made available to the Registrars to the Issue by the Company;

d) Certificates of the securities/refund orders to the Non-Resident Indians shall be dispatched within the specified time subject to receipt of approval from RBI;

e) No further issue of shares shall be made till the shares offered through this Letter of Offer are listed or till the application moneys are refunded on account of non-listing, undersubscription, etc.

f) Necessary cooperation with the credit rating agency(ies) shall be extended in providing true and adequate information till the debt obligations in respect of the instrument are outstanding.

CAPITAL STRUCTURE

(Rs. in Crore)

As on June 30, 2004	Aggregate Amount
Authorised Share Capital	
3,000,000,000 Equity Shares of Re.1 each	300.00
Issued, Subscribed and Paid-up Share Capital	
567,470,191 Equity Shares of Re. 1/- each	56.75
Present Issue being offered to the existing Shareholders through this Letter of Offer	
226,988,077 Equity Shares of Re.1 each for cash at a premium of Rs. 3 per share	22.70
Paid Up Capital after the Issue[1]	
After issue of 226,988,077 Equity Shares of Re.1 each	79.45[2]
Share Premium Account	
Existing Share Premium Account	112.20
Addition to Share Premium Account	68.10
Share Premium Account after the Present Issue	180.30

1. The total paid-up capital after conversion of 13.50 crores warrants (please refer note 11 below) will be Rs.92.95 crores, assuming exercise of all warrants.

2 According to Section 12(1)(i) of the BR Act, our subscribed capital should not be less than one-half of the authorised capital and our paid-up capital should be not less than one-half of the subscribed capital. We have received approval from Government of India, Ministry of Finance, Department of Economic Affairs (Banking Division) vide their Notification No. F.No. 15/21/2003-BOA dated January 06, 2004 granting time upto 31st December, 2004 for complying with the same.

Notes to Capital Structure

1. There are no partly paid-up Equity Shares as on date.
2. Share Capital History

Name of Shareholder	Year of Allotment	No. of Shares allotted	Face Value (Rs.)	Issue Price (Rs.)	Nature of issue and payment	Cumulative No. of shares
TCFC Finance Ltd. (TFL)	1995	35,250,000[1]	10	10	Initial Subscription by Cash	35,250,000
Employees Trust of CBL, Employees and shareholders of TFL and its affiliates, associates and associate companies, friends and relatives	1995	12,000,000	10	10	Initial Subscription by Cash	47,250,000
Keppel Corporation through Kephinance Investment (Mauritius) Pte. Ltd	1995	27,000,000[2]	10	10	Initial Subscription by Cash	74,250,000
Asian Development Bank (Manila)	1995	14,850,000	10	10	Initial Subscription by Cash	89,100,000
International Finance Corporation (Washington)	1995	12,150,000	10	10	Initial Subscription by Cash	101,250,000
Shareholders of erstwhile TCFC	1999	17,470,191	10	-	By virtue of merger of TCFC with CBL[3]	118,720,191
Public Issue of Equity Shares	1999	33,750,000	10	10	Initial Public Issue by Cash	152,470,191
Total – A		**152,470,191**				

Reduction in the face value of Equity Shares from Rs. 10 to Re. 1 per share

Name of Shareholder	Year of Allotment	No. of Shares allotted	Face Value (Rs.)	Issue Price (Rs.)	Nature of issue and payment	Cumulative No. of shares
Sabre Capital (Mauritius) Ltd.	2004	19,000,000	1	1	Pursuant to Scheme of Arrangement by Cash	171,470,191
Sabre Capital Worldwide (Mauritius) Ltd.	2004	21,000,000	1	1	Pursuant to Scheme of Arrangement by Cash	192,470,191
Bank Muscat SAOG	2004	187,500,000	1	4	Pursuant to Scheme of Arrangement[4]	379,970,191
Sabre Investor Group[5]	2004	125,000,000[6]	1	4	Pursuant to Scheme of Arrangement by Cash	504,970,191
Keppel Corporation through Kephinance Investment (Mauritius) Pte Ltd. (through FII sub-account)	2004	26,970,000	1	4	Pursuant to Scheme of Arrangement by Cash	531,940,191
Asian Development Bank	2004	7,500,000	1	4	Pursuant to Scheme of Arrangement by Cash	539,440,191
Keppel Corporation through Kephinance Investment (Mauritius) Pte Ltd.	2004	28,030,000	1	4	Pursuant to Scheme of Arrangement by Cash	567,470,191
Total – B		**415,000,000**				
GRAND TOTAL		**567,470,191**				

1 TCFC Finance Ltd. acquired 4,750,000 additional shares and pledged total holding of 4 crores Equity Shares with the Bank in full and final settlement of their obligations under the Financial Support Agreement dated April 08, 1999 entered into between TCFC Finance Ltd. and the Bank. These shares are now vested in the Centurion Bank Stock Trust to be held for the benefit of the Bank pursuant to the Scheme of Arrangement.

2 Includes 7,000,000 Equity Shares of Rs. 10 each in respect of which allotment was made along with the public issue on October 22, 1999 as per the RBI directives

3 Shares allotted pursuant to our merger with TCFC.

4 112,500,000 Equity Shares of Re. 1/- each at a premium of Rs. 3/- per share aggregating to Rs. 45 crores have been allotted to Bank Muscat (SAOG) in consideration of the transfer and vesting of the business of Bank Muscat Bangalore to Centurion Bank. 75,000,000 Equity Shares of Re. 1/- each at a premium of Rs. 3/- per share allotted, for cash, aggregating to Rs. 30 crores

5 As per the Scheme, the Sabre Investor Group was to infuse upto Rs. 50 crores by subscribing to our Equity Share capital. The said shares were allotted to various financial investors comprising FIIs, Mutual Funds, High Networth Individuals and bodies corporate who were identified by Sabre. Accordingly, the shares subscribed by these investors was treated as appropriate discharge by the Sabre Investor Group, of it's obligation, to infuse Rs. 50 crores.

6 This amount includes 4,375,000 shares allotted to Sabre Capital (Mauritius) Ltd.

3. Our Authorised Share Capital at the time of incorporation was Rs. 120 crores and was increased to Rs. 150 crores through a resolution passed at the EGM on September 23, 1994. The Authorised Capital was further increased to Rs. 300 crores divided into 30 crores Equity Shares of Rs. 10/- each vide a resolution passed at an Extraordinary General Meeting on May 31, 1999. Currently the Authorised Share Capital stands at Rs. 300 crores divided into 300 crores Equity Shares of Re. 1/- each. **At the meeting held on June 30, 2004, the Board of Directors have decided to reduce the Authorised Capital from Rs. 300 crores to Rs. 150 crores subject to the approval of the shareholders.**

4. No Equity Shares have been issued for consideration other than cash since the inception of the Company except 17,470,191 Equity Shares allotted to shareholders of erstwhile TCFC by virtue of our merger with TCFC and 112,500,000 Equity Shares to Bank Muscat by virtue of the Scheme of Arrangement.

5. Shareholding Pattern before and after the Issue is as under:

Category	Existing (As on Record Date)		After the Present Issue *	
	No. of Shares	%	No. of Shares	%
Promoter Group**	NIL	NIL		NIL
Kephinance Investment (Mauritius) Pte Ltd.	55,030,000	9.70	77,042,000	9.70
Kephinance Investment (Mauritius) Pte Ltd.(Thro' FII Sub A/c)	26,970,000	4.75	37,758,000	4.75
Bank Muscat	187,500,000	33.04	262,500,000	33.04
FII/FDIs	49,404,468	8.71	69,166,255	8.71
Corporate Bodies	44,360,801	7.82	62,105,122	7.82
Public/Individuals	84,385,963	14.87	118,140,348	14.87
Mutual Funds	515,149	0.09	721,209	0.09
Sabre Capital (Mauritius) Ltd.	23,375,000	4.12	32,725,000	4.12
ADB	23,083,333	4.07	32,316,666	4.07
Sabre Capital Worldwide (Mauritius) Ltd.	21,000,000	3.70	29,400,000	3.70
Non Resident Indians / OCBs / Foreign Nationals	7,139,181	1.26	9,994,854	1.26
IFC	2,102,476	0.37	2,943,466	0.37
Banks, Institutions and Insurance Companies	1,781,320	0.31	2,493,848	0.31
Centurion Bank Employees Trust	822,500	0.14	1,151,500	0.14
Centurion Bank Stock Trust	40,000,000	7.05	56,000,000	7.05
Total	**567,470,191**	**100.00**	**794,458,268**	**100.00**

* Estimation of Post Issue shareholding is based on the assumption that all the shareholders will subscribe to their Rights Entitlement in full.

** Please refer Section on "Our Management" on page 76 of this Letter of Offer.

6. Voting rights: Your attention is drawn to Section 12(2) of the BR Act as amended, which states that "No person holding shares in a banking company shall, in respect of any shares held by him exercise voting rights on poll in excess of 10% of the total voting rights on poll of all the shareholders of the banking company".

7. For the details of the transactions pertaining to any purchase or sale of the Company's shares, directly or indirectly, in the last six months, please refer note 5 of 'Notes to the Risk Factors' on page xiv.

   Certain shares have been allotted to our major shareholders in last 6 months pursuant to the Scheme. For details of the allotment please refer note 2 above.

8. The Shareholding of the Directors and their relatives in the Company is as under:

Name of Director/Relatives of Director	No. of shares held as on July 23, 2004 in the Company	% Shareholding
Mr. J.S. George	864,000	0.16%
Mr. S. Venkiteswaran	500	0.00%
Mrs. Ena Maliwal	62,500	0.01%
Mr. Lalit Maliwal	62,500	0.01%
Mr. Amar Talwar	250,000	0.04%
Mr. Rajindra Singh Talwar	125,000	0.02%
Mr. Prashant Modi	230,000	0.04%
Sara Advisory Services Pvt. Ltd. (Company in which Mr. Rajiv Maliwal, Director of the Bank, is a Director)	1,800,000	0.32%
Ms. Tania Soni	250,000	0.04%
Mr. S. K. Jain	200,000	0.04%

9. Details regarding Top 10 Shareholders

Our top 10 shareholders and the number of shares held by them are as under:

A. As on the date of filing the Letter of Offer with the Designated Stock Exchange.

Sr. No.	Name of shareholders	No. of Shares	% Shareholding
1	Bank Muscat (S.A.O.G.)	187,500,000	33.04%
2	Kephinance Investment (Mauritius) Pte Limited	55,030,000	9.70%
3	Centurion Bank Stock Trust	40,000,000	7.05%
4	Kephinance Investment (Mauritius) Pte Limited—Through FII	26,970,000	4.75%
5	Sabre Capital (Mauritius) Limited	23,375,000	4.12%
6	Asian Development Bank	23,083,333	4.07%
7	The Indiaman Fund (Mauritius) Limited	21,166,000	3.73%
8	Sabre Capital Worldwide (Mauritius) Limited	21,000,000	3.70%
9	GMO Emerging Markets Fund	11,000,000	1.94%
10	The India Fund Inc.	6,895,000	1.22%
	Total	**416,019,333**	**73.32%**

B. 10 days prior to date of filing the Letter of Offer with the Designated Stock Exchange.

Sr. No.	Name of shareholders	No. of Shares	% Shareholding
1	Bank Muscat (S.A.O.G)	187,500,000	33.04%
2	Kephinance Investment (Mauritius) Pte Limited	55,030,000	9.70%
3	Centurion Bank Stock Trust	40,000,000	7.05%
4	Kephinance Investment (Mauritius) Pte Limited—Through FII Sub A/c.	26,970,000	4.75%
5	Sabre Capital (Mauritius) Limited	23,375,000	4.12%
6	Asian Development Bank	23,083,333	4.07%
7	The Indiaman Fund (Mauritius) Limited.	21,166,000	3.73%
8	Sabre Capital Worldwide (Mauritius) Limited	21,000,000	3.70%
9	GMO Emerging Markets Fund	11,000,000	1.94%
10	The India Fund Inc.	68,95,000	1.22%
	Total	**41,60,19,333**	**73.32%**

C. 2 years prior to the date of filing the Letter of Offer with the Designated Stock Exchange

Sr. No.	Name Of Shareholder	No. of Shares	% Shareholding
1	TCFC Finance Limited	40,000,000	26.23%
2	Kephinance Investment (Mauritius) Pte Ltd	27,000,000	17.71%
3	Asian Development Bank	15,583,333	10.22%
4	International Finance Corporation	12,750,630	8.36%
5	The India Fund Inc.	1,233,300	0.81%
6	Tata Finance Ltd.	989,900	0.65%
7	ICICI Ltd.	911,111	0.60%
8	Credit Capital Investment Trust Company Ltd	804,793	0.53%
9	Centurion Bank Employees Trust	822,500	0.54%
10	Niskalp Investment Trading Company Limited	732,200	0.48%
Total		**10,08,27,767**	**66.13**%

10. The Company had 162,278 Equity Shareholders as on July 23, 2004.
11. There are 13.50 crores warrants issued to Sabre in terms of the Scheme of Arrangement which shall at the option of Sabre be convertible into 13.50 crores Equity Shares of the face value of Re 1 per share at a premium of Rs 3 per share for a cash consideration, which may be exercised at any time upon completion of the capital infusion in terms of Clauses 3.2.1, 14.1(i), 14.1(ii) and 14.3 of the Scheme but prior to the expiry of sixty months from the date of issue of the warrants. The above shares are subject to lock-in, such lock-in to be released in the ratio of 40:30:30 at the end of the thirty-sixth, forty-eighth and sixtieth month respectively, from February 04, 2004.
12. The Bank has been in discussion with its three major shareholders viz., Bank Muscat, Keppel and Sabre regarding their intention to participate in the present Rights Issue. While no written confirmation in this regard has been received by the Bank from any of these shareholders, Bank Muscat has issued a press release dated August 04, 2004 comfirming that it will fully exercise its Rights Entitlement and participate to the total extent of its current shareholding in the Rights Issue. Further with context to the underwriting of the Issue in terms of clause 14.3 of the Scheme, which states that "A further infusion of capital into Centurion shall be arranged for by Sabre through a rights/public issue, so as to infuse an amount of Rs. 219 crores (taking into account capital infusion in terms of this Scheme and such rights/public issue)", Sabre has in response to a query in this regard from JM Morgan Stanley Private Limited, in its letter dated August 03, 2004 stated that taking into account various factors and discussions with its advisors, it did not recommend that this Issue needs to be underwritten.
13. Central Bank of Oman has approved the investment of Bank Muscat (SAOG) in Centurion Bank upto 30% of the Bank's fully diluted capital as envisaged in terms of the Scheme of Arrangement for restructuring and recapitalisation of the Bank. Presently, Bank Muscat (SAOG) holds 33.04% of our capital, which holding would eventually come down to 30%.
14. No further issue of equity capital whether by way of issue of bonus shares, preferential allotment, rights issue or in any other manner will be made by the Company during the period commencing from submission of the Letter of Offer with SEBI until the securities referred to in this Letter of Offer have been listed or application money is refunded in case of failure of the Issue.
15. The Company is contemplating an ESOP Scheme, which when implemented would be in compliance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, which currently requires that the Scheme be approved by the shareholders, and other applicable laws.
16. Save as stated in point 15 above, the Company presently does not have any intention or proposal to alter its capital structure for a period of six months from the date of opening of the issue, by way of split/consolidation of the denomination of Equity Shares or further issue of Equity Shares (including issue of securities convertible / exchangeable, directly or indirectly for Equity Shares) whether on preferential basis or otherwise.
17. At any given point of time, there shall be only one denomination for the Equity Shares of the Company and Centurion Bank shall comply with such disclosure and accounting norms as may be prescribed by SEBI.
18. We have not raised any bridge loan against the proceeds of this Issue.
19. The Company, its Directors or Lead Manager have not entered into any buy-back and/or standby arrangements for purchase of securities of the Bank from any person.
20. Non-resident investors and FIIs will not need permission of the FIPB/RBI for investment in the Issue to the extent of their entitlement, as well as additional shares. However, in case of applications from such entities in excess of their entitlement, allotment will be subject to restrictions under applicable laws, including existing ceilings on FII holdings in the Bank and sectoral FDI caps on investment in the Bank, as applicable. Please note that non-resident shareholders and FIIs applying in excess of their entitlement may need FIPB / RBI approvals, if the circumstances so warrant. Such approvals will have to be secured by such shareholders of their own accord, and the Bank shall not be responsible for the same.
21. The issue will remain open for 30 days.
22. Centurion Bank Employees Trust: In the year 1994-95, we had established a Trust for the benefit of its employees. The trust was allotted 1,250,000 Equity Shares of the Bank in 1996 out of interest free advance granted by the Bank. As per the scheme of allotment of shares approved by the Executive Committee of the Board, the specified category of employees are entitled to apply for and obtain allotment of the number of shares specified in the scheme for that category. Under the scheme, 427,500 shares have been transferred at par to employees upto 31st March 2003. These shares are listed. No allotments were made after March 31, 2003.
23. Also refer the Section on summary of "Scheme of Arrangement" and summary of the "Shareholders Agreement" detailed on Page 75 and Page 73 of this Letter of Offer.

TERMS OF THE PRESENT ISSUE

The Company is offering on a rights basis through this Letter of Offer 226,988,077 Equity Shares of Re. 1 each at a premium of Rs. 3 per share aggregating to Rs. 90.80 crores. The Equity Shares are being offered subject, *inter alia*, to terms of this Letter of Offer, the CAF, the provisions for listing as specified in the guidelines issued by BSE, NSE and MgSE and the GOI from time to time, the terms and conditions stated in allotment letters/share certificates to be issued, the provisions of the BR Act, to the extent applicable, the provisions of the Act to the extent applicable, SEBI Guidelines and the provisions of the Depository Act, 1996, to the extent applicable.

AUTHORITY FOR THE PRESENT ISSUE

The present Rights Issue is in terms of the Scheme, as detailed on page 75. The Board of Directors, in its meeting held on March 03, 2004 empowered the Securities Transfer, Allotment & Grievance Redressal Committee to decide on the terms and conditions of the Rights Issue, and the Committee, vide its resolution dated March 26, 2004, has approved and finalised the terms of the Issue.

BASIS OF OFFER

The shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the shares held in the electronic form and on the Register of Members of the Company in respect of the shares held in physical form at the close of business hours on the Record Date, shall be entitled to apply for the Equity Shares on a Rights basis. The shareholders whose names appear in the Register of Members on the Record Date would be entitled to subscribe for 2 Equity Shares of Re. 1 each on Rights basis for every 5 Equity Shares of Re. 1 each held as on the Record Date. By virtue of the circular No. 14 dated September 16, 2003 issued by the RBI, overseas corporate bodies ("OCBs") have been derecognised as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies (OCBs)) Regulations, 2003 dated October 03, 2003. Accordingly, investors who had invested in the equity of the Bank using the OCB route i.e. through purchases on Indian stock exchanges, shall not be eligible to subscribe to the Equity Shares, except if specific prior approval is obtained by such OCB and a copy of such RBI approval is attached with the application. Upon receipt of such approval, the offer to such OCBs as provided herein shall be complete.

ENTITLEMENT

As your name appears as beneficial owner in respect of the shares held in the electronic form or appears in the Register of Members as an Equity Shareholder of the Company on the Record Date, you are entitled to the number of Equity Shares shown in Block II of Part A of the enclosed CAF.

PRINCIPAL TERMS OF THE ISSUE

The Equity Shares now being offered are subject to the provisions of the Act and the terms and conditions of this Letter of Offer, the CAF, the Memorandum and Articles, FEMA and the letters of allotment/Equity Shares to be issued. Over and above such terms and conditions, the Equity Shares shall also be subject to applicable laws, guidelines, notifications and regulations relating to issue of capital and listing of securities issued from time to time by SEBI, the Government of India, RBI and or other authorities.

PRINCIPAL TERMS OF THE EQUITY SHARES

Face Value

Each Equity Share shall have the face value of Re. 1/-

Issue Price

Each Equity Share of the face value of Re.1/- is being offered at Rs. 4/- per share (including premium of Rs. 3/-)

Entitlement Ratio

The Equity Shares are being offered on rights basis to the existing Equity Shareholders in the ratio of 2 Equity Shares of Re. 1 each for every 5 Equity Shares of Re. 1 each held as on the Record Date. Rights Entitlement on shares held in the pool account of the clearing members on the Record Date shall be considered, and such claimants are requested to –

1. Approach the concerned depository through the clearing member of the Stock Exchange with requisite details; and
2. Depository in turn should furnish details of the transaction to the Registrars

Only upon receipt of the aforesaid details, Rights Entitlement of the claimants shall be determined

Terms of Payment

The full amount of Rs.4 per Equity Share is payable on application. Where an applicant has applied for additional shares and is allotted lesser number of Equity Shares than applied for, the excess application money paid shall be refunded. If there is delay of refund of application money by more than 8 days after the Company becomes liable to pay (i.e. forty two days after the closure of Issue), the Company will pay interest for the delayed period at the rate prescribed under sub-section (2) and (2A) of Section 73 of the Act.

Fractional Entitlement

For Equity Shares being offered on Rights Basis under this Issue, if the shareholding of any of the Equity Shareholders is less than 5 or is not in multiples of 5, then the fractional entitlement of such holders for Equity Shares shall be rounded off to the nearest integer. The Equity Shares needed for such shares will be first adjusted from the unsubscribed portion of the Issue, if any and should there be further requirement, from the entitlement of Centurion Bank Stock Trust and / or Centurion Bank Employees Trust at the time of the allotment.

Printing of Bank particulars on Refund Warrants with Interest

As a matter of precaution against possible fraudulent encashment of refund warrants due to loss or misplacement, the particulars of the applicant's bank account are mandatorily required to be given for printing on the refund orders. Bank account particulars will be printed on the refund orders which can then be deposited only in the account specified. The Company will in no way be responsible for any loss that may occur through these instruments falling into improper hands either through forgery or fraud.

RANKING OF EQUITY SHARES

The Equity Shares allotted during the Rights offered through this Letter of Offer shall rank *pari-passu* in all respects with the then existing Equity Shares of the Company including in respect of dividend declared , if any.

RIGHTS OF EQUITY SHAREHOLDERS

The rights available to the shareholders of the Bank under the Act are available, subject to the provisions of the BR Act. The rights include the following:

- Right to receive dividends, if declared;
- Right to attend general meetings and exercise voting powers, unless prohibited by law or Articles of the Bank;
- Right to vote personally or by proxy, unless prohibited by law or the Articles;
- Right to receive offers for rights shares and be allotted bonus shares, if issued;

OFFER TO NON-RESIDENT EQUITY SHAREHOLDERS/ APPLICANTS

The proposed Rights Issue of the Issuer is an integral part of the Scheme of Arrangement pursuant to which the Issuer was recapitalised and restructured. The Scheme of Arrangement has been approved by the RBI.

Further as per circular no: DBOD.No.PSBS.BC.79/16.13.100/2001-02 Dated: March 20, 2002, issued by the Department of Banking Operations and Development, RBI, approval of RBI would not be required for rights issue by both listed and unlisted banks. Hence, no RBI approval is required for this Issue.

Subject to the overall limit prescribed by RBI, as per regulation 6 of notification No. FEMA 20/200-RB dated May 03, 2000, the RBI has given general permission to Indian companies to issue Rights shares to non-resident shareholders including additional shares. The Board of Directors may at its absolute discretion, agree to such terms and conditions as may be stipulated by RBI while approving the allotment of Equity Shares, payment of dividend etc. to the non-resident shareholders. The rights shares purchased by non-residents shall be subject to the same conditions including restrictions in regard to the repatriability as are applicable to the original shares against which rights shares are issued.

By virtue of the Circular No. 14 dated September 16, 2003 issued by the RBI, overseas corporate bodies ("OCBs") have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies (OCBs)) Regulations, 2003. Accordingly, OCBs shall not be eligible to subscribe to the Equity Shares, except if specific prior approval is obtained by such OCB concerned and a copy of such RBI approval is attached with the application upon receipt of such approval the offer to such OCBs as provided herein shall be complete.

RESTRICTION ON TRANSFER OF SHARES

As per RBI circular PSBS.BC.64/16.13.100/2003-2004 dated February 03, 2004, any acquisition of shares by a person or group which would take his or its holding to a level of 5% or more of the total issued capital of the Bank (or such percentage as may by prescribed by the RBI from time to time) should be with the prior approval of RBI.

COMPLIANCE WITH SEBI GUIDELINES

The Company shall comply with all disclosures and accounting norms as specified by SEBI from time to time.

MARKET LOT

The market lot for Equity Shares held in Demat Mode is one share. In case of physical certificates, the Company would issue one certificate for the Equity Shares allotted to one person ("Consolidated Certificate"). In respect of Consolidated Certificate, the Company will, only upon receipt of a request from the Equity Shareholder, split such Consolidated Certificate into smaller denomination within 3 weeks time in conformity with the Bank's Articles. No fee would be charged by the Company for splitting the Consolidated Certificate, but stamp duty payable, if any, would be borne by the shareholder.

JOINT-HOLDERS

Where two or more persons are registered as the holders of any Equity Shares, they shall be deemed to hold the same as joint-tenants with benefits of survivorship subject to other provisions contained in the Articles.

ISSUE OF DUPLICATE EQUITY SHARE CERTIFICATE

If any Equity Share(s) is/are mutilated or defaced or the pages for recording transfers of Equity Share are fully utilized, the same may be replaced by the Company against the surrender of such Certificate(s). Provided, where the Equity Share Certificate(s) are mutilated or defaced, the same will be replaced as aforesaid only if the Certificate numbers and the Distinctive numbers are legible.

If any Equity Shares Certificate is destroyed, stolen or lost, then upon production of proof thereof to the satisfaction of the Company and upon furnishing such indemnity/ surety and/or documents as the Company may deem adequate, duplicate Equity Share Certificate(s) shall be issued.

NOMINATION

A sole Equity Shareholder or first Equity Shareholder, along with other joint Equity Shareholders [being individual(s)] may nominate any person(s) who, in the event of the death of the sole holder or all the joint-holders, as the case may be, shall become entitled to the Equity Shares. A Person, being a nominee, becoming entitled to the Equity Shares by reason of the death of the original Equity Shareholder(s), shall be entitled to the same advantages to which he would be entitled if he were the registered holder of the Equity Shares. Where the nominee is a minor, the Equity Shareholder(s) may also make a nomination to appoint, in the prescribed manner, any person to become entitled to the Equity Share(s), in the event of death of the said holder, during the minority of the nominee. A nomination shall stand rescinded upon the sale of the Equity Share by the person nominating. A transferee will be entitled to make a fresh nomination in the manner prescribed. When the Equity Share is held by two or more persons, the nominee shall become entitled to receive the amount only on the demise of all the holders. Fresh nominations can be made only in the prescribed form available on request at the registered office of the Company or such other person at such addresses as may be notified by the Company. The applicant can make the nomination by filling in the relevant portion of the CAF.

Only one nomination would be applicable for one folio. Hence, in case the Shareholder(s) has already registered the nomination with the Company, no further nomination need to be made for Equity Shares to be allotted in this Issue under the same folio.

In case the allotment of Equity Shares is in demateralised form, there is no need to make a separate nomination for the Equity

Shares to be allotted in this Issue. Nominations registered with respective DP of the applicant would prevail. If the applicant requires to change the nomination, they are requested to inform their respective DP.

NOTICES

All notices to the Equity Shareholder(s) required to be given by the Company shall be published in one English daily in Goa being the the place where the registered office of the Company is situated, one English language daily with nation wide circulation, one Marathi daily in Goa and one Marathi daily in Mumbai.

PROCEDURE FOR APPLICATION

The CAF would be printed in blue ink for all shareholders.

ACCEPTANCE OF OFFER

You may accept and apply for the Equity Shares offered hereby to you, wholly or in part, by filling in Part "A" of the enclosed CAFs and submitting the same along with payment of the application money to the Bankers to the Issue and their Collection Branches specified on the reverse of the CAF on or before the close of banking hours on or before the Issue closing date or such extended time as specified by the Board thereof in this regard.

OPTIONS AVAILABLE TO THE EQUITY SHAREHOLDER

The CAF clearly indicates the number of Equity Shares that the Equity Shareholder is entitled to.

If the Equity Shareholder applies for an investment in Equity Shares, then he can:

- Apply for his entitlement in part
- Apply for his entitlement in part and renounce the other part
- Apply for his entitlement in full
- Apply for his entitlement in full and apply for additional Equity Shares

ADDITIONAL EQUITY SHARES

You are eligible to apply for additional Equity Shares over and above the number of Equity Shares you are entitled to, provided you apply for all the Equity Shares, to which you are entitled, without renouncing them, in whole or in part, in favour of any other person(s). If you desire to apply for additional Equity Shares, please indicate your requirement in Block IV of Part 'A' of the CAF. Renouncees applying for all the Equity Shares renounced in their favour may also apply for additional Equity Shares.

Subject to the overall limit, prescribed by RBI, as per regulation 6 of notification No. FEMA 20/200-RB dated May 03, 2000, the RBI has given general permission to Indian Companies to issue Rights shares to non-resident shareholders including additional shares. The Board of Directors may at its absolute discretion, agree to such terms and conditions as may be stipulated by RBI while approving the allotment of Equity Shares, subject to the same conditions including restrictions in regard to the repatriablity as are applicable to the original shares against which Rights shares are issued. Where the number of Equity Shares applied for exceeds the number available for allotment, the allotment would be made on a fair and equitable basis in consultation with the Designated Stock Exchange.

RENUNCIATION

A shareholder to whom the Equity Shares are offered under the Issue may renounce the Equity Shares offered to him, either in full or in part, in favour of any other person.

Your attention is drawn to the fact that the Company shall not allot and/or register any Equity Shares in favour of:

- More than three persons including joint holders
- Partnership firm(s) or their nominee(s)
- Minors, unless acting through their natural/legal guardian.
- Hindu Undivided Family
- Any Trust or Society (unless the same is registered under the Indian Trust Act or Societies Registration Act, 1980 respectively or any other applicable Trust laws and is authorized under its Constitutions/bye laws to hold Equity Shares of a Company)
- Any person situated or having jurisdiction where the offering in terms of this Letter of Offer could be illegal or require compliance with securities laws of such jurisdiction or any other persons not approved by the Board.
- OCB's as per applicable restriction.

Any renunciation from Resident Indian Shareholder(s) to Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to other Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to Resident Indian(s) shall be subject to the renouncer(s)/renouncee(s) obtaining the approval from the RBI under FEMA, if applicable and the said permission should be attached to the CAF. Allotment of Equity Shares to renouncee(s) of non-resident shareholders shall be subject to approval of RBI under FEMA. Applications not accompanied by the aforesaid approval, wherever applicable, are liable to be rejected.

The Board reserves the right to reject the request for allotment to renouncees in its sole and absolute discretion without assigning any reasons thereof.

Part A of the CAF must not be used by any person(s) other than those in whose favour this offer has been made. Submission of the enclosed CAF to the Banker to the Issue at its collecting branches specified on the reverse of the CAF with the Form of Renunciation (Part B of the CAF) duly filled in shall be conclusive evidence for the Company of the person(s) applying for Equity Shares in Part C to receive allotment of such Equity Shares. Renouncee(s) applying for all the Equity Shares renounced in their favour may also apply for additional Equity Shares. Part 'A' must not be used by the renounce(s) as this will render the application invalid. Renouncee(s) will have no further right to renounce any Equity Shares in favour of any other person.

PROCEDURE FOR RENUNCIATION

(a) To renounce the whole offer in favour of one renouncee:

If you wish to renounce this offer in whole, please complete Part B of the CAF. In case of joint holders, all joint holders must sign this part of the CAF. The person in whose favour renunciation has been made should complete and sign Part C of the CAF. In case of joint renouncees, all joint renouncees must sign this part of the CAF.

(b) To renounce in part/or to renounce the whole to more than one renouncee:

If you wish to either accept this offer in part and renounce the balance or renounce the entire offer in favour of two or more renouncees, the CAF must be first split by applying to the Registrar to the Issue. Please indicate your requirement for split forms in the space provided for this purpose in Part D of the CAF and return the entire CAF to the Registrar to the Issue so as to reach them latest by the close of business hours on

September 07, 2004 (last date of receiving requests for split forms). On receipt of the required number of split forms from the Registrar, the procedure as mentioned in para (a) above shall have to be followed.

In case the signature of the shareholder(s) who has renounced the Rights Shares, does not agree with the specimen registered with the Bank, the application will be rejected and the Rights offer will lapse.

(c) Change and/or introduction of additional holders:

If you wish to apply for Equity Shares jointly with any other person, or persons, not more than three, who is/are not already joint holders with you, it shall amount to renunciation and the procedure as stated above shall have to be followed. Even a change in the sequence of the joint holders shall amount to renunciation and the procedure, as stated above shall have to be followed.

(d) Renouncee(s):

The person in whose favour the Equity Shares are renounced should fill in and sign Part C and submit the entire CAF to the Bankers or to the collection centres to the Issue on or before the closing date of the Issue along with the application money.

However, any right of renunciation is subject to the express condition that the Board of Directors of the Company shall be entitled in its absolute discretion to reject the request for allotment from the renounces without assigning any reasons thereof.

SPLITTING OF COMPOSITE APPLICATION FORMS

Request for Split Forms should be sent to the Registrar to the Issue, Karvy Computershare Private Limited, before the closure of business hours on or before September 07, 2004 by filling in Part D of the CAF along with entire CAF. Split Forms cannot be re-split. The renouncee(s) shall not be entitled to Split Form(s). The split forms shall be sent to the applicant by post at the applicant's risk.

HOW TO APPLY FOR EQUITY SHARES

You may exercise any of the following options with regard to the Equity Shares offered to you, using the enclosed CAF.

OPTION	OPTIONS	ACTION REQUIRED
A	Accept your entitlement to all the Equity Share offered to you	Fill and sign 'Part A' of the CAF. *(All joint holders must sign)*
B	Accept your entitlement to all the Equity Share offered to you and apply for additional Shares	Fill and sign 'Part A' of the CAF after indicating in Block IV the number of additional Equity Shares applied for
C	Accept only a part of your entitlement of the Equity Share offered to you (without renouncing the balance)	Fill and sign 'Part A' of the CAF
D	Renounce your full entitlement of the Equity Share offered to you to one person (Renouncee) (Joint Renouncees not exceeding three are considered as one Renouncee)	Fill and sign 'Part B' of the CAF indicating the number of Equity Shares renounced and hand over the entire CAF to the renouncee. The renouncee must fill and sign 'Part C' of the CAF
E	Accept a part of your entitlement of the Equity Share offered to you and then renounce the balance to one Renouncee	Fill and sign 'Part D' of the CAF for Split Forms after indicating the required number of Split Application Forms and send the entire CAF to the Registrars to the Issue so as to reach them on or before the last date for receiving requests for Split Forms indicated in the CAF. On receipt of the Split Forms take action as indicated below: i) For the Equity Shares, if any, which you want to accept, fill in and sign 'Part A' of one Split Composite Application Form. ii) For the Equity Shares you want to renounce, fill in and sign 'Part B' in the required number of Split Composite Application Forms indicating the number of Equity Shares renounced to each renouncee. iii) Each of the renouncee should then fill in and sign 'Part C' of the respective Split Composite Application Form for the Equity Shares accepted by the renouncee.
F	Renounce your entitlement of the Equity Share offered to you, to more than one Renouncee	Follow the procedures stated in (E) above for obtaining the required number of Split Composite Application Forms and on receipt of Split Composite Application Forms follow the procedure as stated in (E) (ii) and (iii) above.
G	Introduce a joint-holder or change the sequence of joint-holders	This will be treated as a renunciation. Fill in and sign Part B and the renouncees must fill in and sign Part C.

Applications for Equity Share should be made only on the CAF, which are provided by the Company. The CAF should be completed in all respects as explained under the head "INSTRUCTIONS" indicated on the reverse of the CAF before submission to the Banker to the Issue at its collecting branches mentioned on the reverse of the CAF on or before the closure of the subscription list. Applications received from the Non-resident Equity Shareholders for the allotment of Equity Shares, shall, inter alia, be subject to the conditions as may be imposed from time to time by the RBI, in matter of Refund of application money's, allotment of Equity Shares, issue of Letters of Allotment/certificates/payment Non Resident Shareholders/Renouncee should forward their applications to Banker to the Issue as mentioned in the CAF. No part of the CAF should be detached under any circumstances.

Applicants must provide information in the CAF as to their savings bank/current account number and the name of the bank with whom such account is held, to enable the Registrar to print the said details in the refund orders after the names of the payees.

For applicants residing at places other than designated Bank Collecting branches.

Applicants residing at places other than the cities where the bank collection centers have been opened should send their completed CAF by registered post to Registrars to the Issue alongwith bank drafts payable at Hyderabad in favour of "Centurion - Rights Issue" in case of resident shareholders and non-resident shareholders holding on non-repatriable basis and payable at Mumbai in favour of "Centurion - Rights Issue NR" in case of non-resident shareholders holding on repatriable basis and crossed "A/c Payee only" so that the same are received on or before Closure of the Issue (i.e. September 22, 2004).

The Company will not be liable for any postal delays and applications received through mail after the closure of the Issue, are liable to be rejected and returned to the applicants. Applications by mail should not be sent in any other manner except as mentioned above.

All application forms duly completed together with cash/cheque/ demand draft for the application money must be submitted before the close of the subscription list to the Bankers to the Issue named herein or to any of its branches mentioned on the reverse of the CAF. **The CAF alongwith application money must not be sent to the Company or the Lead Manager to the Issue or the Registrar to the Issue except as mentioned above.**

The applicants are requested to strictly adhere to these instructions. Failure to do so could result in the applications being liable to be rejected with the Company, the Lead Managers and the Registrar not having any liability to such applicants.

Availability of Duplicate CAF

In case the original CAF is not received, or is misplaced by the applicant, the applicant may request the Registrar to the Issue, Karvy Computershare Private Limited, for issue of a duplicate CAF, by furnishing the registered folio number, DP ID Number, Client ID Number and their full name and address.

Non-resident shareholders can obtain a copy of the CAF from the Registrars to the Issue, Karvy Computershare Private Limited from their office located at Karvy House, 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad – 500 034, India by furnishing the registered folio number, DP ID Number, Client ID Number and their full name and address.

Please note that those who are making the application in the duplicate form should not utilize the original CAF for any other purpose including renunciation, even if it is received /found subsequently. Thus, in case the original and duplicate CAFs are lodged for subscription, allotment will be made on the basis of the duplicate CAF and the original CAF will be ignored.

APPLICATION ON PLAIN PAPER

Shareholder who has neither received the original CAF(s) nor is in a position to obtain the duplicate CAF(s) may make an application to subscribe to the Rights Issue on plain paper, along with an Account Payee Cheque /demand draft payable at Hyderabad to be drawn in favour of "Centurion - Rights Issue' in case of resident shareholders and non-resident shareholders holding on non-repatriable basis and payable at Mumbai in favour of "Centurion - Rights Issue NR" in case of non-resident shareholders holding on repatriable basis and marked "A/c Payee Only" and send the same by Registered Post directly to the Registrar to the Issue so as to reach them on or before the closure of the Issue. The envelope should be superscribed "Centurion-Rights Issue".

The application on plain paper, duly signed by the applicants including joint holders, in the same order as per specimen recorded with the Company should contain the following particulars:

1. Name of Issuer
2. Name of the shareholder including joint-holders
3. Address of sole / first holder
4. Folio No./DP ID Number and Client ID Number
5. Number of shares held as on July 23, 2004 (Record Date)
6. Certificate numbers and Distinctive numbers, if held in physical form
7. Number of Equity Shares to which entitled
8. Number of Equity Shares applied for, out of entitlement
9. Number of additional Equity Shares applied for, if any
10. Total number of Equity Shares applied for
11. Amount payable on application
12. Particulars of Cheque / Draft enclosed
13. Savings/Current Account Number and name and address of the bank where the Equity Shareholder will be depositing the refund order.
14. PAN/GIR number and Income tax Circle/ward/District of the sole/all the joint applicants where the application is for shares of a value of Rs.50, 000/- or more
15. In case of Non-Resident shareholders, NRE/FCNR/NRO Account No., name and address of the bank and branch
16. Signature of shareholders in the same order as appearing in the records of the Company.

Please note that those who are making the application on plain paper shall not be entitled to renounce their rights and should not utilise the CAF for any purpose including renunciation even if it is received subsequently. If the applicant violates any of these requirements, he/she shall face the risk of rejection of both the applications. The

Company shall refund such application amount to the applicant without any interest thereon.

MODE OF PAYMENT

For Resident Indian Shareholders and Non-Resident Shareholders on Non-Repatriation basis

Payment should be made in cash (not more than Rs. 20,000) or by cheque/bank draft/ drawn on any bank (including a co-operative bank) which is situated at and is a member or a sub-member of the bankers clearing house located at the centre where the CAF is submitted and which is participating in the clearing at the time of submission of the application. Outstation cheques/money orders/ postal orders will not be accepted and CAFs accompanied by such cheques/money orders/postal orders are liable to be rejected. For NRIs holding shares on non-repatriation basis, payment may also be made by way of cheque drawn on Non-Resident Ordinary (NRO) Account maintained in Mumbai or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at Mumbai. In such cases, the allotment of shares will be on non-repatriation basis. If the payment is made by a draft purchased from an NRO account, an Account Debit Certificate from the bank issuing the draft, confirming that the draft has been issued by debiting the NRO account, should be enclosed with the CAF. In the absence of the above, the application shall be considered incomplete and is liable to be rejected.

All cheques/bank drafts accompanying the CAFs should be crossed "A/c Payee Only" and made payable to **"Centurion – Rights Issue".** The CAF duly completed together with the amount payable on application must be deposited with the collecting bank/collection centres indicated on the reverse of the CAF, on or before the close of banking hours on or before the Issue closing date. A separate cheque or bank draft must accompany each CAF. Reference number of CAF should be mentioned on the reverse of the Cheque/Draft.

New demat account shall be opened for holders who have had a change in status from Resident Indian to NRI.

For Non-Resident Shareholders on repatriation basis

Payment by NRIs/FIIs/Foreign Investors must be made by demand draft/cheque payable at Mumbai or funds remitted from abroad in any of the following ways:

a. By Indian Rupee drafts purchased from abroad and payable at Mumbai or funds remitted from abroad;

   OR

b. By cheque/draft on a Non-Resident External (NRE) Account or FCNR Account maintained in

   Mumbai; OR

c. Rupee draft purchased by debit to NRE/FCNR Account maintained elsewhere in India and payable in

   Mumbai; OR

d. FIIs registered with SEBI must remit funds from special non-resident rupee deposit accounts.

All cheque/drafts submitted by NRIs/ FIIs/Foreign Shareholders should be drawn in favour of **"Centurion – Rights Issue NR".** The CAF for non-residents applying on repatriation basis duly completed together with the amount payable on application must be delivered to the Registrar to the Issue on or before the close of banking hours on or before the Issue closing date.

A separate cheque or bank draft must accompany each application form. Applicants may note that where payment is made by drafts purchased from NRE/FCNR accounts as the case may be, an Account Debit Certificate from the bank issuing the draft confirming that the draft has been issued by debiting the NRE/FCNR account should be enclosed with the CAF. In the absence of the above the application shall be considered incomplete and is liable to be rejected. In case where repatriation benefit is available, dividend and sales proceeds derived from the investment in shares can be remitted outside India, subject to tax, as applicable according to the Income-tax Act, 1961 and subject to the permission of the RBI, if required.

In the case of NRI's who remit their application money from funds held in FCNR/NRE Accounts, refunds and other disbursements, if any shall be credited to such account details of which should be furnished in the appropriate columns in the CAF. In the case of NRIs who remit their application money through Indian Rupee Drafts from abroad, refunds and other disbursements, if any will be made in US Dollars at the rate of exchange prevailing at such time subject to the permission of RBI. The Company will not be liable for any loss on account of exchange rate fluctuation for converting the Rupee amount into US Dollars or for collection charges charged by the applicant's Bankers.

Applications received from NRs, NRIs and persons of Indian origin resident abroad, for allotment of Equity Shares shall be inter-alia, subject to the conditions imposed from time to time by the RBI under the Foreign Exchange Management Act, 1999 (FEMA) in the matter of refund of application moneys, allotment of Equity Shares, issue of Letter of Allotment / Share Certificates, Warrant Certificate, dividends, etc.

PAYMENT BY STOCKINVEST

In terms of RBI Circular DBOD No. FSC BC 42/24.47.00/2003-04 dated November 5, 2003, the Stockinvest Scheme has been withdrawn with immediate effect. Hence, payment through Stockinvest would not be accepted in this Issue.

GROUNDS FOR TECHNICAL REJECTIONS

Applicants are advised to note that applications are liable to be rejected on technical grounds, including the following:

1. Amount paid does not tally with the amount payable for;
2. Bank account details (for refund) are not given;
3. Age of First Applicant not given;
4. Applications by Minors;
5. PAN or GIR Number not given if application is for Rs. 50,000 or more;
6. In case of application under power of attorney or by limited companies, corporate, trust, etc., relevant documents are not submitted;
7. If the signature of the existing shareholder does not match with the one given on the CAF;
8. CAF are not submitted by the applicants within the time prescribed as per the instructions in the CAF and the Letter of Offer;

9. Applications not duly signed by the sole/joint applicants;
10. OCBs who cannot apply in terms of RBI restrictions;
11. Applications accompanied by Stockinvest;
12. In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the applicants (including the order of names of joint holders), the depositary participant's identity (DP ID) and the beneficiary's identity;
13. Applications by US persons;
14. Applications by ineligible Non-residents (including on account of restriction or prohibition under applicable local laws).

GENERAL

1. Please read the instructions printed on the enclosed CAF carefully.
2. Application should be made on the printed CAF, provided by the Company except as mentioned under the head 'Application on Plain Paper' in the Letter of Offer and should be complete in all respects.
3. A CAF found incomplete with regard to any of the particulars required to be given therein, and/or which is not completed in conformity with the terms of this Letter of Offer is liable to be rejected and the money paid, if any, in respect thereof will be refunded without interest and after deduction of bank commission and other charges, if any.
4. The CAF must be filled in English and the names of all the applicants, details of occupation, address, father's/husband's name must be filled in block letters.
5. Signatures should be either in English or Hindi or the languages specified in the Eighth Schedule to the Constitution of India. Signatures other than in the aforesaid languages or thumb impression must be attested by a Notary Public or a Special Executive Magistrate under his/her official seal.
6. The CAF together with cheque/demand draft should be sent to the Bankers to the Issue/ Collecting Bank or to the Registrar and not to the Issuer or Lead Managers to the Issue. Applicants residing at places other than cities where the branches of the Bankers to the Issue have been authorized by the Company for collecting applications will have to make payment by Demand Draft payable at Hyderabad and send their application forms to the Registrar to the Issue by REGISTERED POST. If any portion of the CAF, which is relevant, is/are detached or separated, such application is liable to be rejected.
7. In case of an application under Power of Attorney or by a body corporate or by a society, a certified true copy of the relevant Power of Attorney or relevant resolution or authority to make investment and sign the application along with the copy of the Memorandum and Articles and/or bye laws must be lodged with the Registrars to the Issue giving reference of the serial number of the CAF. In case the above referred documents are already registered with the Company, the same need not be furnished again. However, the serial number of registration or reference of the letter, vide which these papers were lodged with the Company/Registrar must be mentioned just below the signature(s) on the application. **In no case should these papers be attached to the application submitted to the Bankers to the Issue.** Also applications received after Issue closing date are liable to be rejected.
8. The shareholders must sign the CAF as per the specimen signature recorded with the Company. In case of joint holders, all joint holders must sign the relevant part of the CAF in the same order and as per the specimen signature(s) recorded with us. Further, in case of joint applicants who are renouncees, the number of applicants should not exceed three.
9. In case of joint applicants, reference, if any, will be made in the first applicant' name and all communication will be addressed to the first applicant at the address given in the CAF.
10. Application(s) received from Non-Residents/NRIs or persons of Indian origin residing abroad for allotment of Equity Shares shall, inter alia, be subject to conditions, as may be imposed from time to time by the RBI under FEMA in the matter of refund of application money, allotment of Equity Shares, subsequent issue and allotment of Equity Shares, dividend, interest, export of Equity Share certificates, etc. In case a Non-resident or NRI shareholder has specific approval from the RBI, in connection with his shareholding, he should enclose a copy of such approval with the CAF.
11. Bank Account Details: It is mandatory for the applicant to mention the applicant's savings bank/current account number and the name of the bank with whom such account is held in the space provided in the CAF, to enable the Registrars to the Issue, to print the said details in the refund orders after the name of the payees. Such applications not containing the above details are liable to be rejected.
12. PAN/GIR Number: Where an application for allotment of shares individually is for a total value of Rs. 50,000/- or more i.e. the total number of shares applied for multiplied by the Issue Price is Rs. 50,000/- or more, the applicant or in case of applications in joint names, each of the applicants, should mention the applicants Permanent Account Number (PAN) allotted under the Income-Tax Act, 1961 or where the same has not been allotted, the GIR number under the Income tax Circle/Ward/ District. In case where neither the PAN nor the GIR number has been allotted, the fact of non-allotment should be mentioned in the CAF. CAF without this information will be considered incomplete and will be liable to be rejected.
13. Payment by cash: The payment against the share application should not be effected in cash if the amount to be paid is Rs. 20,000/- or more. In case payment is effected in contravention of this, the application will be deemed invalid and the application money will be refunded and no interest will be paid thereon. Payment against the application if made in cash, subject to conditions as mentioned above, should be made only to the Bankers to the Issue.
14. All communication in connection with application for the shares, including any change in address of the shareholders should be addressed to the Registrars to the Issue prior to date of allotment, quoting the name of the first/sole applicant shareholder, folio number and CAF number. Please note that any intimation for change of address of Equity Shareholders,

after the date of allotment, should be sent to the Share Department – Centurion Bank, 207, Centre Point, Dr. Ambedkar Road, Parel, Mumbai-400 012 in the case of Equity Shares held in physical form and to the respective DP, in case of Equity Shares held in dematerialized form.

15. Split Forms cannot be re-split.

16. Only the person or persons to whom shares have been offered and not renouncee(s) shall be entitled to obtain Split Forms.

17. NOMINATION: As per section 109A of the Act The sole Shareholder or first Shareholder, along with other joint Shareholder (being individual(s)) may nominate any person(s) who, in the event of the death of the sole holder or all the joint-holders, as the case may be, shall become entitled to the Equity Shares. Person(s), being a nominee, becoming entitled to the Equity Shares by reason of the death of the original Shareholder, shall be entitled to the same advantages to which he would be entitled if he were the registered holder of the Shares. Only one nomination would be applicable for one folio. Hence, in case the Shareholder(s) has already registered the nomination with the Company, no further nomination need to be made for Equity Shares to be allotted in this Issue under the same folio.Where the nominee is a minor, the Shareholder(s) may also make a nomination to appoint, in the prescribed manner, any person to become entitled to the Shareholder(s), in the event of death of the said holder, during the minority of the nominee. A nomination shall stand rescinded upon the sale of the Equity Shares by the person nominating. A transferee will be entitled to make a fresh nomination in the manner prescribed. When the Equity Share is held by two or more persons, the nominee shall become entitled to receive the Equity Shares only on the demise of all the holders. Fresh nominations can be made only in the prescribed form available on request at the Registered Office of the Company or company's share transfer agents or such other person at such addresses as may be notified by the Company. Applicant can make the nomination by filling in the relevant portion in the CAF.

    In case the allotment of Equity Shares is in demateralised form, there is no need to make a separate nomination for the Equity Shares to be allotted in this Issue. Nominations registered with respective depository participant of the Applicant would prevail. If the Applicant requires to change the nomination, they are requested to inform their respective depository participant.

18. Applicants must write their CAF number at the back of the cheque/demand draft.

19. Only one mode of payment per application should be used. The payment must be either in cheque or demand draft drawn on any of the banks, including a co-operative bank, which is situated at and is a member or a sub- member of the Bankers Clearing House located at the centre indicated on the reverse of the CAF where the application is to be submitted.

20. A separate cheque/draft must accompany each CAF. Outstation cheques/demand drafts or post dated cheques and postal/money orders will not be accepted and applications accompanied by such cheques/ demand drafts/ money orders or postal orders will be rejected. The Registrar will not accept payment against application if made in cash except as stated in point 13. (For payment against application in cash please refer point 13 above)

OPTION TO RECEIVE THE RIGHTS EQUITY SHARES IN DEMATERIALISED FORM

Our Equity Shares have been under compulsorily dematerialised trading for all investors with effect from June 20, 2000.

We have depository arrangements with NSDL and CDSL for issue and holding of the Equity Shares in dematerialised form. In this context:

(a) Tripartite agreements dated August 13, 1999 and August 16, 1999 had been signed between Centurion Bank, MCS Limited and NSDL and between Centurion Bank, MCS Limited and CDSL respectively, for offering depository option to the investors. Since the Company has taken a decision to maintain an in-house share registry, in this regard a bi-partite agreement has been executed with NSDL and CDSL and with effect from July 7, 2003 and March 25, 2003 respectively to establish direct connectivity with NSDL and CDSL.

(b) An applicant has the option to seek allotment of Equity Shares in either physical mode or dematerialized mode.

(c) For applicants applying in demat form, applicants must have at least one beneficiary account with any of the DP of NSDL or CDSL prior to making the application.

(d) For applicants applying in demat form and who do not hold a Beneficiary Account(s) must open a Beneficiary Account with any DP (care should be taken that the Beneficiary Account should carry the name of the holder in the same manner as is exhibited in the records of the Company. In case of joint holding, the Beneficiary Account should be opened carrying the names of the holders in the same order as with the Company). In case of investors having various folios in the Company with different joint holders, the investors will have to open separate accounts for such holdings.

(e) For Equity Shareholders already holding Equity Shares of the Company in dematerialized form as on Record Date, the beneficial account number shall be printed on the CAF. For those who open accounts later or those who change their accounts and wish to receive their rights Equity Shares by way of credit to such account, the necessary details of their beneficiary account should be filled in space provided in the CAF. It may be noted that, at the option of the shareholder/ investor, the allotment of securities arising out of this Issue shall be made in dematerialized form even if the original Equity Shares of the Company are not dematerialized. Nonetheless, it should be ensured that the DP Account is in the name of the applicant(s) in the same order as per specimen signatures appearing in the records of the DP/Company.

(f) Applicants must necessarily fill in the details (including the beneficiary account number or client ID number) appearing in the CAF under the heading 'Request for Shares in Electronic Form'.

(g) Equity Share(s) allotted to an applicant in the electronic account form will be credited directly to the applicant's respective beneficiary account(s) with DP.

(h) Applicants should ensure that the names of the applicants and the order in which they appear in the CAF should be the same as registered with the applicant's Depository Participant.

(i) Non-transferable allotment advice/refund orders will be directly sent to the applicant by the Registrar to this Issue.

(j) If incomplete/incorrect details are given under the heading 'Request for Shares in Electronic Form' in the CAF, the application will be deemed to be invalid.

(k) The applicant is responsible for the correctness of their beneficiary account details given in the CAF vis-à-vis those with their DP. In case the information is incorrect or insufficient, the Issuer would not be liable for losses, if any.

(l) Renouncees can also exercise the option to receive Equity Shares in the demat form by indicating in the relevant block and providing the necessary details about their beneficiary account.

(m) The Rights Equity Shares allotted to investors opting for dematerialized form, would be directly credited to the Beneficiary Account as given in the CAF after verification. Allotment advice, Refund Order (if any) would be sent directly to the applicant by the Registrar to the Issue but the applicants DP will provide to him the confirmation of the credit of the Rights Equity Shares to the applicants Depository Account.

(n) It may be noted that shares in electronic form can be traded only on the stock exchanges having electronic connectivity with NSDL or CDSL. Further it may be noted that securities allotted shall be traded on the stock exchanges in demat segment only for all investors.

(o) Dividend or other benefits with respect to the shares held in dematerialised form would be paid to those Equity Shareholders whose names appear in the list of beneficial owners given by the DP to the Company as on Record date.

LAST DATE FOR SUBMISSION OF COMPOSITE APPLICATION FORM

The last date for receipt of the CAF by the Banker to the Issue at its Collecting Branches, together with the amount payable, is on or before the close of banking hours on September 22, 2004. The Board will have the right to extend the said date for such period as it may determine from time to time but not exceeding sixty days from the date the Issue opens. If the CAF together with the amount payable is not received by the Banker to the Issue/Registrars to the Issue at its Collection Branches on or before the close of banking hours on or before September 22, 2004, the offer contained in this Letter of Offer shall be deemed to have been declined, and the Board shall utilise this entitlement for allotting the Equity Shares as mentioned below under the heading "Basis of Allotment".

BASIS OF ALLOTMENT

The basis of allotment shall be finalised by the Board in consultation with BSE, which is the Designated Stock Exchange, within a period of 42 days from the date of closure of the Issue. In case of delay in allotment the Company shall, as stipulated under Section 73(2A) of the Act, be required to pay interest on the same at a rate of 15% p.a. The Board will proceed to allot the Equity Share in the following order of priority:

1. Full allotment to the Equity Shareholders who have applied for their Rights Entitlement either in full or in part and also to the renouncees who have applied in full or in part for the Equity Share renounced in their favour

2. Allotment to the shareholders who are eligible for fractional entitlement and whose fractional entitlement shall be rounded up to the closest integer. The additional shares required to accommodate such rounding off will be first adjusted out of the unsubscribed portion and then from the entitlement of Centurion Bank Stock Trust and / or Centurion Bank Employees Trust.

3. To the Equity Shareholders who having applied for their full Rights Entitlement of Equity Share, have applied for additional Equity Shares, provided there is surplus after making full allotment under 1 and 2 above. The allotment of such additional Equity Shares shall be made as far as possible on equitable basis with reference to number of Equity Shares held on July 23, 2004, i.e. Record Date, within the overall size of Rights Issue at the sole and absolute discretion of the Board of Directors or Committee thereof in consultation with BSE.

4. Allotment to renouncees who having applied for all the Equity Share renounced in their favour have applied for additional Equity Shares, provided there is a surplus remaining after 1, 2 and 3 above.

5. Equity Shares remaining unsubscribed after making full allotments under 1, 2, 3 and 4 above, shall be disposed of by the Board in manner as it in its sole discretion deems fit and the decision of the Board in this regard shall be final and binding.

After taking into account the full allotment under (1), (2) (3) and (4) above, if there is any unsubscribed portion, the Rights Issue, shall be deemed to be "unsubscribed" for the purpose of regulation 3(1)(b) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 1997. The application money for the undersubscribed portion would be brought in within three weeks of the closure of the issue. Any person may subscribe to such undersubscribed portion as per the relevant provisions of the law. In any event of undersubscription, the allotment shall be made in terms of (5) above.

The Company shall retain no oversubscription.

DISPOSAL OF APPLICATION AND APPLICATION MONEY

The Board reserves the right to reject applications in case the concerned application is not made in terms of this Letter of Offer. In case an application is rejected in full the whole of the application money received will be refunded to the first named applicant and where an application is rejected in part, the excess application money will be refunded to the first named applicant within 6 weeks from the date of closure of the subscription list in accordance with Section 73 of the Act. If there is delay of refund of application money by more than 8 days after the Company becomes liable to pay (i.e. forty two days after the closure of Issue), the Company will pay interest for the delayed period at the rate prescribed under sub-section (2) and (2A) of Section 73 of the Act.

The subscription monies received in respect of this Issue will be kept in a separate bank account and the Company will not have access to nor appropriate the funds until it has satisfied BSE with suitable documentary evidence that minimum subscription of 90% of the application money for the Issue has been received.

No separate receipt will be issued for the application money. However, the Banker to the Issue at its collecting branches

physically receiving the application will acknowledge its receipt by stamping and returning the perforated acknowledgement slip at the bottom of each CAF. Except for the reasons stated under "GROUNDS FOR TECHNICAL REJECTIONS" on page 19 of this Letter of Offer and subject to valid application, acknowledgement of receipt of application money given by the collection agent shall be valid and binding on issuer and other persons connected with the Issue.

ALLOTMENT / REFUND

Equity Share certificates / Letters of Allotment or Letter(s) of Regret together with refund orders exceeding Rs 1,500/-, if any, will be dispatched by registered post/speed post at the sole/first named applicant's address within 42 days from the date of the closing of the subscription list. Refund orders upto Rs 1,500/- will be dispatched under the Certificate of Posting. Adequate funds will be made available to the Registrars for the purpose.

The Company shall ensure that at par facility is provided for encashment of refund orders.

In case of those shareholders who have opted to receive their Right Entitlement Shares in dematerialised form by using electronic credit under the depository system, an advice regarding the credit of the Equity Shares shall be given separately.

If such money is not repaid within 8 days from the day the Company becomes liable to pay it, the Company shall pay that money with interest as stipulated under Section 73 of the Act.

Refunds will be made by cheques or pay orders drawn on the bank(s) appointed by the Company as refund bankers. Such instruments will be payable at par at the places where applications are accepted. Bank charges, if any, for encashing such cheques or pay orders will be borne by the applicants.

As regards allotment/refund to Non-residents, the following further conditions shall apply:

For Non Resident Applicants, refunds, if any, will be made as under:

1. Where applications are accompanied by Indian Rupee Drafts purchased abroad and payable at Mumbai, India, refunds will be made in convertible foreign exchange equivalent to Indian Rupees to be refunded. Indian Rupees will be converted into foreign exchange at the rate of exchange, which is prevailing on the date of refund. The exchange rate risk on such refunds shall be borne by the concerned applicant and the Company shall not bear any part of the risk.
2. **Where the applications made are accompanied by NRE/FCNR/NRO cheques, refunds will be credited to NRE/FCNR/NRO accounts respectively, on which such cheques are drawn and details of which are provided in the CAF.**

Letters of Allotment / Equity Share certificates

Letters of Allotment/ Equity Share certificates or Letters of Regret will be dispatched to the registered address of the first named applicant or respective beneficiary accounts will be credited within six weeks, from the date of closure of the subscription list. In case the Company issues letters of allotment, the relative Equity Share certificates will be dispatched within three months from the date of allotment. Allottees are requested to preserve such Letters of allotment (if any) to be exchanged later for Equity Share certificates. Export of Letters of Allotment (if any)/ Equity Share certificates to non-resident allottees will be subject to the approval of RBI.

TAX BENEFITS

We have been advised by M/s. V. Sankar Aiyar & Co., Chartered Accountants vide their certificate dated July 09, 2004 in connection with the proposed Rights Issue that under the current provisions of the Income-tax Act, 1961(IT Act) and other applicable tax laws, for the time being in force, the following tax benefits and deductions, will, *inter alia*, be available, subject to the fulfillment of the respective requirements of the relevant provisions. However, all shareholders are advised to consult their own tax advisors as to the tax implications on investment in their individual case.

INCOME TAX

a) To the Bank

1. As per the provisions of Section 10(23G) of the Income Tax Act, 1961 (hereinafter called "the Act"), any income from dividend (other than dividends referred in Section 115(O)) interest or long term capital gains of the Bank arising from investment made on or after the 1st day of June, 1998 by way of shares or Long Term Finance in any enterprise or undertaking wholly engaged in the business of (i) developing or (ii) operating and maintaining or (iii) developing, operating and maintaining any infrastructure facility referred to in sub-section (4) of Section 80-IA or a housing project referred to in sub-section (10) of Section 80-IB or a hotel or hospital project as defined in section 10(23G) 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 exempt from tax.

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

3. Under Section 10(35) of the Act, income received in respect of units of a mutual fund specified under Section 10(23D) of the Act, income received in respect of units from the Administrator of specified undertaking and / or specified company (as defined under Unit Trust of India (Transfer of Undertaking and Repeal Act, 2002)) are exempt from tax in the hands of the Bank.

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

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

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

   (iii) However , the Bank, at its option, instead of the claim of deductions referred to in paras 4(i) and 4(ii) above, can claim in any of the relevant assessment years, deduction in respect of any provision made by it for any assets classified by the Reserve Bank of India as doubtful assets or loss assets in accordance with the Guidelines issued by it in this behalf, of an amount not exceeding 10% of the amount of such assets as shown in the books of account of the Bank on the last day of the previous year. The option is available from the assessment year 2000-01 and upto the assessment year 2004-05.

   (iv) From assessment year 2004-05, Bank at its option will be allowed a further deduction in excess of the limits specified in the above provisions for an amount not exceeding the income derived from redemption of securities in accordance with a scheme framed by the Central Government provided that such income is disclosed in the return of income of the Bank under the head "Profits & Gains of Business or Profession".

5. 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 Act for the amount of bad debts written off in its books of account as irrecoverable and which represent money lent in the ordinary course of the business of banking. The deduction is limited to the amount of such debts or part thereof, which exceeds the credit balance in the provision for bad and doubtful debts account made under Section 36(1)(viia) subject to compliance of Section 36(2)(v) which requires that such debt or part of debt should be debited to the provision for bad and doubtful debts account.

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

7. As per second proviso to Section 48 of the Act, the long term capital gains of the Bank arising on transfer of capital assets, other than bonds and debentures (not being capital indexed bonds), will be computed after indexing the cost of acquisition / improvement and as per Section 112 of the Act, the same would be chargeable to tax at a concessional rate of 20% plus applicable surcharge. In respect of long term capital gains arising from the transfer of listed securities or units, tax shall be chargeable at 10% of the amount of capital gains plus applicable surcharge before giving effect to the provisions of second proviso to Section 48 of the Act i.e., without indexing the cost of acquisition at the option of the Bank.

8. As per Section 54EC of the Act and subject to conditions specified therein, the Bank is eligible to claim exemption from tax on long term capital gains, arising on the transfer of capital assets, on investment of such capital gains in certain notified bonds for a lock in period of three years, within six months from the date of transfer of the capital asset. If only a portion of the capital gains is invested, then the exemption is proportionately available.

9. Under Section 54ED of the Act, capital gains arising from the transfer of investments held as long term capital asset, being listed securities or units is fully exempt from tax if the Bank invests, the whole of the capital gains in acquiring Equity Shares forming part of an eligible issue of capital as defined in clause (i) of the explanation to the above section for a lock in period of one year, within a period of six months from the date of such transfer. Where only a part of the capital gains is so

invested then the exemption is proportionately available. The exemption is available subject to other conditions specified in that Section.

10. As per the provisions of Section 80LA of the Act, where the gross total income of the Bank, in any previous year includes any income received in convertible foreign exchange as defined in the Section, from an offshore banking unit in a special economic zone or from the business referred to in Section 6(1) of the Banking Regulation Act, 1949 with an undertaking located in a special economic zone or any other undertaking which develops, or develops and operates, or operates and maintains a special economic zone, the Bank shall, subject to the fulfillment of the conditions specified in the said Section 80LA, 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 was obtained and thereafter 50% deduction of such income for the next two consecutive assessment years.

b) To the resident shareholders of the Bank

1. As per section 10(34) of the Act, dividends declared, distributed or paid by the Bank on or after April 1, 2003 are exempt from income tax in the hands of the recipient shareholders.

2. As per the provisions of Section 54EC of the Act, long term capital gains arising on the transfer of the shares of the Bank on its shares being listed are fully exempt from tax if the assessee invests within a period of six months from the date of transfer, the whole of such long term capital gains in certain notified bonds for a lock in period of three years. If, only a portion of such long term capital gains on sale of shares of the Bank is invested in the notified bonds, then the exemption is proportionately available. The exemption is available subject to compliance of other conditions specified in Section 54EC.

3. As per the provisions of Section 54ED of the Act, long term capital gains arising on transfer of the shares of the Bank on its being listed, are fully exempt from tax if the assessee invests within a period of six months from the date of transfer, the whole of such long term capital gains in acquiring Equity Shares forming part of an eligible issue of capital as defined in clause (i) of the explanation to Section 54ED for a lock in period of one year. Where only a portion of such long term capital gains on sale of shares of the Bank is invested, the exemption is proportionately available. The exemption is available subject to other conditions specified in Section 54ED.

4. As per the provisions of Section 54F of the Act, subject to the conditions specified therein, long-term capital gains arising to a shareholder being an individual or a Hindu undivided family, on transfer of shares of the Bank, shall be exempt from tax, provided the net consideration is utilised in the purchase of a residential house within a period of one year before or two years after the date of transfer of such shares, or in the construction of a residential house within a period of three years from the date of transfer of such shares of the Bank. If only a portion of the net consideration is so invested, then the exemption is available proportionately. The exemption is subject to other conditions specified in Section 54F of the Act.

5. As per the provisions of Section 112 of the Act, where the total income of any assessee includes any long term capital gains on transfer of shares of the Bank, the same is subject to concessional rate of tax at 20% plus applicable surcharge. Such long term capital gains shall be computed after indexing the cost of acquisition of the shares as per the second proviso to Section 48 of the Act. Alternatively, at the option of the assessee, where the tax payable in respect of such long term capital gains exceeds 10% of the amount of capital gains arrived at without indexing the cost of acquisition, the capital gains are chargeable at 10% only plus applicable surcharge.

c) Non-resident Indian Shareholders

1. As per the provisions of Section 48 of the Act, capital gains arising on transfer of shares of the Bank is computed by converting the cost of acquisition, expenditure incurred wholly and exclusively in connection with such transfer and the full value of consideration on transfer, of the shares into the same foreign currency as was initially utilised in the purchase of the shares and the capital gains so computed in such foreign currency shall be reconverted into Indian currency. Further, the aforesaid manner of computation of capital gains shall be applicable in respect of capital gains accruing or arising from every re-investment made thereafter in, and sale of, shares in or debentures of an Indian Company.

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

   a. As per the provisions of Section 115E of the Act, the long term capital gains arising on transfer of shares of the Bank acquired by him out of convertible foreign exchange (without aggregating any other taxable income earned in India which will be taxed separately) shall be taxed at the rate of 10% plus applicable surcharge.

   b. As per the provisions of Section 115F of the Act, the long term capital gains arising on the sale of shares of the Bank, acquired by him out of convertible foreign exchange shall be exempt from income tax entirely / proportionately, if the entire or part of the net consideration is invested for a period of three years in any of the assets specified in Section 115C of the Act or in any savings certificates specified in Section 10(4B) of the Act, within six months from the date of transfer.

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

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

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

d) Foreign Companies and Foreign Institutional Investors ('FIIs')

1. Under Section 10(34) of the Act, dividends paid by the Bank are totally exempt from income tax in the hands of the shareholders.

2. Under Section 54EC of the Act, subject to the conditions and to the extents specified therein long term capital gains arising on the transfer of shares of the Bank as and when it is listed will be exempt from tax if such long term capital gains are invested within a period of six months from the date of such transfer for a lock in period of at least three years in bonds notified under Section 54EC.

3. Under Section 54ED of the Act and subject to the conditions and to the extent specified therein, long term capital gains arising on the transfer of shares of the Bank as and when it is listed will be exempt from capital gains tax if such long term capital gains are invested in shares of an Indian Company forming part of an eligible public issue as defined in Section 54ED within a period of six months from the date of such transfer and are held for at least a period of one year thereafter.

4. As per the provisions of Section 115AD of the Act, where the total income of FII's includes any income by way of short term or long term capital gains arising from the transfer of shares in the bank, income tax shall be payable at 30% plus applicable surcharge on such short term capital gains and 10% plus applicable surcharge (without indexation of cost and protection against foreign exchange fluctuations) on such long term capital gains.

e) Mutual Funds

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

II) WEALTH TAX

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

III) GIFT TAX

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

B. The Finance (No.2) Bill, 2004, introduced in the Lok Sabha on 8th July, 2004, proposes certain amendments to the Income Tax Act, 1961. The following paragraphs state the tax benefits that are likely to be available to the Bank and its shareholders under the provisions of the Income Tax Act, 1961, if the proposals in the Finance (No.2) Bill, 2004, are passed by Parliament and receive the assent of the President of India in the form in which they were introduced in the Lok Sabha. A shareholder is advised to consider in his / her / its own case, the tax implications of an investment in the Equity Shares in view of the fact that the proposals may have a different interpretation on the benefits which an investor can avail.

(a) **To the Bank**

i) Under the proposed section 10(38) of the Act, any income arising from the transfer of a long term capital asset, being securities as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956, taxable under the head "Capital Gains" and the transaction of sale of such securities is entered into in a recognised stock exchange in India as defined in section 2(f) of the Securities Contracts (Regulation) Act, 1956, on or after the date on which Chapter VII of the Finance (No.2) Act, 2004 comes into force, shall not be included in the total income of the Bank. Chapter VII of the Finance (No.2) Act, 2004 will come into force on such date as the Central Government may appoint, by notification in the Official Gazette.

ii) Under the proposed section 111A of the Act, where the total income of the Bank includes any income chargeable under the head "Capital Gains" arising from the transfer of a short term capital asset, being securities as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956, taxable under the head "Capital Gains" and the transaction of sale of such securities is entered into on a recognised stock exchange in India as defined in section 2(f) of the Securities Contracts (Regulation) Act, 1956, on or after the date on which Chapter VII of the Finance (No.2) Act, 2004 comes into force, the amount of income tax shall be calculated at the concessional rate of 10% on such short term capital gains plus applicable surcharge the aggregate of which shall be further increased by an additional surcharge at the rate of 2% of such income tax and surcharge. Chapter VII of the Finance (No.2) Act, 2004 will come into force on such date as the Central Government may appoint, by notification in the Official Gazette.

(b) **To the Resident / Non Resident shareholders of the Bank**

i) Under the proposed section 10(38) of the Act, any income arising from the transfer of a long term capital asset, being shares of the Bank, taxable under the head "Capital Gains" and the transaction of sale of such shares is entered into in a recognised stock exchange in India as defined in section 2(f) of the Securities Contracts (Regulation) Act, 1956, on or after the date on which Chapter VII of the Finance (No.2) Act, 2004 comes into force, shall not be included in the total income of the shareholders. Chapter VII of the Finance (No.2) Act, 2004 will come into force on such date as the Central Government may appoint, by notification in the Official Gazette.

ii) Under the proposed section 111A of the Act, where the total income of an assessee includes any income chargeable under the head "Capital Gains" arising from the transfer of a short term capital asset, being shares of the Bank, taxable under the head "Capital Gains" and the transaction of sale of such shares is entered into on a recognised stock exchange in India as defined in section 2(f) of the Securities Contracts (Regulation) Act, 1956, on or after the date on which Chapter VII of the Finance (No.2) Act, 2004 comes into force, the amount of income tax shall be calculated at the concessional rate of 10% on such short term capital gains plus applicable surcharge the aggregate of which shall be further increased by an additional surcharge at the rate of 2% of such income tax and surcharge. Chapter VII of the Finance (No.2) Act, 2004 will come into force on such date as the Central Government may appoint, by notification in the Official Gazette.

In the case of an individual or Hindu undivided family, being residents, where the total income as reduced by such short term capital gains is below the maximum amount not chargeable to income tax, then, such short term capital gains shall be reduced by the amount by which the total income as so reduced falls short of the maximum amount which is not chargeable to income tax and the tax on the balance of such short term capital gains shall be computed at a concessional rate of 10% plus applicable surcharge, the aggregate of which shall be further increased by an additional surcharge at the rate of 2% of such income tax and surcharge.

PARTICULARS OF THE ISSUE

OBJECTS OF THE ISSUE

The present Offer is being made as a part of the Scheme of Arrangement to re-capitalise our operations. The objects of the Issue are:

- To augment our capital base for meeting the RBI stipulated capital adequacy norms after making adequate provisions for our NPAs;
- To augment our long term financial resources; and
- To meet Issue expenses.

Augmenting our capital base to meet capital adequacy norms

Our Capital Adequacy Ratio position as at March 31, 2004 was 4.41%, as against the RBI stipulation of 9%. The details of capital vis-à-vis risk weighted assets for the last five financial years are as under:

(Rs. in Crores)

FY ended March 31,	2000	2001	2002	2003	2004
Eligible Tier I Capital	210.24	217.26	55.42	20.16	61.56
Eligible Tier II Capital	100.00	86.28	33.99	16.36	26.56
Total Capital	310.24	303.54	89.41	36.52	88.12
Total Risk-Adjusted Assets	**3,334.01**	**3,160.11**	**2,148.10**	**1,875.89**	**1,999.01**
Capital Adequacy Ratio (%)	**9.31%**	**9.61%**	**4.16%**	**1.95%**	**4.41%**

Our Non-Performing Loans as a percentage of our gross and net advances for the last five financial years are as under:

Financial year ended March 31,	2000	2001	2002	2003	2004
Gross NPA (Rs. crores)	135.71	154.59	231.81	228.43	221.41
Gross Advances (Rs. crores)	2,714.27	2,499.67	1,884.17	1,509.85	1,755.56
Gross NPA / Advances (%)	5.00%	6.18%	12.30%	15.13%	12.61%
Net NPA (Rs. crores)	71.28	71.30	101.66	104.09	68.90
Net Advances (Rs. crores)	2,649.89	2,416.38	1,754.02	1,385.51	1,603.05
Net NPA / Net Advances (%)	2.70%	2.95%	5.80%	7.51%	4.30%

Our estimated capital requirements

Our Capital Adequacy Ratio has reduced from 9.61% on March 31, 2001 to 4.16% on March 31, 2002 to 1.95% on March 31, 2003. The fall was primarily on account of the erosion of capital following the financial losses reported for fiscal 2002 and fiscal 2003. After infusion of the first tranche of capital of Rs.154 crores, as envisaged in the Scheme and after providing for certain disputed contingent liabilities, stressed assets and uncertainties in estimating the realisibility of certain pending insurance claims, on a prudential basis, our Capital Adequacy Ratio as on March 31, 2004 was at 4.41%. .

The Scheme envisages that we would raise a minimum of Rs. 65 crores at Rs. 4 per share through a Rights or Public Issue. In view of the above, we propose to raise a sum of Rs. 90.80 crores at Rs. 4 per share through the current Rights Issue. In addition we have raised Tier II capital through the issue of subordinated debt aggregating Rs. 43 crores in June 2004 and may raise such further Tier II capital as may be required. Successful completion of the present rights issue will not only enable us to meet the RBI norms on capital adequacy of 9%, but along with such further Tier II capital, if any, will also enable us to meet our near-term growth objectives.

Augmenting our long term resources

The present Rights Issue along with the capital infusion under the Scheme of Arrangement is expected to achieve the objective of augmenting our long term resources to match the long-term assets on our Balance Sheet. We may use a portion of our Issue proceeds to fund infrastructure growth including expansion of our branch network and other distribution channels.

In February 2001, we had planned a rights issue to augment our capital for growth purposes. The issue was not subscribed due to adverse capital market conditions prevailing at that time. It may be noted that though our previous rights issue was not subscribed to due to adverse capital market situation, the proposed rights issue, we believe, is not likely to fail due to the following key differentials

- Funds have already been infused in our operations as per first phase of Scheme of Arrangement. The present Issue is the next phase of the scheme.
- We have put in place an independent and experienced professional management team.

However, the outcome of the present rights issue would be known only upon the closure of the Issue.

Issue Expenses

A portion of our Rights Issue proceeds will be used to meet Issue expenses estimated at Rs. 3.09 crores.

INDIAN BANKING INDUSTRY

The information presented in this section has been extracted from publicly available documents, which have not been prepared or independently verified by the Company, the Lead Manager or any of their respective affiliates or advisors.

Industry Structure

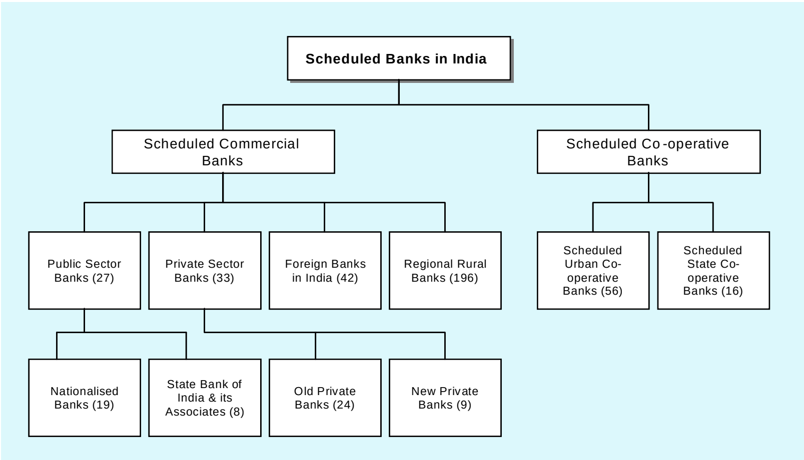
Prior to 1991, India's banking system was almost entirely owned by the Government, with the exception of 22 private sector banks (which were considered too small to be nationalised) and the foreign banks. After the economic crisis in 1991, the process of financial reforms has resulted in the banking system moving from a totally administered sector into a more market-driven system. This was a result of the recommendations contained in the report of the Narasimham Committee set up in 1991. In line with the established objectives of the banking sector reforms which include improving the macro economic policy framework, improving the financial health and competitive position of banks, building the financial infrastructure relating to supervision, audit technology and legal framework and improving the level of managerial competence and quality of human resources, the reforms include progressive tightening of prudential norms for asset quality and capital adequacy in line with international norms, deregulation of interest rates, reducing the statutory co-option of bank deposits to finance Government deficits, liberalising the entry norms for new intermediaries, and the development of new institutions (for trading, clearing and settlement of debt market transactions, forex and derivative instruments, credit information bureaus and asset re-construction companies). The key drivers for this success within the Indian Banking sector have been a clear focus on the emerging opportunities in retail banking, technology architecture, relationship-based approach in Corporate/Treasury, Capitalisation and a Quality Management Team.

Reserve Bank of India

The RBI, established in 1935, 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 Government of India and for the country's commercial banks. In addition to these traditional central banking roles, the RBI undertakes certain developmental and promotional roles.

The RBI issues guidelines 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-bank finance companies. The RBI requires these institutions to furnish information relating to their businesses to the RBI on a regular basis.

The structure of the Indian banking industry, as of March 31, 2003 is as follows:



Source : RBI Report on Trends and Progress of Banking in India, 2003.

The formal banking system in India comprises the RBI, Commercial Banks, Regional Rural Banks and the co-operative banks. In the recent past, private non-banking finance companies also have been active in the financial system, and are being regulated by the RBI.

The Scheduled Commercial Banks (SCBs) comprise:

Public Sector Banks (PSBs)

The banking sector in India has been characterised by the predominance of PSBs. They include the State Bank of India and its associate banks, 19 nationalised banks and 196 regional rural banks. The aggregate loan assets of all PSBs stood at Rs. 577,813 crores at end FY 03 accounting for 74.26% of loan assets of all SCBs in India and their total operating profits amounted to Rs. 29,715 crores. The PSBs' large network of branches enables them to fund themselves out of low-cost deposits.

The State Bank of India is the largest public sector bank in India. At the end of September 2003, the State Bank of India and its seven associate banks had 13,570 branches. They accounted for 24.2% of aggregate deposits and 25.5% of outstanding gross bank credit of all SCBs.

Private Sector Banks

In July 1993, as part of the banking sector 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 9 private sector banks. There are nine 'new' private sector banks at present, which contribute to a total of 33 private banks. At end FY 03, the total assets of private sector banks aggregated Rs. 146,046 crores and accounted for 18.77% of the total loan assets of all SCBs and their total operating profits amounted to Rs. 7,238 crores. Although the share of private sector banks in total assets has increased from 12.61% at end FY 01, the 'new' private sector banks have accounted for most of the gain.

Foreign Banks

Presently, there are 42 foreign banks operating in India with 203 branches. While 4 banks have 10 or more branches, 18 banks were operating with only one branch each. Some foreign banks have also set up representative offices in India. As on September 30, 2003, there were 36 foreign banks with 192 branches operating in India, accounting for 4.6% of aggregate deposits and 7.1% of outstanding gross bank credit of SCBs. At end FY 03, the total assets of foreign banks aggregated Rs. 116,401 crores and accounted for 6.96% of the total assets of all SCBs and their total operating profits of the foreign banks as on March 31, 2003 amounted to Rs. 3,728 crores.

Co-operative Banks

Co-operative banks cater to the financing needs of agriculture, small industry and self-employed businessmen in urban and semi-urban areas of India. The state land development banks and the primary land development banks provide long-term credit for agriculture. In the light of liquidity and insolvency problems experienced by some co-operative banks in fiscal 2001, the RBI undertook several interim measures, pending formal legislative changes, including measures related to lending against shares, borrowings in the call market and term deposits placed with other urban co-operative banks. Presently the RBI is responsible for supervision and regulation of urban co-operative societies, and the National Bank for Agriculture and Rural Development for 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.

Evolution of Banking Industry

The number of banks including regional rural banks (RRBs) has increased from 89 in 1969 to 299 as on May 16, 2003. With the nationalisation of banks in 1969, the number of bank branches (including Regional Rural Banks) increased from 8,262 in 1969 to 65,908 in 2003. Most of the expansion has been in the rural and semi-urban areas.

Since 1950, the credit-deposit ratio of SCBs has declined to reach 56.9% as on March 31, 2003, with a corresponding increase in the investment-deposit ratio. The change has been largely due to the Government regulations regarding the SLR, and the preference for Government securities (as a result of the increase in the Government borrowing programme and the low risk-high return nature of the instrument).

Priority sector lending increased from Rs. 14,834 crores in 1984 to Rs. 28,540 crores in 2003. (Credit to the agricultural sector and small-scale sector was one of the key objectives of the nationalization of banks.)

(Source : IBA Bulletin, January 2004 & RBI Report on Trends and Progress of Banking Sector in India 2002-03)

The Indian banking industry has witnessed growth following the de-regulation of the sector in 1993 allowing private banking companies to initiate operations in the country. Competition from the new private sector banks and economic impetus has seen a substantial increase in banking credit and deposits. The growth in banking credit and deposits between 2001-02 and 2002-03 is as under:

The aggregate deposits of the scheduled commercial banks exhibited a CAGR of 13.3% over the 2-year period from FY 2001 to FY 2003, while the aggregate advances for the same period grew at a CAGR of 18.1%. The credit to deposit ratio for scheduled commercial banks stood at 56.9% in March 2003, with investment in Government securities enabling leveling of loan risks.

The growth in Indian banking has been witnessed on the back of deregulation as well as structural improvements in the banking industry, including favourable policy guidelines and greater transparency. Introduction of private sector banks has resulted in increased competition.

The composition of deposits, advances and Total Income between the various banks at the end of financial year 2003, within the commercial bank segment is as under:

(Rs. in Crores)

	Deposits			**Advances**			**Total Income**		
	2000-01	**2001-02**	**2002-03**	**2000-01**	**2001-02**	**2002-03**	**2000-01**	**2001-02**	**2002-03**
Public Sector Banks	859,462	968,749	1,079,393	414,989	480,681	549,351	103,499	117,252	128,464
Private Sector Banks	136,667	169,440	207,174	68,058	116,430	138,951	16,595	20,817	31,866
Foreign Banks	59,190	64,511	69,312	42,997	48,632	52,170	11,984	12,960	12,043
Regional Rural Banks	38,294	44,539	48,346	15,050	17,710	15,091	4,859	5,561	5,931

(Source : Trends and Progress in Banking - RBI 2003)

The Indian private sector banks have been successful in garnering the major share of the incremental banking business. The share of Indian private banks in the total business has grown from 3% to 17% for FY 02. The cumulative growth rate of Indian private sector banks at the rate of 31% is highest amongst all the groups.

A trend that portends well for Indian banking sector is the growth of credit in retail segments like housing and consumer durables and the fall in the market shares of NBFCs in retail businesses. This growing retail assets opportunity would drive future credit growth for banks. India also maintains a comparatively low deposit/GDP ratio. This presents opportunities for banks to scale up their deposit base by targeting under-banked and under-penetrated second and third tier towns.

With increased competition in the corporate banking industry due to entry of foreign banks and new private sector banks, the sector has witnessed a squeeze in margins. In a move to safeguarding their margins, the banks are looking at retail banking as a potential growth area.

The composite spreads/returns for the various categories of banks in the Banking Industry are as below:

Category	Spreads		
	2000-01	2001-02	2002-03
Public Sector Banks	2.86%	2.73%	2.91%
Old Private Sector Banks	2.51%	2.39%	2.46%
New Private Sector Banks	2.14%	1.15%	1.70%
Foreign Banks	3.63%	3.22%	3.36%
Centurion Bank	**3.00%**	**2.58%**	**3.39%**

(Source: RBI report on Trends & Progress in Banking, 2003: for Centurion Bank- the Bank)

Non-Performing Assets

The key NPA parameters for the various banks within the Scheduled Commercial Bank segment during the financial years 2000, 2001, 2002 and 2003 is as under:

	Gross NPAs (Rs. in crores)				Percentage to Gross Advances				Percentage to total Assets			
Bank Group	1999-00	2000-01	2001-02	2002-03	1999-00	2000-01	2001-02	2002-03	1999-00	2000-01	2001-02	2002-03
Public Sector	53,033	54,672	56,473	54,086	14.0	12.4	11.1	9.4	6.0	5.3	4.9	4.2
Old Private	3,815	4,346	4,850	4,568	10.8	10.9	11.0	8.9	5.2	5.1	5.2	4.3
New Private	946	1,617	6,816	7,232	4.1	5.1	8.8	7.6	1.6	2.0	3.9	3.8
Foreign	2,614	3,106	2,726	2,829	7.0	6.8	5.4	5.2	3.2	3.0	2.4	2.4
SCBs	60,408	63,741	70,905	68,714	12.7	11.4	10.4	8.8	5.5	4.9	4.6	4.0
Bank Group	Net NPAs				Percentage to Net Advances				Percentage to Total Assets			
Public Sector	26,187	27,977	27,958	24,963	7.4	6.7	5.8	4.5	2.9	2.7	2.4	1.9
Old Private	2,393	2,771	3,005	2,741	7.06	7.30	7.11	5.5	1.60	2.05	3.91	2.6
New Private	638	929	3,663	4,142	2.88	3.09	4.94	4.6	1.08	1.18	2.10	2.2
Foreign	855	785	920	918	2.4	1.8	1.9	1.8	1.0	0.8	0.8	0.8
SCBs	30,073	32,462	35,536	32,764	6.8	6.2	5.5	4.4	2.7	2.5	2.3	1.9

Source : Trends and Progress in Banking - RBI 2003

The asset quality of Indian banks has improved during the last four years on the back of a greater focus on recoveries and tighter credit standards. The reported aggregate net NPLs/net advances ratio increased to 8.5% at end-FY03 from 7.6% at end-FY99, and this trend continued in FY03. Banks have used the higher treasury profits to increase provisions for loan loss coverage. Classification norms for NPLs are less stringent than international standards, and the shift to 90 days past due classification from March 31,2004 could raise NPL levels.

One of the significant developments in the Indian Banking industry has been enactment of the NPA Act to tackle high incidence on NPAs. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) (Bill) 2002 was passed by Lok Sabha in November 2002. It seeks to deal with Securitisation of assets, setting up of the Asset Reconstruction Company (ARCs), and enforcement of security interest. After the ordinance on Securitisation, Banks have been issuing notice to their defaulters for recovering money.

The loan portfolio of the banking industry is comprised mainly of industrial and retail loans. Indian banks are presently showing fastest growth in retail segment. Retail loans have gone up by 51% in the FY 2003, while Industrial loans and other loans has grown 13.6% and 24.4% respectively in the same period. The banks are taking advantage of this opportunity and aggressively marketing retail loan products. The retail sector is growing fast and this is likely to trigger more demand. Banks are scouting for more opportunities to lend to retail borrowers. A booming retail segment will induce additional capacity expansion and launching of new projects in the industrial sector. When the industrial sector adds capacities, there will be more demand for credit.

The key factors underlying the recently witnessed growth in the retail segment are the low risk profile associated with the retail products and the changing demographic pattern in the country.

The retail segment is typically associated with lower risk and higher returns as compared to the wholesale credit segment. Retail growth is also being driven by the changing demographics of the population, which significantly increases the purchasing power for auto loans and home loans.

The Retail loans segment comprises of several products such as home loans, automobile loans, consumer durables loans, personal loans and advances against fixed deposits, of which a substantial part is attributed to home loans and consumer durable loans.

New Paradigms in the Indian Banking Industry

a. *Changing nature of corporate banking*

The corporate banking business has become increasingly competitive, with most banks targeting large corporate clients for loans and fee-based services. This has caused a fall in margins as well as non-fund business margins. Going forward, success will hinge on maximizing value from corporate relationships through a range of product offerings

b. *Retail Banking- huge growth potentialities*

Traditionally, the retail market has been looked at as an opportunity to garner Low Cost Deposits. However, certain structural changes in the market have resulted in significant growth in retail lending business during the last 3 years. There are various factors which induce the focused growth of retail business of the Indian Banking industry. Some of them are as follows:

i. Underlying consumerism trends through changing lifestyles, strong economic growth prospects coupled with higher disposable income etc. all contributing towards the changing demographics.

ii. Indian retail market is relatively unexplored with the per-capita usage of retail product offerings such as housing finance, credit cards, auto loans, consumer finance etc. lower as compared to Asian peers.

iii. The void created by the fall of NBFC's which took advantage of the banking system's inherent inefficiencies to attract customers has provided Banks both in the private and public sector to address this through their entry on a viable basis.

iv. Other factors like the mammoth size of the Indian market coupled with an under penetrated base for retail finance products and an increased propensity of the urban populace to take credit, offers a positive scope for expansion.

Technology offering the competitive edge

Advancements on the technological front have proved to be a key source of competitive advantage. It has not only supported rationalization of cost structures but also contributed greatly to aggregation of information and effective dissemination of financial activity. Technology has revolutionized the delivery chains for financial products and services with ATMs, Home Banking, Telephone banking which have replaced banking only at branches. Operating on a strong technology platform is increasingly becoming imperative for the launch of innovative products and services by banks in today's e-age.

Universal Banking

It refers to the combination of commercial banking (which includes corporate and retail banking) and investment banking services. Universal banking primarily provides the advantages of scale of operations. In certain countries it also offers insurance services in addition to the above. With the de-regulation and liberalization of the Indian Banking sector, India has witnessed this phenomenal trend in its financial sector.

Mergers and Acquisitions

The domestic banking sector has witnessed mergers and acquisitions take place both in public sector banks (owing to the need to support weak banks) and private sector banks (focused towards the need to expand). Apart from providing the private players an effective route to fortify their reach and presence in the sector, merger and acquisition trend may also intensify the proposed reduction in government shareholding in public sector banks and provide international banks an opportunity to expand business in India.

OUR HISTORY

Brief History

We were incorporated on June 30, 1994, under an overall economic reform program initiated by the Government of India in 1991, when the RBI granted nine new licenses for the establishment of commercial banks in the private sector. We obtained Certificate of Incorporation on July 20, 1994 and subsequently received the Banking license (BOM:57) from RBI vide their letter no. DBOD/4577/ 16.01.104/95 dated January 13, 1995.

We were founded by the erstwhile TCFC and its associates along with Keppel Tatlee Bank Limited (which was earlier the Keppel Bank of Singapore) through Kephinance Investment (Mauritius) Pte. Limited. Besides our then promoters, our Equity Share capital was subscribed by ADB, Manila and IFC, Washington.

We started operations with our Registered Office at T-2, Shabana Chambers, Panaji, Goa. Consequent upon acquiring our own property, it was decided to shift our Registered Office to Durga Niwas, M G Road, Panaji, Goa in January 1995.

In FY 1999, TCFC was merged with us vide a Scheme of Arrangement under the Act. The Scheme was sanctioned by the Honourable High Courts of Judicature at Bombay and Goa Bench at Panaji on April 09, 1999 and April 16, 1999, respectively. The merger increased our branch network by adding 40 marketing offices of TCFC to our existing 30 branches at that time. The merger also marked our entry into retail asset financing, ahead of our peer banks, and strengthened our presence in Southern India.

We undertook a rebranding exercise and introduced new products like global debit cards, cash mangement services and depository services. We were among the first banks to enter the profitable 2-wheeler, commercial vehicles and construction equipment financing businesses.

In February 2001, we planned a rights issue to augment our capital for growth purposes. The issue was not subscribed due to adverse capital market conditions prevailing at that time. It may be noted that though our previous rights issue was not subscribed to due to adverse capital market situation, the proposed rights issue, we believe, is not likely to fail due to the following key differentials

- Funds have already been infused in our operations as per first phase of Scheme of Arrangement. The present Issue is the next phase of the scheme.
- We have now put in place an independent and experienced professional management team.

However, the outcome of the present rights issue would be known only upon the closure of the Issue.

While our merger with erstwhile TCFC helped shift our focus towards retail asset financing, we also inherited a legacy of stressed corporate assets in the form of leases and hire purchase contracts and contingent liabilities in the form of disputed tax demands. We came across reconciliation differences that required provisioning in the fiscal 2002 accounts. This eroded our capital and constrained our growth. On October 09, 2001, the Board appointed Mr. V. Janakiraman, former MD of the State Bank of India and an experienced banker, as the CMD to guide the Bank towards an alternative strategy. The appointment of Mr. V. Janakiraman was duly approved by the Reserve Bank of India in accordance with the provisions of Section 35B of the BR Act, 1949 on December 31, 2001. The erstwhile TCFC promoter directors resigned from the Board in March 2002 after Mr. Janakiraman assumed charge in January 2002. The Board also appointed Mr. C.G. Somiah, former Comptroller and Auditor General of India and Mr. Kamlesh Vikamsey, Chartered Accountant, and presently the Vice President of the Institute of Chartered Accountant of India, as non-executive Directors in March 2002. The new management with the re-constituted Board introduced stringent accounting norms and instituted better corporate governance. Thereafter the Board engaged in discussions with several potential investors to infuse additional capital into the Bank. These efforts culminated in a proposal from Sabre for re-capitalisation of our Bank using private financial investors, and infusion of fresh capital through a court scheme, coupled with the merger of the Bank Muscat Bangalore, being accepted.

We presented a composite Scheme of Arrangement under Section 100 (for reduction of capital) and Sections 391 to 394 of the Companies Act, 1956 for the approval of the High Courts at Mumbai and Bangalore, Karnataka and the RBI and the same has been approved by them on September 12, 2003, October 27, 2003 and January 19, 2004, respectively. The Scheme of Arrangement *inter-alia* involved re-organising our share capital, merger of operations of Bank Muscat Bangalore with us and infusion of capital. As a result of the Scheme of Arrangement, till date Rs. 154 crores have been infused in the form of equity improving our CAR to 4.14% as on March 31, 2004. The Scheme also entailed vesting the entire shareholding of our erstwhile promoter TCFC in the Centurion Bank Stock Trust for the benefit of the Bank. Please refer page 75 for details on Scheme of Arrangement.

The table below illustrates our performance over the last 5 years

(Rs. in Crores)

Year	Operating Profit/Loss	Deposits	Advances	Total Assets	Net NPAs	Net NPAs as % of Total NPAs	CAR	No. of Branches
2004	12.13	3028.79	1556.41	3417.48	68.90	31.12	4.41%	61
2003	21.69	2,834.71	1,313.72	3,223.79	104.09	45.57	1.95%	60
2002	14.41	3,534.99	1,634.09	4,046.39	101.66	43.85	4.16%	57
2001	57.80	4,257.43	2,034.09	5,923.70	71.30	46.12	9.61%	49
2000	65.06	3,867.08	1,839.81	5,275.82	71.28	52.52	9.31%	35

Some of our significant milestones include

Year	Achievement/ Milestone
1995	▪ Centurion Bank was promoted by the erstwhile TCFC in association with Keppel Corporation, Singapore
1999	▪ Amalgamation of TCFC with Centurion
	▪ Total assets crossed Rs. 3,000 Crores
	▪ Raised Rs. 35 crores through an Initial Public Offering in September at par value
2000	▪ Crossed depositor base of 1,00,000 accounts
	▪ Evaluated merger with leading banks
	▪ Total assets crossed Rs. 5,000 Crores
2001 & 2002	▪ Financed over 2,00,000 two-wheeler retail accounts
	▪ Established a wide product range and upgraded technology platform significantly
	▪ Erosion of networth following additional provisioning on previous merger related issues
	▪ Shareholding of TCFC vested in favour of the Bank and resignation of Directors nominated by TCFC
2003	▪ Number of debit cards exceed 2,80,000
	▪ Crossed 60 branches and 125 ATMs
	▪ Focussed on consolidation and reduced total assets to Rs. 3,200 crores
	▪ Discussions with investors to recapitalise the Bank
2004	▪ Steps to implement a Court-approved Scheme including capital infusion of Rs. 154 crores, vesting of the business of Bank Muscat Bangalore and a Rights Issue
	▪ Induction of new management team
	▪ MOU with Bank Muscat
	▪ Agreement with Euronet for shared ATMs
	▪ Issue of Tier II Bonds of Rs. 43 crores
	▪ Initiated securitisation program with a portfolio of two wheeler loans aggregating Rs. 57.54 crores.
	▪ RBI approval for converting 14 of our existing marketing offices into full fledged banking branches

For details regarding changes to our Memorandum, please refer page 37 of the Letter of Offer.

OUR BUSINESS

Overview

We are among the new private sector banks with a strong technology and service culture. As on March 31, 2004, we had a network of 61 fully networked branches covering 45 cities, 148 ATMs, 20 extension counters and 23 marketing offices. On June 01, 2004 we received approval from RBI vide letter no. DBOD.BL2049/22.03.059/2003-2004, for converting 14 of our aforesaid 23 marketing offices into full fledged banking branches, which would increase our branch network to 75 branches. Since March 31, 2004, we have also added 2 more extension counters. Apart from this distribution network, we provide various other facilities such as the ability to operate accounts from any of our branches on a 'real-time' basis, make e-payments and transfer funds instantly. We have a presence in the major business centres in the country. We have a pan India presence with a strong presence in the Southern and Western India.

Our key focus remains a successful retail banking strategy, which is evident from our strong retail customer base of around 495,000 deposit accounts, over 300,000 asset account holders and over 379,000 ATM/debit cardholders as on March 31, 2004. Through constant product innovation and superior service, our deposit mix has evolved in favour of retail deposits, which constitute about 80% of our total deposits as at March 31, 2004. Similarly, 75 % of our advances are to retail customers.

On the assets side, we have strengths in two-wheeler financing, where we are amongst the top three players in the organized market and in the financing of commercial vehicles and construction equipment. We also offer personal loans and loans against financial assets. Retail loans in India account for less than 5% of GDP and the percentage of retail loans to total loans in India also remains at a significantly low level when measured against its Asian peers. This presents an opportunity for us to further expand our retail business and differentiate ourselves from our competitors.

We have a suite of products and services on the liability side including a variety of deposit products, a global debit card, internet banking, mobile messaging, e-payments, depository and cash mangement services targeted at individuals and small businesses.

On the corporate banking side, we extend the entire range of fund based and non-fund based commercial banking products to select corporate customers. We use our strengths in channel financing to offer a gamut of services to meet the entire working capital requirements of dealers and distributors of leading corporates. Further we intend to leverage our existing relationships to cross sell a range of fee based products including transaction banking and clearing services to our corporate customers.

We are equipped with an integrated treasury backed by experienced dealers; well supported by information, communication and risk management systems. Treasury plays an active role in the management of our liabilities, mismatches in structural and interest rate-sensitive asset/liability flows and in generating low-cost funds. We offer various treasury services to our corporate customers including foreign exchange services and currency swaps to help them effectively manage their interest rate and foreign currency exposures.

We provide depository services and are depository participants for both NSDL & CDSL. As on March 31, 2004, we have over 24,511 active depository accounts spread over 40 locations across India. We also offer depository services to a few other banks.

We have superior technology capabilities. Using a state-of-the-art core banking system, we pioneered "Any Where Banking" by networking all our branches as early as 1995. We strengthened our treasury operations by implementing a treasury front office risk management system called "Kondor+". The treasury back office system interfaces with the central core banking application for general ledger consolidation. We have implemented a comprehensive cash management services system "Cashin", which again interfaces with the core banking application. We have an internet banking platform, have implemented a payment gateway solution and offer mobile phone banking services. We would continue to undertake key technology initiatives to maintain our competitive edge in the Indian banking industry.

We have a young and motivated workforce and a regular training calendar for their continuous growth and development. With the induction of a new professional management team, we have attracted individuals with global banking experience who will lead the bank onto a stable growth trajectory.

As on March 31, 2004, the Bank's total deposits stood at Rs. 3,028.79 crores, of which 80% were from retail customers. Similarly, our gross advances stood at Rs. 1,755.56 crores, of which 75% were to retail customers. Our deposits and advances grew at a compounded rate (CAGR) of 41% and 23%, respectively for the two years ended March 31, 2001. As a consequence of our financial problems explained in the history section, we entered into a phase of consolidation thereafter and contracted both corporate deposits and corporate advances. Retail deposits and retail advances continued their growth trajectory and grew at a CAGR of 18% and 14% respectively during the period from April 01, 2001 upto March 31, 2004, in keeping with our strategy to primarily be a retail-focused bank. For the year ended March 31, 2004, we earned a net spread of 3.74% which, after accounting for operating costs incurred in supporting a large physical infrastructure and provisions, gave rise to an operating profit of Rs. 9.38 crores and a net loss of Rs. 105.90 crores. Our net NPA's as on March 31, 2004 stood at Rs. 68.90 crores which is equal to 4.30% of our net advances including lease and credit substitutes. At March 31, 2004, we held provisions for bad debts of Rs. 152.51 crores, which represented about 69% of our gross non-performing loans.

A PAN INDIA BRANCH PRESENCE

As on March 31, 2004, we had a network of 61 fully networked branches covering 45 cities, 148 ATMs, 20 extension counters and 23 marketing offices. On June 01, 2004 we received approval from RBI for converting 14 of our aforesaid 23 marketing offices into full fledged banking branches, which would increase our branch network to 75 branches. Since March 31, 2004, we have also added 2 more extension counters

Our Main Objects

Our main objects, as set out in our Memorandum *inter-alia* include:

1. To establish and carry on business of Banking at the registered office of the Company and at such branches, agencies, or offices in the state of Goa, and any other part of India or elsewhere, as may from time to time be determined by the Directors of the Company.
2. To carry on the business of accepting for the purpose of lending or investment, deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, or otherwise.
3. To borrow, raise or take up money; to lend or advance money either upon or without security; to draw, make, accept, negotiate, discount, buy, sell, collect and deal in bills of exchange, hundies, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, bonds, debentures, certificates, scrips and other instruments, and securities whether transferable or negotiable or not; to grant and issue letters of credit, traveller's cheques and circular notes; to buy sell and deal in bullion and specie; to buy and sell foreign exchange including foreign bank notes; to acquire, hold, issue on commission, underwrite and deal in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds; to purchase and sell bonds, scrips or other forms of securities on behalf of constituents or others; to negotiate loans and advances; to receive money, all kinds of bonds, scrips or valuable on deposit or for safe custody or otherwise to provide safe deposit vaults to collect and transmit money and securities.

4. To carry on the business of factoring by purchasing and selling debt receivables and claims including invoice discounting and rendering bill collection, and debt collection and other factoring services.

The Object clause of the Memorandum of the Company enables the Company to undertake its existing activities and the activities for which the funds are being raised through the present Offer.

Changes in Memorandum of the Company

Since our incorporation, the following changes have been included, after approval by the Members, in the Memorandum of the Bank:

Date	Change
January 08, 2004	New objects inserted in the objects clause as follows: "To, open, establish, maintain and operate Currency Chests and Small Coin Depots on such terms and conditions as may be required by the Reserve Bank of India, established under the Reserve Bank of India Act, 1934 and enter into all administrative and other arrangements for undertaking such functions with the Reserve Bank of India." "To undertake Government business as agents of the Reserve Bank of India and Government Departments/Agencies on such terms and conditions as may be required by the Reserve Bank of India, established under the Reserve Bank of India Act, 1934 and enter into all administrative and other arrangements for undertaking such functions with Reserve Bank of India and Governmental Departments/Agencies."
June 14, 2003	The Authorised Capital was changed from 30 crores shares of Rs. 10 each to 300 crores shares of Re. 1 each

Our Key Competitive Strengths

We are in the unique position of creating a high quality banking franchise employing strategies that are directly relevant to current market realities, while at the same time inheriting a strong physical infrastructure and customer base that affords us a head start over some of our competitors. Some of our inherent strengths that will allow us to differentiate ourselves in the market place include:

- A differentiated business model, focusing primarily on the retail customer, in a relatively under-penetrated retail banking environment.
- A sizable distribution infrastructure comprising 61 fully networked branches and 22 extension counters, 23 marketing offices, 148 ATMs, online internet banking and mobile messaging. Of our aforesaid 23 marketing offices, we have received RBI approval to convert 14 of them into full-fledged branches, which would increase our branch network to 75 branches.
- Among the earliest retail franchises in the country with as many as 765,000 retail customer relationships developed since the bank's inception.
- Significant market positions in areas including two-wheeler, commercial vehicle, construction equipment and channel financing.
- Among the earliest banks to offer a technology-enabled customer interface to pioneer the concept of Anywhere Banking in India.
- A professional, experienced, committed and motivated management team.

Our Business Strategy and future plans

Our goal is to be a leading private sector bank in India, primarily focused on the retail-banking segment. We will aim to provide a comprehensive range of products and services to target retail customers and provide superior customer service. We will also aim to provide target corporate and institutional customers a range of products and services. To this end, we have embarked on a comprehensive restructuring of our operations and finances. We are inducting new professional management and are taking steps to, over time, infuse capital sufficient to meet capital adequacy requirements and support the growth of the bank. Our business strategy emphasises the following elements:

- **Increase our market share in India's expanding retail banking industry by developing a customer-centric model to service existing and target individual customers**

  India's retail banking industry is undergoing a period of rapid change and expansion. We believe this presents an opportunity to create a differentiated bank that is primarily focused on the retail customer and offers a comprehensive suite of services and deposit / investment / loan products that address their evolving needs at each stage of their life cycle. We will leverage our existing base of about 765,000 individual customer relationships, developed since the bank's inception, to expand our business volumes and customer base further. We will use our existing strengths in 2-wheeler, commercial vehicle and construction equipment financing to establish a leadership position in these segments. We are in the process of evaluating new products such as mortgages and credit cards and propose to shortly launch wealth management services including announcing a bancassurance partner. We intend to use our existing geographic presence to further increase our low cost deposit base and retail assets portfolio.

- **Leverage our sizable physical infrastructure and proven and scalable technology platform to deliver high volume growth with a less than proportionate increase in our cost**

  We will leverage our sizable distribution infrastructure comprising 61 fully networked branches spread across 45 cities, 22 extension counters, 23 marketing offices, 148 ATMs, online internet banking and SMS banking to increase business throughput without a proportionate increase in our cost base. A step in this direction is the conversion of our existing 14 marketing offices into full fledged banking braches, which would take our total branch network to 75. We intend to further add to this infrastructure by opening branches and offices in select cities across the country, partnering with third party distributors, establishing a 24-hour telephone banking service, augmenting our online internet platform and widening our ATM network. In doing this, our aim would be to increase our customer reach and service capabilities, improve cost efficiencies and generate new fee income avenues.

- **Reduce our cost of funds by restructuring the finances of the bank, re-pricing deposits and attracting additional low-cost demand deposits**

  Inspite of the financial difficulties in the last three years resulting in a relatively higher cost of funds, we brought down our cost of funds from 9.21% for fiscal 2002 to 6.43% for fiscal 2004. With the infusion of fresh capital in the form of equity as well as Tier II bonds and induction of high quality professional management, we have re-priced our deposit rates and aligned the same with the market, which has resulted in a decline in our average cost of deposit to 6.27% for fiscal 2004 from 7.94% for fiscal 2003. Our focus on retail banking and renewed thrust on transaction banking is expected to help us attract low-cost deposits and have a beneficial impact on our overall cost of funds.

- **Develop an innovative and efficient channel financing, transaction banking and treasury business to service our corporate and institutional customers**

  We will aim to build on our existing channel financing business where we finance the dealers and distributors of established corporates, based on a simple security package and efficient technology and processes. We will also strive to extend our existing relationships with Government agencies and leading corporates to provide transaction-banking solutions that generate cash floats and fee income for us. Such solutions would typically include cash management, correspondent banking, clearing services, real time gross settlement services, payroll services etc. Similarly, our emphasis would be to offer to our customers a suite of treasury products including foreign exchange / interest rate cash and derivate products that earn us fee income.

- **Develop trade-related and Non-Resident Indian (NRI) business synergies with BankMuscat, a key member of our Investor Group**

  BankMuscat, one of our major shareholders, is the leading bank in Oman and have plans to expand in other parts of the Middle East. Apart from existing trade flows between India and the Middle East every year, a significant percentage of the population of the Middle East comprises people of Indian origin, which provides further opportunities. It would be our endeavour to leverage our relationship with BankMuscat to capture a significant share of the trade-related and NRI business between India and the Middle East. As a step in this regard, we have entered into a Memorandum of Understanding (MOU) with Bank Muscat on May 28, 2004 to strengthen our business relationships and pool resources in order to tap the NRI population present in Oman, Bahrain, United Arab Emirates and other Gulf Co-operation Council (GCC) countries. The MOU seeks to develop a functional relationship between Bank Muscat and us to facilitate access to our deposit and loan products, to NRI customers of Bank Muscat.

- **Develop a disciplined credit & market risk management function to maintain the quality and profitability of our retail loans portfolio, limited corporate loans portfolio and treasury portfolio**

  Our aim will be to align the business and risk management functions in a manner that ensures the long-term profitability of each business segment by setting minimum returns that are commensurate with the risks inherent in the asset portfolio, given market experience. Individual steps towards achieving this goal would include defining target markets, carrying out thorough risk analytics, running a tight credit process through appropriately trained personnel, establishing an independent risk asset review and setting up a dedicated remedial management team to maximise recoveries.

  The dedicated remedial management team will take effective steps to accelerate recoveries from our existing NPAs. The climate for realising maximum value from stressed assets has greatly improved over the past year, given the progress our country has made in putting in place, SARFAESI (the Securitisation & Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002), a set of laws that strengthen lender rights and support effective asset reconstruction and foreclosure. Any recoveries from NPAs will have a positive impact on our profitability.

DETAILS OF OUR PRINCIPAL BUSINESS ACTIVITIES

Our principal banking activities consist of retail banking, treasury operations and corporate banking. The following table sets forth the details of our assets and liabilities attributable to each business area for the last four fiscals and period 2004.

(Rs. in Crores)

	Year ended March 31,			
	2001	2002	2003	2004
Assets from:				
Retail Banking	729.64	888.12	912.02	1,320.49
Corporate Banking	1,770.03	996.05	597.83	435.07
Less: Provisions (including interest suspense)	83.29	130.15	124.34	152.51
Less: Leased Assets/ credit substitutes	382.29	119.93	71.79	46.64
Net Retail + Corporate	**2,034.09**	**1,634.09**	**1,313.72**	**1,556.41**
Treasury Operations	2,156.87	1,227.22	999.25	1,004.18
Total Assets	**4,190.96**	**2,861.32**	**2,312.97**	**2,560.59**
Liabilities from:				
Corporate Banking	2,777.17	1,634.87	840.49	601.34
Retail Banking	1,480.26	1,900.12	1,994.22	2,427.45
Treasury Operations	1,204.54	211.43	160.48	143..97
Total Liabilities	**5,461.97**	**3,746.42**	**2,995.19**	**3,172.76**

Overview

Retail banking business has been our main focus area over the last 5 years. Within this segment we have launched several products tailored to serve diverse customer profiles. Some of the retail investment services/products offered by us are Global Debit Card, internet banking, Depository services, distribution of third party financial products etc. On the retail assets side, we were one of the pioneers in two wheeler financing and are one of the established players in the organized Commercial Vehicle and Construction Equipment financing sector. Our personal loan portfolio has been steadily increasing.

In addition to the normal deposit products, we also provide value added services like fast collection of cheques, cash delivery and pick-up, internet banking, Bill Payment, foreign exchange services, Depository Accounts, Cash and Transaction Services (CATS), E-payment services (includes online booking of railway tickets) etc.

Our Retail Distribution Channels

In order to provide convenient access to our retail banking products and services, we have multiple distribution channels including a branch network with 61 branches in 45 cities across India, 22 extension counters, 148 ATMs and 23 marketing offices, giving us a presence in most of the major business centres in the country.

The growth in our Branch and ATM network is given in the table below.

At March 31,	**2001**	**2002**	**2003**	**2004**
Branches	49	57	60	61
ATMs	98	133	139	148
Extension Counters	8	16	19	20
Asset Finance Offices	26	25	23	23

(Source: Bank)

Since March 31, 2004, we have added 2 more extension counters.

On June 01, 2004 we received approval from RBI for converting 14 of our aforesaid 23 marketing offices into full fledged banking branches, which would take our total branch network to 75.

Our customers can access ATMs that are part of the MasterCard & BANCS shared payment network. The BANCS network has replaced the Swadhan network, which was earlier in operation. We have also recently signed a Memorandum of Understanding with Euronet for joining their shared payment network. Our ATMs are Visa compliant; hence, Visa cardholders can access their accounts using our network.

We entered into agreement with Euronet Services India Private Limited on December 30, 2003 whereby we would participate in the Euronet Network which is a shared ATM network having several banks as its members. We would participate in the Euronet Network by making available our ATMs to holders of debit and/or credit cards issued by other member banks.

Other delivery channels offered to our customers include internet banking, phone banking and SMS banking. The number of registered customers for each of these delivery channels is as under:

As on year ended March 31	**2001**	**2002**	**2003**	**2004**
No. of Internet Banking registered users	-	3,361	9,842	18,053
No. of SMS Banking registered users	-	-	143	7,094
No. of Phone Banking registered users	14,035	21,630	22,062	22,094

(Source: the Bank)

The region-wise distribution of branches across India is an under:

For the year ended March 31	2001	2002	2003	2004
Northern India	7	11	13	13
Southern India	16	18	18	19
Western India	20	22	23	23
Eastern India	6	6	6	6
Total Branches	**49**	**57**	**60**	**61**

(*Western India includes Gujarat and M.P.)

Retail Deposit Products

Retail deposits provide us with a low cost, stable funding base and have been a key focus area for us since commencing operations.

Our individual retail account holders receive the benefits of a wide range of direct banking services, including a free ATM card, access to our branch and ATM network, the opportunity to access our other distribution channels and eligibility for utility bill payment and other services. Our retail deposit products include the following:

- *Savings account*s, which are demand deposits in checking accounts designed primarily for individuals. These accrue interest at a fixed rate set by the RBI (currently 3.5% per annum). Savings Bank Account offers checking facility to individuals. For our Savings bank accounts we offer features such as Global Debit Card, internet banking, Sms banking etc. Besides we also offer specially designed corporate payroll account "PremiumPay" to cater to large number of corporate employees.
- *Current account*s, which are non-interest-bearing checking accounts designed primarily for small and medium sized businesses. Customers have a choice of regular and premium product offerings with different minimum average quarterly account balance requirements. For our Current account holders we offer features such as Anywhere Banking, internet banking, cash management services etc.
- *Fixed or time deposit*s, which pay a fixed return over a predetermined time period. In this category we offer term deposits of maturities upto 5 years, recurring deposits, liquid deposits that allows for automatic transfers from the fixed deposit to savings. We also offer loan products against fixed deposits at competitive margins.

Retail deposits provide us with a low cost and stable funding base. We have been making efforts to increase share of retail deposits in total deposits. The following table shows the growth of retail liabilities over the last four fiscal years and their percentage share in total deposits:

(Rs. in Crores)

As on March 31,	2001	2002	2003	2004
Demand Deposits (Savings & Current)	369.35	453.57	474.2	669.79
Term Deposits (Retail)	1,110.91	1,446.55	1,520.02	1,757.66
Total Retail Deposits	1,480.26	1,900.12	1,994.22	2,427.45
% of Retail Deposits to Total Bank Deposits	34.77%	53.75%	70.35%	80.15%
YoY Growth (%)	-	28.36%	4.95%	21.72%

(Source: the Bank)

We had approximately 216,000 retail accounts on March 31, 2001, 365,000 retail accounts on March 31, 2002, 434,000 retail accounts on March 31, 2003 and 495,000 accounts as on March 31, 2004, reflecting a growth of approximately 36% over the last two years.

Retail Loan Products

We offer a complete range of retail loans, including Two-Wheeler loans, Personal loans, Construction Equipment Finance, Retail Trade Finance, Commercial Vehicle Finance, Channel Finance and Car loans. Price, speed of commitment and quality of service are the key competitive factors. Our retail loans were 75% of our total loans at March 31, 2004. We offer our retail loan products through 61 branches in 45 cities. Majority of our retail loan products are backed by tangible collaterals. We perform our own credit analysis of the borrowers and have instituted effective processes for monitoring the performance of our loans backed by a strong collection mechanism. The following table shows the value and share of our retail loan products:

	Number of loans			Value in Rs. crores		
As on March 31	2002	2003	2004	2002	2003	2004
Two Wheeler loans	160,552	203,097	287,524	313.46	356.46	505.19
Construction Equipment and Commercial Vehicle Finance	6,815	8,502	10,681	305.03	345.02	506.43
Personal loans	539	3,305	13,711	10.82	16.13	89.97
Channel Finance/ Retail Trade Finance	-	450	-	153.67	81.57	62.98
Loan against Deposits *	-	-	-	104.86	111.45	96.44
Car loans	-	39	2,577	-	1.23	58.81
Consumer Durables	163	193	775	0.28	0.16	0.67
Total Retail Assets	**168,069**	**215,586**	**315,268**	**888.12**	**912.02**	**1,320.49**

**Number of Loans not available*

Two Wheeler Loans

The two-wheeler loans market today is serviced primarily by organised players, un-organised players, private banks & nationalized co-operative banks. Two wheeler loans are primarily sourced from Vehicle Sales Outlets (Dealer Point) and Direct Sales via repeat customers, banking customers and enquiries through marketing events. We were amongst the first Banks to enter this segment. We have established our presence in the organised sector. Maximum proportion of the business origination is through dealer referrals. Business is originated by Document Collection Agents, on behalf of the bank. We have a strong presence in financing all makes of two wheelers and have respresentatives in approximately 700 dealer outlets. The average loan size in this segment is approximately Rs. 27,000 and average tenure is 18 months. The delinquency in this segment has been low and has been around 1% of the book size for years ended March 31, 2002 and March 31, 2003 applying the then applicable 180 day norm and approximately 2% in fiscal 2004 applying the 90 day norm. The table below shows our growth pattern in the two-wheeler segment:

Period	Numbers	Growth %	Value *(Rs. in Crores)*	Growth %
1999-00	65,061	-	192.35	-
2000-01	93,762	*44 %*	294.56	*53 %*
2001-02	106,098	*13 %*	328.08	*11 %*
2002-03	127,847	*20 %*	367.87	*12 %*
2003-04	195,192	*53 %*	532.70	*45 %*

The business is sourced from over 400 locations under 47 Asset Finance Divisions. As a result of the decentralisation, the business is stable and relatively mature with low NPA levels.

An area-wise distribution of the business for the previous two years is given below:

Region	2002-03	2003-04	% Growth *(Rs in Crores)*
Gujarat	43.5	59.7	37%
Karnataka & Andhra Pradesh	55.8	78.9	41%
East	51.1	55.8	9%
North	44.1	66.0	50%
Tamil Nadu & Kerala	95.0	154.7	63%
Madhya Pradesh	15.1	23.1	53%
Maharashtra & Goa	63.2	84.7	34%
All India	367.9	522.9	42%

Construction Equipment Finance

Under Construction Equipment Finance, we provide finance for excavators, cranes, rollers & all types of material handling equipments. We enjoy long-standing relationships with various construction equipment manufacturers and dealers. Our exposure to this segment is Rs. 176.80 crores. We expect this segment to grow at a relatively faster rate due to committed effort from Government of India to complete as well as commence newer infrastruture projects in road and port sector. The delinquency in this segment has been low at about 1% of the book size for years ended March 31, 2002 and March 31, 2003 applying the then applicable 180 day norm and as on March 31, 2004 it has been 1.35% applying the 90 day norm.

Commercial Vehicle Finance

Under Commercial Vehicle Finance we provide finance for the entire range of commercial vehicles with flexible payment options to suit our customer's business needs. We enjoy long-standing relationships with various CV manufacturers and dealers and have a current book size of Rs. 329.23 crores. In this segment we finance both, new commercial vehicles and also provide re-finance facilities for used commercial vehicles. The average loan size in this segment is approximately Rs. 6 lakhs and average tenure is 36 months. The commercial vehicle segment has grown by 62% during the current fiscal over the previous year. We have been into this business for over three years now. The delinquency in this segment as well has been low and has been around 1% of the book size for years ended March 31, 2002 and March 31, 2003 applying the then applicable 180 day norm and as on March 31, 2004 it has been 1.35% applying the 90 day norm.

Personal Loans

We provide general purpose unsecured loans to Individuals. Our target market in this segment is primarily salaried employees and professionals. We extend a minimum loan of Rs. 20,000 and maximum of Rs.10 lacs, the average loan size is approximately Rs. 50,000 and average tenure is 28 months. Till recently we have been targeting our existing customers through our banking branches. However going forward we intend to increase our exposure in this segment through additional marketing channels. As of March 31, 2004 we have a booksize of Rs. 89.97 crores distributed in 61 branches. The delinquency in this segment has been 0.3% for year ended March 31, 2003 applying the then applicable 180 day norm and as on March 31, 2004 it has increased to 2.6% applying the 90 day norm.

Channel Finance/ Retail Trade Finance

Under Channel Finance we provide a unique short term financing facility to dealers/distributors of established corporates without disturbing current banking arrangements. Channel Finance is characterised by simple security package & low turnaround time.

We also provide working capital finance primarily to the dealers/ distributors of branded goods backed by collaterals.

Car Loans

We provide flexible car loans in the market wherein our customers can pay bulk amounts as and when they have surplus cash without any pre-payment penalties. We are now in the process of distributing these loans more aggressively using our existing banking channels. The average loan size in this segment is approximately Rs. 350,000 and average tenure is 36 months.

Other Retails Services and Products

Cash and Transaction Services (CATS)

We offer Cash management Services under the name "'Cash And Transaction Services" (CATS). CATS is a value added service specially designed for managing the receivables and payable needs of our corporate customers. CATS provides a strong platform for quicker and cost effective collections especially in the area of upcountry cheques. This service is fully supported by a framework of V-Sat and leased line connectivity with our entire countrywide network of branches and through arrangements with selected domestic correspondent banks. CATS facility enables our customers to reduce the realization time of cheques and enables our customers to track their receivables. This services enables us to generate both fee-based income and free float funds.

We also use the CATS system for timely collection of post-dated cheques taken from our retail asset customers. Based on our in-house experience in this regard we also offer this specialized service to other financial companies.

Depository Accounts

We are depository participants for NSDL and CDSL. Total number of accounts under the depository business was approximately 24,511 and assets under custody for NSDL and CDSL together stood at over Rs. 718.98 crores as on March 31, 2004. We are offering this service at 40 branches. Our customers can access their CDSL accounts through internet and view their transaction and holding statements.

Foreign Exchange Services

As an authorized dealer in foreign exchange, we offer full range of foreign exchange products like traveller's cheques and foreign remittances. We also have correspondent banking arrangements, which enable us to provide remittance facilities to all major countries. We have recently entered into correspondent arrangements with Bank Muscat, which enables NRI customers in GCC countries to make rupee remittances to India through all our branches.

E-suite

We offer our customers a complete suite of E-payment products comprising of utility bill payment services, railway ticket booking, on-line shopping etc. Customers can also review and access their bill details through direct banking channels. We have been offering this service since last year and we expect usage of this service to increase in the forthcoming years.

Planned new Retail Products

We are in the process of evaluating several new products and services including wealth management, mortgages and credit cards. Our wealth management services will include the distribution of third party asset management and insurance products to our retail customers for a fee. We are in the process of finalizing a bancassurance partner for the latter

Corporate Banking

We offer a gamut of services to meet the entire credit requirements of corporates under one roof. While Retail is a thrust area, we intend to develop a quality corporate portfolio based on value added services. This will help us increase revenue by cross-selling fee income products, corporate payroll accounts, cash management and forex products.

Our corporate lending business includes both Fund based and Non-Fund based credit facilities. Funded products include Cash Credit, Working Capital, Term Loans and Bills Discounting (Inland & Foreign). Non-funded products include Financial Guarantees, Performance Guarantees and Letters of Credit. Our primary focus in this segment is in the transaction processing products business, which includes Cash Management Services and Transaction Products (CATS). Under Corporate Banking, we also provide Capital Market services like advances to share brokers (Overdraft, DVP funding and bank guarantees). We have also renewed our license to act as Bankers to the issue. We have been appointed as a clearing bank by BSE for the cash and derivatives segments. The working capital loans are upto a period of one year and priced according to the tenor of individual facility. Our present Benchmark Prime Lending Rate (BPLR) is 11.50%. We price our products are linked to the BPLR based on risk rating model and market forces.

Treasury Operations

We have an integrated Treasury with state-of-the-art technology manned by experienced dealers well supported by suitable information, communication and risk management systems. The Treasury department plays an active role in management of our liabilities, mismatches in structural/interest rate sensitive asset/ liability flows to ensure reduction in cost of funds and enhance profitability. Thus the treasury group manages our balance sheet, including maintenance of reserve requirements and management of market and liquidity risk. We offer structured Interest Rate/ Currency Swaps. The treasury group also provides advice and execution services to corporate and institutional customers with respect to their foreign exchange and derivatives transactions.

Forex Business

We have a centralised Foreign Exchange Services division at Mumbai to support the International Trade business undertaken by our branches. These branches are well equipped with sophisticated infrastructure to efficiently handle transactions and are SWIFT enabled for speedy conduct and execution. We arrange short-term finance through Letters of Credit, loans against foreign currency liabilities etc. We expect that our existing relationship with Bank Muscat will help us increase business with GCC member states. Our strategy is to provide information on market movements to our corporate customers, who have foreign currency exposure. The emphasis has been on providing services for trade related transactions, which adds to our fee income. The performance of our forex business for last four years is as follows:

For year ending March 31	2001	2002	2003	2004
Corporate				
Turnover (US$ Crores)	83.3	83.5	62.6	54.01
Exchange Income (Rs. Crores)	4.2	3.9	3.4	3.27
Inter Bank				
Turnover (US$ Crores)	926.1	563.4	390.0	217.45
Profit (Rs. Crores)	6.5	4.8	3.66	2.72

Domestic Debt & Money Market

We have an experienced team of dealers focusing on the money market business. This group ensures that we maintain our cash reserve ratio and statutory liquidity ratio requirements. The group also has well defined trading book strategy to benefit from the interest rate moves. The money market funds are managed by effectively using arbitrage opportunities in forex and money markets. However as a matter of prudence the risks are managed effectively as per our internal norms laid down in the ALCO. The group also ensures adequate counter-party lines to facilitate funding of temporary mis-matches. We are currently able to maintain the average call-borrowing rate below the NSE MIBOR rates. Over the past year we have reduced our dependence on the call borrowings and at present we have sufficient liquidity to meet our business needs.

Money Markets – Fund Management

(Rs. in Crores)

Particulars for the year ended March 31,	2000	2001	2002	2003	2004
Interbank Deposits	1,606.96	1,445.24	768.65	410.45	263.45
Call Borrowings / (Lending)	734	527	75	51	NIL
FCY Borrowings (USD Crores)	82	92	21	1	10
FCY Placements (USD Crores)	27	37	0.75	2.36	1.28

Money Market Investments

(Rs. in Crores)

	For the year ended March 31,				
Particulars	2000	2001	2002	2003	2004
Book Size					
SLR	1,131.12	1,620.15	1,001.04	918.09	974.82
Non SLR	1,068.46	560.57	259.48	105.29	31.26
Interest Income					
SLR	100.00	151.39	112.00	79.06	78.96
Non-SLR	61.34	71.75	32.00	12.65	4.97
Trading Profits					
SLR	22.00	26.00	33.00	53.43	32.50
Non-SLR	33.93	29.50	(4.64)	(3.93)	(9.78)

Services

We are offering CSGL accounts to co-operative banks. In addition to providing us a fee income, this also provides us with overnight float funds. We are building relationships with other select co-operative banks to increase our income from CSGL accounts. We are also targeting other banks and financial institutions for similar services.

CSGL Performance

(Rs. in Crores)

For the year ended March 31	2000	2001	2002	2003	2004
CSGL					
Number of Accounts	10	13	23	21	18
Float Funds	0.5	2.4	2.1	2.14	1.48

Our Technology

We have deployed 'Equation3', a core banking solution, from Midas Kapiti across retail and corporate banking alongwith a branch front-end system 'Questor' of Logica. 'Kondor+' from Reuters and 'Kastle' supports our treasury front and back office function, respectively. We have also implemented CATS solution from CashTech and robust ATM switch from Postilion from Mosaic. We also use 'Debos' from Kalpataru for our depository services. All our branches and ATMs have online connectivity with efficient network of leased lines and VSATs. We are focused on leveraging technology to create customer-centric solutions like e-pay, internet banking, sms banking etc. Our core Information Technology systems is housed in a secure environment in Mumbai with a disaster recovery site at Hyderabad.

Intellectual Property Rights

We have made several applications for registration of our trademarks, including for our logo and the style and manner in which we write our name, under the Trademark Regulations. Currently, none of the trademarks have been registered in our name and the applications are pending with the Trademark Authorities.

Competition

We face strong competition in all of our principal lines of business. Our primary competitors are some of the public sector banks, other private sector banks, foreign banks and, in some product areas, non-banking financial institutions.

Retail Banking

In retail banking, our principal competitors are the public sector banks, other new generation private sector banks as well as foreign banks and non-banking finance companies for retail loan products. Some of the foreign banks have a significant presence among non-resident Indians and also compete for non-branch-based products such as auto loans and credit cards. We face significant competition from new generation private sector banks, foreign banks and certain public sector banks in offering debit cards. In mutual fund sales and other investment related products, our principal competitors are broking houses, foreign banks and private sector banks.

Corporate Banking

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

Treasury

In our treasury advisory services for corporate clients, we compete principally with foreign banks, private sector banks and other public sector banks in the foreign exchange and money markets businesses.

Details of Sources of Funds

Deposits

We have a deposit base of Rs. 3,028.79 crores (March 31, 2004) consisting of retail and wholesale deposits. Wholesale deposits are comprised of Corporate and Bank deposits. The mix of retail to total deposits has been increasing at a steady rate. Currently the deposits from retail segment constitute 80% of our deposits. This is in line with our strategy to develop a low cost and stable funding base. The following table shows the trend of total Domestic Deposits over the last 4 financial years :

(Rs. in Crores)

As on March 31,	2001	2002	2003	2004
Deposits	4,257.43	3,534.99	2,834.71	3,028.79
Annual Growth				
- Amount	390.36	(722.44)	(700.28)	194.08
- *Percent ....*	10%	(17%)	*(20%)*	*6.85%*
Cost of Deposits (%)	**8.25**	**8.89**	**7.94**	**6.27**

The following table shows the growth of retail liabilities over the last four fiscal years and their percentage share in total deposits:

(Rs. in Crores)

As on March 31,	2001	2002	2003	2004
Demand Deposits (Savings & Current)	369.35	453.57	474.20	669.79
Term Deposits (Retail)	1,110.91	1,446.55	1,520.02	1,757.66
Total Retail Deposits	1,480.26	1,900.12	1,994.22	2,427.45
% of Retail Deposits				
to Total Bank Deposits	34.77%	53.75%	70.35%	80.15%
YoY Growth (%)		28.36%	4.95%	21.72%

(Source: the Bank)

The region wise distribution of deposits for the last 4 years for the year ended March 31 as a fraction of the aggregate deposits is given below:

(Rs. in Crores)

As on March 31,	2001	2002	2003	2004
Region				
Northern	861.47	685.88	673.82	700.97
Eastern	586.25	513.75	434.49	456.43
Western*	1,915.95	1,234.31	883.71	877.04
Southern	893.76	1,101.05	842.69	994.35
Total	**4,257.43**	**3,534.99**	**2,834.71**	**3,028.79**

*(*Western region includes Gujarat and Madhya Pradesh)*

Demographic break up of our Deposits is as follows:

(Rs. in Crores)

As on March 31,	2001	2002	2003	2004
Rural	0.41	7.95	14.09	23.13
Semi-Urban	354.87	462.42	523.08	558.23
Urban	691.93	832.83	761.01	792.27
Metro	3,210.22	2,231.79	1,536.53	1655.16
Total	**4,257.43**	**3,534.99**	**2,834.71**	**3,028.79**

Top 25 Borrowings/Deposits of the Bank as on March 31, 2004

Particulars of borrowings	Date	Rs. Crores	Whether lender is affilate / associate	Duration	Rate of Interest % p.a.	Repayment terms	Whether Directors given personal guarantee	Default in repayment/ redemption /recallor defalult notices issued	Borrowings rolled over before or after default
Unsecured Deposits	March 19, 2004	28.16	No	1 Yr 1 Day	6.00	**	No	No	No
	March 29, 2004	20.00	No	30 Days	4.40	**	No	No	No
	March 31, 2004	20.00	No	46 Days	4.85	**	No	No	No
	March 29, 2004	20.00	No	30 Days	4.40	**	No	No	No
	September 23, 2003	15.00	No	181 Days	6.25	**	No	No	No
	February 13, 2002	12.14	No	3 Years	9.80	**	No	No	No
	October 08, 2003	10.16	No	181 Days	6.50	**	No	No	No
	February 01, 2004	10.00	No	60 Days	5.30	**	No	No	No
	November 19, 2003	10.00	No	6 Mths NRNR	5.90	**	No	No	No
	March 27, 2004	9.00	No	15 Days	4.25	**	No	No	No
	April 01, 2000	8.01	No	2 Years NRE	10.00	**	No	No	No
	March 30, 2004	6.51	No	91 Days	4.70	**	No	No	No
	September 18, 2003	6.23	No	1 Yr 1 Day	6.70	**	No	No	No
	March 31, 2004	5.99	No	15 Days	4.25	**	No	No	No
	July 03, 2002	5.80	No	5 Years	10.00	**	No	No	No
	April 03, 2003	5.26	No	1 Year	8.00	**	No	No	No
	October 07, 2003	5.08	No	1 Yr 1 Day	6.70	**	No	No	No
	December 22, 2003	5.00	No	1 Yr 1 Day	6.50	**	No	No	No
	March 24, 2004	5.00	No	181 Days	5.60	**	No	No	No
	December 22, 2003	5.00	No	181 Days	6.00	**	No	No	No
	March 06, 2002	5.00	No	3 Years	9.75	**	No	No	No
	February 25, 2004	4.94	No	91 Days	4.65	**	No	No	No
	March 31, 2003	4.47	No	3 Years	2.15	**	No	No	No
Borrowings in foreign Currency from Bank Muscat									
	February 27, 2004	34.97	Yes *	92 days	1.50	**	No	No	No
	February 11, 2004	8.74	Yes *	91 days	1.53	**	No	No	No

* Bank Muscat holds 33.04% Equity Shares capital of the Bank as on March 31, 2004 and has 2 Nominee Director on the Board of the Bank.

** Deposit / borrowings repayable on maturity dates

Details of Deployment of Funds

Loan Portfolio- Overview

Portfolio Composition

During fiscal 2002, as a result of capital constraints, we consciously reduced our loan portfolio in capital markets and select corporate borrowers. These constraints continued in fiscal 2003 and our corporate credit, both funded and non-funded, declined 39% in fiscal 2003 as compared to fiscal 2002 and 22% in fiscal 2004 as compared to fiscal 2003. Corporate credit expansion was carefully monitored and controlled with emphasis on taking fresh exposure in quality assets.

During this period we focussed on lending to the relatively higher yielding retail loan segment, which is demonstrated in the table below:

(Rs. in Crores)

Particulars	**March 31, 2002**			**March 31, 2003**			**March 31, 2004**		
	Fund	**Non-fund**	**Total**	**Fund**	**Non-fund**	**Total**	**Fund**	**Non-fund**	**Total**
Corporates	975.95	437.89	1,413.84	597.83	283.79	881.62	435.07	174.17	609.24
Less: provisions	125.17	-	125.17	118.04	-	118.04	134.74	-	134.74
Total (A)	850.78	437.89	1,288.67	479.79	283.79	763.58	300.33	174.17	474.50
Retail	888.12	-	888.12	912.02	-	912.02	1,320.49	-	1,320.49
Less: provisions	4.98	-	4.98	6.30	-	6.30	17.77	-	17.77
Total (B)	883.14	-	883.14	905.72	-	905.72	1,302.72	-	1,302.72
Total (A+B)	1,733.92	437.89	2,171.81	1,385.51	283.79	1,669.30	1,603.05	174.17	1,777.22

The following table presents details of our total Advances

(Rs. in Crores)

As on March 31,	**2001**	**2002**	**2003**	**2004**
Advances	2,325.86	1,864.07	1,509.85	1,755.56
Credit Substitutes	173.81	20.10	-	-
Total Funded Advances	**2,499.67**	**1,884.17**	**1,509.85**	**1,755.56**
YoY growth (%)		(24.62)	(19.87)	16.27
% of Total Advances	78.96	81.14	84.18	90.74
Non Funded Advances	**666.26**	**437.89**	**283.79**	**174.17**
YoY growth (%)		(34.28)	(35.19)	(38.63)
% of Total Advances	21.04	18.86	15.82	9.03
Total Advances	**3,165.93**	**2,322.06**	**1,793.64**	**1,929.73**
YoY Growth (%)		(26.65)	(22.76)	7.59

In the table above Advances include leased assets, which were Rs. 208.48 crores, Rs. 99.83 crores, Rs. 71.79 crores and Rs. 46.64 crores for the fiscal 2001, 2002, 2003 and 2004 respectively.

Term Loans and Cash Credit formed a major component (> 96% for March 31 2004) of our Funded Advances while Bank Guarantees and Letters of Credit principally constituted our Non Funded Advances.

Effective yield on advances for the past 4 years

As on March 31,	**2001**	**2002**	**2003**	**2004**
Yield on advances	13.91%	13.23%	14.52%	13.23%

Our Loan Approval Process

Origination

All our loan proposals originate from branches. Relationship managers, who originate, appraise and recommend proposals, source this business. Decisions on the proposals are taken by a centralized credit department and finally by the respective committees based on the size of the proposals. Presently we do not accept third party origination. However we intend to explore the third party origination process for our retail business.

Cash flow, credit analysis

We have devised norms for selection of clientele based on industry characteristics, historical financial performance and projected financials, management risks and our internal credit guidelines and exposure norms. We have tied up with CRISIL and CMIE to provide online data and information on industry trends and companies. For our retail loans, the sanctions are made on the basis of defined credit parameters and appraisal systems and within a structure of delegated authority.

Credit scoring

The corporate proposals are appraised on a credit risk grading model covering financial risk, industry risk, business risk and management risks and categorised into 5 credit grades of increasing risk perception from AAA to Not Rated. We are using software called “Accelerate Decisions by Moody’s Risk Management Services” for assessing the credit risk of borrowers. A credit risk score in the range of one to ten is generated by assigning weights to the different types of risks of borrowers namely financial risk, commercial, technical, manpower related risk, external environment risk and promoter related risk etc. Based on the credit score generated in the range of one to ten, borrowers are assigned credit rating. The factors determining the pricing of the loan are the rating assigned to the concerned customer, prevailing market rates for similar loans and our cost of funds. In certain cases where we are a part of a consortium, the rate determined by the lead bank prevails. We refrain from taking exposures in industries that are on the negative list as per the internal credit policy guidelines.

Loan to collateral guidelines

As a measure of abundant caution, we insist on collaterals based on risk perception. All primary and collateral securities are valued at one-year intervals by panel of approved and reputed valuers as per extant RBI guidelines

Documentation procedure

We lay adequate emphasis on maintaining documentation and other requirements. As a prudent measure, we have a policy of conducting pre-disbursement audit for document verification in all corporate cases. We intend to mandate legal vetting of documents for all exposures above Rs 1 crore. For retail loans as well we follow defined pre-disbursement document verification procedure.

Loan approval authority

All proposals are appraised in detail by the branches based on defined parameters. In the case of retail loans certain delegations have been given to branch personnel to sanction loans upto well defined specified limits based on the product. Loan sanctioning beyond these limits are referred to the Corporate Office. Retail loan proposals beyond the branch delegated authorities are sanctioned upto a maximum of Rs. 2.5 crores by the Retail Credit Committee headed by the Managaing Director and two senior department heads. The Executive Committee of the Board sanctions retail advances in excess of these amounts.

There are no delegated authorities at branch level for corporate loans. All corporate loan proposals up to Rs. 10 Crores of funded and Rs 20 crores of non-funded limits are sanctioned by the Corporate Credit Committee (CCC) headed by the Managing Director and three senior department heads of the Bank. The Executive Committee of the Board sanctions corporate advances in excess of these amounts.

The power hitherto exercised by the Executive Committee of the Board as above has since been vested in the Risk Policy Committee of the Board with effect from June 30, 2004. The following powers with regard to credit related matters have been delegated to the Risk Policy Committee:

- Sanction/review of the credit facilities and the approval of other related matters including approving Compromise Settlements, which are presently vested in the Executive Committee of the Board within the ambit of the credit policy approved by the Board.
- Delegation of powers for sanctioning credit facilities to the CCC, Retail Credit Committee, Managing Director and other executives of the Bank and review of the powers so delegated from time to time.
- Review of NPAs and remedial action initiated by the Bank in respect of such accounts

Region Wise Credit Exposure

(Rs. in Crores)

As on March 31, 2004

Region	Amount	% of Gross Credit
Eastern	147.38	8.62
Western*	580.90	33.99
Northern	214.46	12.55
Southern	766.18	44.84
Total	**1708.92**	**100.00**

(Western region includes Gujarat and Madhya Pradesh.)*
Total exposure mentioned above excludes leased assets of Rs.46.64 crores

Industry-wise Exposure

The industry-wise exposure of loans and advances as on the end of last four fiscal were as follows:

(Rs. in Crores)

As on March 31,	2001		2002		2003		2004	
Industry	Outstanding	%	Outstanding	%	Outstanding	%	Outstanding	%
NBFC & Trading	26.22	1.24	120.03	6.83	36.02	2.50	13.62	0.80
Food & Agriculture	31.51	1.49	108.46	6.18	0.02	-	0.99	0.06
Construction	-	-	89.38	5.09	8.71	0.61	6.26	0.37
Other Textiles	77.61	3.68	78.95	4.50	30.39	2.11	26.20	1.53
Automobile (incl. Trucks)	3.17	0.15	59.09	3.36	39.17	2.72	19.28	1.13
Petro-Chemicals	-	-	49.3	2.81	10.03	0.70	1.61	0.09
Engineering	-	-	47.5	2.70	98.86	6.87	46.24	2.71
Chemicals, Dyes, Paints	54.98	2.60	24.39	1.39	8.07	0.56	0.11	0.01
Cement	38.27	1.81	22.16	1.26	15.78	1.10	31.21	1.83
Other Industries	165.78	7.85	19.55	1.11	86.12	5.99	106.31	6.22
Iron & Steel	9.3	0.44	12.64	0.72	85.72	5.96	11.41	0.67
Computer Software	9.3	0.44	12.36	0.70	7.92	0.55	7.33	0.43
Fertilizers	13.53	0.64	7.23	0.41	-	-	-	-

(Rs. in Crores)

As on March 31,	2001		2002		2003		2004	
Industry	**Outstanding**	**%**	**Outstanding**	**%**	**Outstanding**	**%**	**Outstanding**	**%**
Pharmaceuticals	13.11	0.62	6.33	0.36	2.89	0.20	-	-
Rubber & Rubber Products	-	-	5.76	0.33	4.93	0.34	-	-
Electricity	78.45	3.72	-	-	-	-	4.14	0.24
Gems & Jewellery	-	-	-	-	9.53	0.66	16.64	0.97
Cotton Textiles	-	-	-	-	17.44	1.21	24.91	1.46
Paper & Paper products	15.44	0.73	-	-	5.19	0.36	2.52	0.15
Other Metal & Metal Products	-	-	-	-	34.99	2.43	2.36	0.14
Electronics	-	-	-	-	4.94	0.34	-	-
Power	-	-	-	-	-	-	-	-
Roads & Ports	302.18	14.31	-	-	52.27	3.63	-	-
Tea	4.02	0.19	-	-	5.00	0.35	4.33	0.25
Vegetable Oils and Vanaspati ..	87.76	4.16	-	-	6.79	0.47	12.38	0.72
Petroleum	63.86	3.02	-	-	1.36	0.09	-	-
Residual advances to Balance Gross Advances	1,122.89	52.91	1,101.11	62.24	865.92	60.21	1371.07	80.23
Grand Total	**2,117.38**	**100.00**	**1,764.24**	**100.00**	**1,438.06**	**100.00**	**1708.92**	**100.00**
Less: Provisions	***83.29***	**-**	***130.15***	**-**	***124.34***	**-**	***152.51***	

Top 10 single borrowers of the Banks

(Rs. in Crores)

	As of March 31, 2003					As of March 31, 2004					
Borrower	Industry	Total Exposure	% to Capital funds on April 2002	% of total exposure (Funded + non-funded) to actual outstanding balance	Asset Quality	Industry	Total Exposure	% to Capital funds on April 2003	% to Capital funds on 31.03.2004 (after infusion of fresh Capital	% of total exposure (Funded + non-funded) to actual outstanding balance	Asset Quality
Borrower – 1	IT	40.00	44.74	2.29	Standard	Telecom	39.00	106.79	44.26	2.02	Standard
Borrower – 2	Telecom	39.00	43.62	2.23	Sub-Standard	Consumer Durables	33.58	91.95	38.11	1.74	Doubtful[1]
Borrower – 3	Consumer Durables	33.57	37.55	1.92	Sub-Standard	Mfg Cement	34.65	94.88	39.32	1.80	Standard
Borrower – 4	Commodities	31.66	35.41	1.81	Sub-Standard	Commodities	31.66	86.69	35.93	1.64	Doubtful[2]
Borrower – 5	Heavy Engg. Machinery	23.20	25.95	1.33	Standard	Mfg Edible Oil	24.30	66.54	27.58	1.26	Standard
Borrower – 6	Mfg Cement	20.00	22.37	1.14	Standard	Coal / Logistic	20.70	56.68	23.49	1.07	Sub-Standard[3]
Borrower – 7	Power	17.70	19.80	1.01	Standard	Trading Corpn	20.00	54.76	22.70	1.04	Standard
Borrower – 8	Textiles	17.00	19.01	0.97	Standard	Mfg Chemicals	15.00	41.07	17.02	0.78	Standard
Borrower – 9	Trade- Others	16.50	18.45	0.94	Standard	Ship Building	15.00	41.07	17.02	0.78	Standard
Borrower – 10	Liquor	16.00	17.90	0.92	Standard	Telecom	15.00	41.07	17.02	0.78	Standard

[1]In this regard we have reached a one time compromise settlement with the party concerned, under which Rs. 14.10 crores is expected to be received by us in two equal instalments, each in second and third quarter of fiscal 2005. A provision of Rs. 27.43 crores has been made in our financial statements for this borrower on the balance outstanding as on March 31, 2004.

[2]In this regard we have re-presented the matter to ECGC for further review. Entire provisioning in this regard has been provided in our financial statements on the balance outstanding as on March 31, 2004.

[3]In this regard we have sought further upgradation of the security cover. A provision of Rs. 1.85 crores has been made in our financial statements for this borrower on the balance outstanding as on March 31, 2004.

Details of Approvals and Disbursements of Retail loans during last three fiscal are as follows :

(Rs. in Crores)

	Fiscal 2002		Fiscal 2003		Fiscal 2004	
Category	**Approvals**	**Disbursements**	**Approvals**	**Disbursements**	**Approvals**	**Disbursements**
Two wheelers	364.62	328.16	418.05	367.88	574.59	522.88
Personal Loans	3.02	2.93	18.04	17.14	81.83	79.62
CV/CE	278.00	238.50	334.11	268.90	502.00	437.28

(Source : Management Information)

Details of fresh sanctions / enhancements in Corporate / SME sector during last three fiscal are as follows :

(Rs. in Crores)

Category	Fiscal 2002	Fiscal 2003	Fiscal 2004
Corporate Sector			
Enhancement	25.35	2.08	51.35
Fresh sanctions	188.06	23.35	45.22
SME Sector			
Enhancement	10.89	3.1	2.45
Fresh sanctions	17.78	2.63	11.64
Total fresh sanctions/enahncement	242.08	31.16	110.66
Disbursement	242.08	31.16	110.66

(Source : Management Information)

Priority Sector Lending

As per RBI guidelines, banks are required to achieve a target of 40% of the Net Bank Credit (NBC) towards lending to certain specified sectors called priority sectors with a sub-target of 18% of NBC towards advancing to agricultural sector, 10% to weaker sections and 1% under DRI schemes. The balance 11% is to be achieved by financing SSI and Other Priority Sector. Priority sectors include small-scale industries, the agricultural sector, food and agro-based industries, small businesses and loans to professionals and self-employed personnel such as doctors and lawyers up to a limit of Rs. 1 million are also classified as priority sector lending.

We have surpassed the prescribed target of 40% under PSL as on March 31, 2004; the actual achievement being 43.08% of NBC.

Apart from our loans to the specified sectors outlined above, we are permitted to invest in bonds of specified institutions to meet our mandated lending requirements. Any shortfall in the amount required to be lent to the priority sectors may be deposited with Indian development banks like the NABARD. These deposits have a maturity ranging up to seven years and carry interest rates lower than market rates. Such deposits also satisfy part of our priority sector requirement.

The following table sets forth, for the periods indicated, our priority sector loans broken down by sector.

(Rs. in Crores)

Particulars	March 31, 2002		March 31, 2003		March 31, 2004	
	Target	Achievement	Target	Achievement	Target	Achievement
Net Bank Credit	**1,514.27**		**1,244.25**		**1479.00**	
Total Priority Sector	605.71 (40%)	660.74 (43.63%)	497.70 (40%)	545.59 (43.84%)	591.60 (40%)	637.16 43.08%
Agriculture	272.57 (18%)	265.12 (17.51%)	223.97 (18%)	237.08 (19.05%)	266 (18%)	201.14 (13.60%)
SSI & other priority sector	333.14 (22%)	395.62 (26.13%)	273.74 (22%)	308.51 (24.79%)	325.38 (22%)	436.02 (29.48%)

Export Credit

The RBI also requires us 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 our 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. Our exposure by way of export credit as on March 31, 2004, stood at Rs. 86.79 crores which represents 5.87% of NBC as under:

(Rs. in Crores)

Export Credit	March 31, 2002	March 31, 2003	March 31, 2004
Net bank Credit	1,514.27	1,248.78	1,479.00
Target	181.71	149.85	177.48
Achieved	114.04	105.97	86.79
% to Net Credit	7.53%	8.48%	5.87%

With increased thrust towards domestic retail advances, our financing of export credit was lower than target by Rs. 90.69 crores as on March 31, 2004. With the infusion of capital and our correspondent relationship with Bank Muscat we intend to increase our exposure in Export Finance to meet the RBI guidelines.

Investments

As on March 31, 2004 the total value of our gross investments stood at Rs. 1,006.07crores and net investments were at a level of Rs. 1,004.18 crores. The average yield on investments was 7.10% during the same period. The break-up of our investment portfolio as on March 31, 2003 and March 31, 2004 is furnished below:

(Rs. in Crores)

Investment Portfolio	Year ended March 31, 2003	Year ended March 31, 2004
Government Securities	917.84	974.57
Other Approved Securities	0.25	0.25
Shares	27.68	8.71
Debentures & Bonds	74.54	22.54
Subsidiaries & Joint Ventures	-	-
Others	3.06	-
Gross Investments	1,023.37	1,006.07
Net Investments	**999.25**	**1,004.18**

Notes: (1) Net investments are arrived at by reducing provisions for depreciation and Non-performing investments from gross investments

(2) Government securities for the year ended March 31, 2003 include securities costing Rs. 5.02 crores and Government Securities for the year ended March 31, 2004 include securities costing Rs. 9.84,crores pledged for availment of clearing and Telegraphic Transfer facilities

A large portion (89.7% as on March 31, 2003 and 96.89% as on March 31, 2004) of our investments is held in Government and other approved securities in India.

The table below shows the average yields on investments over the past few years:

As on March 31,	2001	2002	2003	2004
Average yield %	11.04%	10.24%	8.47%	7.10%

Details of Aggregate Book Value and Market Value of Quoted Investments

(Rs. in Crores)

	As on March 31,			
	2001	2002	2003	2004[1]
Book Value	1,660.81	1,033.29	932.9	897.20
Market Value	1,636.95	1,077.27	920.95	897.96

[1] Includes held under LAF (Liquidity Adjustment Facility) with RBI whose book value (Rs. 63 crores) is also considered as market value.

Asset Classification

Our assets are classified as described below:

1. **Standard Assets** — Assets that do not disclose any problems or which do not carry more than normal risk attached to the business are classified as standard assets.

2. **Non-Performing**

a. Sub-standard Assets — Sub-standard assets comprise assets that are NPAs for a period not exceeding 18 months.

b. Doubtful Assets — Doubtful assets comprise assets that are NPAs for more than 18 months

c. Loss Assets — Loss Assets comprise assets, which have become non-recoverable & not backed by any security.

A borrowal account is classified as a NPA when the interest and / or principal due remains overdue or out of order for a period more than 180 days. From the last quarter of this financial year, i.e. 2003-2004, a borrowal account will be classified as a NPA when the interest and /or principal due remains overdue or out of order for a period more than 90 days.

Gross Non-Performing Assets

Based on the existing RBI norms for asset classification, our advances would be classified as follows:

(Rs. in Crores)

Classification (As on March 31)	2001	2002	2003	2004	Assets Classification as a % of Total Gross NPA (2004)
Sub-standard	71.31	67.28	124.28	71.71	32.39
Doubtful	82.79	161.10	99.27	139.58	63.04
Loss	0.49	3.43	4.88	10.12	4.57
Total of NPA (Gross)	**154.59**	**231.81**	**228.43**	**221.41**	**100%**
Provisions	77.92	119.11	124.34	152.51	
Gross Credit	2,499.67	1,884.17	1,509.85	1,755.56	
Net Credit	2,416.38	1,754.02	1,385.51	1,603.05	
Gross NPA / Gross Asset %	6.20	12.36	15.13	12.61	
Net NPA / Net Asset %	2.96	5.82	7.51	4.30	
Un-collected Interest / Interest reversed	5.37	11.04	-	-	
Amounts written -off during the year	37.55	45.52	42.72	72.04	

NPA Management and Recovery Strategy

Non-Performing Assets

The prime objective of our NPA Management Policy is to bring about a qualitative improvement in our credit portfolio so as to improve yield on total advances and to reduce Gross and Net NPA percentages. The thrust areas of the NPA Management Policy are Cash recovery, Compromise, Write off, Upgradation and Protecting and strengthening the security. The provisioning in NPA account is stringent than the prescribed norms with more emphasis on realisable value of the security and the business activity of the borrower rather than the age of over dues. The accounts once identified as NPA's are closely monitored for recovery and the exposure is structured for the firm repayment schedule of the borrower wherever possible. We have a comprehensive NPA recovery strategy in place. Along with that, we are fully compliant with the RBI guidelines on recognition of NPA and Income Reversal and Provisioning. Further, our provisioning levels are even more stringent in selective cases where we believe that additional provisioning is warranted. All parties having overdues exceeding 90 days are treated as NPAs from the current financial year. Some of the monitoring and recovery actions involved are as follows:

1. In case of wilful defaulters, the bank officials visit the office of the borrower regularly for recovery
2. Constant follow up and co-ordination with lawyers/solicitors to ensure speedy disposal of cases and execution of decrees, wherever available
3. Where adequate recovery is not feasible by disposal of hypothecated/mortgaged assets, a one-time negotiated settlement is to be considered
4. Identification of problem accounts and pro-active approach for exit from the relationship
5. Engage services of professionals for stock inspection and initiate corrective action, if any
6. Reduce the exposure by increasing the margin gradually for subsequent Bills/Letters of Credit
7. For viable units, we ask for realistic and time bound commitment from the borrower based on cash flow position and limits will then be restructured accordingly.
8. We have set up a Risk Policy Committee of the Board to initiate / follow-up action on Recovery cases.
9. A recovery of Rs.8.20 crores has been achieved upto March 31, 2004, for which the provisioning was already made.

Our NPA recovery performance has improved in the last two financial years :

(Rs. In Crores)

Recoveries From	2001	2002	2003	2004
NPA Accounts	N/A	N/A	3.57	8.20
Written off Accounts	N/A	1.83	2.95	2.35
Total	**N/A**	**1.83**	**6.52**	**10.55**

Industry-Wise Analysis of Gross Non-Performing Assets

(Rs. in Crores)

S. No.	Industry	Outstanding as on March 31, 2003	% of total	Industry	Outstanding as on March 31, 2004	% of total
1.	Food Processing	36.20	15.85	Electronics	35.25	15.92
2.	Electronics	35.50	15.54	Food Processing	35.23	15.91
3.	Textiles	33.01	14.45	Miscellaneous	28.00	12.65
4.	Construction	24.77	10.85	Textiles	23.39	10.56
5.	Iron & Steel	15.75	6.90	Pharma	13.84	6.25
6.	Broker Loans	12.05	5.28	Logistic	13.48	6.09
7.	Engineering	8.29	3.63	Software	13.27	5.99
8.	Liquor	8.08	3.54	Two-wheelers	11.86	5.36
9.	Automobiles	5.80	2.54	Construction	11.34	5.12
10.	Project Construction	4.53	1.98	Iron & Steel	10.56	4.77
11.	Leather & Rubber	4.43	1.94	Engineering	7.68	3.47
12.	Two-Wheelers	3.95	1.73	Telecom	5.63	2.54
13.	Plastic	3.32	1.45	Plastic	3.78	1.71
14.	Banking	2.93	1.28	Banking	2.93	1.32
15.	Chemicals	2.26	0.99	Film	2.12	0.96
16.	Paper	2.12	0.93	Broker Loans	1.85	0.84
17.	Power	0.99	0.43	Automobiles	0.75	0.34
18.	Media	0.74	0.32	Education	0.47	0.21
19.	Education	0.56	0.25			
20.	Consultancy	0.19	0.08			
21.	Refining and Smelting	0.14	0.06			
22.	Metal	0.09	0.04			
23.	Software	0.08	0.03			
24.	Cosmetic	0.05	0.02			
25.	Capital Market	0.02	0.01			
26.	Miscellaneous	22.57	9.88			
	Total	**228.43**	**100.00**	**Total**	**221.41**	**100.00**

Top 10 NPA Accounts as on March 31, 2004

(Rs. in Crores)

Borrower	Industry	Outstanding as on March 31, 2004	Loss Provided for as on March 31, 2004	Asset Quality as on as on March 31, 2004
Borrower – 1	Electric/ Consumer Durables	33.58	27.43	Doubtful-1
Borrower – 2	Commodities	31.66	31.66	Doubtful-1
Borrower – 3	Transport & Logistics	13.48	1.85	Sub-Standard
Borrower – 4	Pharma	12.64	2.42	Sub-Standard
Borrower – 5	Textiles	12.05	8.81	Sub-Standard
Borrower – 6	Steel	10.56	8.75	Doubtful-3
Borrower – 7	Textiles	7.45	2.93	Doubtful-1
Borrower – 8	Engineering	6.44	3.16	Sub-Standard
Borrower – 9	Asbestos Sheets Manufacturing	6.05	6.05	Doubtful-1
Borrower – 10	Textiles	6.00	1.80	Doubtful-1

Top 10 NPA Accounts as on March 31, 2003

(Rs. in Crores)

Borrower	Industry	Outstanding as on March 31, 2003	Loss Provided for as on March 31, 2003	Asset Quality as on March 31, 2003
Borrower – 1	Electric/Consumer Durables	33.57	3.35	Sub-standard
Borrower – 2	Commodities	31.66	12.62	Sub-standard
Borrower – 3	Asbestos Sheets Manufacturing	12.54	6.63	Sub-standard
Borrower – 4	Ceramic Tiles	11.29	9.30	Sub-standard
Borrower – 5	Steel	11.05	7.82	Doubtful-2
Borrower – 6	Textiles	9.75	0.97	Sub-standard
Borrower – 7	Liquor	8.08	8.08	Doubtful-3
Borrower – 8	Textiles	6.44	0.64	Sub-standard
Borrower – 9	Stock Broking	6.37	6.37	Doubtful-3
Borrower – 10	Textiles	6.15	4.63	Doubtful-2

Asset Liability Management

We generally fund our core customer assets, consisting primarily of retail loans, with our retail customer deposits. To manage our short term mismatches, we borrow in the short-term money market. Most of our liabilities and assets are short to medium term. For statutory liquidity purposes, 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, based on which re-pricing of assets and liabilities are decided. Since we are statutorily required to maintain investments in Government Securities, we regularly review the duration of these securities based on our perception of the movements in interest rates. Currently the average duration of our portfolio is under 3 years.

Maturity profile of assets and liabilities as on March 31, 2004 is given in the table below:

(Rs. in Crores)

Inflows	<1	1 to 3	3 to 5	>5	Total
Loans & Advances	840.00	631.51	59.21	25.69	1,556.41
Investments	616.18	260.31	117.66	10.03	1,004.18
Cash/RBI Balance	198.95	41.79	19.75	0.45	260.94
Balance with Banks, call and Term money	74.67	74.63	62.27	37.09	248.66
Fixed Assets	24.47	11.88	4.51	143.82	184.68
Other Assets	14.12	63.65	28.79	20.00	126.56
SWAPS(Sell/Buy)/maturing forwards	347.64	-	-	-	347.64
Interest Receivable	36.04	-	-	-	36.04
Total (A)	**2,152.07**	**1,083.77**	**292.19**	**237.09**	**3,765.12**
Outflows					
Capital	-	-	-	56.75	56.75
Reserves/Surplus	-	-	-	4.81	4.81
Deposits	1,646.28	931.99	440.40	10.12	3,028.79
Borrowings	43.97	-	-	-	43.97
SWAPS (Buy/Sell)	448.77	-	-	-	448.77
Interest Payable	19.87	4.31	1.08	0.07	25.33
Others (including subordinated debt)	121.59	165.64	0.02	3.58	290.83
Total (B)	**2,280.48**	**1,101.94**	**441.50**	**75.33**	**3,899.25**
Gap	**(128.41)**	**(18.17)**	**(149.31)**	**161.76**	**(134.13)**

Maturity profile of assets and liabilities as on March 31, 2003 is given in the table below:

(Rs. in Crores)

Inflows	<1	1 to 3	3 to 5	>5	Total
Loans & Advances	728.33	442.71	105.67	37.00	1,313.71
Investments	671.51	271.72	43.55	12.47	999.25
Cash/RBI Balance	170.64	43.42	5.48	0.30	219.85
Balance with Banks, call and Term money	56.92	125.41	82.03	4.27	268.63
Fixed Assets	32.34	35.61	4.96	157.43	230.34
Other Assets	52.95	-	72.10	20.07	145.12
SWAPS(Sell/Buy)/maturing forwards	468.81	-	-	-	468.81
Interest Receivable	19.44	14.17	2.94	9.31	45.86
Total (A)	**2,200.94**	**933.04**	**316.74**	**240.85**	**3,691.57**
Outflows					
Capital	-	-	-	152.47	152.47
Reserves/Surplus	-	(139.36)	-	-	(139.36)
Deposits	1,760.71	947.69	119.67	6.66	2,834.72
Borrowings	60.48	-	-	-	60.48
SWAPS (Buy/Sell)	532.82	-	-	-	532.82
Interest Payable	23.92	5.94	1.01	0.06	30.93
Others	264.63	133.14	6.00	0.16	403.93
Total (B)	**2,642.56**	**947.40**	**126.68**	**159.34**	**3,875.98**
Gap	**(441.62)**	**(14.36)**	**190.06**	**81.51**	**(184.41)**

Others include other liabilities & provisions, unavailed portion of cash credit/overdraft, others etc

Maturity profile of assets and liabilities as on March 31, 2002 is given in the table below:

(*Rs. in Crores*)

Inflows	<1	1 to 3	3 to 5	>5	Total
Loans & Advances	870.50	524.14	65.16	170.23	1634.09
Investments	578.72	503.44	116.44	28.62	1227.22
Cash/RBI Balance	227.47	69.22	7.50	1.74	305.93
Balance with Banks, call And Term money	84.91	9.55	153.53	84.27	332.26
Fixed Assets	46.31	44.33	15.92	223.51	330.06
Others Assets	70.27	1.73	48.52	22.12	142.64
SWAPS(Sell/Buy)/maturing forwards	334.47	-	-	-	334.47
Interest Receivable	36.05	19.19	9.66	9.30	74.20
Total (A)	**2,248.70**	**1,171.60**	**420.79**	**539.78**	**4,380.86**
Outflows					
Capital	-	-	-	152.47	152.47
Reserves/Surplus	-	-	-	(96.03)	(96.03)
Deposits	1,880.53	1,459.63	158.22	36.61	3,534.99
Borrowings	103.66	7.77	-	-	111.43
SWAPS (Buy/Sell)	556.53	-	-	-	556.53
Interest Payable	30.96	13.13	1.83	0.34	46.26
Others	216.24	83.62	88.95	19.89	408.70
Total (B)	**2,787.92**	**1,564.15**	**249.00**	**113.28**	**4,714.35**
Gap	**(539.22)**	**(392.55)**	**171.79**	**426.50**	**(333.49)**

Others include other liabilities & provisions, unavailed portion of cash credit/overdraft, others etc.

Maturity profile of assets and liabilities as on March 31, 2001 is given in the table below:

(*Rs. in Crores*)

Inflows	<1	1 to 3	3 to 5	>5	Total
Loans & Advances	1,080.09	880.53	64.09	9.38	2,034.09
Investments	1,320.80	538.25	196.99	100.83	2,156.87
Cash/RBI Balance	232.23	85.90	5.85	1.04	325.02
Balance with Banks, call and Term money	532.68	62.97	121.03	81.00	797.68
Fixed Assets	60.66	94.66	34.94	221.56	411.82
Other Assets	155.26	42.97	-	-	198.23
SWAPS (Sell/Buy)/maturing forwards	-	-	-	-	-
Interest Receivable	-	-	-	-	-
Total (A)	**3,381.72**	**1,705.28**	**422.90**	**413.81**	**5,923.71**
Outflows					
Capital	0.00	0.00	0.00	152.47	152.47
Reserves/Surplus	0.00	0.00	0.00	66.11	66.11
Deposits	2,475.99	1,649.16	112.25	20.03	4,257.43
Borrowings	1,071.91	32.63	-	-	1,104.54
SWAPS (Buy/Sell)	-	-	-	-	0.00
Interest Payable	-	-	-	-	0.00
Others	83.95	145.87	109.48	3.86	343.16
Total (B)	**3,631.85**	**1,827.66**	**221.73**	**242.47**	**5,923.71**
Gap	**(250.13)**	**(122.38)**	**201.17**	**171.34**	**0.00**

Others include other liabilities & provisions, unavailed portion of cash credit/overdraft, others etc.

Structural Liquidity

Effective liquidity management and measurement are indispensable to the operational needs of Commercial Banks. The possibility of liquidity crisis arising from adverse situations can be prevented through a well monitored liquidity management system which not only educates the bank on its ability to meet its liabilities as and when they become due but also greatly reduces the chances of cash flow mismatches. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. Hence, providing for a structural liquidity management system measures the bank's liquidity positions on an ongoing basis and also scrutinizes the reasons behind liquidity requirements evolving under different assumptions. For measuring net funding requirements, the use of maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool. The statement of structural liquidity for the last 3 years is given below:

Structural Liquidity as on March 31, 2001

(Rs. in Crores)

Maturity	Total Inflows	Total Outflows	Mismatch
1-14 days	1,520.32	1,406.80	113.52
15-28 days	274.33	443.94	(169.61)
29 days and upto 3 months	590.41	388.39	202.02
Over 3 months and upto 6 months	542.63	981.01	(438.38)
Over 6 months and upto 1 year	454.03	411.71	42.32
Over 1 year and upto 3 years	1,705.28	1,827.66	(122.38)
Over 3 years and upto 5 years	422.90	221.73	201.17
Over 5 years	413.81	242.47	171.34
TOTAL	**5,923.71**	**5,923.71**	**-**

Structural Liquidity as on March 31, 2002

(Rs. in Crores)

Maturity	Total Inflows	Total Outflows	Mismatch
1-14 days	384.00	401.53	(17.53)
15-28 days	111.79	145.34	(33.55)
29 days and upto 3 months	501.75	547.90	(46.15)
Over 3 months and upto 6 months	581.08	665.84	(84.76)
Over 6 months and upto 1 year	670.80	1,027.31	(357.23)
Over 1 year and upto 3 years	1,171.60	1,564.15	(392.55)
Over 3 years and upto 5 years	420.79	249.00	171.79
Over 5 years	539.78	113.28	426.50
TOTAL	**4,380.86**	**4,714.35**	**(333.49)**

Structural Liquidity as on March 31, 2003

(Rs. in Crores)

Maturity	Total Inflows	Total Outflows	Mismatch
1-14 days	517.88	507.21	10.67
15-28 days	208.29	140.44	67.85
29 days and upto 3 months	562.79	760.26	(197.47)
Over 3 months and upto 6 months	428.83	605.59	(176.76)
Over 6 months and upto 1 year	483.13	629.06	(149.93)
Over 1 year and upto 3 years	933.04	954.45	(21.41)
Over 3 years and upto 5 years	323.79	126.68	(197.11)
Over 5 years	240.85	159.33	81.52
TOTAL	**3,698.60**	**3,883.02**	**(184.42)**

Structural Liquidity as on March 31, 2004

(Rs. in Crores)

Maturity	Total Inflows	Total Outflows	Mismatch
1-14 days	576.23	453.67	122.56
15-28 days	154.60	129.73	24.87
29 days and upto 3 months	484.09	653.23	(169.14)
Over 3 months and upto 6 months	402.89	462.82	(59.93)
Over 6 months and upto 1 year	535.26	581.03	(45.77)
Over 1 year and upto 3 years	1,083.77	1101.94	(18.17)
Over 3 years and upto 5 years	292.20	441.50	(149.30)
Over 5 years	236.09	75.33	160.76
TOTAL	**3,765.13**	**3,899.25**	**(134.13)**

As can be seen from the above tables, we have taken effective steps to improve our structural liquidity position, which has been further strengthened as on March 31, 2004 with the infusion of capital.

Risk Management

Risk Management is an integral element of our business strategy. In order to reap the benefits of financial market development and ensure financial sector stability, the risks introduced by each market need to be effectively managed before other markets are developed and more risks are injected into the financial system. As a financial intermediary, we are exposed to various risks that are related to our lending and securities business, deposit taking activities and operating environment. Thus sound risk management is critical to our success. The major types of risk we face are credit risk, operational risk, market risk, which includes liquidityrisk, price risk and interest rate risk. We have developed and implemented comprehensive policies and procedures to identify, monitor and manage risk across the bank. Based on our experience we have reviewed our existing policies and have identified the measures to strengthen the risk management practices across the bank. An independent Risk Policy Committee of the Board has been constituted effective January 31, 2004.

Credit Risk

Credit risk is the possibility of loss due to the failure of any counterparty to abide by the terms and conditions of any financial contract with us. We have well laid down a system for credit risk evaluation separately for our corporate and retail lendings. While most of the retail loans are sanctioned based on structured programs backed by collaterals, the corporate credits are analysed through a credit scoring mechanism. Prudential limits in respect of various categories such as single/group borrower exposures, industry/sector wise exposures etc. are also laid down.

Operational Risk

This type of risk is broadly defined as the 'direct or indirect loss due to failure of systems, people or processes, or due to external events'. In recent years, size of operations of banks have increased manifold. Due to increased exposure of banks into various sectors and activities, addressing operational risk has gained importance.

Realising the importance of addressing the operational risk, we have instituted series of checks and balances and controls such as we have centralized banking software which automates inter-branch transactions reducing the risk of unreconciled entries, on-site supervisions like concurrent audit, well laid down operating manual combined with internal as well as external audit reviews.

The branch operations are monitored centrally through the system and reports and reasonable checks and balances are enabled through this process. The units are required to submit monthly certificates of transactions entered into as per laid down procedures. For better control, certain operations such as demat, CATS are centralised. Dissemination of regulatory and internal policies are made available to users on internet to enrich their job knowledge and minimize the operational risk to the extent possible.

Market Risk

Market risk refers to potential losses arising from changes in interest and foreign exchange rates. Market risks arise with respect to all market risk sensitive financial instruments, including securities, loans, deposits, borrowings, foreign exchange contracts and derivative instruments. 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. Our investment policy contains guidelines with respect to market risk exposures. The implementation of which is reviewed by the ALCO, chaired by the Managing Director.

The following briefly describes our policies and procedures with respect to liquidity risk, interest rate risk and foreign exchange risk.

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. ALCO meeting is held regularly to review the liquidity position based on historic data. In addition we also track the potential impact of prepayment of loans or premature closure of deposits and arrive at a realistic estimate of our near to medium term liquidity position.

Interest Rate Risk

Interest rate risks arise primarily due to mismatches in pricing of financial assets and liabilities. A major portion of our assets are presently in fixed interest rate contracts which are funded by appropriate fixed interest rate liabilities. In addition, we face interest rate risk on our investments in Government Securities held for statutory liquidity purposes. This exposes us to an adverse interest rate movement risk, which has been mitigated by reducing the average duration of our portfolio. Earnings at Risk (EaR) as a tool is used to measure the impact of interest rate changes on earnings. It expects us to also take adequate steps in assessing the magnitude of basis and embedded option risks and set a definite timeframe for moving over to Duration Gap Analysis. Steps have been taken to comply with the above requirements.

Procedures followed by the Bank as a part of Risk Management

Credit Procedure

Our credit process is divided into three components – the pre-sanction process, the sanction process and the post sanction process.

Pre-sanction process

The corporate office specifies through its corporate credit policies and periodic guideline, the criteria for asset selection, exposure norms, etc. The Executive Director (Corporate Banking) draws up strategic business and marketing plans, including identifying target markets.

Credit Sanction process

We already have in place a committee system for sanctioning corporate credit.

Credit Approval Authority of the Bank

Our Board has constituted a Risk Policy Committee – comprising of some Directors – which is the Apex Committee for sanctioning credit proposals beyond a certain level. For sanctioning the Corporate Credit, the Board has delegated the following powers to the Corporate Credit Committees.

(Rs. in Crores)

Types of Facility	Powers Delegated to CCC
Fund Based	10
Non Fund Based	20
Ceiling for Total Indebtedness	30
Ceiling for total Risk Weighted Exposure	20

In exceptional cases, CCC, in consultation with the Managing Director, can exercise powers upto Rs.20 crores Fund Based and Rs.40 crores Non-Fund Based limits with full interchangeability between Fund Based and Non-Fund Based, subject to the overall risk exposure not exceeding Rs.40 crores.

In respect of Retail Lending, the Board has delegated the following powers related to the product and the value:

Two Wheeler : Upto One Vehicle by Asset Finance Division head, Upto 5 vehicles by Regional Product Head and more than 5 vehicles by Head Retail Asset

Personal Loan : The delegation of powers for approval is based on the Applicants Status (salaried, professional and self employed) and the value of the loan and has been structured to flow from the Branch Credit Committee (maximum of Rs. 3 lakhs), to Regional head (maximum of Rs. 5 lakhs), to Head Retail Assets (maximum of Rs. 7 lakhs) and therafter to the Managing Director.

Car : Upto Rs. 8 lakhs – Branch Credit committee, Rs. 8-12 lakhs – Regional head , Rs. 12-20 lakhs – Head, Retail Assets and thereafter to the Managing Director.

Commercial Vehicle and Construction Equipment:

Upto Rs. 50 Lakhs - Regional Product Head, >Rs. 50 Lakhs and upto Rs. 75 Lakhs - Product Head, >Rs.75 Lakhs and upto Rs. 150 Lakhs - Head Retail Assets , > Rs. 150 Lakhs upto Rs. 300 Lakhs - Head Retail Assets and Head Retail Banking , > Rs. 300 Lakhs - Retail Credit Commitee (Including Managing Director).

Credit Risk Assessment Procedure

We meet the working capital requirements, short term and long term, of established corporates, through conventional working capital and trade finance products, as well as credit substitutes. We adopt any of the forms of banking arrangement – sole, multiple and consortium – in financing corporates.

We evaluate borrower risk by considering the following:

- the financial position of the borrower, by analysing the quality of its financial statement, its past and estimated financial performance, its financial flexibility in terms of ability to raise capital and cash flow adequacy;
- the borrower's relative market position and operating efficiency;
- the quality of management by analysing their track record, payment record, financial conservatism and business strategies.

We evaluate industry risk by considering:

- Certain industry characteristics, such as the importance of the industry to the economy, its growth outlook, cyclically and government policies relating to the industry.
- The competitiveness in the industry, and
- Key industry financial, including return on capital employed, operating margins and earning stability.

The risk assessment forms the basis for credit risk rating of the corporate borrower. We have an internal credit rating model developed by Moodys. The model evalutes the rating on a 10-point scale.

We also invest in rated securities issued by corporates, through the trading and investment route. These securities have a minimum external rating of AA. Corporate names and investment limits are pre-approved at the time of investment by the Investment Committee, after internal due diligence.

Retail Loan Procedure

We have a variety of retail loan products to meet the diverse needs of retail customers – principal among these are Vehicle loans – Two Wheelers, Cars, Commercial Vehicles as well as Construction Equipment Loans and Personal Loans. Retail Asset products are backed by comprehensive Product Programs approved by the Retail Credit Committee. The Product Programs lay out product features, credit underwriting standards and operational processes. The Retail Credit Committee approves product program guidelines.

Branches / Asset Finance Divisions (AFDs) source Retail Lending business. The credit process of verifying the customer credentials is done though Field investigation agencies and negative elimination mechanism is followed. In the case of the Commercial Vehicles and Construction Equipment loans, the investigation is done by the officers of the bank at the various locations.

The collections are backed by post dated cheques /instructions for debiting customers bank account. The collection is decentralized with a specialized Cash Management for clearing of Outstation cheques. Online data is available from a Centralised Data base on collections to aid the collection managers and specialized collection agencies make collections against dishonoured cheques. The complete functional segregation of operations, sales, credit and collections ensures high volume across the country with adequate controls and good collection performance.

Central Monitoring Group

A Central Monitoring group in the Head Office guides the branches and ensures that all loan accounts are properly maintained and adequate follow up on receivables is done.

The data base is a centralised with an online access at all branches.

The Central Monitoring Group, through its linkages with branches, is responsible for ensuring proper loan account maintenance, initiation and follow-up for audit objections, monitoring bank account reconciliations , resolution of IT related and operation issues , NPA identification and provisioning , MIS and Monthly Certificates to Head Office .

The Central recoveries group assigns collection targets to the branches , reviews performance vis a vis the targets , makes visits to the branches , and advises for timely corrective measures and repossession action.It also gives feed back on credit process.

Internal Audit Procedures

This function is handled by an independent and centrally controlled department, which continuously monitors the internal policies, regulatory guidelines through a system of on-site inspection and off-site supervision. The scope of audit includes, the evaluation of adequacy and the effectiveness of our internal control and quality of performace in carrying out the assigned responsibilities. The process benchmarks against best procedures in the industry. The internal audit function has now developed a risk based focus and rating system. We have also framed an information security policy in order to monitor the adherence. We also have a concurrent audit system covering major branches, treasury operations and depository activity to meet the regulatory requirement and supplement the internal audit system. The Audit Committee of the

Board oversees this function, effectiveness of internal controls and ensures compliance to the regulatory guidelines.

'Other' Statistical Information

Financial Ratios and Other Financial Information of the Bank for the Last Five Years

(*Rs. in Crores*)

As on March 31,	2000	2001	2002	2003	2004
Average balances of interest earning assets	3,169.51	4,222.09	3,692.91	2,869.42	3,128.35
Average Interest Rate	11.74%	12.44%	11.79%	11.45%	10.17%
Interest Income	442.80	547.30	482.18	371.34	333.79
Average Interest bearing Liabilities	3,785.32	4,578.55	3,980.95	3,194.60	3,136.80
Interest rate for the above/ Average cost of funds	9.59%	9.44%	9.21%	8.06%	6.43%
Interest Expenses	362.50	445.15	378.69	269.30	203.82
Ratio of average earning assets to average interest bearing liabilities	83.73%	92.21%	92.76%	89.82%	99.73%
Net Interest Income	80.30	102.15	103.49	102.04	129.97
Net Interest Margin (NII/Earning Assets)	2.53%	2.42%	2.80%	3.56%	4.15%
Gross Yield (Gross Income/ AWF)	12.67%	11.50%	11.04%	12.11%	12.04%
Yield Spread (spread/ AWF) ..	2.15%	3.00%	2.58%	3.39%	3.74
Return on Average Assets	0.91%	0.13%	(3.25)%	(1.19)%	(3.24)%
Average share capital & reserves to average total assets	4.53%	3.84%	2.76%	0.96%	1.07%

Exposure to Sensitive Sectors

We have an exposure to the Sensitive Sectors, with a view to insulate itself against adverse market movements. The exposure to these sectors as at March 31, 2004 was as follows:

(*Rs. in Crores*)

Sector	Outstanding
Capital Market	3.15
Real Estate	2.77
Commodities	43.20

The above mentioned figures only relate to the funded exposures

Classification of Investments as per RBI norms:

(*Rs. in Crores*)

	Mar- 04	%age	Mar-03	%age	Mar-02	%age
Held For Trading	90.76	9.02	-	-	-	-
Available for Sale	768.52	85.58	1013.31	99.02	977.00	77.51
Held to Maturity	146.79	14.42	10.06	0.98	283.52	22.49
Total Investments	**1,006.07**	**100.00**	**1,023.37**	**100.00**	**1,260.52**	**100.00**

Details with regard to fixed and floating rate assets and liabilities of our Bank:

(*Rs. in Crores*)

	As on March 31, 2003	As on March 31, 2004
INTEREST EARNING ASSETS		
Fixed Rate Assets		
Balances with RBI	177.37	222.89
Deposits with NABARD under RIDF Scheme	211.70	177.92
Investments	999.25	1,004.18
Bills Purchased and Discounted	114.00	54.77
Cash Credits/ Overdrafts	397.26	313.34
Term Loans and lease assets	875.45	1,234.94
Other Assets	11.21	5.60
Floating Rate Assets		
Mibor Linked Instruments	-	-
Cash Credits/ Overdrafts	-	-
FCY Deposit with Bank of Baroda, London	4.75	-
Term Loans	-	-
Total Interest Earning Assets	**2,790.99**	**3,013.64**
INTEREST BEARING LIABILITIES		
Fixed Rate Liabilities		
Savings Bank Deposits	303.66	423.28
Term Deposits	2,235.88	2,197.33
Call Borrowings	51.19	-
Bills Rediscounted	-	
Term borrowings from Banks/ Institutions	4.26	43.72
Subordinated Debt- Tier II Capital	100.00	100.00
Floating Rate Liabilities		
FCY Loan from IFC, Washington	4.75	-
Term Deposits	-	-
Total Interest Bearing Liabilities	2,699.74	2,764.33

Sector wise Analysis of Gross Non-Performing Assets for the last five years:

(*Rs. in Crores*)

Sector	March 31, 2000	March 31, 2001	March 31, 2002	March 31, 2003	March 31, 2004
Large & Medium Industry	141.50	132.67	136.67	202.77	188.90
Small Scale Industries ..	-	-	-	-	
Priority Sector	0.49	0.49	10.20	9.69	8.43
Others	-	21.43	84.94	15.97	24.08
Total	**141.99**	**154.59**	**231.81**	**228.43**	**221.41**

Otherwise than in normal course of business, there are no Small Scale Undertakings or any other creditor to whom the company owes Rs. 1 lakh which is outstanding for more than 30 days.

Subordinated Debt obligations

Month of Allotment	Face Value (Rs. Crores)	Coupon	Tenor (No. of Months)	Rating
February 04, 2000	100.00	12.95	63 months	NA
June 16, 2004	28.00	6.85	71 months	A-(ind)
June 16, 2004	15.00	7.05	119 months	A-(ind)

Key Financial Ratios

Ratios	March 31, 2000	March 31, 2001	March 31, 2002	March 31, 2003	March 31, 2004
Credit/ Deposit Ratio..........................	47.58%	47.78%	46.23%	46.34%	51.39%
Average Working Funds .... (AWF) (Rs. in crores)	4,217.76	5,599.79	4,985.08	3,635.12	3,273.01
Interest Spread / AWF	2.00%	1.83%	2.06%	2.59%	3.97%
Net Profit/ AWF	0.91%	0.13%	(3.25)%	(1.19)%	(3.24)%
Operating Expense/ AWF	1.43%	1.39%	1.95%	3.02%	4.42%
Yield on Advances	13.52%	13.91%	13.23%	14.52%	13.23%
Yield on Investment	14.22%	11.04%	10.24%	8.47%	7.10%
Yield on Balance with RBI and .... Interbank Lending	3.87%	2.80%	2.50%	2.27%	1.95%
Cost of Deposits	9.12%	8.25%	8.89%	7.94%	6.27%
Cost of Borrowings	9.31%	9.58%	7.60%	5.91%	4.34%
Average Cost of Funds	9.59%	9.44%	9.21%	8.06%	6.43%
Business per Employee (Rs. in crores)	8.04	7.66	5.36	4.39	4.26
Operating Profit per Employee (Rs. in crores)	0.09	0.07	0.01	0.02	0.01
Business per Branch (Rs. In crores) ..	163.05	128.4	90.69	69.14	75.17
Operating Profit per Branch (Rs. in crores)	1.86	1.18	0.25	0.34	0.15

Definition of Financial Ratios

Ratio	Definition
Earnings Per Share	Net Profit after tax/ Number of shares based on weighted average
Net Asset Value per share	Net Worth/ Number of shares
Return on Networth (%)	Net Profit/ Closing net worth of each year
Credit/ Deposit (%)	Total Advances/ Total Deposits
Average Working Funds (AWF)	Average of opening and closing total assets for the respective year
Interest Spread/ AWF (%)	Net Interest Income/AWF
Gross Profit/AWF (%)	Operating Profit/ AWF
Net Profits/ Avg. Working Funds (%)	Net Profit /Avg Working Funds
Operating Expenses/Avg Working Funds (%)	Non-Interest Expenditure excluding depreciation/ Avg. Working Funds
Return on Average Net Worth (%)	Net Profit/ Average of opening and closing networth
Cost of Deposits (%)	Interest on Deposits/Average of opening & closing deposits
Yield on Advances (%)	Interest/Discount Earned on Advances
Yield on Investments (%)	Interest on Investments/ Average of opening and closing deposits
Interest Income/ Avg. Working Funds (%)	Interest Income /Average Working Funds
Non Interest Income /Avg Working Funds (%)	Non Interest Income/ Avg Working Funds
Return on Asset (%)	Net Profit/Average of opening and closing total assets for the respective year
Profit per Employee (Rs. In crores)	Operating Profit/Number of employees

BUSINESS OF BANK MUSCAT BANGALORE

(Which has since been merged with our operations)

The Bank Muscat Bangalore commenced operations from December 1, 1998. Bank Muscat Bangalore had three principal lines of business viz. Corporate Banking, Treasury and Retail. Operations were centralised in order to ensure better utilization of assets, control and speed and accuracy in handling volumes. Bank Muscat Bangalore initially concentrated on wholesale banking and then diversified into retail business.

Bank Muscat Bangalore offered regular banking products viz. savings, current and fixed deposits, foreign exchange services, remittances and retail loans such as Personal Loans, Auto Loans for buying new and used cars, two-wheeler loans, and Consumer Durable Loans.

The Corporate Banking thrust was more towards mid-sized companies in South & West India. The product offerings of the Corporate banking included working capital finance, export finance, medium term finance, trade finance, structured core lending products among others. Treasury was engaged in investment in securities, both for Statutory Liquidity Reserve purposes and for pure investment purposes, money market operations and foreign exchange trading.

Bank Muscat Bangalore commanded a stable customer deposit base that it built over the years. The NRI portion in the total deposit base constituted about 50%. In the financials as at the end of FY 2003, retail assets constituted approximately 40% of the entire loan book of Bank Muscat Bangalore. Delinquencies in the portfolio stood at approximately 1%. The provisioning coverage on NPAs was approximately 82%. The corporate banking accounted for the remaining 60% of the portfolio. Gross NPAs increased over the previous year. In the past 2 years, the corporate banking initiated a conscious reduction in the portfolio, both to meet Single Borrower Limits and to exit/ reduce its exposure in sensitive or stressed accounts. Bank Muscat Bangalore adopted a credit-scoring model based on five risk categories viz. Industry Risk, Business Risk, Financial Risk, Management Risk and Project Risk.

The Indian operations of Bank Muscat achieved profitability in the second year of operations itself. As at the end of FY 2003, Capital Adequacy was as high as 20%.

The staff strength of the Bank Muscat Bangalore grew from a mere 22 in 1999 to over 95 by March 2003, including contract staff. Bank Muscat Bangalore expanded to five upcountry locations through its Direct Sales Agents (DSA) network for Retail Assets and six ATMs within the city of Bangalore.

In order to realize economies of scale and have a sizeable presence in retail banking in India, Bank Muscat had been contemplating the merger of its Bangalore Branch with a larger Indian bank. To this end, a merger with us was proposed, along with the re-capitalisation of our bank by a group of investors led by Sabre. This was accepted and successfully completed on January 31, 2004.

SELECTED FINANCIAL STATEMENTS

You should read the following selected financial data, which have been prepared in accordance with Indian GAAP, in conjunction with our financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (as per Indian GAAP). Our audited financial statements have been prepared in Indian Rupees and have been prepared in accordance with Indian GAAP for the fiscal years ended 2001, 2002, 2003 and 2004. For detailed financial statements, prepared in accordance with Indian GAAP, as required by SEBI Guidelines, please refer page 87, “Auditor’s Report” of this Letter of Offer.

Statement of Profit and Loss for the fiscals ending March 31, 2000, 2001, 2002, 2003 and 2004

(Rs. in Crores)

	March 31, 2000	March 31, 2001	March 31, 2002	March 31, 2003	March 31, 2004
INCOME					
Interest earned					
Interest/discount on advances/bills	215.58	262.14	253.66	212.10	202.47
Income on Investments	168.23	219.75	148.15	91.72	83.93
Interest on Balance with RBI and other inter- bank funds	18.02	25.31	39.38	31.61	26.79
Others	40.97	40.10	40.99	35.91	20.60
	442.80	547.30	482.18	371.34	333.79
Other Income					
Commission, Exchange & Brokerage	13.18	23.41	25.72	32.84	37.34
Profit on sale of investments	55.76	55.64	28.84	41.12	13.89
Foreign Exchange Income	8.14	10.71	8.69	7.03	5.99
Misc. Income	10.59	6.44	5.67	(4.10)	3.01
	87.67	96.20	68.92	76.89	60.23
TOTAL INCOME	**530.47**	**643.50**	**551.10**	**448.23**	**394.02**
EXPENSES					
Interest Expended					
On Deposits	273.89	328.19	297.90	223.37	180.79
On RBI / Inter bank borrowings	41.31	39.95	17.38	6.07	2.43
On Others	47.30	77.01	63.41	39.86	20.60
Payment to Employees	10.91	15.33	19.83	24.82	31.29
Rent, Taxes & Lighting	7.14	10.52	13.02	15.73	16.90
Printing & Stationary	2.30	4.00	5.06	4.55	5.18
Advertiisement & Publicity	2.75	5.23	2.97	3.43	4.15
Directors’ fees & Allowances	0.20	0.05	0.06	0.04	0.05
Audit Fees	0.10	0.10	0.10	0.16	0.16
Law Charges	2.28	2.80	1.59	0.86	1.96
Postage, telegram, telephones, etc.	2.83	5.31	5.01	4.36	5.83
Repairs & Maintenance	4.41	8.60	12.48	13.27	14.33
Insurance	1.46	1.77	2.41	2.21	2.29
Other Expenditure	25.90	24.04	34.60	40.40	62.54
TOTAL EXPENSES	**422.78**	**522.90**	**475.82**	**379.13**	**348.50**
GROSS PROFIT	**107.69**	**120.60**	**75.28**	**69.10**	**45.52**
Depreciation	42.63	62.80	60.87	48.75	36.14
OPERATING PROFIT	**65.06**	**57.80**	**14.41**	**20.35**	**9.38**
PROVISIONS & CONTINGENCIES (including provision for tax) **	30.73	50.79	108.42	46.05	79.22
Net Profit/(Loss) for the year before adjustments relating to previous years	**34.33**	**7.01**	**(94.01)**	**(25.70)**	**(69.84)**
Adjustment towards difference in certain General Ledger balances	-	-	(67.83)	1.34	2.75
Defered Tax Provision (Net)	-	-	-	(9.90)	-
Provision for Disputed Income Tax Demands	-	-	-	-	(33.05)
Provision for Disputed Sales Tax Demands	-	-	-	(1.00)	(5.00)
Provision for Impairment of Assets	-	-	-	-	(7.81)

Net Profit/(Loss) after adjustments relating to previous years	**34.33**	**7.01**	**(161.84)**	**(35.26)**	**(112.95)**
Adjustments for changes in accounting policies, items relating to previous years, etc.					
Income from leases	3.97	0.59	(0.90)	(8.07)	-
Others	0.11)	(0.11)	0.60	-	-
Income Tax Provision	-	-	-	-	7.05
Net Profit / (Loss) after adjustments for changes in accounting policies, itemms relating to previous years, etc.	**38.19**	**7.49**	**(162.14)**	**(43.33)**	**(105.90)**
Add : Balance in the Profit and Loss Account at the beginning of the year, as restated	21.53	37.03	42.76	(119.38)	(162.71)
Profit available for appropriation	**59.72**	**44.52**	**(119.38)**	**(162.71)**	**(268.61)**
Transfer to Statutory Reserves	6.87	1.76	-	-	**-**
Proposed Dividend	14.25	-	-	-	-
Dividend Tax on proposed dividend	1.57	-	-	-	-
Adjustment towards reduction in Share Capital	-	-	-	-	(137.22)
Balance in the Profit and Loss Account at the end of the year, as restated	37.03	42.76	(119.38)	(162.71)	(131.39)

Financial Ratios and Other Financial Information of the Bank for the Last Five Years

As on March 31,	**2000**	**2001**	**2002**	**2003**	**2004**
Average balances of interest earning assets (Rs. In crores)	3,169.51	4,222.09	3,692.91	2,869.42	3,128.35
Average Interest Rate	11.74%	12.44%	11.79%	11.45%	10.17%
Average Interest Rate on Loans	13.52%	13.91%	13.23%	14.52%	13.23%
Average Interest Rate on Investments	14.22%	11.04%	10.24%	8.47%	7.10%
Interest Income (Rs. In crores)	442.80	547.3	482.18	371.34	333.79
Average Interest bearing Liabilities (Rs. In crores)	3,785.32	4,578.55	3,980.95	3,194.60	3,136.80
Interest rate for the above/ Average cost of funds	9.59%	9.44%	9.21%	8.06%	6.43%[1]
Average interest rate on borrrowings	9.31%	9.58%	7.60%	5.91%	4.34%[1]
Average interest rate on deposits	9.12%	8.25%	8.89%	7.87%	6.27%
Interest Expenses (Rs. In crores)	362.50	445.15	378.69	269.3	203.82
Ratio of average earning assets to average interest bearing liabilities	83.73%	92.21%	92.76%	89.82%	99.73%
Interest expense apportioned to interest earning assets	97.73%	96.87%	94.42%	90.41%	89.66%
Net Interest Income (Rs. In crores)	80.30	102.15	103.49	102.04	129.97
Net Interest Margin (NII/Earning Assets)	2.53%	2.42%	2.80%	3.56%	4.15%
Gross Yield (Gross Income/ AWF)	12.67%	11.50%	11.04%	12.11%	12.04%
Yield Spread (spread/ AWF)	2.15%	3.00%	2.58%	3.39%	3.74%
Return on Average Assets	0.91%	0.13%	(3.25%)	(1.19%)	(3.24%)
Average share capital & reserves to average total assets	4.53%	3.84%	2.76%	0.96%	1.07%

[1] Our foreign currency borrowings have been declining from Rs. 54.20 crores as on March 31, 2000 to Rs. 4.75 crores as on March 31, 2003. The foreign currency borrowings as on February 06, 2004 (stub period upto which the financial statement were disclosed in the dtaft Letter of Offer filed with SEBI) were NIL. Post February 06, 2004, we have under the line of credit from Bank Muscat have borrowed foreign currency borrowing, which aggregated Rs. 43.72 crores at an average interest rate of LIBOR plus 40 basis point. This amount constituted merely 1% of our total liabilities (Rs. 3,385.92 crores) as on March 31, 2004. Other than the said borrowing there are no foreign currency borrowings. The cost of the same has been included herein.

Finanical Ratio	Definition
Interest Earning Assets	Advances (including leased assets), invesrments and balances with RBI and placements
Average Balances of Interest Earning Assets	The average of closing balances of each month for advances
Average Interest Rate	Interest Income/Average Interest Bearing Assets
Average Interest rate on Loan	Interest on Advance/ Average Advance based on monthly closing balance
Average Interest rate on investment	Interest on investment/ Average investment based on monthly closing balance
Average Interest Bearing Liabilities	The average of daily closing balances of deposits, borrowings and subordinated debt
Average Cost of funds	Interest Cost/ Average Interest bearing Liabilities
Average Interest rate on borrowings	Interest cost on borrowings deposits and subordinated debt/ Average borrowings calculated on a daily basis
Average Interest on Deposits	Interest cost on deposits/ Average deposits calculated on a daily basis
Ratio of average earning assets to average interest bearing liabilities	Average Balances of interest earning assets/ Average interest bearing Liabilities
Net Interest Income	Interest Income – Interest Cost
Net Interest Margin	Net Interest Income/ Earning Assets
Gross Yield	Gross Income/ AWF
Return on Average Assets	Profit after Provisions & Contingencies and adjustments referred to in Part A of Annexure V to the Auditors Report/ Average Total Assets for the respective year or period

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations together with our audited financial statements for each of the fiscals ended March 31, 2001, 2002, 2003 and 2004, including the notes thereto and the reports thereon, which appear elsewhere in this Letter of Offer.

The following discussion is based on our audited financial statements for fiscals 2001, 2002, 2003 and 2004, which have been prepared in accordance with Indian GAAP, and on information available from other sources. Our fiscal ends on March 31 of each year, so all references to a particular fiscal are to the twelve-month period ended March 31 of that year.

Unless otherwise indicated, all financial and statistical data relating to the banking industry in the following discussion are derived from various industry reports. These data have been reclassified in certain respects for purposes of presentation.

Overview of Income/Expense recognition and allocation

Our overall financial health which includes our loan portfolio, investments, borrowings and deposits and the other areas of financial activities are to some extent influenced by the developments in the Indian as well as the global economy. Various macro-economic factors like fluctuations in commodity prices, surge and fall in the financial markets, Government policies, developments in key sectors like agriculture, uncertainties like epidemics and terrorist attacks etc. go a long way in affecting the operations within the banking system on a consolidated basis. Hence, for a meaningful comparison of our results of operations, you should consider the relevance of such common factors.

We are a strong retail focused private sector bank. Our principal business activities have moved from wholesale to retail banking over the past few years. We have leveraged our strengths in managing relatively higher yielding retail assets and reducing costs by increasing the percentage of demand deposits. This has enabled us to improve our net interest margins in a market where otherwise there has been an overall trend of declining interest margins.

Net Interest Income

An important measure of our performance is reflected in net interest income, which comprises of interest earnings from risk assets (performing loans) and interest income from investments less interest expended on customer deposits and borrowings. Our interest income and interest expense are impacted by volume of activity and fluctuations in interest rates. We intend to sustain our interest income by retaining the ratio of relatively higher yielding retail assets. We also intend to reduce our interest costs by increasing the share of low cost demand deposits leveraging our branch network. Infusion of additional capital shall enable us to further reduce the cost of our term deposits in line with the current market trend.

We also use net interest margin and spread to measure our results. Net interest margin represents the ratio of net interest revenue to average interest-earning assets. Spread represents the difference between yield on average interest-earning assets and cost of average interest-bearing liabilities including current accounts, which are non-interest bearing. The details of our net interest income for the last four financial years are as follows:

(Rs. in Crores)

For the Year ended	2001	2002	2003	2004
Interest earned				
Interest/discount on advances/bills	262.14	253.66	212.10	202.47
Income on Investments	219.75	148.15	91.72	83.93
Interest on Balance with RBI and other inter- bank funds	25.31	39.38	31.61	26.79
Others	40.10	40.99	35.91	20.60
Total (A)	**547.30**	**482.18**	**371.34**	**333.79**
Interest expended				
On Deposits	328.19	297.90	223.37	180.79
On RBI / Inter-bank borrowings	39.95	17.38	6.07	2.43
On Others	77.01	63.41	39.86	20.60
Total (B)	**445.15**	**378.69**	**269.30**	**203.82**
Net Interest Revenue (A) – (B)	**102.15**	**103.49**	**102.04**	**129.97**
Average Interest Rate	12.44%	11.79%	11.45%	10.17%
Average Interest Rate on Loans	13.91%	13.23%	14.52%	13.23%
Average Interest Rate on Investments	11.04%	10.24%	8.47%	7.10%
Interest rate for the above/ Average cost of funds	9.44%	9.21%	8.06%	6.43%[1]
Average interest rate on borrrowings	9.58%	7.60%	5.91%	4.34%[1]
Average interest rate on deposits	8.25%	8.89%	7.87%	6.27%
Yield Spread (spread/ AWF)	3.00%	2.58%	3.39%	3.74%

[1] Our foreign currency borrowings have been declining from Rs. 54.20 crores as on March 31, 2000 to Rs. 4.75 crores as on March 31, 2003. The foreign currency borrowings as on February 06, 2004 (stub period upto which the financial statement were disclosed in the dtaft Letter of Offer filed with SEBI) were NIL. Post February 06, 2004, we have under the line of credit from Bank Muscat have borrowed foreign currency borrowing, which aggregated Rs. 43.72 crores at an average interest rate of LIBOR plus 40 basis point. This amount constituted merely 1% of our total liabilities (Rs. 3,385.92 crores) as on March 31, 2004. Other than the said borrowing there are no foreign currency borrowings. The cost of the same has been included herein.

Other Income

Our non-interest income primarily comprises of fee based income and income from sale of investments. Our principal sources of fee and commission revenue are bank guarantees, retail banking services, cash management services and capital market services. The primary source of foreign exchange income are foreign trade related Letter of Credits and remittances. We also derive part of our other income from trading in Government securities to take advantage of movements in the domestic interest rates. Miscellaneous income comprises of earnings from non-banking assets, which are being progressively phased out. The details of our other income for the last four financial years are as follows:

(Rs. in Crores)

Other Income	2001	2002	2003	2004
Commission, Exchange & Brokerage	23.41	25.72	32.84	37.34
Foreign Exchange Income	10.71	8.69	7.03	5.99
Profit on sale of investments	55.64	28.84	41.12	13.89
Misc. Income	6.44	5.67	(4.10)	3.01
Total	**96.20**	**68.92**	**76.89**	**60.23**

Despite reduction in the overall level of corporate non-funded assets, we have been able to increase fee-based income by increasing revenue from core retail activities. With capital infusion we expect to increase our revenues from foreign exchange business. The profit from trading in Government securities will be dependent upon the movement in the interest rates.

Operating Expenses

Our operating expense includes expenses for premises and equipment, depreciation and amortisation, salaries and staff benefits and other expenses. The costs of outsourcing back office and other functions are included in administrative and other expenses.

(Rs. in Crores)

Non-Interest Expenses	2001	2002	2003	2004
Payment to Employees	15.33	19.83	24.82	31.29
Rent, Taxes & Lighting	10.52	13.02	15.73	16.90
Repairs & Maintenance (including Information Technology expenses)	8.60	12.48	13.27	14.33
Printing & Stationery	4.00	5.06	4.55	5.18
Postage, telegram, telephones, etc.	5.31	5.01	4.36	5.83
Advertiisement & Publicity	5.23	2.97	3.43	4.15
Other Expenses				
Retail business expenses	12.08	15.06	21.10	38.45
Outsourcing expenses	5.22	9.55	10.25	10.10
Other	11.46	14.15	12.32	18.45
Total	**77.75**	**97.13**	**109.83**	**144.68**

The increase in our non-interest expenses has been primarily on account of our branch expansion exercise during the last three years and increase in the marketing expenses for booking retail assets, which is in line with the competitive business environment linked to our growth in retail business.

Bank Muscat Bangalore Merger

In addition, our result of operations for the period ended December 31, 2003 includes the financial performance of Bank Muscat Bangalore for the period April 01, 2003 upto December 31, 2003.

As per the terms of the Scheme, the entire business of the Bank Muscat Bangalore; the properties, leases and rental agreements all debts, liabilities, contingent liabilities, duties and obligations of every kind, nature and description has been transferred to and vested in us, with appointed date of April 01, 2003. As a result of the merger our financial condition and results of operations upto fiscal 2003 are not directly comparable with fiscal 2004.

Bank Muscat Bangalore merger has been accounted by using the purchase method under Indian GAAP. The aggregate fair value of the consideration paid by us for Bank Muscat Bangalore was Rs. 45 crores, including Rs. 24.47 crores of cash and cash equivalents. This consideration was discharged by us by issuing 11.25 crores Equity Shares at a price of Rs. 4 each (including the premium of Rs. 3 per share).

The financial position of Bank Muscat Bangalore as at April 01, 2003 has been accounted by us as follows:

(Rs. in Crores)

Bank Muscat Bangalore Merger	Allocation of purchase price
Net assets acquired:	
Cash and cash equivalents	24.47
Investments	73.95
Advances (less provisions)	146.29
Fixed Assets	2.39
Other assets	6.95
Sub-total	254.05
Deposits	202.74
Other Liabilities and provisions	5.65
Sub-total	208.39
Net Assets	45.65
Total Purchase consideration	**45.00**
Capital reserve	**0.65**

The merger resulted in an increase in our loan portfolio by 11.7% and an increase in our deposits by 6.6%. We reviewed Bank Muscat Bangalore's loan portfolio and its provisioning policy for non-performing and potentially weak loans. Bank Muscat Bangalore had adopted 180-day norm from provisioning. We were required to make incremental provisioning in our December 2003 financials based on 90-day norm adopted by us. After merger, our gross non-performing loans increased by 19.4%.

Since December 2003, we have integrated the operations of Bank Muscat Bangalore. Bank Muscat Bangalore had approximately 8,297 retail accounts, which represented an increase in our combined retail accounts of approximately 14%. Bank Muscat Bangalore has 65 employees, 1 Branch and 6 ATMs. Bank Muscat Bangalore had presence in Personal loan and Car loan segment and a good NRI deposit base, which we intend to leverage.

Comparison of significant items of income and expenditure for the last four years is given below:

Before drawing a meaningful comparison of the above results the following are to be considered beforehand:

The analysis below includes the performance of Bank Muscat Bangalore for the year ended March 31, 2004 and therefore the financials for fiscal 2004 are not comparable to the previous years.

(Rs. in Crores)

For the year ended March 31,	2001	2002	2003	2004(c)
Total income	**643.50**	**551.10**	**448.23**	**394.02**
Interest earned	547.30	482.18	371.34	333.79
Other income	96.20	68.92	76.89	60.23
Expenditure	**585.70**	**536.69**	**427.88**	**384.64**
Interest expended	445.15	378.69	269.30	203.82
Operating expenses	77.75	97.13	109.83	144.68
Depreciation	62.80	60.87	48.75	36.14

Provisions and contingencies	50.79	108.42	46.05	79.22
Net profit	7.01	(94.01)	(25.70)	(69.84)
Other Adjustments as per SEBI requirements	0.48	(68.13)	17.63	36.06
Net Profit after adjustments	7.49	(162.14)	(43.33)	(105.90)

(Source: Annual Reports of CBL for the years ended 2001, 2002 , 2003 and 2004)

** (**c**) refers to the combined operating results of Centurion Bank and the Bank Muscat Bangalore for the year ended March 31, 2004*

Comparison of significant items of income and expenses for the financial year ended March 31, 2004 and the financial year ended March 31, 2003

Interest Income

The gross interest income earned by us for the year ended March 31, 2004 was Rs. 333.79 crores as compared to Rs. 371.34 crores earned during fiscal 2003. The decrease in gross interest income during the year was primarily on account of lower yields earned on both advances and investments during year 2004 as compared to the previous year. The average interest earning assets during year ended March 31, 2004 were Rs. 3128.35 crores as compared to Rs. 2,869.42 crores during fiscal 2003.

Interest expended

The interest expended on deposits and borrowings for the year ended March 31, 2004 was Rs. 203.82 crores as compared to Rs. 269.30 crores expended in fiscal 2003. This was primarily on account of reduction in borrowings in absolute terms and drop in the average interest rates. The borrowings as on March 31, 2004 aggregated Rs. 43.97 crores as compared to Rs. 60.48 crores as on March 31, 2003. Although our deposits levels have gone up marginally from Rs. 2,834.71 crores as on March 31, 2003 to Rs. 3028.79 crores as on March 31, 2004, the share of low cost deposits comprising demand deposits have gone up from 21.12% as on March 31, 2003 to 27.45% as on March 31, 2004. This was also supported by reduction in the cost of deposits. The average cost of Deposits for the year 2003-04 was 6.27% as compared to 7.94% during the year 2002-03.

Net Interest Income

As a result of the above, we posted a net interest income of Rs.129.97 crores for the year ended March 31, 2004 as compared to Rs.102.04 crores reported in full year ended March 31, 2003. The Net Interest Margin during the year ended March 31, 2004 was 4.15% against 3.56% for the fiscal 2003. The yield spread during the year ended March 31, 2004 also increased to 3.74% from 3.39% for the fiscal 2003.

Other Income (Non interest)

The non-interest income for the year ended March 31, 2004 accounted Rs. 60.23 crores as compared to Rs. 76.89 crores reported for fiscal 2003. The decline in the other income during the year ended March 31, 2004 was primarily on account of lower trading profit booked on securities during the year 2003-04 as compared to the previous year. The fee income from Letter of Credits, guarantees and foreign exchange business have also reduced due to reduction in corporate assets.

Operating Expenses

Our bank incurred operating expenses of Rs. 144.68 crores during the year ended March 31, 2004 as compared to Rs. 109.83 crores spent in during the last financial year ended March 31, 2003. The increase in operating expenses was primarily on account of increase in retail business related expenses, increased staff costs on account of increase in staff strength and revision in salary, increase in expenses due to the integration of the Bank Muscat Bangalore.

The depreciation charge has come down substantially from Rs.48.75 crores in fiscal 2003 to Rs.36.14 crores for the year ended March 31, 2004. The reduced depreciation expenses were primarily on account of reduction in the portfolio of the leased assets.

Operating Profit

The operating profit during the year ended March 31, 2004 was Rs. 9.38 crores as compared to operating profit of Rs. 20.35 crores for fiscal 2003. The major reason for reduction in operating profit for the year 2003-04 was on account of reduced profit on sale of securities, increase in operating expenses despite an increase in net interest income contributed largely by the fall in cost of deposits. The operating expenses also included an amount of Rs. 2.7 crores on the implementation of our recapitalization scheme.

Provisions & Contingencies

The provisions and contingencies for the year ended March 31, 2004 aggregated Rs. 79.22 crores as compared to Rs. 46.05 crores for fiscal 2003. The increase in the provisions and contingencies was primarily on account of increase in the provisioning for the non-performing assets, which was Rs. 96.91 crores for the year ended March 31, 2004 as compared to Rs. 49.61 crores for the fiscal 2003. The increased provisions were necessitated due to our adopting the 90-day norm for provisioning coupled with additional provisioning required for corporate accounts. In line with the RBI guidelines and in some cases additional provisioning were considered on selective basis after careful evaluation by the management. However during the year ended March 31, 2004 we reversed the depreciation on investment of Rs. 15.37 crores. The reversal was done on account of sale of investments, whose value we had written down in the previous fiscals.

Income Tax

For the year ended March 31, 2004, in view of the loss for the year, the Bank does not expect any tax liability and accordingly we have not made any provisions for income tax. A similar position existed in fiscal 2003 also. For details regarding pending assessments and demands contested in appeal, please refer to “Risk Factors” on page iii.

During the year we have made provisions for disputed income tax demands of earlier years amounting to Rs. 33.05 crores. This provision was based on the merits of the case assessed by an Independent firm of Chartered Accountants after verifying the facts and documents available with the Bank together with connected judicial pronouncements. Out of the above 33.05 crores, Rs. 7.05 crores was towards tax demands for assessment year 1998-99 (Financial year ended 1998).

Sales Tax

In respect of certain disputed sales tax demands of earlier years, contested in appeals, we have made a provision of 5 crores during the year 2003-04 after an internal assessment of the likely liability that may devolve on us. In the previous year 2002-2003, a provision of Rs. 1 crore was made towards this contingent liability.

Provision for Impairment of Assets

We have made a provision towards impairment loss of certain asset comprising premises and plant identified with impairment loss based on the market value of property in respect of premises and value in use in the case of plant. This followed from implementation of the new Accounting Standard 28 dealing with impairment of assets which has become mandatory from accounting year 2004-05 adopted by us during the year 2003-04 itself.

Net Income/Loss

As a result of the foregoing factors, our net loss for the year ended March 31, 2004 was Rs. 105.90 crores after adjustment for changes in accounting policy and prior period items as compared to a net loss of Rs. 43.33 crores for the fiscal 2003.

Comparison of significant items of income and expenditure between the full year ended March 2003 and the full previous year ended March 2002:

Gross Interest Income

Our Gross Interest Income declined from Rs. 482.18 crores in fiscal 2002 to Rs. 371.34 crores in fiscal 2003. The decline was primarily on account of fall in the interest income on investments from Rs. 148.15 crores in fiscal 2002 to Rs. 91.72 crores in fiscal 2003 in line with the reduction in the level of investments from Rs. 1,227.22 crores to Rs. 999.25 crores during the period. The gross interest income on advances decreased from Rs. 253.66 crores in fiscal 2002 to Rs. 212.10 crores in fiscal 2003 on account of softening of interest rates and also the reduction in Corporate and Capital Market advances, which was in line with our strategy to reduce the exposure to these segments.

Interest Expended

The total interest expenditure declined from Rs. 378.69 crores in fiscal 2002 to Rs. 269.30 crores during fiscal 2003. The interest paid on deposits came down from Rs. 297.90 crores in fiscal 2002 to Rs. 223.37 crores during fiscal 2003. While the decrease was primarily on account of decrease in the deposit level from Rs. 3,534.99 crores as on March 31, 2002 to Rs. 2,834.71 crores as on March 31, 2003 as well as sharp reduction in the cost of deposits. The cost of deposits decreased from 8.89% in fiscal 2002 to 7.87% in fiscal 2003. We also reduced our borrowings from RBI/ other banks/other institutions and agencies from Rs. 91.71 crores as on March 31, 2002 to Rs. 55.73 crores as on March 31, 2003, resulting in a further reduction in our interest cost.

Net Interest Income

The net interest income during fiscal 2003 was Rs. 102.04 crores as compared to Rs. 103.49 crores during fiscal 2002.While it represents a margincal increase in the net interest income, we have been able to achieve the same inspite of falling interest rate scenario and reduction in our advances. Also during the fiscal 2003 we managed to increase the net interest margin, which improved from 2.80% during fiscal 2002 to 3.56% during fiscal 2003. This was achieved primarily on account of a judicious change in the composition of assets and liabilities from corporate to retail.

Other Income (Non-interest)

The other income increased from Rs. 68.92 crores during fiscal 2002 to Rs. 76.89 crores in fiscal 2003. The increase in the other income was primarily on account of higher profit from securities trading, growth in fee-based income from products like debit cards, cash management services and Anywhere Banking and profit on sale of investments. This increase was however offset due to decrease in our foreign exchange income due to fall in the trading volumes and lack of trading opportunities. During fiscal 2003, we also booked one time loss of Rs 14.10 crores on account of sale of windmills, which was a conscious decision to dispose of the non-banking assets. If this extra ordinary loss were excluded, the other income for the fiscal would have been higher at Rs. 90.99 crores.

Operating Expenses

Our operating expenses increased from Rs. 97.13 crores in fiscal 2002 to Rs. 109.83 crores in fiscal 2003. The increase was primarily on account of increased expenditure to improve our Information Technology. During fiscal 2003, we incurred Rs. 13.30 crores on IT related areas compared to Rs. 10.73 crores during fiscal 2002. The increase in the operating expenses was also on account of increase in the staff cost due to increase in the head count to support out expanded network as well as salary revisions. During fiscal 2003 we added 6 branches and extension counters.

Operating profit

For fiscal 2003 we reported operating profit of Rs. 20.35 crores as compared to Rs. 14.41 crores reported in fiscal 2002. As explained above, the 41% increase in the operating profit was primarily on account of decrease in cost of deposits and profits on sale of investments.

Provisions and contingencies

The total provision for fiscal 2003 amounted to Rs. 46.05 crores (after credit on account of deferred tax asset of Rs. 9.90 crores) compared to Rs. 108.42 crores for fiscal 2001-02. The additional provisioning during fiscal 2003 was primarily on account of provision for non performing assets; Rs. 49.61 crores, provisioning towards leave encashment; Rs. 2.53 crores and Provision on account of marking to market the value of shares pledged with us by TCFC Finance Ltd. towards claim receivable under the Financial Support Agreement; Rs. 5 crores.

During fiscal 2003, we made adequate provisions for NPAs and for diminution in investments, as per regulatory norms. Further, a higher provision was also made in some cases where, in the opinion of the management, it was considered appropriate to do so. In the case of export credits, we reckoned the ECGC claims, which we believe are valid and which claims have not been rejected, as allowed under RBI guidelines.

Income Tax

For the fiscal 2003 we did not make any provisions for income tax, as we do not expect any tax liability after considering the tax rebate available on write-off of bad debts. A similar position existed in fiscal 2002 also. For details regarding pending assessments and demands contested in appeal, please refer to “Risk Factors” on page iii.

Net loss

As a result of the foregoing factors, our net loss after taxes decreased by 73% from Rs. 162.14 crores in fiscal 2002 to Rs. 43.33 crores in fiscal 2003.

Comparison of significant items of income and expenditure for the financial Year ended March 2002 with financial Year ended March 2001

Gross Interest Income

Our gross interest income declined from Rs.547.30 crores in fiscal 2001 to Rs. 482.18 crores in fiscal 2002. This decline was mainly due to the fall in the interest income on investments from Rs. 219.75 crores in fiscal 2001 to Rs. 148.15 crores in fiscal 2002 due to reduction in the investments from Rs. 2,156.87 crores as on March 31, 2001 to Rs. 1,227.22 crores as on March 31, 2002. The gross interest income on advances decreased from Rs. 262.14 crores during fiscal 2001 to Rs. 253.66 crores during fiscal 2002 due to a gradual reduction in the loan portfolio. The level of advances declined from Rs. 2,034.09 crores as on March 31, 2001 to Rs. 1,634.09 crores as on March 31, 2002.

Interest Expended

The total interest expenditure declined from Rs. 445.15 crores in fiscal 2001 to Rs. 378.69 crores during fiscal 2002. The interest paid on deposits came down from Rs. 328.19 crores during the fiscal 2001 to Rs. 297.90 crores during the fiscal 2002. The decrease was primarily on account of the decrease in the total deposits from Rs. 4,257.43 crores as on March 31, 2001 to Rs. 3,534.99 crores as on March 31, 2002 as well as due to reducing interest rate scenario on interest paid on deposits. The cost of deposits increased from 8.25% in fiscal 2001 to 8.89% in fiscal 2002. The borrowings from RBI/other banks/other institutions and agencies were brought down thereby reducing the interest paid on borrowings from Rs. 116.96 crores in fiscal 2001 to Rs. 80.79 crores in fiscal 2002.

Net Interest Income

Our net interest income increased marginally from Rs. 102.15 crores during fiscal 2001 to Rs. 103.49 crores during fiscal 2002. As explained above, this was primarily on account of reduced level of borrowings at lower cost.

Other Income (Non-interest)

The other income decreased from Rs. 96.20 crores during fiscal 2001 to Rs. 68.92 crores during fiscal 2002. This is primarily due to the decrease in profit on sale of investments, which was Rs. 55.64 crores during fiscal 2001 as compared to Rs. 28.84 crores during fiscal 2002. The income from foreign exchange transactions also declined from Rs.10.71 crores during fiscal 2001 to Rs. 8.69 crores during the fiscal 2002 due to the fall in the trading volume relating to customer transactions and lack of trading opportunities.

Operating Expenses

The operating expenses increased from Rs. 77.75 crores during fiscal 2001 to Rs. 97.13 crores during fiscal 2002. The increase in the operating expenses was primarily on account of expansion in our network. During fiscal 2002, we added 8 new branches and 8 new extension counters leading to increase in our headcount. During fiscal 2002, we also incurred expenses on shifting our Information Technology Center to a better and secure location. In relation to technology, during the fiscal 2002, we also implemented several new initiatives like data mining and warehousing solutions, upgrade of softwares like retail lending module etc.; which resulted in increase in our Information Technology expenses.

Operating Profits

As a result of the foregoing factors, we reported a lower operating profit of Rs. 14.41 crores during fiscal 2002 as compared to Rs. 57.80 crores during fiscal 2001. Despite the reduction in assets and liabilities, functioning in a falling interest rate environment and incurring substantial expenditure on expansion of branch network, we managed to record operating profit.

Provisions and Contingencies

A detailed scrutiny undertaken by the management in the last quarter of the fiscal 2002 revealed that large differences existed in the accounts of erstwhile TCFC at the time of merger i.e. as on May 14, 1999. This necessitated large provisioning for the un-reconciled differences. The major items requiring the provisioning were:

– An amount of Rs. 47.18 crores, on account of overstated assets, being the shortfall in the loan assets as compared to the General Ledger balance has been written off.

– An amount of Rs. 19.40 crores, on account of understated liabilities, being the shortfall in the General Ledger balance of Term /Security Deposits.

– A provision of Rs. 19.34 crores being additional depreciation on leased assets portfolio taken over from the erstwhile TCFC as part of the merger.

In addition to the above extra-ordinary provisioning, we also made provisions towards non-performing assets at Rs. 76.65 crores (which includes an amount of Rs. 32.00 crores being provisions on capital market related loans), and Provisions for the dimunition in the value of investments of the Bank at Rs. 9.46 crores.

As a result the provisioning and contingencies increased substantially from Rs. 50.79 crores as on March 31, 2001 to Rs. 108.42 crores as on March 31, 2002.

Income Tax

For the fiscal 2002 we did not make any provisions for income tax in view of the net loss posted by us. In fiscal 2001, we made a provision for tax for Rs. 9 crores. For details regarding pending assessments and demands contested in appeal, please refer to “Risk Factors” on page iii.

Net Income

As a result of the foregoing factors, we reported a net loss of Rs. 162.14 crores in fiscal 2002 as compared to net profit of Rs. 7.49 crores in fiscal 2001.

Asset Quality

The table below provides the change in the constitution of our assets over the last three years

(Rs. in Crores)

Particulars	March 31, 2002				March 31, 2003				March 31, 2004			
	Corpo-rate	Retail	Others	Total	Corpo-rate	Retail	Others	Total	Corpo-rate	Retail	Others	Total
Peforming Assets	631.65	877.17	23.61	1,532.43	307.34	898.83	3.46	1,209.63	197.68	1,289.83	-	1,487.51
Non-Performing Assets	98.04	10.95	122.82	231.81	157.17	13.19	58.07	228.43	180.60	30.66	10.15	221.41
Gross Assets	729.69	888.12	146.43	1,764.24	464.51	912.02	61.53	1,438.06	378.28	1,320.49	10.15	1,708.92
Provision	33.11	4.98	92.06	130.15	62.91	6.30	55.13	124.34	124.59	17.77	10.15	152.51
Net Assets	**696.58**	**883.14**	**54.37**	**1,634.09**	**401.60**	**905.72**	**6.40**	**1,313.72**	**253.69**	**1,302.72**	**-**	**1,556.41**
Provision to Non-Performing Ratio	**33.77%**	**45.48%**	**74.96%**	**56.15%**	**40.03%**	**47.76%**	**94.94%**	**54.43%**	**68.99%**	**57.96%**	**100%**	**68.88%**

As can be observed from above table, we have consciously shifted our asset portfolio from corporate assets to retail assets, thereby diversifying our risk profile and reducing the individual loan sizes. This has enabled us to enhance to overall quality of our loan portfolio.

The Asset Quality of our Bank suffered in fiscal 2001 owing to non-performance of certain of our large value corporate assets following the downturn in the concerned industries and non-performance of certain loans given to a few capital market participants. During this period, due to capital adequacy constraint, we were unable to build up our loan book. As a result the ratio of our net NPAs to net advances rose from 5.82% as on March 31, 2002, to 7.51% as on March 31, 2003 and to 4.30% as on March 31, 2004.

The maximum exposure to the capital market was fixed by our Board at 20% of the total outstanding advances. Subsequently, RBI vide its circular issued in May 2001 introduced a limit of 5% in this regard. As on May 31, 2001, our exposure to the Capital Market segment constituted 15.26% of the Advances. In deference to the aforesaid RBI circular, the capital market exposure was gradually reduced by us through combination of freeze on fresh sanction, freeze on further investments in capital market investments and phased reduction and redemption of the existing capital market instruments. Accordingly, as on March 31, 2004, our capital market exposure was 1.12% of our total outstanding advances (as of the opening balance i.e. April 01, 2003), which is within the limits prescribed by the RBI.

In addition vide the same circular issued in May 2001, RBI had also stipulated a specific limit of 20% of net worth on the direct investment in equity and equity linked instruments. Direct investments in equity and equity linked instruments as on May 31, 2001 constituted 27.70% of our opening net worth i.e. as on April 01, 2001, which was in excess of the 20% norm prescribed by the RBI. Direct investments in equity and equity linked instruments as on March 31, 2004 constituted 43.20% of our opening net worth i.e. as on April 01, 2003, which was in excess of the 20% norm prescribed by the RBI. The ratio of Direct investments in equity and equity linked instruments to our net worth as on March 31, 2004, inspite of our reduced capital market exposure, was higher primarily on account of our reduced net worth on April 01, 2003. However, post infusion of capital upto March 31, 2004, the direct investments in equity and equity linked instruments as on March 31, 2004 constituted 13.37% of our closing net worth i.e. as on March 31, 2004, which would be within the limit stipulated by the RBI.

In respect of retail portfolio, we have built up good quality assets with low delinquency rates. The retail loan portfolio as on March 31, 2004 constituted more than 75% of our total loan portfolio. The net NPAs in the retail segment as on March 31, 2002, March 31, 2003 and as on March 31, 2004 were 0.68%, 0.75% and 0.99%, respectively following 180 day norm in March, 2003 and 90 day norm in 2004.

While we have already made provisioning with respect to our corporate loans in excess of the regulatory standards and above the industry norms, we may decide on a prudential basis to make accelerated provisioning so that it may not have material adverse impact on the future earnings.

Liabilities and Shareholders' Equity

(Rs. in Crores)

LIABILITIES	**March 31, 2001**	**March 31, 2002**	**March 31, 2003**	**March 31, 2004[1]**
Deposits				
Demand Deposits	729.39	599.40	598.83	831.46
Time Deposits:				
Customers	1,110.91	1,446.55	1,520.02	1,757.66
Others	2,417.73	1,539.04	715.86	439.67
Total	**4,257.43**	**3,534.99**	**2,834.71**	**3,028.79**
Borrowings	1,104.54	111.43	60.48	43.97

Subordinated debt	100.00	100.00	100.00	100.00
Security Deposits/Advance EMI	60.96	85.28	80.75	46.02
Bills Payble	74.34	53.18	47.06	52.81
Interest Payable	45.16	46.25	30.93	25.34
Other Liabilities and Provisions	62.70	58.82	55.72	58.99
TOTAL	**5,705.13**	**3,989.95**	**3,209.65**	**3,355.92**
Represented by Share Capital				
Called up and Paid Up	152.47	152.47	152.47	56.75
Statutory/Capital Reserve	23.35	23.35	23.35	24.00
P&L balance	42.76	(119.38)	(162.71)	(131.39)
Share Premium	-	-	-	112.20
TOTAL	**218.58**	**56.44**	**13.11**	**61.56**

[1] *Includes Bank Muscat, Bangalore branch, which was merged with us*

Over the period of last three years, in line with the reduction in our assets portfolio, we had decided to reduce our deposits and borrowings. However, we made conscious effort to improve the mix of demand to time deposits and reduce / repay the high cost bank and corporate borrowings. The Deposits were marginally higher at Rs. 3,028.79 crores for the year ended March 31, 2004 as compared to Rs. 2,834.71 crores at March 31, 2003. This was primarily on account of the merger of Bank Muscat Bangalore with us.

The time deposits were lower by Rs. 38.54 crores for the year ended March 31, 2004. However the time deposits from the customer grew at 15.63% to Rs. 1,757.66 crores as on March 31, 2004 as compared to Rs. 1,520.02 crores as on March 31, 2003. The share of demand deposit as a percentage has also improved from 21.12% as on March 31, 2003 to 27.45% as on March 31, 2004. As on March 31, 2004, the retail deposits as a percentage constituted 80% of total deposits compared to 70% as on March 31, 2003. The cost of deposits has reduced over the period of last three years . Our cost of deposits for the period ended March 31, 2002, March 31, 2003 and March 31, 2004 was 8.89%, 7.94% and 6.27%, respectively.

We have also significantly reduced our borrowings which declined over the period of last three years. Our borrowings for the period ended March 31, 2002, March 31, 2003 and March 31, 2004 were Rs. 111.43 crores, Rs. 60.48 crores and Rs. 43.97 crores, respectively. The reduction in the borrowings was primarily due to our call money borrowings. Our subordinated debt of Rs. 100 crores represents the Tier II capital borrowed by us in fiscal 2000 at a coupon rate of 12.95% to augment our capital adequacy. These bonds are due for redemption in May 2005. During the quarter ended June 2004, we have raised unsecured non-convertible redeemable subordinated bonds in the nature of promissory notes towards Tier II capital for an amount aggregarting Rs. 43 crores.

Security deposit and advance EMI represents the deposits accepted from our customers as a security mechanism at the time of loan sanctions. Bills payable represent the pay orders/demand drafts issued by us which are not yet presented for payments.

Investment Fluctuation Reserve

As a prudential measure RBI vide their circular no. DBOD.BP.BC.24/ 21.04.048/99 dated March 30, 1999, requires that all banks create and maintain a reserve amounting to 5% of the Bank's investment portfolio within a period of 5 years from fiscal 2001. This has to be achieved by the fiscal 2006. In view of the losses posted by us, we have not yet started creating such a reserve. We will aim to create such a reserve by FY 2006 based on our future performance.

Off Balance Sheet Items

Guarantees and Documentary Credits

As a part of our corporate 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.

Besides the above, we also have certain contingent liabilities. For details please refer Auditors' Report in this Letter of Offer.

Capital Resources

We are subject to the capital adequacy requirements of the RBI, which are primarily based on the capital adequacy accord reached by the Basle Committee of Banking Supervision, Bank of International Settlements in 1988. We are required to maintain a minimum ratio of total capital to risk adjusted assets of 9%, at least half of which must be Tier 1 capital.

As on March 31, 2004, our capital adequacy ratio calculated in accordance with the RBI guidelines was 4.41%. Using the same basis of calculation, our Tier I capital adequacy ratio was 3.08% and our Tier II capital adequacy ratio was 1.33%.

Capital Expenditures

Our capital expenditure consists principally of branch network expansion, as well as investments in our technology and communications infrastructure. Since April 01, 2001 upto March 31, 2004, we have invested Rs. 77.86 crores in capital expenditures. As on March 31, 2004, we had a network of 61 fully networked branches covering 45 cities, 148 ATMs, 20 extension counters and 23 marketing offices. Since March 31, 2004, we have added 2 more extension counters. On June 01, 2004 we received approval from RBI for converting 14 of our aforesaid 23 marketing offices into full fledged banking branches, which would take our total branch network to 75. We have already initiated the process of converting the marketing offices to Branches. A capital expenditure of approximately Rs. 12 crores is envisaged in fiscal 2005 for the above. We presently are also working on various options to strengthen our network and technology capabilities in the normal course of business. However, presently we have not made any capital expenditure commitments and our plans may change depending on business conditions.

Other matters

Unusual or infrequent events and transactions

Other than as described elsewhere in this Letter of Offer, particularly in "Management's Discussion and Analysis of Financial Condition and Results of Operations", to our knowledge there are no events that may be described as unusual or infrequent events and transactions.

Significant economic / regulatory changes

Other than as described elsewhere in this Letter of Offer, particularly in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", to our knowledge there are no significant economic / regulatory changes that materially affect or are likely to affect the income from continuing operations.

Known trends and uncertainties

Other than as described elsewhere in this Letter of Offer, particularly in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", to our knowledge there are no trends or uncertainties that have or had or are expected to have a material adverse impact on revenues or income of the Company from continuing operations.

Future relationship between costs and income

Other than as described elsewhere in this Letter of Offer, particularly in "Management's Discussion and Analysis of Financial Condition and Results of Operations", to our knowledge there are no known factors which will have a material adverse impact on our operation and finances.

Extent of material increase in net sales or revenue

Since March 2001, the three years till March 2004, saw a decline in Gross Revenue comprising Interest and Other Income, primarily due to the constraints in growth of assets following the declaration of losses for the first time in March 2002. During the last three years, we have consciously shifted focus on growing retail assets, which has helped us to better net interest margins from higher yielding asset portfolios. Our retail assets as on March 31, 2004, constituted 75% of the total loan assets. On the resource side, we have consciously implemented a strategy to increase the low cost deposits and in the course of the years, repaid the high cost wholesale and inter-bank deposits. Consequently, there is a marked year on year reduction in the cost of deposit/funds.

Total turnover of each industry segment in which the company operates

We consider treasury and other banking as reportable segments. Other banking comprises of retail and corporate banking business. See "Our Business" for relevant details.

New product or business segment

We acquired business of Bank Muscat Bangalore and the business products introduced along with the merger of the same as described elsewhere in this Letter of Offer. We are considering various options to strengthen our retail offerings. However no specific plans have been drawn up as yet in this regard.

Seasonality of business

Other than as described elsewhere in this Letter of Offer, particularly in "Management's Discussion and Analysis of Financial Condition and Results of Operations", our business is not seasonal.

Dependence on single or few customers

We have concentration of loans to certain segments as described in section on "Our Business" on page 35. Any adverse changes in this segment may have adverse impact on our business and financial performance.

Competitive conditions

We face competition in all our principal areas of business from Indian and foreign commercial banks. See "Competition" on page 43 under "Our Business".

Material Developments

During quarter ended June 2004, we securitized a portfolio of two wheeler loans aggregating Rs. 57.5 crores, which enables us to originate more business on the same capital base. We believe that such measures will eventually assist in better utilization of capital and delivering higher returns to shareholders. We will continue to utilize innovative financial solutions to better manage our assets, liabilities and capital.

During the quarter ended June 30, 2004, we have also issued non-convertible subordinated bonds in the nature of promissory notes/ debentures aggregating Rs. 43 crores to augment our Tier II capital and enhance our long term resources. The 6.85% Bonds under Option I and 7.05% Bonds under Option II were rated at A-(ind) by Fitch and are due for maturity at the end of 71 months and 119 months respectively, from the deemed date of allotment. We propose to raise further capital through Tier II bonds post our proposed rights issue.

MOU with Bank Muscat

We have entered into an Memorandum of Understanding (MOU) with Bank Muscat on May 28, 2004 to strengthen our business relationships and pool resources in order to tap the NRI population present in Oman, Bahrain, United Arab Emirates and other GCC countries. The MOU seeks to develop a functional relationship between us and Bank Muscat to facilitate access, to our deposit and loan products, to NRI customers of Bank Muscat.

Shared ATM

We entered into agreement with Euronet Services India Private Limited on December 30, 2003 whereby we would participate in the Euronet Network which is a shared ATM network having several banks as its members. We would participate in the Euronet Network by making available our ATMs to holders of debit and/or credit cards issued by other member banks.

The Board of Directors confirm that, other than above, in their opinion no circumstances have arisen since the date of the last financial statements as discussed in this Letter of Offer, which may materially and adversely affect or is likely to affect the trading or profitability of the Company or the value of its assets or its ability to pay its liabilities within the next twelve months.

Other Material Developments

On July 24, 2004, the Government of India issued a three month moratorium ending October 23, 2004, on Global Trust Bank ("GTB"), freezing all banking operations of GTB, except in accordance with the order of moratorium. Due to this moratorium, we understand, there arose some concern and anxiety in the minds of a section of customers, in relation to the prospects of other private sector banks. This anxiety and concern seems to have subsided at the moment, due to the announcement by the RBI of plans to amalgamate GTB with Oriental Bank of Commerce ("OBC").

Between July 24, 2004 and August 04, 2004, our total premature withdrawals of term deposit were Rs. 102 crores which is about 3% of our deposit base. The reduction in savings and current accounts was negligible at Rs. 3 crores. This included ATM withdrawals for the period, which did not exhibit any significant unusual activity.

We do not have any outstanding transactions or general balances with GTB. We had entered into a US$ 0.50 million foreign exchange transaction with GTB on July 23, 2004 settlement of which was to take place on July 27, 2004. This transaction is settled by the Clearing Corporation of India Ltd. We are currently awaiting guidelines from the RBI regarding deals that GTB was involved in. Therefore, since the transaction is in suspended state, we would not receive any rupees, nor would we be required to deliver any dollars. Thus there would be no adverse impact of this suspended transaction on us. In any case this transaction is settled by Clearing Corporation of India, which would liquidate the obligation and effect a pay-out in accordance with its bye-laws.

In order to provide service to the customers of GTB, we have in fact announced two special schemes to the account holders of GTB such that they can avail of our facilities at special prices. The Account holders of GTB can avail a pre-approved personal loan scheme for up to five times their net monthly take-home salary. Also Demat account holders of GTB will get 50% off on the Annual Maintenance Charges for the first year, on opening a Demat account with us.

SUMMARY OF KEY AGREEMENTS PERTAINING TO OUR SHAREHOLDERS

(i) Subscription Agreement between the Bank and International Finance Corporation, Washington (IFC)

This agreement dated December 16, 1994, outlines the terms and conditions of IFC's investment in the Bank. The key terms *inter-alia* are as follows:

- IFC has subscribed to 12,150,000 Equity Shares of face value Rs. 10/- each of the Bank, aggregating to 12% of the fully paid up Equity Share capital of the Bank. After the public issue which the Bank was obligated to make under this Agreement, IFC would hold 9% of the fully paid up Equity Share capital of the Bank;
- In case the conditions precedent mentioned in the Agreement were not completed before March 31, 1995, IFC would be entitled to terminate the agreement;
- IFC shall have, as long as it holds any Equity Shares in the Bank, the right to nominate and appoint one Director on the Board of the Bank;
- IFC shall have the right to receive quarterly, half-yearly and annual accounts, all notices regarding shareholder meetings, Board meetings, etc.;
- The Bank may not change its auditors (unless IFC approves the new auditor, the Policy Statement, and the accounting, cost-control and operating policy and procedures;
- The Bank shall at all times adhere to the regulations of the Government of India and the policies and guidelines of the World Bank in respect of environmental and occupational health and safety issues;
- The Bank shall not issue or distribute any document or other advertising to the public containing the use of or reference to IFC's name except with the prior consent in writing of IFC:

For any further information relating to Subscription Agreement between the Bank and International Finance Corporation, Washington (IFC) which may be dealt with in greater detail therein, shareholders may refer to copy of the Subscription Agreement which is part of "Material Contracts and Inspection of Documents".

(ii) Subscription Agreement between Keppel Bank of Singapore Limited, Kephinance Investment Pte. Limited (the two are collectively referred to herein as "Keppel"), TCFC and the Bank

This agreement dated December 28, 1994, outlines the terms and conditions of Keppel's investment in the Bank. The key terms *inter-alia* are as follows:

- Keppel has subscribed to 27,000,000 Equity Shares of face value of Rs. 10 each, TCFC along with its affiliates have subscribed to 35,100,000 Equity Shares of face value Rs.10 each of the Bank, and 12,500,000 Equity Shares of the Bank of face value Rs. 10 each are to be offered on a firm allotment basis to the employees trust of the Bank, employees and shareholders of the Bank, TCFC and its affiliates, associates, associates companies, friends and relatives, subject to lock-in as per applicable SEBI guidelines; This subscription would take Keppel's stake in the Bank to 26.67% of the fully paid up Equity Share capital (before the public issue) and 20% of the fully paid up Equity Share capital (after the public issue);
- 27,000,000 Equity Shares of the Bank are to be offered to IFC and ADB for subscription on a firm allotment basis;
- The Board of Directors of the Bank to consist of 12 Directors, with TCFC entitled to nominate 3 Directors, and Keppel entitled to 2 Directors, with the other Directors being nominated as per guidelines of the RBI in this respect;
- No proposal in respect of 11 'reserved' matters to be put up to the Board of Directors of the Bank for consideration unless Keppel and TCFC have consented to the same, and the quorum at a meeting where such 'reserved' matters are considered shall always include at least 1 nominee Director of Keppel and TCFC;
- TCFC and Keppel are to consult each other in respect of appointment of senior personnel of the Bank, and for deputation of personnel by Keppel to the Bank;
- TCFC is under an obligation to provide a host of services to the Bank, including procuring of subscription by ADB and IFC, deputation of personnel, access to corporate clients, support of branch network, etc. without being entitled to royalties or fees for such services;
- Keppel is under an obligation to depute senior personnel, provide technical knowledge and software and systems support, assistance in global correspondent relationships, etc. on a good faith and best effort basis;
- Keppel has permitted the Bank to use the words "in association with Keppel Bank of Singapore Limited" as part of its name in all official business, as long as Keppel holds shares in the Bank, or the agreement is valid, whichever is earlier;
- In case of transfer of shares of the Bank by either of Keppel or TCFC, the other party shall have a right of first refusal to acquire such shares at a fair value;

For any further information relating to Subscription Agreement between Keppel, TCFC and the Bank which may be dealt with in greater detail therein, shareholders may refer to copy of the Subscription Agreement which is part of "Material Contracts and Inspection of Documents".

(iii) Subscription Agreement between the Bank and ADB

This agreement dated December 22, 1994, outlines the terms and conditions of ADB's investment in the Bank. The key terms *inter-alia* are as follows:

- ADB has subscribed to 14,850,000 fully paid up Equity Shares of face value Rs. 10 each of the Bank, subject to completion of the conditions precedent prescribed in the agreement;
- So long as ADB holds 7.5% of the fully paid up share capital of the Bank, it shall be entitled to nominate one Director on the Board of Directors of the Bank;
- Without the prior written consent of ADB, TCFC shall not sell or dispose its shareholding in the Bank;

- ADB's subscription is also subject to the approval of the Policy Statement and the subscription of Keppel and IFC;

For any further information relating to Subscription Agreement between the Bank and ADB which may be dealt with in greater detail therein, shareholders may refer to copy of the Subscription Agreement which is part of "Material Contracts and Inspection of Documents".

(iv) Summary of the Shareholders' Agreement

On December 04, 2003, an agreement was entered into amongst our three major shareholders, Sabre Capital Worldwide Inc., Bank Muscat (SAOG) and Kephinance Investment (Mauritius) Pte Limited ("Shareholders' Agreement"). The said Shareholders Agreement, we understand, was entered to record the broad principles among the three signatories to the Agreement in relation to specific and limited issues in relation to their investment in the Bank.

We are neither a party to the Shareholders' Agreement nor bound by its terms unless our Articles are amended to incorporate the Shareholders Agreement into it. It may be noted that none of the parties to the Shareholders' Agreement have a voting right in excess of 10% and a vote of at least 75% of the shareholders present and voting is necessary to amend the Articles.

The salient features of this agreement *inter-alia* include the following:

- The Bank shall be managed under the overall superintendence and control of the Board.
- Sabre shall recommend to the Board a chief executive officer, chief financial officer and other senior management officers to the Board for appointment. However, if in the opinion of the Board, the performance of any such person is found to be not satisfactory or inconsistent with the standards expected by the Board, the Board may remove such person and require Sabre to propose other qualified persons.
- Among these three shareholders, except for the right of Kephinance Investment (Mauritius) Pte Limited to nominate a Director until its holding reaches 5%, every 10% Equity Shareholder may nominate 1 Director to the Board. Sabre may nominate 2 Directors. In addition, a representative nominated by Sabre shall be invited to attend the meetings of the Board.
- One of the Directors nominated by Sabre shall be elected as Chairman of the Board.
- The Bank shall be managed by the Board, which shall oversee the operations in accordance with best business practices in the banking industry and which may appoint sub-committees for this purpose. The Board shall constitute an Executive Committee and a Nominations Committee as sub-committees. The Executive Committee shall consist of the Chairman of the Board, the Chief Executive Officer of the Bank, 1 nominee each of Sabre and Bank Muscat, and 2 independent Directors. The Nominations Committee, which shall recommend the names of independent Directors to be appointed to the Board, shall consist of the Chairman of the Board, 1 Director nominated by Bank Muscat and 2 independent Directors.
- If any of these three shareholders receive an offer for acquisition of either the whole or substantially the whole of the business of the Bank, such an offer is required to be presented to the Board. If the Board decides that acceptance of such an offer is in the best interests of all shareholders, the Bank may require each of the parties to the Shareholders' Agreement to sell such number of shares held by them so as to constitute the aggregate percentage holding sought by such purchaser. Any of the three shareholders not willing to sell its shareholding shall purchase all the shares proposed to be sold by other parties at the same price as is on offer.
- Each party to this Agreement shall vote and act to fulfill the provisions of this Agreement, including to cause the Bank to amend the Articles of Association to conform to this Agreement, to the extent permissible under Law.
- Further, Bank Muscat and Sabre have agreed between themselves to offer each other a standard right of first refusal for any sale of shares held by them.

It may be reiterated that the terms in the Shareholders' Agreement are *inter-se* agreed amongst the parties to the agreement and are not enforceable against us unless incorporated in our Articles of Association. Currently, we have not received any proposal to amend the Articles pursuant to the Shareholders' Agreement. Any changes in the Articles can be made only with prior approval of the shareholders through a special resolution necessitating a 75% vote of the shareholders present and voting. As per BR Act, no shareholder can cast votes in excess of 10%. Consequently, the voting power of Kephinance Investment (Mauritius) Pte Limited and Bank Muscat is restricted to 10 percent each. The current shareholding of Sabre is 7.82%. Sabre has been committed to a 20% holding in the fully diluted equity of the Bank, but its shareholding pursuant to the warrants allotted to it cannot in any event exceed 20%. It may be noted that since we are not a party to the agreement, no RBI approval was required to be obtained by us.

For any further information relating to Shareholders' Agreement which may be dealt with in greater detail therein, shareholders may refer to the Shareholders' Agreement, a copy of which is part of "Material Contracts and Inspection of Documents".

(v) Summary of the Trust Deed of the Centurion Bank Stock Trust

The Deed of Trust dated January 12, 2004, pursuant to Clause 16 of the Scheme provides for the appointment of at least two trustees. The initial trustees are Mr. S. Venkiteswaran, Senior Counsel and non-executive Director of the Bank, and Mr. Berjis Desai, Solicitor and Partner, J. Sagar Associates. The trustees shall hold the shares together with all additions and accretions in trust exclusively for the benefit of the Bank and shall exercise voting rights in furtherance of the best interests of the Bank. The Trustee shall act by a majority decision. In the event of the Trustees being evenly divided over any decision, the matter shall be referred to sole arbitration of a retired judge of the Supreme Court of India or the Bombay High Court. The Trust shall be dissolved on the date of sale of the last of the shares that form the trust property.

For any further information relating to Trust Deed which may be dealt with in greater detail therein, shareholders may refer to copy of the Trust Deed, which would be part of "Material Contracts and Inspection of Documents".

SCHEME OF ARRANGEMENT AMONGST US, BANK MUSCAT AND SHAREHOLDERS OF CENTURION BANK LIMITED

On September 12, 2003 and October 27, 2003, the Honourable High Court of Judicature at Bombay (Goa Bench) and the Karnataka High Court, respectively, approved the Scheme of Arrangement under Sections 391 to 394 read with Section 81(1A) and Sections 100 to 103 of the Act, primarily for reduction of the Equity Share capital, fresh capital infusion, the transfer and vesting of the Bank Muscat Bangalore into our business, and the vesting of the shares in our equity capital held by TCFC in the Centurion Bank Stock Trust. In terms of the Scheme the transfer and vesting of the Bank Muscat Bangalore into our business took effect from April 1, 2003, the Appointed Date for the Scheme. The principal terms of the Scheme of Arrangement and the manner of implementation of the same are set forth below.

Reduction of capital

Our erstwhile Issued Subscribed and Paid-up Equity Capital of Rs. 152.47 crores comprising 15.247 crores Equity Shares of the face value of Rs. 10 each fully paid-up was reduced to Rs. 15.247 crores comprising of 15.247 crores Equity Shares of the face value of Re. 1 each. The reduction was effected by cancelling Rs. 9 per Equity Share from the face value of Rs. 10 per share.

The sum of Rs. 137.223 crores being the total reduction in our Equity Capital as above, was utilised to adjust the debit balance in the Profit & Loss Account to that extent.

Contribution by Sabre

In terms of Clause 3.2 of the Scheme, Sabre was required to contribute a sum of Rs. 4 crores in cash for our recapitalisation, for which, upon reduction of capital on February 04, 2004, we issued and allotted to Sabre on February 06, 2004: -

- 4 crores Equity Shares of the face value of Re. 1 each at an allotment price of Re. 1 each; and
- 13.50 crores warrants which shall at the option of Sabre be convertible into 13.50 crores Equity Shares of the face value of Re. 1 per share at a premium of Rs. 3 per share for a cash consideration, which may be exercised at any time upon completion of the capital infusion but prior to the expiry of sixty months from the date of issue of such warrants.

These shall be subject to a lock-in, whereby the shares and the warrants shall not be transferable. Provided however, such lock in shall be released in the ratio of 40:30:30 at the end of the thirty-sixth, forty-eighth and sixtieth month respectively, from February 04, 2004.

Transfer and Vesting of the Bangalore Branch

As per the terms of the Scheme, with effect from the Appointed Date, the entire business of the Bangalore Branch, the properties, leases and rental agreements all debts, liabilities, contingent liabilities, duties and obligations of every kind, nature and description, relating to it has under the provisions of Sections 391 to 394 and other applicable provisions of the Act and pursuant to the Orders of the High Court of Judicature at Bombay (Goa Bench) and the Karnataka High Court and without any further act or deed, been transferred to and vested in and/or be deemed to be transferred to and vested in us, as at April 1, 2003, so as to vest in us all the rights, title and interest of Bank Muscat therein.

Consideration for the Bangalore Branch

Bank Muscat was required to infuse an aggregate sum of Rs. 75 crores into the Bank. In consideration of transfer and vesting of the Bangalore Branch into us as per the terms of the Scheme, we have issued 112,500,000 Equity Shares of the face value of Re. 1 each, at a premium of Rs. 3 per share to Bank Muscat, which aggregates to a value of Rs. 45 crores. Bank Muscat Bangalore merger has been accounted by using the purchase method under Indian GAAP. Out of the value of Rs. 45 crores ascribed to Bank Muscat Bangalore, Rs. 24.47 crores comprised cash and cash equivalents (such as SLR securities). Further in terms of the Scheme, Bank Muscat also subscribed in cash to additional 75,000,000 Equity Shares of the face value of Re. 1 each, at a premium of Rs. 3 per share aggregating Rs. 30 crores.

Recapitalisation

- Sabre Investor Group contributed a sum of Rs. 50 crores by subscribing in cash to our Equity Shares having face value of Re. 1 each, at a premium of Rs.3 per share;
- Bank Muscat contributed a sum of Rs. 30 crores (in addition to transferring its Bangalore Branch, valued at Rs. 45 crores, as mentioned above) to us by subscribing in cash to our Equity Shares having face value of Re. 1 each, at a premium of Rs.3 per share; and
- ADB and Kephinance Investment (Mauritius) Pte Ltd. contributed a sum of Rs. 25 crores to the Bank by subscribing in cash to our Equity Shares having face value of Re. 1 each, at a premium of Rs. 3 per share.
- A further infusion of capital into the Bank, as contemplated under the Scheme, is being made under the present rights issue, so as to infuse an amount of at least Rs. 219 crores (taking into account capital infusion in terms of the Scheme and the present rights issue).

TCFC Finance Limited Shares

Four crore Equity Shares of the Bank held by TCFC Finance Limited (“TFL Shares”) stood transferred to and vested in the Centurion Bank Stock Trust, a trust managed by the trustees nominated by the Board of Directors of the Bank (hereinafter referred to as “the Trustees”), to have and hold in the name of the Trustees, the TFL Shares together with all additions or accretions thereto in trust exclusively for the benefit of the Bank and its successors, subject to the powers, provisions, discretion, rights and agreements contained in a Declaration of Trust executed by the Trustees in this respect on January 12, 2004. The Trustees are Mr. S. Venkiteswaran, Senior Counsel and independent Director of the Bank, and Mr. Berjis Desai, Solicitor and Managing Partner, J. Sagar Associates.

Upon such vesting and transfer of the TFL Shares in the Trustees, TFL is deemed to have been discharged of its oblications in terms of the Financial Support Agreement dated April 08, 1999 executed between us and TFL.

Status of implementation

Except for this Rights Issue, the Scheme has been fully implemented and all other conditions have been met. Shareholders are free to read the copy of the Scheme for details, which is part of “Material Contracts and Inspection of Documents”.

OUR MANAGEMENT

We were incorporated on June 30, 1994 and commenced business on July 20, 1994. We were originally promoted by TCFC and Keppel Tatlee Bank Limited, who had approached RBI seeking approval to set up a commercial bank in India. Our main equity was provided by then promoters, TCFC and its associates and Keppel Tatlee Bank Ltd., which was earlier the Keppel Bank of Singapore through Kephinance Investment (Mauritius) Pte. Ltd. ("Keppel"). In addition, Asian Development Bank, Manila and International Finance Corporation, Washington also participated in our equity.

TCFC, has since been amalgamated with us. Our Board of Directors and that of TCFC had approved the aforesaid scheme of amalgamation, at Board meetings held on October 16, 1998. The scheme was approved by our shareholders on December 14, 1998 and by the shareholders of TCFC on December 16, 1998. The scheme was sanctioned by the Honourable High Courts of Judicature at Bombay and Goa Bench at Panaji on April 09, 1999 and April 16, 1999 respectively. Post effectiveness of the said scheme (the effective date of the scheme of amalgamation), TCFC ceased to exist and TCFC Finance Limited (TFL) became our promoter, by virtue of receiving the shares of the Bank paid as consideration for the merger.

As part of the above transaction, we also inherited a portfolio of stressed assets from TCFC. In order to compensate the Bank for losses, if any that may arise over and above the amount envisaged during the aforementioned scheme of amalgamation, TFL agreed to extend financial support to the Bank to the extent of Rs. 40 crores to compensate the Bank for any further provisioning or incremental write-off of assets taken over from TCFC over and above what was taken into account, under a Financial Support Agreement dated April 08, 1999 (FSA). As security for the fulfilment of TFL's obligations under the FSA, TFL agreed to pledge in favour of the Bank, Equity Shares of the Bank held by TFL ("TFL Shares"). It was subsequently agreed that in full and final settlement of TFL's liability under the FSA, TFL would transfer the TFL Shares to us, thereby bringing its shareholding in the Bank from 26.23% to 0%. This was finally completed under the Scheme, under which the aforesaid TFL Shares were vested in the Centurion Bank Stock Trust, to be held and dealt with for our benefit. Further, TFL or its group companies or affiliates have, since March 28, 2002, not been represented on the Board of Directors, nor has it had any involvement or role in the policy or the management of the Bank. **Accordingly, TFL has ceased to be the promoter of the Bank.**

Our other promoter, Keppel Tatlee Bank Limited was merged with Overseas Chinese Banking Corporation, a Singapore based financial services group in August 2001. Consequently, Keppel Tatlee Bank is no longer part of the Keppel group of companies. Also we were informed by Keppel vide their letter dated March 25, 2004, requesting that its holding company, Keppel Tatlee Bank Ltd. (who had been described as a promoter of the Bank in an earlier Offer Letter dated January 27, 2001) not be described as a promoter in respect of the Bank in future in any context including in the Draft Letter of Offer to be filed with SEBI in respect of the proposed rights issue. After deliberations, our Committee of the Board viz. Securities Transfer, Allotment & Grievance Redressal Committee, was of the view that the points raised by Keppel are valid in view of the changes in the position, shareholding, promoter related developments and financial and management restructuring of the Bank with the current position that the Bank is a Board managed company with professional management reporting to the Board of Directors. The Committee of the Board noted that the role played by Keppel at the beginning when the Bank was set up and in the years thereafter has undergone a substantial change and that currently the shareholding of Keppel is in nature that of a pure financial investor similar to new investors that have become the shareholders of the Bank as a part of the financial restructuring plan. The Committee of the Board also noted that Keppel has only one Nominee Director on the Board and is not in a position to exercise any control on the Bank except as and to the extent available to them as a financial investor. In any event, Keppel Tatlee Bank Limited itself had ceased to be a part of the Keppel group of companies and as such, the shareholding in the Bank is currently held by Kephinance Investment Mauritius Pte Ltd. which is acting purely as a financial investor. Therefore, our Committee of the Board was of a view that neither Keppel TatLee Bank Ltd. nor any other affiliate of Keppel should be termed as promoters of the Bank. In view of the same, **Keppel, has also ceased to be a promoter of the Bank.** Further, in this regard, a circular resolution was passed by the Board on May 31, 2004 whereby the Board noted, approved and concurred with the view taken by the Committee with regard to promoters of the Bank and resolved that the Bank was a professionally run Bank with no promoters.

In view of our financial position for the past few years, in 2002, we had fallen short of compliance with capital adequacy requirements stipulated by RBI, and to achieve the same, we were actively considering various avenues and options for reconstruction and recapitalisation of the Bank. The Board of Directors explored several alternatives for restructuring and recapitalising the Bank. One of the proposals considered by the Board was that presented by Sabre, under which Sabre would arrange for fresh capital, equivalent to Rs.219 crores including the Rights Issue, to be infused by various investors including mutual funds, foreign institutional investors, high net worth individuals, etc., at a price of Rs. 4 per share after the face value of Equity Shares of the Bank was reduced from Rs.10 per share to Re. 1 per share by writing off debit balance in our accumulated Profit & Loss reserve aggregating Rs. 137.22 crores. This was implemented through a comprehensive Scheme of Arrangement and compromise between us, our shareholders and Bank Muscat. The Scheme also included the proposal for merger of the Bank Muscat Bangalore into the Bank on the basis of valuation finalised on the basis of a detailed due diligence. Please refer the summary of the Scheme on page 75 of this Letter of Offer. The Scheme was approved by the Board on April 23, 2003 and was also approved by shareholders, High Courts of Mumbai (Goa Bench) and Karnataka, on June 14, 2003, September 12, 2003 and October 27, 2003, respectively. The Scheme became effective on January 19, 2004, when we received the final approval from RBI.

The provisions of the Scheme involved a turnaround strategy based on capital restructuring and induction of a professional management team. This was achieved by infusion of capital by existing principal shareholders viz. Keppel and ADB and allotment of capital to new investors viz. Sabre, the investors brought in by Sabre and Bank Muscat. Sabre participated in the capital infusion with its own funds and assisted the Bank in identifying and recruiting a world-class management team.

As on March 26, 2004, Sabre, Bank Muscat and Keppel hold 7.82%, 33.04%, and 14.45% of our paid-up share capital (source : the Bank and BSE). Presently, Sabre, Bank Muscat and Keppel have 2, 2 and 1 nominees respectively on our Board of Directors.

Thus presently the Bank has no identified Promoter and is managed professionally under the overall supervision and superintendence of the Board.

Some of our major shareholders have entered into a Shareholders Agreement. Please also refer page 73 of this Letter of Offer, for the summary of the "Shareholders' Agreement". The Bank is not a party to any Shareholders' Agreement.

Our day-to-day operations are looked after by Mr. Shailendra Bhandari, Managing Director, assisted by a key management team, under the overall supervision and control of our Board of Directors. The Board is headed by Mr. Rana Talwar, non-executive Chairman. The key management team includes Mr. A. Asokan, Executive Director, and functional heads and regional heads. Details of our Directors and key managerial personnel are provided below.

The following table sets forth details regarding our Board of Directors

Name, Designation, Residential Address, Occupation	Age	Date of Appointment	Other Indian Directorships
Mr. G.S. (Rana) Talwar 19, Phillimore Place London W8 7BY **Banker**	**56**	**31/01/2004**	**Chairman** Power Overseas Private Limited
Mr. Shailendra Bhandari 31-A, Maker Tower A Cuffe Parade, Mumbai 400 005 **Company Executive**	**46**	**01/02/2004**	**Managing Director**
Mr. Subramanian Venkiteswaran A/7-1&2, Lloyds Garden, 7th Floor Appasaheb Marathe Marg Prabhadevi, Worli Mumbai 400 025 **Senior Advocate**	**62**	**04/05/1999**	**Director** Adani Port Limited Dolphin Offshore Enterprises (India) Limited Gujarat Adani Port Limited Indian Register of Shipping National Stock Exchange of India Limited National Securities Depository Limited National Securities Clearing Corporation Limited The Clearing Corporation of India Limited
Mr. Kamlesh Shivji Vikamsey 6, Bhushan Villa, 2nd Floor Swastik Park, Chembur, Mumbai 400 077 **Chartered Accountant**	**43**	**28/03/2002**	**Director** Navneet Publications (India) Limited Design Knitware (Bangalore) Private Limited Classical Menswear Private Limited HLB Technologies (Mumbai) Private Limited HLB Offices and Services Private Limited Birla Global Finance Limited
Mr. Jayant Dang Unit 30 B, Pacific Plaza Condominium Ayala Avenue Makati City Philippines **Banker**	**53**	**29/01/2002**	**Director - (Representing Asian Development Bank)** SBI Capital Markets Limited – Alternate Director Bracknell Investments Private Limited

Name, Designation, Residential Address, Occupation	Age	Date of Appointment	Other Indian Directorships
Mr. Shital Kumar Jain 5/10 2nd Floor, Shantiniketan, New Delhi **Banker**	**64**	**24/05/2002**	**Director** R.S. Software (India) Limited
Mr. Davendra Mittal G-76A Kirti Nagar, New Delhi 110 015 **Finance**	**34**	**29/01/2002**	**Alternate Director to Mr. Jayant Dang** Andhra Petrochemicals Limited SARA Fund Trustee Company Limited IL&FS Investment Managers Limited
Mr. Teo Soon Hoe 23, Church Street # 15-01 Capital Square Singapore 049481 **International Banking**	**54**	**11/01/1995**	**Director** Does not hold any Directorship in any other Company in India
Mr. Rajiv Maliwal 8, Farrer Road # 04-02, Water Fall Gardens Singapore 268 820 **Company Executive**	**43**	**25/7/2003**	**Director** Sara Advisory Services Private Limited
Mr. J. Sunder George C/o. Bank Muscat (SAOG) P.O. Box 134, Ruwi, Sultanate of Oman - 112 **Bank Executive**	**57**	**31/01/2004**	**Additional Director - Nominee Bank Muscat** Does not hold any Directorship in any other Company in India.
Mr. K. K. Abdul Razak C/o. Muscat Overseas Co. LLC P.O. Box 488, P.C. 112, Ruwi, Sultante of Oman **Company Executive**	**57**	**31/01/2004**	**Additional Director – Nominee Bank Muscat (SAOG)** Does not hold any Directorship in any other Company in India.
Mr. Abdul Razak Ali Issa C/o. Bank Muscat (SAOG) P.O. Box 134, Ruwi, Sultanate of Oman - 112 **Company Executive**	**51**	**03/03/2004**	**Alternate Director to Mr. K.K. Abdul Razak** Does not hold any Directorship in any other Company in India.
Mr. Ahmed Mohammed Al Abri C/o. Bank Muscat (SAOG) P.O. Box 134, Ruwi, Sultanate of Oman - 112 **Company Executive**	**52**	**03/03/2004**	**Alternate Director to Mr. J.S. George** Does not hold any Directorship in any other Company in India.
Mr. Y. K. Modi 33 Shivji Marg, Rangpuri, New Delhi 110 037 **Industrialist**	**56**	**03/03/2004**	**Additional Director** Mody Telecommunications Limited – Chairman Great Eastern Energy Corporation Limited - Chairman Bokel Investments Limited -Chairman YKM Bio-tech Limited YKM Investment Limited YKM Holdings Private Limited Indian Purchase.Com Infoware Limited

Proviso to Regulation 10A(2a) of the BR Act states that atleast 2 Directors shall be persons having special knowledge or practical experience in respect of agriculture and rural economy, co-operation or small-scale industry. While the Bank has a broad based Board, no Director can be considered to be a specialist in agriculture or rural economy.

Mr. Rana Talwar, Chairman

Mr. Talwar holds a Bachelor's Degree in Economics, History and Psychology and has a rich and varied experience of a period spanning 32 years with Citibank N.A. and Standard Chartered Bank Plc. London at various-senior level positions. His last assignment was as the Group Chief Executive of Standard Chartered Bank and he became the first Asian to have been the Chief Executive of a major multinational Bank.

Mr. Shailendra Bhandari, Managing Director

Mr. Shailendra Bhandari, is an MBA from IIM Ahmedabad and also holds a Bachelor's Degree in Economics. Mr. Bhandari joined us from Prudential ICICI, the largest private sector mutual fund in India where he was the Managing Director since December 2000. Prior to that, Mr. Bhandari was the Treasurer and Executive Director of HDFC Bank Ltd. where he was a leading member of the core team whose responsibility was to start up and establish the bank as a leading private sector bank in India. Before HDFC Bank, Mr. Bhandari had thirteen years of a successful career with Citibank in India and overseas.

Apart from his responsibilities at Prudential ICICI, Mr. Bhandari also served as a Director with AMFI (Association of Mutual Funds of India). He has also been a member of the Technical Committee on Foreign Exchange set up by the RBI, as well as being a founder Board member of the "Fixed Income Money Markets & Derivatives Association of India" (FIMMDA)

Mr. Subramanian Venkiteswaran, Director

Mr. S. Venkiteswaran holds Bachelor's Degrees in Science and Law. Mr. S. Venkiteswaran specialises in International Trade, Shipping and Aviation related commercial disputes. He is a Senior Advocate who appears regularly before various High Courts in India and the Supreme Court of India. Mr. S. Venkiteswaran was first appointed on the Board on May 4, 1999 and re-appointed on August 25, 2001.

Mr. Kamlesh Vikamsey, Director

Mr. Kamlesh Vikamsey is a Chartered Accountant and a senior partner of Khimji Kunverji & Co., Chartered Accountants, Mumbai. Mr. Vikamsey is the Vice President of the Institute of Chartered Accountants of India (ICAI). Mr. Vikamsey has a rich and varied professional experience of 20 years in different areas including Statutory and Tax Audits of Nationalised Banks and Foreign Banks (Indian Operations), Branch Audits, Concurrent Audit, etc. Mr. Vikamsey has been appointed as an Additional Director on the Board of the Bank w.e.f. March 28, 2002. Mr. Vikamsey is a Director in Navneet Publications (India) Ltd. He is also the Chairman of the Audit Committee and a member of the Investors Grievance Committee of Navneet Publications (India) Limited.

Mr. Jayant Dang, Nominee - Asian Development Bank

Mr. Jayant Dang is an MBA, from Asian Institute of Management, Manila and B. Tech from I.I.T. Kanpur. Mr. Dang is associated with Asian Development Bank as Senior Restructuring Specialist. Mr. Dang has more than 20 years of experience in varied areas of Banking and Non-Banking Finance. Mr. Dang was first appointed as an Alternate Director to Mr. Frank Polman, Nominee of Asian Development Bank. On resignation of Mr. Frank Polman as a Nominee, Asian Development Bank has nominated Mr. Dang as their Nominee on the Board of the Bank w.e.f. January 29, 2002. Mr. Dang is a Director in SBI Capital Markets Ltd.

Mr. Shital Kumar Jain, Director

Mr. Shital Kumar Jain holds a Master's Degree in Business Administration from Indiana University, USA. Mr. Jain has more than 31 years of experience in varied Banking areas like Risk Management, Relationship Management, Retail Banking and Corporate Banking. Mr. Jain has been appointed as an Additional Director on the Board of the Bank w.e.f. May 24, 2002. He is a Director in R.S. Software India Limited and is also a Committee member of the Human Resource Committee of R.S. Software India Limited.

Mr. Davendra Mittal, Alternate Director to Mr. Jayant Dang

Mr. Davendra Mittal holds a Post Graduate Diploma in Management from IIM, Ahmedabad and a Bachelor's Degree in Electronics & Communication from Delhi Institute of Technology. Some of the assignments undertaken by Mr. Mittal are in the field of infrastructure/corporate advisory, project appraisal, credit syndication etc. Mr. Mittal has been appointed on the Board of the Bank as an Alternate Director to Mr. Jayant Dang w.e.f. January 29, 2002. Mr. Mittal is a Director in Andhra Petrochemicals Ltd.

Mr. Teo Soon Hoe, Director

Mr. Teo Soon Hoe graduated with a degree in Business Administration from the University of Singapore. Mr. Soon Hoe is associated with Keppel Group since 1975. Mr. Soon Hoe is Group Finance Director of several companies within the Keppel Group. Mr. Soon Hoe was first appointed on the Bank's Board on January 11, 1995. He does not hold any Directorship in any other Company in India.

Mr. Rajiv Maliwal, Director

Mr. Rajiv Maliwal is an MBA (IIM Bangalore) and also B.E. (Hons) from BITS Pilani. He has served Citibank and ANZ Grindlays Bank for over 20 years both in India and abroad. He has extensive experience in managing the priority sector and agricultural portfolio gained during his service with the Banks. He is presently the Managing Director of Sabre Capital Worldwide, Inc.

Mr. K. K. Abdul Razak, Additional Director

Mr. Abdul Razak has obtained a Masters' degree in Economics from the University of Kerala in 1971. He is employed with Muscat Overseas Group of Companies since 1975. The Group is one of the prominent diversified business houses in Oman. Apart from traditional trading business, Agency representation of international companies, project promotion and Real Estate development, the group has substantial investment in the Banking and financial sector, Industrial units, Utilities and other infrastructure sector. Currently, Mr. Razak is the Senior Executive of the group of companies, Group Finance Manager, advising and reporting directly to the Chairman and Vice Chairman. Mr. Razak is responsible for reviewing Investment proposal presented to the group and giving opinion and advise to the Chairman and Vice Chairman. He is also responsible for monitoring and controlling the operations of all companies under the group, arranging finance for each of the operating units, new projects and investments from Banks and other Financial Institutions.

Mr. Razak has been on the Board of various companies overseas and is a member of various committees in companies abroad. He is also serving some joint venture institutions in various positions like Chairman, Vice Chairman, Senior Director, etc.

Mr. Abdul Razak Ali Issa, Alternate Director to Mr. K. K. Abdul Razak

Mr. Abdul Razak Ali Issa completed his Management Development Programme at Harvard University, Graduate School of Business Administration in Boston, Massachusetts in October 1994. Mr. Abdul Razak has a vast banking experience of over 30 years. He joined Grindlays Bank's operations in Oman in 1969 and worked in various positions over the years including Manager and Operations Officer. He joined Bank Muscat (SAOG) in December 1981 as an Assistant General Manager. Since then he has been promoted to various levels and in 1994 he was appointed as the CEO of the Bank and continues so till date.

Mr. George J. Sunder, Additional Director

Mr. George Sunder is as Science Graduate from University of Madras. He has done his MBA from IMD, Lausanne and is a Fellow of the Chartered Institute of Bankers, London, as well as a Certified Associate of the Indian Institute of Bankers, India.

Mr. George has over 32 years of experience in banking having started with the National and Grindlays Bank Ltd., Bangalore, India in 1969. He has worked with Bank of Maharashtra, Madras, India, Grindlays Bank Oman and Zambia National Commercial Bank, Zambia. He joined Oman Overseas Trust Bank (now known as Bank Muscat SAOG) as Senior Deputy General Manager in 1994 and with the merger of Bank Muscat SAOG and Al Bank Al Ahli Al Omani SAOG, he was appointed as General Manager of the Bank in April 1994. He was appointed as Deputy Chief Executive of the Bank after it merged with Commercial Bank of Oman in December 2000.

Mr. Ahmed M. Al Abri, Alternate Director to Mr. J. S. George

Mr. Ahmed Mohamed Al Abri completed his MBA from University of Lincolnshire & Humberside – UK. He has also completed his GSCE Ordinary Level Certificate in 1972. He pursued an Executive MBA – The General Manager's Program from Harvard, Boston. He has attended a number of banking courses conducted by various institutes and organisations like course on Lending Practices by Standard Chartered Bank, London, course on Corporate Finance conducted by Citibank, Singapore, etc. He has over 20 years of banking experience. In 1976 he joined Standard Chartered Bank, Oman. He joined Bank Muscat (SAOG) in 1989 and continues till date. He is responsible for the general management of the Bank, overseeing operations like Corporate Banking, Retail Banking, Provate Banking, Consumer Lendig, etc.

Mr. Y. K. Modi, Additional Director

Mr. Yogendra Modi is the Chairman of YKM Holdings, a leading business group in India. An engineer by profession, Mr. Modi is a member of the Dean's Council at John F. Kennedy School of Government, Harvard University, USA. His current business interests are coal-bed methane exploration, industrial B2B portals, call centres and other value-added telecommunication services. A prominent spokesman, Mr. Modi holds office in many national level business bodies like Federation of Indian Chambers of Commerce and Industry.

Compensation of Directors / Executive Directors

The Board of Directors by a Circular Resolution dated November 30, 2003 appointed Mr. Shailendra Bhandari as the Managing Director of the Bank for a period of 5 years. The RBI has accorded approval for the appointment of Mr. Bhandari as Managing Director vide their letter No. DBOD. No. 318/08.99.001/2003-04 dated December 29, 2003. Mr. Bhandari assumed charge as the Managing Director of the Bank with effect from February 01, 2004 and as per the terms of his appointment is entitled to a monthly salary and allowances of Rs. 7,00,000, membership of one club and free furnished accommodation provided by the Bank. He is also entitled to additional benefits, including use of Bank's car, contributions to provident fund, superannuation fund, gratuity, medical benefits, leave travel allowance and other benefits like two telephones and one mobile. The Company paid a gross remuneration of Rs. 0.17 crores for the year ended March 31, 2004 to the Managing Director.

Other than the sitting fees and reimbursement of expenses for attending the meetings of the Board or its Committees, no other fees or remuneration is paid to non-executive Directors.

Corporate Governance

We are in total compliance with the clause on Corporate Governance included in the Listing Agreement by the stock exchanges consequent to directives issued by SEBI and RBI.

We have constituted an Executive Committee, Audit Committee, Nomination Committee, Corporate Governance Committee, Compensation Committee, Securities Transfer, Allotment and Grievance Redressal Committee and Review Committee for Recovery of NPAs.

The **Executive Committee** was constituted on January 25, 1995. The Executive Committee discharges functions like sanction of expenditure, both capital and revenue, within the budgets approved by the Board, delegating powers to Committees of executives and all other functions pertaining to the operations of the Bank, as delegated by the Board.

The members of the Executive Committee are:

Mr. Rana Talwar - Non-Executive Chairman

Mr. S. Venkiteswaran - Independent, Non-Executive Director

Mr. S. K. Jain - Independent, Non-Executive Director

Mr. J.S. George - Non-Executive Director

Mr. Rajiv Maliwal - Non-Executive Director

Mr. Y.K. Modi - Independent, Non-Executive Director

Mr. Shailendra Bhandari - Managing Director

The **Audit Committee** was constituted on November 22, 1997. The Company Secretary is the Secretary to the Audit Committee. Audit Committee is chiefly responsible for functions as prescribed u/s. 292A of the Act and Clause 49 of the Listing Agreement with the stock exchange.

The members of the Audit Committee are:

Mr. Kamlesh Vikamsey – Independent Non-Executive Chairman of the Committee

Mr. K.K. Abdul Razak - Non-Executive Director

Mr. S.K. Jain - Independent, Non-Executive Director

Mr. Y.K. Modi - Independent, Non-Executive Director

Mr. Rajiv Maliwal - Non-Executive Director

The **Nomination Committee** was constituted on March 17, 2000. The Nomination Committee looks into aspects relating to appointment of Chairman and whole-time Directors, reconstitution of the Board of Directors, performance, evaluation and appointment of top management personnel and related issues.

The members of the Nomination Committee are:

Mr. Rana Talwar - Non-Executive Chairman

Mr. S. Venkiteswaran – Independent, Non-Executive Director

Mr. S. K. Jain – Independent, Non-Executive Director

Mr. K.K. Abdul Razak - Non-Executive Director

Mr. Shailendra Bhandari - Managing Director

The **Corporate Governance Committee** (CGC) was constituted on March 17, 2000. Terms of reference of the CGC include establishing a model code of corporate governance and monitoring compliance thereof. A code of Corporate Governance has been evolved and approved by the Board of Directors.

The members of the Corporate Governance Committee are:

Mr. S. Venkiteswaran – Independent Non-Executive Chairman of the Committee

Mr. Teo Soon Hoe – Non-Executive Director

Mr. K.K. Abdul Razak - Non-Executive Director

Mr. Kamlesh Vikamsey - Independent, Non-Executive Director

The **Compensation Committee** – was constituted on July 31, 2000. Terms of reference of the Committee include considering grant of stock options to employees under the Employees Stock Option Scheme (ESOS).

The members of the Compensation Committee - ESOP are:

Mr. Rana Talwar - Non-Executive Chairman

Mr. J.S. George - Non-Executive Director

Mr. Kamlesh Vikamsey – Independent, Non-Executive Director

Mr. Shailendra Bhandari - Managing Director

The Securities Transfer, and Grievance Redressal Committee was constituted on July 26, 1999. This committee has been renamed as **Securities Transfer, Allotment & Grievance Redressal Committee** with effect from January 31, 2004.

The members of the Committee are:

Mr. S. Venkiteswaran - Independent, Non-Executive Chairman of the Committee

Mr. Kamlesh Vikamsey – Independent, Non-Executive Director

Mr. Rajiv Maliwal - Non-Executive Director

Mr. Shailendra Bhandari - Managing Director

Mr. N.E. Venkitakrishnan, Company Secretary, is the Compliance Officer.

The Review Committee for Recovery of NPA's was constituted on November 30, 2002 and has been renamed as the **Risk Policy Committee** on January 31, 2004. The Risk Policy Committee focuses on review and follow up from time to time, of the action initiated by the Bank with reference to specific NPA recovery cases.

The members of the Committee are:

Mr. S. K Jain - Independent Non-Executive Chairman of the Committee

Mr. Kamlesh Vikamsey – Independent, Non-Executive Director

Mr. J.S. George - Non-Executive Director

Mr. Rajiv Maliwal - Non-Executive Director

Mr. Shailendra Bhandari - Managing Director

Except Mr. Shailendra Bhandari, all other Directors are non-executive and majority of the Directors are independent/non-executive Directors.

Shareholding of the Directors

The Articles of the Company do not require the Chairman and the Directors to hold any qualification shares. The Directors' shareholding as on July 23, 2004 was 1,064,500 Equity Shares of the Bank.

Interest of the Directors

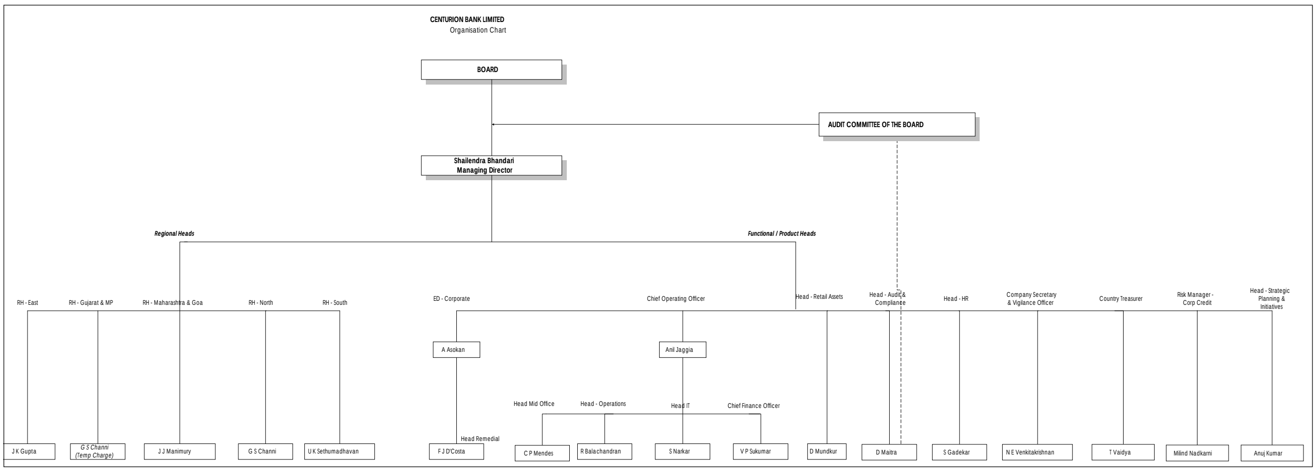
All the Directors of the Company, apart from reimbursement of expenses incurred, normal remuneration and benefits from the Company and their shareholding in the Company (including Rights Entitlement), if any, have no other interests in the Company except in respect of the commercial transactions between the Company, its subsidiaries and other companies in which they are Directors / interested.

Changes in Directors in the last three years

S. No.	Name	Date of Appointment/ Cessation	Reason
FY 2002			
	Mr. V.V. Subramanian	June 29, 2001	Resigned as Alternate Director
	Mr. Jayant Dang	June 29, 2001	Appointed Mr. Jayant Dang as Alternate Director to Mr. Frank J. Polman
	Mr. Benedict Kwek	September 27, 2001	Resigned as Director
	Mr. Chee Jin Kiong	September 27, 2001	Appointed as Director
	Mr. Eric Cruikshank	October 11, 2001	Resigned as Alternate Director
	Mr. Loy Pires	October 11, 2001	Appointed as Alternate Director to Mr. Roy Karaoglan
	Mr. V.S. Srinivasan	January 04, 2002	Ceased to hold office as "Director in Charge" but continued as Director on the Board.
	Mr. V. Janakiraman	January 29, 2002	Appointed as Chairman & Managing Director
	Mr. Frank J. Polman	March 28, 2002	Resigned as Director
	Mr. Jayant Dang	March 28, 2002	Appointed as Director
	Mr. Davendra Mittal	March 28, 2002	Appointed as Alternate Director to Mr. Jayant Dang
	Mr. D. Ahuja	March 28, 2002	Resigned as Director
	Mr. V.S. Srinivasan	March 28, 2002	Resigned as Director
	Mr. Satish Kaura	March 28, 2002	Resigned as Director
	Mrs. Kanta Ahuja	March 28, 2002	Resigned as Director
	Mr. C.G. Somiah	March 28, 2002	Appointed as Director
	Mr. Kamlesh Vikamsey	March 28, 2002	Appointed as Director
FY 2003			
	Mr. Roy Karaoglan	May 24, 2002	Resigned as Director
	Mr. Loy Pires	May 24, 2002	Resigned as Director
	Mr. S.K. Jain	May 24, 2002	Appointed as Director
FY 2004			
	Mr. Rajiv Maliwal	July 25, 2003	Appointed as Director
	Mr. Peter Nigel Kenny	July 25, 2003	Appointed as Director
	Mr. C.G. Somiah	September 08, 2003	Resigned as Director
	Mr. V. Janakiraman	January 31, 2004	Relinquished office as Chairman & Managing Director
	Mr. Shailendra Bhandari	February 01, 2004	Assumed charge as Managing Director
	Mr. Peter Nigel Kenny	January 31, 2004	Resigned as Director
	Mr. Chee Jin Kiong	January 31, 2004	Resigned as Director
	Mr. Rana Talwar	January 31, 2004	Appointed as Non-Executive Chairman
	Mr. J.S. George	January 31, 2004	Appointed as Director
	Mr. K.K. Abdul Razak	January 31, 2004	Appointed as Director
	Mr. Y.K. Modi	March 03, 2004	Appointed as Director
	Mr. Ahmed Mohammed Al Abri	March 03, 2004	Appointed as Alternate Director to Mr. J.S. George
	Mr. Abdul Razak Ali Issa	March 03, 2004	Appointed as Alternate Director to Mr. K.K. Abdul Razak
	Mr. Mahesh Vyas	March 17, 2004	Resigned as Director

Our Management Organisation Structure

The organisation structure of the Company is as follows:



Key Managerial Personnel

Our key managerial personnel other than the Managing Director are as follows:

Name	Age	Designation	Qualifications	Total Experience	Banking Experience	Date of Joining	Previous Employment(s)
Jayanta Kumar Gupta	51	Regional Head - East	CAIIB	30	30	March 10, 1998	State Bank of India
J Joseph Manimury	51	Regional Head-Maharashtra & Goa	BSc. (Special)	27	27	July 1, 2002	State Bank of Travancore & Indusind Bank
G S Channi	50	Region Head - North	BCom, MCom, CAIIB	26	26	October 20, 1997	Punjab & Sind Bank and Bank of Punjab
U K Sethumadhavan	43	Regional Head – South	BSc, MSc, LLB, CAIIB, PGDBA, Diploma in Management	20	19	June 8, 1995	Union Christian College, Alwaye and State Bank of Travancore
A Asokan	46	Executive Director - Corporate & Transaction Banking	MSc, CAIIB, MFM	21	18	June 16, 1999	Reserve Bank of India, ANZ Grindlays Bank and Credit Lyonnais India, Chennai
Francis J D'Costa	57	Head - Remedial	BA Hons (Eco), CAIIB	27	27	March 2, 1995	SBI
Deepak Mundkur	47	Head - Retail Assets	BCom, MCom, CAIIB, MFM	25	11	October 3, 1997	Indian Overseas Bank, Ashok Leyland Finance Ltd., Escorts Finance Ltd., Wall Street Finance Ltd., 20th Century Finance Corp. Ltd. and Alpic Finance

Name	Age	Designation	Qualifi-cations	Total Experience	Banking Experience	Date of Joining	Previous Employment(s)
Vattom Padath Sukumar	55	Chief Finance Officer	BCom, CA, MBIM	27	8	December 14, 2000	Shaw Wallace & Co. Ltd. and A.F. Fergusan & Co., Madras Rubber Factory Ltd., Goa, Ocean Inchcape Ltd., Saudi Arabia and Times Bank/ HDFC Bank
N E Venkitakrishnan	42	Company Secretary and Vigilance Officer	BCom, CA, ACS	20	7	October 31, 2003	Bennet Coleman & Co. Ltd., Times Bank Ltd., and HDFC Bank Ltd.
Debmalya Maitra	39	Head - Audit & Compliance	BCom, CA	16	8	March 6, 1995	M/s. Lovelock & Lewes, National Insurance Company Ltd. and SBI Home Finance Ltd.
Sanjay Narkar	41	Head - Information Technology	BCom, DCM, PGDCA, Oracle DBA I & II	18	5	October 1, 2003	Unit Trust of India, HDFC Bank Ltd. and IL&FS
R Balachandran	49	Head - Operations	BSc, LLB, CAIIB	30	27	June 26, 1997	Dena Bank and Times Bank Limited
C P Mendes	46	Head - Treasury (Mid Markets)	BCom, MCom, DBIM, CAIIB (I)	25	25	March 16, 1995	Bank of Baroda
Milind Nadkarni	52	Risk Manager - Corporate Credit	B. Com	30	30	February 06, 2002	State Bank of India and UTI Bank
Anil Jaggia	42	Chief Operating Officer	PGDM IIMA, B. Tech	20	18	May 05, 2004	Citibank N.A., TELCO
Tarini Vaidya	39	Country Treasurer	BCom Hon	19	17	April 01, 2004	HSBC, Software Development India Pvt. Ltd., KBC Bank N.V. Dresdner Bank, ANZ Grindlays Bank
Anuj Kumar	37	Head Strategic Planning and Initiatives	ACA, PGDM IIMB	12	11	March 27, 2004	DSP Merrill Lynch, Monsanto, Deutsche Bank, Credit Lyonnais
Shalaka Gadekar	38	Head – HR	Bachelor of Laws, Post Graduate Diploma in Personnel Mgmt	16	16	June 01, 2004	IDBI Bank

None of the key managerial personnel are relatives of each other. All the employees named above are on the rolls of Centurion Bank as permanent employees.

Shareholding of the Key Managerial Personnel

The aggregate shareholding of the key managerial personnel as on July 23, 2004 was 51,500 Equity Shares. The table below provides details of the shareholding of our key managerial personnel with their relatives.

Name of Key Managerial Personnel and their Relatives	Number of shares held as on July 23, 2004 in the Company	% Shareholding
A Asokan	20,000	0.004%
U K Sethumadhavan	10,000	0.002%
Jayanta Kumar Gupta	1,500	0.0003%
Tarini Vaidya	20,000	0.004%

Bonus or Profit sharing plan for the Key Managerial Personnel

The Company does not have any performance bonus or profit sharing plan for its key managerial personnel.

Changes in the Key Managerial Personnel in the last three years

Following are the changes in Key Managerial Personnel in the last three years (other than superannuation):

Name	Designation	Reason
FY 2002		
Moses Harding	Executive Director – Treasury & Money Market Operations	Resignation
Priya Suri Dhawan	Head HR & Corporate Communication	Resignation
Bernard Saldanha	Head Retail Liabilities & Card Products	Resignation
Amal Choudhari	Regional Head - East	Resignation
FY 2003		
Sanjay Sawant	Company Secretary	Resignation
G P V P Rao	Chief Technology Officer	Resignation
Ashok Khanna	Executive Director- Retail Assets	Resignation
T V Lakshminarayan	Head - Capital Markets	Resignation
Shyamla Khera	Regional Head - North	Resignation
J Joseph Manimury	Regional Head - Maharashtra & Goa	Appointed
FY 2004		
R. K. Nagpal	Regional Head – Gujarat & MP	Resignation
Anil K. Kalra	Head - HR	Resignation
Sanjay Narkar	Head-Information Technology	Appointed
N. E. Venkitakrishnan	Company Secretary & Vigilance Officer	Appointed
Anuj Kumar	Head strategic Planning & Initiatives	Appointed
Milind Nadkarni	Risk Manager - Corporate Credit	Promoted
Anil Jaggia	Chief Operating Officer	Appointed
Tarini Vaidya	Country Treasurer	Appointed
Shalaka Gadekar	Head - HR	Appointed

Human Resources

The total manpower of the Bank as on March 31, 2004 was 1,112 officers. The manpower position of the Bank for the last five years is as under:

As on March 31	Total No. of Employees
2000	710
2001	821
2002	965
2003	945
2004	1,112

The decreasing trend noticed in business volumes and operating profit from 2002 and 2003, stated below, are due to contraction of business in those years due to capital adequacy constraints. The position as on March 31, during the last five years is depicted in the table below:

Year	2000	2001	2002	2003	2004
Business per employee (Rs. crores)	8.04	7.66	5.36	4.39	4.26
Operating Profit per employee (Rs. crores)	0.09	0.07	0.01	0.02	0.01

Human Resources Development

Steps taken towards recruitment of Personnel

Our entry-level staffing is determined as part of the annual business planning and budgeting process. Another determinant of the staffing is the employee attrition rate. To address the need to hire high quality people we have adopted a selective recruitment process. We recruit entry-level graduates with relevant prior banking and/or functional experience from various commerce colleges and management institutions in India. The vacancies at higher levels are filled through internal candidates and recruitment of lateral candidates. We have recently introduced Internal Job Postings program and we are also launching a employee referral program in August 2004.

As of March 31, 2004, the qualification profile of our employees was as follows:

Qualification	No. of Employees	Percentage
Graduates	682	61.33
Post Graduates	153	13.76
Professionally Qualified	252	22.66
Others	25	2.25
Total	**1,112**	**100%**

For fiscal 2004 and for the quarter ended June 2004, we have recruited staff mainly through placement consultants and referrals. However, we have also recruited a few executives through web and direct applications. We have released a recruitment advertisement in July, 2004 in a leading newspaper, and we are planning to strengthen web based resourcing channels.

Induction and Training

We have a web based induction process for newly recruited employees to orient them to our values, policies, key business aspects and our technologies, which is being further reviewed for improvement. Ongoing training is heavily emphasized in order to meet our business needs and to help the career and overall growth of employees. Our Organization Development Centre achieved 1,311 training mandays in fiscal 2003 and 1,578 training mandays in fiscal 2004. To enable employees to gain a broader understanding of our business and to encourage the interchange of ideas, we encourage transfer of employees between multiple areas of banking involving retail, wholesale, marketing and customer relationship management. We have recently completed an exhaustive training Needs Identification exercise and a training plan is being made to address the training needs of our employees. We will shortly introduce web based training to foster a culture of self learning.

Remuneration and Other Benefits

Our compensation policy is performance based and we believe it is competitive with industry standards in India. We have also reviewed our compensation levels in fiscal 2004 based on the report of an independent agency, which had conducted a market survey of the compensation levels of a chosen set of competitors. We also have a comprehensive performance appraisal system for our employees. This helps us measure performance and reward employees in relation to their contribution to the businesses. In addition to the compensation, we provide incentives and facilities to our employees. Some of these incentives are comprehensive medical insurance for employees and their families, Company accommodation, lunch subsidies, transportation, loan schemes at subsidized interest rates. We are in the process of introducing a spot reward scheme to recognise our employees' performance.

Related Party Transactions as per Accounting Standard 18

As per Accounting Standard 18 issued by Institute of Chartered Accountants of India, following were the transactions with Associates during fiscal 2003 and 2004:

Bank Muscat (SAOG)

a) 187,500,000 Equity Shares of Re.1 each at a premium of Rs. 3 per share were allotted by the Bank in favour of Bank Muscat (SAOG) as per the scheme of arrangement.

b) Foreign exchange purchase and sale transactions of Rs. 93.29 crores. (Rupee Equivalent)

c) Outstanding Foreign Currency borrowings from them as on March 31, 2004 - Rs.43.72 crores (Rupee equivalent)

d) Guarantees received from them against Advances to parties in India Rs.1.10 crores.

e) Interest paid on Foreign Currency Borrowings from them

Rs. 0.20 Crores.

The remuneration paid to/ provided in respect of key management personnel during the year ended March 31, 2004 and March 31, 2003 was as under:

	2003-2004	2002-2003
Mr. V. Janakiraman	Rs. 0.44 Crores	Rs 0.30 Crores
Mr. Shailendra Bhandari	Rs. 0.17 Crores	Nil

Other transactions with key management personnel during the year ended March 31, 2004 were as under:

Particulars	*Rs. in Crores*
Deposits accepted during financial year 2003-2004.	0.46
Interest paid by Bank during 2003-2004	0.003

For Financial Year 2001-2002

In terms of exemption granted vide RBI directive DBOD.BP.BC.109/ 21.04.018/2001-2002 dated May 2002, to listed banks from complying with Accounting Standard 18 *inter-alia*, no Related Party Transactions were disclosed.

Changes in Auditors in the last three years

The following are the changes in the auditors in the last three years:

Name of the Auditor	Date of Appointment	Year in which ceased to be Auditors	Reason
Lakhani & Co.	1998	2002	As per RBI Regulations, the same auditor cannot be re appointed for a period beyond 4 years
Chandabhoy & Jassoobhoy	1998	2002	As per RBI Regulations, the same auditor cannot be re appointed for a period beyond 4 years

FINANCIAL PERFORMANCE OF THE COMPANY FOR THE LAST 5 YEARS

AUDITORS' REPORT

To

The Board of Directors
Centurion Bank Ltd.
1201, Raheja Centre,
Nariman Point,
Mumbai- 400 021.

Dear Sirs,

We were engaged to report on the financial information of Centurion Bank Limited (the Bank) annexed to this report, which is required to be prepared in accordance with the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 (the Guidelines) issued by the Securities and Exchange Board of India (SEBI) on January 19, 2000 in pursuance of section 11 of the Securities and Exchange Board of India Act, 1992, to the extent they are not inconsistent with the Banking Regulation Act, 1949 (the Banking Regulation Act). The financial information is proposed to be included in the offer document of the Bank in connection with its proposed issue of 22,69,88,077 Equity Shares of Re. 1 each on a right basis at a premium of Rs.3 per share, in the ratio of 2 Equity Shares of Re. 1 each for every 5 Equity Shares of Re. 1 each held (the rights issue).

Financial information as per audited financial statements

1. The financial information annexed to this report comprises of the annexed statements of Assets and Liabilities of the Bank as at March 31, 2004, 2003, 2002, 2001 and 2000 and the annexed Statements of Profit and Loss for each of the years ended on those dates (the Summary Statements) (See Annexure-II & I). These Summary Statements have been extracted from the financial statements drawn up in conformity with Forms A and B (revised) of the Third Schedule of the Banking Regulation Act (in accordance with the provisions of Section 29 of the Banking Regulation Act, read with the provisions of sub sections (1), (2) and (5) of section 211 and sub section (5) of section 227 of the Companies Act, 1956), audited by us for the years ended March 31, 2004 and 2003 and jointly by M/s. Chandabhoy & Jassoobhoy, Chartered Accountants and M/s. Lakhani & Co., Chartered Accountants for the years ended March 31, 2002, 2001 and 2000. Based on our audit of the financial statements for the years ended March 31, 2004 and 2003, and the previous audits of the financial statements for the years ended March 31, 2002, 2001 and 2000 by firms of Chartered Accountants other than us, we report as under:

    (i) In respect of certain changes in accounting policies, adjustments for previous years, audit qualifications and/or incorrect accounting policies referred to in Part B of Annexure-V, the effect thereof on the Statement of Profit and Loss of the Bank for each of the accounting years contained in Annexure-I and on the Statement of Assets and Liabilities of the Bank at the end of each of the accounting years contained in Annexure–II, could not be quantified.

    (ii) Subject to our comments in para (i) hereinabove, we confirm that the Statement of Profit and Loss of the Bank for the five consecutive financial years ended on March 31, 2004 (Annexure-I) and the Statement of Assets and Liabilities as at the end of the respective years (Annexure-II) read with the Significant Accounting Policies (Annexure-III), Notes on Accounts (Annexure-IV) and Statement of changes in accounting policies, adjustment for previous years, audit qualifications, and/or incorrect accounting policies (Annexure-V), are prepared from the aforesaid accounts after making such adjustments and regroupings as were feasible and in our opinion, considered appropriate.

2. The Bank did not have any subsidiaries within the meaning of Section 4 of the Companies Act, 1956 as at March 31, 2004.

3. The particulars of dividends paid by the Bank on its shares for each of the five financial years ended March 31, 2004 are as under :

Year ended	Class of Shares	Rate of Dividend	Amount of Dividend (Rs. In Crores)
31.3.2000	Equity Shares	11%	14.25
31.3.2001	Equity Shares	Nil	Nil
31.3.2002	Equity Shares	Nil	Nil
31.3.2003	Equity Shares	Nil	Nil
31.3.2004	Equity Shares	Nil	Nil

Other Financial Information

4. We have also examined the accompanying statements of:

    (a) Key Accounting Ratios for the five consecutive financial years ended on March 31, 2004 (Annexure-VI),

    (b) Details of Unsecured Loans (Annexure-VII),

    (c) Details of Secured Loans (Annexure-VIII)

    (d) Details of Other Income (Annexure-IX),

    (e) Details of Investments, (Annexure-X),

    (f) Statement of Capitalisation (Annexure-XI)

    (g) Tax Shelter statement (Annexure-XII), and

    (h) Cash Flow Statement for the five consecutive financial years ended on March 31, 2004(Annexure-XIII)

and report that in our opinion, subject to our comments in para 1 (i) above, these have been correctly computed. In respect of the Statement of Capitalisation (Annexure-XI), we do not express or imply any opinion as to the possibility of achieving the figures stated therein.

5. With respect to 'Financial information as per the audited financial statements' and 'Other financial information' annexed to this

report, for our reporting to you, we have relied upon the audited financial statements for the years ended March 31, 2002, 2001 and 2000, which were audited by other firms of Chartered Accountants, as referred to in paragraph 1 above. For none of those years did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions and, accordingly we express no opinion thereon.

6. The 'Financial information as per the audited financial statements' and 'Other financial information' are the responsibility of the Bank's management. We have performed such other tests and procedures, which, in our opinion were necessary for our reporting to you. These procedures comprised comparison of the annexed financial information with the Bank's audited financial statements.

7. This report should not be in any way construed as a re-issuance or re-dating of any of the previous audit reports issued by us or by other firms of Chartered Accountants nor should this report be construed as a new opinion on any of the financial statements referred to herein.

8. This report is intended solely for your information and for inclusion in the offer document in connection with the proposed rights issue of the Bank and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For **V.Sankar Aiyar & Co**
Chartered Accountants

N. Sampath Ganesh
Partner

Membership No.- 42554

Place: Mumbai

Date: July 9, 2004

ANNEXURE-I

(Rs. in Crores)

STATEMENT OF PROFIT AND LOSS

FINANCIAL YEAR ENDED	31-Mar-00	31-Mar-01	31-Mar-02	31-Mar-03	31-Mar-04
INCOME					
Interest earned					
Interest/discount on advances/bills	215.58	262.14	253.66	212.10	202.47
Income on Investments	168.23	219.75	148.15	91.72	83.93
Interest on Balance with RBI and other inter- bank funds	18.02	25.31	39.38	31.61	26.79
Others	40.97	40.10	40.99	35.91	20.60
	442.80	547.30	482.18	371.34	333.79
Other Income					
Commission, Exchange & Brokerage	13.18	23.41	25.72	32.84	37.34
Profit on sale of investments	55.76	55.64	28.84	41.12	13.89
Foreign Exchange Income	8.14	10.71	8.69	7.03	5.99
Misc. Income	10.59	6.44	5.67	(4.10)	3.01
	87.67	96.20	68.92	76.89	60.23
TOTAL INCOME	**530.47**	**643.50**	**551.10**	**448.23**	**394.02**
EXPENSES					
Interest Expended					
On Deposits	273.89	328.19	297.90	223.37	180.79
On RBI / Inter bank borrowings	41.31	39.95	17.38	6.07	2.43
On Others	47.30	77.01	63.41	39.86	20.60
Payment to Employees	10.91	15.33	19.83	24.82	31.29
Rent, Taxes & Lighting	7.14	10.52	13.02	15.73	16.90
Printing & Stationary	2.30	4.00	5.06	4.55	5.18
Advertisement & Publicity	2.75	5.23	2.97	3.43	4.15
Directors' fees & Allowances	0.20	0.05	0.06	0.04	0.05
Audit Fees	0.10	0.10	0.10	0.16	0.16
Law Charges	2.28	2.80	1.59	0.86	1.96
Postage, telegram, telephones, etc.	2.83	5.31	5.01	4.36	5.83
Repairs & Maintenance	4.41	8.60	12.48	13.27	14.33
Insurance	1.46	1.77	2.41	2.21	2.29
Other Expenditure	25.90	24.04	34.60	40.40	62.54
TOTAL EXPENSES	**422.78**	**522.90**	**475.82**	**379.13**	**348.50**
GROSS PROFIT	**107.69**	**120.60**	**75.28**	**69.10**	**45.52**
Depreciation	42.63	62.80	60.87	48.75	36.14
OPERATING PROFIT	**65.06**	**57.80**	**14.41**	**20.35**	**9.38**
PROVISIONS & CONTINGENCIES (including provision for tax) **	30.73	50.79	108.42	46.05	79.22
Net Profit/(Loss) for the year before adjustments relating to previous years	**34.33**	**7.01**	**(94.01)**	**(25.70)**	**(69.84)**
Adjustment towards difference in certain General Ledger balances - refer para 3a and 3b of Part B of Annexure V.	-	-	(67.83)	1.34	2.75
Defered Tax Provision (Net) - refer para 2 of Part B of Annexure V	-	-	-	(9.90)	-

Provision for Disputed Income Tax Demands-refer para 2 of Part A and para 13 of part B of Annexure V	-	-	-	-	(33.05)
Provision for Disputed Sales Tax Demands-refer para 12 of Part B of Annexure V	-	-	-	(1.00)	(5.00)
Provision for Impairment of Assets-refer 15 of Part B of Annexure V.	-	-	-	-	(7.81)
Net Profit/(Loss) after adjustments relating to previous years	**34.33**	**7.01**	**(161.84)**	**(35.26)**	**(112.95)**
Adjustments for changes in accounting policies, items relating to previous years, etc.					
Income from leases - refer para 1 of Part A of Annexure V.	3.97	0.59	(0.90)	(8.07)	-
Others	(0.11)	(0.11)	0.60	-	-
Income Tax Provision-refer para 2 of Part A of Annexure V	-	-	-	-	7.05
Net Profit / (Loss) after adjustments for changes in accounting policies, items relating to previous years, etc.	**38.19**	**7.49**	**(162.14)**	**(43.33)**	**(105.90)**
Add : Balance in the Profit and Loss Account at the beginning of the year, as restated	21.53	37.03	42.76	(119.38)	(162.71)
Profit available for appropriation	**59.72**	**44.52**	**(119.38)**	**(162.71)**	**(268.61)**
Transfer to Statutory Reserves	6.87	1.76	-	-	**-**
Proposed Dividend	14.25	-	-	-	-
Dividend Tax on proposed dividend	1.57	-	-	-	-
Adjustment towards reduction in Share Capital	-	-	-	-	(137.22)
Balance in the Profit and Loss Account at the end of the year, as restated	37.03	42.76	(119.38)	(162.71)	(131.39)

Details of provisions & contingencies debited to profit & loss account during the said years:

FINANCIAL YEAR ENDED	31-Mar-00	31-Mar-01	31-Mar-02	31-Mar-03	31-Mar-04
Write Off of Advances	0.35	12.62	11.90	-	72.04
Provision on Non-Performing Assets	9.25	8.75	64.75	49.61	24.87
Provision for Standard Asset	6.28	-	-	-	-
Provision for additional lease depreciation	-	-	19.33	-	-
Other miscellaneous provisions	-	-	2.96	2.24	(2.82)
Provision for leave encashment	-	-	-	2.53	0.46
Provision for depreciation on Investments	5.41	20.40	9.46	1.54	(15.37)
Provision for Income Tax	9.43	9.00	-	-	-
Provision for Wealth Tax	0.01	0.02	0.02	0.03	0.04
Deferred tax credit for the year	-	-	-	(9.90)	-
TOTAL	**30.73**	**50.79**	**108.42**	**46.05**	**79.22**

ANNEXURE - II

STATEMENT OF ASSETS & LIABILITIES

(Rs. in Crores)

BALANCE SHEET	**As at 31/03/00**	**As at 31/03/01**	**As at 31/03/02**	**As at 31/03/03**	**As at 31/03/04**
(A) ASSETS					
Cash in hand	17.12	22.71	34.32	42.47	38.06
Balance with RBI in Current Account	315.29	302.31	271.60	177.37	222.89
Balance with Banks					
- IN INDIA					
in Current Accounts	56.46	87.32	49.56	39.42	42.17
In Other Deposit Accounts	-	446.26	242.55	211.70	177.92
Money at Call and short notice with Banks	-	-	10.00	-	-
- OUTSIDE INDIA					
In Current Accounts	10.04	54.33	6.94	1.55	22.97
In Other Deposit Accounts	43.62	32.63	19.52	4.75	-
Money at Call & Short Notice	117.77	177.14	3.69	11.21	5.60
Investments					
- In India	2,199.58	2,156.87	1,227.22	999.25	1,004.18
- Outside India	-	-	-	-	-
Advances					
- In India	1,839.81	2,034.09	1,634.09	1,313.72	1,556.41
- Outside India	-	-	-	-	-
Fixed Assets	446.35	411.82	330.06	230.34	184.68
Other Assets	229.78	198.23	216.84	190.98	162.60
TOTAL (A)	**5,275.82**	**5,923.70**	**4,046.39**	**3,222.76**	**3,417.48**
(B) LIABILITIES					
Deposits (from Banks and others as demand, savings and term deposits)	3,867.07	4,257.43	3,534.99	2,834.71	3,028.79
Borrowings					
- In India	834.20	1,069.35	91.71	55.73	0.25
- Outside India	54.20	35.19	19.72	4.75	43.72
Other Liabilities and Provisions	309.27	343.16	343.53	314.46	283.16
TOTAL (B)	**5,064.74**	**5,705.13**	**3,989.95**	**3,209.65**	**3,355.92**
NET ASSETS (A-B)	**211.09**	**218.58**	**56.44**	**13.11**	**61.56**
Represented by Share Capital					
Called up and Paid Up	152.47	152.47	152.47	152.47	56.75
RESERVES AND SURPLUS					
Statutory Reserve	21.59	23.35	23.35	23.35	23.35
Capital Reserve	-	-	-	-	0.65
Share Premium	-	-	-	-	112.20
Profit & Loss Account	37.03	42.76	(119.38)	(162.71)	(131.39)
TOTAL	**211.09**	**218.58**	**56.44**	**13.11**	**61.56**

CONTINGENT LIABILITIES

Claims against the bank not acknowledged as debt	8.93	9.09	12.80	13.93	15.25
Outstanding Forward Exchange Contract	3,503.25	4,445.27	891.46	1,006.32	859.74
Guarantees given on behalf of constituents In India	296.25	399.68	239.40	186.70	71.97
Acceptances, Endorsements and Other Obligations	358.85	391.58	198.49	97.09	102.20
Bills Rediscounted	-	-	-	-	-
Capital Commitments outstanding	-	-	3.05	-	-
Other items for which the bank is contingently liable *	57.69	95.83	88.46	101.72	77.41
TOTAL	**4,224.97**	**5,341.45**	**1,433.66**	**1,405.76**	**1,126.57**

* The break-up of "other items for which the Bank is contigently liable" as on 31-3-2002, 31-3-2003 and 31-3-2004 is as follows:

Particulars	**As at 31/03/02**	**As at 31/03/03**	**As at 31/03/04**
- Disputed Income Tax demand	108.53	137.91	136.23
- Less : anticipated reliefs on the basis of alternative claim as estimated by the management	(31.37)	(48.87)	(66.83)
- Disputed Sales Tax demand...	11.30	12.68	8.01
TOTAL	**88.46**	**101.72**	**77.41**

SIGNIFICANT ACCOUNTING POLICIES OF CENTURION BANK LIMITED

1. Basis of preparation

The financial statements have been prepared on a historical cost convention and on the accrual basis of accounting unless otherwise stated and comply with the Accounting Standards, statutory provisions and generally accepted practices prevailing within the banking industry in India.

The preparation of financial statements requires the management to make estimates and assumptions that are considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expense during the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Any revision to financial estimates are recognised prospectively in the financial statements, when revised.

2. Recognition of Income and Expenditure

2.1 Income and expenditure are accounted for on accrual basis except as otherwise stated. Income on non-performing assets including Lease and Hire purchase assets is recognised on realisation basis as per the Reserve Bank of India (RBI) guidelines.

2.2 In case of assets covered by consent decrees, receipts are first adjusted against principal amounts outstanding. Thereafter, any further receipts are recognised as income.

2.3 Income by way of exchange, commission, brokerage etc. is recognised on realisation basis. Commission on Guarantees is recognised as income over the period of the Guarantees.

2.4 Income on Lease / Hire Purchase finance

2.4.1 Income from assets given on lease prior to 1st April 2001, is recognised on the basis of interest rate implicit in such leases in accordance with the Guidance note issued by The Institute of Chartered Accountants of India (ICAI). No asset has been given on lease after 1st April 2001.

2.4.2 Income from Loan cum hypothecation / Hire Purchase finance is recognised on the basis of interest rates implicit in these transactions.

3. Foreign Exchange Transactions

3.1 Foreign currency assets and liabilities outstanding at the end of the year are reported at exchange rates notified by the Foreign Exchange Dealers Association of India (FEDAI) prevailing at the close of the year and the resultant profits or losses are booked in the revenue account.

3.2.1 All forward exchange contracts outstanding at the balance sheet date are revalued at year end exchange rates notified by FEDAI, in accordance with RBI guidelines and the resultant gains and losses are accounted in the revenue account.

3.2.2 The premium/ discount on investment swaps is recognised as interest expenses/ income by corresponding credit/ debit to the revaluation gain/ loss in the revenue account.

3.2.3 All forward exchange contracts are reflected as contingent liabilities at the contracted rate.

3.2.4 Income and Expenditure items are accounted for at the exchange rates ruling on the date of transactions.

4. Investments

4.1 In terms of RBI guidelines, the investment portfolio is classified as under:

4.1.1 Held to Maturity - Investments that the Bank intends to hold to maturity

4.1.2 Held for Trading - Investments that are held for resale within 90 days from the date of purchase.

4.1.3 Available for Sale – All other securities.

4.2 However, for the purpose of disclosure in the Balance Sheet, investments are categorised under six groups, viz.; Government securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries / Joint Ventures and Other Investments as shown in Schedule - 8.

4.3 Valuation

4.3.1 Held to Maturity

Investments are carried in the books at their acquisition cost. Any premium on acquisition of a security over its face value is amortised over the balance period remaining to its maturity.

4.3.2 Available for sale and Held for Trading

Investments are marked to market. In each group, viz.; Government securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries / Joint Ventures and Other Investments as shown in Schedule - 8. Net appreciation, if any, is ignored and net depreciation, if any, is provided for by debiting the profit and loss account.

4.3.3 Treasury bills are valued at carrying cost.

4.4 Cost of investments excludes broken period interest paid on acquisition of investments.

4.5 Market value of Investments classified in ‘Available for Sale’ and ‘Held for Trading’ categories, where current quotations are not available, is determined as per the norms laid down by RBI as under:

4.5.1 Market value of unquoted Government securities are determined based on the yield to maturity (YTM) rate for Government securities of equivalent maturity published by ‘Fixed Income Money Market and Derivatives Association of India’ (FIMMDA).

4.5.2 In case of unquoted bonds, debentures and preference shares where interest/dividend is received regularly, the market price is determined based on YTM for Government securities with suitable mark up for credit risk applicable to the credit rating of the instrument. The credit risk mark up for various credit ratings and maturities are determined on the basis of the credit-spread matrix published by FIMMDA.

4.5.3 Unquoted bonds, debentures and preference shares where dividend/interest is not received regularly are valued on the basis of prudential norms prescribed by RBI as applicable to advances.

4.5.4 Unquoted Equity Shares are carried at lower of cost and break-up value ascertained from the latest available balance sheet.

4.5.5 Units of mutual funds are valued at the latest net asset value declared by the mutual fund.

5. Provisioning on Advances

5.1 Advances are classified into standard, substandard, doubtful and loss assets and appropriate provisioning as applicable to each category is made in terms of RBI guidelines. In respect of retail loans and certain other loans, the Bank follows an accelerated provisioning method whereby 100% of the asset value is provided by the time the account is delinquent for 9 months.

5.2 A general provision of 0.25% is made on standard assets portfolio on a global basis as per prudential guidelines of RBI.

6. Fixed Assets

6.1 Fixed Assets are stated at cost less accumulated depreciation as adjusted for impairment, if any, in terms of Accounting Standard-28 on Impairment of assets.

6.2 Assets taken on finance lease after 1.4.2001 are included under “Fixed assets –Own assets” in compliance with the Accounting Standard- 19 (AS-19) ‘Accounting for Leases’ issued by the ICAI.

6.3 Assets given on lease prior to 1.4.2001 have been accounted for in accordance with the Guidance Note issued by the ICAI. No assets were given on lease after 1.4.2001.

6.4 In respect of assets for own use, depreciation is provided on Straight Line Method (SLM) at the rates and in the manner specified in Schedule XIV to the Companies Act, 1956 except the assets specified as under where depreciation is provided on SLM at rates which are higher than those specified in Schedule XIV to the Companies Act,1956 :

Automated Teller Machines	10.00% p.a.
Computer Hardware	33.33% p.a.
Application Software	20.00% p.a.
Vehicles	20.00% p.a.
Mobile phones	50.00% p.a.

6.5 In respect of assets given on lease :

6.5.1 Depreciation on assets given on lease by the Bank is provided on written down value method at rates specified in Schedule XIV of the Companies Act, 1956. Lease equalisation and lease terminal adjustment are accounted in accordance with the Guidance Note issued by the ICAI.

6.5.2 On assets given on lease, which the Bank has taken over from the erstwhile TCFC, depreciation is provided on the following basis:

(a) Leased assets acquired on or after 1st April 1989 are depreciated by a method derived from the Guidance Note issued by the ICAI under which 100% of the cost of the asset is depreciated over the primary lease period using the weighted average interest rate implicit in the leases calculated for each of the accounting periods and applied to the weighted disbursements during each such period to calculate the principal recovery which is provided as depreciation for the year. As per this method, the useful life and the primary lease period of all categories of leased assets is considered to be five years on an average.

(b) On assets sold / terminated, depreciation is provided only up to the end of the previous financial year. The profit or loss on sale / termination of such assets is accounted for in the year of such sale / termination based on the book value as at the end of the previous financial year.

6.6 Provisions on non-performing leased assets are made as per RBI guidelines.

6.7 Premium paid on leasehold land is amortised over the initial lease period.

7. Staff Retirement Benefits

7.1 Provident Fund contributions made by the employees and the Bank are managed by a separate Trust established for the said purpose. The Bank's contribution towards the provident fund is accounted as an expense in the year incurred.

7.2 Gratuity liability of the Bank is covered by a group gratuity and insurance scheme of the Life Insurance Corporation of India (LIC). The Bank's annual contribution under the group gratuity scheme is based on LIC' s actuarial valuation and is charged to the profit and loss account of the period to which it relates.

7.3 The Bank has a superannuation scheme for all its employees, managed and administered by the LIC. The Bank annually contributes a sum equivalent to 15% of the basic salary to the LIC. The Bank's contribution towards this liability is accounted as an expense in the year incurred.

7.4 Leave encashment entitlement is provided for on actuarial valuation basis in accordance with the Accounting Standard-15 (AS -15) issued by the ICAI.

8. Taxes

Income tax comprises the current tax provision and the net change in the deferred tax asset or liability in the year. Provisions for current tax is computed in accordance with applicable tax laws. Deferred tax assets and liabilities are recognised for the timing differences. Deferred tax assets are recognised subject to management's judgement that realisation is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the income statement in the period of enactment of the change.

9. Share Issue Expenses

Share Issue Expenses are adjusted against Share Premium Account.

10. Net Profit / (Loss)

The net profit / (loss) disclosed in the Profit and Loss Account is after adjustment of all usual and necessary provisions including provisions for taxes.

ANNEXURE - IV

NOTES ON ACCOUNTS

1. Scheme of Arrangement amongst Bank Muscat (SAOG) and Centurion Bank Ltd. and Shareholders of Centurion Bank Ltd

1.1 The Scheme of Arrangement under Sections 391 to 394 read with Section 81(1A) and Sections 100 to 103 of the Companies Act, 1956, amongst Bank Muscat (SAOG) and Centurion Bank Ltd. and Shareholders of Centurion Bank Ltd. which was approved by the Shareholders of the Bank in the meeting of the Shareholders convened by the Bombay High Court was sanctioned by the Honourable High Courts of judicature at Bombay, Goa Bench on 12th September, 2003 and the Honourable High Court of Karnataka on 27th October, 2003.

1.2 An amendment to the scheme permitting the Bank to retain excess subscription from the Existing Principal Shareholders beyond the FDI and FII limits prescribed by the Government of India, as an advance against share allotment, was approved by the Karnataka High Court on 11th December, 2003 and the Bombay High Court on 12th December, 2003.

1.3 The final approval of Reserve Bank of India to the aforesaid Scheme of Arrangement was received on 19th January 2004.

1.4 The authorised capital of the bank was altered from 30 Crores shares of Rs.10/- each to 300 Crores shares of Re.1/- each vide resolution passed at the shareholders meeting held on 14th June, 2003.

2. Vesting of the business of Bangalore branch of Bank Muscat with Centurion Bank Ltd. in accordance with the Scheme of Arrangement

2.1 Pursuant to the aforesaid Scheme, the entire business of the Bangalore branch of Bank Muscat (SAOG), including its assets and liabilities, vests in Centurion Bank Ltd. with effect from the 'Appointed Date' i.e. 1st April, 2003.

2.2 The transaction being in the nature of purchase has been accounted for using the Purchase Method.

2.3 As provided in the scheme, the assets and liabilities that vested in Centurion Bank Ltd. are recorded at the respective book values as appearing in the books of the Bangalore branch of Bank Muscat as at the close of business on 31st March, 2003.

2.4 The income, expenditure and the net results of operations of the aforesaid branch for the year ended 31st March, 2004 are included in the Profit and Loss Account of Centurion Bank for the aforesaid period. The figures of the financial year ended 31st March 2004 are therefore not comparable with those of the other years.

2.5 The consideration for the value of the business of Bangalore branch of Bank Muscat was approved at Rs. 45 Crores by the Executive Committee of the Board of Directors of Centurion Bank Ltd – (also refer note 4.1 (b)).

2.6 The amount of Rs. 0.65 Crore being the excess of the book value of the net assets of Bangalore branch over the consideration of Rs. 45 Crores has been credited to Capital Reserve.

3. Share Capital

3.1 The 'Issued Subscribed and Paid-up Equity Capital of Centurion Bank of Rs.152.47 Crores comprising 15.247 Crores Equity Shares of the face value of Rs.10/- each fully paid up has been reduced to Rs.15.247 Crores comprising of 15.247 Crores Equity Shares of the face value of Re. 1/-. The reduction was effected by cancelling Rs. 9/- per Equity Share from the face value of Rs. 10/- each held by the shareholders on the Record Date i.e. 4th February, 2004.

3.2 The aforesaid reduction aggregating Rs. 137.223 Crores was effected by adjusting the debit balance in the Profit and Loss Account to that extent.

4. Recapitalisation in accordance with the Scheme of Arrangement

4.1 On 6th February, 2004, Equity Shares of the Bank were issued as under in respect of the fresh capital infusion and in consideration of the transfer and towards the vesting of the business of the Bangalore branch of Bank Muscat:

a) 4,00,00,000 Equity Shares of Re. 1/- each at par to nominees of Sabre Capital Worldwide Inc.

b) 11,25,00,000 Equity Shares of Re. 1/- each at a premium of Rs. 3/- per share to Bank Muscat in consideration of the transfer and vesting of the entire business of the Bangalore branch of Bank Muscat – (refer note 2.5 above).

c) 23,44,70,000 Equity Shares of Re. 1/- each at a premium of Rs. 3/- per share to various parties including Bank Muscat and Existing Principal Shareholders.

4.2 On 26th March 2004, 2,80,30000 Equity Shares of Re. 1/- each at a premium of Rs 3/- per share were allotted to an existing principal shareholder.

4.3 13,50,00,000 warrants convertible into 13,50,00,000 Equity Shares of the face value of Re. 1/- per share at a premium of Rs. 3/- per share were allotted to Sabre Capital Worldwide Inc. and their nominees on 6th February, 2004. The warrants can be exercised at any time upon completion of the capital infusion of Rs. 219 Crores envisaged in the Scheme of Arrangement but prior to 60 months from the date of issue of the warrants.

4.4 As per Sec 12(1)(i) of the Banking Regulation Act, 1949, the subscribed capital of the Bank should not be less than one half of its authorised capital. By notification dated 6th January 2004, the Government of India has declared that the provisions of Sec 12(1) (i) of the Banking Regulation Act, 1949 shall not apply to the Bank till 31st December 2004.

4.5 The change in capital structure is summarised hereunder,

		Share Capital		Share Premium	
	No. of Shares	Face Value	Amount (Rs. in Crores)	Premium per share	Premium (Rs. in Crores)
Balance as on 1st April 2003	152,470,191	10	152.47	-	-
Reduction of capital on 4th February 2004		9	137.22	-	-
	152,470,191	**1**	**15.25**	**-**	**-**
Infusion of Capital –					
Allotment Date – 6th February 2004					
To Nominees of Sabre Capital Worldwide Inc. .	40,000,000	1	4.00	-	-
To Bank Muscat for transfer of their Bangalore Branch	112,500,000	1	11.25	3	33.75
To Various parties including Bank Muscat	234,470,000	1	23.45	3	70.34
Infusion of capital allotment date 26th March 2004	28,030,000	1	2.80	3	8.41
Balance as on 31st March, 2004	**567,470,191**	**1**	**56.75**	-	**112.50**

5. DEPOSITS

Deposits as on 31st March 2001 includes Rs. 11.54 Crores in respect of amounts payable on cancellation of rights issue subsequent to the year-end.

6. BORROWINGS

6.1 The Bank has repaid certain liabilities taken over from the erstwhile TCFC, in respect of which the release of charge on specific assets is in progress.

6.2 Subordinated Debt

Bank has raised subordinated debt of Rs. 100 Crores in the financial year 1999-00 in the form of bonds maturing on 3rd May 2005. This qualifies for classification as Tier II Capital as per formula laid down by RBI.

7. ADVANCES AND PROVISIONING

7.1 In the case of advances classified as non-performing, while making provisions as per RBI guidelines, the Bank has taken into account, the realisable value of securities based on whether it has first, second or subsequent charge on such securities as well as approved valuer's assessment of the value of such properties mortgaged to the Bank. The Bank has also taken into account value of claims lodged with ECGC or any other agency as per RBI guidelines.

7.2 Term Loans at the end of each year include Hire Purchase Finance representing the principal sum outstanding.

7.3 Advances under Priority Sector as on 31st March, 2004 include amounts of Rs. 237.71 Crores (Rs.177.05 Crores as on 31st March 2003) that have been estimated as outstanding in respect of qualifying borrowers for purchase of two wheelers on which estimate the auditors have relied.

7.4 In respect of proposals to restructure assets referred to the Corporate Debt Re-structuring cell (CDR) and awaiting approval, the Bank has estimated the potential loss of income for past and future period and made provisions of Rs. 3.48 crores during the year ended 31st March 2004 on prudent basis.

8. FIXED ASSETS & DEPRECIATION

8.1 Other fixed assets include Rs.5.58 Crores as on 31st March 2004, representing book value of certain properties acquired by the Bank in respect of which some formalities relating to transfer in the name of the Bank are pending.

8.2 The Gross Block of Fixed Assets as on 31st March 2004 includes Rs. 7.08 Crores of lease premium for leasehold land at Belapur and Kharghar. The Bank is currently the licensee of the land under a "Leave and License" agreement. As per the agreement, the Bank was required to construct the premises within 4 years of the date of the agreement whereafter the lease tenure was to commence. The Licensor has powers to permit the licensee (Bank) at its discretion to continue the occupation with or without payment of additional premium. Such extension was granted upto 12th February 2002 and further upto 30th January 2003. The Bank has not commenced construction and is pursuing the matter with the Licensor for further extension of period of construction without payment of additional premium. Upto 31st March, 2004, the bank has provided for amortisation / depreciation of Rs. 1.00 Crore out of the aforesaid sum of Rs. 7.08 Crores. The Licensor has the power to resume the land in case of non-construction.

8.3 In the year ended 31st March, 2001, the bank revised the estimated useful life of the ATMs from approximately 6 years to 10 years and software from approximately 6 years to 5 years and depreciation was charged on the unamortised balance of the asset over the remaining revised useful life. In order to comply with the directions issued by RBI and in preference to the Accounting Standard on Depreciation Accounting (AS-6) prescribed by the ICAI, the Bank has charged depreciation on computers at the revised rates prospectively on all additions during the year 2000-01 and on the opening block of assets for the year 2000-01 at 33.33% p.a. as against 16.21%p.a. charged till the year 1999-2000. Consequent to the aforesaid changes, the profit for the year 2000-01 was lower and depreciation (net) for the said year was higher by Rs.2.52 Crores.

8.4 The Bank has during the year ended 31st March 2004 revised the estimated useful life of vehicles and mobile phones to be 5 years and 2 years respectively. Accordingly, these assets are now depreciated at the rate of 20% and 50% p.a. respectively.

8.5 In respect of leased assets taken over from the erstwhile TCFC:

8.5.1 The depreciation provided in the books of account on the basis derived from Guidance Note issued by the ICAI as per para no 6.5.2 (a) of the “Significant Accounting Policies” on “Fixed Assets” and estimated depreciation to be provided as per Schedule XIV of the Companies Act, 1956 are as under. The difference represents the lease equalisation amount as per the Guidance Note issued by the ICAI.

(Rs. in Crores)

Year Ended	**Depreciation provided as per Guidance Note**	**Depreciation as per Schedule XIV of the Companies Act, 1956**	**Difference representing Lease Equalisation**
31st March, 2000	24.53	18.45	6.08
31st March, 2001	23.09	11.26	11.83
31st March, 2002	16.07	7.09	8.98
31st March, 2003	5.52	3.75	1.77
31st March, 2004	1.43	1.09	0.34
TOTAL	**70.64**	**41.64**	**29.00**

8.5.2 Depreciation on the basis of Guidance Note of ICAI has not been provided on non- performing leased assets taken over from the erstwhile TCFC as there has been no capital recovery on such assets and income has not been recognised by the Bank. However, in all such cases, provision for non-performing assets has been made on the net book value of such assets treating them as principal amount outstanding in the books as per applicable RBI guidelines. Details are as under:

(Rs. in Crores)

Year ended	**Depreciation on the basis of Guidance Note of ICAI**
31st March, 2000	15.57
31st March, 2001	6.20
31st March, 2002	0.11
31st March, 2003	0.62
31st March, 2004	0.18
TOTAL	**22.68**

9. Impairment of Assets:

Although the Accounting Standard (AS-28) on Impairment of assets becomes mandatory for accounting years commencing on or after 1st April 2004, the Bank has, during the year ended 31st March 2004, adopted the standard and has given effect to the same in preparation of its financial statements.

Certain assets comprising of premises and plant & machinery that were identified to be potentially impaired were assessed for their recoverable amount in terms of AS -28. An impairment loss relatable to earlier years of Rs. 7.81 Crores was arrived at mainly caused by decline in market prices in case of premises and due to decrease in expected earnings in case of plant & machinery.

10. OTHER ASSETS

10.1 As per a Financial Support Agreement (FSA) entered into between TCFC Finance Ltd (TFL) and the Bank, amounts of Rs 29.92 Crores and Rs 10.08 Crores (both aggregating Rs 40.00 Crores) for the years ended 31st March 2001 and 31st March 2002 respectively representing provisions on specified assets of the erstwhile TCFC taken over by the Bank, was determined to be recoverable from TFL. The aforesaid amounts were provided for in the respective years by debit to "Other Assets". TFL has pledged 4 Crores shares of the Bank against the sum payable by them under the FSA together with Power of Attorney enabling the Bank to execute the terms of FSA and the Pledge Agreement. As per the Scheme of Arrangement referred to in note -1, on the date following the date of allotment of shares referred to in note –4.2, the TFL shares have been transferred to and vested in the Centurion Bank Stock Trust nominated by the Bank's Board of Directors for the benefit of the Bank and TFL stands discharged in terms of the FSA. The amount of Rs.40 Crores that was recoverable from TFL, consequent upon the scheme becoming effective, is now carried under 'Other Assets' as the value of benefit realisable from the said shares held in Trust.

10.2 As at 31st March 2003, the market value of the shares pledged under the aforesaid FSA was Rs 35 Crores. A provision of Rs 5 Crores was made in the accounts for the year ended 31st March 2003 for this fall in the value. As on 31st March 2004, the market value of such shares was Rs. 39 Crores. As a matter of prudence, the bank has retained the provision of Rs. 5 crores earlier made.

11. DISPUTED TAX DEMANDS

11.1 In respect of disputed income-tax demands of earlier years in appeal, the Bank had engaged an independent firm of Chartered Accountants for assessing the strength of the Bank's case based on the facts and documents available with the Bank and in the light of judicial pronouncements. Based on such assessment a provision of Rs. 33.05 crores has been made during the year ended 31st March 2004 in respect of the said demands. No provision has been made for the balance demand of Rs. 136.23 crores as, based on the assessment by the independent firm, the Bank's management is of the opinion it has a good chance of succeeding in those cases.

11.2 There are certain disputed demands aggregating Rs. 14.01 crores towards sales tax on the lease transactions of the Bank for earlier years. In the opinion of the Bank's management, there are good grounds to contest these demands. Also, should such demands materialise, the Bank has recourse to recover the same from the customers. On a prudential basis an adhoc provision of Rs. 6 crores has been made upto 31st March, 2004, towards the above demand.

11.3 "Tax paid in advance/tax deducted at source" appearing under "Other Assets" includes an amount of Rs. 41.12 crores as on 31st March 2004 (Rs.53.90 crores as on 31st March 2003) paid by the Bank / adjusted by the Tax department in respect of disputed tax demands as reduced by the provision made therefor.

12. INCOME EARNED / OTHER INCOME

12.1 Income on investments for the year ended 31st March 2001 includes unrealised appreciation of Rs 4.20 Crores in respect of securities classified under "Held for Trading" Category on being marked to market in accordance with the RBI guidelines.

12.2 In the accounts for the financial year ended 31st March 2002, a provision of Rs. 17.01 Crores was made towards the difference between the General Ledger balance and the aggregate of Term deposits accepted by the erstwhile 20th Century Finance Corporation Ltd. (TCFC). Investigations conducted by the Bank during the financial year 2002-03 revealed that such provision made to the extent of Rs.1.34 Crores was in excess of requirements and therefore the same was written back to the Profit & Loss account of the respective periods.

12.3 Out of the list of unpaid deposits of the erstwhile TCFC as per the subsidiary records, the management is of the opinion that the amounts to the extent of Rs.2.75 Crores are not payable and hence out of the provisions referred to in para 12.2 above, an amount of Rs 2.75 Crores has been written back to the Profit & Loss Account for the year ended 31st March, 2004 under the head 'Other income'.

13. PROVISIONS & CONTINGENCIES

13.1 Provisions and Contingencies include provision towards Interest tax upto the year ended 31st March 2000, whereafter the levy of Interest Tax was abolished.

13.2 In view of the loss for the years ended 31st March 2002, 31st March 2003 and 31st March 2004, the Bank does not expect any tax liability and accordingly no provision has been made for current tax expense. Particulars of Deferred Tax are given in note-16.5

14. APPROPRIATION TO RESERVES

14.1 Appropriation to Capital and Investment Fluctuation Reserves :

In view of the losses reported in the year ended 31st March, 2003 and 31st March, 2004 appropriation to Capital reserves (in respect of profit on sale of securities held in the ' Held to Maturity' category and appropriation to Investment Fluctuation reserves in respect of profit on sale of other securities) was not made. The appropriation will be made on generation of positive income in future years.

14.2 Creation of Debenture Redemption reserve :

As per the circular issued by the Ministry of Law in April 2002, banking companies are not required to create Debenture Redemption Reserve under section 117C of the Companies Act, 1956 in respect of debentures issued by them. Accordingly, no amounts have been appropriated to the said reserve

15. OTHERS

Centurion Bank Employees Trust:

In the year 1994-95, the Bank had established a Trust for the benefit of its employees. The trust was allotted 12,50,000 Equity Shares of the Bank in 1996 out of interest free advance granted by the Bank. As per the scheme of allotment of shares approved by the Executive Committee of the Board, the specified category of employees are entitled to apply for and obtain allotment of the number of shares specified in the scheme for that category. Under the scheme, 4,27,500 shares have been allotted at par to employee's upto 31st March 2003. No allotments were made after 31st March 2003.

16. OTHER DISCLOSURES AS REQUIRED BY MANDATORY ACCOUNTING STANDARDS ISSUED BY THE ICAI

16.1 Segment Reporting :

The Bank adopted Segment Reporting under Accounting Standard- 17, from the accounting year 2002- 2003.

The business of the Bank has been divided into Treasury and Other banking operations.

Segment	**Principal activities**
Treasury operations	Investments, foreign exchange cover operations and trading and money market operations.
Other banking operations	Asset and liability products and other related operations

Segmental Reporting

(Rs. in Crores)

Name of Segment	**For the year ended 31/03/04**	**For the year ended 31/03/03**
Segment Revenue		
TREASURY-	130.59	181.83
OTHER BANKING OPERATIONS	375.41	385.93
Total segment Revenue	506.00	567.76
Less: Inter Segment Revenue	109.93	118.02
Add: Un-allocable revenue	0.70	(8.24)
Income from operations (refer note 2 & 3 below)	396.77	441.50
Segment Result (Profit after Interest & before Tax)		
TREASURY	3.37	19.97
OTHER BANKING OPERATIONS	(65.67)	(41.47)
Total Segment Result	(62.30)	(21.50)
Add: Un-allocable revenue	0.70	(8.24)
Less: Other un-allocable expenditure	18.26	13.56
Less: Provision for Tax	26.04	0.03
Total Profit / (Loss) After Tax	(105.90)	(43.33)
Capital Employed (Segment assets less Segment liabilities)		
TREASURY	1,402.12	1365.69
OTHER BANKING OPERATIONS	(1,405.55)	(1,426.01)
Total	**(3.43)**	**(60.32)**

Notes:

1. Segment Revenue and Segment Results are derived from the Statement of Profit and Loss in Annexure - I.
2. The amount of Total Income for the year ended 31st March 2003 as reported above
   (a) Excludes Rs. 8.07 Crores of income from leases on account of change in Accounting Policy referred to in para 1 of Part A of Annexure V .
   (b) Includes by Rs. 1.34 Crores on account of adjustment relating to previous years referred to in para 3a of Part B of Annexure V.
3. The amount of Total Income for the year ended 31st March 2004 as reported includes Rs. 2.75 Crores on account of adjustment relating to previous years referred to in para 3b of Part B of Annexure V.
4. Inter segmental revenue / cost is determined on the basis of a composite transfer-pricing rate based on the average cost of funds.

16.2 Related Party Transactions

The Bank adopted Accounting Standard (AS) - 17, on Related Party Disclosures from the accounting year 2002-2003

List of Related Parties:

Associates:

Bank Muscat (SAOG)

Key Management Personnel :

V. Janakiraman, Chairman & Managing Director from 1st April, 2003 upto 31st January, 2004.

Shailendra Bhandari, Managing Director from 1st February, 2004 onwards.

The appointment and remuneration of the Managing Director Mr. Shailendra Bhandari is subject to approval of the shareholders of the Bank.

The following were the transactions with Associates during the year ended 31st March 2004.

Bank Muscat (SAOG)

a) 18,75,00,000 Equity Shares of Re.1/- each at a premium of Rs. 3/- per share were allotted by the Bank in favour of Bank Muscat (SAOG) as per the scheme of arrangement, refer note 4.1.
b) Foreign exchange purchase and sale transactions of Rs. 93.29 Crores.
   (Rupee Equivalent)
c) Outstanding Foreign Currency borrowings from them as on 31st March 2004
   Rs.43.72 Crores (Rupee equivalent)
d) Guarantees received from them against Advances to parties in India Rs.1.10 Crores.
e) Interest paid on foreign currency borrowings from them Rs. 0.20 Crores.

The remuneration paid to/provided in respect of key management personnel during the year ended 31st March 2004 and 31st March 2003 was as under:

	2003-04	2002-03
V. Janakiraman	Rs. 0.44 Crores	Rs. 0.30 Crores
Shailendra Bhandari	Rs. 0.17 Crores	Rs. Nil

Other transactions with key management personnel during the year ended 31st March 2004 were as under:

Particulars	*(Rs. in Crores)*
Deposits accepted during financial year 2003-04.	0.46
Interest paid by Bank during 2003-04	0.003

16.3 Disclosure in respect of assets acquired under lease on or after 1st April 2001

Details of Assets taken on finance lease (Computers) under "Fixed Assets" in Annexure-II are as follows:

(Rs. in Crores)

Gross carrying amount		10.76
Accumulated depreciation as on 31st March, 2004		8.15
Net carrying amount		2.61
Future lease rentals payable as on 31st March, 2004	**Gross Value**	**Present Value**
Not later than 31st March, 2005	0.96	0.95
Between 31.03.2005 to 31.03.2010	-	-
After 31.03.2010	-	-
Total	0.96	0.95

Details of Assets comprising office premises and staff quarters taken under Operating Lease on or after 1st April 2001:

(Rs. in Crores)

Future lease rentals payable as on 31 March 2004 :	
- Not later than 31 March, 2005	4.61
- Between 01 April, 2005 to 31 March, 2010	16.74
- After 31 March 2010	92.10
The total of minimum lease payments recognised in the Profit and Loss Account for the year ended 31st March 2004	3.98

- The Bank has not sub-leased any of the above assets taken on lease.
- There are no provisions relating to contingent rent.
- The terms of renewal/purchase options and escalation clause are those normally prevalent in similar agreements.
- There are no undue restrictions or onerous clauses in the agreement.

16.4 Earnings Per Share (EPS) *(Rs. in Crores)*

	For the year ended 31/03/04	**For the year ended 31/03/03**
Basic earnings for the period / year (Rs. in Crores)	105.90	43.33
Basic weighted average no. of shares	306,675,191	152,470,191
Basic EPS (Rs.)*	(3.45)	(2.84)
Diluted weighted average no. of shares	326,962,076	152,470,191
Diluted EPS (Rs.) *	(3.24)	(2.84)
Nominal value of shares- Basic (Rs. In Crores)	56.75	152.47
Nominal value of shares- Diluted (Rs. In Crores)	70.25	152.47

* Face Value per share
- As at 31st March 2004 - Re. 1/- per share
- As at 31st March 2003 - Rs. 10/- per share

16.5 Taxation :

Deferred tax

In view of losses for the year ended 31st March 2003 and 31st March 2004, the deferred tax assets have been recognised only to the extent of deferred tax liabilities. The major components of deferred tax assets and deferred tax liabilities arising out of timing differences which are accounted for, are as under:

(Rs. in Crores)

	As at 31st March 2004	**As at 31st March 2003**
Liability		
- Depreciation on Fixed assets	(21.66)	(27.59)
Assets		
- Provision for bad and doubtful debts		
- Others	20.94	26.50
	0.72	1.09
Net (Liability)/ Asset	-	-

16.6 Details of Impaired Assets in terms of Accounting Standard – 28 (AS-28).

Name of Assets that are impaired	**Reportable segment**	**Discount rate used**	**Amount of impairment/ Loss recognised**	**Determination of basis for Recoverable amount**	**Basis used for dermining NSP**
Premises	Unallocated	6.90%	1.65	VIU**	
			0.52	NSP*	Indicative market price
Plant & Machinery	Unallocated	6.90%	5.64	VIU**	
Total impairment loss recognised in Profit and loss account of the year ended 31st March 2004			**7.81**		

* NSP- Net Selling Price

*** VIU-Value in use*

17. OTHER DISCLOSURES AS REQUIRED UNDER RBI GUIDELINES

17.1 The NPA movements are as under :

Gross NPAs *(Rs. in Crores)*

	2003-04	**2002-03**
Opening Balance	228.43	231.81
Add: On vesting of business of Bangalore branch of Bank Muscat (Refer note 2.3)	14.34	-
Add : NPAs identified during the year	65.35	82.66
Less : Repayment/reductions etc. in NPA	14.67	43.32
Less : Write-off to the Profit & Loss account	72.04	-
Less : Write-off against provisions	-	42.72
Closing Balance	221.41	228.43

Provisions :

(Rs. in Crores)

	2003-04	2002-03
Opening balance	124.34	119.11
Add : Opening provision on vesting of business of Bangalore branch of Bank Muscat (Refer note 2.3)	3.86	-
Add : Provision made during the year (net-off write backs and adjustments)	24.87	49.61
Add/(Less) : Rectifications / regrouping	(0.56)	3.34
Less : Advances written off against provisions	-	42.72
Less : Transferred to provision for claims receivable (shares held in Trust) (Refer note 9.2)	-	5.00
Closing Balance	152.51	124.34

Net NPAs:

(Rs. in Crores)

	2003-04	2002-03
Net NPAs as at March 31	68.90	104.09

17.2 Movement in provision for depreciation on investments.

(Rs. in Crores)

	2003-04	2002-03
Opening balance	24.12	33.31
Add : i) Appropriation from investment Fluctuation reserve during the year	-	-
ii) Provision made during the year	-	1.54
Less : i) Transfer to investment fluctuation Reserve during the year		
ii) Provisions written back/write off investments	22.23	10.73
Closing Balance	1.89	24.12

17.3 Additional Disclosures:

(Additional disclosures in terms of Reserve Bank of India instructions are compiled by the management and relied upon by the auditors).

(a) Maturity profile of Assets and Liabilities (As on 31-03-2004):

(Rs. in Crores)

	Advances	Investments	Deposits	Borrowings
Upto 14 days	119.19	210.77	361.47	0.25
15 days to 28 days	41.56	54.65	108.74	-
29 days and upto 3 months	154.08	135.25	369.40	43.72
Over 3 months and upto 6 months	214.65	90.92	340.32	-
Over 6 months and upto 1 year	310.52	124.59	466.35	-
Over 1 year and upto 3 years	631.51	260.31	931.99	-
Over 3 years and upto 5 years	59.21	117.66	440.40	-
Over 5 years	25.69	10.03	10.12	-
Total	**1556.41**	**1004.18**	**3028.79**	**43.97**

Classification of assets and liabilities under the different maturity buckets are complied based on the guidelines issued by the RBI and are based on the same estimates and assumptions as used by the Bank for compiling the returns in this regard, submitted to the RBI.

(b) Of the above, Maturity profile of Foreign Currency Assets/Liabilities.(excluding forward contracts)

(Rs. in Crores)

	Assets	Liabilities
Upto 14 days	30.57	18.28
15 days to 28 days	-	1.36
29 days and upto 3 months	0.96	49.54
Over 3 months and upto 6 months	-	10.21
Over 6 months and upto 1 year	-	20.30
Over 1 year and upto 3 years	7.17	32.80
Over 3 years and upto 5 years	-	-
Over 5 years	-	-
Total	**38.71**	**132.49**

(c) Lending to Sensitive Sectors (Fund Based) As on 31st March 2004 - Gross :

(Rs. in Crores)

A	Advances to Capital Market Sector	3.15
B	Advances to Real Estate Sector	2.77
C	Advances to Commodities Sector	43.20

(d) Re-schedulement /Restructuring (including those covered by CDR- refer note 17.3(e)) done during the year ended 31st March, 2004 are as under :-

(Rs. in Crores)

	2003-04	2002-03
Total amount of loan subjected to restructuring	92.02.	11.97
Of which:		
Standard Assets subjected to restructuring	73.34	11.97
Sub-standard Assets subjected to restructuring	18.68	-
Doubtful assets subjected to restructuring	-	-

(e) Corporate Debt -Restructuring.

The amount outstanding as on 31st March 2004, in respect of loan assets subjected to restructuring during the year is Rs. 88.58 crores (previous year Rs. Nil crores).

The details of account restructured under Corporate Debt Restructuring (CDR) are given below:

(Rs. in Crores)

The amount of loan assets subjected to restructuring under CDR	88.58
The amount of standard assets subjected to restructuring under CDR	70.31
The amount of sub-standard assets subjected to restructuring under CDR	18.27
The amount of doubtful assets subjected to restructuring under CDR	Nil

(f) Investment related disclosures

The gross value of investments held under the three categories viz. 'Held to Maturity', 'Available for Sale' and 'Held for Trading are as under:

(Rs. in Crores)

	As at March 31, 2004				As at March 31, 2003			
	Held for Trading	**Available for sale**	**Held to Maturity**	**Total**	**Held for Trading**	**Available for sale**	**Held to Maturity**	**Total**
Government Securities	90.76	747.02	136.79	974.57	-	917.84	-	917.84
Other Approved Securities	-	0.25	-	0.25	-	0.25	-	0.25
Shares	-	8.71	-	8.71	-	27.68	-	27.68
Bonds and Debentures	-	12.54	10.00	22.54	-	64.54	10.00	74.54
Others	-	-	-	-	-	3.00	0.06	3.06
Total	**90.76**	**768.52**	**146.79**	**1,006.07**	**-**	**1,013.31**	**10.06**	**1,023.37**

Investment in Government Securities as of 31st March 2004 include securities held under LAF with RBI of Rs. 63.00 crores (Previous year –Nil)

Summary of investment portfolio:

(Rs. in Crores)

	As at March 31, 2004	**As at March 31, 2003**
Gross value of investment	1,006.07	1,023.37
Depreciation in the value of investment	1.89	24.12
Net book value	1,004.18	999.25

Issue and composition of Non-SLR Investment as on 31st March, 2004

(Rs. in Crores)

No.	**Issuer**	**Amount**	**Extent of private placement**	**Extent of below investment grade securities**	**Extent of unrated securities**	**Extent of unlisted securities**
1	PSUs					
2	FIs	10.50	10.50	-	10.50	10.50
3	Banks	10.96	10.96	-	10.96	10.96
4	Private corporate	1.08	-	-	0.01	0.01
5	Joint ventures	-	-	-	-	-
6	Others	8.71	8.71	-	-	8.71
7	Provision held towards depreciation	1.89	-	-	-	-
	Total	**29.37**	**30.17**	**-**	**21.47**	**30.18**

Details of Repos / Reverse Repos deals done during the year ended 31st March 2004 :

(Rs. in Crores)

	Minimum outstanding during the year	**Maximum outstanding during the year**	**Daily Average outstanding during the year**	**As on March 31, 2004**
Security sold under repos	10.00	80.00	1.17	-
Security purchased under reverse repos	25.00	175.00	26.46	60.00

The above include deals done under Liquidity Adjustment Facility (LAF) with RBI (net of margin).

There are no Non performing Non-SLR investments.

ANNEXURE V

A. CHANGES IN ACCOUNTING POLICIES, ADJUSTMENT RELATING TO PREVIOUS YEARS, AUDIT QUALIFICATIONS AND/ OR INCORRECT ACCOUNTING POLICIES, EFFECT OF WHICH HAS BEEN QUANTIFIED AND FOR WHICH ADJUSTMENTS HAVE BEEN CARRIED OUT IN ANNEXURE I & II.

1. In respect of certain leases given by the Bank where the lease rentals were fixed on a step-up basis, the Bank had accounted the finance income for the financial years upto 2001-02 on the basis of the interest rate corresponding to the rentals of the respective years. During the year 2002-03, the income on these leases were re-worked based on the composite interest rate implicit in each lease. Consequent to this change, an amount of Rs.8.07 Crores was accounted as finance income in the financial year 2002-03 relating to earlier years.

2. The Bank has provided Rs 7.05 Crores towards Tax Demand for Assessment Year 1998-99 (pertaining to the Financial Year ended 31st March 1998) in the year ended 31st March 2004. Also refer para 13 of Part B below.

B. CHANGES IN ACCOUNTING POLICIES, ADJUSTMENT RELATING TO PREVIOUS YEARS, AUDIT QUALIFICATIONS AND/ OR INCORRECT ACCOUNTING POLICIES, EFFECT OF WHICH HAS NOT BEEN QUANTIFIED AND FOR WHICH ADJUSTMENTS COULD NOT BE CARRIED OUT IN ANNEXURE I & II.

1. During the five consecutive financial years ended 31st March 2004, various guidelines were issued by the Reserve Bank of India on Income Recognition, Assets Classification, Provisioning in respect of Standard Asset / Non-performing Advances, Other Assets, Classification of Investments, Valuation thereof and Treatment of Depreciation on Investment / Fixed / Leased Assets. Necessary amendments in the accounting policies have been carried out by the Bank in the relevant years, to be in conformity with the Reserve Bank of India guidelines.

2. Consequent upon adoption of Accounting Standard –22 (AS 22), issued by the Institute of Chartered Accountants Of India, the Bank had, during the financial year 2002-03, recorded the cumulative net deferred tax liability of Rs.9.90 Crores upto March 31, 2002, by debit to the balance lying in the Profit and Loss account at the beginning of the financial year 2002-03. Timing differences arising / reversing during the year 2002-03, result in a net deferred tax asset greater than Rs. 9.90 Crores. In view of current losses, the accounting of deferred tax asset during the year 2002-03 was restricted to Rs. 9.90 Crores.

3a. In the financial year ended 31st March 2002, a provision of Rs.67.83 Crores was made towards the shortfall in the aggregate of loan assets, live term deposits, & security deposits as compared to their respective general ledger balances. In the same year a provision of Rs.1.25 Crores was also made towards interest relating to prior years on stamp duty payable on immovable properties. Investigations conducted by the Bank during the financial year 2002-03 revealed that such provision made to the extent of Rs. 1.34 Crores was in excess of requirements and therefore, the same was written back to the Profit & Loss account of that year.

3b. Out of the unpaid deposits of the erstwhile TCFC, the management is of the opinion that the deposits to the extent of Rs 2.75 Crores are not payable and hence out of the provisions referred to in para 3a above, an amount of Rs 2.75 Crores has been written back to the Profit & Loss Account in the year ended 31st March 2004

4. Upto the financial year ended 31st March 2002, the Bank had followed a policy of accounting leave encashment on ‘pay as you go’ basis. During the financial year ended 31st March 2003, the liability of Rs. 2.53 Crores on this account has been provided for based on actuarial valuation.

5. In the year ended 31st March 2002, the Bank reviewed the outstanding Book Value of the Leased Assets against the future revenue over the remaining lease period and thereafter made an additional provision of Rs 19.34 Crores for depreciation as well as towards the residual value of the Leased assets portfolio taken over from the erstwhile TCFC as part of the amalgamation.

6. In respect of the leased asset portfolio of the erstwhile TCFC, the provisioning for NPA was required to be made based on the written down value of the assets. On the above basis an excess provision of Rs. 11.64 Crores was reversed during the year ended 31st March 2002.

7. In respect of the exposure taken by the Bank to the Capital Market by way of advances and guarantees to stock-brokers against margins, there was a shortfall of Rs. 29.72 Crores in securities in the case of some capital market participants as at 31st March 2001 as compared to their exposures resulting from the sharp fall in the market prices of securities pledged. No provision was made by the Bank in respect of the above in the year ended 31st March 2001 as the Bank was then in discussion with the said borrowers for providing additional securities or for reduction in exposures for which the Bank had agreed to provide a reasonable time.

8. In the year ended 31st March 2001, investment in unquoted Equity Shares with buyback arrangement were classified under “Held to Maturity” category and were valued at acquisition cost as against break-up value as required by RBI guidelines. The Management was of the view that these investments are of long-term nature with a buy-back arrangement and had a value in excess of acquisition cost. The premium paid on acquisition of these shares were also not ammortised in that year. In subsequent years, Equity Shares were not classified under ‘Held to Maturity’ category.

9. Upto the end of the Financial Year ended 31st March 1999, no provision was made by the Bank towards gratuity on the ground that the provisions of the Payment of Gratuity Act, 1972 were not applicable at that time. From the year ended 31st March 2000, the Bank has been providing for gratuity liability based on actuarial valuation

10. The profits for the year ending 31st March, 2000 has been arrived at after considering prior period income and expenses of Rs.0.44 Crores and Rs 0.59 Crores respectively.

11. In respect of certain advances of the erstwhile TCFC, Court Orders were received which had decreed amounts as per the consent terms filed with the Court to be paid by these parties or by third parties in a specified manner contained in the Court order which has got the effect of extinguishing the past rights and obligations and establishes fresh rights and obligations between the Bank and the concerned parties. In the absence of specific guidelines for classification of advances where court consent terms have been decreed, the Bank had obtained a legal opinion and an expert opinion from an independent firm of Chartered Accountants based on which, such advances were treated as performing or non-performing as per the prudential norms applied on the Court decreed terms as if there were fresh contractual rights and obligations between the Bank and the concerned parties. However as a matter of abundant caution, an additional provisioning (over and above the required provisioning) of Rs 13.11 Crores for such advances were made in the year ended 31st March 2000 by debit to the "General reserves on amalgamation" as per the terms of the scheme of amalgamation.

12. There are certain disputed demands aggregating Rs. 14.01 Crores towards sales tax on the lease transactions of the Bank for earlier years. In the opinion of the Bank's management, there are good grounds to contest these demands. Also, should such demands materialise, the Bank has recourse to recover the same from the customers. On a prudential basis an adhoc provision of Rs. 6 Crores has been made upto 31st March 2004, towards the above demand

13. In respect of disputed income-tax demands of earlier years in appeal, the Bank had engaged an independent firm of Chartered Accountants for assessing the strength of the Bank's case based on the facts and documents available with the Bank and in the light of judicial pronouncements. Based on such assessment a provision of Rs. 26.00 Crores has been made during the year ended 31st March 2004 in respect of the said demands. No provision has been made for the balance demand of Rs. 136.23 Crores as, based on the assessment by the independent firm, the Bank's management is of the opinion that it has a good chance of succeeding in those cases

14. In the years ended 31st March 2002 and 2003, Advances' included a sum of Rs. 18.04 Crores being pre-shipment credit facility given to a customer of Rs.18.04 Crores which was then classified as good or recoverable by the Bank on the basis of claims lodged with the Export Credit Guarantee Corporation of India Limited (ECGC). The ultimate realisability of the said amount was dependent upon the acceptance or otherwise of such claim by the the ECGC. Hence no provision was made by the Bank in the years ended 31st March 2002 and 2003. In the year ended 31st March 2004, the claim was rejected by the ECGC and therefore full provision was made by the Bank.

15. Although the Accounting Standard (AS-28) on Impairment of assets becomes mandatory for accounting years commencing on or after 1st April 2004, the Bank has, during the year ended 31st March 2004, adopted the standard and has given effect to the same in preparation of its financial statements. Certain assets comprising of premises and plant & machinery that were identified to be potentially impaired were assessed for their recoverable amount in terms of AS -28. An impairment loss relatable to earlier years of Rs. 7.81 Crores was arrived at, mainly caused by decline in market prices in case of premises and due to decrease in expected earnings in case of plant & machinery.

16. In the years ended 31st March, 2001 and 2002, the Bank had claimed amounts aggregating Rs. 40 crores from TCFC Finance Limted (TFL) under a Financial Support Agreement (FSA). Against the sum payable by them under the FSA, TFL has pledged 4 crores shares of the Bank together with Power of Attorney enabling the Bank to execute the terms of FSA and the Pledge Agreement. As per the Scheme of Arrangement referred to in note - 1 of Annexure-IV, on the date following the date of allotment of shares referred to in note - 4.2 of that Annexure, the TFL shares have been transferred to and vested in the Centurion Bank Stock Trust nominated by the Bank's Board of Directors for the benefit of the Bank and TFL stands discharged in terms of the FSA. The amount of Rs. 40 crores that was recoverable from TFL, consequent upon the scheme becoming effective, is now carried under 'Other Assets' as the value of benefit realisable from the said shares held in Trust.

ANNEXURE - VI

FINANCIAL RATIOS BASED ON THE AUDITED FINANCIAL STATEMENTS

Particulars	**As at 31-Mar-00**	**As at 31-Mar-01**	**As at 31-Mar-02**	**As at 31-Mar-03**	**As at 31-Mar-04**
Basic Earnings per share (Rs.)*	2.97	0.49	(10.63)	(2.84)	(3.45)
Diluted Earnings per share (Rs.)*	2.97	0.49	(10.63)	(2.84)	(3.24)
Net Asset Value per share (Rs.)*	13.84	14.34	3.70	0.86	1.08
Return on Net Worth (%)	18.09%	3.43%	-287.28%	-330.51%	-172.03%

* Face Value per share
As at 31st March 2000, 2001, 2002 and 2003 - Rs. 10/- per share
As at 31st March 2004 - Re. 1/- per share

Defination of Key Ratios

1	Net Profit	Profit after Provisions & Contingencies and adjustments referred to in Part A of Annexure V
2	Earnings per share	Net Profit after tax / Number of shares based on weighed average
3	Diluted earnings per share	Net Profit after tax / Number of shares based on weighed average (after considering the dilutive impact of potential Equity Shares)
4	Net worth	Capital + Free reserves + Unallocated surplus - Accumulated Loss
5	Net Asset value per share	Net Worth / Number of shares
6	Return on Net Worth (%)	Net Profit / Closing net worth of each year

NOTE :

1 For the purpose of computation of the ratios the figures of financial statements as adjusted for the items referred to in Part A of Annexure V and as contained in Annexure I & II have been considered.

ANNEXURE - VII

Details of Unsecured Loans as on March 31, 2004

Sr. No.	Name of the lender	Rs.in crores	Repayment Schedule	
			Date	Amount
1	Subordinated debt	100.00	3-May-05	100.00
2	Borowing under TT discounting facility from SBI	0.25	On going	0.25
3	Borrowing in foreign currency from a bank outside India	43.72	11-May-04	8.74
			25-May-04	34.98

ANNEXURE - VIII

Details of Secured Loans as on March 31, 2004

Sr. No.	Name of the lender	Rs.in crores	Repayment Schedule	
			Date	Amount
	NIL	-	-	-

ANNEXURE - IX

Details of "Other Income" including those which are in excess of 20% of Net Profit before tax for respective Year

(Rs. in Crores)

FINANCIAL YEAR ENDED	31st March 2000	31st March 2001	31st March 2002	31st March 2003	31st March 2004
Service Charges	7.68	4.51	4.35	6.23	6.25
Guarantee Commission	2.18	5.19	4.00	2.74	1.87
Commission on Letter of Credit issues – Foreign	2.77	4.37	3.71	2.30	1.47
Commission on Foreign Bills Discounted	1.74	2.51	2.50	2.36	1.91
Profit on sale of SLR Investments	21.83	25.56	33.29	53.43	32.51
Profit / (Loss) on sale of Non SLR Investments	33.89	25.63	(4.57)	(12.30)	(18.62)
Profit / (Loss) on revaluation of investments		4.20			
Foreign Exchange Income	8.14	10.71	8.69	7.03	5.99
Income from Windmill	5.63	5.55	5.55	4.58	
Consultancy Fee	0.38				
Income from NSDL		2.14	1.55	1.83	1.54
Commission on loans			1.13	8.65	14.11
Profit / (Loss) on sale of fixed assets	(0.03)	0.09	0.03	(13.85)	(0.33)
Other Misc Income	3.47	5.74	8.69	13.89	13.53
TOTAL	**87.67**	**96.20**	**68.92**	**76.89**	**60.23**

All the aforesaid items are in the nature of 'revenue' and / or are required to be dealt with in the Profit & Loss account and arise in the normal course of business.

ANNEXURE - X

Statement of Investments held in India as on March 31st, 2004

(Rs. in Crores)

Sl. No.	Details of Investments	Book Value	Market Value / Quoted Value	Dimunition in value
1	Government Securities*	974.57	979.09	-
2	Other Approved securities	0.25	0.30	-
3	Shares	8.71	7.63	1.08
4	Debentures & Bonds	22.54	21.73	0.81
5	Others	-	-	-
		1,006.07	1,008.76	1.89

* Arrived at on the basis of RBI guidelines

** Includes held under LAF with RBI whose book value (Rs. 63 crore) is also considered as market value.

ANNEXURE - XI

CAPITALISATION STATEMENT

(Rs. in Crores)

	Pre-issue as at 31/03/2004	**As adjusted for the proposed rights issue and the subordinated debt issuance referred to in note 2**
Short-Term Debt	43.97	43.97
Long-Term Debt	100.00	143.00
Shareholders Funds		
Share Capital		
— Existing	56.75	56.75
— Rights issue		22.70
Total Capital	56.75	79.45
Share Premium		
— Existing	112.20	112.20
— Rights issue		68.10
Total Premium	112.20	180.30
Reserves	24.00	24.00
Profit & Loss A/c	(131.39)	(131.39)
Total Shareholders Funds	61.56	152.36
Long Term Debt/Equity	1.62	0.94

Notes :

1 For the purpose of this statement, loans repayable beyond a period of 1 year have been classified as long-term debt. Other borrowings are classified as short term debt.

2 430 nos of unsecured redeemable non convertible subordinated bonds in the nature of promissary notes/debentures of Rs.10 lacs each aggregating Rs. 43 crores were issued on June 16, 2004.

ANNEXURE - XII

TAX SHELTER STATEMENT

(Rs. in Crores)

As at March 31st	**2000**	**2001**	**2002**	**2003**	**2004**
Profit / (Loss) before tax -(A)	43.77	16.04	(161.82)	(35.23)	(72.05)
Tax rate (including surcharge)	38.50%	39.55%	35.70%	36.75%	35.88%
Tax on actual rates of profit	16.85	6.34	(57.77)	(12.95)	(25.85)
Adjustments :					
Permanent Differences:					
Dividend	(0.24)	(0.17)	(0.04)	-	-
Capital expenditure debited to P&L	2.71	0.15	0.71	0.05	1.32
Profit on sale of investment	-	-	-	-	-
Write-offs against financial support	-	-	30.03	-	-
Interest on Tax free Bonds	-	(0.16)	(0.16)	(0.16)	(0.16)
Others	6.42	0.03	2.45	1.03	(0.25)
Total Permanent Differences-(B)	8.89	(0.16)	33.00	0.92	0.91
Timing differences:					
Difference between Tax & Books in respect of Depreciation on Fixed Assets & gain / loss on sale of Fixed Assets	(17.01)	(6.96)	35.22	51.38	10.37
Difference between Provision for Bad debts & claim for bad debts	(12.85)	7.62	63.62	6.89	58.68
Other Adjustment (Miscellaneous)	(0.58)	(0.41)	(2.10)	(2.78)	0.60
Lease termination	3.15	6.13	2.97	0.31	-
Total Timing differences - (C)	(27.29)	6.38	99.72	55.80	69.65
Net Adjustments (B+C)	(18.40)	6.23	132.71	56.72	70.56
Tax effect thereon	(7.09)	2.46	47.38	20.85	25.31
Profit / (Loss) as per Income Tax returns (D)= (A+B+C)	25.36	22.27	(29.11)	21.49	(1.49)
Brought forward Loss / Depreciation adjusted (E)	-	-	-	(28.93)	(4.48)
Brought forward Short term capital Loss adjusted (F)	-	-	-	(0.18)	-
Taxable Income / (Loss) (D+E+F)	25.36	22.27	(29.11)	(7.62)	(5.97)
Taxable Income as per MAT	13.06	15.63	(162.01)	(25.49)	(72.21)
Tax as per Return	9.76	8.81	-	-	-
Adjustment of tax Credit u/s 115 JAA	(3.11)	-	-	-	-
Carried forward Loss / unabsorbed Depreciation	-	-	(28.93)	(4.49)	(5.97)
Carried forward short term capital loss	-	-	(0.18)	-	-
Carried forward long term capital loss	-	-	-	(3.13)	-

Note :

1) Figures in bracket indicate reduction of taxable income / tax liability.

2) The above figures have been computed as per the audited accounts and Income Tax Returns of the respective years except for the year ended 31st March, 2004 where it is computed based on audited accounts and provisional computation.

ANNEXURE - XIII

CASH FLOW STATEMENT

(Rs. in Crores)

	Cash flow statement for the year ended				
	31.3.2004	31.3.2003	31.3.2002	31.3.2001	31.3.2000
Cash flows from Operating actitivities					
Net Profit before Provisions & Contingencies.	12.13	21.68	14.41	57.81	65.06
Adjustment for :					
Depreciation charged for the year (including Lease equalisation charge)	47.63	58.06	73.66	70.08	46.07
Loss on sale of assets (Including loss on lease termination)	0.33	14.14	2.84	6.04	3.53
	60.09	93.89	90.91	133.93	114.66
Adjustment for :					
(Increase)/Decrease in Investment	84.38	226.43	920.20	22.31	(1,255.76)
(Increase)/Decrease in Advances	(190.67)	272.88	309.09	(209.96)	(505.30)
(Decrease)/Increase in Borrowings	(16.52)	(50.95)	(993.11)	216.13	214.04
(Decrease)/Increase in Deposits	(8.66)	(700.28)	(739.46)	390.36	1,726.27
(Increase)/Decrease in Other Assets	20.53	45.18	(10.87)	43.18	(123.48)
(Decrease)/Increase in Other Liabilities & Provisions	(41.89)	(34.74)	(8.22)	49.72	120.05
	(92.74)	(147.59)	(431.47)	645.66	290.47
Direct taxes paid	(11.40)	(19.34)	(8.39)	(26.33)	(20.78)
Net Cash flow from operating activities	(104.14)	(166.93)	(439.85)	619.33	269.70
Cash flows from Investing activities					
Purchase of fixed assets.	(8.48)	(9.24)	(46.78)	(46.34)	(128.07)
Proceeds from sales of fixed assets	0.58	26.44	2.10	5.23	2.44
Net cash used in Investing activities	(7.90)	17.21	(44.68)	(41.11)	(125.63)
Cash flows from financing activities					
Proceeds from issue of shares (net of expenses)	133.17	-	-	-	33.75
Dividend paid	-	-	-	(15.82)	(12.77)
Net Cash flow from financing activities	133.17	-	-	(15.82)	20.98
Net increase/(decrease) in cash and cash equivalents	21.13	(149.72)	(484.53)	562.39	165.05
Cash and cash equivalents as at beginning of the year	488.47	638.19	1,122.72	560.32	395.27
Cash and cash equivalents as at end of the year	509.60	488.47	638.19	1,122.72	560.32

AUDITORS' REPORT

To

The Board of Directors
Centurion Bank Ltd.
1201, Raheja Centre,
Nariman Point,
Mumbai- 400 021.

Dear Sirs,

We were engaged to report on the financial information of the Bangalore Branch of Bank Muscat (SAOG) (the 'Bangalore Branch') annexed to this report, which has been prepared in accordance with the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 (the Guidelines) issued by the Securities and Exchange Board of India (SEBI) on January 19, 2000 in pursuance of Section 11 the Securities and Exchange Board of India Act, 1992, to the extent they are not inconsistent with the Banking Regulation Act, 1949 (the Banking Regulation Act).

The financial information is proposed to be included in the Offer Document of Centurion Bank Limited (the Bank) in connection with its proposed issue of 22,69,88,077 Equity Shares of Re. 1 each on a right basis, at a premium of Rs. 3 per share, in the ratio of 2 Equity Shares of Re. 1 each for every 5 Equity Shares of Re. 1 each held (the rights issue).

Financial information as per audited financial statements

1. The financial information annexed to this report comprises of the annexed statements of Assets and Liabilities of the Bangalore Branch as at March 31, 2003, 2002, 2001, 2000 and 1999 and the annexed Statements of Profit and Loss for each of the years/period ended on those dates (the Summary Statements) (See Annexure-I & II). These Summary Statements have been extracted from the financial statements drawn up in conformity with Forms A and B (revised) of the Third Schedule of the Banking Regulation Act (in accordance with the provisions of Section 29 of the Banking Regulation Act, read with the provisions of sub-sections (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956), audited by M/s. S.B. Billimoria & Co., Chartered Accountants for the year ended March 31, 2003 and by M/s. Fraser & Ross, Chartered Accountants for the years/period ended March 31, 2002, 2001, 2000 and 1999. Based on the previous audits of the financial statements for the years/period ended March 31, 2003, 2002, 2001, 2000 and 1999 by firms of Chartered Accountants other than us (as above), we report as under:

   (i) In respect of certain changes in accounting policies, adjustments for previous years/period and/or incorrect accounting policies referred to in Annexure-V, the effect thereof on the Statement of Profit and Loss of the Bangalore Branch for each of the accounting periods contained in Annexure-I and on the Statement of Assets and Liabilities of the Bangalore Branch at the end of each of the accounting periods contained in Annexure–II, could not be quantified.

   (ii) Subject to our comments in para (i) hereinabove, we confirm that the Statement of Profit and Loss of the Bangalore Branch for the five consecutive financial years/ period ended on March 31, 2003 (Annexure-I) and the Statement of Assets and Liabilities as at the end of the respective years/period (Annexure-II) read with the Significant Accounting Policies (Annexure-III), Notes on Accounts (Annexure-IV) and Statement of changes in accounting policies, adjustment for previous years/period, and/or incorrect accounting policies (Annexure-V),are prepared from the aforesaid accounts after making such adjustments and regroupings as were feasible and in our opinion, considered appropriate.

2. The 'Financial information of the Bangalore branch as per the audited financial statements' is the responsibility of the Bangalore Branch's management. With respect to Financial information as per the audited financial statements' annexed to this report, for our reporting to you, we have relied upon the audited financial statements for each of the five years / period ended March 31, 2003, 2002, 2001, 2000 and 1999, which were audited by firms of Chartered Accountants other than us, as referred to in para 1 above.

3. We have performed such other tests and procedures, which, in our opinion were necessary for our reporting to you. These procedures include comparison of the annexed financial information with the Bangalore Branch's audited financial statements. For none of the years/period referred to above nor for any other periods/years did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions such as those enumerated above and, accordingly we express no opinion thereon.

4. This report is intended solely for your information and for inclusion in the Offer Document in connection with the proposed rights issue of the Bank and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For **V.Sankar Aiyar & Co.**
Chartered Accountants

N. Sampath Ganesh
Partner
Membership No. 42554

Place : Mumbai
Date : March 15, 2004

Bangalore Branch of BANK MUSCAT (SAOG) **ANNEXURE - I**

STATEMENT OF PROFIT AND LOSS *(Rs. in Crores)*

FINANCIAL YEAR/PERIOD ENDED	**31st March 1999**	**31st March 2000**	**31st March 2001**	**31st March 2002**	**31st March 2003**
No. of Months in financial year / period	6 Months & 22 days	12	12	12	12
INCOME					
Interest earned					
Interest/discount on advances/bills	0.23	2.43	7.07	16.73	20.72
Income on Investments	0.26	1.75	6.97	3.67	2.96
Interest on Balance with RBI and other inter-bank funds	2.16	6.06	7.04	3.31	1.28
	2.65	10.24	21.08	23.71	24.96
Other Income					
Commission, Exchange & Brokerage	0.04	0.64	2.44	1.81	1.22
Profit on sale of investments	-	0.07	(0.06)	0.14	-
Foreign Exchange Income	0.29	1.42	1.64	1.10	1.67
Misc. Income	0.05	0.11	0.43	0.50	0.61
	0.38	2.24	4.45	3.55	3.50
TOTAL INCOME	**3.03**	**12.49**	**25.53**	**27.26**	**28.46**
EXPENSES					
Interest Expended					
On Deposits	0.60	5.70	5.91	6.64	6.60
On RBI / Inter bank borrowings	0.06	0.84	8.96	3.87	2.88
On Others	-	-	1.04	3.82	4.41
Payment to Employees	0.90	1.56	2.22	2.85	3.22
Rent, Taxes & Lighting	0.28	0.50	0.59	0.97	1.02
Printing & Stationery	0.08	0.05	0.14	0.23	0.29
Advertiisement & Publicity	0.25	0.11	0.10	0.16	0.49
Directors' fees & Allowances	-	0.01	0.03	0.03	0.03
Audit Fees	0.04	0.04	0.04	0.05	0.06
Law Charges	0.11	0.13	0.13	0.40	0.33
Postage, telegram, telephones, etc.	0.24	0.24	0.22	0.31	0.34
Repairs & Maintenance	0.13	0.27	0.54	0.83	1.11
Insurance	–	0.04	0.06	0.10	0.12
Other Expenditure	0.98	1.15	1.67	1.28	2.26
TOTAL EXPENSES	**3.67**	**10.64**	**21.65**	**21.54**	**23.16**
GROSS PROFIT	**(0.64)**	**1.85**	**3.88**	**5.72**	**5.30**
Depreciation	0.37	0.76	1.32	1.57	1.70
OPERATING PROFIT	**(1.00)**	**1.09**	**2.56**	**4.15**	**3.60**
PROVISIONS & CONTINGENCIES (including provision for tax) -Working as per the following table	**0.01**	**0.30**	**0.44**	**3.49**	**3.21**

Net Profit/(Loss) as per audited accounts	**(1.01)**	**0.79**	**2.12**	**0.66**	**0.39**
Profit brought forward		(1.01)	(0.22)	1.37	1.73
Profit available for appropriation	**(1.01)**	**(0.22)**	**1.90**	**2.04**	**2.12**
Transfer to Statutory Reserves	–	–	0.53	0.17	0.10
Transfer to Investment Fluctuation Reserve	–	–	–	0.14	0.07
Deferred Tax	-	-	-	-	0.59
Balance Carried forward to Balance Sheet	(1.01)	(0.22)	1.37	1.73	1.36

Details of provisions & contingencies debited to profit & loss account during the said years / period :

(Rs. in Crores)

FINANCIAL YEAR/PERIOD ENDED	**31st March 1999**	**31st March 2000**	**31st March 2001**	**31st March 2002**	**31st March 2003**
No. of Months in financial year / period	6 Months & 22 days	12	12	12	12
Income tax	–	0.10	0.20	2.32	1.70
Provision on Non-Performing Assets	–	0.07	0.09	1.09	2.64
Interest tax	–	0.07	–	–	–
Others	0.01	0.06	–	–	–
Provision for standard assets	–	–	0.15	0.08	0.05
Deferred tax	–	–	–	–	(1.18)
TOTAL	**0.01**	**0.30**	**0.44**	**3.49**	**3.21**

Bangalore Branch of BANK MUSCAT (SAOG) **ANNEXURE-II**

STATEMENT OF ASSETS & LIABILITIES

(Rs. in Crores)

	As at 31.03.99	As at 31.03.00	As at 31.03.01	As at 31.03.02	As at 31.03.03
(A) ASSETS					
Cash in hand	0.09	0.09	0.35	0.51	0.68
Balance with RBI on Current Account	1.62	4.17	4.55	2.99	5.98
Balance with Banks					
- *In India*					
In Current Accounts	0.19	0.20	0.12	5.88	0.18
In Other Deposit Accounts	25.68	75.00	10.00	28.00	13.00
Money at Call and short notice					
- with Banks	–	–	–	–	–
- *Outside India*					
In Current Accounts	0.03	0.43	0.12	0.24	0.60
In Other Deposit Accounts	15.70	36.79	18.97	5.86	4.03
Money at Call & Short Notice	–	–	–	–	–
Investments					
- *In India*	8.94	21.54	72.71	46.18	73.94
- *Outside India*	–	–	–	–	–
Advances					
- *In India*	8.08	27.21	84.50	116.79	146.29
- *Outside India*	–	–	–	–	–
Fixed Assets	3.26	3.30	3.36	3.52	2.39
Other Assets	5.30	4.89	8.03	5.73	7.67
TOTAL- (A)	**68.89**	**173.62**	**202.71**	**215.70**	**254.76**
(B) LIABILITIES					
Deposits (from Banks and others as demand, savings and term deposits)	20.69	119.37	139.49	160.68	202.74
Borrowings					
- *In India*	4.50	9.00	13.02	4.00	–
- *Outside India*	–	–	–	–	–
Other Liabilities and Provisions	0.90	1.66	4.30	4.46	5.65
TOTAL - (B)	**26.09**	**130.03**	**156.81**	**169.14**	**208.39**
NET ASSETS (A-B)	**42.80**	**43.59**	**45.90**	**46.56**	**46.37**

Represented by					
Capital					
- The amount brought in by way of start-up capital as prescribed by Reserve Bank of India	43.81	43.81	43.81	43.81	43.81
- Amount capitalised for value of asset provided by Head Office	–	–	0.19	0.19	0.19
Reserves & Surplus					
Statutory Reserve	–	–	0.53	0.70	0.80
Investment Fluctuation Reserve	–	–	–	0.14	0.22
Profit & Loss Account	(1.01)	(0.22)	1.37	1.72	1.35
TOTAL	**42.80**	**43.59**	**45.90**	**46.56**	**46.37**
CONTINGENT LIABILITIES					
Claims against the Bank not acknowledged as debt	–	–	–	–	–
Outstanding Foreign Exchange Contract	1.50	42.75	61.94	106.90	82.28
Guarantees given on behalf of constituents in India	0.20	7.24	30.92	16.86	11.24
Acceptances, Endorsements and Other Obligations	–	22.05	48.45	57.25	30.81
Bills Rediscounted	–	–	–	–	–
Capital Commitments outstanding	–	–	–	–	–
Other items for which the Bank is contingently liable	0.06	0.23	0.03	0.29	–
TOTAL	**1.76**	**72.27**	**141.34**	**181.30**	**124.33**

SIGNIFICANT ACCOUNTING POLICIES

A. ACTIVITIES

1.1 Bank Muscat S.A.O.G. (formerly Bank Muscat International S.A.O.G.) was incorporated as a general joint stock company in Oman and had commenced operations in India under a license from the Reserve Bank of India. In India, the Bank was headquartered and operating out of Bangalore. The Bank was engaged in commercial and investment banking activities and was subject to the provisions of the Banking (Regulation) Act, 1949, and was covered by a deposit insurance scheme. The Bank had obtained scheduled bank status effective from November 28, 1998.

1.2 Pursuant to the Scheme of Arrangement under Sections 391 to 394 read with Section 81(1A) and Sections 100 to 103 of the Companies Act, 1956, amongst Bank Muscat (SAOG) and Centurion Bank Ltd. and Shareholders of Centurion Bank Ltd. which was approved by the Shareholders of the Bank in the meeting of the Shareholders convened by the Bombay High Court was sanctioned by the Honourable High Courts of Judicature at Bombay, Goa Bench on 12th September, 2003 and the Honourable High Court of Karnataka on 27th October, 2003, the entire business of the Bangalore branch of Bank Muscat (SAOG), including its assets and liabilities, vested in Centurion Bank Ltd. with effect from the 'Appointed Date' i.e. 1st April, 2003.

B. SIGNIFICANT ACCOUNTING POLICIES

1. Basis of presentation

The financial statements had been prepared on the historical cost convention, on an accrual basis in accordance with generally accepted accounting principles and conformed to the statutory requirements of the Reserve Bank of India and the Foreign Exchange Dealers Association of India (FEDAI).

2. Foreign currency translations

Assets and Liabilities in foreign currencies were translated at year-end rates of exchange notified by FEDAI. Revenues and expenses had been translated at rates prevailing on the transaction date. Foreign exchange trading positions including spot and forward contracts were valued at rates intimated by FEDAI and resulting gain and losses were included in revenue.

3. Investments

In accordance with the Reserve Bank of India guidelines, Investments were classified into "Held for trading", "Available for sale" and "Held to maturity" categories (hereafter called "categories"). However, for disclosure in the Balance Sheet, these were classified under six groups (hereafter called "groups") – Government Securities, Other Approved Securities, Shares, Debenture and Bonds, Investments in Subsidiaries/ Joint Ventures and Other Investments.

Brokerage, Commission etc., paid at the time of acquisition, was charged to revenue.

Broken period interest on debt instruments was treated as a revenue item.

Basis of classification:

Investments that the Bank intended to hold to maturity were classified as "Held to maturity". These were carried at acquisition cost, unless acquired at a premium, which was amortized over the period remaining to maturity.

Investment held for Section 11(2)(b) of Banking Regulations Act, 1949 was included in the above category.

Securities which were not classified in the above categories, were classified as "Available for Sale".

An investment was classified as Available for Sale and Held to Maturity at the time of its purchase.

Valuation:

Held to Maturity:

These securities were included in the Balance sheet at cost adjusted for amortization of premium on acquisition. Diminution other than temporary in the value of investment was provided for.

Available for sale:

Securities under this category were marked to market. The diminution in the value was debited to Profit and loss account.

The valuation of investments was made in accordance with Reserve Bank of India's guidelines.

4. Credit losses

The Bank had classified its loans and advances as per the asset classification norms prescribed by the Reserve Bank of India. Provision for credit losses and write offs were made wherever necessary to conform to the prudential accounting norms prescribed by the Reserve Bank of India for asset classification and income recognition.

5. Fixed assets

Premises and Equipments.

a. Premises

Premises owned by the Bank was depreciated at 20% (per annum on straight-line basis upto the year ended on 31/03/2002), and at 5% per annum on straight-line basis for the year ended on 31/03/2003.

b. Equipments and Other Fixed Assets.

Equipments namely, fax machines and other electronically operated machines were recorded at cost and depreciated at 20% per annum on straight-line basis. Computer including computer software were depreciated at 20% per annum on straight-line basis upto the year ended on 31/03/2000, and from the year ended 31/03/2001 onwards, at 33.33% on straight-line basis. Improvements carried out to the rented premises were capitalised and depreciated at 20% per annum on straight-line basis.

c. Furniture and Fixtures

Furniture and Fixtures including those purchased from previous lessee were recorded at cost and depreciated at 20% per annum on straight-line basis.

Items individually costing less than Rs.5,000/- were fully depreciated.

6. Preoperative expenses

The Bank had commenced business from 9th of September 1998. All expenses incurred prior to commencement of business that were not capital in nature, were being treated as a deferred revenue expenditure and were being amortised over a period of five years. The unamortised balance of Rs.12,53,881/-, was shown as part of "Others" under Schedule 11- Other assets.

7. Income recognition

Interest receivable and payable were recognised on an accrual basis. Other fees receivable or payable were recognised when due. Commission on Letter of Credit and Guarantees issued were recognised when the same was issued. The Bank followed a procedure of income recognition that satisfied the norms prescribed by the Reserve Bank of India. Discount income on Treasury Bill was accrued periodically and recognised in the Profit and Loss Account.

8. Employee Benefits:

i) Provision for gratuity was made on actuarial valuation and funded with LIC. Superannuation provision was made based on contractual obligation and funded with LIC under Group Superannuation Scheme.

ii) Leave encashment liability was accrued based on the unavailed leave to the credit of employees as on the balance sheet date.

iii) Contribution to provident fund were charged to revenue.

9. Deferred Tax:

The Branch accounted for income taxes as per Accounting Standard 22 (AS 22) "Accounting for Taxes on Income". AS22 requires recognition of deferred tax assets and liabilities arising out of the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax basis of assets and liabilities using substantively enacted tax rates expected to apply to taxable income in the years when temporary difference are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognised in the profit and loss account in the period of change. Deferred tax asset were recognised based upon Management's judgment as to whether realisation was considered reasonably certain.

10. Net Profit:

The net profit disclosed in the profit and loss account was after providing / charging for:

i) Income Tax

ii) Standard Assets

iii) Non-Performing Assets

iv) Provision for premium on investments under available for sale category

v) Premium on investments under held to maturity category.

ANNEXURE - IV

NOTES ON ACCOUNTS

1. In terms of the guidelines issued by the Reserve Bank of India, the following disclosures are made:

(Rs. in Crores)

1. Capital Adequacy	**Year ended 31.03.2003**	**Year ended 31.03.2004**
Tier I Capital	46.02	46.03
Tier II Capital	0.56	0.44
Total Capital	46.58	46.47
Total Risk Weighted assets & contingencies	231.77	164.00
a. Capital Ratios		
Tier I Capital	19.86%	28.07%
Tier II Capital	0.24%	0.26%
Total Capital	20.10%	28.33%
b. Interest Income as a percentage of Working funds	10.42%	11.09%
c. Non Interest Income as a percentage of Working Funds	1.46%	1.66%
d. Operating Profit as a percentage to Working Funds	1.50%	1.94%
e. Return on Assets		
i) Operating Profit/Average Earning Assets	1.80%	2.25%
ii) Net Profit / Total assets	0.15%	0.31%
f. Business (deposits and advances) per employee	Rs.3.93 crores	Rs.5.87 crores
g. Profit per employee	Rs.0.01 crore	Rs.0.02 crore

h. Provision and contingencies charged to Profit and Loss Account toward

1. Income Tax Rs.0.51 crore net of deferred tax adjustment (2002 - Rs.2.32 crores)
2. Non-performing assets Rs.2.64 crores (2002 - Rs.1.09 crores)
3. Provision for decline in value of investments - Nil (2002 - Nil)
4. General provisions for standard assets Rs.0.05 crore (2002 - Rs.0.08 crore)

i. Percentage of NPA to net advances is 6.95% (previous year 1.10%)

II. Additional Disclosures:

A. Maturity Profile:

(Rs. in Crores)

Due Within	**Loans and Advances**	**Investment & Securities**	**Foreign Currency Assets**	**Foreign Currency Liabilities**	**Deposits**	**Borrowings**
1 to 14 Days	54.94		4.63	9.64	12.92	–
15 to 28 Days	0.80			0.35	1.90	–
29 Days to 3 Months	15.10	34.97		49.24	77.42	–
3 Months to 6 Months	15.23			0.64	25.00	–
6 Months to 1 Year	10.86	35.35		2.65	21.07	–
1 Year to 3 Years	35.43	1.50	2.90	10.94	50.65	–
3 Years to 5 Years	13.58			0.04	12.30	–
Over 5 Years	0.35	2.12			1.48	–
Total	**146.29**	**73.94**	**7.53**	**73.50**	**202.74**	**–**

In compiling the information of maturity pattern above, certain estimates and assumptions have been made by the management, which have been relied upon by the Auditors.

B. Movement in NPA (funded):

(Rs. in Crores)

Gross NPAs	2002-2003	2001-2002
As at 1st April	3.00	1.09
Additions during the year	13.20	1.92
Deduction during the year	0.24	0.01
As at 31st March	15.96	3.00
Provisions		
As at 1st April	1.72	0.39
Additions during the year	3.83	1.33
Deduction during the year	–	–
As at 31st March	5.55	1.72
Net NPA as at 31 March	**10.41**	**1.28**

C. Lending to Sensitive Sector

(Rs. in Crores)

	As at 31st March 2003	As at 31st March, 2002
1. Advance to Capital Market Sector	Nil	Nil
2. Advance to Real Estate Sector		
a. Commercial Property Land & Building	-	8.25
b. Others	-	-
Total Exposure	-	8.25
3 Advance to Commodities Sector		
a. Cash Crop	-	-
b. Edible Oil	-	0.89
c. Agricultural Products	1.01	1.55
Total Exposure	**1.01**	**2.44**

D. Provision for depreciation on investments:

(Rs. in Crores)

	31.03.2003
Opening Balance (as on 1st April 2002)	Nil
Add: Provisions made during the year	-
Less: Write-off, write back of excess Provisions during the year	Nil
Closing balance (as on 31st March 2003)	Nil

2. Other liabilities:

Others in Other liabilities include general loan loss provisions of Rs.0.34 crores (previous year Rs.0.29 crores)

3. Investments:

Others in investment represent deposits with SIDBI amounting to Rs.21.75 crores (previous year Rs.4.50 crores) to fulfill shortfall under priority sector lending.

4. Deferred Taxes:

1. Consequent upon Accounting Standard 22 on Accounting for Taxes on income becoming mandatory, the branch has recorded deferred tax liability arising out of timing differences of earlier years amounting to Rs. 0.59 crores by debiting to opening balance in Profit and Loss Account according to the provisions of the Standard. Further, a deferred tax asset of Rs 1.18 crores for timing differences arising during the year has been recognised by credit in the Profit and Loss Account for the year.

2. Accordingly, on March 31, 2003, the branch has recorded net deferred tax asset of Rs. 0.59 crores included in other assets, a composition of which into major items is given below:

(Rs. in Crores)

Deferred Tax Asset		
Provision for Doubtful debts	1.37	
Other Provisions and disallowances	0.01	
Carried Forward Long Term Capital Loss	0.09	**1. 47**
Less: Deferred Tax Liability		
Depreciation on Fixed Assets	0.40	
Interest Accrued not due on Government Securities	0.47	
Effect of change in tax rates	0.01	**0. 88**
Net Deferred Tax Asset		**0. 59**

5. Investment fluctuation reserves

Pursuant to Reserve Bank of India circular no.DBOD.BP.BC.57/ 21.01.018/2001-02 dated January 10, 2002 advising banks to achieve IFR of a minimum of 5% of the portfolio, by transferring the gains realized on sale of investment, within a period of 5 years. Current year the Bank has transferred Rs.0.08 crores to IFR representing 20% of the profits, as there were no realised gains during the year. Consequently, the reserve balance as on March 31, 2003 is equal to 0.45% of the portfolio of available for sale and held for trading category of investments.

6. Loan Restructured:

a) Advances include Rs. 9.87 crores relating to assets that would have been classified as substandard assets under Reserve Bank of India's (RBI) Circular no.DBOD No. BP.BC.1/21.04.048/2002-03 dated 4 July 2002 on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances. Such classification would have necessitated a provision of Rs. 0.99 crores.

However, these assets have been referred to the CDR cell under the Corporate Debt Restructuring (CDR) system. As the restructuring package was approved by the CDR Empowered Group on 24th March 2003, the Management is of the opinion that the restructuring has substantially taken place under this system. Consequently, the asset classification on the date of reference to the CDR cell has been retained in terms of RBI's Circular ref. DBOD No. BP.BC. 68/21.04.132/2002-03 dated 4 February 2003 and no provision has been made in the accounts.

(Rs. in Crores)

	2002-2003
b) Total amount of loans subject to restructuring	9.87
Of which: Standard asset subjected to restructuring	9.87
Substandard	Nil

7. Comparative Figures

Previous year figures have been regrouped/ reclassified wherever necessary to conform to current year's classification.

STATEMENT OF CHANGES IN ACCOUNTING POLICIES, ADJUSTMENT FOR PREVIOUS YEARS, AND/ OR INCORRECT ACCOUNTING POLICIES, EFFECT OF WHICH HAS NOT BEEN QUANTIFIED AND FOR WHICH ADJUSTMENTS COULD NOT BE CARRIED OUT

1. During the five consecutive financial years ended 31st March 2003, various guidelines were issued by the Reserve Bank of India on Income Recognition, Assets Classification, Provisioning in respect of Standard Asset / Non-performing Advances, Other Assets, Classification of Investments, Valuation thereof and Treatment of Depreciation on Investment/ Fixed / Leased Assets. Necessary amendments in the accounting policies have been carried out by the Bank in the relevant years, to be in conformity with the Reserve Bank of India guidelines.

2. Consequent upon Accounting Standard 22 on Accounting for Taxes on income becoming mandatory, the branch has recorded deferred tax liability arising out of timing differences of earlier years amounting to Rs. 0.59 crores by debiting to opening balance in Profit and Loss Account according to the provisions of the Standard. Further, a deferred tax asset of Rs. 1.18 crores for timing differences arising during the year has been recognised by credit in the Profit and Loss Account for the year.

3.a Upto the year ended 31/03/2001, provision for gratuity and superannuation was covered by group gratuity and superannuation scheme with LIC. From the year ended 31/03/2002 onwards, provision for gratuity was made on actuarial valuation and funded with LIC; and, superannuation provision was made based on contractual obligation and funded with LIC under Group Superannuation scheme.

3.b Upto the year ended 31/03/2001, leave encashment benefit was accounted for on cash basis. From the year ended 31/03/2002 onwards, leave encashment liability was accrued based on the unavailed leave to the credit of employees as on the balance sheet date.

The main legislation governing commercial banks in India is the BR Act. The provisions of the BR Act are in addition to and not, save as expressly provided in the BR Act, in derogation of the Companies Act, 1956 and any other law for the time being in force. Other important laws include the Reserve Bank of India Act. Additionally, the RBI, from time to time, issues guidelines /directions to be followed by us.

RBI Regulations

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

We, being licensed as a banking company, 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 commercial banks 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, under the chairmanship of the Governor of the RBI. The appointment of the auditors of banks is subject to the approval of the RBI. The RBI can direct a special audit of banks in the interest of the depositors or in the public interest.

Regulations relating to the Opening of Branches

Banks are required to obtain licenses from the RBI to open new branches. Permission is granted based on factors such as the financial condition and history of the company, its management, adequacy of capital structure and earning prospects and the public interest. The RBI may cancel the license for violations of the conditions under which it was granted. Under the banking license granted to us by the RBI, we are required to have at least 25% of our branches located in rural and semi-urban areas. A rural area is defined as a center with a population of less than 10,000. A semi-urban area is defined as a center with a population of greater than 10,000 but less than 100,000.

Capital Adequacy Requirements

We are subject to the capital adequacy requirements of the RBI, which, based on the guidelines of the Basle Committee on Banking Regulations and Supervisory Practices, 1998, 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 I capital.

The total capital of a banking company is classified into Tier I and Tier II capital. Tier I capital, the core capital, provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital and reserves consisting of any statutory reserves, free reserves and capital reserve pursuant to the Income-Tax Act, 1961 as reduced by equity investments in subsidiaries, intangible assets, and losses in the current period and those brought forward from the previous period. In fiscal 2003, the RBI issued a guideline requiring a bank's deferred tax asset to be treated as an intangible asset and deducted from its Tier I capital.

Tier II capital consists of undisclosed reserves, revaluation reserves (at a discount of 55%), general provisions and loss reserves (allowed up to a maximum of 1.25% of risk weighted assets), hybrid debt capital instruments (which combine certain features of both equity and debt securities) and subordinated debt. Any subordinated debt is subject to progressive discounts each year for inclusion in Tier II capital and total subordinated debt considered as Tier II capital cannot exceed 50% of Tier I capital. Tier II capital cannot exceed Tier I 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 2002. This reserve has to be computed with respect to investments in held for trading and available for sale categories. Investment fluctuation reserve is included in Tier II capital.

Risk adjusted assets and off-balance sheet items considered for determining the capital adequacy ratio are the risk weighted total of specified funded and non-funded exposures. Degrees of credit risk expressed as percentage weighting 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 2.5% to cover market risk has to be assigned in respect of the entire investment portfolio effective March 31, 2001 over and above the risk weights for credit risk in non-government and non-approved securities. Banks and financial institutions are required to assign a 100% risk weight for all state government guaranteed securities issued by defaulting entities. Investment by banks in Equity Shares, preference shares eligible for capital status, subordinated debt instruments, hybrid debt capital instruments and other approved instruments approved as in the nature of capital attract 100 per cent risk weight for credit risk for capital adequacy purposes.

The aggregate risk weighted assets are taken into account for determining the capital adequacy ratio.

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, which are revised from time to time.

The principal features of these RBI guidelines, which have been implemented with respect to our loans, debentures, lease assets, hire purchases and bills are set forth below.

Non-Performing Assets

Until year-end fiscal 2003, a non-performing asset was an asset in respect of which any amount of interest or principal was overdue for more than two quarters. In particular, an advance was a non-performing asset where:

- interest and/or installment of principal remained overdue for a period of more than 180 days in respect of a term loan;
- the account remained "out-of-order" for a period of more than 180 days in respect of an overdraft or cash credit;
- the bill remained overdue for a period of more than 180 days in case of bills purchased and discounted;
- interest and/or installment of 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; and
- any amount to be received remained overdue for a period of more than 180 days in respect of other accounts.

Interest in respect of non-performing assets is not recognised or credited to the income account unless collected. Effective year-end fiscal 2004, banks are required to classify an asset as non-performing when principal or interest has remained overdue for more than 90 days.

Asset Classification

Under the RBI's master circular on income recognition, asset classification and provisioning pertaining to the advances portfolio of banks, issued in August 2003, non-performing assets are classified as described below:

Sub-Standard Assets: Assets that are non-performing assets for a period not exceeding 18 months (12 months effective year-end fiscal 2005). In such cases, the current net worth of the borrower / guarantor or the current market value of the security charged is not enough to ensure recovery of dues to the banks in full. Such an asset has well-defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the bank will sustain some loss, if deficiencies are not corrected.

Doubtful Assets: Assets that are non-performing assets for more than 18 months. A loan classified as doubtful has all the weaknesses inherent in assets that are classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. With effect from year-end fiscal 2005, an asset will be classified as doubtful if it remains in the sub-standard category for 12 months.

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

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

The RBI has separate guidelines for restructured assets. 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. 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.

To put in place an institutional mechanism for the restructuring of corporate debt, the RBI has devised a corporate debt restructuring system.

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% is required.
- *Doubtful Assets.* A 100% provision / write-off is required to be taken against the unsecured portion of the doubtful asset and charged against income. The value assigned to the collateral securing a loan is the amount reflected on the borrower's books or the realisable value determined by third party appraisers. In cases where there is a secured portion of the asset, depending upon the period for which the asset remains doubtful, a 20% to 50% 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: 50% provision
- *Loss Assets.* The entire asset is required to be written off or provided for.
- *Restructured Assets.* A provision is made equal to the net present value of the reduction in the rate of interest on the loan over its maturity.

While the provisions indicated above are mandatory, a higher provision for a loan account would be required if considered necessary.

Regulations relating to Making Loans

The provisions of the BR 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.

- Banks are free to determine their own lending rates but each bank must declare its prime lending rate as approved by its Board of Directors. Each bank should also indicate the maximum spread over the prime lending rate for all credit exposures other than retail loans. The interest charged by banks on advances upto Rs. 200,000 to any one entity (other than most retail loans) must not exceed the prime lending rate. Banks are also given freedom to lend at a rate below the prime lending rate in respect of creditworthy borrowers and exposures. Interest rates for certain categories of advances are regulated by the RBI. The RBI has recently directed banks to introduce benchmark prime lending rates based on various parameters including cost of funds, operating expenses, capital charge and profit margin, and discontinue the system of multiple prime lending rates linked to the maturity of the credit facility.
- In terms of Section 20(1) of the BR Act, a banking company is prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its Directors, or any firm in which any of its Directors is interested as partner, manager, employee or guarantor, or any company (not being a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, 1956, or a Government company) of which, or the subsidiary or the holding company of which any of the Directors of the bank is a Director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its Directors is a partner or guarantor. There are certain exemptions in this regard as the explanation to the section provides that 'loans or advances' shall not include any transaction which 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 Parliament to amend the BR 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 Equity Shares, in respect of amount, margin requirement and purpose.

Regulations relating to Sale of Assets to Asset Reconstruction Companies

The Securitisation Act provides for sale of financial assets by banks and financial institutions to asset reconstruction companies. The RBI has issued guidelines to banks on the process to be followed for sales of financial assets to asset reconstruction companies. These guidelines provide that a bank may sell financial assets to an asset reconstruction company provided the asset is a non-performing asset. A bank may sell a standard asset only if the borrower has a consortium or multiple banking arrangement, at least 75% by value of the total loans to the borrower are classified as non-performing and at least 75% by value of the banks and financial institutions in the consortium or multiple banking arrangement agree to the sale. The banks selling financial assets should ensure that there is no known liability devolving on them and that they do not assume any operational, legal or any other type of risks relating to the financial assets sold. Further, banks may not sell financial assets at a contingent price with an agreement to bear a part of the shortfall on ultimate realisation. However, banks may sell specific financial assets with an agreement to share in any surplus realised by the asset reconstruction company in the future. While each bank is required to make its own assessment of the value offered in the sale before accepting or rejecting an offer for purchase of financial assets by an asset reconstruction company, in consortium or multiple banking arrangements where more than 75% by value of the banks or financial institutions accept the offer, the remaining banks or financial institutions are obliged to accept the offer. Consideration for the sale may be in the form of cash, bonds or debentures or security receipts or pass through certificates issued by the asset reconstruction company or trusts set up by it to acquire the financial assets. Any loss on sale must be charged to the profit and loss account, but any gains must be used for meeting losses on sale of other financial assets. For computing capital adequacy, a risk weight of 102.5% is applied to instruments received by banks as consideration for sale of financial assets to asset reconstruction companies.

Directed Lending

Priority Sector Lending

The RBI requires commercial banks to lend a certain percentage of their net bank credit to specific sectors (known as priority sectors), such as agriculture, small-scale industry, small businesses and housing finance. Total priority sector advances should be 40% 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. Any shortfall in the amount required to be lent to the priority sectors may be required to be deposited with government sponsored developmental banks like the National Bank for Agriculture and the Rural Development and Small Industries Development Bank of India. These deposits can be for a period of one year or five years.

The RBI requires banks to lend up to 3% of their incremental deposits in the previous fiscal year 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.

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:

- Exposure ceiling for a single borrower is 15% of capital funds effective March 31, 2002. Group exposure limit is 40% of capital funds effective March 31, 2002. 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 I and Tier II capital).
- Non-fund based exposures are calculated at 100% and in addition, banks include forward contracts in foreign exchange and other derivative products, like currency swaps and options, at their positive market value (including potential future exposure) in determining individual or group borrower exposure ceilings, effective from April 1, 2003.

Credit exposure is the aggregate of:

- all types of funded and non-funded credit limits;
- investments in shares, debentures, bonds and units of mutual funds;
- 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.

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 II capital, issued by other banks and financial institutions should not exceed 10% of the investing bank's capital including Tier II 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 per cent 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 will be effective April 1, 2004, with provision for compliance in a phased manner by January 1, 2005.

Consolidated Supervision Guidelines

In fiscal 2003, the RBI issued guidelines for consolidated accounting and consolidated supervision for banks. These guidelines became effective April 1, 2003. The 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-I capital of the bank, of any shortfall in capital adequacy of a subsidiary for which capital adequacy norms are specified; and
- Consolidated capital market exposure limit of 2% of consolidated assets and 10% of consolidated net worth.

The above guidelines on consolidation do not apply to us since we do not currently have any subsidiaries.

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 the sale of investments in the held to maturity category is appropriated to the capital reserve account after being taken in the income statement. Loss on any sale is recognised in the income statement.
- Investments under the held for trading category should be sold within 90 days; in the event of inability to sell due to adverse factors including tight liquidity, extreme volatility or a unidirectional movement in the market, the unsold securities should be shifted to the available for sale category.
- Profit or loss on the sale of investments in both held for trading and available for sale categories is taken in the income statement.
- Shifting of investments from or to held to maturity may be done with the approval of the Board of Directors once a year, normally at the beginning of the accounting year; shifting of investments from available for sale to held for trading may be done with the approval of the board of Directors, the Asset Liability Management Committee or the Investment Committee; shifting from held for trading to available for sale is generally not permitted.

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 net asset value announced periodically by the asset reconstruction company based on the valuation of the underlying assets.

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.

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 debt 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. However, banks are not permitted to pay interest on current account deposits. Further, banks may only pay interest of 3.5% per annum on savings deposits. In respect of savings and time deposits accepted from employees, we are permitted by the RBI to pay an additional interest of 1% over the interest payable on deposits from the public.

Domestic time deposits have a minimum maturity of 15 days (seven days in respect of deposits over Rs. 1.5 million with effect from April 19, 2001) and a maximum maturity of 10 years. Time deposits from non-resident Indians denominated in foreign currency have a minimum maturity of one year and a maximum maturity of three years.

Starting April 1998, the RBI has permitted banks the flexibility to offer varying rates of interests on domestic deposits of the same maturity subject to the following conditions:

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

The RBI has, effective September 15, 2003, stipulated that the interest rate on NRE deposits should not exceed 100 basis points over the US dollar LIBOR/ swap rates for the corresponding maturity.

Deposit Insurance

Demand and time deposits of up to Rs. 100,000 accepted by Indian banks have to be mandatorily insured with the Deposit Insurance and Credit Guarantee Corporation, a wholly-owned subsidiary of the 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.

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. However the provisions of the Act shall come into force and effect only on dates notified by the Indian government, which has not so far notified these dates. The Act seeks to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering and for incidental and connected matters.

Legal Reserve Requirements

Cash Reserve Ratio

A banking company such as 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 RBI Act. At present, the cash reserve ratio is 4.5%.

The following liabilities are excluded from the calculation of the cash reserve ratio:

- inter-bank liabilities;
- liabilities to primary dealers; and
- refinancing from the RBI and other institutions permitted to offer refinancing to banks.

The RBI pays no interest on the cash reserves up to 3% of the demand and time liabilities and pays interest at the bank rate, currently 6%, on the balance.

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 banking company 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 BR 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 BR 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. These statements have to be submitted to the RBI on a quarterly basis. The RBI has advised banks to actively monitor the difference in the amount of assets and liabilities maturing or being re-priced in a particular period and place internal prudential limits on the gaps in each time period, as a risk control mechanism. Additionally, the RBI has asked banks to manage their asset-liability structure such that the negative liquidity gap in the 1-14 day and 15–28 day time periods does not exceed 20% of cash outflows in these time periods. This 20% limit on negative gaps was made mandatory with effect from April 1, 2000. In respect of other time periods, up to one year, the RBI has directed banks to lay down internal norms in respect of negative liquidity gaps. It is not mandatory for banks to lay down internal norms in respect of negative liquidity gaps for time periods greater than one year.

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 non resident Indians;
- 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 in the exchange control manual. 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

The RBI's acknowledgement is required for the acquisition or transfer of our shares to an individual or a group which acquires 5% or more of our total paid up capital. The RBI while granting acknowledgement may require such acknowledgement to be obtained for subsequent acquisition at any higher threshold as may be specified. In determining whether the acquirer or transferee is fit and proper to be a shareholder, the RBI may take into account various factors including, but not limited to the acquirer or transferee's integrity, reputation and track record in financial matters and compliance with tax laws, proceedings of a serious disciplinary or criminal nature against the acquirer or transferee and the source of funds for the investment. While granting acknowledgement for acquisition or transfer of shares that takes the acquirer's shareholding to 10% or more and upto 30% of our paid-up capital, the RBI may consider additional factors, including but not limited to (a) source and stability of the funds for the acquisition and the ability to access financial markets as a source of continuing financial support for the bank, (b) the business record and experience of the applicant including any experience of acquisition of companies, (c) the extent to which the corporate structure of the applicant will be in consonance with effective supervision and regulation of the bank; and (d) in case the applicant is a financial entity, whether the applicant is a widely held entity, publicly listed and a well established regulated financial entity in good standing in the financial community. While granting acknowledgement for acquisition or transfer of shares that takes the acquirer's shareholding to 30% or more of our paid-up capital, the RBI may consider additional factors, not limited to the following (a) the acquisition is in public interest, (b) the desirability of diversified ownership of banks, (c) the soundness and feasibility of the plans of the applicant for the future conduct and development of the business of the bank; and (d) shareholder agreements and their impact on control and management of the bank. Where any existing shareholding by any individual entity / group of related entities is in excess of the stipulated limit (i.e.in excess of 10%), the bank will be required to indicate a time table for reduction of holding to the permissible level.

The Draft Policy on investment and governance in private sector banks issued by the RBI in July 2004 ("Draft Policy") has laid down certain broad principles underlying the framework of policy relating to ownership of private sector banks would have to ensure that:

i. The ultimate ownership and control of private sector banks is well diversified. Accordingly, no single entity or group can hold more than 10% of the paid-up capital of a private bank. Existing private banks that are not in compliance with this requirement will need to submit a time bound plan for the same to the RBI.

ii. Important Shareholders (i.e., shareholding of 5 per cent and above) are 'fit and proper', as laid down in the guidelines dated February 3, 2004 on acknowledgement for allotment and transfer of shares.

iii. A private sector bank cannot hold more than 5% of the paid up capital of any other private bank. The same limit would also apply to foreign banks that already have a presence in India.

iv. Private banks are required to have a minimum net worth of Rs. 300 crores, and existing private banks would need to give RBI a time bound plan to increase their capital if required.

v. Directors on private banks (including existing Directors) are required to confirm to "fit and proper person" guidelines stipulated by the RBI.

Requirements of the Banking Regulation Act

Prohibited Business

The BR 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 20% of the profits of each year before dividends. If there is an appropriation from this account, the bank is required to report the same to the RBI within 21 days, 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

The RBI has prescribed revised guidelines on payment of dividend applicable to the dividends declared for the accounting year ended March 31, 2004 onwards. In case any bank violates the above guidelines, the violation would be viewed very seriously and such violation would attract penal action under Section 46 of the BR Act, 1949.

The revised guidelines lay down the eligibility criteria and limitation on dividend payments as follows:

Eligibility criteria:

(a) Only those banks, which comply with the following minimum prudential requirements, would be eligible to ***declare*** dividends without prior approval of RBI.

  i) The bank should have:

  - CRAR of at least 11 % for preceding two completed years and the accounting year for which it proposes to declare dividend.
  - Net NPA less than 3 %.

  ii) The bank should comply with the provisions of Sections 15 and 17 of the BR Act, 1949.

  iii) The bank should comply with the prevailing regulations/ guidelines issued by the RBI, including creating adequate provisions for impairment of assets and staff retirement benefits, transfer of profits to Statutory Reserves and Investment Fluctuation Reserve, etc.

  iv) The Reserve Bank should not have placed any explicit restrictions on the bank for declaration of dividends.

Quantum of dividend payable:

Banks, which qualify to declare dividends consequent upon compliance with the eligibility requirements above would be eligible to ***pay*** dividends without obtaining the prior approval of the Reserve Bank, subject to further compliance with the following:

(i) The dividend payout ratio does not exceed 33. 33 %.

(ii) The proposed dividend should be payable out of the current year's profit.

(iii) Dividend payout ratio is calculated as a percentage of 'dividend payable in a year' (excluding dividend tax) to 'net profit during the year'.

(iv) In case the profit for the relevant period includes any extra-ordinary profits/ income, the payout ratio shall be computed after excluding such extra-ordinary items for reckoning compliance with the prudential payout ratio ceiling of 33.33%.

(v) 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 case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

Banks may also declare and pay interim dividends out of the relevant accounting period's profit without prior approval of RBI if they satisfy the minimum criteria prescribed above, satisfy the quantum requirements prescribed above, and the cumulative interim dividend(s) are within the prudential cap on dividend payout ratio (viz. 33.33%) computed for the relevant accounting period. However, declaration and payment of interim dividends beyond this ceiling requires RBI's prior approval.

Prior approval of the RBI is required to be obtained before declaring the dividend where the aforesaid eligibility criteria is not met or where eligibility requirements are met but the bank intends to declare dividends higher than the quantum specified above.

All banks declaring dividends are required to report details of dividend declared during the accounting year within a fortnight after payment of dividend(s) with the RBI.

Restriction on Share Capital and Voting Rights

Banks can issue only Equity Shares. The BR Act specifies that no shareholder in a banking company can exercise voting rights on poll in excess of 10% of total voting rights of all the shareholders of the banking company.

Only banks incorporated before January 15, 1937 can issue preferential shares.

Regulatory Reporting and Examination Procedures

The RBI is empowered under the BR Act to inspect a bank. 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; and
- other prudential parameters.

The RBI also conducts periodic on-site inspections on matters relating to the bank's portfolio, risk management systems, internal controls, credit allocation and regulatory compliance, at intervals ranging from one to three years. We are subject to the on-site inspection by the RBI at yearly intervals. The inspection report, along with the report on actions taken by us, has to be placed before our Board of Directors. On approval by the Board of Directors, we are required to submit the report on actions taken by us to the RBI. The RBI also discusses the report with the management team including the Managing Director.

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

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

We are required to obtain prior approval of the RBI before we appoint our Chairman and Managing Director and any other Wholetime Directors and fix their remuneration. The RBI is empowered to remove an appointee to the posts of Chairman, Managing Director and Wholetime Directors on the grounds of public interest or interest of depositors or to ensure our proper management. Further, the RBI may order meetings of our Board of Directors to discuss any matter in relation to us, appoint observers to such meetings and in general may make such changes to the management as it may deem necessary and may also order the convening of a General Meeting of our shareholders to elect new Directors.

In addition, the Draft Policy lays down the following broad principles:

- To avoid conflict of interest, RBI will not appoint its nominee on the Boards of private sector banks unless there are exceptional circumstances.
- Banks will be required to undertake due diligence of Directors and Chairman / CEO on basis of criteria that will be separately indicated and provide all the necessary certifications/ information to RBI.
- Private banks must ensure that the responsibilities of Directors are well defined and arrange for need-based training to Directors in this regard;
- Directors must also satisfy the applicable requirements of the "fit and proper" criteria laid down for important shareholders;
- Not more than one member of a family or a close relative or an associate should be on the Board of a private bank;
- These requirements are also applicable to existing Directors on the Board.

RBI has issued separate guidelines effective June 25, 2004 laying down the due diligence and "fit and proper" criteria applicable to Directors of private banks.

Penalties

The RBI may impose penalties on banks and their employees in case of infringement of regulations under the BR 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

CBL requires the prior permission of RBI to incorporate a subsidiary CBL is required to maintain an "arms' length" relationship in respect of its subsidiaries and in respect of mutual funds sponsored by it in regard to business parameters such as taking undue advantage in borrowing/lending funds, transferring/selling/buying of securities at rates other than market rates, giving special consideration for securities transactions, in supporting/financing the subsidiary and financing our clients through them when we ourselves are not able or are not permitted to do so. We and our subsidiaries have to observe the prudential norms stipulated by the RBI, from time to time, in respect of our underwriting commitments. Pursuant to such prudential norms, our underwriting or the underwriting commitment of our subsidiaries under any single obligation shall not exceed 15% of an issue. We also require the prior specific approval of the RBI to participate in the equity of financial services ventures including stock exchanges and depositories notwithstanding the fact that such investments may be within the ceiling prescribed under Section 19(2) of the BR Act Further investment by us in a subsidiary, financial services company, financial institution cannot exceed 10% of our paid-up capital and reserves and our aggregate investments in all such companies and financial institutions put together cannot exceed 20% of our paid-up capital and reserves.

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 BR Act and the Companies Act specifically requires banks to maintain books and records in a particular manner and file the same with the Registrar of Companies on a periodic basis. The provisions for production of documents and availability of records for inspection by shareholders would apply to us as in the case of any company.

Issue of Bonus Shares

We would require to obtain the prior permission of the RBI and our shareholders' approval to issue bonus shares.

Secrecy Obligations

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, 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 to enter into or undertake such transactions under the Foreign Exchange Management Act, 1999. However, Offshore Bank Units in Special Economic Zones will not be allowed to do not accept/ solicit deposits or investments from residents or open their accounts.All prudential norms applicable to overseas branches of Indian banks apply to Offshore Banking Units.
- Offshore Banking Units are required to adopt liquidity and interest rate risk management policies prescribed by 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 raise funds in convertible foreign currency as deposits and borrowings from non-residents including non-resident Indians but excluding overseas corporate bodies.
- Offshore Banking Units may operate and maintain balance sheets only in foreign currency.
- The loans and advances of Offshore Banking Units would not be reckoned as net bank credit for computing priority sector lending obligations.
- Offshore Banking Units must follow the Know Your Customer guidelines and must be able to establish the identity and address

of the participants in a transaction, the legal capacity of the participants and the identity of the beneficial owner of the funds.

Regulations and Guidelines of 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, bankers to the issue, custodial, depositary participant, investment banking, registrar and transfer agents, broking 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

The Government of India regulates foreign ownership in private sector banks. Under guidelines recently issued by the Government, total foreign ownership in a private sector bank from all sources (FDI, FII, NRI) cannot exceed 74% of the paid-up capital. The limit of 74% will be reckoned by taking the direct and indirect holding. At all times, at least 26% of the paid up capital of the private sector bank will have to be held by residents. In addition, the restrictions on shareholding as provided under "Restrictions on Transfer of Shares" shall be equally applicable to Foreign Direct investment. Shares held by foreign institutional investors under portfolio investment schemes through stock exchanges cannot exceed 49% of the paid-up capital. Individual NRI portfolio investment is restricted to 5% with the aggregate limit for all NRI's restricted to 10% but can be raised to 24% with the approval of Board / General Body.

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 the Act, other than the Board of Directors of a company, a scheduled bank (where it has an interest in the sick industrial company by any financial assistance or obligation, rendered by it or undertaken by it) may refer the company to the BIFR.

The Securitisation Act focuses on improving the rights of banks and financial institutions and other specified secured creditors as well as asset reconstruction companies by providing that such secured creditors can take over management control of a borrower company upon default and/or sell assets without the intervention of courts, in accordance with the provisions of the Securitisation Act.

Income Tax Benefits

As a banking company, we are entitled to certain tax benefits under the Income-tax Act, 1961 including the following:

- We are entitled to a tax deduction on the provisioning towards bad and doubtful debts equal to 7.5% of our total business income, computed before making any deductions permitted pursuant to the Indian Income-tax Act, to the extent of 10% of the aggregate average advances made by *our rural branches* computed in the manner prescribed. We have the option of claiming a deduction in respect of the provision made by us for any assets classified pursuant to the RBI's guidelines as doubtful or loss assets to the extent of 10% of the amount of such assets as on the last day of the year.
- We are eligible to issue tax saving bonds approved in accordance with the provisions of the Indian Income-tax Act. The subscription to such bonds by certain categories of investors is a prescribed mode of investing for the purposes of availing of a tax rebate.
- For income tax purposes, our deposits and bonds are prescribed modes of investing and depositing surplus money by charitable and religious trusts.
- The income of non-resident persons and persons not ordinarily resident in India, by way of interest on our deposits in a foreign currency qualifying under the Income Tax Act is exempt from tax.

BASIS FOR ISSUE PRICE

The investors may also want to peruse the risk factors on page iii and the financials of the Bank as set out in the Auditors Report on page 87 in this Letter of Offer to have a more informed view before the investment decision.

Qualitative Factors

- A position of creating a banking franchise employing strategies that are directly relevant to current market realities, while at the same time leveraging existing physical infrastructure and customer base that affords us a head start over some of our competitors.
- A differentiated business model, focusing primarily on the retail customer.
- A sizable distribution infrastructure comprising 61 fully networked branches and 22 extension counters, 23 marketing offices, 148 ATMs, online internet banking and mobile messaging. We have received approval from the RBI for converting 14 of our aforesaid 23 marketing offices into full fledged banking branches, which would increase our branch network to 75 branches.
- Among the earliest retail franchises in the country with as many as 765,000 retail customer relationships developed since our inception.
- Existing market positions in areas including two-wheeler, commercial vehicle, construction equipment and channel financing.
- Among the earliest banks to offer a technology-enabled customer interface to pioneer the concept of Anywhere Banking in India.
- The Asset Quality of our Bank suffered in fiscal 2001 owing to non-performance of certain of our large value corporate assets following the downturn in the concerned industries and non-performance of certain loans given to a few capital market participants. During this period, due to capital adequacy contraint, we were unable to build up our loan book. As a result the ratio of our net NPAs to net advances rose from 5.82% as on March 31, 2002 to 7.51% as on March 31, 2003 and to 4.30% as on March 31, 2004. While we have already made provisioning with respect to our corporate loans in excess of the regulatory standards and above the industry norms, we may decide on a prudential basis to make accelerated provisioning so that it may not have material adverse impact on our future earnings.
- As a result of our merger with erstwhile TCFC, we inherited a legacy of stressed corporate assets in the form of leases and hire purchase contracts and contingent liabilities in the form of disputed tax demands. We came across reconciliation differences that required provisioning in the fiscal 2002 accounts. This eroded our capital and constrained our growth. On October 09, 2001, the Board appointed Mr. V. Janakiraman, former MD of the State Bank of India and an experienced banker, as the CMD to guide the Bank towards an alternative strategy. The appointment of Mr. V. Janakiraman was duly approved by the Reserve Bank of India in accordance with the provisions of Section 35B of the BR Act, 1949 on December 31, 2001. The erstwhile TCFC promoter directors resigned from the Board in March 2002 after Mr. Janakiraman assumed charge in January 2002. The Board also appointed Mr. C.G. Somiah, former Comptroller and Auditor General of India and Mr. Kamlesh Vikamsey, Chartered Accountant, and presently the Vice President of the Institute of Chartered Accountant of India, as non-executive Directors in March 2002. The new management with the re-constituted Board introduced stringent accounting norms and instituted better corporate governance. Thereafter the Board engaged in discussions with several potential investors to infuse additional capital into the Bank. These efforts culminated in a proposal from Sabre for re-capitalisation of our Bank using private financial investors, and infusion of fresh capital through a court scheme, coupled with the merger of the Bank Muscat Bangalore, being accepted. Since then we presented a composite Scheme of Arrangement under Section 100 (for reduction of capital) and Sections 391 to 394 of the Companies Act, 1956 for the approval of the High Courts of Bombay (Goa Bench) and Karnataka and the RBI and the same has been approved by them on September 12, 2003, October 27, 2003 and January 19, 2004, respectively. The Scheme of Arrangement *inter-alia* involved re-organising our share capital, merger of operations of Bank Muscat Bangalore with us and infusion of capital. As a result of the Scheme of Arrangement, till date Rs. 154 crores have been infused in the form of equity. The Scheme also entailed vesting of the entire shareholding of our erstwhile promoter TCFC in the Centurion Bank Stock Trust for the benefit of the Bank. Through reduction in the face value of our Equity Share capital a sum of Rs 137.22 crores, being the total reduction in our Equity Capital, was utilised to adjust the debit balance in the Profit and Loss Account to that extent, reducing our debit balance in P&L account from Rs. 162.71 crores as on March 31, 2003 to Rs. 131.39 crores as on March 31, 2004.
- With steps already initiated towards implementation of the Scheme, Rs. 154 crores have already been infused in our capital (including the premium amount) in the first tranche as per the Scheme. As a result our Capital Adequacy Ratio has improved to 4.41% as on March 31, 2004 from 1.95% as on March 31, 2003. With completion of this Rights Issue and based on our Capital Adequacy as on June 30, 2004 (as filed with RBI), we would achieve the minimum Capital Adequacy Ratio of 9%. The fund infusion would also enable us to access resources to support our growth plans.

Quantitative Factor

1. Adjusted diluted Earning Per Share (EPS)

Year	EPS (Rs.)	Weight
2001-2002	(10.63)	1
2002-2003	(2.84)	2
2003-2004	(3.24)	3
Weighted Average	**(4.34)**	

For the fiscal 2002, 2003 and 2004; we reported operating profit of Rs. 14.41 crores, Rs. 20.35 crores and Rs. 9.38 crores respectively. However due to the provisioning, including extra-ordinary provisioning primarily for our corporate assets during last three fiscals, we reported net loss. The total provisioning for fiscal 2002, 2003 and 2004 was Rs. 108.42 crores, Rs. 46.05 crores and Rs. 79.22 crores. For details please refer section on "Management Discussion and Analysis of Financial condition and Result of Operation".

2. Price/Earning Ratio (P/E) in relation to Rights Issue Price of Rs. 4 per Equity Share

Weighted average EPS is negative, thereby making calculation of P/E ratio not meaningful

Industry P/E - Highest - 39.7; Lowest - 2.6; Industry Average - 9.9

(Source: Capital Markets Volume August 2 - 15, 2004)

3. Return on Net Worth

Year	RONW (%)	Weight
2001-2002	(287.28)	1
2002-2003	(330.51)	2
2003-2004	(172.03)	3
Weighted Average	**(244.07)**	

As the Bank has reported loss for last three fiscals, the calculation of Return on Net Worth is not meaningful.

4. Minimum Return on post-issue Net Worth to maintain pre-issue EPS cannot be computed since the Bank has been reporting loss since last three years.

5. Net Asset Value (NAV) (as on March 31, 2004): Rs. 1.08

At Issue Price per share	Rs. 4
Net Asset Value per share as at March 31, 2004	Rs. 1.08
Closing Market Price (July 23, 2004)	Rs. 8.47
Net Asset Value per share after the issue based on profits/(loss) upto March 31, 2004	Rs. 1.92
Issue Price to Book Value ratio based on book value per share as on March 31, 2004	3.70x
Industry Price to Book Value ratio	1.21x

(Source: Capital Markets Volume August 2 - 15, 2004)

Comparison of accounting ratios of Bank with industry average and accounting ratios of peer group for FY 2004

Bank	Year ended	EPS (Rs.)	P/E	BV(Rs.)	P/BV
Bank of Punjab	March 2004	3.5	5.6	23.3	0.86
Bank of Rajasthan	March 2004	6.2	5.6	28.6	1.19
City Union Bank	March 2004	22.9	2.9	84.5	0.78
Dhanalakshmi Bank	March 2004	5.3	4.2	41.8	0.53
Federal Bank	March 2004	60.6	4.7	292.9	1.04
Global Trust	March 2004	-	-	0.2	55.00
HDFC Bank	March 2004	17.4	19.6	94.1	3.95
ICICI Bank	March 2004	22.3	10.9	110.7	2.32
IDBI Bank	March 2004	6.1	6.3	28.6	1.50
Indusind Bank	March 2004	9.0	5.6	27.5	1.82
ING Vysya Bank	March 2004	32.6	39.7	277.2	1.15
J & K Bank	March 2004	82.5	3.2	328.7	0.79
Karna. Bank	March 2004	32.4	2.6	172.6	0.49
Karur Vysya Bank	March 2004	88.2	3.4	395.6	0.79
Kotak Mahindra Bank	March 2004	12.8	26.8	101.7	3.59
Lak. Vilas Bank	March 2004	35.0	3.4	196.9	0.60
South Ind. Bank	March 2004	17.4	2.9	92.7	0.52
United Western Bank	March 2004	10.2	2.9	94.0	0.32
UTI Bank	March 2004	12.0	10.1	48.9	2.64
Industry Composite	**March 2004**		**9.9**		**1.21**

Source : Capital Market Magazine August 2 - 15, 2004
Peer Group average is simple average of above multiples (excluding Global Trust Bank).

On the basis of the above qualitative and quantitative parameters, the Lead Manager and the Bank are of the opinion that Issue price of Rs. 4 is justified.

OUTSTANDING LITIGATION & DEFAULTS

A. THE BANK

There are no outstanding or pending litigation or suits or proceedings (whether criminal or civil), no defaults, non-payment or over-dues of statutory dues, no proceedings initiated for any economic or civil offences (including past cases if found guilty) and no disciplinary action taken by SEBI or stock exchanges, and no outstanding litigation, defaults, etc., pertaining to matters likely to affect the operations and finances (including those of our subsidiaries and affiliates) whose outcome could have a material adverse effect on our operations except as disclosed and discussed hereunder. However, at June 30, 2004, the following are the outstanding or pending litigation or suits or proceedings against us, and criminal complaints or cases, defaults, non-payment or over-dues of statutory dues, proceedings initiated for any economic or civil offences (including past cases if found guilty) and disciplinary action taken by SEBI or stock exchanges (during the past five years) against us, our subsidiaries and affiliates and our Directors and the outstanding or pending litigation or suits or proceedings against our subsidiaries and affiliates.

I. Litigation and proceedings against the Bank

There are a total of 73 suits filed against the Bank and are pending as on June 30, 2004. The total exposure in these suits for the Bank is approximately Rs. 14.94 crores.

The brief particulars of the cases filed against the Bank is provided below.

Criminal Cases

Sr.No.	Court/Forum/Case Number	Claim Amount. (Rs. in Crores)	Remarks
1	2485 Addnl. Judge to the Court of Dist. Judge, Indore.	0.0687	It relates to collection of drafts in the savings account of a customer through the Indore Branch. The drafts were subsequently found to be forged and the issuing bank filed a suit against the Bank & the party. Next date for the case is 25/08/2004 for publication of summons.
2	2/98 Sessions Court, Dhaboi, Jr. Magistrate 1st Class court Gujarat.	0.0226	This matter refers to a re-financing transaction by Bank. It is currently at a hearing stage.
3	185/ 2002 Session Court, Calicut.	0.0040	Case filed against repossession of a vehicle by the Bank. Next hearing on 07/09/04
4	PCR No. 515/1999 PC No. 8230/2001 Metropolitan Magistrate's Court, Bangalore	1.14	This pertains to the matter described at item 16 of the table on "civil cases" below. The party has also filed a criminal suit under section 409 of the IPC against the Bank and three officials (including Mr. Dev Ahuja, former Chairman of the Bank and two former employees of the Bank) in the same matter, and all these parties have currently secured bail. Discharge applications for Mr. Ahuja and one of the former employees (the other person is out of the country) have been filed and are coming up for hearing on 22/11/2004.

Consumer Cases

Sl. No.	Court/Forum/ Case number	Claim amount (Rs. in Crores)	Remarks
1	OC/81/2000 Dist. Consumer Disputes Redressal Forum New Delhi	No Particular Amount	This case pertains to non-receipt of Share Certificate & Refund Order of Public Issue in 1999. The Bank has replied to the complaint appropriately. A decision is awaited and no date has been fixed for the same.
2.	518 of 2003 Consumer Court Hyderabad	Not ascertainable	In their current account 3 cheques for Rs 40,000, Rs 20,000 and Rs 9,000 have been alleged as fraudulently encashed by some of their own employees. Company had served a legal notice against the bank employees in the month of February, 2001. This is consumer court case which is posted to 20/07/04 for filing written statement by M/s. Institute of American Studies.
3.	OP 6/2002 Consumer Court Chennai	0.0025	Under bank guarantee issued by us against 100% margin both the beneficiary and the depositor are claiming payment. We have filed our statements.

4.	23/2002 State Consumer Redressal Commission.	0.10	On the basis of the authority executed by the depositor (complainant), Mr. Edgar Martins, overdrafts amounting to Rs. 8.50 lacs were sanctioned against his NRO FD of Rs.18 lacs to his friend Mr. Murzban Narsang. After the death of the borrower Mr. Narsang on 03/12/2001, the depositor has been requesting for release of his fixed deposit of Rs.10 lacs (Rs. 8 lacs already released). The case is now fixed for 09/9/2004 for oral arguments.
5.	39/2002 Consumer Forum- Margao-Goa	0.02	Case filed with consumer forum- Margao-Goa for compensation on account of non-functioning of ATM in Mumbai. Case fixed for hearing on 16/07/04
6.	19/2003 Consumer Forum Vasco-Goa	0.02	Case was filed with consumer forum on account of payment of erstwhile TCFC deposits before maturity. Party has now produced a letter to the court for withdrawal of the case.
7.	435 of 2000 Fort State Commission	0.23	Case filed by the Company for rejection of loan -Deficiency of Services-Consumer forum. Reply was filed in December 2000.
8.	306 of 2000 National Commission	0.60	Case filed by the Company for rejection of loan -Deficiency of Services-Consumer forum. Reply was filed on 11/6/2001.
9.	311 of 2000 National Commission	0.39	Case filed by the Company for rejection of loan -Deficiency of Sevices-Consumer forum. Reply was filed in January, 2003
10.	308 of 2000 National Commission	0.53	Case filed by the Company for rejection of loan -Deficiency of Sevices-Consumer forum. Reply was filed in January, 2003
11.	60/2004 District consumer forum Bhopal	0.0005	NOC given late and duplicate key not given. Next hearing date is 12/08/2004.
12.	1245/2003 Consumer Court, Delhi	0.021	Vehicle repossessed and sold, Client filed defamation, Initial stage, and Written statement to be filed.
13.	0C/1967/2003 Consumer Court Delhi.	0.0040	Client approached consumer forum asking refund of advance amount paid, Initial stage, Written statement filed.
14.	327/02 Consumer Court, Ambala	0.0003	NOC was issued on 24/09/02 and was sent to DMA, Ambala for onward submission to borrower who failed to collect the same. Case is pending for consideration for deficiency in services & mental harassment.
15.	352/2002 Consumer forum Chennai	0.0050	The customer has filed a suit for returning a vehicle that had been repossessed from him, and related compensation.
16.	280/2003 Consumer forum Trivandrum	0.00009	The customer has filed a suit for returning a vehicle that had been repossessed from him, and related compensation.
17.	282/2001 Consumer Redressal Forum Kochi	0.020	Matured contract of erstwhile TCFC. Customer has filed case with the Kasargod Munsiff court. Client Introduced by broker. Initial payment misused by DMA. Hirer not willing to solve the case. Preliminary case dismissed. Party has since appealed to district court. Hearing not yet fixed. Vehicle repossessed and sold. Customer filed complaint with consumer court at Kasargod. Orders issued against the bank. Appeal is still pending.
18.	514/2003 District Consumer Forum Bangalore	0.0010	Forum ordered us to refund Rs. 22 800, which was collected by us as DPC. We have paid Rs. 13,750 and gone on appeal. Next hearing is on13/09/2004
19.	333 of 2003 Consumer forum, Satara	0.0010	NOC not given by bank due to in-transit cheque. The customer has claimed compensation of Rs 10,000.
20.	109 of 2001 Consumer Forum, Pune	0.0010	The vehicle in question was repossessed and sold by the Bank 2 years ago. Wants compensation - refund of EMI's.

21.	320 of 2003 Consumer Forum, Aurangabad.	0.0005	Customer has filed this suit claiming that there was a problem with the interest paid/due to him.
22.	3 of 2004 Consumer Forum, Ahmedanagar	0.0010	The customer has filed a suit for returning a vehicle that had been repossessed from him, and related compensation.
23.	280/2003 Consumer Forum Trivandrum	0.0009	The customer has filed a suit for returning a vehicle that had been repossessed from him, and related compensation.

Civil Cases

Sl.	Court/Forum/ Case number	Claim amount (Rs. in Crores)	Main contentions of the Bank
1.	2536 of 2001 High Court of Delhi.	0.062	It relates to collection of drafts in current account through clearing. The drafts were subsequently alleged to be forged by Allahabad Bank and they filed a suit against the Bank and the party. The next date fixed in the case is 21/07/2004 for cross-examination of the Bank.
2.	1248/01 Metropolitan Magistrate New Delhi.	Not ascertainable	This case relates to unauthorized construction /occupation of the Premises at E-13 Harsha Bhawan, New Delhi. The next date of hearing is 28/11/2004.
3.	783/2002 District Consumer Disputed Redressal Forum-I, Lucknow	Not ascertainable	This case has been filed against the Zila Sahakari Bank Lucknow for loss of cheques amounting to Rs.60,000. Our Bank has been made a party as cheques were sent in collec tion by CBL. Petitioner since deceased and next date of hear ing is 16/7/2004.
4.	198/98 Labour Court, Jaipur	0.0040	The suit filed by ex- security guard who was posted at the branch by the security agency. The suit has been filed against the security agency by the guard for non-payment of his dues for the period for which he was posted at branch. The Bank has been made 4th party in the case.
5.	6399 of 2001 Hyderabad	Not ascertainable	We froze a current account with balance of Rs 26.40 Lacs on instructions from enforcement Directorate in Jan 01 owing to some irregularities committed by them in their exports. The company filed a case against the Directorate and the bank. DRI has passed orders of seizing the balance in the a/c. We will pay the amount to DRI after obtaining High Court's leave if there are no other procedural hurdles.
6.	172/2001 City civil, Hyderabad	Not ascertainable	He was working as a Manager with the bank and was termi nated from service in the year 1999 owing to some irregulari ties committed by him. He has filed a case against the bank for reinstatement and subsistence allowance. City civil court Hyderabad has dismissed his petition for maintenance allow ance. The case was last posted on 30/06/04 when we have marked our documents. The case is now posted to 15/7/04 for our cross-examination by his advocate.
7.	OS742/98 High Court, Chennai	Not ascertainable	Injunction against our selling shares of Kiran Overseas Exports Ltd. Customer has asked for relief including transfer of Shares. Case not yet listed at Chennai High Court. We have already filed a case against Harita Mercantile corp. In DRT Chennai. The a/c has been fully written off by us. The relief claimed is for injunction restraining our bank from selling shares in Kiran Overseas Corpn. Ltd., reworking interest, etc. As the account of Harita Mercantile Corpn has been fully written off by us, there will be no further loss to us.
8.	OA 2046/01 DRT Chennai	No relief against us	This is a case by Indian Bank to recover their dues from Laxmi Spinners. CBL is included as a party only out of abundant caution, with DRT-Chennai. No relief claimed against us.

9.	OA 97/2001 DRT Chennai	NIL	Our name is included as Garnishee in SBT's case against Apple Credit Corpn. No relief has been claimed from us. This case stands posted to 03/08/04.
10.	OA 484/2001 DRT Chennai	NIL	Our name is included as Garnishee in A.B.'s case against Apple Credit Corpn. No relief has been claimed from us.
11.	OA 649/2001 DRT Chennai	-	We have been included only as a garnishee in respect of State Bank of Mauritius's case against Fidelity Industries Ltd. No relief has been claimed from us.
12.	CS 712/1996 High Court, Chennai	No relief against us	Injunction against J&K Bank from making payment of Rs 12.50 lacs to us under LC discounted by us has been dismissed. We have since received full payment.
13.	OA 544/2002 DRT Chennai	0.0025	Our Bank is impleaded only as a garnishee only and no reliefs have been claimed. The case stands posted to 12/08/04.
14.	2199/2000 City Civil Court- Bangalore &	1.31	Civil money suit filed for dishonor of fraudulently obtained post dated Bankers Cheques. This was due to parallel banking arrangement by Mr. S. Ramamoorthi Ex VP, Bangalore (under suspension). We have already submitted our written statements. The interlocutory application for attachment of our CRR balances with RBI has been dismissed on 03/06/2002 for reasons of lack of merit. Case is now posted to 04/03/2003 for framing of issues by the court. Claim of interest @ 18% is not considered by the bank .The Case is before is posted for cross-examination of the plaintiff on 04/08/04.
15.	4161/1998 DRT, Calcutta	6.53	The matter relates to non-payment of LC on due date. We strongly opposed the said suit filed by SBI & the matter is sub-judice. In response to SBI's application, Kolkata High Court passed injunction order restraining the LC discounting banks from making demand on SBI. Appeal filed before Division Bench, Kolkata & the injunction vacated on 26/11/98. SBI appealed before the Supreme Court, who sent back the papers to Kolkata High Court on 12/7/99 with instructions to dispose the original petition filed by SBI at the earliest. Supreme Court also stayed the proceedings initiated by the banks including CBL against SBI pending disposal of SBI's petition in the High court. CBL had, on 25/11/1998, filed suit in DRT, Kolkata against SBI claiming Rs. 4.11 crores for not honoring the commitment under LC but the case has not been heard and orders have been passed for maintaining status quo till the case filed by SBI in Kolkata High Court is disposed. On 16/7/2002, High court disposed of SBI's application and directed that the DRT shall be free to proceed with the proceedings filed by various banks against SBI according to its own wisdom and discretion. SBI made a prayer for stay of the operation of the said order, which was also rejected. SBI filed an appeal before the appellate court, who admitted the same on 9/10/02 and also directed SBI to file its written statement with DRT. SBI, after six months, filed its written statement on 23/4/2003. CBL has moved a petition in DRT in July'03 praying for preemptory hearing of the suit filed by us and to give necessary directions for filing of evidence by the parties. It was posted for 14/1/04 for filing our reply to SBI's statement, when our reply was filed. We understand that the court is vacant and it is posted to 10/08/04 for next hearing.
16.	1055/2000 Mumbai High Court	1.14	Filed by the Party against us for cancellation of a Bank Guarantee of Rs. 1 Crore issued in their favour. Claimed int of Rs.44 lacs. Amended the plaint to Rs.114.81 lacs. Case pending.

17.	1) 734/2004 2) 1289/2004	0.12	Chemically altered drafts were collected through this account and amounts withdrawn. Now India Assurance Co. has filed suit against this customer and the bank case to come-up for hearing. The matter is coming up for hearing on 6/8/04
18.	7/2001A High Court Mumbai, Goa Bench, Panaji.	0.02	The suit is regarding a procedural lapse on the part of the Bank in crediting the account of Investech directly instead of the deposit holder, Mary Fernandes. The suit was decreed against the Bank. The Bank has preferred an appeal in the High Court Mumbai, Goa Bench, Panaji. The High Court has admitted the appeal and granted interim stay on the execution of decree. Accordingly, the amount was deposited in the Trial Court.
19	429/01, 430/01, 431/01 & 432/01 High Court, Ahmedabad,	2.44	Invocation of BG of KND Eng.Original summary suit no 429/01, 430/01, 431/01 & 432/01 all dated 21/07/01 which were subsequently disposed off vide order dt 19/01/2004 passed by Civil Judge (SD) Baroda. Further, Special civil application no 3142, 3146, 3148 & 3149 of 2004 filed by the Bank before Hon'ble High Court, Ahmedabad, wherein the Hon'ble HC granted stay in favor of the Bank for 6 weeks i.e. till 14/06/04. The HC has since granted 6 weeks time to L&T to file its appeal till 27/07/04.
20.	3659/97 & 3660/97 4th Court Jr. Metropolitan Magistrate, Baroda	NIL	Inspector S.S. Bijlani visited Bank for inspection. Hearing of discharge application in two gratuity cases.
21.	1192/94 Civil Judge, Sr. Div	0.0015	We had repossessed the customer's vehicle, and this suit has been filed to recover the same.
22.	(1) 235/2000 Jr. Civil Judge Anand. (2) 301/98 Dist. Court Anand. (3) 311/2001 Dist. Court Anand.	0.05	We had repossessed the customer's vehicle, and this suit has been filed to recover the same.
23.	(1) 373/2000 Judicial 1st Class Magistrate Court, Baroda (2) 781/2001, 3rd Jt. Civil Judge Sr. Div., Baroda	0.071	The first case, where the party filed suit against bank for the sale of vehicle JCB at a lower price, the matter is at cross-examination stage and the next date is 3/8/04 . In the second case the same party has filed a civil suit for damages, the next date is 31/08/04.
24.	448/2002 Bharuch Civil Court 5th Board Jr. Divn. Bharuch	0.0015	The party filed suit against the bank for unlawful repossession of two vehicles. We have filed our reply and the same on a hearing stage. The next date is August 18, 2004.
25.	680/03 District Court Indore	0.0 450	This case was filed against a customer who was driving the vehicle financed by the bank and had an accident with the complainant. The Bank has also been made a party to this case, and the next hearing date is 02/08/2004
26.	1012/2004(Stay Order) National Consumer Forum	0.0008	The borrower has filed a suit against the bank claiming excess down payment charged by incorrect collection of RTO charges.
27.	267 Dist. Court Ludhiana	0.0004	The customer's vehicle met with an accident, and he is insisting on making his payments only after receiving the insurance amount. He has filed this case
28.	331/2002 Chuchura Court	Not ascertainable	The borrower has filed a suit against us because we have repossessed the vehicle.
29.	TS-1745/03 City Civil Court, Kolkata	Not ascertainable	The borrower has filed a suit against us because we have repossessed the vehicle. Court had made a stay on the repossession, the same was vacated on our application. We have sold the vehicle on 30/06/04

30.	406/420 GR 53/2002 SDJM ,Katwa.	0.24	The borrower has filed a suit against us because we have repossessed his vehicle.
31.	75/2003 Consumer Forum Madurai	0.0 1	The borrower has filed a suit against us because we have repossessed his vehicle.
32.	44/2003 Consumer Forum Nagarcoil	0.0048	The borrower has filed a suit against us because we have repossessed his vehicle.
33.	470/2003 Consumer Forum Madurai Court	0.01	The borrower has filed a suit against us because we have repossessed his vehicle.
34.	OS .311/01 PSJ Court, PONDICHERRY	Not ascertainable	The borrower has filed a suit against us because we have repossessed his vehicle.
35.	CMA 830/02 Dist. Court, Cochin	Not ascertainable	We repossessed the vehicle and the customer filed a suit before civil court for return the vehicle while an ex-party order was granted by the Munsiff to return the vehicle. We filed an appeal in the District Court which is posted for final arguments.
36.	OS 58/02 Cochin High Court.	0.29	Hirer has taken out an order not to repossess the vehicle. This case has been posted for evidence.
37.	OS 110/04 Cherthana Munsif Court, Cochin	No Particular Amount	Sea Food workers filed a suit against us for not attaching the property of Koluthara exports. The next hearing in this matter is on 04.08.2004
38.	459/04 CDRF, Trichur	0.0007	Customer filed a complaint before the Consumer District Redressal Forum seeking termination before payment of last EMI. The next hearing in this matter is on 24.07.2004
39.	67/2000 Civil Court/CJ/ Kasorgod	0.017	Matured contract of erstwhile TCFC. Customer has filed a case with the Kasargod munsiff court. Client Introduced by broker. Initial payment misused by DMA. Hirer not willing to solve the case. Preliminary case dismissed. Party has now appealed to District Court. Hearing not yet fixed.
40.	303/97 District Court, Mangalore	0.0535	RTO - Mangalore seized the vehicles since the borrower had forged certain documents. Therefore, we had to take the vehicle to our custody through a court order. While we are party to this case, no direct case is filed against us.
41.	19/1998-99 Forest Court, Koppa,	0.0170	The Forest Department has seized the vehicle in question, Chikmagalur and we have taken the possession of the car by providing a bank guarantee. While we are a party to the case, we are not involved directly.
42.	1/2004 Sessions Court,	0.0015	The customer filed for insolvency and filed a case against us for repossession of the vehicle.
43.	387 of 2001 State Commission, Mumbai	0.0004	This matter involves a claim of incorrect interest charged by the Bank on the Advance EMI Scheme.
44.	386 of 2001 State Commission, Mumbai	0.0004	This matter involves a claim of incorrect interest charged by the Bank on the Advance EMI Scheme.
45.	290 of 2003 State Commission, Mumbai.	143	The customer has filed a case against the Bank for incorrect repossession of his vehicle.
46.	79/2003 Lower Court, Nasik	0.30	Out of four vehicles financed, two have been repossessed. The customer got an order of status quo against repossession of the other two, and the case is in its final stages.

II. Litigation by the Bank

Recoveries

As is common in the nature of business carried on by the Bank, we have filed several civil and criminal suits against defaulting retail and corporate customers of the Bank for recoveries of loans, attachment and enforcement of security or incidental relief. These matters are pending at various fora including High Courts, the DRT and other civil and criminal courts.

A brief snapshot of litigation filed by the Bank for recoveries, as on June 30, 2004 is as follows:

Nature of matter	No. of cases	Total amount sought to be recovered (Rs. crores)
Civil and criminal cases (HC, DRT, etc.)	94	256.86
Criminal cases (u/ s.138 of the Negotiable Instruments Act, 1872)	1,846	30.01
TOTAL	1,940	286.87

III. Other Proceedings

A. Proceedings before the Joint Parliamentary Committee

1. Centurion Bank has deposed twice before the JPC constituted for investigating the stock market scam. On September 25, 2001, Mr. V. Srinivasan and Mr. D'costa appeared before the JPC. On October 29, 2001, Mr. Dev Ahuja along with Mr. V. Srinivasan appeared before the JPC.
2. At the JPC hearing the Bank had no Managing Director. Mr. Dev Ahuja was the Chairman of the Bank appointed by the Bank. His appointment was not approved by RBI as he does not meet conditions in Guidelines by RBI due to high stake and non-conformance with conditions of Circular No./DBOD No. BC.82/08.95.005/94 dated July 01, 1994.
3. There was a query from the JPC in the RBI files on the end use of funds by the Borrower. The Bank has stated that it does not know of diversion of funds by a client
4. The JPC, in its final report, has concluded that the Bank seems to have indulged in manipulative trades in the shares of Aftek Infosys Limited, Ranbaxy Laboratories Limited, Global Trust Bank, etc.

   The following information, obtained from the JPC Proceedings, is relevant:

   i. On August 31, 2001, exposure to brokers stood at Rs. 167 crores out of which Rs. 65 crores is for the Overdraft facilities and Rs. 102 crores is for the Bank Guarantees.

   ii. Loans given to individuals against the securities amounts to Rs. 2 Crores.

   iii. Value of investment in equity of the Bank is Rs. 58 crores.

   iv. The Bank was not conforming to the 5 % ceiling for exposure to capital market, total investment in shares / convertible debentures/ bonds/units of equity oriented mutual funds. The reasons given for the time taken to reduce the percentage were:

   (a) Guarantees to expire over a period of time, Bank is not in a portion to cancel guarantees prematurely.

   (b) Adverse market conditions, difficult to reduce the Over Draft limits.

   (c) Any disposal of equity in the current market will result in substantial loses.

Subsequently, no proceedings have been initiated by the JPC in this connection, nor were any penalties levied or punishments meted in this respect. Neither the RBI nor any other regulatory authority has taken any action against us in this regard.

Note: The Bank has subsequently managed to bring down its exposure within the 5% ceiling and is currently 1.12% of our total outstandisng advances (as of the opening balance i.e. April 01, 2003) as on March 31, 2004.

B. SEBI and other capital market intermediaries

SEBI has from time to time called for information from the Bank and had personal meetings with officials of the Bank on various issues, including in respect of entities of the Ketan Parekh group of companies, preferential issue of shares of Pentamedia Graphics Limited for the period between 1999 to 2002. While summons have been issued to the Bank in this respect, no proceedings or prosecution has been launched against the Bank. We are informed that SEBI, in its investigation into the dealings in the scrip of Ranbaxy Laboratories Limited for the period January to October 1999, has seen dealings by us, and has noted that these transactions were in the nature of arbitrage/trading in nature, and that we have dealt through brokers connected/associated with the entities of the Ketan Parekh group and most of these transactions were in the nature of cross-deals, and has also informed RBI about the same. Neither the RBI nor any other regulatory authority has taken any action against us in this regard.

C. Taxation

We have a total of 35 matters pending at various tribunals and courts in respect of income tax and sales tax claims. These matters can be described largely under the following heads:

1. Disallowance of depreciation on leased assets
2. Disallowance of deductions claimed under section 80-M of the Income Tax, 1961
3. Levy of lease tax on rental turnover for interstate lease transactions

The total amounts involved in these matters are as follows:

(Rs. in Crores)

Details	Amount
Disputed Income Tax amount	208.16
Less: Income tax provision in our books	73.29
Net contingent income tax liability	**134.87**
Disputed Sales Tax liability	14.00
Less : Sales tax provision in our books	6.0
Net contingent Sales Tax liability	8.00
TOTAL CONTINGENT TAX LIABILITY	**142.87**

NOTE: THE TOTAL CONTINGENT TAX LIABILITY AS SHOWN ABOVE WILL NOT BE CONSISTENT WITH THE AMOUNT SHOWN UNDER THIS HEAD IN THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED MARCH 31, 2004, SINCE IN MOST OF THE CASES ABOVE, THE CLAIM AMOUNT INCLUDES PRINCIPAL AND INTEREST AMOUNTS, WHILE IN THE VIEW OF THE BANK, ONLY THE INTEREST AMOUNT WOULD BE LIABLE TO TAX AND NOT THE PRINCIPAL AMOUNTS. THE FIGURES IN THIS CHAPTER REFER TO ACTUAL CLAIMS RAISED BY THE APPROPRIATE TAX AUTHORITIES. THE TOTAL CONTINGENT TAX LIABILITY IN THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED MARCH 31, 2004 IS Rs. 77.41 CRORES.

The detailed summary of the assessment years, issues involved and status of the cases are as follows:

STATUS OF INCOME TAX CASES AS ON 30/06/2004

(Rs. in Crores)

Assessment Year	Status of appeal	Provision in books	Tax as per latest Income tax Order	Reasons for tax demand
1992-93	Appeal filed before ITAT	1.03	1.58	Depreciation of Rs.26.59 lacs on leased assets disallowed. Claim for deduction u/s.80 M for Inter-corporate dividend curtailed by Rs.54.04 lacs on account of expenses on earning dividend. Interest of Rs.34.69 lacs disallowed as attributable to earning tax.
1993-94	Appeal filed before ITAT	0.60	5.40	Depreciation of Rs.5.02 crores on leased assets disallowed. Claim for deduction u/s.80 M for Inter-corporate dividend curtailed by Rs.1.21 crores on account of expenses on earning dividend.
1993-94	Appeal filed before ITAT	-	12,882,295	Depreciation of Rs.0.60 crores on lease assets disallowed. Deduction for special reserve Rs.0.81 crores disallowed
1994-95	Appeal filed before ITAT	-	51,333,808	Depreciation of Rs.2.40 crores on lease assets disallowed. Deduction for special reserve Rs.1.21 crores disallowed.
1994-95	Appeal filed before CIT(A) against assessement on set aside issues.	-	11.19	Depreciation of Rs.11.20 crores on leased assets disallowed. Claim for deduction u/s.80 M for Inter-corporate dividend curtailed by Rs.1 crore on account of expenses on earning dividend.
1995-96	Appeal filed before CIT(A) against assessement on set aside issues.	0.91	14.98	Depreciation of Rs.20.31 crores on leased assets disallowed. Claim for deduction u/s.80 M for Inter-corporate dividend curtailed by Rs.1.40 crores on account of expenses on earning dividend.
1996-97	Appeal pending before CIT(A)	0.03	6.78	Depreciation of Rs.10.22 crores on leased assets disallowed. Claim for deduction u/s.80 M for Inter-corporate dividend curtailed by Rs.1.89 crores on account of expenses on earning dividend.
1997-98	Appeal pending before CIT(A)	3.33	-	Depreciation of Rs.5.64 crores on leased assets disallowed.
1997-98	Appeal filed before ITAT	-	0.12	Additional tax for prima facie adjustments
1998-99	Appeal pending before CIT(A)	2.35	3.12	Depreciation of Rs.26.58 crores on leased assets disallowed. Appeal filed before CIT(A).
1998-99	Appeal pending before CIT(A)	3.51	26.70	Depreciation of Rs.11.07 crores on leased assets disallowed. Non-compete fees taxed as short-term capital gains, Rs.36 crores. Claim for NPA provision & bad debts written off Rs.33.33 disallowed. Interest on NPA assets taxed on estimated basis Rs.4.50 crores.
1999-00	Appeal pending before CIT(A)	4.83	31.66	Depreciation of Rs.35.90 crores on lease assets disallowed. Diminution in value of investment of Rs.5.42 crores. & bad debts written off Rs.0.76 crores disallowed.

(Rs. in Crores)

Assessment Year	Status of appeal	Provision in books	Tax as per latest Income tax Order	Reasons for tax demand
2000-01	Appeal pending before CIT(A)	6.37	39.14	Depreciation of Rs.26.74 crores on lease assets disallowed. Diminution in value of investment of Rs.5.41 crores. & bad debts written off Rs.22.45 crores disallowed.
2001-02	Appeal pending before CIT(A)	9.00	40.36	Depreciation of Rs.32.06 crores on lease assets disallowed. Diminution in value of investment of Rs.20.39 crores. & Bad debts written off Rs.9.21 crores disallowed.
1992-93	Appeal filed before ITAT	1.03	1.58	Depreciation of Rs.26.59 lacs on leased assets disallowed. Claim for deduction u/s.80 M for Inter-corporate dividend curtailed by Rs.54.04 lacs on account of expenses on earning dividend. Interest of Rs.34.69 lacs disallowed as attributable to earning tax
1993-94	Appeal filed before ITAT	0.60	5.40	Depreciation of Rs.5.02 crores on leased assets disallowed. Claim for deduction u/s.80 M for Inter-corporate dividend curtailed by Rs.1.21 crores on account of expenses on earning dividend.
1993-94	Appeal filed before ITAT	-	1.28	Depreciation of Rs.0.60 crores on lease assets disallowed. Deduction for special reserve Rs.0.81 crores disallowed
1994-95	Appeal filed before ITAT	-	5.13	Depreciation of Rs.2.40 crores on lease assets disallowed. Deduction for special reserve Rs.1.21 crores disallowed
1994-95	Appeal filed before CIT(A) against assessement on set aside issues.	-	11.19	Depreciation of Rs.11.20 crores on leased assets disallowed. Claim for deduction u/s.80 M for Inter-corporate dividend curtailed by Rs.1 crore on account of expenses on earning dividend.
1995-96	Appeal filed before CIT(A) against assessement on set aside issues.	0.91	14.98	Depreciation of Rs.20.31 crores on leased assets disallowed. Claim for deduction u/s.80 M for Inter-corporate dividend curtailed by Rs.1.40 crores on account of expenses on earning dividend.
1996-97	Appeal pending before CIT(A)	0.03	6.78	Depreciation of Rs.10.22 crores on leased assets disallowed. Claim for deduction u/s.80 M for Inter-corporate dividend curtailed by Rs.1.89 crores on account of expenses on earning dividend.
1997-98	Appeal pending before CIT(A)	3.33	-	Depreciation of Rs.5.64 crores on leased assets disallowed.
1997-98	Appeal filed before ITAT	-	0.12	Additional tax for prima facie adjustments
1998-99	Appeal pending before CIT(A)	2.35	3.12	Depreciation of Rs.26.58 crores on leased assets disallowed. Appeal filed before CIT(A).

(Rs. in Crores)

Assessment Year	Status of appeal	Provision in books	Tax as per latest Income tax Order	Reasons for tax demand
1998-99	Appeal pending before CIT(A)	3.51	26.70	Depreciation of Rs.11.07 crores on leased assets disallowed. Non-compete fees taxed as short-term capital gains, Rs.36 crores. Claim for NPA provision & bad debts written off Rs.33.33 disallowed. Interest on NPA assets taxed on estimated basis Rs.4.50 crores.
1999-00	Appeal pending before CIT(A)	4.83	31.66	Depreciation of Rs.35.90 crores on lease assets disallowed. Diminution in value of investment of Rs.5.42 crores. & bad debts written off Rs.0.76 crores disallowed.
2000-01	Appeal pending before CIT(A)	6.37	39.14	Depreciation of Rs.26.74 crores on lease assets disallowed. Diminution in value of investment of Rs.5.41 crores. & bad debts written off Rs.22.45 crores disallowed.
2001-02	Appeal pending before CIT(A)	9.00	40.36	Depreciation of Rs.32.06 crores on lease assets disallowed. Diminution in value of investment of Rs.20.39 crores. & Bad debts written off Rs.9.21 crores disallowed.
1992-93	Appeal filed before ITAT	1.03	1.58	Depreciation of Rs.26.59 lacs on leased assets disallowed. Claim for deduction u/s.80 M for Inter-corporate dividend curtailed by Rs.54.04 lacs on account of expenses on earning dividend. Interest of Rs.34.69 lacs disallowed as attributable to earning tax
1993-94	Appeal filed before ITAT	0.60	5.40	Depreciation of Rs.5.02 crores on leased assets disallowed. Claim for deduction u/s.80 M for Inter-corporate dividend curtailed by Rs.1.21 crores on account of expenses on earning dividend.
	TOTAL	**73.29**	**208.16**	

STATUS OF SALES TAX AS ON 30/06/2004

(Rs. in Crores)

Assessment Year	Status of appeal	Provision in books	Tax as per latest Assessment order	Reasons for tax demand
1987-88	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	0.72	Lease Tax levied on rental turnover for interstate lease transactions. Rental Turnover Rs.36,466,204/- & levy of tax on Pre 1/10/1986 transactions ie. Lease tax enactment date.Rental Turnover Rs.53,181,896/-
1988-89	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	1.06	Lease Tax levied on rental turnover for in terstate lease transactions. Rental Turnover Rs.59,204,362/- & levy of tax on Pre 1/10/1986 transactions ie. Lease tax enact ment date. Rental Turnover Rs.59,204,362/-

Assessment Year	Status of appeal	Provision in books	Tax as per latest Assessment order	Reasons for tax demand
1989-90	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	0.45	Lease Tax levied on rental turnover for in terstate lease transactions. Rental Turnover Rs.22,632,159/- & levy of tax on Pre 1/10/1986 transactions ie. Lease tax enactment date. Rental Turnover Rs.42,607,123/-
1990	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	0.37	Lease Tax levied on rental turnover for interstate lease transactions. Rental Turnover Rs.25,225,475/- & levy of tax on Pre 1/10/1986 transactions ie. Lease tax enactment date.Rental Turnover Rs.25,225,475/-
1991	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	0.35	Lease Tax levied on rental turnover for interstate lease transactions. Rental Turnover Rs.26,328,000/- & levy of tax on Pre 1/10/1986 transactions ie. Lease tax enactment date.Rental Turnover Rs.26,328,000/-
1991	Appeal filed before Tribunal -Ghaziabad (UP)	Nil	0.04	Lease Tax levied on rental turnover for interstate lease transactions.
1992	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	0.45	Lease Tax levied on rental turnover for interstate lease transactions. Rental Turnover Rs.52,545,679/- & levy of tax on Pre 1/10/1986 transactions ie. Lease tax enactment date.Rental Turnover Rs.1,068,646/-
1992	Appeal filed before Tribunal -Ghaziabad (UP)	Nil	0.04	Lease Tax levied on rental turnover for interstate lease transactions.
1993	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	0.51	Lease Tax levied on rental turnover for interstate lease transactions. Rental Turnover Rs.66,097,550/- & levy of tax on Pre 1/10/1986 transactions ie. Lease tax enactment date.Rental Turnover Rs.1,477,450/-
1993	Appeal filed before Tribunal - Ghaziabad (UP)	Nil	0.01	Lease Tax levied on rental turnover for interstate lease transactions.
1994	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	0.33	Lease Tax levied on rental turnover for interstate lease transactions.Rental Turnover Rs.84,322,171/-
1995	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	0.52	Lease Tax levied on rental turnover for interstate lease transactions.Rental Turnover Rs.129,507,495/-
1996	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	0.23	Lease Tax levied on rental turnover for interstate lease transactions.Rental Turnover Rs.57,035,175/-
1996	Appeal filed before Tribunal - Ghaziabad (UP)	Nil	0.08	Lease Tax levied on rental turnover for interstate lease transactions.
1997	Appeal filed before Sales Tax Tribunal (Maharashtra)	0.50	4.02	Lease Tax levied on rental turnover for interstate lease transactions.Rental Turnover Rs.512,191,237/-

(Rs. in Crores)

Assessment Year	Status of appeal	Provision in books	Tax as per latest Assessment order	Reasons for tax demand
1998-99	Appeal filed before DC Appeals	0.50	2.13	Lease Tax levied on rental turnover for interstate lease transactions. Rental Turnover Rs.30,1,775,698/-
1999-00	Appeal filed before DC Appeals	Nil	1.95	Lease Tax levied on rental turnover for interstate lease transactions. Rental Turnover Rs.289,867,750/-
1999-00	Appeal filed before DC Appeals	Nil	0.12	Interest & Penalty levied in the Assessment Order.
2000-01	Appeal filed before DC Appeals	Nil	0.52	Lease Tax levied on rental turnover for interstate lease transactions.
1987-88	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	0.72	Lease Tax levied on rental turnover for interstate lease transactions. Rental Turnover Rs.36,466,204/- & levy of tax on Pre 1/10/1986 transactions ie. Lease tax enactment date. Rental Turnover Rs.53,181,896/-
1988-89	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	1.06	Lease Tax levied on rental turnover for interstate lease transactions. Rental Turnover Rs.59,204,362/- & levy of tax on Pre 1/10/1986 transactions ie. Lease tax enactment date. Rental Turnover Rs.59,204,362/-
1989-90	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	0.45	Lease Tax levied on rental turnover for interstate lease transactions. Rental Turnover Rs.22,632,159/- & levy of tax on Pre 1/10/1986 transactions ie. Lease tax enactment date. Rental Turnover Rs.42,607,123/-
1990	Appeal filed before Sales Tax Tribunal (Maharashtra)	Nil	0.37	Lease Tax levied on rental turnover for interstate lease transactions. Rental Turnover Rs.25,225,475/- & levy of tax on Pre 1/10/1986 transactions ie. Lease tax enactment date. Rental Turnover Rs.25,225,475/-
Global Provisioning		5.00		
	TOTAL	**6.00**	**14.00**	

Penalties and Disciplinary Action

The RBI has, vide letter CO.EPD/391/21.52.01/2002-03 dated October 27, 2003 levied a penalty of Rs. 2 lakhs on the Bank for improper remittance of foreign currency out of India. Besides this, no penalties have been imposed by SEBI or any other regulatory bodies in India or abroad on the Bank, Directors, Associates and other ventures promoted by the Directors of the Bank.

Defaults

There has been no default in meeting statutory dues, institutional dues and other dues or claims of a material nature against the Bank.

B. DIRECTORS

Besides the outstanding litigations against Mr. Y.K Modi, Director, and Mr. Venkiteswaran, Director, disclosed in the table below, there are no outstanding litigations/proceedings, disputes or penalties against the Directors, including tax liabilities, economic offences or civil prosecution for any offence, irrespective of whether specified under any enactment in Paragraph I of Part I of Schedule XIII of the Act or any other liability in their personal capacity.

There are no litigations against the Directors involving violation of statutory regulations or criminal offences. No proceedings have been initiated against the Directors for any economic offence. No investigation has been taken by SEBI/Stock Exchange against any of the Directors

Litigations against Mr. Y.K Modi

Sl. No.	Court and case particulars	Synopsis	Remarks
1.	RBI vs. Rossel Finance Limited & Ors. Metropolitan Magistrate District Court, Mumbai, CC no. 1358/s/2000	RBI filed a criminal complaint under ss. 45QA, 58B(4AAA) and 58C of the RBI Act, 1934 against Rossel Finance Limited for non-compliance of an order of the Company Law Board. Mr. Modi has been made a party on the allegation that he was a Director of the said Rossel Finance Limited.	Mr. Modi has filed an application for deletion of his name, since he has resigned from the board of the company on 26.02.1998 (which is prior to the date of filing this case and also prior to the order of the Company Law Board, in question.
2.	Bank of India vs. Y.K. Modi Debt Recovery Tribunal, New Delhi, OA no. 14/1997	A recovery suit has been filed by the bank against Mr. Modi in respect of his family business.	Mr. Modi has contended that (i) he has no role in the day to day running of the business (ii) the suit is barred by limitation and (iii) the revival documents for the loan had not been revived. The matter is now at cross-examination stage.
3.	Ucom Technologies Limited Vs. Modi Telecommunication Limited Civil Judge, Tiz Hazari Court, Delhi, Suit no 317/ 2003	Suit for recovery has been filed by the plaintiff against Modi Telecommunication Limited and counter-claim has also been filed against the plaintiff.	The suit is listed for plaintiff's evidence and cross-examination. The plaintiff has also approached Modi Telecommunication Limited for settlement.

Litigations against Mr. S. Venkiteswaran

Sl. No.	Court and case particulars	Synopsis	Remarks
1.	Contempt petition 190/2003 filed against Trustees of Shanmukhananda Fine Arts and Sangeetha Sabha in the Mumbai HC.	The canteen contractor of the Sabha had filed a RAD Suit No. 229 of 1984, in the Small Causes Court, when Mr. Venkiteswaran was not a Trustee of the Sabha. He has now taken out a Contempt Petition No. 190 of 2003 against Sri Shanmukhananda Fine Arts & Sangeetha Sabha and all the present Trustees	Mr Venkiteswaran is defending the matter.

PROMISES VS PERFORMANCE IN RESPECT OF PREVIOUS ISSUES IN THE LAST FIVE YEARS

a) We had made a Rights Issue of 10,67,29,134 Equity Shares of Rs. 10/- each at a premium of Rs. 2/- per share (i.e. at a price of Rs. 12/- per share) in the ratio of 7 shares for every 10 Equity Shares held on Record Date, aggregating to 128.08 crores, in February 2001. The issue was made to augment our networth to meet our capital adequacy requirements. However the Rights Issue was not fully subscribed and we refunded the subscription money collected by us. The promised future performance was not presented in the Letter of Offer and hence a comparison of actual performance vis-à-vis the projections made in the Letter of Offer is not possible.

b) We had made a Public Issue of 3,37,50,000 Equity Shares of Rs. 10/- each at par aggregating 33.75 crores in September 1999. The issue was made to augment our networth to meet our capital adequacy requirements and to list our shares. The promised future performance was not presented in the Letter of Offer and hence a comparison of actual performance vis-à-vis the projections made in the Letter of Offer is not possible. Our shares were listed on MgSE, BSE and NSE through this issue.

STOCK MARKET DATA FOR ORDINARY SHARES OF THE COMPANY

Our shares are listed on BSE, NSE and MgSE. The stock market data is given only for BSE and NSE, since there is no trading on MgSE

The paid up value of the Shares has reduced from Rs. 10 per share to Re.1 per share from February 04, 2004 due to reduction of share capital effected pursuant to Scheme of Arrangement.

(i) The following is the movement in the share price of the Company on the BSE for preceeding three financial years:

	High*			Low*			Average
Year	**Date**	**(Rs.)**	**Volume**	**Date**	**(Rs.)**	**Volume**	**price (Rs.)**
2001-2002	February 20, 2002	11.58	817,816	September 17, 2001	5.01	9,017	8.30
2002-2003	April 01, 2002	9.85	95,968	October 21, 2002	5.05	71,056	7,45
				October 22, 2002	5.05	53,976	7.45
				October 23, 2002	5.05	57,563	7.45
2003-2004	January 20, 2004	20.51	3,559,558	April 21, 2003	7.16	96,671	13.84
Face value per share reduced to Re. 1 through capital reduction							
2003-2004	March 9, 2004	10.11	6,169,943	March 24, 2004	7.16	597,456	8.64
				March 25, 2004	7.16	625,677	8.64

* High/Low prices based on closing quotations on the Exchange
(Source: Bloomberg - BSE data)

(ii) The closing market price of the Equity Share of the Company on the BSE on the day after the Board approved the Issue (i.e. March 26, 2004) was Rs. 7.37 per share. (Source: Bloomberg - BSE data)

(iii) The following is the movement in the share price of the Company on the NSE for preceeding three financial years:

	High*			Low*			Average
Year	**Date**	**(Rs.)**	**Volume**	**Date**	**(Rs.)**	**Volume**	**price (Rs.)**
2001-2002	February 20, 2002	13.75	1,698,704	September 17, 2001	5.95	24,052	9.85
				September 20, 2001	5.95	15,105	9.85
2002-2003	April 01, 2002	11.75	172,464	October 22, 2002	6.00	141,023	9.85
				October 23, 2002	6.00	134,884	8.88
2003-2004	January 20, 2004	24.50	7,083,488	April 21, 2004	8.55	276,655	16.53
Face value per share reduced to Re. 1 through capital reduction							
2003-2004	March 09, 2004	12.05	7,022,232	March 24, 2004	8.50	889,967	10.28
				March 25, 2004	8.50	1,137,727	10.28

* High/Low prices based on closing quotations on the Exchange
(Source: www.nseindia.com)

(iv) The closing market price of the Equity Share of the Company on the NSE on the day after the Board approved the Issue (i.e. March 26, 2004) was Rs. 8.75/- per share. *(Source:www.nseindia.com)*

(v) Details of securities traded in each month during the preceding six months on the BSE is as follows

Period	High Price (Rs.	Date of High Price quotation	No. of Shares Traded on the day of High	Low Price (Rs.)	Date of Low Price quotation	No. of Shares Traded on the day Low Price
January 2004	20.51	January 20, 2004	3,559,558	14.78	January 06, 2004	320,131
February 2004			Trading suspended			
Face value per share reduced to Re. 1 through capital reduction						
March 2004	10.11	March 09, 2004	6,169,943	7.16	March 24, 2004	597,456
				7.16	March 25, 2004	625,677
April 2004	11.87	April 19, 2004	6,514,700	8.51	April 01, 2004	628,555
May 2004	11.15	May 10, 2004	2,453,930	7.72	May 17, 2004	1,408,136
June 2004	8.40	June 02, 2004	466,082	7.39	June 23, 2004	295,674

(vi) Details of securities traded in each month during the preceding six months on the NSE is as follows:

Period	High Price (Rs.	Date of High Price quotation	No. of Shares Traded on the day of High Price	Low Price (Rs.)	Date of Low Price quotation	No. of Shares Traded on the day Low Price
January 2004	24.50	January 20, 2004	7,083,488	17.55	January 06, 2004	872,546
February 2004			Trading Suspended			
Face value per share reduced to Re. 1 by capital reduction						
March 2004	12.05	March 09, 2004	7,022,232	8.50	March 24, 2004	889,967
				8.50	March 25.2004	1,137,727
April 2004	14.05	April 19, 2004	12,219,861	10.15	April 01, 2004	1,307,888
				10.15	April 02, 2004	1,202,974
				10.15	April 07, 2004	597,935
				10.15	April 08, 2004	941,872
May 2004	13.25	May 10, 2004	4,108,168			
June 2004	9.95	June 01, 2004	1,643,297	8.88	June 23, 2004	501,610
		June 02, 2004	705,429	8.88	June 24, 2004	681,585

(vii) The total volume of securities traded in each month during the preceding six months on the BSE and NSE are as follows:

Period	No. of Shares Traded on BSE	No. of Shares Traded on NSE
January 2004	24,616,380	50,890,250
February 2004	Trading Suspended during this period	
Face value per share reduced to Re. 1 by capital reduction		
March 2004	39,281,817	46,846,698
April 2004	34,370,605	61,892,089
May 2004	29,866,113	58,772,698
June 2004	7,076,051	14,564,637

(Source: Bloomberg, BSE data, www.nseindia.com))

(viii) For details of the sale / purchase transaction in the securities of the Bank, by Directors and their relatives, during the last six months, please refer to section 'Notes to Risk Factor' on page xiv.

Information as required by Government of India, Ministry of Finance, Circular No. F2/5/SE/76, dated February 5, 1977 as amended vide their Circular of even number dated March 8, 1977 is given below:

1. Working Results of the Company

Unaudited financial results for the period ended June 30, 2004

	(Rs. in Crores)
Interest Income	85.24
Other Income	6.44
Total Income	91.68
Interest Expenses	42.99
Operating Expenses	48.06
Operating Profit	0.63
Provision and contingencies	(2.75)
Profit/(Loss) Before Tax	3.38
Provision for Tax	0.23
Net Profit	3.15

2. Save as stated on page 71 of the Letter of Offer, there are no material changes and commitments, which are likely to affect the financial position of the Company since March 31, 2004 (i.e. last date up to which audited information is incorporated in the Letter of Offer)

3. a) Week end prices of Equity Shares of the Company for the last four weeks on the BSE are as below:

Week ended on	Closing Rate BSE (Rs)
August 06, 2004	6.96
July 30, 2004	7.43
July 23, 2004	8.47
July 16, 2004	8.26

b) The closing Price of the Equity Shares of the Company on the BSE on July 15, 2004 was Rs. 8.17 per Equity Share (ex-rights Price)

c) Highest and Lowest Price of the Equity Share of the Company on BSE during the period July 23, 2003 to July 23, 2004 (for the last year):

High	Rs. 20.51	January 20, 2004
Low	Rs. 7.11	July 12, 2004

DEFAULTS IN THE PAYMENT/REFUNDS OF DEBENTURES, FIXED DEPOSITS, INTEREST ON FIXED DEPOSITS, DEBENTURE INTEREST AND INSTITUTIONAL DUES

There are no defaults, non-payment/overdues of statutory dues, institutional/bank dues and dues towards holders of debentures, bonds and fixed deposits and arrears of preference shares, etc., other than unclaimed liabilities of the Company.

PARTICULARS REGARDING LISTED COMPANES UNDER THE SAME MANAGEMENT WHICH HAVE MADE ANY CAPITAL ISSUES DURING THE LAST 3 YEARS

There are no listed Companies under the same management within the meaning of Section 370(1B) of the Companies Act, 1956.

MECHANISM EVOLVED BY THE COMPANY FOR REDRESSAL OF INVESTOR GRIEVANCES

Our name has not appeared in Press Releases issued by SEBI regarding maximum number of complaints received from the investors.

Status of complaints received from SEBI

As on June 30, 2004, there was one investor complaint pending with SEBI. However this has since been redressed on July 02, 2004 and hence currently we do not have any complaints pending with SEBI.

Overall status of Investor Grievances

Opening balance of the pending complaints as on April 01, 2004 was 1. Total number of complaints received for the period from April to June was 32. The Complaints were attended to and one complaint was pending for redressal as at June 30, 2004. However this has since been redressed on July 02, 2004 and hence currently we do not have any complaints pending with SEBI.

The transfer and other related work is handled by the Shares Department of the Bank at 207, Centre Point, Dr. Ambedkar Road, Parel, Mumbai 400 012. Our name has never appeared in fortnightly press release on investor complaints of SEBI.

Our Company's investor grievances arising out of the Issue will be handled by Karvy Computershare Private Limited, Registrars to the Issue. The Registrars will have a separate team of personnel handling only our post issue correspondence.

Investor grievances are settled expeditiously and satisfactorily by us. The agreement between us and the Registrars will provide for retention of records with the Registrars for a period of at least one year from the last date of dispatch of Letter of Allotment/ share certificate / warrant/ refund order to enable the Registrars to redress grievances of investors.

All grievances relating to the Issue may be addressed to the Registrars to the Issue giving full details such as folio no., name and address of the first applicant, number and type of shares applied for, Application Form serial number, amount paid on application and the Bank Branch where the application was deposited, along with a photocopy of the acknowledgement slip. In case of renunciation, the same details of the renouncee should be furnished.

The average time taken by the Registrars for attending to routine grievances will be 30 days from the date of receipt. In case of non-routine grievances where verification at other agencies is involved, it would be the endeavour of the Registrars to attend to them as expeditiously as possible. We undertake to resolve the investor grievances in a time bound manner.

Investors may contact the Compliance Officer in case of any pre-issue/post -issue related problems such as non-receipt of letters of allotment/share certificates/refund orders etc. The Bank has appointed Mr. N.E. Venkitakrishnan as the Compliance Officer.

DETAILS OF ADVERSE EVENTS AFFECTING THE COMPANY SINCE THE LAST FINANCIAL STATEMENT

No circumstances have arisen since the date of the last financial statement that materially adversely affects / likely to affect our trading or profitability or the value of our assets or our ability to pay our liabilities within the next twelve months.

MATERIAL DEVELOPMENTS

Save as stated elsewhere in the Letter of Offer, there are no material developments, after the date of the last financial statements. The Issuer and the Lead Manager will ensure that the public is kept informed of material changes, if any, till the listing and trading commences.

ISSUE EXPENSES

The expenses of the Issue payable by the Bank including fees and reimbursement to the Lead Managers, Registrars, printing and distribution expenses, publicity, listing fees and other expenses are estimated at Rs. 3.09 crores and will be met out of the proceeds of the Issue. The following table gives a break-up of the estimated issue expenses and contingencies

Lead Managers Fee	Rs. 0.40 crores
Legal Counsel /Auditors' Fee	Rs. 0.26 crores
Printing, Stationery & Postage Expenses	Rs. 1.33 crores
Contingencies	Rs. 0.25 crores
Advertising	Rs. 0.85 crores
Total	**Rs. 3.09 crores**

EXPERT OPINION

Save and except as stated elsewhere in this Letter of Offer, we have not obtained any expert opinions.

OPTION TO SUBSCRIBE

Save as otherwise stated elsewhere in this Letter of Offer, we have not given any option to subscribe for any Equity Shares of the Company.

MATERIAL CONTRACTS AND INSPECTION OF DOCUMENTS

The following Contracts (not being contracts entered into in the ordinary course of business carried on by us or entered into more than two years before the date of this Letter of Offer) which are or may be deemed material have been entered or are to be entered into by us. These Contracts and also the documents for inspection referred to hereunder, may be inspected at the Registered Office of the Company situated at Durga Niwas, M G Road, Panaji - 403 001, Goa from 11.00 a.m. to 2.00 p.m. from the date of this Letter of Offer until the date of closure of the Subscription List.

A. MATERIAL CONTRACTS

1. Engagement Letter dated November 03, 2003 received from the Company appointing JM Morgan Stanley Private Limited to act as Lead Managers to the Issue.
2. Memoranda of Understanding dated March 31, 2004, entered into with the Lead Manager and Co-Lead Manager to the Issue.

3. Engagement Letter dated November 03, 2003 received from the Company appointing J. Sagar Associates to act as the Legal Counsel to the Issue.
4. Letter received from Karvy Computershare Pvt Ltd. offering their services to act as Registrars to the Issue dated May 14, 2004
5. Copy of RBI letter no. DBOD.NO. 318/08.99.001/2003-04 dated December 29, 2003 for appointment of Mr. Shailendra Bhandari as Managing Director.
6. Copy of RBI letter no. DBOD.No. 749/08.99.001/2003-2004 dated June 30, 2004 granting approval for appointment of Mr. Rana Talwar as Chairman.
7. Subscription Agreement between the Bank and IFC dated December 16, 1994 and between the Bank and ADB dated December 22, 1994.
8. Subscription Agreement dated December 28, 1994 between Keppel Bank of Singapore Limited, Kephinance Investment Pte. Ltd., TCFC and the Bank.
9. Financial Support Agreement dated April 08, 1999 between the Bank, TCFC and TFL
10. Scheme of Arrangement amongst Bank Muscat (SAOG) and us and our shareholders under sections 391 to 394 read with Section 81(1A) and Sections 100 to 103 of the Companies Act, 1956.

B. DOCUMENTS

1. Memorandum and Articles of the Company.
2. Certificate of Incorporation of the Company dated June 30, 1994 and Certificate of Commencement of Business dated July 20, 1994
3. Banking License from RBI vide letter no. DBOD (NBOM) No. 4577/16.01.104.95 dated January 13, 1995 in terms of Section 22 of the BR Act.
4. Copy of Resolution passed, appointing Mr. Shailendra Bhandari as Managing Director
5. Copy of letter of appointment dated December 01, 2003 issued to Managing Director.
6. Shareholders Resolution passed at the Annual General Meeting held on September 08, 2003 appointing V. Sankar Aiyar & Co. as statutory auditors for the financial year 2003-2004.
7. Copy of the Board Resolution dated March 01, 2004 and resolution passed at the Securities Transfer, Allotment & Grievance Redressal Committee of the Board March 26, 2004 respectively, approving this Issue.
8. Copy of the Circular Resolution of the Board dated May 31, 2004 stating that the Bank is a professionally run Bank and has no promoters.
9. Consents of the Directors, Company Secretary, Auditors, Lead Manager to the Issue, Legal Counsel to the Issue, Bankers to the Issue and Registrars to the Issue, to include their names in the Letter of Offer to act in their respective capacities.
10. Letter dated July 09, 2004 from the Auditors of the Company confirming Tax Benefits as mentioned in this Letter of Offer.
11. The Report of the Auditors, V. Sankar Aiyar & Co. as set out herein dated July 09, 2004.
12. Annual Report of the Company for the last 5 Financial Years.
13. Valuation Report of M/s. Haribhakti & Co., Chartered Accountants, for transfer of assets and liabilities of Bank Muscat Bangalore to Centurion Bank.
14. Copies of the initial listing application and final listing application made to the BSE , NSE and MgSE.
15. In-principal listing approval dated April 22, 2004, April 15, 2004 and April 7, 2004 from BSE, NSE and MgSE respectively.
16. Letter No. CFD/DIL/SR/13971/2004, dated June 30, 2004 issued by SEBI for the Issue.
17. Due Diligence Certificate dated April 01, 2004 from JM Morgan Stanley Private Limited.
18. Approval from Government of India, Ministry of Finance, Department of Economic Affairs (Banking Division) vide their notification no. F.No.15/21/2003-BOA dated January 06, 2004, granting extension upto December 31, 2004 to comply with Regulation 12(1)(i) of the BR Act.
19. Bi-partite Agreement dated July 07, 2003 between Centurion Bank and NSDL to establish direct connectivity with Depository.
20. Bi-partite Agreement dated March 25, 2003 between Centurion Bank and CDSL to establish direct connectivity with Depository.
21. Copy of the Shareholders Agreement dated December 04, 2003
22. Trust Deed of The Centurion Bank Stock Trust
23. Consent / Resolutions of Centurion Bank Stock Trust and Centurion Bank Employees Trust for offering their entitlement for rounding off of fractions

DECLARATION

All the relevant provisions of the Act, and the guidelines issued by the Government or the guidelines issued by SEBI established under the Securities and Exchange Board of India Act 1992, as the case may be, have been complied with and no statement made in the Letter of Offer is contrary to the provisions of the Act or the Securities and Exchange Board of India Act, 1992 or rules made thereunder or guidelines issued (including the SEBI Guidelines), as the case may be.

Yours faithfully

On Behalf of the Board of Directors of Centurion Bank Limited

Sd/-

Mr. Shailendra Bhandari (Managing Director)

Sd/-

Mr. Rana Talwar (Chairman)

Sd/-

Mr. Shailendra Bhandari (Managing Director)

Sd/-

Mr. S. Venkiteswaran (Director)

Sd/-

Mr. Kamlesh Vikamsey (Director)

Sd/-

Mr. Jayant Dang (Director)

Sd/-

Mr. Shital Jain (Director)

Sd/-

Mr. Teo Soon Hoe (Director)

Sd/-

Mr. Rajiv Maliwal (Director)

Sd/-

Mr. J.S. George (Director)

Sd/-

Mr. K.K. Abdul Razak (Director)

Sd/-

Mr. Y.K. Modi (Director)

Sd/-

Mr. V.P. Sukumar (CFO)

Place : Mumbai

Date : August 10, 2004

Enclosure: Composite Application Form

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