

For private circulation to the equity
shareholders of the Bank only

Draft Letter of Offer
Dated August 17, 2009



LAKSHMI VILAS BANK

THE LAKSHMI VILAS BANK LIMITED

(Incorporated on November 03, 1926 under the Indian Companies Act, 1913 with Registrar of Companies, Trichinopoly. The Bank was licensed under the Banking Regulation Act, 1949 on June 19, 1958 and became a scheduled commercial bank under the Second Schedule of Reserve Bank of India Act, 1934 on August 11, 1958.)

Registered Office: Salem Road, Kathapara, P.O. Karur – 639006, Tamilnadu. (The registered office has been shifted from 693, Jawahar Bazaar, Karur – 639 001 to the present registered office on September 11, 1991) For more details, see “Our History and Certain Corporate Matters” on page [●] of this Draft Letter of Offer.

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Contact person: Mr. S. Venkateswaran – DGM & Company Secretary

FOR PRIVATE CIRCULATION TO THE EQUITY SHAREHOLDERS OF THE COMPANY ONLY

Issue of [●] Equity Shares of Rs. 10 each for cash at a premium of Rs. [●] per Equity Share not exceeding Rs. 300 crores on rights basis to the existing Equity Shareholders of The Lakshmi Vilas Bank Limited. (The “Bank”/“LVB”/the “Issuer”) in the ratio of [●] Equity Share for every [●] Equity Share (i.e. [●]) held as on the record date i.e. [●]. The Issue Price is [●] times of the face value of the Equity Shares of our Bank.

The Payment Methods available to the shareholders for applying in this Rights Issue are as follows:

Amount payable per equity share (Fig in Rs.)	Payment Method –I@ Applicable to all categories of shareholders except NRIs/FIIs			Payment Method –II Applicable to all categories of shareholders including NRIs/FIIs		
	Face Value	Premium	Total	Face Value	Premium	Total
On Application	[●]	[●]	[●]	10	[●]	[●]
First and final call	[●]	[●]	[●]	NA	NA	NA
Total	10	[●]	[●]	10	[●]	[●]

@ See page no. [●] for risk factor associated with Payment Method – I

GENERAL RISKS

Investment 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 the adequacy of this document. **Investors are advised to refer to the section titled “Risk Factors” beginning on page [●] of this Draft Letter of Offer 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 Draft Letter of Offer contains all information with regard to the Issuer and the Issue, which is material in the context of the Issue, that the information contained in this Draft Letter of Offer is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions, expressed herein are honestly held and that there are no other facts, the omission of which makes this document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING

The existing Equity Shares of the Bank are listed on National Stock Exchange of India Limited (“NSE”). The Bank has received “in-principle” approvals from NSE for listing the Equity Shares arising from this Issue vide its letter dated [●]. For the purposes of this Issue, the Designated Stock Exchange is NSE. The existing Equity Shares of the Bank are permitted for dealings on Bombay Stock Exchange under ‘Permitted Securities Category’.

LEAD MANAGER TO THE ISSUE

Standard Chartered - STCI Capital Markets Limited
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Website: <http://www.standardchartered-wealthmanagers.co.in/>
Contact Person: Ramesh Ramanathan/
Jayakumar Subramanian

REGISTRAR TO THE ISSUE



Integrated Enterprises (India) Limited,
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ISSUE PROGRAMME

ISSUE OPENS ON	LAST DATE FOR RECEIVING REQUESTS FOR SPLIT FORMS	ISSUE CLOSES ON
[●]	[●]	[●]

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DEFINITIONS, ABBREVIATIONS AND INTERPRETATION

CONVENTIONAL/ GENERAL TERMS

Act	:	The Companies Act, 1956 as amended from time to time
Articles or AOA	:	Articles of Association of the Bank
Board	:	The Board of Directors of the Bank or a Committee Authorized to act on its behalf
Equity Shares	:	The Issued, Subscribed and Paid Up Equity Share Capital of the Bank and the additional equity share of the Bank offered pursuant to this Rights Issue
Equity Shareholders	:	Means a holder/beneficial owner of equity shares of The Lakshmi Vilas Bank Limited as on the record date i.e. [•].
Depository	:	A depository registered with SEBI under the SEBI (Depository and Participant) Regulations, 1996, as amended from time to time.
Guidelines / SEBI Guidelines	:	The Guidelines for Disclosure and Investor Protection issued by SEBI on January 19, 2000 read with amendments issued thereafter from time to time till the date of filing of this Draft Letter of Offer with SEBI.
Indian GAAP	:	Generally Accepted Accounting Principles in India
ISIN	:	International Securities Identification Number allotted by the depository
Memorandum Or MOA	:	Memorandum of Association of the Bank
Rights Issue	:	Present issue of equity shares of Rs. 10 each based on the terms of this Letter of Offer

OFFER RELATED TERMS

CAF	:	Composite Application Form
Bankers To The Issue	:	[•]
Designated Stock Exchange	:	The National Stock Exchange of India Ltd
Issue	:	Issue of [•] fully paid Equity Shares of Rs. 10/- each at a price of Rs. [•]/- (including share premium of Rs. [•]/-) per fully paid Equity Share not exceeding Rs. 300 crores on rights basis to the existing Shareholders of our Company in the ratio of [•] Equity Shares for every [•] Equity Shares held by the existing Shareholders on the Record Date, that is on [•].
Lead Manager/SC Caps	:	Standard Chartered - STCI Capital Markets Limited 1st Floor, Dheeraj Arma, Anant Kanekar Marg, Bandra (East), Mumbai-400051 Tel: +91 22 6751 5999 Fax: +91 22 6751 5820 Email: lvbrights@standardcharteredcapitalmarkets.com
LOF / Draft Letter of Offer	:	Draft Letter of Offer of the Bank for the rights issue of [•] equity shares of Rs. [•] each at a premium of Rs. [•] being circulated to our shareholders
Renounees	:	The persons who have acquired Rights Entitlements from Equity Shareholders
Rights Entitlement	:	The number of securities that a shareholder is entitled to in proportion to his/her existing shareholding in our Company
Record Date	:	[•]
Registrar / Registrar To The Issue/ Registrar And Share Transfer Agent / R&T Agents	:	Integrated Enterprises (India) Limited, SEBI Reg. No.: INR000000644 II floor, "Kences Towers" No.1 Ramakrishna Street, North Usman Road, T. Nagar , Chennai - 600 017 Ph:(044) 28140801, Fax: (044) 28142479 Email: corperv@iepindia.com , Website: www.iepindia.com
SEBI Act, 1992	:	Securities and Exchange Board of India Act, 1992 and amendments

		thereto
“We”, “us”, “our”, “the Issuer”, “the Bank”, “our Bank” “LVB” or “The Lakshmi Vilas Bank Limited”	:	Unless the context otherwise indicates or implies, refers to The Lakshmi Vilas Bank Limited

BANK/INDUSTRY RELATED TERMS

Auditors	:	The statutory auditors of the Bank – M/s Sundaram & Srinivasan and M/s Abarna and Ananthan
Board of Directors/Board	:	The Board of Directors of our Bank or a committee constituted thereof
CASA	:	Current and Saving Account Deposits
Repatriation	:	“Investment on repatriation basis” means an investment the sale proceeds of which are, net of taxes, eligible to be repatriated out of India, and the expression ‘Investment on non-repatriation basis’, shall be construed accordingly.
The BR Act	:	The Banking Regulation Act, 1949 and subsequent amendments thereto

ABBREVIATIONS

AY	:	Assessment Year
AGM	:	Annual General Meeting
AS	:	Accounting Standard As Issued By The Institute Of Chartered Accountants Of India
BG	:	Bank Guarantee
BSE	:	The Bombay Stock Exchange Ltd.
CAF	:	Composite Application Form
CDSL	:	Central Depository Services (India) Limited
DEMAT	:	Dematerialized (Electronic/Depository as the context may be)
DGM	:	Deputy General Manager
DIN	:	Director Identification Number
DP	:	Depository Participant
EGM	:	Extra-Ordinary General Meeting
EPS	:	Earnings Per Share
FCNR	:	Foreign Currency Non Resident
FDI	:	Foreign Direct Investment
FEMA	:	Foreign Exchange Management Act 1999 and the subsequent amendments thereto
FERA	:	Foreign Exchange Regulation Act, 1973
FII	:	Foreign Institutional Investor (as defined under FEMA (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000) registered with SEBI
FIPB	:	Foreign Investment Promotion Board
FY	:	Financial Year
GOI / Government	:	Government Of India
HUF	:	Hindu Undivided Family
IT	:	Income-Tax Act 1961
ITAT	:	Income Tax Appellate Tribunal
KMP	:	Key Managerial Personnel
LoO/DLoO	:	Letter of Offer/Draft Letter of Offer
MIS	:	Management Information System
NABARD	:	National Bank for Agriculture and Rural Development
NHB	:	National Housing Board
NR	:	Non Resident
NRE ACCOUNT	:	Non Resident External Account
NRI	:	Non Resident Indian
NRO ACCOUNT	:	Non Resident Ordinary Account
NSDL	:	National Securities Depository Limited
NSE / Designated Stock Exchange	:	National Stock Exchange of India Limited
OCB	:	Overseas Corporate Bodies
PAN/GIR No.	:	Income Tax Permanent Account Number/General Index Reference



		Number
RBI	:	Reserve Bank Of India
SEBI	:	Securities And Exchange Board of India
SEBI (SAST) Regulations, 1997	:	SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and subsequent amendments thereto
SIDBI	:	Small Industries Development Bank of India

E. TECHNICAL AND INDUSTRY TERMS AND ABBREVIATIONS

AFS	:	Available for sale
ALCO	:	Asset Liability Management Committee
ARCIL	:	Asset Reconstruction Company of India Limited
ATMs	:	Automated Teller Machines
Bps	:	Basis points
CAIIB	:	Certified Associate of Indian Institute of Bankers
CAR	:	Capital Adequacy Ratio
CAGR	:	Compounded Annual Growth Rate
CAMEL	:	Capital, Asset Quality, Management, Earnings, Liquidity, Systems
CBS	:	Core Banking Solutions
CBLO	:	Collateralised Borrowing and Lending Obligation
CCIL	:	Credit Corporation of India Limited
CCBD	:	Cash Credit Book Debts
CDR	:	Corporate Debt Restructuring
CIBIL	:	Credit Information Bureau of India Limited
CISA	:	Certified Information Systems Auditor
CRAR	:	Capital to Risk Weighted Assets Ratio
CRR	:	Cash Reserve Ratio
DBS	:	Department of Banking Supervision
DBOD	:	Department of Banking Operations and Development
DICGC	:	Deposit Insurance and Credit Guarantee Corporation of India
DRS	:	Disaster Recovery Site
DRT	:	Debts Recovery Tribunal
ECGC	:	Export Credit and Guarantee Corporation of India Ltd
ECS	:	Electronic Clearing Services
EFT	:	Electronic Funds Transfer
EPS	:	Earnings Per Share
FBT	:	Fringe Benefit Tax
FIMMDA	:	Fixed Income Money Market and Derivatives Association
HR	:	Human Resources
HFT	:	Held for trading
HPLM	:	Hypothecation Loan – Machinery
HTM	:	Held to Maturity
IBA	:	Indian Banks Association
IDRBT	:	The Institute for Development and Research in Banking Technology
IRDA	:	Insurance Regulatory and Development Authority
IT	:	Information Technology
KYC	:	Know Your Customer Norms as stipulated by the Reserve Bank of India
FCNR (Account)	:	Foreign Currency Non Resident (Account)
FCNR (Banks)	:	Foreign Currency Non Resident (Banks)
NAV	:	Net Asset Value
NDS	:	Negotiated Dealing System
NPA	:	Non-Performing Asset
NDS-OM	:	Negotiated Dealing System-Order Matching
OCC	:	Open Cash Credit
PAT	:	Profit after Tax
PBIT	:	Profit before Interest and Tax
RBS	:	Risk Based Supervision
RDB Act		The Recovery of Debts Due to Banks and Financial Institutions Act, 1993

RTGS	:	Real Time Gross Settlement
SARFAESI Act 2002/Securitisation Act	:	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
SGL	:	Subsidiary General Ledger
SLR	:	Statutory Liquidity Ratio
SOD-RE	:	Secured Overdraft – Real Estate
SME	:	Small and Medium Enterprises
Tier I Capital	:	The core capital of a bank, which provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital and statutory reserves including other disclosed reserves, if any, capital reserves, innovative perpetual debt instruments, perpetual non-cumulative preference shares as reduced by equity investments in subsidiaries, intangible assets, and losses in the current period and those brought forward from the previous period
Tier II Capital	:	The revaluation reserves, general provisions and loss reserves, hybrid debt capital instruments, subordinated debt, Innovative perpetual debt instruments and perpetual non-cumulative preference shares.
WDV	:	Written down value
YTM	:	Yield to Maturity

Notwithstanding the foregoing,

In the section titled ‘Main Provisions of Our Articles of Association’ beginning on page 250 of this Draft Letter of Offer, defined terms shall have the meaning given to such terms in that section;

In the section titled ‘Financial Information’ beginning on page 125 of this Draft Letter of Offer, defined terms shall have the meaning given to such terms in that section;

In the paragraphs titled ‘Disclaimer Clause of National Stock Exchange of India Limited’ on page 219 of this Draft Letter of Offer, defined terms shall have the meaning given to such terms in that paragraph.



NO OFFER IN OTHER JURISDICTIONS

The rights entitlement and Equity Shares of our Company have not been and may not be offered or sold, directly or indirectly, and this Draft Letter of Offer may not be distributed in any jurisdiction outside of India. Receipt of this Draft Letter of Offer will not constitute an offer in those jurisdictions in which it would be illegal to make such an offer and, those circumstances, this Draft Letter of Offer must be treated as sent for information only and should not be copied or redistributed. No person receiving a copy of this Draft Letter of Offer in any territory other than in India may treat the same as constituting an invitation or offer to him, nor should he in any event use the CAF. The Company will not accept any CAF where the address as indicated by the applicant is not an Indian address. Accordingly, persons receiving a copy of this Draft Letter of Offer should not, in connection with the Issue of Equity Shares or the rights entitlements, distribute or send the same in or into the United States or any other jurisdiction where to do so would or might contravene local securities laws or regulations. If this Draft Letter of Offer is received by any person in any such territory, or by their agent or nominee, they must not seek to subscribe to the Equity Shares or the rights entitlements referred to in this Draft Letter of Offer.

NO OFFER IN THE UNITED STATES

The Rights Entitlement and the Equity Shares of the Bank have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or any U.S. state securities laws and may not be offered, sold, resold or otherwise transferred within the United States of America or the territories or possessions thereof (the "United States" or "U.S.") or to, or for the account or benefit of, "U.S. Persons" (as defined in Regulation S under the Securities Act), ("Regulation S"), except in a transaction exempt from the registration requirements of the Securities Act. The Rights Entitlement referred to in this Draft Letter of Offer are being offered in India, but not in the United States. The offering to which this Draft Letter of Offer relates is not, and under no circumstances is to be construed as, an offering of any shares or rights for sale in the United States or as a solicitation therein of an offer to buy any of the said shares or rights. Accordingly, this Draft Letter of Offer should not be forwarded to or transmitted in or into the United States at any time.

Neither the Bank nor any person acting on behalf of the Bank will accept subscriptions from any person, or the agent of any person, who appears to be, or who the Bank or any person acting on behalf of the Bank has reason to believe is, a resident of the United States and to whom an offer, if made, would result in requiring registration of this Draft Letter of Offer with the United States Securities and Exchange Commission.

NO OFFER TO THE PUBLIC IN THE EUROPEAN ECONOMIC AREA

This Draft Letter of Offer has been prepared on the basis that all offers of Rights Entitlement or Equity Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in Member States of the European Economic Area (the "EEA"), from the requirement to produce a prospectus for offers of Rights Entitlement or Equity Shares. Accordingly any person making or intending to make any offer, within the EEA, of Rights Entitlement or Equity Shares which are the subject of the placement contemplated in this Draft Letter of Offer should only do so in circumstances in which no obligation arises for the Bank, the Lead Managers to produce a prospectus for such offer. Neither the Company nor the Lead Managers have authorised, nor do they authorise, the making of any offer of Rights Entitlement or Equity Shares through any financial intermediary, other than offers made by the Lead Managers which constitute the final placement of Rights Entitlement and Equity Shares contemplated in this Draft Letter of Offer.

NOTICE TO THE INVESTOR

Each investor to this Rights Issue will be deemed to have acknowledged, represented and agreed that following the allotment of Equity Shares to it, its total interest in the paid-up share capital of the Bank, whether direct or indirect, beneficial or otherwise ("Holding"), when aggregated together with any existing Holding and/or the Holding of any "Associated Enterprise" (as defined under section 92A of the Indian Income Tax Act, 1961), does not exceed 5% of the total paid-up share capital of the Bank, unless such purchaser is an existing shareholder who already holds 5% or more of the underlying paid-up share capital of the Bank with the approval of the Reserve Bank of India (the "RBI"), provided that their Holding does not, without the further approval of the RBI, exceed their existing percentage Holding after the subscription to rights shares by them. See further "Risk Factors" on page viii and "Key Regulations and Policies" on page 80.

PRESENTATION OF FINANCIAL INFORMATION AND USE OF MARKET DATA

Financial Data

Unless stated otherwise, the financial data in this Draft Letter of Offer is derived from our restated financial statements for the years ended March 31, 2009, 2008, 2007, 2006, and 2005 prepared in accordance with Indian GAAP, The BR Act and the Companies Act 1956, as restated in accordance with SEBI Guidelines, as stated in the report of our Statutory Auditors, M/s Sundaram & Srinivasan, Chartered Accountants and M/s Abarna and Ananthan, Chartered Accountants, beginning on page 125 of this Draft Letter of Offer.

Our fiscal year commences on April 1 and ends on March 31 of a particular year. Unless stated otherwise, references herein to a fiscal year (e.g., fiscal 2009), are to the fiscal year ended March 31 of a particular year.

Currency of Presentation

In the Draft Letter of Offer, unless the context otherwise requires, all references to one gender also refers to another gender and the word “Lakhs /Lacs/Lac” means “one hundred thousand” and “million/mn./millions” means “ten lacs”, “Crore” means “ten millions” and “billion/bn./billions” means “one hundred crores”. Further, any discrepancies in any table between the total and the sum of the amounts are due to rounding-off. Throughout the Draft Letter of Offer, currency figures have been expressed in “crores /crore” except those, which have been reproduced/ extracted from sources as specified at the respective places.

In this Draft Letter of Offer, any discrepancies in any table between the total and the sum of the amounts listed are due to rounding-off.

All references to “India” contained in this Draft Letter of Offer are to the Republic of India.

All references to “Rupees” or “Rs.” or “INR” are to Indian Rupees, the official currency of the Republic of India.

Market Data

Market and industry data used throughout this Draft Letter of Offer has been obtained from publications (including websites) available in public domain and internal Company reports. These publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although we believe that the market data used in this Draft Letter of Offer is reliable, it has not been independently verified. Similarly, internal Company reports, while believed to be reliable, have not been verified by any independent source.



FORWARD-LOOKING STATEMENTS

We have included statements in this Draft Letter of Offer that contain words or phrases such as “will”, “aim”, “believe”, “expect”, “will continue”, “anticipate”, “estimate”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “project”, “should”, “will pursue” and similar expressions or variations of such expressions that are “forward-looking statements”. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding our expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to our business strategy, our revenue and profitability, planned projects and other matters discussed in this Draft Letter of Offer regarding matters that are not historical facts. These forward-looking statements and any other projections contained in this Draft Letter of Offer (whether made by us or any third party) involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

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

- i. General economic and business conditions in the markets in which we operate and in the local, regional and national economies;
- ii. Increasing competition in or other factors affecting the industry segments in which our Bank operates
- iii. Amount that the Bank is able to realize from the borrowers;
- iv. Changes in laws and regulations relating to the industries in which we operate;
- v. Our ability to successfully implement our growth strategy and expansion plans, and to successfully launch and implement various projects and business plans;
- vi. Fluctuations in interest rates and operating costs;
- vii. Our ability to attract and retain qualified personnel;
- viii. Changes in political and social conditions in India, the monetary policies of India and other countries, inflation, deflation, unanticipated turbulence in interest rates, equity prices or other rates or prices;
- ix. The performance of the financial markets in India; and
- x. Any adverse outcome in the legal proceedings in which we are involved.

For further discussion of factors that could cause our actual results to differ, see the section titled “Risk Factors” beginning on page viii of this Draft Letter of Offer. By their nature, certain risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Neither the Bank nor the Lead Manager, nor any of their respective affiliates have any obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, the Bank, and the Lead Manager will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.

RISK FACTORS

An investment in Equity Shares involves a high degree of risk. You should carefully consider all the information in this Draft Letter of Offer, including the risks and uncertainties described below, before making an investment in our Equity Shares. If any of the following risks as well as other risks and uncertainties discussed in this draft Letter of Offer 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.

The Draft Letter of Offer also contains forward looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this draft Letter of Offer.

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

Materiality:

The risk factors have been determined on the basis of their materiality. The following factors have been considered for determining their materiality:

- 1. Some events may not be material individually but may be found material collectively.*
- 2. Some events may have a material impact qualitatively instead of quantitatively.*
- 3. Some events may not be material at present but may have material impacts in the future.*

Internal Risk Factors

- 1. The Bank is involved in certain legal proceedings that, if determined against it, could have a material adverse impact on it.**

The Bank is involved in certain legal proceedings, including, civil cases, labour related disputes, consumer cases, tax disputes cases etc., The classification of these legal proceedings are given in the following table

Cases Against our Bank

Sr. no.	Nature of case	Total number of pending cases/ show cause notices	Amount involved (Rs. in crores)
1.	Civil case on account of fraud committed by third parties	10	0.71
2.	Cases involving Civil Offences against the Bank	7	3.20
3.	Labour Laws	25	NA
4.	Rent Cases pertaining to branches	6	7.46
5.	Dispute regarding share title	15	NA
6.	Consumer Cases	2082	119.46

Case Filed by our Bank

Sr. no.	Nature of case	Total number of pending cases/ show cause notices	Amount involved (Rupees in lacs)
1	Fraud cases where suits have been filed by the bank	47	53.20

In the event that an unfavourable order(s) is/are passed, the same may have an adverse effect on our operations. For further details please refer the chapter titled "Legal and Other Information" beginning on page 180 of this draft Letter of Offer.

2. *The Bank is involved in certain income tax cases, which if determined against the Bank could have a material adverse impact on it.*

As of March 31, 2009, the Bank had a disputed tax liability aggregating to Rs. 132.20 Crores. The Bank has treated this entire amount as a contingent liability. Although the Bank has appealed the imposition of the disputed tax liabilities there can be no assurance that the appeal will be settled in favor of the Bank or that no additional liability will arise in connection with such appeal. Any additional tax liability may adversely impact the Bank's financial performance.

Management Perception

Bank is treating this liability as contingent one in accordance with RBI guidelines. In respect of earlier years the decisions of ITAT were in favour of the Bank. Issues reported now under contingent liability are identical to the issues decided earlier as stated above. Hence, the Bank is of the view that the chance of contingent liability on this count materializing into liability is remote.

3. *The Bank has received a letter from SEBI vide letter no CFD/DCR/RC/TO/23040/04 dated 16/11/2004 alleging violation of Regulation 6 and 8 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 1997 calling for consent order to pay a penalty of Rs 2,75,000 for non filing of returns under Reg 6(2), 6(4) and 8(3)*

The bank has submitted a reply to SEBI on 12/01/2005 requesting SEBI to drop further proceedings, stating that the SEBI (SAST) Regulations, 1997 were not applicable to the Bank. The Decision of SEBI is awaited.

4. *The Bank's contingent liabilities could adversely affect the financial condition and results of operations*

The Bank has not provided for the following contingent liabilities as on March 31, 2009

Contingent Liability Amount	(Rs. in Crs.)
1. Claims against the Bank not acknowledged as debts	135.19*
2. Liability on account of outstanding Forward Exchange Contracts	588.26
3. Guarantees given on behalf of Constituents in India	271.57
4. Guarantees given on behalf of Constituents outside India	0.14
5. Acceptances, Endorsements and other Obligations	687.03
TOTAL	1682.18

* Includes disputed tax liability aggregating to Rs. 132.20 Crores

In the event that any or all of the above contingent liabilities materialize, they may have a material and adverse affect on the Bank's financial performance.

Management Perception

The contingent liabilities have arisen in the normal course of business of the Bank and are subject to the prudential norms as prescribed by the RBI. Items indicated against contingent liabilities given in points 2, 3, 4 & 5 in the table above are secured by Bank through by collateral security.

5. *If the bank is not able to maintain or reduce the level of non-performing assets, its business and financial condition may be adversely affected.*

Our Bank has achieved reduction in net NPA from 4.98% of net advances in FY 2005 to 1.24% of net advances in FY 2009. However, our ability to continue to reduce or contain the level of our gross and net NPAs may be affected by a number of factors that are beyond our control, such as a recession in the economy, including in respect of specific industries to which we are exposed, decreases in agricultural production, decline in commodity and food grain prices, adverse fluctuations in interest and exchange rates or adverse changes in Government policies, laws or regulations. In addition, the expansion of our business may also cause the level of our NPAs to increase. Although our loan portfolio contains loans to a wide

variety of businesses, adverse market conditions in these industries could increase our level of NPAs. Future increases in our NPAs may have a material adverse effect on our business and financial condition.

For further details, refer to the section titled "Our Business" beginning on page number 56 of this Letter of Offer.

Management Perception

The net NPAs of the Bank have come down from 1.55% in 31st March 2008 to 1.24% as on 31st March 2009. Further the Bank is closely monitoring the NPAs and it has put in effective mechanism. For NPA Management Strategy of the Bank please refer to the section titled "Our Business" beginning on page number 56 of this Letter of Offer.

6. *Our branches are mainly concentrated in the states of Tamil Nadu and AndhraPradesh and our banks business is mainly concentrated in the states of Tamil Nadu and Maharashtra. Such regional concentration could have an impact on our operations and financials.*

Our Bank's business has a regional concentration in the state of Tamil Nadu and Maharashtra. These two states alone account for around 71.6% of deposits and around 66.4% of gross advances as on March 31, 2009. Tamil Nadu and Andhra Pradesh account for 78.5% of the total branch network of the Bank. If the credit or deposit business in these regions slows down significantly and the Bank's assets and liabilities in other regions do not correspondingly increase, its operations and financials could be affected.

Management Perception

The regional presence of the Bank may not be a hindrance to its growth prospects. The Bank has improved its branch network and business from the northern region over the years and plans to expand its branch network further.

7. *The Bank is required to maintain cash reserve and statutory liquidity ratios with RBI and increase in these requirements could adversely affect the Bank's business.*

Under RBI Regulations, the bank is subject to a Cash Reserve Ratio requirement. The bank is currently required to keep 5% of the net demand and time liabilities in a current account with the RBI. The RBI may increase the Cash Reserve Ratio requirement as a monetary policy measure. The bank does not earn interest on this reserve. In addition, under The Banking Regulation Act, the liabilities are subject to a Statutory Liquidity Ratio requirement, according to which 24% of the demand and time liabilities need to be invested in GOI securities, state government securities and other approved securities. Increases in Cash Reserve Ratio and Statutory Liquidity Ratio requirements could adversely affect the business and financial performance.

8. *Our Inability to improve the share of CASA deposits may result in cost of deposits and thereby affect the profitability of our bank in future.*

Our Bank as on March 31, 2009 had total deposits of Rs. 7360.9 crores. Share of CASA deposits amounted to 16.8% of total deposits in FY 2009 vis-à-vis 21.7% in FY 2008. The increased dependence on term deposits has led to increase in cost of deposits to 7.96% in FY 2009 from 7.31% in FY 2008. Inability to improve the share of CASA deposits may affect the profitability of our Bank.

Management Perception

Bank is implementing various strategies to improve CASA steadily.

9. *We are significantly dependent on our bulk depositors and this Customer concentration in deposits may affect our Bank's liquidity position*

Our Bank as on March 31, 2009 had total deposits of Rs. 7360.9 crores. The top 15 depositors accounted for 20.10% of our total deposits, indicating high dependence on Bulk deposits. Failure to retain these customers or roll over their deposits may affect our Bank's liquidity position and ability to fund its growth.

**Management Perception**

The majority of the depositors are institutions who are our customers for a long time. The Bank does not foresee any business risk on this front.

10. RBI has identified the following weaknesses in their Annual Inspection of the Bank

RBI conducts annual inspection of the Bank based on the audited accounts. The Annual Inspection Report of the Reserve Bank of India (2008) has identified certain weaknesses in the following areas:

- Standards of appraisal
- Credit supervision
- Internal control
- Stabilization process of MIS

Management Perception

The inspection of the Bank by RBI is a regular exercise under section 35 of the BR Act, 1949 and is carried out periodically for all the banks and financial institutions. The reports of RBI are strictly confidential and the Bank has informed the RBI about the actions already taken and measures that are under implementation in respect of observations made by RBI. The Bank has replied to the issues raised by RBI in the aforesaid report. No action of any kind was initiated against the Bank by RBI after the inspection.

11. Our business had negative operating cash flows for the FY 2008

We had negative operating cash flows for the year ended March 31, 2008 amounting to Rs 35.22 crores. For further details, please refer to the chapter "Financial Statements" beginning on page number 125 of this Letter of offer.

Management Perception

This is due to repayment of refinance facility of Rs.26.96 crores with NHB and SIDBI

12. We may be exposed to Credit Risk in relation to lending, trading, hedging, settlement and other financial transactions

Some or all of the Bank's customers or counterparts may be unable or unwilling to meet their respective contractual commitments in relation to lending, trading, hedging, settlement and other financial transactions. This may materially and adversely affect the Bank's operations and may require the Bank to engage in protracted litigation and recovery proceedings which may not adequately compensate the Bank for losses suffered by it.

Management Perception

The Bank has put in place a credit rating system under which the borrowal accounts between Rs.10 lacs and Rs.25 lacs and sophisticated Credit Risk Assessment system for limits of Rs.25 lacs and above are rated on several parameters. The system takes the migration of assets over four heat zones which enable the Bank to take corrective steps to arrest sudden deterioration. The Bank also has implemented an active Risk Management policy aimed at mitigating various credit related risks. For other details on the credit risk management process in the Bank, the shareholders may refer to the para on 'Risk Management System' in the section Our Business on page number 56 of this Letter of Offer.

13. The Bank has concentrations of loans to certain customers and to certain groups of customers, and credit losses from these customers or groups could adversely affect the business and financial condition.

The top 5 industries account for 57% of the gross credit exposure of the Bank as on March 31, 2009. Similarly, the top ten corporate borrowers account for about 8% of the gross advances of Our Bank as on March 31, 2009. The borrower-specific and industry-specific behaviour may potentially affect the overall asset quality of the Bank.

Management Perception

The Bank has put in place a credit monitoring mechanism to monitor the performance of its borrowers, regularly perform appraisal and do the requisite follow up. As regards the industry concentration, it's been the policy of the Bank to diversify its lending over different industries/promoters. Investors are advised to refer para 'Industry-wise Outstanding' in the Section "Our Business" on page number 56 of Letter of Offer.

14. Interest of Directors

The Bank has advanced loans to the relatives/associates of the Promoters/Directors, the outstanding amount due as on 31st March 2009 from the beneficiaries is Rs. 5.93 crores. (Including non-fund based exposure of Rs. 0.37 crores).

(Rs. in crores)

Name	Relationship	Facility	Limit	Balance as on 31.03.09	Asset Classification
Voora Property Developers (P) Ltd. Directors: a. Shri. V. Lakshmi Narasimha Rao Voora b. Smt. V. Hemalatha c. Shri. Suman Voora	Shri. Suman Voora – Director of the company is son-in-law of Promoter & Ex-Director Shri. N. Malayalamamirtham, who is the brother of present Director Shri. N. Saiprsad. (a) & (b) are father & mother of Shri. Suman Voora.	Term Loan	20.00	5.56	Standard
Vaishnavi Enterprises Partners: a. Smt. A.V. Vasanthi b. Smt. D. Geethanjali c. Smt. S. Sharmila	Smt. Sharmila – Partner of the firm is wife of Director Shri. M.P. Shyam. (a) is wife and (b) & (c) are daughters of Promoter Shri. A.R. Venkataraman.	ILC	0.37	*0.37	Standard
*Due to difference in our borrower & the beneficiary of the LC, our borrower had filed a civil suit OS 322-2005 against M/s Chakola Ayurvedics and the Bank has obtained an injunction on 12.8.2005 from the Hon'ble Sub-court, Madurai. The same was made absolute on 15.11.2005, thereby restraining us from effecting payment to Allahabad Bank, Calicut who negotiated these bills. Subsequently Allahabad Bank was impleaded as one of the defendants in the suit and the said suit is pending. The collateral security, office and residence building situated at TS No.831/111 and 831/1-3, Plot No.4, Bharathi Ulla Road, Race Course, Madurai (7725 sq.ft.) belonging to the borrower has been permitted to be released in lieu of lien marked fixed deposits equivalent to the LC amount of Rs. 37.27 lakhs. At present there is no outstanding to the account except the claim of LC amount from Allahabad Bank.					

The total amount advanced (only fund based) to such relatives/ associates is 0.09% of the net advances of the Bank as on March 31, 2009.

Management Perception

Bank is adequately covered under collateral security as in the case of other customers.

15. Some of the ventures of our promoters are loss making and has made loss in the recent fiscal years

Following are the loss making ventures of the promoters:

Name of the venture	Net profit/ (loss) for the year ended March 31 (Rs. in Lakhs)		
	2005	2006	2007
Sri Renuka Investments	0.01	0.02	(0.03)
	2006	2007	2008
Vaishnavi Marketing	(0.67)	(3.78)	2.73
K.V.N. Finance	0.06	0.06	(1.07)
Sanath Exports Private Limited	0.21	(0.14)	(0.18)
Kare Electronics Development Private Limited	(3.60)	(8.48)	926.90
RoyalSoft Services Limited	8.18	1.10	(8.51)

Management Perception

There is no cross holding of shares by the promoters, amongst the ventures of the promoters. Hence the financials of the above mentioned ventures are not likely to affect the performance of the Bank.

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

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

17. There have been certain audit qualifications in the Auditor's reports of our Bank.

There have been certain audit qualifications as mentioned herein below which have been mentioned in the Auditor's Report of our Bank:

- a. The initial matching of entries under inter branch reconciliation has been done up to 31.03.2009. The unreconciled entries up to June 2007 have been eliminated and the matching process through the system is in progress of the period subsequent to 1st July 07. There were no net debit entries outstanding for more than 6 month as of 31.03.2009.
- b. In a few branches, tallying of the balances in the accounts as per General Ledger with those of subsidiary ledger / registers / schedules is in progress. The effect of this on the profits of the bank is not ascertainable.

Management Perception

Bank has taken sufficient care to ensure that no financial risk devolved in respect of aforesaid audit qualifications.

18. System failures and calamities to the various facilities provided by the bank could adversely impact the bank's business

With the implementation of CBS and other technology initiatives, the importance of systems technology to its business has increased significantly. The Bank's principal delivery channels include its branches and

ATMs. Each of these delivery channels is vulnerable to systems failures or other calamities. Although the bank currently has the technology and facilities in place to back up its systems and the bank has established a Disaster Recovery Centre in Bangalore, any failure in the systems or the occurrence of calamities, accidents and other unexpected events that affect areas in which the bank has a significant presence, could affect the operations and the quality of its customer service.

19. Regulations in India requiring the Bank to extend a minimum level of loans to certain sectors in India may subject the Bank to higher delinquency rates.

The priority sector lending norms of the RBI require all banks in India to extend at least 40% of their net bank credit (i.e., the gross bank credit less certain foreign currency non-resident deposits) to specified sectors, including agriculture and small scale industries, which are known as ‘priority sectors’. In accordance with regulatory requirements in India, at least 18% of the Bank’s net bank credit must be extended to the agricultural sector, and at least 12% towards the export sector. Although such priority sector loans are extended to borrowers who have met the Bank’s internal credit rating guidelines and against what the Bank believes to be adequate security, adverse economic circumstances, including those resulting from changes in government policies, adverse weather conditions and natural calamities, may adversely impact these priority sectors resulting in an increase in impaired loans in these sectors. In addition, the criteria for having agricultural loans as non-performing are not as stringent as compared to the criteria for non-agricultural loans. For example, loans to agricultural borrowers can only be classified as non-performing if the loan remains overdue for more than two harvest seasons. Like other Indian commercial banks, if the Bank fails to achieve the prescribed lending target to the priority sectors or the agricultural sector, it is required to contribute to the Rural Infrastructure Development Fund (‘RIDF’) of NABARD, investments, which offer lower rates of return. Continued shortfalls in the Bank’s lending to the priority and agricultural sector and increased contributions to the RIDF may adversely affect the Bank’s future financial performance.

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

The rating agency CARE after due surveillance as on December 29, 2008, assigned the revised rating of BBB+ (Triple B plus)) from A- (A minus) assigned earlier to the Lower Tier II Bonds aggregating to Rs. 110 crores (Series IIIA and IIIB – Rs. 50 crores, Series IVA and IVB – Rs. 30 crores and Series V – Rs. 30 crores) indicating moderate safety for timely servicing of debt obligations. Any further downgrade in the bank’s credit rating may negatively affect its ability to obtain funds and increase its financing costs by increasing the interest rates of the outstanding debt or the interest rates at which the bank is able to refinance existing debt or incur new debt, which may adversely affect bank’s business, financial condition and results of operations.

21. We may fail to maintain the minimum capital adequacy requirements stipulated by the RBI, which could make RBI take certain actions and also have an impact on the ability of our business to grow.

We are required by the RBI to maintain a minimum capital adequacy ratio of 9% in relation to our total risk-weighted assets. We must maintain this minimum capital adequacy level to support our growth. Our capital adequacy ratio was 10.09% as at March 31, 2009. Although we currently meet the applicable capital adequacy requirements, certain adverse developments could affect our ability to continue to satisfy the capital adequacy requirements, including deterioration in our asset quality, declines in the values of our investments and changes in the minimum capital adequacy requirements. Furthermore, our ability to support and grow our business could be limited by a declining capital adequacy ratio if we are unable to access or have difficulty accessing the capital markets or have difficulty obtaining capital in any other manner. If we fail to meet capital adequacy requirements, the RBI may take certain actions, including restricting our lending and investment activities and the payment of dividends by us. These actions could materially and adversely affect our reputation, results of operations and financial condition.

Management Perception

Bank has been taking adequate steps to maintain capital requirements by augmenting the same at the appropriate times.



22. *If ownership restrictions on private sector banks are relaxed, a single investor may acquire a controlling stake in the Bank.*

If the current restrictions are further liberalized to allow either increased investment by Indian entities or greater foreign ownership, a single entity or group of investors acting in unison, may acquire equity shares of the Bank to the extent that would allow it / them to control or strongly influence the Bank. Such an entity would, subject to restrictions in the Bank's Articles of Association, be able to determine, or would have a disproportionate influence compared to other shareholders in, the election of the Board of Directors, management policies and the outcome of corporate transactions submitted to shareholders for approval. There can be no assurance that any future controlling shareholder will have the same interests as any minority shareholder or will pursue the same strategies as the current management.

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

We depend on our computer systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of our business and operating data. We seek to protect our computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems. Computer break-ins and power disruptions could affect the security of information stored in and transmitted through these computer systems and networks. We have implemented the Internet banking platform and we believe that these concerns will intensify with our increased use of technology and Internet-based resources. However, Risk management systems may not guarantee prevention of frauds, break-ins, damage or failure.

Management Perception

The Bank has put in a robust security infrastructure with Firewalls, Intrusion Detection System, Anti Virus System and the same is continuously monitored. We also conduct periodical penetration testing and ethical hacking to ensure that the security infrastructure is robust and difficult to penetrate. The entire IT infrastructure has enough redundancies as a part of the Business Continuity Plan due to which the critical services are always on high availability mode. A fully functional DR site is place where periodical DR drills are conducted.

Increased technology usage brings in additional risks and dependencies for which adequate back up arrangements are in place.

24. *We do not have a registered trademark for our logo.*

We have filed an application with the Trade Marks Registry for the registration of our logo. However, unless our trademark is registered we cannot prohibit other persons from using the logo, which may materially and adversely affect our goodwill and business. If we fail to successfully obtain or enforce our trade mark rights with respect to our logo, we may need to change our logo. Any such change could require us to incur additional costs and may impact our brand recognition among customers.

25. *Any inability to attract and retain talented and professional manpower could adversely affect our business and financial performance*

Our Bank's business depends substantially on the continued service of our key managerial personnel and loss of their services could have a material adverse effect on the Company. The Bank's future success will also depend on its ability to attract and retain skilled personnel. If the Bank fails to attract and retain talented professionals, the resignation or loss of key management personnel may have an impact on Bank's business and financial performance.

Management Perception

The Bank's Human Resource Development (HRD) policy aims at bringing in new talent to meet the growing challenges in dynamic scenario in banking sector. Attempts have been made for lateral recruitment of skilled and professional candidates and impart training to upgrade their skills. The attrition rate in the key management positions in the Bank is very low

26. *Inability to foreclose on collateral in the event of a default may result in the Bank's failure to recover the expected value of the collateral.*

The Bank's loans to corporate customers for working capital credit facilities are typically secured by charges on inventories, receivables and other current assets. In certain cases, the Bank obtains security by way of a first or second charge on fixed assets, a pledge of marketable securities, corporate guarantees and personal guarantees. In addition, project loans or long-term loans to corporate customers are secured by a charge on fixed assets and other collateral security. Loans to retail customers are either unsecured or secured by the assets financed, which largely consist of property, gold ornaments and vehicles.

In India, foreclosure on collateral generally requires a written petition to a court or tribunal. An application may be subject to delays and administrative requirements that may result, or be accompanied by, a decrease in the value of the collateral. While changes in law such as the enactment of the SARFAESI, may simplify the process of recovering NPAs enforcing securities and recover amounts owed from secured borrowers without the intervention of courts, there can be no assurance that such legislation will have a favourable impact on the Bank's efforts to recover NPAs. Any failure to recover the expected value of the collateral would adversely impact the Bank's financial condition and results of operations.

27. *The value of the collateral held by the Bank may decline in the future.*

There can be no assurance that the Bank's loans are collateralized at adequate levels. The collateral may be over-valued and not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral less the expenses on such sale. In addition, some of the valuations in respect of collateral held by the Bank may be out of date or may not accurately reflect the value thereof. In certain instances where there are no purchasers for a particular type of collateral, it may be worthless. Consequently, the protection afforded by collateral held by the Bank may be overstated. In addition, since a portion of the Bank's loan portfolio is secured by real property, inventory or other collateral located in India, the value of these assets may be negatively affected by political, economic and social conditions in India. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that its provisioning may be inadequate and require an increase in the Bank's provisions. Any increase in the Bank's provisions would adversely affect the Bank's financial condition and results of operation, as well as its capital adequacy ratio, and could require it to raise additional capital.

28. *There has been a shortfall in the actual performance in comparison to the promises made in the offer document prepared in connection with the rights issue of equity shares made by the Bank in 1993 and 1995*

The Bank has made rights issue of equity shares in the years 1993, 1995 and 2005. Out of which, the Bank did not make any projections during the year 2005. The Bank could not meet the projections made in the Rights Issue made in the years 1993 and 1995. The Bank was unable to achieve the projected financials as detailed on page number 215 of this draft Letter of Offer under the section "Statutory and Other Information"

29. *The Equity Shares will be partly paid until they are made fully paid up from the date of allotment*

The Rights Issue of equity shares is being made at a price of Rs. [•] per share. The shareholders will have an option either to pay 100% of the issue price on application or pay [•] of the issue price on application and the balance [•] on the first and final call. The price movements of partly paid shares (for shareholders who pay [•] on application) may be greater in percentage terms than price movements if the Equity Shares were fully paid. Investors in the rights offering will be required to pay the money due on first and final call, even if, at that time, the market price of the Equity Shares is less than the Issue Price. If the holder fails to pay the call money with any interest that may have accrued thereon after notice has been delivered by the Bank, then any shares in respect of which such notice has been given may, at any time thereafter before payment of the call money and interest and expenses due in respect thereof, be forfeited by resolution of the Board to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited shares and actually paid before the forfeiture.



30. Partly paid shares will not be traded from the period commencing from 5 days prior to the Record Date fixed for the determination of the shareholders liable to pay the First and Final Call.

The Rights Issue of equity shares is being made at a price of Rs. [•] per share. The shareholders will have an option either to pay [•] of the issue price on application or pay [•] of the issue price on application and the balance [•] on the first and final call. Till such time as the total amount of Rs. [•] is paid, the equity shares shall be considered to be partly paid up. The partly paid up shares will be listed and traded under a separate ISIN granted by the depositories. The Bank will fix a record date to determine the list of shareholders to whom the Call Money Notice (defined hereinafter) would be sent for the first and final Call. Trading in the partly paid Equity Shares will be discontinued five days prior to the Record Date. The process of corporate action for credit of fully paid shares to the demat account of the shareholder may take about two weeks from the date of last date of payment of the amount payable on Call.

External Risk Factors

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

The Indian economy has shown sustained growth over the last few years with GDP growing at 9.5% in fiscal 2006, 9.7% in fiscal 2007, and 9% in fiscal 2008. However, fiscal 2009 saw a dip in estimated GDP growth to 7.1%. Similarly, growth in industrial and agricultural production in India has been variable. Growth in Agriculture and Industry in India has dipped from 5.8% and 10.2% in fiscal 2006 to estimated 2.6% and 4.8% in fiscal 2009. The Bank currently operates only in the domestic Indian market, and the Bank's performance is intertwined with the overall economy, the GDP growth rate and the economic cycle in India. The Indian economy could be adversely affected by a number of factors. A significant increase in the price of crude oil, and appreciation of the Indian Rupee against the US dollar or events like the sub-prime crisis in the US could adversely affect the Indian economy. India's economy could also be adversely affected by a general rise in interest rates and unfavourable weather conditions adversely affecting agriculture. Any slowdown in the Indian economy or volatility in global commodity prices, in particular oil and steel prices, could adversely affect the Bank's borrowers and contractual counterparties. Further, given the importance of the agricultural, Iron and Steel, Chemical and Drugs industries to the Bank's business, any slowdown in the growth of these industries could also adversely impact the Bank's performance.

2. There are a number of restrictions as per the Banking Regulation Act, which impede the flexibility of the Bank's operations and affect/restrict investor's right. Further, any material changes in the regulations that govern the bank could adversely affect the bank's business and financial performance

Banks in India are regulated by the Banking Regulation Act, the Companies Act and SEBI (to the extent they are listed on an Indian stock exchange) and are also subject to detailed supervision and regulation by the RBI and Ministry of Finance.

a. Restrictions on the business to be carried on by the Banks: The Banks can carry on business/ activities as specified in the Act. There is no flexibility to pursue profitable avenues if they arise, in contrast with Companies under the Companies Act, 1956, where the shareholders can amend the objects clause by a special resolution;

b. Restrictions on payment of dividend: No Banking company can pay any dividend on its shares until all its capitalized expenses (including preliminary expenses, organizational 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, thus preventing dividend payments unless the conditions are met;

c. Restrictions limiting maximum shareholding;

d. Restrictions requiring the maintenance of reserves;

e. Restrictions requiring consent from the RBI to be obtained for opening new places of business and transfers of existing places of business;

f. Restrictions regarding reconstruction of banks through Amalgamation or otherwise;

- g. Requirement to maintain assets in India equivalent to not less than 75% of its demand and time liabilities in India;
- h. Requirement to obtain approval of the RBI for the appointment and remuneration of its Chairman, Managing Director (or equivalent) and other whole-time directors;
- i. Requirement to obtain approval of the RBI for the creation of floating charges on its borrowings, thereby hampering leverage;
- j. Restrictions with respect to disclosures in the Profit & Loss account and Balance Sheet, production of documents and availability of records for inspection by shareholders.

The laws and regulations governing banks (or their official interpretation or application) are subject generally to changes in Indian law, as well as to changes in regulations, government policies and accounting principles, and any such changes could adversely affect the business and financial performance of the Bank.

In addition, changes to regulations that directly impact the Bank's equity shareholders, such as regulations with regard to dividends and voting rights, could adversely affect the price of the Bank's Equity Shares.

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

The Bank is required to maintain certain prudential limits set by RBI. These limits require the Bank, inter alia, to maintain certain capital adequacy ratios, to limit the Bank's exposure to single and group borrowers and other risks and to maintain certain provisions against nonperforming assets. The Bank is also subject to the directed lending norms of RBI.

3. *Foreign investment in the Bank is subject to limits specified by the Government of India.*

Under Indian laws, the aggregate permissible foreign investment (including foreign direct investment ("FDI") and investment by registered foreign institutional investors ("FIIs") and nonresident Indians ("NRIs")) in a private sector bank, such as the Bank, is limited to an aggregate of 74% of the paid up capital of such bank and the aggregate investment by FIIs is limited to 24% of the paid up capital of such Bank. Accordingly, unless the current foreign investment limit applicable to the Bank is liberalized, the scope of additional foreign investment in the Bank will be limited. Once the aggregate foreign investment in the Bank reaches this cut-off point, the RBI cautions non-resident investors and authorised dealers not to further transact in equity shares of such bank without prior approval of the RBI. These restrictions may adversely affect the liquidity of the Bank's Equity Shares and could result in the absence of FII buying support even in situations where there is a decline in the price of the equity shares.

4. *Political instability and significant changes in the Government's policy on liberalisation of the Indian economy could impact the Bank's financial results and prospects.*

India has been charting a course of economic liberalisation and the Bank's business could be significantly influenced by the economic policies of the Government. The current UPA Government which came to power in May 2009 has announced policies that continue the economic liberalization policies. However, there can be no assurance that these liberalisation policies and the political stability will continue in the future. The rate of economic liberalisation could change, and laws and policies affecting banking and finance companies, foreign investment, currency exchange and other matters affecting investment in the Bank's securities could change as well. Any significant change in liberalization and deregulation policies could adversely affect business and economic conditions in India generally and the Bank's business in particular. If the Government introduces significant changes, the competitive position of the Bank's borrowers may be adversely affected and this may impact the quality of the Bank's loan portfolio.

5. *The Indian banking industry is very competitive and the Bank's ability to grow depends on its ability to compete effectively.*

The Indian banking industry is very competitive. The Bank competes directly with large public sector banks, which have larger customer and deposit bases, larger branch networks and more capital. The large



public sector banks are also expected to improve their customer service networks and technology platforms, which will allow them to enhance their competitive position against private sector banks such as the Bank. The Bank also competes with other private sector banks in India, some of which also have larger customer bases and greater financial resources than the Bank. In particular, other private sector banks may have operational advantages in implementing new technologies, rationalizing branches and recruiting employees through incentive based compensation. The Bank also faces competition from foreign banks that have established branches in India and have aggressively pursued a share of business in the market.

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

A decline in India's foreign exchange reserves could result in reduced liquidity and higher interest rates in the Indian economy, which in turn could adversely affect the Bank's business and future financial performance and the market price of the Bank's Equity Shares.

7. *Financial instability in other countries, particularly emerging market countries, could disrupt the Bank's business and affect the price of the Bank's Equity Shares.*

Although economic conditions are different in each country, investors' reactions to developments in one country may have an adverse effect on the securities of companies in other countries, including India. A loss of investor confidence in the financial systems of other emerging markets may cause increased volatility in Indian financial markets and the Indian economy in general. Any worldwide financial instability could also have a negative impact on the Indian economy, including the movement of exchange rates and interest rates in India, which could adversely affect the Indian financial sector in particular. Any such disruption could have an adverse effect on the Bank's business, future financial performance, financial condition and results of operations, and affect the price of the Bank's Equity Shares.

8. *Movement in Interest Rate may impact the Bank adversely*

The risk of potential impact on net interest income/net interest margin/market value of the security covered by unexpected changes in market interest rates. These risks are inherent in the banking business. Adverse movement of interest rate will necessitate depreciation to be provided on investments affecting the profitability of the Bank.

9. *Fluctuation in Foreign exchange rates may have an adverse effect on the Bank*

As a financial intermediary, the Bank is exposed to exchange rate risk in its foreign exchange transactions. Although the Bank complies with regulatory limits on its unhedged foreign currency exposure, the Bank is exposed to fluctuation in foreign currency rates for its un-hedged exposure and any hedged exposure where the relevant counterparty fails to perform its obligations. Adverse movements in foreign exchange rates may also impact the Bank's borrowers negatively which may in turn adversely impact the quality of the Bank's exposure to these borrowers. Volatility in foreign exchange rates could adversely affect the Bank's financial performance and consequently the market price of the Bank's Equity Shares.

10. *Dis-intermediation Risk*

With the globalization and liberalization of the economy, the Corporates now have various options for raising the funds to meet their requirements. These options include raising funds through the capital markets through Initial Public Offering/ Rights Issue/ Follow-on Issue, External Commercial Borrowings, Foreign Currency Convertible Bonds, etc. This has reduced the dependence of Corporates on traditional Banking systems. This Dis-intermediation Risk may affect the business of the banks including us.

11. *Hostilities, terrorist attacks, civil unrest and other acts of violence could adversely affect the financial markets and the Bank's business.*

Terrorist attacks and other acts of violence or war may adversely affect the Indian markets on which the Bank's Equity Shares trade. These acts may result in a loss of business confidence, make travel and other services more difficult and could generally have an adverse effect on the Bank's business. In addition, any deterioration in international relations may result in investor concern regarding regional stability which could adversely affect the price of the Bank's Equity Shares.

In addition, India has witnessed localised civil disturbances in recent years and it is possible that future civil unrest as well as other adverse social, economic or political events in India could have an adverse impact on the Bank's business. Such incidents could also create a greater perception that investment in Indian companies involves a higher degree of risk and could have an adverse impact on the Bank's business and the market price of the Bank's Equity Shares.

12. *Natural calamities could have a negative impact on the Indian economy and harm the Bank's business.*

India has experienced natural calamities such as earthquakes, floods, drought and a tsunami in recent years. The extent and severity of these natural disasters determines their impact on the Indian economy. For example, as a result of drought conditions during fiscal 2003, the agricultural sector recorded negative growth of 5.2% and the erratic progress of the monsoon in 2004 adversely affected sowing operations for certain crops. Prolonged spells of abnormal rainfall and other natural calamities could have an adverse impact on the Indian economy which could adversely affect Bank's business and the price of the Bank's Equity Shares.

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

Any adverse revision to India's credit rating for domestic and international debt by international rating agencies may adversely impact the Bank's ability to raise additional financing and the interest rates and other commercial terms at which such additional financing is available. This could have an adverse effect on the Bank's financial performance and the Bank's ability to obtain financing to fund its growth on favourable terms or at all.

Notes to risk factors:

1. Net worth of the Bank as restated on March 31, 2009 was Rs. **453.72 crores**. The net asset value per share as on March 31, 2009 was **Rs. 93.02**.
2. Issue of [•] fully paid Equity Shares of Rs. 10/- each at a premium of Rs. [•] per Equity Share not exceeding Rs. **300 crores** to the Equity Shareholders of our Bank on a rights basis in the ratio of [•] Equity Shares for every [•] Equity Shares held on the Record Date i.e. [•].
3. Before making an investment decision in respect of this Issue, you are advised to refer to the section titled "Basis for Issue Price" beginning on 30 of this Draft Letter of Offer.
4. Please also refer to the sub section titled "Basis of Allotment" in the chapter titled "Terms of the Issue" beginning on **227** of this Draft Letter of Offer for details on allotment procedure and entitlement of shares.
5. Trading in Equity Shares of our Bank for all investors shall only be in dematerialised form.
6. We had entered into certain related party transactions disclosed in the section titled "Financial Statements" beginning on page 125 of this Draft Letter of Offer.
7. For interest of our directors and Key Management Personnel, please refer to the section titled "Our Management" beginning on page 100 of this Draft Letter of Offer.
8. We and the Lead Manager are obliged to keep this Draft Letter of Offer updated and inform the public of any material change/development till the listing and trading commencement of Equity Shares proposed to be issued through this Draft Letter of Offer.
9. You may contact our Compliance Officer or the Lead Manager for any complaints pertaining to the Issue including any clarification or information relating to the Issue. The Lead Manager is obliged to provide the same to you.
10. For transactions in our equity shares by the promoter, promoter group and directors in the last six months, please refer to the section titled 'Capital Structure' beginning on page 15 of this Letter of Offer

11. Investors should note that on the Basis of Name of the Applicant, Depository Participant's Name, Depository Participant Identification Number and Beneficiary Account Number provided by them in the Composite Application form, the Registrar to the Issue will obtain from the Depository demographic details of the Applicant such as address, bank account details for printing on refund orders and occupation. Hence, Applicants should carefully fill in their Depository Account details in the Application Form and also update their demographic details with their respective depository participant.



INTRODUCTION

Industry Overview

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

Following the wide-ranging reforms undertaken since the early 1990s, the Indian banking system has become quite robust. The Indian banking industry has largely remained protected from the global financial turbulence. The Reserve Bank has, however, been vigilant about the lessons that have emerged from the global credit crisis. The Reserve Bank has been constantly reviewing and refining its regulatory and supervisory policies to ensure strong capital base, effective risk management and best corporate governance standards in the banking sector. In recent years, the focus has also been on improving credit delivery and customer service and promoting financial inclusion.

An important development during the year was the adoption of the Basel II framework by foreign banks operating in India and Indian banks having operational presence outside India. A few changes were also made in the revised capital adequacy framework based on the feedback received, while detailed guidelines relating to Pillar 2 were also issued. Along with measures to conform to the best prudential practices followed internationally, the Reserve Bank also undertook a number of initiatives to facilitate access to credit to the underserved sections/sectors of the economy.

In line with the policy initiatives undertaken by the Reserve Bank, the growth in credit by SCBs exhibited some moderation during the year. The moderation in credit was observed across all the sectors, barring services. On the liability side, deposit growth continued to be strong, albeit it was marginally lower than that in the previous year mainly on account of deceleration in term deposits. Banks' investments in government and other securities recorded a higher growth during 2007-08, partly on account of a large issuance of MSS securities during the year. However, as percentage of net demand and time liabilities (NDTL), investment by banks in Government and other approved securities remained more or less at the previous year's level. Overall, the credit-deposit ratio of banks declined during the year as a result of continued strong growth in deposits combined with moderation in credit.

Net interest margins of banks continued to decline during the year, reflecting the increase in competitive pressures. However, sharp increase in non-interest income and subdued growth in operating costs resulted in sharp increase in net profits of SCBs during the year. Consequently, return on assets showed a marginal improvement in 2007-08. Despite increase in gross nonperforming assets (NPAs) in absolute terms during the year, asset quality (gross NPAs as percentage of gross loans and advances) of banks in general and of public sector banks in particular continued to improve. The capital to risk-weighted assets ratio of the banking sector also showed marked improvement during the year, both on account of large capital raised by banks from the capital market during 2007-08 and increase in reserves.

Source: Report on Trend and Progress of Banking in India 2007-08, RBI

Business

The Lakshmi Vilas Bank Limited was founded eight decades ago in 1926 by seven people of Karur under the leadership of Shri V. S. N. Ramalinga Chettiar, mainly to cater to the financial needs of varied customer segments. The Bank was incorporated on November 03, 1926 under the Indian Companies Act, 1913 and obtained the certificate to commence business on November 10, 1926. The Bank obtained its license from RBI on June 19, 1958, and on August 11, 1958, it became a Scheduled Commercial Bank. The Bank has shifted its Registered and Head Office from 693, Jawahar Bazaar, Karur – 639 001 to the present registered office at Salem Road, Kathapara, P.O. Karur – 639006, Tamilnadu on September 11, 1991.

The Bank's business was Rs. 12,606.73 crore as on March 31, 2009. As on March 31, 2009, the Bank earned Net Profit of Rs. 50.30 crores and the Net Owned Funds of the Bank reached Rs. 453.72 crore. The Net NPA of the Bank was pegged at 1.24% as on March 31, 2009, down from 1.55% as on March 31, 2008.

The rating agency CARE after due surveillance on December 29, 2008, assigned the revised rating of BBB+ (Triple B plus) from A- (A minus) assigned earlier to the Lower Tier II Bonds aggregating to Rs. 110 crores (Series IIIA and IIIB – Rs. 50 crores, Series IVA and IVB – Rs. 30 crores and Series V – Rs. 30 crores) indicating moderate safety for timely servicing of debt obligations.

The performance of the Bank over last five years is summarised in the following table (figures in Rs in crores, except if mentioned otherwise)

Year	Capital & Reserves	Deposits	Advances	Gross Earnings	Net Profit	Dividend Paid (%)	No. of Branches	No. of Employees
2004-05	229.99	3495.92	2317.71	336.52	3.34	Nil	225	1928
2005-06	291.05	4336.38	2952.82	368.13	22.47	25	227	1873
2006-07	396.09	5019.87	3612.70	474.99	17.58	7	236	1926
2007-08	417.68	5618.49	3858.79	588.54	25.27	15	239	2078
2008-09	453.72	7360.90	5245.83	764.60	50.30	25*	251	2433

*Indicates proposed dividend

Source: Annual reports, Annual Accounts

Business Strategy

The business strategy of the bank has been designed keeping in view the industry performance, analysis of Bank's strengths and weaknesses, available opportunities and banking reforms.

The following business strategies are contemplated to strengthen Bank's position, increase market share and to stay as a sound and dynamic banking entity providing pan India service in line with its vision:

- i. Each branch to own their business targets and to achieve monthly business targets consistently and continuously
- ii. Contribution from every employee of the branch should be subsumed in business development initiatives
- iii. Branch Expansion – In vital Tier II and Tier III locations, where the potential is untapped and available in plenty
- iv. Marketing Team – Branch level marketing team, by way of providing required additional personnel
- v. Staff Training-Skill development and marketing capabilities will be given focus to all the field personnel
- vi. Opening of specialized branches for undertaking specific business with focus and concentration viz. Industrial Branches, Development Branches, SME Branches, NRI Branches and Personal Banking Branches
- vii. More familiarization and publicity activities through both print and electronic media, besides outdoor activities and lead generation process
- viii. Periodical launching of more schemes and services
- ix. Customer Survey and plans to ensure customer loyalty
- x. Focused approach for business – segment wise
- xi. Required organizational re-structuring
- xii. Enhancing client base
- xiii. Specialized marketing campaign (CASA and Time deposits mobilization) at all branches twice in a year
- xiv. Effective marketing of multi-city cheque facility and other CBS products
- xv. Vigorous door to door campaign activities
- xvi. Image building and lead generation activities
- xvii. Focus on enhancing fee based income mainly through LG/LC business and Para Banking activities
- xviii. Categorization of branches for undertaking specific type of business viz. Corporate Business, Forex Business, SME Segment, Agriculture & Trade, Personal Banking

SELECTED FINANCIAL INFORMATION

Following selected financial data have been prepared in accordance with Indian Accounting Standards, in conjunction with our financial statements and related notes and "Management's Discussions and Analysis". The audited financial statements have been prepared in Indian rupees and have been prepared in accordance with Indian Accounting Standards for the financial year ended on 31st March 2005, 31st March 2006, 31st March 2007, 31st March 2008 and 31st March 2009.

SUMMARY STATEMENT OF ASSETS AND LIABILITIES (RESTATED)

(Rs. In Crores)

As on					
	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09
A Assets					
1 Cash in Hand	42.06	44.69	43.10	59.23	97.70
2 Balance with RBI	216.72	155.42	243.20	326.12	494.26
3 Balances with Bank in India	79.69	250.77	293.99	210.60	261.01
Balances with Bank Outside India	15.77	12.52	11.17	18.95	28.44
4 Money at Call & Short Notice	--	--	50.00	--	--
5 Investments					
Investments in India	1180.86	1279.87	1309.30	1693.67	1863.06
Investments outside India	--	--	--	--	--
Total Investments	1180.86	1279.87	1309.30	1693.67	1863.06
6 Advances					
Advances in India	2317.71	2952.82	3612.70	3858.79	5245.83
Advances Outside India	--	--	--	--	--
Total Advances	2317.71	2952.82	3612.70	3858.79	5245.83
7 Fixed Assets	34.11	32.66	35.31	39.94	53.98
8 Other Assets	167.52	193.67	232.83	318.14	277.64
TOTAL (A)	4054.44	4922.42	5831.60	6525.44	8321.92
B LIABILITIES					
1 Demand Deposits	426.99	453.08	506.92	559.20	492.08
From Banks	3.32	1.82	4.89	6.95	9.86
From Others	423.67	451.26	502.03	552.25	482.22
2 Savings Deposits	468.56	547.86	599.65	658.51	743.21
3 Term Deposits	2600.37	3335.43	3913.30	4400.78	6125.61
From Banks	159.46	391.48	408.27	119.46	283.73
From Others	2440.91	2943.95	3505.03	4281.32	5841.88
Total Deposits (1+2+3)	3495.92	4336.37	5019.87	5618.49	7360.90
4 Borrowings					
In India	28.41	5.30	79.75	52.74	32.58
outside India	40.53	0.00	0.00	0.05	0.02
Total Borrowings	68.94	5.30	79.75	52.79	32.60
5 Other Liabilities & Provisions					
Other Liabilities & Provisions	151.63	194.03	214.93	335.79	373.65
Subordinate Debts	109.80	100.80	130.80	110.00	110.00
Sub - Total	261.43	294.83	345.73	445.79	483.65
TOTAL (B)	3826.29	4636.50	5445.35	6117.07	7877.15
C NET ASSETS (C=A-B)	228.15	285.92	386.25	408.37	444.77
Represented By:					
D Share Capital	11.51	19.53	47.81	48.77	48.78

E	Reserve & Surplus					
1	Statutory Reserve	121.20	155.41	208.65	215.65	230.91
2	Capital Reserve	16.83	17.84	18.61	27.16	45.94
3	Share Premium	14.42	50.55	113.73	117.63	117.64
4	Investment Fluctuation Reserve	35.99	40.74	0.00	0.00	0.00
5	Other Reserve	29.82	6.61	6.85	7.01	8.01
6	Special Reserve u/s 36(1) (viii) of IT Act 1961	0.00	0.00	0.00	1.15	2.15
6	Balance of Profit and loss Account (Adjusted)	(1.62)	(4.76)	(9.40)	(9.00)	(8.66)
	TOTAL (E)	216.64	266.39	338.44	359.60	395.99
F	TOTAL (D+E)	228.15	285.92	386.25	408.37	444.77
G	Contingent Liabilities					
	Claims against the Bank not acknowledgement as debts	65.60	73.09	176.79	121.98	135.19
	Liability for partly paid investments	-	-	-	-	-
	Liability on account of forward exchange contracts	522.46	627.89	266.64	412.35	588.26
	Guarantees given on behalf of Constituents	101.15	96.60	114.63	132.71	271.70
	Acceptances, Endorsements and other obligations	155.65	168.46	147.18	218.34	687.03
	Other items for which the bank is contingently Liable	0.18	0.00	0.00	0.00	0.00
	Total (G)	845.04	966.04	705.24	885.38	1682.18
	BILLS FOR COLLECTION	132.83	178.85	133.80	150.56	231.95

**SUMMARY STATEMENT OF PROFIT AND LOSS ACCOUNT (RESTATED)**

(Rs. In Crores)

For the Period Ended	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09
INCOME					
1 Interest Earned					
1.1 Interest / Discount on Advances / Bills	186.85	216.67	312.13	378.98	517.92
1.2 Income on Investments **	100.48	84.21	89.15	103.10	126.14
1.3 Interest on Balances with RBI and other Inter-Bank Funds.	3.26	10.03	16.16	13.65	8.56
1.4 Others	0.54	0.02	0.82	10.32	4.99
2 Other Income					
2.1 Commission, Exchange & Brokerage	28.82	31.19	35.70	28.40	42.57
2.2 Profit on Sale of Investments (Net)	(7.47)	(10.70)	(1.25)	21.33	30.36
2.3 Profit on Sale of Land, Buildings & Other Assets (Net)	0.02	(0.06)	0.41	5.48	2.62
2.4 Profit on Exchange Transactions (Net)	5.06	4.56	5.55	6.17	8.81
2.5 Income From Dividends	3.44	0.71	3.37	5.57	0.30
2.6 Miscellaneous Income **	8.45	20.37	12.94	15.54	22.33
Total Income	329.45	357.00	474.98	588.54	764.60
EXPENDITURE					
1 Interest Expended					
1.1 Interest on Deposits	180.35	206.82	284.35	363.20	481.55
1.2 Income on Balances with RBI / Inter - Bank Borrowings	1.83	0.51	3.30	5.55	16.18
1.3 Others	9.36	9.24	11.54	13.18	6.34
2 Operating Expenses					
2.1 Payment to and Provisions for Employees	45.47	59.16	56.24	63.04	78.45
2.2 Rent, Taxes & lighting	7.34	7.73	8.29	9.78	13.15
2.3 Printing & Stationery	1.23	1.50	1.47	1.51	1.51
2.4 Advertisements & Publicity	0.80	0.72	1.26	1.18	1.74
2.5 Depreciations on Banks Property	6.07	6.14	7.65	8.58	12.72
2.6 Directors' Fees, Allowances and Expenses	0.17	0.20	0.18	0.43	0.57
2.7 Auditors Fees and Expenses	0.17	0.17	0.24	0.28	0.32
2.8 Law Charges	0.67	0.34	0.50	0.47	0.44
2.9 Postage, Telegrams and Telephones	2.65	2.86	2.54	4.97	4.33
2.10 Repairs and Maintenance	0.41	0.48	0.64	0.66	0.63
2.11 Insurance	2.80	3.59	4.38	4.96	5.92
2.12 Other Expenditure **	13.72	16.88	19.06	20.59	31.91
Total Expenditure	273.04	316.34	401.64	498.38	655.76
Gross Profit Before Provisions & Contingencies	56.41	40.66	73.34	90.16	108.84
Provisions & Contingencies	54.91	21.49	60.26	64.55	58.20
Net Profit / (Loss) For The Year	1.50	19.17	13.08	25.61	50.64
Add: Transfer from Investment Fluctuation Reserve	--	--	40.74	--	--
Add: Balances of Profit/(Loss) Brought Forward	0.22	(1.62)	(4.76)	(9.20)	(9.00)
Profit Available For Appropriation	1.72	17.55	49.06	16.41	41.64
APPROPRIATIONS					
Transfer to Statutory Reserve	0.85	10.00	53.24	7.00	15.25
Transfer to Capital Reserve	2.49	1.00	0.77	8.55	18.79
Transfer to (from) Investment Fluctuation Reserve	0.00	4.75	0.00	0.00	0.00
Transfer to Other Reserve	0.00	1.00	0.25	1.30	1.00

Transfer to Special Reserve u/s 36(1)(viii) of IT Act 1961	0.00	0.00	0.00	0.00	1.00
Proposed Dividend	0.00	4.88	3.42	7.32	12.20
Tax on Dividend	0.00	0.68	0.58	1.24	2.07
Balance Carried Over to Balance Sheet	(1.62)	(4.76)	(9.20)	(9.00)	(8.66)
	1.72	17.55	49.06	16.41	41.65

** Amortisation expenses have been regrouped and adjusted against the interest income of investments as per RBI guidelines.
The regroup of amortisation for the year 2005, 2006, 2007.

STATEMENT OF ACCOUNTING RATIOS

Y.E. March 31	2005	2006	2007	2008	2009
Earnings Per Share (Rs.)	1.30	9.83	2.68	5.25	10.38
Net Asset Value Per Share (Rs.)	198.39	146.63	79.15	83.68	91.14
Return on Net Worth (%)	0.66%	7.46%	3.89%	6.45%	11.87%

**THE ISSUE**

Equity Shares proposed to be issued by the Bank	[•] Equity Shares
Rights Entitlement	[•] Equity Share for [•] Equity Share held on the Record Date
Record Date	[•]
Issue Price per Equity Share	Rs. [•]
Equity Shares outstanding prior to the Issue	4,91,88,111 Equity Shares
Equity Shares outstanding after the Issue	[•] fully paid up Equity Shares
Terms of the Issue	For more information, see “Terms of Issue” on page 227.

Terms of Payment

The Payment Methods available to the shareholders for applying in this Rights Issue are as follows:

Amount payable per equity share	Payment Method –I@ Applicable to all categories of shareholders except NRIs/FIIs			Payment Method –II Applicable to all categories of shareholders including NRIs/FIIs		
	Face Value	Premium	Total	Face Value	Premium	Total
(Fig in Rs.)						
On Application	[•]	[•]	[•]	10	[•]	[•]
First and final call	[•]	[•]	[•]	NA	NA	NA
Total	10	[•]	[•]	10	[•]	[•]

GENERAL INFORMATION

Dear Shareholder(s),

Pursuant to the resolution passed by our Board at its meeting held on May 14, 2009, the Bank has been authorized to make the following Rights Issue to the equity shareholders of the Bank.

Issue of [•] Equity Shares of Rs. [•] each for cash at a premium of Rs. [•] per Equity Share not exceeding Rs. 300 crores on rights basis to the existing Equity Shareholders of the Bank, in the ratio of [•] Equity Share for Every [•] Equity Share (i.e. [•]) held as on the record date i.e. [•].

THE ISSUE PRICE IS [•] TIMES THE FACE VALUE OF THE EQUITY SHARES OF THE COMPANY

Statutory Declaration

In the reasonable opinion of the Board, there are no circumstances that have arisen since the date of the last financial statement disclosed in the Draft Letter of Offer, that materially or adversely affect or are likely to affect the performance or profitability of the Bank or value of its assets or its ability to pay its liabilities within the next twelve months.

Registered Office

The Lakshmi Vilas Bank Limited
Salem Road, Kathapara, Karur – 639006,
Tamil Nadu, India
Company Identification Number: L65110TN1926PLC001377

The Equity Shares of our Company are listed on NSE and admitted as a permitted security on the BSE.

Address of the Registrar of Companies

The Registrar of Companies, RoC Chennai
Block No. 6, B Wing,
2nd Floor, Shastri Bhavan,
26, Haddows Road,
Chennai, Tamil Nadu – 600034

Board of Directors

Name of Director	Designation	Nature of Directorship / Status	Director Identification Number
Dr. S Narayan	Part Time Chairman	Non Executive Director /Independent	00094081
V S Reddy	Managing Director	Executive Director/Non Independent	00353530
M P Shyam	Director	Non Executive Director/Non Independent	00293568
K Balaji	Director	Non Executive Director/Independent	00111174
N Saiprasad	Director	Non Executive Director/Non Independent	00137910
K Ravindrakumar	Director	Non Executive Director/Non Independent	00140723
Kusuma R Muniraju	Director	Non Executive Director/Independent	02111974
D L N Rao	Director	Non Executive Director/Independent	02305079



B K Manjunath	Director	Non Executive Director/Independent	00319891
K R Pradeep	Director	Non Executive Director/Non Independent	00153097
S G Prabhakaran	Director	Non Executive Director/Non Independent	00005140

Compliance Officer

Mr. S. Venkateswaran – DGM & Company Secretary
The Lakshmi Vilas Bank Ltd.
Registered & Head Office,
Salem Road, Kathaparai,
Karur – 639006
Tel.: (04324) 223993
Fax: (04324) 223607
E-mail: venkateswaransam@lvbank.in

Investors may contact the Compliance Officer for any pre-Issue / post-Issue related matter such as non-receipt of letters of allotment/ share certificates/ refund orders, etc.

Auditors of the Bank

M/s Sundaram & Srinivasan
23, C P Ramaswamy Road
Alwarpet, Chennai – 600018
Tel: + 91 44 2498 8762
Email: yessendes@vsnl.net
Website: <http://sundaramandsrinivasan.com>

M/s Abarna and Ananthan
643, Sriniketan,
2nd Floor, 1st Main,
7th Block, 2nd Phase, BSK, 3rd Stage,
Bangalore – 560 085
Tel: +91 80 30987322
Fax: +91 80 2672 7430
Email: audit@abarna-ananthan.com

Issue Management Team**Lead Manager to the Issue**

Standard Chartered - STCI Capital Markets Limited
SEBI Regn No.: INM000011542
1st Floor, Dheeraj Arma,
Anant Kanekar Marg,
Bandra (East), Mumbai-400051
Tel: + 91 22 6751 5999
Fax: + 91 22 6751 5820
E-mail: lvbrights@standardcharteredcapitalmarkets.com
Contact Person: Ramesh Ramanathan/Jayakumar Subramanian

Registrar to the Issue

Integrated Enterprises (India) Limited,
SEBI Reg. No.: INR000000644
II floor, "Kences Towers" No.1 Ramakrishna Street,

North Usman Road, T. Nagar , Chennai - 600 017
 Ph:(044) 28140801, Fax: (044) 28142479
 Email: corpseiv@iepindia.com,
 Website: www.iepindia.com
 Contact Person: S Sriram

Note: Investors are advised to contact the Registrars to the Issue, Compliance Officer, Mr. S. Venkateswaran in case of any pre-issue / post-issue related problems such as non-receipt of Letter of Offer / Letter of Allotment / Debenture Certificate(s) / Share Certificate(s) / Warrant Certificate(s) / Refund Orders / Demat Credit.

Legal Advisor to the Issue

P. H. Arvinth Pandian

Advocate
 New No.115,1st Floor,
 Luz Corner Church Road,
 Mylapore,Chennai – 600 004
 Tel: (044) 65291959,24995060
 Fax: (044) 24995064
 Email: bharathypandian@gmail.com

Bankers to the Issue

[•]

SELF CERTIFIED SYNDICATE BANKS

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The list of banks that have been notified by SEBI to act as SCSB for the ASBA Process are provided on <http://www.sebi.gov.in>. For details on designated branches of SCSBs collecting the ASBA Bid cum Application Form, please refer the SEBI Website, www.sebi.gov.in.

Credit Rating

The present Issue being rights Issue of Equity Shares by already listed company, no credit rating is required.

The rating agency CARE after due surveillance on December 29, 2008, assigned the revised rating of BBB+ (Triple B plus) from A- (A minus) assigned earlier to Lower Tier II Bonds aggregating to Rs. 110 crores (Series IIIA and IIIB – Rs. 50 crores, Series IVA and IVB – Rs. 30 crores and Series V – Rs. 30 crores) indicating moderate safety for timely servicing of debt obligations

Grading

As this is a Rights Issue of equity shares, grading is not mandatory.

Debenture Trustees

Since this is not a debenture issue, appointment of debenture trustee is not required.

Statement of Inter-se Allocation of Responsibilities

Since Standard Chartered - STCI Capital Markets Limited is the sole Lead Manager for this Issue; the entire Issue related activities are being handled by Standard Chartered- STCI Capital Markets Ltd. The responsibilities handled by Standard Chartered - STCI Capital Markets Limited are *inter alia*:

- i. Capital structuring with the relative components and formalities such as composition of equity.
- ii. 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.
- iii. Ensuring compliance with the Guidelines for Disclosure and Investor Protection and other stipulated requirements and completion of prescribed formalities with Stock Exchanges and SEBI.
- iv. 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 issue, (iv) collection centres (v) brokers to issue and (vi) underwriters and the underwriting arrangement, distribution of publicity and issue material including application form, prospectus and brochure, and deciding on the quantum of issue material.
- v. Selection of various agencies connected with issue, namely Registrar to Issue, bankers to issue, printers and advertising agencies.
- vi. Follow-up with bankers to the issue to get quick estimates of collection and advising the Bank about closure of the issue, based on the correct figures.
- vii. Post-issue activities will involve essential follow-up steps, including 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 Registrar to the issue, bankers to the issue (Self Certified Syndicate Banks) and the bank handling refund business. The Lead Manager 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

Underwriting

This Issue is not underwritten and the Bank has not entered into any underwriting / standby arrangement for the present rights issue

Appraising Entity and Monitoring Agency

The present Issue being a rights Issue, appointment of appraising entity and monitoring agency is not applicable to the issue.

ISSUE SCHEDULE

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

Issue Opening Date	[•]
Last date for receiving requests for split application forms	[•]
Issue Closing Date	[•]

Impersonation

Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Act, which is reproduced below:

“Any person who

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

Allotment and Refund

Our Company will issue and dispatch the Letter of Allotment /Share Certificate Demat Credit and/or Letter of Regret along with the Refund Order, if any, within a period of fifteen days from the date of closure of the Issue. If such monies are not repaid within eight days from the day our Company becomes liable to pay it, our Company shall, as stipulated under Section 73 (2) and (2A) of the Act, pay such monies with interest @ 15% p.a.

Declaration

The Board of Directors of the bank declare that the funds received against this Issue will be transferred to a separate bank account other than the bank account referred to in sub-section (3) of Section 73 of the Companies Act., 1956.

Minimum Subscription

If our Bank does not receive the minimum subscription of 90% of this Issue, (including additional shares applied to by existing shareholders and renounees and excluding the amounts on the rights entitlement on the Equity Shares held in abeyance) on the date of closure of the issue, the entire subscription shall be refunded to the applicants within 15 days from the date of closure of this Issue. If there is a delay in the refund of subscription by more than 8 days after our Bank becomes liable to pay the subscription amount (i.e. 15 days

after closure of this Issue), our Bank shall pay interest for the delayed period, at rates prescribed under sub-sections (2) and (2A) of Section 73 of the Companies Act 1956.

CAPITAL STRUCTURE

Capital Structure

	Aggregate nominal value (in Rs. crores)	Aggregate Value at Issue Price (in Rs. crores)
Authorized share capital		
15,00,00,000 Equity Shares of Rs. 10/-each	150.00	
Issued Shared capital		
4,91,88,111* Equity Shares of Rs. 10/- each	49.19	
Subscribed and Paid-up share capital before the Issue		
4,87,79,476 Equity Shares of Rs. 10/- each fully paid up	48.78	
Present Issue being offered to the Eligible Equity Shareholders through the Draft Letter of Offer		
[•] Rights Equity Shares of Rs. 10/- each	[•]	[•]
Equity capital after the Issue		
[•]* Equity Shares of Rs. 10/- each	[•]	
Share premium Account		
Existing securities premium account	117.68	
Securities premium account after the Issue	[•]	

Notes:

1. Issued Capital

Issued capital of 4,91,88,111 equity shares consists of 4,08,635 shares comprising of:

- a) 135 shares kept in abeyance in the bonus issue of shares during the year 1957 and subsequently lapsed
- b) 6,225 shares kept in abeyance in the rights issue of shares during the year 1993;
- c) 19,075 shares kept in abeyance in the bonus issue of shares during the year 1995;
- d) 42,050 shares kept in abeyance in the rights issue of shares during the year 1995;
- e) 68,190 shares kept in abeyance in the rights issue of shares during the year 2005;
- f) 82,246 shares kept in abeyance in the bonus issue of shares during the year 2006;
- g) 1,67,191 shares kept in abeyance in the rights issue of shares during the year 2006;
- h) 9,379 shares forfeited in the rights issues of 2005; and
- i) 14,144 shares forfeited in the rights issues of 2006

2. Present Issue

The present issue of rights shares is in the ratio of [•] of Rs. 10 each for every [•] shares held on the record date i.e. [•].

In addition to the paid up capital of 4,87,79,476 equity shares, 3,84,977 shares kept in abeyance on account of earlier issues are considered (ignoring the 135 shares that lapsed and the shares that have been forfeited) to arrive at the adjusted paid up capital of 4,91,64,453 equity shares. Details are mentioned below:

- a) 6,225 shares kept in abeyance in the rights issue of shares during the year 1993;
- b) 19,075 shares kept in abeyance in the bonus issue of shares during the year 1995;
- c) 42,050 shares kept in abeyance in the rights issue of shares during the year 1995;
- d) 68,190 shares kept in abeyance in the rights issue of shares during the year 2005;
- e) 82,246 shares kept in abeyance in the bonus issue of shares during the year 2006; and
- f) 1,67,191 shares kept in abeyance in the rights issue of shares during the year 2006.

3. Paid-up Share Capital after the Issue is based on the assumption that the Issue will be 100% subscribed.
4. The Shares kept in abeyance is on account of litigations on the title of ownership. The present number of 3,84,977 equity shares under litigations is the result of various rights and bonuses accrued on such shares as and when issued / declared. The Bank is awaiting the decision of the various courts in cases involving title suits between various parties relating to the shares wherein the Bank is only a proforma party.
5. Changes in Authorised Share Capital

Date of shareholders approval	Particulars of amendment
November 03, 1926	The authorised share capital of our Bank was increased from Rs. 71,000 (divided into 7,100 Equity Shares) to Rs. 1,00,000 (divided into 10,000 Equity Shares)
August 30, 1946	The authorised share capital of our Bank was increased from Rs. 1,00,000 (divided into 10,000 Equity Shares) to Rs. 5,00,000 (divided into 50,000 Equity Shares)
March 26, 1958	The authorised share capital of our Bank was increased from Rs. 5,00,000 (divided into 50,000 Equity Shares) to Rs. 10,00,000 (divided into 1,00,000 Equity Shares)
May 11, 1961	The authorised share capital of our Bank was increased from Rs. 10,00,000 (divided into 1,00,000 Equity Shares) to Rs. 25,00,000 (divided into 2,50,000 Equity Shares)
April 28, 1975	The authorised share capital of our Bank was increased from Rs. 25,00,000 (divided into 2,50,000 Equity Shares) to Rs. 1,00,00,000 (divided into 10,00,000 Equity Shares)
June 24, 1987	The authorised share capital of our Bank was increased from Rs. 1,00,00,000 (divided into 10,00,000 Equity Shares) to Rs. 2,00,00,000 (divided into 20,00,000 Equity Shares)
September 25, 1989	The authorised share capital of our Bank was increased from Rs. 2,00,00,000 (divided into 20,00,000 Equity Shares) to Rs. 3,00,00,000 (divided into 30,00,000 Equity Shares)
September 23, 1991	The authorised share capital of our Bank was increased from Rs. 3,00,00,000 (divided into 30,00,000 Equity Shares) to Rs. 3,50,00,000 (divided into 35,00,000 Equity Shares)
September 27, 1994	The authorised share capital of our Bank was increased from Rs. 3,50,00,000 (divided into 35,00,000 Equity Shares) to Rs. 20,00,00,000 (divided into 2,00,00,000 Equity Shares)
September 29, 2005	The authorised share capital of our Bank was increased from Rs. 20,00,00,000 (divided into 2,00,00,000 Equity Shares) to Rs. 100,00,00,000 (divided into 10,00,00,000 Equity Shares)
September 26, 2007	The authorised share capital of our Bank was increased from Rs. 100,00,00,000 (divided into 10,00,00,000 Equity Shares) to Rs. 150,00,00,000 (divided into 15,00,00,000 Equity Shares)

6. Share Capital history

The following is the history of the Equity Share capital of our Bank:

Date of Allotment/ Fully paid-up	No of Equity Shares	Face Value (Rs)	Issue Price (Rs)	Consideration	Cumulative Equity Share Capital (in Rs.)	Reasons of allotment
1926	7100	10	10	Cash	71,000	Subscribers to Memorandum and Articles of Association
1926	400	10	10	Cash	75,000	Further Allotment

1929	2010	10	10	Cash	95,100	Further Allotment
1930	440	10	10	Cash	99,500	Further Allotment
1931	50	10	10	Cash	1,00,000	Further Allotment
1947	10000	10	15	Cash	2,00,000	Further Allotment
1953	5000	10	15	Cash	2,50,000	Further Allotment
1957 ¹	12124	10	NA	Bonus	3,71,240	Bonus Issue in the ratio of 1:2
1958	114	10	NA	Bonus	3,72,380	Allotment of equity shares on release of bonus shares kept in abeyance u/s 206A of the Companies Act, 1956 in the 1957 bonus issue {•}
1959	127				3,73,650	
1960	12580	10	20	Cash	4,99,450	Further Allotment
1961	25055	10	20	Cash	7,50,000	Further Allotment
1962	727	10	NA	Share Swap	7,57,270	Shares allotted to Shareholders of Karur Mercantile Bank
1963	464	10	NA		7,61,910	
1964	24	10	NA		7,62,150	
1971	37	10	10	Cash	7,62,520	Further Allotment
1974	152504	10	11	Cash	22,87,560	Further Allotment
1977	20	10	10	Cash	22,87,760	Further Allotment
1982	114388	10	10	Cash	34,31,640	Rights Issue in the ratio of 1:2
1986	343164	10	10	Cash	68,63,280	Rights Issue in the ratio of 1:1
1988	600000	10	10	Cash	1,28,63,280	Public Issue
1989	643164	10	10	Cash	1,92,94,920	Rights Issue in ratio of 1:2
1993 ²	958521	10	40	Cash	2,88,80,130	Rights Issue in ratio of 1:2
12.01.1995 ³	2874138	10	NA	Bonus	5,76,21,510	Bonus Issue in the ratio of 1:1
31.03.1995 ⁴	5737826	10	35	Cash	11,49,99,770	Rights Issue in ratio of 1:1
04.08.1995 ⁵	2000	10		Cash	11,50,27,870	Allotment of equity shares on release of bonus and rights shares kept in abeyance u/s 206A of the Companies Act, 1956 in the 1995 rights issue
04.08.1995 ⁵	900	10	NA	Bonus	11,50,28,770	
20.02.1996 ⁵	5146	10		Cash	11,50,80,230	
21.08.1996 ⁵	554	10		Cash	11,50,85,770	

12.03.1998 ⁵	50	10		Cash	11,50,86,270	
29.11.1999 ⁵	200	10		Cash	11,50,88,270	
28.06.2002 ⁵	50	10		Cash	11,50,88,995	
28.06.2002 ⁵	25	10	NA	Bonus	11,50,89,020	
03.08.2005 ⁶	8035046	10	55	Cash	19,54,39,480	Rights issue in ratio of 7:10
20.03.2006	9379		NA	NA	19,53,45,690	Forfeited Rights Issue shares
25.11.2006 ⁷	9752515	10	NA	Bonus	29,28,70,840	Bonus Issue in the ratio of 1:2
10.02.2007 ⁸	19502401	10	50	Cash	48,78,94,850	Rights issue in ratio of 1:1
25.06.2008	14144		NA	NA	48,77,53,410	Forfeited Rights Issue shares
01.02.2007 ⁹	70	10		Cash	48,77,54,110	Allotment of equity shares on release of bonus and rights shares kept in abeyance u/s 206A of the Companies Act, 1956 in the 2005 rights issue
30.01.2008 ⁹	268	10		Cash	48,77,58,311	Allotment of equity shares on release of rights shares kept in abeyance u/s 206A of the Companies Act, 1956 in the 2006 rights issue
30.01.2008 ⁹	169	10	NA	Bonus	48,77,58,480	Allotment of equity shares on release of bonus shares kept in abeyance u/s 206A of the Companies Act, 1956 in the 2006 bonus
27.11.2008 ⁹	219	10		Cash	48,77,61,651	Allotment of equity shares on release of rights shares kept in abeyance u/s 206A of the Companies Act, 1956 in the 2006 rights issue
27.11.2008 ⁹	109	10	NA	Bonus	48,77,61,760	Allotment of equity shares on release of bonus shares kept in abeyance u/s 206A of the Companies Act, 1956 in the 2006 bonus
14.05.2009 ^{5,9}	2520	10		Cash	48,77,94,080	Allotment of equity shares on release of rights shares kept in abeyance u/s 206A of the Companies Act, 1956 in the 1995, 2005 and 2006 rights issues
14.05.2009 ⁹	780	10	NA	Bonus	48,77,94,760	Allotment of equity shares on release of bonus shares kept in abeyance u/s 206A of the Companies Act, 1956 in the bonus issues in 1995 and 2006



NA: Note Applicable

Note:

- ¹Bank has allotted bonus shares on November 01, 1957 in lieu of dividends. Bonus shares were issued in the ratio of 1 (one) bonus share for 2 (two) existing fully paid up equity share held. In the year 1958 and 1959 bank has allotted 114 and 127 equity shares out of 376 bonus entitlements kept in abeyance during bonus issue in 1957. As on date bonus entitlements in respect of 135 equity shares have lapsed.
- ²In 1993, 964746 equity shares were issued on Rights basis in the ratio of 1: 2 @ premium of Rs.30 per share and allotted 958521 shares on May 21, 1993. During the rights issue entitlement in respect of 6225 shares were kept in abeyance u/s206A of the Companies Act, 1956. As on date rights entitlements in respect of 6225 equity shares are still in abeyance.
- ³In 1995, 2894238 bonus shares were issued in the ratio of 1:1 equity shares held and allotted 2874138 shares on January 12,1995. The Bonus issue entitlements in respect of 20100 shares were kept in abeyance u/s 206A of the Companies Act, 1956.
- ⁴In 1995, 5788476 rights shares of Rs. 10 each at a premium of Rs. 25 per share were issued on rights basis in the ratio of 1 (one) share for every 1 (one) equity share held after bonus shares allotment in the year 1995 and 5737826 equity shares were allotted on March 31,1995. The bonus & rights issue entitlement in respect of 20100 shares and 50650 shares were kept in abeyance u/s 206A of the Companies Act, 1956 respectively.
- ⁵On August 4, 1995, Feb 20, 1996, Aug 21, 1996, March 12, 1998, Nov 29, 1999, June 28, 2002 and May 14,2009 bank has allotted 2900,5146, 554, 50, 200, 75,100 and 600 shares equity shares out of 70750 bonus & rights entitlements kept in abeyance. As on date 19075 bonus shares & 42050 rights shares entitlements in respect of 61125 equity shares are still in abeyance.
- ⁶On October 21, 2005, 8103866 rights shares of Rs.10 each at a premium of Rs.45 per share were issued on rights basis in the ratio of 7(seven) equity shares for 10(Ten) equity shares held and 8035046 equity shares were allotted on October 21, 2005.The rights issue entitlement in respect of 68820 shares were kept in abeyance u/s 206A of the Companies Act, 1956. On February 1, 2007 and May 14, 2009 Bank has allotted 70 and 560 shares out of the 68820 shares kept in abeyance. As on date 68190 equity shares are still in abeyance
- ⁷In 2006, 9835719 fully paid up bonus equity shares were issued in the ratio of 1:2 equity shares held and 9752515 equity shares were allotted on November 25, 2006.Bonus entitlements in respect of 83204 shares were held in abeyance u/s 206A of the Companies Act,1956. On Jan 30, 2008, Nov 27,2008 and May 14,2009 Bank has allotted 169, 109 and 680 shares out of the 83204 shares kept in abeyance .As on date 82246 equity shares are still in abeyance.
- ⁸On February 10, 2007, 1,96,71,439 shares were issued and 1,95,02,401 shares were allotted on a rights basis. The rights issue entitlement of 1,69,038 shares were kept in abeyance u/s 206A of the Companies Act, 1956.
- ⁹ On January 30, 2008, November 27,2008 and May 14,2009 Bank has allotted 437, 328 and 3300 shares out of the 169038 shares kept in abeyance. As on date 167191 equity shares are still in abeyance –
- On June 25, 2008, 3222 forfeited equity shares were annulled.
- All shares since incorporation have been issued for cash except the following:
 - Bonus shares issued in the year 1956 in the ratio of 1:2 partly out of share premium and profits for the year 1955-56.
 - In the year 1963,LVB acquired Karur Mercantile Bank and issued 727 equity shares,464 equity shares and 24 equity shares in the years 1962,1963 and 1964 respectively as consideration to the shareholders of Karur Mercantile Bank in lieu of shares held by them.
 - Bonus shares issued in the year 1995 in the ratio of 1:1 out of share premium account

- o Bonus shares issued in the year 2006 in the ratio of 1:2 out of share premium account

7. Shareholding pattern before and after the Issue

Shareholding pattern of our Bank as on July 10, 2009 and after the Issue is as follows:

Shareholder		Pre – Issue		Post – Issue*	
		No. of equity Shares	% of the Pre Issued share capital	No. of equity Shares	% of the Post Issued share capital
(A)	Promoter and Promoter Group				
1	Indian				
(a)	Individuals/Hindu Undivided Family	13,36,234	2.74	[•]	2.74
(b)	Central Government/ State Government(s)	---			
(c)	Bodies Corporate	21,98,563	4.51	[•]	4.51
(d)	Financial Institutions/ Banks	---			
(e)	Any Other	---			
	Sub-Total (A)(1)	35,34,797	7.25	[•]	7.25
2	Foreign				
(a)	Individuals (Non-Resident individuals/Foreign Individuals)	---			
(b)	Bodies Corporate	---			
(c)	Institutions	---			
(d)	Any Other (specify)	---			
	Sub-Total (A)(2)	---			
	Total Shareholding of Promoter and Promoter Group (A)=(A)(1)+(A)(2)	35,34,797	7.25	[•]	7.25
(B)	Public shareholding				
1	Institutions				
(a)	Mutual Funds/UTI	---			
(b)	Financial Institutions/ Banks	77,29,181	15.85	[•]	15.85
(c)	Central Government/ State Government(s)	---			
(d)	Venture Capital Funds	---			
(e)	Insurance Companies	2,19,275	0.45	[•]	0.45
(f)	Foreign Institutional Investors	10,73,870	2.20	[•]	2.20
(g)	Foreign Venture Capital Investors	---			
(h)	Any Other	---			
	Sub-Total (B)(1)	90,22,326	18.50	[•]	18.50
2	Non-institutions				
(a)	Bodies Corporate	76,22,889	15.63	[•]	15.63
(b)	Individuals				
(i)	Individual shareholders holding nominal share capital up to Rs. 1 lakh.	2,21,71,753	45.45	[•]	45.45

Shareholder	Pre – Issue		Post – Issue*	
	No. of equity Shares	% of the Pre Issued share capital	No. of equity Shares	% of the Post Issued share capital
(ii) Individual shareholders holding nominal share capital in excess of Rs. 1 lakh.	62,14,820	12.74	[•]	12.74
(c) Any Other (specify)***	2,12,891	0.44	[•]	0.44
Sub-Total (B)(2)	3,62,22,353	74.26	[•]	74.26
Total Public Shareholding (B) = (B)(1) + (B)(2)	4,52,44,679	92.75	[•]	92.75
TOTAL (A)+(B)	4,87,79,476	100.00	[•]	100.00
(C) Shares held by Custodians and against which Depository Receipts have been issued –GDRs	---	---		---
GRAND TOTAL (A)+(B)+(C)	4,87,79,476	100.00	[•]	100.00

* Based on the assumption that all the shareholders will subscribe to the extent of their Rights Entitlement

** Clearing member – 55,140
Corporate CM/TM-Client Beneficiary A/C-80,241
Corporate CM/TM-Client Margin A/C-76,160
Trusts-1,350

8. Shareholding of our Promoters and promoter group in our Bank and shares pledged by promoters and promoter group of our Bank Equity Shares

Name of the Shareholder	Relation ship	Number of Equity Shares held	Pre Issue %	Number of Equity Shares Pledge	Pre Issue % of Equity Shares Pledged
A R Venkataraman	Promoter	30,869	0.06	25,000	0.05
Ms. A V Vasanthi	Wife	41	Negligible	-	-
Ms. M S Sharmila	Daughter	24,010	0.05	-	-
Ms. Yathugiri Sridhar V	Sister	3,500	0.01	-	-
Mr. M P Shyam	Son in-law	96,488	0.20	-	-
Mr. S Dattathreyan	Son in-law	25,000	0.05	25,000	0.05
N Malayalaramamirtham	Promoter	27,493	0.06	17,000	0.03
Ms. M Geetha	Wife	6,085	0.01	-	-
Mr. M Balasubramanian	Son	2,205	Negligible	-	-
Ms. B Charanya	Daughter in-law	201	Negligible	-	-
Ms. M Shalini	Daughter	287	Negligible	-	-
Ms. N Susila	Mother	11,965	0.03	-	-
Mr. N Saiprasad	Brother	47,258	0.10	23,000	0.05
Mr. N Sivakumar	Brother	13,849	0.03	7,500	0.01
Mr. N Dwarakanathan	Brother	6,411	0.01	4,500	0.01

Name of the Shareholder	Relation ship	Number of Equity Shares held	Pre Issue %	Number of Equity Shares Pledge	Pre Issue % of Equity Shares Pledged
Mr. V N Jayaprakash	Brother	9,140	0.02	5,000	0.01
Mr. C Krishna Kumar	Promoter	4,300	0.01	-	-
Ms. K Nirmala	Wife	275	Negligible	-	-
Mr. KR Chandrasekaran	Father	26,938	0.06	-	-
Mr. C Ram Kumar	Brother	25,813	0.05	-	-
Ms. S Rajalakshmi	Sister	8,520	0.02	-	-
Mr. K R Pradeep	Promoter	9,07,018	1.86	-	-
Ms. Anuradha Pradeep	Wife	1,500	Negligible	-	-
Pranava Electronics Pvt. Ltd	Promoter Group Company	10,41,758	2.14	-	-
Kare Electronics & Developments Pvt. Ltd	Promoter Group Company	3,53,769	0.73	-	-
Kare Investments Pvt. Ltd	Promoter Group Company	10,000	0.02	-	-
Mr. SG Prabhakaran	Promoter	1,001	Negligible	-	-
Ariston Capital Asset Holdings Pvt. Ltd	Promoter Group Company	7,89,938	1.62	-	-
XS Real Properties Pvt. Ltd	Promoter Group Company	3,098	0.01	-	-
Ms. Usha R Prabhakaran	Wife	52,628	0.11	-	-
Mr. GP Prajnesh	Son	2,500	0.01	-	-
Mr. S. Gunneswaran	Father	282	Negligible	-	-
Mr. G. Sudhakara Gupta	Brother	470	Negligible	-	-
Ms. M.R. Sasikala Devi	Sister	187	Negligible	-	-
Total		35,34,797	7.25	1,07,000	0.21

The Promoters have confirmed that each of them intend to subscribe to the full extent of their entitlement in the Issue. The Promoters reserves their right to subscribe to their entitlement in the Rights Issue either by themselves, their relatives or a combination of entities controlled by them, including by subscribing for renunciation, if any, made by any of the Promoters to any other Promoter and/ or an affiliate thereof. The Promoters may apply for additional Equity Shares in the Issue. As a result of this subscription and consequent allotment, the Promoters may acquire shares over and above their entitlement in the Issue, which may result in an increase of the shareholding being above the current shareholding with the entitlement of Equity Shares under the Issue. This subscription shall be exempt in terms of the proviso to Regulation 3(1)(b)(ii) of the Takeover Code.

This acquisition will however be subject to the terms and conditions as laid down in the RBI Circular reproduced below:

Rights issues by private sector banks – Acknowledgement of transfer / allotment of shares

1) In terms of RBI Circular DBOD.No.PSBS.BC.79/16.13.100 /2001-2002 dated March 20, 2002, listed as well as unlisted private sector banks are not required to obtain approval of RBI for Rights Issue.

2) While reviewing the following issues have emerged with reference to percentage of holding at the time of rights issue:-

a) When some shareholders (individuals/ entities / groups) pick up unsubscribed shares which would result in his / its holding going up as a percentage of total paid up capital of the bank.

b) When Some shareholders not picking up their entitlements, holdings of the other shareholders would go up in percentage even if they pick up their own entitlements.

The above matter has been examined from the point of view of applicability of RBI Circular DBOD. NO.PSBS. BC. 64/ 16.13.100/ 2003-04 dated February 3, 2004 on acknowledgement of transfer/ allotment of shares in governance and also the regulatory limits such as the cap for the aggregate FDI/FII/NRI holdings and the 5% limit for a bank's investment in equity of another bank.

In view of the above RBI vide Circular DBOD. NO. PSBD. BC. 99/16.13.100 /2004-05 dated June 25, 2005 has advised banks going for rights issue to make complete disclosure of the regulatory requirements in the offer documents, including the following that:

i. Subscription to rights other than own entitlement will not be permitted if such subscription would result in breach of any statutory / regulatory ceilings

ii. any acquisition of shares that will take the shareholding of any entity/ group of entities to 5% or more of the paid up capital of the bank would require acknowledgement of RBI in terms of the criteria laid down in the RBI guidelines contained in the Circular DBOD. NO.PSBS. BC. 64/ 16.13.100/ 2003-04 dated February 3, 2004. Further, in terms of the guidelines on ownership and governance issued on February 28, 2005 any acquisition that will take the shareholding of any entity/ group, directly or indirectly, to 10% or more of the paid-up capital of the bank will require the prior approval of RBI

iii. If the holding of any shareholder breaches any statutory / regulatory ceilings as a result of non-subscription of rights by other shareholders, the shareholder concerned will not be able to acquire any further shares till his/ its shareholding is brought within the stipulated ceilings.

9. None of our directors hold Equity Shares in our Bank, except as set forth below:

Sr. No	Name	Number Of Equity Shares held	Pre Issue %
1	Mr. S G Prabhakaran	1,001	Negligible
2	Mr. B K Manjunath	500	Negligible
3	Mr. Kusuma R Maniraju	86,134	0.18
4	Mr. K Ravindrakumar	12,651	0.03
5	Mr. K R Pradeep	9,07,018	1.86
6	Mr. N Saiprasad	47,258	0.10
7	Mr. K. Balaji	27,925	0.06
8	Mr. M P Shyam	96,488	0.20
9	Mr. D. L. N. Rao	200	Negligible
10	Mr. V.S.Reddy	500	Negligible

10. Details regarding Top 10 Shareholders :

a) The top 10 shareholders of our Bank as on the date of filling of the Draft Letter of Offer:

Sr. No.	Name of the Shareholders	Number of Equity Shares	Percentage of shareholding (%)
1.	The Federal Bank Ltd	24,32,830	4.99
2.	The Karur Vysya Bank Ltd	19,06,634	3.91
3.	Indian Bank	18,53,000	3.80
4.	M N Dastur and Co. Pvt Ltd	15,50,000	3.18
5.	Pranava Electronics Pvt. Ltd	10,41,758	2.14
6.	Axis Steels Limited	9,88,609	2.03
7.	Life Insurance Corporation of India	9,79,676	2.01
8.	Mr. K R Pradeep	9,07,018	1.86
9.	Ariston Capital Asset Holdings Pvt. Ltd	7,89,938	1.62
10.	Cellour Vyapaar Ltd	7,49,921	1.54
	Total	1,23,17,684	27.08

b) Top ten shareholders of our Bank ten days prior to the date of filing this Draft Letter of Offer:

Sr. No.	Name of the Shareholders	Number of Equity Shares	Percentage of shareholding (%)
1.	The Federal Bank Ltd	24,32,830	4.99
2.	Indian Bank	18,53,000	3.80
3.	The Karur Vysya Bank Ltd	18,40,624	3.77
4.	M N Dastur and Co. Pvt Ltd	15,50,000	3.18
5.	Pranava Electronics Pvt. Ltd	10,41,758	2.14
6.	Axis Steels Limited	9,88,609	2.03
7.	Life Insurance Corporation of India	9,79,676	2.01
8.	Mr. K R Pradeep	9,07,018	1.86
9.	Ariston Capital Asset Holdings Pvt. Ltd	7,89,938	1.62
10.	Cellour Vyapaar Ltd	7,49,921	1.54
	Total	1,31,33,374	26.94

c) Top ten shareholders two years prior to the date of filing this Draft Letter of Offer are as follows:

Sr. No.	Name of the Shareholder	Number of Equity Shares	Percentage of shareholding (%)
1.	The Federal Bank Ltd	23,20,114	4.76
2.	Indian Bank	16,75,094	3.43
3.	Pranava Electronics Pvt. Ltd	9,92,809	2.03
4.	XS Real Properties Pvt. Ltd	8,00,293	1.64
5.	Hema Latha Ravi	7,81,220	1.60
6.	Premier Investment Fund Ltd	6,54,442	1.34
7.	M N Dastur and Co. Pvt Ltd	6,08,535	1.24
8.	Genius Trading Pvt. Ltd	5,81,479	1.19
9.	Saptarshi Vinimay Pvt. Ltd	5,42,274	1.11
10.	RSP Capital Markets Pvt. Ltd	5,11,179	1.04
	Total	94,67,439	19.38

11. Details of the transactions in Equity Shares by the promoters / directors of the bank during the last six months:

The Promoters / Directors of our Bank, directly or indirectly, have not purchased and/or sold/financed any shares of our Bank during the last 6 months except for the following equity shares:

Date of Transaction	Name of the promoter / Director	Nature of Transaction	Number of Shares	Price at which shares Transferred (Rs. per Equity Share)
05.02.2009	N Saiprasad	Purchase	100	60.74
09.02.2009	K. R. Pradeep	Purchase	100000	72.19
16.02.2009	K. R. Pradeep	Purchase	1200	75.77
20.02.2009	K. R. Pradeep	Purchase	2227	61.68
03.03.2009	K. R. Pradeep	Purchase	100000	65.29
12.02.2009	A.R.Venkataraman	Sale	10000	62.00
23.03.2009	A.R.Venkataraman	Purchase	45	62.00
23.03.2009	A.R.Venkataraman	Purchase	100	62.40
23.03.2009	A.R.Venkataraman	Purchase	17	62.45
24.03.2009	A.R.Venkataraman	Sale	3000	63.00
09.04.2009	A.R.Venkataraman	Sale	10000	69.50
13.04.2009	A.R.Venkataraman	Sale	2000	73.00
15.04.2009	A.R.Venkataraman	Sale	286	75.00
17.04.2009	A.R.Venkataraman	Sale	4714	82.00

Date of Transaction	Name of the promoter / Director	Nature of Transaction	Number of Shares	Price at which shares Transferred (Rs. per Equity Share)
21.04.2009	A.R.Venkataraman	Sale	3000	77.00
17.02.2009	C Krishnakumar	Purchase	100	61.18
19.02.2009	C Krishnakumar	Sale	100	58.62
24.03.2009	C Krishnakumar	Purchase	100	63.19
25.03.2009	C Krishnakumar	Sale	100	61.37
08.04.2009	C Krishnakumar	Purchase	100	64.14
09.04.2009	C Krishnakumar	Purchase	1100	67.64
09.04.2009	C Krishnakumar	Sale	1100	72.00
13.04.2009	C Krishnakumar	Sale	100	72.13
23.04.2009	C Krishnakumar	Sale	100	69.70
23.04.2009	C Krishnakumar	Purchase	100	68.98
04.05.2009	C Krishnakumar	Purchase	1958	70.97
07.05.2009	C Krishnakumar	Sale	58	74.58
11.05.2009	C Krishnakumar	Sale	1560	75.61
12.05.2009	C Krishnakumar	Sale	500	80.68
12.05.2009	C Krishnakumar	Purchase	600	80.05
13.05.2009	C Krishnakumar	Sale	1320	83.22
13.05.2009	C Krishnakumar	Purchase	2300	84.83
14.05.2009	C Krishnakumar	Sale	1415	84.40
19.05.2009	C Krishnakumar	Purchase	1050	84.34
19.05.2009	C Krishnakumar	Sale	50	84.95
20.05.2009	C Krishnakumar	Sale	200	85.39
21.05.2009	C Krishnakumar	Sale	600	90.33
27.05.2009	C Krishnakumar	Sale	150	90.00
01.06.2009	C Krishnakumar	Purchase	500	90.22
02.06.2009	C Krishnakumar	Purchase	800	87.95
03.06.2009	C Krishnakumar	Purchase	61	89.05
03.06.2009	C Krishnakumar	Sale	61	91.95
04.06.2009	C Krishnakumar	Sale	400	89.73
05.06.2009	C Krishnakumar	Purchase	500	91.05
05.06.2009	C Krishnakumar	Sale	500	91.95
08.06.2009	C Krishnakumar	Purchase	400	90.16
08.06.2009	C Krishnakumar	Sale	200	91.05
10.06.2009	C Krishnakumar	Sale	200	89.93
17.06.2009	C Krishnakumar	Purchase	385	83.24
18.06.2009	C Krishnakumar	Sale	100	77.37
29.06.2009	C Krishnakumar	Sale	200	83.06
03.07.2009	C Krishnakumar	Sale	100	80.86

* Details of purchase or sale of securities by the relatives of the promoter could not be obtained.

12. **The present Issue being a Rights Issue, as per extant SEBI DIP guidelines, clause 4.10.1.(c), the requirement of promoters' contribution and lock-in are not applicable**
13. The total number of members of our Bank as on July 10, 2009 is 45,415.
14. All the Equity Shares of the Bank are fully paid-up and there are no partly paid-up Equity Shares as on the date of filing this Draft Letter of Offer.
15. No further issue of capital by way of issue of bonus shares, preferential allotment, rights issue or public issue or in any other manner which will affect the equity capital of the Bank, shall be made during the period commencing from the filing of this Draft Letter of Offer with the SEBI to the date on which the

Equity Shares issued under the Draft Letter of Offer are listed or application moneys are refunded on account of the failure of the Issue.

16. We presently do not have any intention or proposal to alter our capital structure for a period of six months from the date of opening of this Issue, by way of split/ consolidation of the denomination of Equity Shares or further issue of Equity Shares (including issue of securities convertible into or exchangeable, directly or indirectly, for our Equity Shares) whether preferential or otherwise. However, if business needs of our bank so require, our bank may alter the capital structure by way of split/ consolidation of the denomination of the shares/ issue of shares on a preferential basis or issue of bonus or rights or public issue of shares or any other securities whether in India or abroad during the period of six months from the date of listing of the Equity Shares issued under this Letter of Offer or from the date the application moneys are refunded on account of failure of the Issue, after seeking and obtaining all the approvals which may be required for such alteration
17. Our Bank has not availed any bridge loans to be repaid from the proceeds of the Issue.
18. The Investors shall have the option to choose either Payment Method I or Payment Method II. However, FIIs /NRIs can opt for Payment Method I only if they have obtained the approval of the RBI to subscribe to partly paid-up Equity Shares. For details see “Terms of the Issue” on page 227.
19. The calls shall be structured in such a manner that the entire call money is called and will be payable within 12 months from the date of allotment of Equity Shares in this Issue. If the Investors fail to pay the call money as and when the notice is made for the same, the application money already paid shall be forfeited.
20. Our Bank had, by way of applications to the Madras Stock Exchange Limited applied for delisting of our Equity Shares and after considering our request vide letter bearing no. MSE/LD/PSK/731/1156/04 dated December 02, 2004 Madras Stock Exchange Limited, had accorded their approval for delisting of the Equity Shares of our Bank.
21. Our Bank / Directors / Lead Manager to the Issue have not entered into any buy-back and/or standby arrangements for purchase of Equity Shares of the Bank with any person.
22. The terms of issue to non-resident Equity Shareholders/applicants have been presented under the section “Terms of the Issue” beginning on page 227 of this Draft Letter of Offer.
23. At any given time, there shall be only one denomination of Equity Shares, unless otherwise permitted by law. Our Bank shall continue to comply with such disclosure and accounting norms as may be specified by SEBI from time to time.
24. Except as stated in Share Capital history, we have not issued any shares for consideration other than cash. Further, we have not issued any Equity Shares out of revaluation reserves.
25. There are no outstanding warrants, options or rights to convert debentures, loans or other instruments convertible into Equity Shares as on the date of filing of this Draft Letter of Offer.
26. The attention of the investors is drawn to section 12 (2) of the Banking Regulation Act 1949, as amended which states that: “No person holding shares in the 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 of all the shareholders of the banking company.” Furthermore, in terms of RBI Circular DBOD.No.PSBS.BC.79/16.13.100 /2001-2002 dated March 20, 2002, listed as well as unlisted private sector banks are not required to obtain approval of RBI for Rights Issue.
27. Further our Articles of Association states that the transfer of shares which results in acquisition of shares by a person/group which would take his/its holding to a level of 5% or more of the total issued capital of the Bank (or such other percentage as may be prescribed by the Reserve Bank of India from time to time) shall be only with the prior approval of Reserve Bank of India
28. The Issue will remain open for 15 days. However, the Board will have the right to extend the Issue period as it may determine from time to time but not exceeding 30 days from the Issue Opening Date.

29. An oversubscription to the extent of 10% of the Issue can be retained for the purpose of rounding off while finalizing the Basis of Allotment.
30. No options have been granted or issued under any scheme of employee stock option or employee stock purchase scheme.
31. The promoters, directors and Lead Manager to the Issue have not paid any amount, whether direct or indirect and in cash or kind, in the nature of discount, commission, allowance or otherwise to any person.

OBJECTS OF THE ISSUE

The Bank intends to deploy the net proceeds from the Issue of [•] after meeting Issue expenses of approximately [•] to augment its capital base in line with its growth strategy.

The main objects and objects incidental or ancillary to the main objects as set out in our Memorandum of Association enable us to undertake our existing activities and permit the utilization of funds proposed herein.

The details of the proceeds of the Issue are summarized below:

Particulars	Amount (Rs. in Lacs)
To augment Tier I Capital; to achieve uniform credit growth by maintaining stipulated CRAR	[•]
Estimated Issue expenses*	[•]
Contingency	[•]
Net Issue Proceeds	[•]

* The details of Estimated Issue expenses are provided later within this section of the Draft Letter of Offer.

Means of finance

The stated Objects of the Issue are proposed to be financed entirely from the Net Proceeds of the Issue.

Utilization of the Issue proceeds

We are a banking company regulated by the RBI. The RBI guidelines require us to maintain a minimum Capital Adequacy Ratio of 9% of risk weighted assets, at least 6% of risk weighted assets must be Tier-I capital. For further details, please refer to the chapter titled “Key Regulations and Policies” beginning on page 80 of this Draft Letter of Offer. As per our restated standalone financial statements, as of March 31, 2009, our total capital adequacy ratio was 10.09% including Tier-I capital adequacy ratio of 8.63% and Tier-II capital adequacy ratio of 1.46%. Additional capital is required to augment Tier I capital and to achieve uniform credit by maintaining stipulated CRAR.

The objects of the Issue are to augment our capital base to augment Tier I capital and to achieve uniform credit by maintaining stipulated CRAR including meeting the expenses of the Issue and contingencies.

A portion of the Rights Issue proceeds will be used to meet Issue expenses estimated at [•]. The Issue related expenses include, among others, Issue management fees, Registrar fees, printing and distribution expenses, fees of the legal counsels, advertisement, listing fees to the Stock exchanges etc. The break-up of total issue expenses is as under –

Category	Estimated expenses (Rs. in Lacs)*	% age of the Issue Size	% age of the Issue Expenses
Fees to the Lead Manager	[•]	[•]	[•]
Fees to the Registrar to the Issue, Legal advisors and auditors	[•]	[•]	[•]
Advertising and Publicity Expenses	[•]	[•]	[•]
Printing, Postage, Stationery Expenses	[•]	[•]	[•]
Contingency, Stamp duty, Listing Fees	[•]	[•]	[•]
Total	[•]	[•]	[•]



Monitoring of Utilisation of Funds

No Monitoring Agency has been appointed to monitor the end use of funds, Our Board and the Audit Committee shall monitor the end use of funds and we shall also disclose the utilisation of funds under a Separate Head in our Financial Statements/ Balance Sheet specifying the purpose for which the funds were utilized in compliance with the requirement of the listing agreement.

Our Board shall ensure that:

No part of the proceeds of the Issue will be paid by us as consideration to our Directors or key management personnel except in the usual course of business.

The Bank shall disclose to the Audit Committee, the uses and application of funds under the heads as specified above, on a quarterly basis as a part of the quarterly declaration of financial results. Further, on an annual basis, the Bank shall prepare a statement of funds utilized for purposes other than those stated in the Draft Letter of Offer, if any, and place it before the Audit Committee. Such disclosure shall be made only till such time that the full money raised through the Issue has not been fully spent. This statement shall be certified by the statutory auditors of the Bank. The Audit Committee shall make appropriate recommendations to the Board to take up steps in this matter.

Interim use of funds

Pending utilization of issue proceeds, the management, in accordance with the policies set up by the Board, will have the flexibility in deploying the proceeds received from the present Issue and during this period the Bank intend to temporarily invest the funds in interest/dividend bearing liquid instruments including money market mutual funds, deposits with banks for the necessary duration. Such investments would be in accordance with investment policies approved by the Board from time to time.

BASIS FOR ISSUE PRICE

The Issue Price of [•] has been determined by our Bank in consultation with the Lead Manager. The face value of the equity shares is Rs. 10 and the Issue price is [•] times of the face value. Investors should also refer to the section "Risk Factors" and "Auditors' Report" to get a more informed view before making the investment decision.

QUANTITATIVE FACTORS**Adjusted Earnings per Share (EPS)**

Year ended	Rupees	Weight
Fiscal 2007	2.68	1
Fiscal 2008	5.25	2
Fiscal 2009	10.28	3
Weighted Average	7.34	

Note: Earnings per Share (EPS) represent Net Profit Divided by weighted average number of equity shares outstanding at the end of each fiscal year.

Price/Earning (P/E) ratio in relation to Rights Issue Price of [•]

1. Based on adjusted EPS for Fiscal 2009 : [•]
2. Based on Weighted average EPS of Rs. 7.34 : [•]
3. Industry (Private sector banks) P/E –

Highest	75.5
Lowest	5.3
Industry Composite	14.3

Source: Capital Market, Vol. XXIV/12 Aug 10 - 23, 2009

Return on Net Worth

Year ended	RONW (%)	Weight
Fiscal 2007	3.89	1
Fiscal 2008	6.45	2
Fiscal 2009	11.87	3
Weighted Average	8.73	

Note: Return on Net Worth represents Net profit divided by Net Worth (Excluding revaluation reserves)

Minimum Return on Increased Net Worth after the Issue required to maintain pre-issue EPS is [•]**Net Asset Value per Equity Share**

As at March 31, 2009	Rs. 91.14
After the Issue	Rs. [•]
Issue Price per share	Rs. [•]

Note: Net Asset Value per Equity Share represents Net Worth (excluding revaluation reserves and deferred tax asset) divided by number of equity shares outstanding at the end of each fiscal year

Comparison with Industry Peers

FY 2009	EPS (Rs.) #	NAV (Rs.) #	P/E as on – Aug 03, 09*	RONW (%)#
Bank of Rajasthan	7.3	39.9	9.2	24.1
City Union Bank	3.7	20.7	5.8	19.9
Dhanalkshmi Bank	8.8	66.2	13.6	19.3
Karur Vysya Bank	41.6	250.3	6.2	18.6
South Indian Bank	16.7	113.8	6.4	16.0
The Lakshmi Vilas Bank	10.3	92.6	6.2	5.6
Industry Average			14.3	

Year ended March 31, 2009

*P/E for peer group companies is based on trailing twelve month's earnings ending June 30, 2009.

Source: Capital Market, Vol. XXIV/10 Aug 10 - 23, 2009

The face value of the share is Rs. 10 per share. The Issue price is [•] times of the face value of the Equity Shares.

The Lead Managers believe that the Issue Price of Rs. [•] per share is justified in view of the above quantitative parameters. The investors may also want to peruse the risk factors and financials of the Bank including important profitability and return ratios, as set out in the Auditors Report in the Letter of Offer to have a more informed view about the investment proposition.

STATEMENT OF TAX BENEFITS

STATEMENT OF TAX BENEFITS

M/s. Sundaram & Srinivasan Chartered Accountants and M/s. Abarna & Ananthan Chartered Accountants vide their letter dated 21.07.2009 have advised under the Income Tax Act, 1961, Wealth Tax Act, 1957 for the time being in force, the following tax benefits which will inter alia, be available to the Bank and its members. Tax benefit report has been reproduced as under.

I TAX BENEFITS

A. INCOME-TAX

The information on Tax benefit set out below as available to the bank and its shareholders are mainly dependent upon fulfilling conditions prescribed under the relevant Act. The benefits discussed are not exhaustive but is intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. The tax benefits given below also contain proposals of Finance Bill (No), 2009 to be effective from April 1, 2009 on enactment of Finance Bill (No2), 2009. Some or all of the tax consequences of described herein may be amended or modified by future amendments to the Income-tax Act.

To the Bank

1. In terms of sec 10 (34) read with Section 115-O and section 10(35) of the Act, dividend income from shares of Companies and units of Mutual Funds specified under section 10(23D) of the Income-tax Act are exempt in the hands of the bank.
2. In terms of Section 94(7) of the Income-tax Act provides that losses arising from the sale/transfer of shares or units purchased within a period of three months prior to the record date and sold/transferred within three months or nine months respectively after such date, will be disallowed to the extent dividend income on such shares or units are claimed as tax exempt.
3. In terms of Section 35DD of the Income-tax Act, any expenditure incurred wholly and exclusively for the purposes of amalgamation, the bank is eligible for deduction of an amount equal to one-fifth of such expenditure for each of the five successive years beginning with the year in which amalgamation takes place.
4. In terms of Section 36(1)(vii) of the Income-tax Act, any bad debts or part thereof written off as irrecoverable in accounts, would be allowed as a deduction from total income in accordance with and subject to the provisions contained therein. The amount subsequently recovered would be chargeable to income-tax in the year of recovery in accordance with the provisions of section 41(4) of the Income-tax Act.
5. In terms of Section 36(1)(viii) of the Income-tax Act, and subject to the conditions specified therein, deduction in respect of any provision for bad and doubtful debts made by the bank is allowed at 7.5% of the total income (computed before making any deduction under this Section and Chapter VIA of the Income-tax Act) and 10% of the aggregate average advances made by rural branches.
6. In terms of Section 36(1)(viii) of the Income-tax Act, bank is allowed deduction at 20% of the profits derived from the business of providing long-term finance for industrial or agricultural development or development of infrastructure facility in India or construction or purchase of houses in India for residential purposes computed in the manner specified under the Section and carried to a Special Reserve account from time to time not exceeding twice the paid-up share capital and general reserves. The amount withdrawn from such a Special Reserve Account would be chargeable to income tax in the year of withdrawal, in accordance with the provisions of Section 41(4A) of the Income-tax Act.
7. In terms of section 43D of the Act, interest on certain categories of bad and doubtful debts as specified in Rule 6EA of the Income-tax Rules, 1962, shall be chargeable to tax only in the year of receipt or credit to Profit and Loss Account, whichever is earlier.



8. In terms of section 10 (38) of the Act capital gains arising on transfer of long-term capital assets, being equity shares in a company or units of equity oriented mutual fund on sale on which securities transaction tax is paid, is exempt. In respect of short-term capital gains is subject to a concessional rate of tax under Section 111A of the Income-tax Act at the rate of 15% (plus applicable surcharge, and cess). If the shares or units on which securities transaction tax has been paid are treated as stock-in trade liable to tax as business profits, any security transaction tax so paid can be claimed as deduction under section 36(1) of the Act
9. The benefit of exemption from tax under Section 10(38) of the Income-tax Act on long-term capital gains, or, concessional rate of tax under Section 111A of the Income-tax Act on short term capital gains will not be available where no securities transaction tax is applicable. In such cases, under the provisions of Section 112 of the Income-tax Act, taxable long-term capital gains, if any, on sale or transfer of listed securities or units or zero coupon bonds issued in accordance with the specified scheme would be charged to tax at the concessional rate of 20% (plus applicable surcharge, and cess after considering indexation benefits or at 10% (plus applicable surcharge and cess without indexation benefits in accordance with and subject to the provision of Section 48 of the Income-tax Act. Under Section 48 of the Income-tax Act, the long-term capital gains arising on sale or transfer of capital assets excluding bonds and debentures (except capital indexed bonds issued by the Government) will be computed after indexing the cost of acquisition/improvement.
10. In terms of Section 54EC of the Income-tax Act, subject to the conditions specified therein, tax on capital gains arising from the transfer of a long-term capital asset is exempt from tax, provided that at any time within a period of six months after the date of the transfer, the bank invested the whole of the capital gains in any long-term specified asset for the purposes of Section 54EC of the Income-tax Act. However, if the long-term specified asset are transferred or converted into money within a period of three years from the date of their acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the long-term specified asset are transferred or converted into money. However a ceiling on investments in such long term specified asset of upto fifty lakh rupees in a financial year with effect from April 1, 2007 has been imposed in the Act. If only a portion of capital gains is so invested, then the exemption is available proportionately.
11. In terms of Section 80LA of the Income tax Act where the gross total income, in any previous year, includes income from an offshore banking unit (OBU) in a Special Economic Zone shall, subject to the fulfilment of the conditions specified in Section 80LA of the Income-tax Act, be entitled to 100% deduction of such income for five consecutive assessment years, beginning with the assessment year relevant to the previous year in which RBI's permission to open the offshore unit has been obtained, and, 50% deduction for a period of five consecutive assessment years thereafter in accordance with and subject to conditions prescribed therein.

II. To Resident Shareholders

1. Dividend income of shareholders is exempt from income tax under Section 10(34) read with Section 115-O of the Income-tax Act. As per the provisions of Section 14A of the Income-tax Act, no deduction is allowed in respect of any expenditure incurred in relation to such dividend income to be computed in accordance with the method as may be prescribed under rule 8D subject to and in accordance with the provisions contained therein. Also, Section 94(7) of the Income-tax Act provides that losses arising from the sale/transfer of shares purchased up to three months prior to the record date and sold or transferred within three months after such date, will be disallowed to the extent dividend income on such shares are claimed as tax exempt by the shareholder.
2. Capital gains arising on transfer of long-term capital assets, being equity shares of the bank on sale of which securities transaction tax is paid, is exempt under Section 10(38) of the Income-tax Act whereas short-term capital gains is subject to tax under Section 111A of the Income-tax Act at the rate of 10% (plus applicable surcharge and cess In respect of short-term capital gains is subject to a concessional rate of tax under Section 111A of the Income-tax Act at the rate of 15% (plus applicable surcharge, and cess). If the shares or units on which securities transaction tax has been paid are treated as stock-in trade liable to tax as business profits, any security transaction tax so paid can be claimed as deduction under section 36(1) of the Act
3. The benefit of exemption from tax under Section 10(38) of the Income-tax Act on long-term capital gains, or, concessional rate of tax under Section 111A of the Income-tax Act on short term capital gains will not be available where no securities transaction tax is applicable. In such cases, under the provisions of Section

112 of the Income-tax Act, taxable long-term capital gains, if any, on sale or transfer of listed securities or units or zero coupon bonds issued in accordance with the specified scheme would be charged to tax at the concessional rate of 20% (plus applicable surcharge, and cess after considering indexation benefits or at 10% (plus applicable surcharge and cess without indexation benefits in accordance with and subject to the provision of Section 48 of the Income-tax Act. Under Section 48 of the Income-tax Act, the long-term capital gains arising on sale or transfer of capital assets excluding bonds and debentures (except capital indexed bonds issued by the Government) will be computed after indexing the cost of acquisition/improvement.

4. As per Section 54EC of the Income-tax Act, subject to the conditions specified therein, tax on capital gains arising from the transfer of a long-term capital asset (including bank's equity shares) is exempt from tax, provided that the shareholder has at any time within a period of six months after the date of the transfer, invested the whole of the capital gains in any specified long-term asset for the purposes of Section 54EC of the Income-tax Act. However, if the long-term specified asset are transferred or converted into money within a period of three years from the date of their acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the long-term specified asset are transferred or converted into money. However a ceiling on investments in such long term specified asset of upto fifty lakh rupees in a financial year with effect from April 1, 2007 has been imposed in the Act. If only a portion of capital gains is so invested, then the exemption is available proportionately.
5. As per the provisions of Section 54F of the Income-tax Act, subject to the conditions specified therein, long-term capital gains arising to an individual or a Hindu undivided family on transfer of long-term capital asset (including bank's equity shares) shall be exempt from tax, provided that 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, or in the construction of a residential house within a period of three years after the date of transfer of the long-term capital asset. If only a portion of the net consideration is so invested, then the exemption is available proportionately. However, if the residential house in which investment has been made is transferred within a period of three years from the date of its purchase or construction, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which such residential house is transferred.

III. To non-resident shareholders including NRIs, OCBs and FIIs

1. Dividend income of shareholders is exempt from income tax under Section 10(34) of the Income-tax Act read with Section 115-O of the Income-tax Act. As per the provisions of Section 14A of the Income-tax Act, no deduction is allowed in respect of any expenditure incurred in relation to such dividend income to be computed in accordance with such method as may be prescribed subject to and in accordance with the provisions contained therein. Also, Section 94(7) of the Income-tax Act provides that losses arising from the sale/transfer of shares purchased up to three months prior to the record date and sold or transferred within three months after such date, will be disallowed to the extent dividend income on such shares are claimed as tax exempt by the shareholder.
2. Long-term capital gains would arise to non-resident shareholders where the equity shares are held for a period of more than 12 months prior to the date of transfer of the shares. In accordance with and subject to the provisions of Section 48 of the Income-tax Act, in order to compute capital gains, the following amounts would be deductible from the full value of consideration:
 - (i) Cost of acquisition/improvement of the shares as adjusted by the Cost Inflation Index notified by the Central Government and
 - (ii) Expenditure incurred wholly and exclusively in connection with the transfer of the shares As per the provisions of the first proviso to Section 48 of the Income-tax Act, capital gains arising from the transfer of equity shares acquired by non-residents in foreign currency are to be computed by converting the cost of acquisition/improvement, expenditure incurred wholly and exclusively in connection with such transfer and the full value of the consideration received or accruing into the same foreign currency as was initially utilised in the purchase of equity shares and the capital gains so computed in such foreign currency shall then be reconverted into Indian currency. Cost indexation benefits will not be available in such case.



Further, the aforesaid manner of computation of capital gains shall be applicable in respect of every reinvestment thereafter in and sale of, shares in, or debentures of an Indian company.

3. Capital gains arising on transfer of long-term capital assets, being equity shares in a company on sale of which securities transaction tax is paid, is exempt under Section 10(38) of the Income-tax Act whereas short-term capital gains is subject to tax under Section 111A of the Income-tax Act at the rate of 15% (plus applicable surcharge and cess);

If the shares or units on which securities transaction tax has been paid are treated as stock-in trade liable to tax as business profits, any security transaction tax so paid can be claimed as deduction under section 36(1) of the Act

4. The benefit of exemption from tax under Section 10(38) of the Income-tax Act on long term capital gains, or, concessional rate of tax under Section 111A of the Income-tax Act on short-term capital gains will not be available where no securities transaction tax is applicable. In such cases, under the provisions of Section 112 of the Income-tax Act, taxable long-term capital gains, if any, on sale or transfer of listed securities would be charged to tax at the concessional rate of 20% (plus applicable cess) after considering indexation benefits or at the rate of 10% (plus applicable surcharge, and cess) without indexation benefits in accordance with and subject to the provisions of Section 48 of the Income-tax Act.
5. As per Section 54EC of the Income-tax Act, subject to the conditions specified therein, tax on capital gains arising from the transfer of a long-term capital asset (including the bank's equity shares) is exempt from tax, provided that the shareholder has at any time within a period of six months after the date of the transfer, invested the whole of the capital gains in any specified long-term asset for the purposes of Section 54EC of the Income-tax Act. However, if the long-term specified asset are transferred or converted into money within a period of three years from the date of their acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the long-term specified asset are transferred or converted into money. However a ceiling on investments in such long term specified asset of upto fifty lakh rupees in a financial year with effect from April 1, 2007 has been imposed in the Act. If only a portion of capital gains is so invested, then the exemption is available proportionately.
6. As per the provisions of Section 54F of the Income-tax Act, subject to the conditions specified therein, long-term capital gains arising to an individual or a Hindu undivided family on transfer of long-term capital asset (including the bank's equity shares) shall be exempt from tax, provided that 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, or in the construction of a residential house within a period of three years after the date of transfer of the long-term capital asset. If only a portion of the net consideration is so invested, then the exemption is available proportionately. However, if the residential house in which investment has been made is transferred within a period of three years from the date of its purchase or construction, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which such residential house is transferred.
7. Capital gains arising to Non Resident Indians (NRIs) on sale of shares on which securities transaction tax is not paid, is governed by Chapter XII-A of the Income-tax Act, subject to fulfilling the conditions stipulated therein.
 - (i) In accordance with and subject to the provisions of Section 115D read with Section 115E of the Income-tax Act, long-term capital gains arising on transfer of specified capital assets (including bank's Equity Shares) acquired out of convertible foreign exchange, are taxable at the rate of 10% (plus applicable surcharge and cess). Cost indexation benefits will not be available in such case.
 - (ii) In accordance with and subject to the provisions of Section 115F of the Income-tax Act, long-term capital gains arising on sale of shares acquired by a NRI shareholder out of convertible foreign exchange shall be exempt from income tax entirely/proportionately, if the entire/part of the net consideration is invested for a period of three years in any savings certificates specified under Section 10(4B) or specified assets as defined in Section 115C(f) of the Income-tax Act, within six months from the date of transferring the shares. The amount so exempted will be chargeable to tax under the head 'Capital Gains' if these new assets are transferred or converted (otherwise than by way of transfer) into money within three years from the date of its acquisition in accordance with the provisions of Section 115F(2) of the Income-tax Act.

- (iii) As per Section 115G of the Income-tax Act, a NRI would not be required to file a return of income under Section 139(1) of the Income-tax Act, where the total income consists only of investment income and/or long-term capital gains and tax deductible at source has been deducted from such income as per provisions of Chapter XVIIIB of the Income-tax Act.
- (iv) As per the provision of Section 115I of Income-tax Act, a NRI 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 Income-tax 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 provisions of the Income-tax Act.
- 8. Capital gains arising to FIIs on sale of shares on which securities transaction tax is not paid is governed by Section 115AD of the Income-tax Act. As per Section 115AD of the Income-tax Act, long-term capital gains arising on transfer of shares purchased by FIIs, are taxable at the rate of 10% (plus applicable surcharge, education cess and proposed secondary and higher education cess). Short-term capital gains are however, taxable at the rate of 30% (plus applicable surcharge, education cess and proposed secondary and higher education cess). Cost indexation benefits will not be available. Further, the provisions of the first proviso of Section 48 of the Income-tax Act as stated above will not apply.
- 9. In accordance with and subject to the provisions of Section 115AD read with Section 196D(2) of the Income-tax Act, no deduction of tax at source is applicable in respect of capital gains arising from the transfer of the equity shares payable to FIIs.
- 10. In the case of all non-resident shareholders, the above tax rates are subject to the benefits, if any, available under the double taxation avoidance agreements signed by India with the country of which the non-resident shareholder may be a tax resident, subject to fulfilment of conditions prescribed thereunder.

IV. To Mutual Funds

As per the provisions of Section 10(23D) of the Income-tax Act, tax exemption is available on income of a mutual fund registered under the Securities and Exchange Board of India Act, 1992 and Regulations made there under, or, mutual funds set up by the public sector banks or public financial institutions / authorised by RBI and subject to the conditions as the Central Government may specify by notification in the Official Gazette.

B. WEALTH TAX

Shares are not treated as assets within the meaning of Section 2(ea) of the Wealth Tax Act, 1957 and accordingly, the bank's equity are not liable to Wealth-tax in the hands of the shareholders.

C. GIFT TAX

The Gift-tax Act, 1958, has ceased to apply to gifts made on or after October 1, 1998. Gift of the bank's equity would therefore, be exempt from gift-tax. However, as per the provisions of Finance Bill(No 2), 2009, under certain circumstances there may be income tax liability.



INDUSTRY OVERVIEW

The information presented in this section has been extracted from Report on Trend and Progress of Banking in India 2007-08, RBI and has not been prepared or independently verified by us or any of our advisors.

Global Economy

Developments during 2008

The global financial crisis seems to have entered a new turbulent phase since September 2008 which has severely impaired confidence in global financial institutions and markets. According to the World Economic Outlook Update by the International Monetary Fund (IMF) in November 2008, prospects for global growth have deteriorated as financial sector deleveraging has continued and producer and consumer confidence have fallen. Accordingly, world output is projected to decelerate to 3.7 per cent in 2008 and further to 2.2 per cent in 2009. Slowdown has been witnessed in both advanced and emerging market economies in the second quarter of 2008. All major advanced economies such as Euro Area, Japan, Korea, the UK, the US and OECD countries registered decelerated growth in the second quarter of 2008, as compared with that in the first quarter of 2008. The deceleration in growth was also exhibited by emerging and developing economies such as Argentina, China, India, Malaysia and Thailand in the second quarter of 2008.

Indian Economy

Indian financial markets have generally remained orderly during 2008-09. Money market rates moderated at the beginning of the first quarter of 2008-09, but mostly hovered above/around the repo rate during the second quarter of 2008-09, reflecting the impact of, inter alia, the hikes in the cash reserve ratio (CRR) and the repo rate as well as foreign exchange market operations of the Reserve Bank. In view of the tight liquidity conditions in the domestic money markets in September 2008, the Reserve Bank announced a series of measures beginning September 16, 2008. As a result, the average call rate, which was at 10.52 per cent, declined to 7.57 per cent in November 2008.

Policy Developments

Following the wide-ranging reforms undertaken since the early 1990s, the Indian banking system has become quite robust. The Indian banking industry has largely remained protected from the global financial turbulence. The Reserve Bank has, however, been vigilant about the lessons that have emerged from the global credit crisis. The Reserve Bank has been constantly reviewing and refining its regulatory and supervisory policies to ensure strong capital base, effective risk management and best corporate governance standards in the banking sector. In recent years, the focus has also been on improving credit delivery and customer service and promoting financial inclusion.

An important development during the year was the adoption of the Basel II framework by foreign banks operating in India and Indian banks having operational presence outside India. A few changes were also made in the revised capital adequacy framework based on the feedback received, while detailed guidelines relating to Pillar 2 were also issued. It has been the endeavour of the Reserve Bank to put in place safe and efficient payment and settlement systems in the country. In this context, the enactment of the Payments and Settlement Systems Act, 2007 designated the Reserve Bank as the regulator of the payment and settlement systems in the country, thus paving the way for efficient regulation, control, functioning and audit of the systems. Along with measures to conform to the best prudential practices followed internationally, the Reserve Bank also undertook a number of initiatives to facilitate access to credit to the underserved sections/sectors of the economy.

Monetary Policy

Several challenges such as unprecedented capital flows, turbulent international financial markets and increase in headline inflation and inflationary expectations had a bearing on the conduct of monetary policy during 2007-08. Monetary conditions were impacted by significant shifts and developments in both global and domestic arenas by the year-end as compared with the initial assessment. While aggregate supply capacity expanded, economic activity continued to be mainly demand-driven. Inflation picked up in the fourth quarter of 2007-08 mainly due to supply-side pressures that essentially emanated from global surge in prices of commodities such as foodgrains, crude oil and steel. Several new challenges have emerged in 2008-09 with the global financial system undergoing a crisis of unprecedented dimension. Liquidity in the domestic money and foreign exchange markets was squeezed as knock-on effects of international crisis. While inflation reached multi-year highs in the early part of the year and continues to be above the acceptable level, there has been a moderation in the growth

momentum of the economy. Consequently, the task of conduct of monetary policy has become more complex than before. The reconstituted Technical Advisory Committee on Monetary Policy (TACMP), with tenure up to January 31, 2009, has strengthened the consultative mechanism for monetary policy in India as important issues are discussed in its meetings held from time to time. TACMP's role is, however, advisory in nature and the responsibility and accountability of decision-making rests with the Reserve Bank. The Committee is headed by the Reserve Bank Governor with the Deputy Governor in charge of monetary policy as Vice Chairman and comprises the other three Deputy Governors, two members of the Central Board of the Reserve Bank and five external members with expertise in the areas of monetary economics, central banking, financial markets and public finance.

Box II.1: Stance of Monetary Policy – April 2007 to October 2008

Annual Policy Statement for 2007-08 (April 2007)

- To reinforce the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment that supports export and investment demand in the economy so as to enable continuation of the growth momentum.
- To re-emphasise credit quality and orderly conditions in financial markets for securing macroeconomic and, in particular, financial stability while simultaneously pursuing greater credit penetration and financial inclusion.
- To respond swiftly with all possible measures as appropriate to the evolving global and domestic situation impinging on inflation expectations and the growth momentum.

First Quarter Review for 2007-08 (July 2007)

- To reinforce the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment that supports export and investment demand in the economy so as to enable continuation of the growth momentum.
- To re-emphasise credit quality and orderly conditions in financial markets for securing macroeconomic and, in particular, financial stability while simultaneously pursuing greater credit penetration and financial inclusion.
- To respond swiftly with all possible measures as appropriate to the evolving global and domestic situation impinging on inflation expectations, financial stability and the growth momentum.

Mid-term Review for 2007-08 (October 2007)

- To reinforce the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment that supports export and investment demand in the economy so as to enable continuation of the growth momentum.
- To re-emphasise credit quality and orderly conditions in financial markets for securing macroeconomic and, in particular, financial stability while simultaneously pursuing greater credit penetration and financial inclusion.
- To respond swiftly with all possible measures as appropriate to the evolving global and domestic situation impinging on inflation expectations, financial stability and the growth momentum.
- To be in readiness to take recourse to all possible options for maintaining stability and the growth momentum in the economy in view of the unusual heightened global uncertainties, and the unconventional policy responses to the developments in financial markets.

Third Quarter Review for 2007-08 (January 2008)

- To reinforce the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment conducive to continuation of the growth momentum and orderly conditions in financial markets.
- To emphasise credit quality as well as credit delivery, in particular, for employment-intensive sectors, while pursuing financial inclusion.
- To monitor the evolving heightened global uncertainties and domestic situation impinging on inflation expectations, financial stability and growth momentum in order to respond swiftly with both conventional and unconventional measures, as appropriate.

Annual Policy Statement for 2008-09 (April 2008) / First Quarter Review for 2008-09 (July 2008)

- To ensure a monetary and interest rate environment that accords high priority to price stability, well-anchored inflation expectations and orderly conditions in financial markets while being conducive to continuation of the growth momentum.
- To respond swiftly on a continuing basis to the evolving constellation of adverse international developments and to the domestic situation impinging on inflation expectations, financial stability and growth momentum, with both conventional and unconventional measures, as appropriate.
- To emphasise credit quality as well as credit delivery, in particular, for employment-intensive sectors, while pursuing financial inclusion.

Mid-term Review for 2008-09 (October 2008)

- Ensure a monetary and interest rate environment that optimally balances the objectives of financial stability, price stability and well-anchored inflation expectations, and growth.
- Continue with the policy of active demand management of liquidity through appropriate use of all instruments including the CRR, open market operations (OMO), the MSS and the LAF to maintain orderly conditions in financial markets.
- In the context of the uncertain and unsettled global situation and its indirect impact on the domestic economy in general and the financial markets in particular, closely and continuously monitor the situation and respond swiftly and effectively to developments, employing both conventional and unconventional measures.
- Emphasise credit quality and credit delivery, in particular, for employment-intensive sectors, while pursuing financial inclusion.

**Box II.2: Major Policy Announcements by the Reserve Bank (September-December, 2008)**

Important measures initiated by the Reserve Bank since mid-September 2008 are set out below:

Measures Announced in September

- The Reserve Bank indicated that it would continue to sell foreign exchange (US dollar) through agent banks to augment supply in the domestic foreign exchange market or intervene directly to meet any demand-supply gaps.
- The interest rate ceilings on foreign currency non-resident (bank) [FCNR (B)]/non-resident (external) rupee account [NR(E)RA] deposits were increased by 50 basis points each on September 16, 2008.
- As a temporary measure, SCBs (excluding RRBs) and primary dealers were allowed to avail additional liquidity support under the LAF to the extent of up to 1.0 per cent of their net demand and time liabilities (NDTL) and seek waiver of penal interest from September 17, 2008.
- The SLAF began to be conducted on a daily basis with effect from September 17, 2008 (the SLAF was re-introduced on August 1, 2008 to be conducted on reporting Fridays for banks).

Mid-term Review for 2008-09 (October 24, 2008)

- Floating rate bonds to be issued at an appropriate time taking into account the prevailing market conditions.
- The scheme for non-competitive bidding facility of state development loans (SDLs) to be operationalised by end-December 2008.
- Interest rate futures contracts, as recommended by the concerned working group, to be launched in early 2009 along with the supporting changes in the regulatory regime.
- Arrangements for settlement of primary auction bidding under the multi-modal settlements mechanism on the anvil.
- Clearing Corporation of India Limited (CCIL) to operationalise a clearing and settlement arrangement for over-the-counter (OTC) rupee interest rate derivatives on a non-guaranteed basis within a month, and on a guaranteed basis within three months. CCIL to operationalise settlement system of the foreign exchange forward segment within a month.
- A model scheme for financial literacy and credit counselling centres to be notified.
- Feedback to be given to banks to make the process of financial inclusion more effective.
- Guidelines related to liquidity risk management to be significantly revised.
- Guidelines on stress testing to be upgraded.
- An approach paper on appropriate model of risk-based supervision to be finalised by mid-December 2008.
- The working group to facilitate emergence of umbrella organisation/s for the urban co-operative bank (UCB) sector and examine issues concerning creation of a revival fund for the sector to submit its report by end-December 2008.

- The four Advisory Panel reports and the overview report of the Committee on Financial Sector Assessment to be released by December 2008.

- Report of the High Level Committee constituted to review the Lead Bank Scheme and improve its effectiveness to be submitted by December 2008.

Other Measures Announced in October

- The CRR was reduced by 250 basis points to 6.5 per cent of NDTL with effect from the fortnight beginning October 11, 2008.
- The repo rate under the LAF was reduced by 100 basis points to 8.0 per cent on October 20, 2008.
- Systemically important non-deposit taking non-banking financial companies (NBFCs-ND-SI) were temporarily permitted to raise short-term foreign currency borrowings under the approval route, subject to compliance with certain norms.
- A term repo facility for an amount of Rs.20,000 crore was instituted under the LAF to enable banks to ease liquidity stress faced by mutual funds (MFs). SCBs were allowed to avail additional liquidity support up to 0.5 per cent of their NDTL for meeting the liquidity requirements of MFs.
- The Reserve Bank announced that it would institute SMO to meet the foreign exchange requirements of public sector oil marketing companies against oil bonds when they become available.
- The interest rate ceilings on FCNR (B)/NR(E)RA deposits were increased by 50 basis points each on October 15, 2008.
- The Reserve Bank provided an advance of Rs.25,000 crore to financial institutions under the Agricultural Debt Waiver and Debt Relief Scheme, 2008.
- External commercial borrowings (ECBs) up to US\$ 500 million per borrower per financial year were permitted for rupee/foreign currency expenditure for permissible end-uses under the automatic route.
- The all-in-cost ceiling for ECBs of average maturity period of three to five years and of maturity period over five years was enhanced to 300 basis points above LIBOR and to 500 basis points above LIBOR, respectively. The all-in-cost ceiling for trade credit less than three years was enhanced to 6-month LIBOR plus 200 basis points.
- Authorised Dealer (AD) category - I banks were allowed to borrow funds from their head office, overseas branches and correspondents and overdrafts in nostro accounts up to a limit of 50 per cent of their unimpaired Tier 1 capital as at the close of the previous quarter or US\$ 10 million, whichever was higher, as against the existing limit of 25 per cent.

Measures Announced in November

- The repo rate under the LAF was reduced by 50 basis points to 7.5 per cent on November 3, 2008.

- The statutory liquidity ratio (SLR) was reduced by 100 basis points to 24 per cent of NDTL with effect from the fortnight beginning November 8, 2008.
 - The CRR was reduced by 100 basis points from 6.5 per cent to 5.5 per cent of NDTL in two stages - by 50 basis points with retrospective effect from the fortnight beginning October 25, 2008 and by a further 50 basis points with effect from the fortnight beginning November 8, 2008.
 - A special refinance facility was introduced for SCBs (excluding RRBs) with a limit of 1.0 per cent of each bank's NDTL as on October 24, 2008 at the LAF repo rate up to a maximum period of 90 days. During this period, refinance can be flexibly drawn and repaid. Banks have been encouraged to use the special refinance facility for the purpose of extending finance to micro and small enterprises (MSEs). This facility, available up to June 30, 2009, can be rolled over.
 - It was indicated that the special term repo facility, announced in October, would be conducted up to a cumulative amount of Rs.60,000 crore with an associated SLR exemption of 1.5 per cent of NDTL to enable banks to meet the liquidity needs of MFs, NBFCs and housing finance companies (HFCs). The facility will continue till end-June 2009 and can be availed of either on an incremental or on a rollover basis.
 - The Reserve Bank has put in place a mechanism to buy back dated securities issued under the MSS.
 - The interest rate ceilings on FCNR (B)/NR(E)RA deposits were increased by 75 basis points each on November 15, 2008.
 - As a temporary measure, HFCs registered with the National Housing Bank (NHB) were allowed to raise short-term foreign currency borrowings under the approval route, subject to compliance with prudential norms laid down by the NHB.
 - It was indicated that the Reserve Bank would consider, under the approval route, proposals from Indian companies to prematurely buy back their foreign currency convertible bonds (FCCBs). The buy-back should be financed by the company's foreign currency resources held in India or abroad and/or out of fresh ECB raised in conformity with the current norms for ECBs. Extension of FCCBs would also be permitted at the current all-in cost for the relative maturity.
 - The period of entitlement of the first slab of pre-shipment rupee export credit and post-shipment rupee export credit was extended by 90 days each with effect from November 15, 2008 and December 1, 2008, respectively.
 - The eligible limit of the export credit refinance (ECR) facility for scheduled banks (excluding RRBs) was enhanced to 50 per cent of the outstanding export credit eligible for refinance as at the end of the second preceding fortnight, as against the earlier limit of 15 per cent.
 - Amounts were allocated, in advance, from SCBs for contribution to the Small Industries Development Bank of India (SIDBI) and the NHB to the extent of Rs.2,000 crore and Rs.1,000 crore, respectively, against banks' estimated shortfall in priority sector lending in March 2009.
 - Provisioning requirement for all types of standard assets was reduced to a uniform level of 0.4 per cent except in the case of direct advances to agriculture and SMEs sectors which would continue to attract provisioning of 0.25 per cent.
 - Risk weight on all unrated claims of corporates, long term as well as short term, regardless of the amount of claim, would be 100 per cent. Risk weight on claims secured by commercial real estate was reduced to 100 per cent from 150 per cent. Claims on rated as well as unrated NBFCs-ND-SI are uniformly risk weighted at 100 per cent. Claims on asset financing companies (AFCs) would continue to be governed by the credit rating of the AFCs, except the claims that attracted a risk weight of 150 per cent under the new capital adequacy framework now have a risk weight of 100 per cent.
 - Indian banks with foreign branches and subsidiaries have been allowed forex swaps of tenure up to three months, till end-June 2009, to meet the short-term funding requirements at their overseas offices.
- Growth Stimulus Announced on December 6, 2008**
- The repo rate and the reverse repo rate were reduced by 100 basis points each to 6.5 per cent and 5.0 per cent, respectively, on December 8, 2008.
 - To enhance credit flow to the MSE sector, SIDBI would be provided refinance worth Rs.7,000 crore. The facility, available up to end-March 2010, would be available at the prevailing repo rate under the LAF for a 90-day period, during which the amount can be flexibly drawn and repaid and can be rolled over at the end of the 90-day period. The utilisation of funds would be governed by the policy approved by SIDBI's Board.
 - A similar refinance facility worth Rs.4,000 crore to be worked out for NHB.
 - As a follow-up to the announcement in November 2008, the policy on premature buyback of FCCBs by Indian companies was liberalised and applications for buyback would be considered under both automatic and approval routes and related compliance terms and conditions were issued.
 - Up to March 31, 2010, loans granted by banks to HFCs for on-lending to individuals for purchase/construction of dwelling units would be classified under priority sector, provided the housing loans granted by HFCs do not exceed Rs.20 lakh per dwelling unit per family. However, the eligibility under the measure is restricted to 5.0 per cent of the individual bank's total priority sector lending on an ongoing basis.
 - Exceptional/concessional treatment of retaining the asset classification of the restructured standard accounts in standard category has been extended to the commercial real estate exposures which are restructured up to June 30, 2009.
 - As there are likely to be instances of even viable units facing temporary cash flow problems in the face of the current economic downturn, as a one-time measure, the second restructuring done by banks of exposures (other than exposures to commercial real estate, capital market and personal/consumer loans) up to June 30, 2009, would also be eligible for exceptional regulatory treatment.
 - The prescribed interest rate applicable to post-shipment rupee export credit (ceiling of BPLR minus 250 basis points) was extended to overdue bills up to 180 days from the date of advance.

Bank Rate

The Bank Rate has been retained at 6.0 per cent since April 2003. Thus, the Bank Rate now functions as a signalling rate for the medium-term stance of the monetary policy, while the repo and reverse repo rates have become more commonly used signalling devices. With a view to fine-tuning the management of bank reserves on the last day of the maintenance period, the SLAF was reintroduced on August 1, 2008, to be conducted only on reporting Fridays for banks. The salient features of the SLAF are the same as those of the LAF. However, the settlement for the LAF and SLAF is conducted separately and on a gross basis. The SLAF is conducted on a daily basis with effect from September 17, 2008.

Repo/Reverse Repo Rate

The repo and reverse repo rates were kept unchanged during 2007-08. During 2008-09, up to July 2008, the repo rate was raised by 125 basis points in the light of evolving macroeconomic and monetary conditions. On October 20, 2008, however, the repo rate was cut by 100 basis points to 8.0 per cent. The repo rate was further

reduced by 50 basis points to 7.5 per cent on November 3, 2008. On December 8, 2008, both repo and reverse repo rates were reduced by 100 basis points each to 6.5 per cent and 5.0 per cent, respectively.

Effective From	Reverse Repo Rate	Repo Rate	Cash Reserve Ratio
1	2	3	4
September 18, 2004	4.50	6.00	4.75 (+0.25)
October 2, 2004	4.50	6.00	5.00 (+0.25)
October 27, 2004	4.75 (+0.25)	6.00	5.00
April 29, 2005	5.00 (+0.25)	6.00	5.00
October 26, 2005	5.25 (+0.25)	6.25 (+0.25)	5.00
January 24, 2006	5.50 (+0.25)	6.50 (+0.25)	5.00
June 9, 2006	5.75 (+0.25)	6.75 (+0.25)	5.00
July 25, 2006	6.00 (+0.25)	7.00 (+0.25)	5.00
October 31, 2006	6.00	7.25 (+0.25)	5.00
December 23, 2006	6.00	7.25	5.25 (+0.25)
January 6, 2007	6.00	7.25	5.50 (+0.25)
January 31, 2007	6.00	7.50 (+0.25)	5.50
February 17, 2007	6.00	7.50	5.75 (+0.25)
March 3, 2007	6.00	7.50	6.00 (+0.25)
March 31, 2007	6.00	7.75 (+0.25)	6.00
April 14, 2007	6.00	7.75	6.25 (+0.25)
April 28, 2007	6.00	7.75	6.50 (+0.25)
August 4, 2007	6.00	7.75	7.00 (+0.50)
November 10, 2007	6.00	7.75	7.50 (+0.50)
April 26, 2008	6.00	7.75	7.75 (+0.25)
May 10, 2008	6.00	7.75	8.00 (+0.25)
May 24, 2008	6.00	7.75	8.25 (+0.25)
June 12, 2008	6.00	8.00 (+0.25)	8.25
June 25, 2008	6.00	8.50 (+0.50)	8.25
July 5, 2008	6.00	8.50	8.50 (+0.25)
July 19, 2008	6.00	8.50	8.75 (+0.25)
July 30, 2008	6.00	9.00 (+0.50)	8.75
August 30, 2008	6.00	9.00	9.00 (+0.25)
October 11, 2008	6.00	9.00	6.50 (-2.50)
October 20, 2008	6.00	8.00 (-1.00)	6.50
October 25, 2008	6.00	8.00	6.00 (-0.50)
November 3, 2008	6.00	7.50 (-0.50)	6.00
November 8, 2008	6.00	7.50	5.50 (-0.50)
December 8, 2008	5.00 (-1.00)	6.50 (-1.00)	5.50

Note : 1. With effect from October 29, 2004, the nomenclature of repo and reverse repo was changed in keeping with international usage. Now, reverse repo indicates absorption of liquidity and repo signifies injection of liquidity. The nomenclature in this Report is based on the new usage of terms even for the period prior to October 29, 2004.
2. Figures in parentheses indicate change in policy rates.

Deposit Rates

The interest rate on savings bank deposits was last revised on March 1, 2003, when it was reduced to 3.5 per cent per annum from 4.0 per cent. Ceilings on interest rates on NRE deposits and FCNR (B) deposits are linked to the LIBOR/SWAP rates and are reviewed from time to time, depending on monetary and macroeconomic developments. The interest rate ceiling on NRE deposits for one to three year maturity was increased by 50 basis points each on September 16, 2008 and October 15, 2008 to LIBOR/SWAP rates plus 100 basis points. Another 75 basis points hike was effected on November 15, 2008. On September 16, 2008 following a review, the interest rate ceiling on FCNR (B) deposits was raised by 50 basis points to LIBOR/SWAP rates minus 25 basis points. In the light of adverse developments in the domestic money and foreign exchange markets following the deterioration in the international financial environment, the interest rate payable on FCNR (B) deposits was increased by further 50 basis points to LIBOR/ SWAP rates plus 25 basis points on October 15, 2008. The ceiling was increased to LIBOR/ SWAP rates plus 100 basis points on November 15, 2008. In view of the global developments during August-September, 2007 and with a view to giving an opportunity to SMEs to manage the challenges in the global markets, the Reserve Bank, in consultation with the Government of India, permitted all exporters from October 6, 2007 to earn interest on exchange earners' foreign currency (EEFC) accounts to the extent of outstanding balances of US\$ 1 million per exporter in the form of term deposits up to one year maturing on or before October 31, 2008. The rate of interest was to be determined by the banks themselves. This, however, was a purely temporary measure subject to further review. Subsequently, the Reserve Bank in consultation with the Government of India, announced on August 4, 2008 that it would withdraw this facility from November 1, 2008.

Lending Rates

In the wake of the currency appreciation in the earlier months of 2007-08, the Government of India, in July 2007, announced a package of measures to provide relief to exporters. This included an interest rate subvention

of 200 basis points per annum, for a temporary period, on rupee export credit availed of by exporters in nine categories of exports (textiles including handlooms; readymade garments; leather products; handicrafts; engineering products; processed agricultural products; marine products; sports goods and toys) and to all exporters from the SME sectors defined as micro, small and medium enterprises (MSMEs). Accordingly, it was decided that banks would charge interest rate not exceeding the benchmark prime lending rate (BPLR) minus 4.5 per cent on pre-shipment credit up to 180 days and post-shipment credit up to 90 days on the outstanding amount for the period April 1, 2007 to December 31, 2007 to all SME sectors and the nine sectors as defined above. In order to provide credit to the agricultural sector at a reasonable rate, the Union Budget for 2006-07 had announced the availability of short term credit up to Rs.3 lakh to farmers at 7.0 per cent per annum with effect from Kharif 2006-07, which was continued for the years 2007-08 and 2008-09. In this regard, the Union Budget made an initial provision of Rs.1,600 crore for interest subvention in 2008-09.

Priority Sector Lending

The guidelines on lending to priority sector were revised with effect from April 30, 2007 based on the Report of the Internal Working Group on Priority Sector Lending (Chairman: Shri C.S. Murthy). The priority sector broadly comprises agriculture, MSEs, retail trade, micro credit, education and housing subject to certain limits. The guidelines take into account the revised definition of MSEs as per the Micro, Small and Medium Enterprises Development Act, 2006. The priority sector lending targets (40 per cent and 32 per cent for domestic and foreign banks, respectively) have been linked to the adjusted net bank credit (ANBC) or the credit equivalent amount of off-balance sheet exposures, whichever is higher, as on March 31 of the previous year, as against the previous practice of linking targets to the ongoing net bank credit. RRBs were permitted to extend direct finance up to Rs.10 lakh to the housing sector in rural and semi-urban areas as part of priority sector lending, with the prior approval of their boards. In August 2007, the limit of board-approved direct finance to housing by RRBs was raised to Rs.20 lakh, irrespective of the area. The Union Budget for 2008-09 set a target of Rs.2,80,000 crore for disbursement of agricultural credit during the year by all banks including co-operative banks and RRBs. Several measures were taken during the year to increase the flow of credit to agriculture and allied activities.

Domestic SCBs, both in the public and private sector, which fail to achieve the priority sector and/or agriculture lending targets, are required to deposit into the Rural Infrastructure Development Fund (RIDF) such amounts as may be allocated to them by the Reserve Bank. The Fund has completed thirteen years of operation. Domestic SCBs are required to lend 10 per cent of their ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher, to weaker sections. It was, however, noted that most banks were not meeting this sub-target for lending to weaker sections and hence in May 2008, the Reserve Bank advised that the shortfall in lending to weaker sections would also be taken into account for the purpose of allocating amounts to banks for contribution to the RIDF or funds with other financial institutions with effect from April 2009.

Agricultural Debt Waiver and Debt Relief Scheme, 2008

The Union Budget for 2008-09 announced a scheme of agricultural debt waiver and debt relief for farmers with the total value of overdue loans to be waived then estimated at Rs.50,000 crore and a one-time settlement (OTS) relief on the overdue loans estimated at Rs.10,000 crore. The modalities of the debt waiver scheme were finalised by the Government in consultation with the Reserve Bank and the National Bank for Agriculture and Rural Development (NABARD) and were notified on May 23, 2008. The scheme covers direct agricultural loans extended to 'marginal and small farmers' and 'other farmers' by SCBs, RRBs, co-operative credit institutions and local area banks.

Credit to Micro, Small and Medium Enterprises (MSMEs) Sector

MSMEs are crucial to economic development as they further the objectives of employment generation, equitable distribution of national income, regional dispersal of industries, mobilisation of capital and entrepreneurial skills and enhancement of export earnings. To ease the difficulties faced by small manufacturing and services enterprises in accessing credit, the Code of Banks' Commitment to MSEs was formulated. The SLBCs were advised in May 2008 to apprise all their members about the Government of India's decision to continue the credit linked capital subsidy scheme (CLCSS) for technology upgradation of MSEs during the Eleventh Five Year Plan (2007-12), subject to the following terms and conditions: (a) ceiling on the loan under the scheme would be Rs.1 crore; (b) the rate of subsidy would be 15 per cent for all MSE units up to the loan ceiling at (a) above; (c) calculation of admissible subsidy to be done with reference to the purchase price of plant and



machinery instead of the term loan disbursed to the beneficiary unit; and (d) SIDBI and NABARD to continue as the implementing agencies for the scheme.

Financial Inclusion

Financial inclusion is delivery of financial services, at an affordable cost, to the vast sections of disadvantaged/low-income groups who tend to be excluded from the formal financial system. Notwithstanding the widespread expansion of the banking sector during the last three decades, a sizeable proportion of the households, especially in rural areas, remains outside the coverage of the formal banking system. An important step to bring the financially excluded people within the fold of the formal financial sector was the promotion of micro finance in India (detailed in Chapter V). The SHG-bank linkage programme was launched by NABARD in 1992, with policy support from the Reserve Bank to facilitate collective decision making by the poor and provide 'door step' banking. The term 'financial inclusion' was explicitly used for the first time in the Annual Policy Statement for 2005-06. It indicated that the Reserve Bank would: (a) implement policies to encourage banks that provided extensive services, while disincentivising those which were not responsive to the banking needs of the community, including the underprivileged; (b) the nature, scope and cost of services would be monitored to assess whether there was any denial of basic banking services to the common person; and (c) banks were urged to review their existing practices to align them with the objective of financial inclusion. The Reserve Bank's broad approach to financial inclusion is to 'connect' people with the banking system and not just to dispense credit. The objective is to provide people with access to payment systems and establish financial inclusion as a viable business model and opportunity. The measures initiated by the Reserve Bank to bring the hitherto financially excluded population into the fold of the formal financial system include introduction of 'no-frills' accounts, promotion of financial literacy and responsible borrowing and encouraging adoption of Information and Communication Technology (ICT) solutions for achieving greater outreach as also reducing transaction costs.

Capital Adequacy

Basel II - Implementation

Guidelines on the Revised Framework, based on the Basel Committee on Banking Supervision (BCBS) document "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (June 2006), were issued on April 27, 2007. During 2007-08, significant progress was made towards implementation of the Basel II as foreign banks operating in India and Indian banks having operational presence outside India migrated to the Revised Framework with effect from March 31, 2008, while all other commercial banks, except RRBs and local area banks, are required to migrate to these approaches not later than March 31, 2009. Banks are required to maintain a minimum capital to risk-weighted assets ratio (CRAR) of 9.0 per cent on an ongoing basis.

Pillar 2 Guidelines

The 'International Convergence of Capital Measurement and Capital Standards', commonly known as the Basel II Framework, has three components or Pillars. Pillar 1 pertains to minimum capital requirements, Pillar 2 is the SRP and Pillar 3 relates to market discipline. While the guidelines on Pillar 1 and Pillar 3 were issued by the Reserve Bank in April 2007, the guidelines in regard to Pillar 2, which comprises the SRP and the internal capital adequacy assessment process (ICAAP), were issued in March 2008. In fact, it is Pillar 2 that makes the Basel II framework more comprehensive in covering the various risks to which banks are exposed vis-à-vis Basel I which addressed only the credit and market risks. Pillar 2 requires banks to implement an internal process, viz., the ICAAP, for assessing their capital adequacy in relation to their risk profiles as well as a strategy for maintaining their capital levels. Pillar 2 also requires the supervisory authorities to subject all banks to an evaluation process and to initiate such supervisory measures on that basis, as might be considered necessary. The main focus of Pillar 2 is on the establishment of suitable risk management systems in banks and their review by the supervisory authority. The Reserve Bank will take into account the relevant risk factors and the internal capital adequacy assessment of each bank to ensure that the capital held by a bank is commensurate with the bank's overall risk profile, because it is important for a bank to maintain enough capital for all risks, as and when envisaged. This would include, among others, the effectiveness of a bank's risk management systems in identifying, assessing/measuring, monitoring and managing various risks including interest rate risk in the banking book, liquidity risk, concentration risk and residual risk. Holding additional capital becomes necessary for banks, on account of both – the possibility of some underestimation of risks under Pillar 1 and the actual risk exposure of a bank vis-à-vis the quality of its risk management architecture. Pillar 2, therefore, includes: (a) the

risks that are not fully captured by the minimum capital ratio prescribed under Pillar 1 (for example, credit concentration risk); (b) the risks that are not at all taken into account by Pillar 1 (for example, interest rate risk in the banking book); and (c) the factors external to the bank (for example, business cycle effects). Another important aspect of Pillar 2 is the assessment of compliance with the minimum standards and disclosure requirements of the more advanced approaches available under Pillar 1, as and when these are permitted in a particular jurisdiction, so as to ensure that these requirements are met, both as qualifying criteria and on a continuing basis.

Amendments to the New Capital Adequacy Framework

With a view to ensuring smooth transition to the Revised Framework and providing an opportunity to streamline their systems and strategies, banks in India were advised by the Reserve Bank in May 2006, to undertake a parallel run of the Revised Framework. In the light of clarifications sought by banks during the course of implementation of the parallel run, the guidelines were reviewed and the following amendments, inter alia, were introduced on March 31, 2008: (i) Innovative Perpetual Debt Instruments (IPDI) in excess of 15 per cent of Tier 1 capital were allowed to be included in Tier 2 capital. (ii) A bank's aggregate investment in all types of instruments, eligible for capital status of investee banks/FIs/NBFCs/ primary dealers (PDs) should not exceed 10 per cent of the investing bank's capital funds (Tier 1 plus Tier 2, after adjustments). Any investment in excess of this limit should be deducted at 50 per cent from Tier I and 50 per cent from Tier II capital. (iii) The direct loan/credit/overdraft exposure, if any, of banks to the State Governments and the investment in State Government securities would attract zero risk weight, while State Government guaranteed claims would attract 20 per cent risk weight. (iv) Consumer credit, including personal loans and credit card receivables but excluding education loans, would attract a higher risk weight of 125 per cent or more, if warranted by the external rating (or, the lack of it) of the counterparty. As gold and gold jewellery are eligible financial collateral, the counterparty exposure in respect of personal loans secured by gold and gold jewellery would be worked out under the comprehensive approach. The 'exposure value after risk mitigation' would attract a risk weight of 125 per cent. (v) In respect of credit transactions, haircut would apply only to the eligible collateral but not to the credit exposure of the bank. On the other hand, exposures of banks, arising out of repo-style transactions would attract haircut. (vi) In the case of loans collateralised by a bank's own deposits, even if the tenure of such deposits was less than three months or deposits had maturity mismatch vis-à-vis the tenure of the loan, the provisions regarding de-recognition of collateral would not be attracted provided an explicit consent was obtained from the depositor (i.e., borrower) for adjusting the maturity proceeds of such deposits against the outstanding loan or for renewal of such deposits till the full repayment of the underlying loan. (vii) The capital charge for equities would apply on their current market value in a bank's trading book. (viii) The claims on non-scheduled banks, which were deducted from capital, would be risk weighted from 100 per cent to 625 per cent, depending on the CRAR of the institution concerned, with higher risk weights prescribed for banks with lower CRAR. In the case of banks where no capital adequacy norms were prescribed by the Reserve Bank, the CRAR was to be notionally calculated, by obtaining the necessary information from the investee banks, using the capital adequacy norms as applicable to commercial banks. (ix) In view of excess volatility in the stock markets across the world, equity was removed from the list of eligible financial collaterals. (x) Standard supervisory haircut provided for exposures and collaterals, which were obligations of foreign central sovereigns/ corporates. (xi) Capital adequacy framework applicable for repo/reverse-repo style transactions was specified. (xii) Detailed guidelines were incorporated for measuring the capital charge for interest rate risk (specific risk) in debt securities and other interest rate related instruments in the available for sale (AFS) and held for trading (HFT) categories.

Para-Banking Activities

The Reserve Bank has from time to time modified the framework of rules/ regulations/instructions to the SCBs for allowing them to undertake certain financial services or para-banking activities. Adequate safeguards have been put in place to ensure that the financial services or para-banking activities undertaken by banks are run on sound and prudent lines. In June 2007, guidelines were issued for banks to act as pension fund managers.

Financial Markets

In 2008-09, beginning September 2008, the international financial crisis has had indirect knock-on effects on domestic financial markets. Money markets experienced unusual tightening of liquidity as a result of global developments which were amplified by transient local factors. The foreign exchange market experienced pressure on account of portfolio outflows by FIIs and enhanced foreign exchange requirements of oil and fertiliser companies. Constraints in access to external financing as also re-pricing of risks and higher spreads

resulted in additional demand from corporates for domestic bank credit with attendant hardening of interest rates across the spectrum. Given the uncertain global financial situation, it has been recognised that monitoring and maintenance of domestic financial stability warrants continuous attention.

Developments in the Money Market

The broad policy focus in the money market was to ensure stability, minimise default risk and achieve balanced development of its various segments. With a view to widening the collateral base, necessary changes were made in the Public Debt Office-Negotiated Dealing System (PDONDS) to enable the acceptance of the SDLs as eligible securities under the LAF repos with effect from April 3, 2007. A margin of 10 per cent was applied in respect of SDLs.

The Reserve Bank issued comprehensive guidelines in respect of derivatives in April 2007. Subsequently, the CCIL was advised to start a trade reporting platform for OTC derivative transactions to address the need for a mechanism to capture and disseminate trade information and provide post-trade processing infrastructure in respect of these transactions. The reporting platform for OTC rupee interest rate swaps (IRS) and forward rate agreements (FRA) was made operational by the CCIL on August 30, 2007 whereby banks and PDs report the IRS and FRA to the platform on a daily basis.

Exchange-traded interest rate futures (IRF) contracts were introduced on the NSE in 2003. These contracts, however, failed to attract a critical mass of participants and transactions. With a view to develop a robust IRF market, the Reserve Bank, in August 2007, constituted a Working Group on IRF (Chairman: Shri V.K. Sharma) following the recommendation made by the TAC on Money, Foreign Exchange and Government Securities Markets. The Group submitted its Report in March 2008 and based on the feedback received from the public, experts, banks, market participants and the Government, the Report was finalised on August 8, 2008. The major recommendations of the Report, inter alia, included: (a) banks could be allowed to take trading positions in IRF, subject to prudential regulations, and the extant practice of banks' participation in IRF for hedging risk in their underlying investment portfolio of Government securities classified under the AFS and the HFT categories, should be extended to the interest rate risk inherent in their entire balance sheet (both on and off-balance sheet items); (b) the extant norm of holding the entire SLR portfolio in HTM category should be reviewed; (c) the time limit on short selling to be extended so that the term/tenure/maturity of the short sale was co-terminus with that of the futures contract; (d) a system of transparent and rule-based pecuniary penalty for subsidiary general ledger (SGL) bouncing should replace the current regulatory penalty; and (e) the broader policy on IRF, including that relating to the product and participants, should be the responsibility of the Reserve Bank, while the micro-structure details should be left to respective exchanges.

Developments in the Government Securities Market the implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and withdrawal of the Reserve Bank from the primary segment, development of the Government securities market has assumed vital importance. The Government Securities Act, 2006 empowered the Reserve Bank to continue with efforts to broaden and deepen the market in terms of participants, instruments and processes.

With a view to providing flexibility to participants and encouraging wider market participation, the Mid-term Review for 2007-08 announced that the short sale and 'when issued' transactions, that were permitted to be undertaken only on Negotiated Dealing System-Order Matching (NDS-OM) since introduction in February and May 2006, respectively, would be allowed to be covered outside the NDS-OM system. The cover transactions of short sales and 'when issued' were permitted to be undertaken through the telephone market or through purchases in primary market with effect from January 1, 2008.

The medium-term objective of the Reserve Bank is to allow current account facility only to banks and PDs. Many non-bank and non-PD entities, however, held current accounts as a pre-requisite for settlement of Government security transactions by Negotiated Dealing System (NDS) members.

The Annual Policy Statement for 2008-09 announced that a system of 'Multi Modal Settlements' would facilitate the settlement of Government security transactions undertaken by non-bank and non-PD NDS members. Accordingly, the settlement system under the NDS was modified for entities that did not maintain current accounts with the Reserve Bank.

Consequent to the announcement in the Annual Policy Statement for 2008-09, development of the system for separate trading for registered interest and principal of securities (STRIPS) has been taken up. The activity of

stripping/reconstitution would be carried out in the NDS system of the Reserve Bank. To begin with, securities with coupon dates as January 2 and July 2, were identified as eligible for stripping/reconstitution on the basis of cash flow concentration among current coupon dates. The processing of requests for stripping/reconstitution would be carried out by PDs. The STRIPS system is proposed to be introduced during 2008-09.

Most of the recommendations of the High Level Committee on Corporate Bonds and Securitisation (Chairman: Dr. R.H. Patil) have been taken up for implementation. The Union Budget for 2008-09 abolished tax deduction at source on corporate bonds. Reporting platforms for corporate bonds were set up by the NSE and the BSE in July 2007 and the Fixed Income Money Market and Derivatives Association of India (FIMMDA) in September 2007. The Reserve Bank issued guidelines to its regulated entities to report their OTC trades on the FIMMDA platform. The Annual Policy Statement for the year 2008-09 announced that repos in corporate bonds would be introduced once the prerequisites, viz., efficient price discovery through greater public issuances and secondary market trading, and an efficient and safe settlement system based on delivery versus payment (DvP) III and straight through processing (STP) were met.

Developments in the Foreign Exchange Market

In line with the recommendations of the Committee on Fuller Capital Account Convertibility, a number of measures were taken during 2007-08 to further liberalise the foreign exchange transactions and simplify/rationalise the associated procedures to facilitate prompt and efficient customer service. The RBI (Amendment) Act, 2006 empowered the Reserve Bank to regulate interest rate, foreign currency and credit derivatives. Accordingly, the Reserve Bank initiated several measures to further develop the derivatives market in the country.

The Reserve Bank permitted authorised dealers (ADs) to allow refund of export proceeds for goods re-imported into India on account of poor quality, subject to certain conditions. Import rules were liberalised for business process outsourcing companies, schedule air transport service companies and importers of rough diamonds/precious/semi-precious stones. There was liberalisation of remittance schemes in respect of certain entities. The limits under Liberalised Remittance Scheme were further enhanced to US\$ 200,000 in September 2007. In February 2008, guidelines for maintaining Vostro accounts abroad by foreign exchange houses under the rupee drawing arrangements were liberalised. In September 2008, the limit for advance remittance for all admissible current account transactions for import of services without bank guarantee was raised to US\$ 500,000 from US\$ 100,000.

AD category-I banks were allowed to grant rupee loans to non-resident Indian (NRI) employees of Indian companies for availing employees stock option plan schemes, subject to certain conditions.

Operations & performance of Commercial Banks

In line with the policy initiatives undertaken by the Reserve Bank, the growth in credit by SCBs exhibited some moderation during the year. The moderation in credit was observed across all the sectors, barring services. On the liability side, deposit growth continued to be strong, albeit it was marginally lower than that in the previous year mainly on account of deceleration in term deposits. Banks' investments in government and other securities recorded a higher growth during 2007-08, partly on account of a large issuance of MSS securities during the year. However, as percentage of net demand and time liabilities (NDTL), investment by banks in Government and other approved securities remained more or less at the previous year's level. Overall, the credit-deposit ratio of banks declined during the year as a result of continued strong growth in deposits combined with moderation in credit.

Net interest margins of banks continued to decline during the year, reflecting the increase in competitive pressures. However, sharp increase in non-interest income and subdued growth in operating costs resulted in sharp increase in net profits of SCBs during the year. Consequently, return on assets showed a marginal improvement in 2007-08. Despite increase in gross nonperforming assets (NPAs) in absolute terms during the year, asset quality (gross NPAs as percentage of gross loans and advances) of banks in general and of public sector banks in particular continued to improve. The capital to risk-weighted assets ratio of the banking sector also showed marked improvement during the year, both on account of large capital raised by banks from the capital market during 2007-08 and increase in reserves.



Liabilities and Assets of Scheduled Commercial Banks

The aggregate balance sheet of SCBs expanded by 25.0 per cent during 2007-08 as compared with 24.2 per cent in the previous year. The continued higher growth in assets of SCBs than the growth rate of the economy resulted in the increase in the ratio of assets of SCBs to GDP (at current market prices) to 91.8 per cent at end-March 2008 from 83.5 per cent at end-March 2007. As banks improved their capital base during 2007-08, the leverage (measured by the equity multiplier, which is defined as total assets divided by the total equity) of the banking system during the year declined significantly to 13.7 at end-March 2008 from 15.8 a year ago.

Table III.1: Consolidated Balance Sheet of Scheduled Commercial Banks

(Amount in Rs. crore)

Item	As at end-March			
	2007		2008	
	Amount	Per cent to Total	Amount	Per cent to Total
1	2	3	4	5
Liabilities				
1. Capital	29,559	0.9	39,900	0.9
2. Reserve and Surplus	1,89,619	5.5	2,75,657	6.4
3. Deposits	26,96,936	77.9	33,20,054	76.7
3.1. Demand Deposits	3,54,895	10.3	4,42,055	10.2
3.2. Savings Bank Deposits	6,31,651	18.3	7,44,051	17.2
3.3. Term Deposits	17,10,388	49.4	21,33,947	49.3
4. Borrowings	2,43,010	7.0	2,97,349	6.9
5. Other Liabilities and Provisions	3,00,836	8.7	3,93,523	9.1
Total Liabilities/Assets	34,59,961	100.0	43,26,486	100.0
Assets				
1. Cash and Balances with RBI	1,95,265	5.6	3,22,997	7.5
2. Balances with Banks and Money at Call and Short Notice	1,58,302	4.6	1,10,326	2.6
3. Investments	9,50,981	27.5	11,76,154	27.2
3.1. Government Securities (a+b)	7,54,446	21.8	9,25,799	21.4
a) In India	7,50,722	21.7	9,20,241	21.3
b) Outside India	3,723	0.1	5,558	0.1
3.2. Other Approved Securities	12,764	0.4	10,587	0.2
3.3. Non-Approved Securities	1,83,771	5.3	2,39,767	5.5
4. Loans and Advances	19,81,236	57.3	24,77,039	57.3
4.1. Bills purchased and Discounted	1,24,292	3.6	1,50,983	3.5
4.2. Cash Credits, Overdrafts, etc.	7,09,803	20.5	8,89,663	20.6
4.3. Term Loans	11,47,140	33.2	14,36,391	33.2
5. Fixed Assets	31,362	0.9	42,395	1.0
6. Other Assets	1,42,812	4.1	1,97,573	4.6
Note : Data for 2006-07 are as reported in the balance sheets of banks for 2007-08 and hence may not match with those reported in the Report on Trend and Progress of Banking in India, 2006-07, as the figures for 2006-07 were revised by some banks.				
Source : Balance Sheets of respective banks.				

Growth of Balance Sheet of Scheduled Commercial Banks

The composition of assets of SCBs during 2007-08 remained more or less the same as in the previous year. On the liability side, the share of reserves and surplus increased, while that of deposits declined. Aggregate deposits of SCBs continued to show strong growth during 2007-08, though it was lower than the previous year. Capital and reserves grew at a significantly higher rate in 2007-08 in comparison with 2006-07. The growth rate of loans and advances moderated as compared with that in the previous year, partly reflecting the impact of measures taken by the Reserve Bank such as increase in cash reserve ratio (CRR), which, in turn, was reflected in the significant increase in cash and balances with the Reserve Bank. Banks' investments in Government securities grew at a much higher rate in comparison with the last year

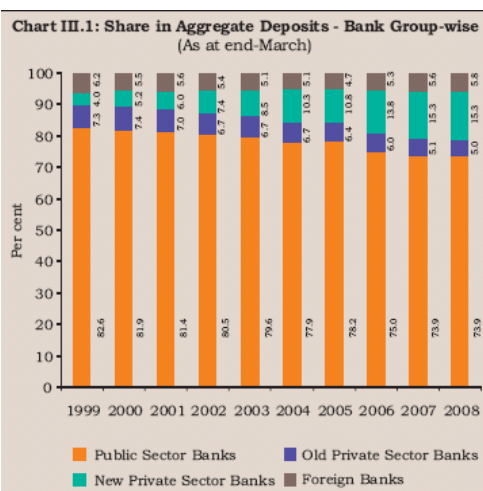
Table III.2: Growth of Balance Sheet of Scheduled Commercial Banks - Bank Group-wise

(Per cent)

Item	As at end-March									
	2007					2008				
	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All SCBs	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All SCBs
1	2	3	4	5	6	7	8	9	10	11
1. Capital	0.7	4.4	5.6	45.4	17.3	5.2	1.8	14.6	71.0	35.0
2. Reserve and Surplus	20.0	11.6	17.4	30.6	20.0	31.3	47.1	97.9	35.0	45.4
3. Deposits	22.9	6.0	38.8	32.5	24.6	23.1	19.8	23.1	26.8	23.1
3.1. Demand Deposits	19.3	3.9	36.7	19.3	21.1	20.4	23.4	38.6	28.3	24.6
3.2. Saving Bank Deposits	15.0	6.7	33.3	16.3	16.4	14.9	16.2	40.5	20.2	17.8
3.3. Term Deposits	27.3	6.1	40.6	47.1	28.7	27.0	20.2	16.0	27.7	24.8
4. Borrowings	5.7	22.3	42.8	33.0	19.6	24.1	8.0	26.1	14.2	22.4
5. Other Liabilities and Provisions	16.3	16.1	51.1	72.4	28.1	28.5	21.3	17.5	65.5	30.8
Total Liabilities/Assets	21.1	7.1	38.7	37.6	24.2	23.9	21.2	27.5	32.7	25.0
1. Cash and Balances with RBI	26.1	25.9	93.7	49.8	35.2	61.5	74.4	74.3	81.2	65.4
2. Balances with Banks and Money at Call and Short Notice	26.8	5.8	91.9	41.9	35.9	-31.7	-20.2	-33.7	-25.1	-30.3
3. Investments	4.9	-3.6	26.4	36.4	9.7	20.2	23.1	31.3	38.4	23.7
3.1. Government Securities (a+b)	3.6	-2.2	33.0	37.5	9.3	20.5	20.0	21.8	47.5	22.7
a. In India	3.6	-2.0	32.9	37.5	9.4	20.3	20.0	21.9	47.5	22.6
b. Outside India	-8.6	-100.0	125.0	0.0	-5.9	58.3	0.0	-53.6	0.0	49.3
3.2. Other Approved Securities	-7.8	-30.9	-10.3	0.2	-8.5	-16.7	-20.7	12.0	-60.9	-17.0
3.3. Non-Approved Securities	13.8	-7.6	11.4	32.8	13.3	22.6	37.7	57.0	5.2	30.5
4. Loans and Advances	30.2	12.0	39.9	29.5	30.6	24.8	20.2	26.4	27.5	25.0
4.1. Bills Purchased and Discounted	22.4	-15.4	20.7	21.3	19.9	16.3	36.9	36.8	36.5	21.5
4.2. Cash Credits, Overdrafts, etc.	25.6	11.6	42.3	20.9	25.6	24.3	20.3	31.0	33.8	25.3
4.3. Term Loans	34.6	16.5	40.7	38.7	35.3	26.2	18.3	24.6	21.2	25.2
5. Fixed Assets	37.7	-5.6	4.2	24.4	25.0	42.6	26.2	15.9	32.3	35.2
6. Other Assets	7.1	0.7	33.9	72.9	22.5	31.2	-1.5	28.1	67.0	38.3

Source : Balance Sheets of respective banks.

Bank groups-wise analysis reveals that deposits of foreign sector banks grew at the highest rate (26.8 per cent). While deposits of public sector banks and new private sector banks showed a growth of 23.1 per cent each, old private sector banks' deposits increased by 19.8 per cent during 2007-08. Though the growth in deposits of old private sector banks was significantly higher than that in the previous year, their share in aggregate deposits of SCBs declined further, albeit marginally during 2007-08. The share of foreign banks in aggregate deposits increased marginally during 2007-08, while that of public and new private sector banks remained at the previous year's level



Sectoral Deployment of Bank Credit

The overall deceleration in bank credit during 2007-08 was reflected in the flow of credit to all the major sectors, barring the services sector. The deceleration was more pronounced in respect of agriculture and allied activities and personal loans, whereas credit to industry showed a marginal slowdown. Apart from general

moderation of overall credit, drought in certain pockets of the country, lower demand for credit in anticipation of waiver under Debt Waiver Scheme, exclusion of loans to bodies such as Electricity Boards from the category of agricultural lending under the revised priority sector guidelines and lower investment credit may have contributed to the deceleration in credit to agriculture.

Table III.5 Sectoral Deployment of Gross Bank Credit: Flows
(Variations over the year)

Sector	(Amount in Rs. crore)			
	2006-07		2007-08	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Agriculture and Allied Activities	56,426	32.4	43,260	18.8
2. Industry (Small, Medium and Large)	1,46,890	26.7	1,74,566	25.0
Of which: Small	25,888	28.4	27,924	32.2
3. Personal Loans	96,486	26.8	48,656	10.7
Of which: Housing	45,791	24.7	24,659	10.7
4. Other Services	96,596	30.2	1,29,743	31.1
Of which:				
(i) Wholesale Trade (other than food procurement)	10,422	26.3	4,472	8.9
(ii) Real Estate Loans	18,483	69.2	17,070	37.8
(iii) Non-Banking Financial Companies	14,722	42.9	26,274	53.6
Total Non-Food Gross Bank Credit (1 to 4)	3,96,399	28.2	4,01,799	22.3
Of which: Priority Sector	1,23,404	24.2	1,04,544	16.5

Notes : 1. Data are provisional and relate to select scheduled commercial banks which account for more than 90 per cent of bank credit of all scheduled commercial banks. Data include the figures of Bharat Overseas Bank, which was merged with Indian Overseas Bank on March 31, 2007.
2. Gross bank credit data include bills rediscounted with Reserve Bank, Exim Bank, other financial institutions and inter-bank participations.

Retail Credit

Growth in retail credit by banks decelerated further during 2007-08 to 17.1 per cent from 29.9 per cent in 2006-07 and 40.9 per cent in 2005-06. It also remained lower than the growth in overall credit by the banking sector (23.2 per cent). As a result, the share of retail credit in total loans and advances declined to 24.5 per cent at end-March 2008 from 25.8 per cent at end-March 2007. Deceleration in the retail portfolio of banks was on account of decline in credit for consumer durables and deceleration in the growth of auto loans, housing loans and other personal loans. The outstanding amount under credit card receivables, however, increased by almost 50 per cent during 2007-08 reflecting the increase in the usage of credit cards for various payments.

Table III.9: Retail Portfolio of Banks

Item	(Amount in Rs. crore)			
	Outstanding as at end-March		Percentage Variation	
	2007	2008	2006-07	2007-08
1	2	3	4	5
1. Housing Loans	2,24,481	2,52,932	25.4	12.7
2. Consumer Durables	7,296	4,802	63.3	-34.2
3. Credit Card Receivables	18,317	27,437	47.3	49.8
4. Auto Loans	82,562	87,998	34.5	6.6
5. Other Personal Loans	1,55,204	1,97,879	31.1	27.5
Total Retail Loans (1 to 5)	4,87,860	5,71,048	29.9	17.1
	(25.8)	(24.5)		
Total Loans and Advances of SCBs	18,93,775	23,32,490	28.5	23.2

Note : Figures in parentheses represent percentage share in total loans and advances.
Source : Off-site Returns (domestic, unaudited and provisional).

Lending to sensitive sectors

SCBs lending to sensitive sectors (capital market, real estate and commodities) showed a significant deceleration during 2007-08, though it was marginally higher than the overall credit growth. Lending to real estate, which constituted 87.4 per cent of total lending to sensitive sectors, showed a significantly lower growth during 2007-08, partly on account of tightening of prudential norms by the Reserve Bank. The lending to capital market increased significantly during 2007-08. While exposure to commodities showed a significant growth, it remained relatively low. The Reserve Bank in its Annual Policy Statement for 2008-09 had advised banks to

exercise caution while extending advances to traders in agricultural commodities to ensure that bank finance was not used for hoarding Overall exposure of SCBs to sensitive sectors as percentage of aggregate bank loans remained at the previous year's level (20.6 per cent)

Table III.11: Lending to the Sensitive Sectors - Bank Group-wise*
(As at end-March)

Sector/Bank Group	(Per cent)							
	Public Sector Banks		New Private Sector Banks		Old Private Sector Banks		Foreign Sector Banks	
	2007	2008	2007	2008	2007	2008	2007	2008
1	2	3	4	5	6	7	8	9
Capital Market#	1.4	1.8	2.8	5.6	1.8	2.0	3.0	3.3
Real Estate Market@	15.3	15.3	32.3	28.5	16.8	16.5	26.5	23.1
Commodities	0.0	0.0	0.0	0.0	0.5	0.4	0.0	0.1
Total Advances to Sensitive Sectors	16.7	17.2	35.1	34.1	19.1	18.9	29.5	26.4

* : Advances to the sensitive sector as percentage to total loans and advances of the concerned bank group.
: Exposure to the capital market is inclusive of both investments and advances.
@ : Exposure to real estate sector is inclusive of both direct and indirect lending.

Investments and deposits of SCBs

Investments by banks recorded a high growth of 23.7 per cent in 2007-08 as compared with 9.7 per cent in 2006-07 and a decline of 0.4 per cent in 2005-06. This broadly reflected the pattern of banks' investment in SLR securities, which constitute the bulk of their investments. In relation to total assets of SCBs, the share of Government securities declined marginally to 21.4 per cent (27.8 per cent of NDTL) during 2007-08 from 21.8 per cent (27.9 per cent of NDTL) in the previous year whereas that of non-approved securities increased from 5.3 per cent as at end-March 2007 to 5.5 per cent as at end-March 2008.

Table III.12: Growth in Investments and Deposits of SCBs

Year	(Per cent)				
	SLR Investments as per cent of NDTL (end-March)	SLR Investments	Total Investments	Deposits	Loans
	2	3	4	5	6
2002-03	38.8	24.9	17.9	12.7	14.5
2003-04	41.3	23.8	15.8	16.2	16.8
2004-05	38.2	9.1	8.3	16.6	33.3
2005-06	31.3	-2.9	-0.4	17.8	31.8
2006-07	27.9	10.3	9.7	24.6	30.6
2007-08	27.8	22.8	23.7	23.1	25.0

Maturity Profile of Assets and Liabilities of Banks

The maturity structure of commercial banks' assets and liabilities at end-March 2008 remained broadly the same as in the previous year, barring minor variations. The share of deposits of up to one year maturity of all bank groups (barring new private sector banks) increased moderately, while that of other maturity buckets (1-3 years and 3-5 years) declined (except foreign banks whose share of deposits maturing between 3-5 years remained unchanged). The share of borrowings up to one year maturity increased across all bank groups (barring new private sector banks), with the increase being more pronounced in respect of public sector banks. The maturity pattern of loans and advances and investments of all bank groups remained broadly the same during 2007-08 as in the previous year. The share of loans and advances with up to one year maturity increased marginally in the case of all bank groups, barring foreign banks. Similar trend was observed in investments across all bank groups. On the whole, assets depicted a synchronous pattern with the liabilities. At end-March 2008, in general, public sector banks and old private sector banks had higher proportion of both liabilities and assets under longer maturity bucket. Furthermore, within the asset portfolio, while the maturity profile of loans and advances was nearly similar for all bank groups, barring foreign banks, investment pattern of new private sector banks and foreign banks was more tilted towards shorter term maturity profile.

Table III.19: Bank Group-wise Maturity Profile of Select Liabilities /Assets
(As at end -March)

Assets/Liabilities	(Per cent to Total)								
	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks		
	2007	2008	2007	2008	2007	2008	2007	2008	
1	2	3	4	5	6	7	8	9	
I. Deposits									
a) Up to 1 year	42.4	44.1	47.0	50.9	60.4	57.1	64.0	64.7	
b) Over 1 year and up to 3 years	29.0	26.5	39.0	35.5	35.5	34.3	35.6	33.3	
c) Over 3 years and up to 5 years	11.2	10.3	7.8	7.7	2.6	2.5	0.4	0.4	
d) Over 5 years	17.5	19.1	6.1	6.0	1.5	6.0	0.0	1.6	
II. Borrowings									
a) Up to 1 year	52.7	69.6	76.3	79.1	50.4	48.9	88.7	90.9	
b) Over 1 year and up to 3 years	19.3	16.5	8.3	5.4	26.7	25.6	11.2	8.4	
c) Over 3 years and up to 5 years	13.5	6.0	1.7	3.0	19.9	22.0	0.1	0.3	
d) Over 5 years	14.5	7.9	13.7	12.5	3.0	3.5	0.0	0.3	
III. Loans and Advances									
a) Up to 1 year	36.8	38.0	40.0	40.4	30.4	33.6	52.2	49.6	
b) Over 1 year and up to 3 years	33.1	33.3	37.2	36.1	39.9	34.3	31.2	34.4	
c) Over 3 years and up to 5 years	12.6	11.2	11.0	11.5	12.0	12.2	6.1	6.6	
d) Over 5 years	17.5	17.6	11.9	12.0	17.6	20.0	10.5	9.4	
IV. Investment									
a) Up to 1 year	13.6	19.0	20.4	21.3	51.1	55.8	52.2	62.2	
b) Over 1 year and up to 3 years	14.6	19.0	11.5	16.5	25.0	21.1	29.7	25.9	
c) Over 3 years and up to 5 years	15.1	13.8	9.9	12.2	7.6	5.4	11.2	4.1	
d) Over 5 years	56.6	48.2	58.2	50.0	16.3	17.6	6.9	7.8	

Interest Rate scenario

Lending rates of SCBs across various bank groups showed a generally upward movement during the year. Deposit rates across bank groups showed a general decline during 2007-08, though foreign and private sector banks marginally increased their rates in some of the maturity maximum rate on term deposits of all maturities (25 to 50 basis points), while they increased the minimum rates for deposits of 1 to 3 years (100 basis points). Private sector banks increased the maximum rates for deposits up to one year (by 25 basis points) and over three years (by 15 basis points), while they reduced their interest rate on for deposits of one to three maturity (by 50 basis points). The minimum rates for deposits up to one year and over three years were reduced (by 50 basis points each) by private sector banks, while they were increased for deposits of one to three years (by 50 basis points). Foreign banks, on the other hand, reduced their minimum rates for deposits up to 1 year (by 75 basis points) and over 3 years (by 45 basis points). Interest rates offered by public sector banks on deposits of maturity of one year to three years were placed in the range of 8.25-9.25 per cent in March 2008 as compared with the range of 7.25-9.50 per cent a year ago, while those on deposits of maturity of above three years were placed in the range of 8.00-9.00 per cent in March 2008 as compared with the range of 7.50- 9.50 per cent a year ago. Similarly, interest rates offered by private sector banks on deposits of maturity of one year to three years were placed in the range of 7.25-9.25 per cent in March 2008 as compared with 6.75-9.75 per cent in March 2007, while those on deposits of maturity above three years were placed in the range of 7.25-9.75 per cent in March 2008 as compared with 7.75-9.60 per cent in March 2007. Interest rates offered by foreign banks on deposits of maturity of one year to three years were placed in the range of 3.50-9.75 per cent in March 2008 as compared with 3.50-9.50 per cent in March 2007.

Table III.20: Movements in Deposit and Lending Interest Rates

Interest Rates	(Per cent)				
	March 2006	March 2007	March 2008	June 2008	October 2008
1	2	3	4	5	6
Deposit Rates					
<i>Public Sector Banks</i>					
a) Up to 1 year	2.25-6.50	2.75-8.75	2.75-8.50	2.75-9.00	2.75-10.25
b) 1 year up to 3 years	5.75-6.75	7.25-9.50	8.25-9.25	8.25-9.50	8.75-10.60
c) Over 3 years	6.00-7.25	7.50-9.50	8.00-9.00	8.00-9.35	8.50-9.75
<i>Private Sector Banks</i>					
a) Up to 1 year	3.50-7.25	3.00-9.00	2.50-9.25	3.00-8.75	3.00-10.50
b) 1 year up to 3 years	5.50-7.75	6.75-9.75	7.25-9.25	8.00-9.50	9.00-11.00
c) Over 3 years	6.00-7.75	7.75-9.60	7.25-9.75	8.00-10.00	8.25-11.00
<i>Foreign Banks</i>					
a) Up to 1 year	3.00-5.75	3.00-9.50	2.25-9.25	3.00-9.25	3.50-12.15
b) 1 year up to 3 years	4.00-6.50	3.50-9.50	3.50-9.75	3.50-9.75	3.50-10.50
c) Over 3 years	5.50-6.50	4.05-9.50	3.60-9.50	3.60-9.50	3.60-11.00
BPLR					
Public Sector Banks	10.25-11.25	12.25-12.75	12.25-13.50	12.50-14.00	13.75-14.70
Private Sector Banks	11.00-14.00	12.00-16.50	13.00-16.50	13.00-17.00	13.75-17.75
Foreign Banks	10.00-14.50	10.00-15.50	10.00-15.50	10.00-15.50	10.00-17.00
Actual Lending Rates*					
Public Sector Banks	4.00-16.50	4.00-17.00	4.00-17.75	4.00-18.00	-
Private Sector Banks	3.15-20.50	3.15-25.50	4.00-24.00	4.00-25.00	-
Foreign Banks	4.75-26.00	5.00-26.50	5.00-28.00	5.00-25.50	-
- : Not Available					
* : Interest rate on non-export demand and term loans above Rs.2 lakh excluding lending rates at the extreme five per cent on both sides.					

Cost of Deposits and Return on Advances

Though the deposit rates showed a marginal decline between end-March 2007 and end-March 2008, the cost of deposits of SCBs increased by one percentage point as compared with that during the previous year. This essentially reflected the average cost of contracting deposits of different types and different maturities at different points in time. Thus, the rise in cost of deposits during 2007- 08 partly reflected the increase in deposit rate during the previous year. Though the cost of deposits increased across all bank groups, the increase was more pronounced in the case of new private sector banks (1.2 percentage points). Owing to higher lending rates, return of advances of SCBs showed a significant improvement of one percentage point during the year with the improvement being observed across all bank groups. The increase was significantly higher in the case of new private sector banks (1.7 percentage points). Return on investments by SCBs, however, declined marginally during 2007-08 from the previous year's level mainly reflecting the prevailing financial markets conditions. The decline in return on investments was observed across all bank groups, barring new private sector banks which showed an increase of 0.8 percentage points. The improvement in the overall return on funds was lower than the increase in the cost of funds, leading to a decline of around 20 basis points in the spread (returns of funds over cost of funds) of banks during 2007-08.

Table III.22: Cost of Funds and Returns on Funds - Bank Group-wise

Indicator	(Per cent)									
	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks		Scheduled Commercial Banks	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5	6	7	8	9	10	11
1. Cost of Deposits	4.5	5.4	4.9	5.7	4.7	5.9	3.1	3.8	4.4	5.4
2. Cost of Borrowings	2.8	3.6	3.4	4.6	3.1	3.1	4.7	4.5	3.3	3.7
3. Cost of Funds	4.4	5.3	4.8	5.7	4.5	5.5	3.5	4.0	4.3	5.3
4. Return on Advances	7.7	8.6	8.6	9.6	8.3	10.0	8.7	9.8	7.9	8.9
5. Return on Investments	7.1	6.8	7.0	6.5	5.7	6.5	7.5	7.1	6.9	6.7
6. Return on Funds	7.5	8.0	8.0	8.6	7.4	8.7	8.2	8.7	7.6	8.2
7. Spread (6-3)	3.1	2.7	3.2	2.9	2.9	3.2	4.7	4.8	3.2	3.0
Notes : 1. Cost of Deposits = Interest Paid on Deposits/Deposits. 2. Cost of Borrowings = Interest Paid on Borrowings/Borrowings. 3. Cost of Funds = (Interest Paid on Deposits + Interest Paid on Borrowings)/(Deposits + Borrowings). 4. Return on Advances = Interest Earned on Advances /Advances. 5. Return on Investments = Interest Earned on Investments /Investments. 6. Return on Funds = (Return on Advances + Return on Investments)/(Investments + Advances).										

Important Financial Indicators of Scheduled Commercial Banks

Overall income of SCBs during 2007- 08 increased at a significantly higher rate of 34.3 per cent as compared with 24.4 per cent increase in the previous year. The income to assets ratio improved to 8.5 per cent after remaining unchanged at 7.9 per cent in the previous two years. Reflecting the higher lending rates, interest income of SCBs during 2007-08 increased by 33.6 per cent as compared with 25.0 per cent in the previous year.

'Other income' of SCBs during 2007-08 increased by 37.8 per cent as compared with 21.7 per cent during the previous year, reflecting the increasing diversification of sources of income by banks.

The difference between interest income and interest expenses, *i.e.*, net interest income, is an important indicator of efficiency of the intermediation process by banks. Lower net interest income in relation to assets is an indicator of higher efficiency. Continuing the trend that began in 2004-05, net interest income (spread) of SCBs as percentage of total assets declined to 2.3 per cent in 2007-08 from 2.6 per cent in the previous year. Among the bank groups, net interest margin of foreign banks and private banks increased, while that of PSBs declined during 2007-08.

Table III.23: Important Financial Indicators of Scheduled Commercial Banks

(Amount in Rs. crore)

Item	2005-06		2006-07		2007-08	
	Amount	Per cent to Assets	Amount	Per cent to Assets	Amount	Per cent to Assets
1	2	3	4	5	6	7
1. Income	2,20,756	7.9	2,74,716	7.9	3,68,886	8.5
a) Interest Income	1,85,388	6.7	2,31,675	6.7	3,09,570	7.2
b) Other Income	35,368	1.3	43,041	1.2	59,315	1.4
2. Expenditure	1,96,174	7.0	2,43,514	7.0	3,26,160	7.5
a) Interest Expended	1,07,161	3.8	1,42,420	4.1	2,08,001	4.8
b) Operating Expenses of which : Wage Bill	59,201	2.1	66,319	1.9	77,220	1.8
c) Provision and Contingencies	33,461	1.2	36,148	1.0	39,806	0.9
3. Operating Profit	29,812	1.1	34,775	1.0	40,939	0.9
4. Net Profit	54,394	2.0	65,977	1.9	83,665	1.9
4. Net Profit	24,582	0.9	31,203	0.9	42,726	1.0
5. Net Interest Income/Margin (1a-2a)	78,227	2.8	89,255	2.6	1,01,570	2.3

Note: The number of scheduled commercial banks was 85 in 2005-06, 82 in 2006-07 and 79 in 2007-08.

Asset Quality

The trend of improvement in the asset quality of banks continued during the year. Indian banks recovered a higher amount of NPAs during 2007-08 than that during the previous year. Though the total amount recovered and written-off at Rs.28,283 crore in 2007-08 was higher than Rs.26,243 crore in the previous year, it was lower than fresh addition of NPAs (Rs.34,420 crore) during the year. As a result, the gross NPAs of SCBs increased by Rs.6,136 crore in 2007-08. This is the first time since 2001-02 that gross NPAs increased in absolute terms. In this context, it may be noted that banks had registered rapid credit growth during the previous three years. Some slippage in NPAs, therefore, could be expected. Besides, some other developments such as hardening of interest rates might have also resulted in increased NPAs. Banks had extended housing loans at floating interest rates. The hardening of interest rates might have made the repayment of loans difficult for some borrowers, resulting in some increase in NPAs in this sector. It may be noted that the increase in gross NPAs was more noticeable in respect of new private sector and foreign banks, which have been more active in the real estate and housing loans segments. Gross NPAs (in absolute terms) of nationalised banks and old private sector banks continued to decline during the year. Gross NPAs of State Bank group showed an increase. Notwithstanding increase in gross NPAs of the banking sector, gross NPAs as percentage of gross advances declined further to 2.3 per cent at end-March 2008 from 2.5 per cent a year ago. The NPAs ratio (gross NPAs to gross advances) of new private sector banks increased significantly during the year, while that of foreign banks increased marginally. The NPAs ratio of all other bank groups declined.

Table III.26: Movements in Non-performing Assets - Bank Group-wise

(Amount in Rs. crore)

Item	Scheduled Commercial Banks (79)	Public Sector Banks (28)	Nationalised Banks (20*)	State Bank Group (8)	Old Private Sector Banks (15)	New Private Sector Banks (8)	Foreign Banks (28)
1	2	3	4	5	6	7	8
Gross NPAs							
As at end-March 2007	50,299	38,968	26,292	12,676	2,810	6,286	2,233
Addition during the year	34,420	24,093	14,617	9,476	1,249	6,412	2,664
Recovered during the year	28,090	22,466	15,791	6,875	1,501	2,272	1,849
Written off during the year	193	0	0	0	1	0	191
As at end-March 2008	56,435	40,595	25,117	15,478	2,557	10,426	2,856
Net NPAs							
As at end-March 2007	20,207	15,324	8,965	6,359	831	3,136	913
As at end-March 2008	24,733	17,836	9,328	8,508	740	4,906	1,250
Memo:							
Gross Advances (end-March 2008)	25,07,885	18,19,074	12,18,554	6,00,521	1,13,404	4,12,441	1,62,966
Net Advances (end-March 2008)	24,77,039	17,97,504	12,03,782	5,93,722	1,11,670	4,06,733	1,61,132
Gross NPAs/Gross Advances Ratio							
End-March 2007	2.5	2.7	2.7	2.6	3.1	1.9	1.8
End-March 2008	2.3	2.2	2.1	2.6	2.3	2.5	1.9
Net NPAs/Net Advances Ratio							
End-March 2007	1.0	1.1	0.9	1.3	1.0	1.0	0.7
End-March 2008	1.0	1.0	0.8	1.4	0.7	1.2	0.8
* : Includes IDBI Bank Ltd.							
Note : Figures in parentheses are the number of banks.							
Source : Balance sheets of respective banks.							

Sector-wise NPAs

The sector-wise analysis of NPAs of public and private sector banks indicates that the NPAs in the priority sector increased by 11.1 per cent during 2007-08 (4.8 per cent in the previous year) mainly due to increase in NPAs in the agriculture sector (32.1 per cent) and in the non-priority sector (10.3 per cent). At the aggregate level, the share of priority sector NPAs in total NPAs at 54.4 per cent was broadly same as in the previous year (54.0 per cent).

Table III.34: Sector-wise NPAs - Bank Group-wise*

(Rs. crore)

Sector	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		All SCBs	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5	6	7	8	9
A. Priority Sector	22,954	25,287	1,416	1,338	1,468	2,080	25,838	28,705
i) Agriculture	6,506	8,268	249	243	612	1,225	7,367	9,735
ii) Small Scale Industries	5,843	5,805	490	359	155	292	6,488	6,456
iii) Others	10,604	11,214	677	737	702	563	11,983	12,514
B. Public Sector	490	299	0	0	3	0	493	299
C. Non-Priority Sector	15,158	14,163	1,553	1,219	4,800	8,339	21,510	23,721
Total (A+B+C)	38,602	39,749	2,969	2,557	6,271	10,419	47,841	52,725
* : Excluding foreign banks.								
Source : Based on off-site returns submitted by banks (pertaining to domestic operations only).								

Capital Adequacy

The overall CRAR of all SCBs improved to 13.0 per cent at end-March 2008 from 12.3 per cent a year ago, reflecting a relatively higher growth rate in capital funds maintained by banks than risk-weighted assets. While the growth in risk-weighted assets moderated in line with overall deceleration in credit growth during 2007-08, capital funds increased at a higher rate on account of raising of resources by banks from the capital market and increase in resources required for ensuing implementation of Basel II norms. Thus, the CRAR of the banking system at 13.0 per cent was significantly above the stipulated minimum of 9.0 per cent. 3.92 As a result of resources raised by banks from the capital market during 2007-08 and increase in reserves, the Tier I capital ratio of SCBs improved to 9.1 per cent at end-March 2008 from 8.3 per cent a year ago. However, the Tier II capital declined marginally to 3.9 per cent at end-March 2008 from 4.0 per cent a year ago (Chart III.19). Tier I CRAR was more than the present stipulated requirement of 4.5 per cent and also above the 6.0 per cent norm

prescribed in the final guidelines for implementation of Basel II released by the Reserve Bank on April 27, 2007.

**Table III.36: Scheduled Commercial Banks -
Component-wise CRAR**

(Amount in Rs. crore)

Item / End-March	2006	2007	2008
1	2	3	4
A. Capital Funds (i+ii)	2,21,363	2,96,191	4,06,835
i) Tier I Capital	1,66,538	2,00,386	2,83,339
<i>of which:</i>			
Paid-up Capital	25,142	29,462	41,178
Unallocated/Remittable Surplus	11,075	20,387	23,846
Deductions for Tier-I Capital	11,271	13,662	21,933
ii) Tier-II Capital	54,825	95,794	1,23,496
<i>of which:</i>			
Discounted Subordinated Debt	43,214	63,834	73,297
B. Risk-weighted Assets	17,97,207	24,12,236	31,28,093
<i>of which:</i>			
Risk-weighted Loans and Advances	12,38,163	17,17,810	21,66,234
C. CRAR (A as per cent of B)	12.3	12.3	13.0
<i>of which:</i>			
Tier I	9.3	8.3	9.1
Tier II	3.1	4.0	3.9

Source: Based on off-site returns submitted by banks.

OUR BUSINESS

Brief History and Overview of the Bank

The Lakshmi Vilas Bank Limited was founded eight decades ago (in 1926) by seven people of Karur under the leadership of Shri V. S. N. Ramalinga Chettiar, mainly to cater to the financial needs of varied customer segments. The Bank was incorporated on November 03, 1926 under the Indian Companies Act, 1913 and obtained the certificate to commence business on November 10, 1926. The Bank obtained its license from RBI in June 1958, and in August 1958, it became a Scheduled Commercial Bank. The Bank has shifted its Registered and Head Office from 693, Jawahar Bazaar, Karur – 639 001 to the present registered office at Salem Road, Kathaparai, P.O. Karur – 639006, Tamil Nadu on September 11, 1991.

During 1961-65 LVB took over nine Banks and raised its branch network considerably. To meet the emerging challenges in the competitive business world, the Bank started expanding its boundaries beyond Tamil Nadu after 1974 by opening branches in the neighboring states of Andhra Pradesh, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Gujarat, West Bengal, Haryana, Jharkhand, Orissa, Rajasthan, Uttar Pradesh and the National Capital Territory of Delhi and the Union Territory of Pondicherry. The Bank has successfully completed CBS implementation at all the branches in March 2008. As on March 31, 2009 LVB had 251 branches spread over 13 States and the National Capital Territory of Delhi and Union Territory of Pondicherry. LVB has a strong and wide base in the State of Tamil Nadu, one of the most progressive States in the country, which is politically stable and has a vibrant industrial environment.

It is our Bank's mission to develop a range of quality services, to create value for customers, shareholders and the society, to motivate people to achieve excellence in performance, leading to sustained profitable growth and build a vibrant organization.

Business Overview

Lakshmi Vilas Bank, a private sector bank, commenced its operations on November 10, 1926. As on March 31, 2009 LVB had a network of 251 branches spread over 13 States and the National Capital Territory of Delhi and Pondicherry. The Bank started expanding its boundaries beyond Tamil Nadu after 1974 by opening branches in the neighboring states of Andhra Pradesh, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Gujarat, West Bengal, Delhi, Pondicherry, Haryana, Jharkhand, Orissa, Rajasthan, and Uttar Pradesh. LVB has a strong and wide base in the State of Tamil Nadu, one of the most progressive states in the country, which is politically stable and has a vibrant industrial environment.

The rating agency CARE after due surveillance as on December 29, 2008, assigned the revised rating of BBB+ (Triple B plus) from A- (A minus) assigned earlier to Lower Tier II Bonds aggregating to Rs. 110 crores (Series IIIA and IIIB – Rs. 50 crores, Series IVA and IVB – Rs. 30 crores and Series V – Rs. 30 crores) indicating moderate safety for timely servicing of debt obligations.

The Bank's business crossed Rs. 12,606.73 crore as on March 31, 2009. The Bank earned Net Profit of Rs. 50.30 crores. The Net Owned Funds of the Bank reached Rs. 453.72 crore. With a fairly good quality of loan assets the Net NPA of the Bank was pegged at 1.24% as on March 31, 2009, down from 1.55% as on March 31, 2008.

The performance of the Bank over last five years is summarised in the following table (figures in Rs in crores, except if mentioned otherwise)

Year	Capital & Reserves	Deposits	Advances	Gross Earnings	Net Profit	Dividend Paid (%)	No. of Branches	No. of Employees
2004-05	229.99	3495.93	2317.71	336.52	3.34	Nil	225	1928
2005-06	291.05	4336.38	2952.82	357.00	22.47	25	227	1873
2006-07	396.09	5019.87	3612.70	474.99	17.58	7	236	1926
2007-08	417.68	5618.49	3858.79	588.54	25.27	15	239	2078
2008-09	453.72	7360.90	5245.83	764.70	50.30	25*	251	2433

* Indicates proposed dividend; Source: Annual reports, Annual Accounts

Core Banking Solutions

Core Banking Solutions has been introduced in our Bank during the year 2006 with five branches as pilot sites and successfully completed implementing CBS in all the branches during March 2008.

CBS is an integrated package with centralized database of all our customers. CBS facilitates treating branch customer into Bank customer, rendering improvement customer service, reduction in transaction costs / operating costs. This also has enabled the bank to have competitive edge and enhance our commitment to our customers.

Customers can operate their accounts from any branch of the bank and this integration helps in deploying more customer oriented products, delivery channels like Internet Banking, SMS Banking, Mobile Banking, ATM, RTGS, NEFT etc.

The system maintenance has become easy and simplified as the Bank's data is centralized at one location. Centralized Clearing Cell and Centralized Processing Centre have been opened to perform back office operations and to focus more on customer friendly approach. Bank has also implemented centralized MIS data facility and unified communication system.

Human Resource initiatives

Some of the key Human Resource initiatives taken by our Bank are as under:

- Recruitment of young talented workforce
- Lateral entry of senior and middle managerial personnel to argument the skill gaps
- Training for excellence in customer service and marketing of products
- Soft skills training for better communication and negotiation
- Sponsored award staff for Diploma course in conversational English
- Incentive for passing 'KYC' course
- Staff welfare fund created for welfare measures
- Best performing branches awarded with cash incentive
- Special increment proposed for achievers of CASA target and parameters in FY 2010

Operations

In terms of overall size, the total assets of the Bank increased from Rs. 6,520 crores (as of March 31, 2008) to Rs. 8,317.25 crores (as of March 31, 2009). The deposits of the Bank grew from Rs. 5,618.49 crores to Rs. 7,360.90 crores during the same period, registering a growth of 31.01% and the advances grew from Rs. 3,858.79 crores to Rs. 5,245.83 crores, registering a growth of 35.94%. The net NPAs of the bank decreased from 1.55% as on March 31, 2008 to 1.24% as on March 31, 2009. Capital adequacy ratio has decreased from 12.73% as on March 31, 2008 to 10.09% as on March 31, 2009.

Branch Network of the Bank

As on March 31, 2009, the Bank had 251 branches at various locations across the country (including 1 fund & investment branch and 6 service branches). The Bank further has 5 satellite offices and 5 extension counters.

Distribution of Branch Network – Area wise and State wise

Geographical distribution of the branches of the Bank as on March 31, 2009 is given as under:

State/ Union Territory	No. of Branches	No. of Extension counters	% share of Total
Tamil Nadu	168	3	66.9
Andhra Pradesh	29	2	11.6
Karnataka	17	-	6.8
Maharashtra	10	-	4.0

Gujarat	8	-	3.2
Kerala	5	-	2.0
Delhi	3	-	1.2
Pondicherry	3	-	1.2
Haryana	2	-	0.8
Jharkand	1	-	0.4
Madhya Pradesh	1	-	0.4
Orissa	1	-	0.4
Rajasthan	1	-	0.4
Uttar Pradesh	1	-	0.4
West Bengal	1	-	0.4
TOTAL	251	5	100

The state wise break-up of the spread of branches and business in terms of deposits and advances as on March 31, 2009 is as follows:

State/ Union Territory	No. of Branches	Total Deposits (Rs in crores)	Total Advances (Rs in crores)
Tamil Nadu	168	4,103.84	2,418.08
Andhra Pradesh	29	641.85	661.38
Karnataka	17	781.94	531.95
Maharashtra	10	1,169.42	1,115.29
Gujarat	8	124.17	189.39
Kerala	5	164.98	40.96
Delhi	3	253.44	263.75
Pondicherry	3	62.52	39.81
Haryana	2	10.03	6.72
Jharkand	1	3.03	0.15
Madhya Pradesh	1	13.00	9.89
Orissa	1	1.17	0.07
Rajasthan	1	2.17	6.11
Uttarpradesh	1	4.27	1.63
West Bengal	1	25.07	34.61
TOTAL	251	7,360.90	5,319.78

As on March 31, 2009, the distribution of the regional offices, branches, service branches, satellite offices of the Bank is as follows:

State	Divisional Office	Fund and Investment branch	Service Branch	Extension Counter	Sattellite Office
Andhra Pradesh	1	-	1	2	-
Karnataka	1	-	1	-	-
Maharashtra	1	1	1	-	-
Tamil Nadu	5	-	3	3	5
Total	8	1	6	5	5

The demographic network of branches as on March 31, 2009 is as under:

Type	No. of Branches
Metro	36
Rural	46
Semi Urban	96
Urban	73
Grand Total	251



Foreign Exchange Business

Our Bank has integrated treasury at Mumbai which supports the foreign exchange business undertaken by its branches. The implementation has enabled efficient and speedy execution of Forex transactions. The Bank extends short term finance through rupee based credit, letter of credit, foreign currency loans to the importers and exporters. Necessary measures have been taken to strengthen the risk management systems.

Competition Policy

The competition has grown manifold after the economic liberalization, globalization, opening up of economy and deregularization. The service industry is no exception to the philosophy that competition enhances efficiency. The banking industry in India has been facing stiff competition after the opening up of economy and liberalization that led to the entry of the new generation banks and foreign banks. The old private sector banks in the country are exposed to the competition not only from the old private sector but also from new generation private sector banks, foreign banks and public sector banks apart from financial institutions.

LVB faces competition from the peer banks like Karur Vysya Bank, City Union Bank, Tamilnadu Mercantile Bank apart from the private sector banks South Indian Bank, Catholic Syrian Bank, Dhanalakshmi Bank from adjoining state of Kerala.

The basic objective of the competition policy of the bank is to avoid an unhealthy competition between peer banks. It is believed as a policy that the bank should grow in terms of quality rather than building mere volumes.

The competition policy of the bank with the peer banks would be:

- a. Image related i.e. through personalized services and enhancing corporate image. In order to overcome the competition with peer banks, the bank has laid stress on personalized services and improved corporate image through publicity, advertisement etc.
- b. Market related i.e. products (new and existing), customers (new and existing), distribution (new and existing) apart from competitive pricing and constant watch on the market over the peer banks to align our strategy on resource mobilization front.
- c. The HR related competitive policy with emphasis on training and skill development.
- d. Strengthening credit appraisal system, credit management including credit delivery and strengthening of control systems and procedures.
- e. Technology related through efficient and effective customer service, cost reduction, management information system and decision support system.
- f. Another aspect of competitive policy is finance related through strengthening of balance sheet, product performance and risk management.

The competitive policy of the bank lays further emphasis on

- a. To introduce innovative products on par with the competitors to retain the existing clientele and to improve the business mix
- b. In tune with the changing priorities, the bank focus to achieve total customer satisfaction by immediate response to their genuine banking needs, thereby retain the existing clientele and also to prospective customers from the peer group in the field.
- c. Simplified procedures.
- d. Aggressive Branch expansion by establishing branches in the vital tier II and III locations where the potential is untapped and available in plenty and establishing specialized branches has been initiated to have a competitive advantage for the bank
- e. Bank is in the process of opening central processing cell to centralized account opening and welcome kit containing ATM card, cheque book, pin mailer for internet banking etc. in a single pack as being done by new generation private sector banks, so as to attract the youth also

Business Strategy

The business strategy of the bank has been designed keeping in view the industry performance, analysis of Bank's strengths and weaknesses, available opportunities and banking reforms.

The following business strategies are contemplated to strengthen Bank's position, increase market share and to stay a sound and dynamic banking entity providing pan India service in line with its vision:

- i. Each branch to own their business targets and to achieve monthly business targets consistently and continuously
- ii. Contribution from every employee of the branch should be subsumed in business development initiatives
- iii. Branch Expansion – In vital Tier II and Tier III locations, where the potential is untapped and available in plenty
- iv. Marketing Team – Branch level marketing team, by way of providing required additional personnel
- v. Staff Training-Skill development and marketing capabilities will be given focus to all the field personnel
- vi. Opening of specialized branches for undertaking specific business with focus and concentration viz. Industrial Branches, Development Branches, SME Branches, NRI Branches and Personal Banking Branches
- vii. More familiarization and publicity activities through both print and electronic media, besides outdoor activities and lead generation process
- viii. Periodical launching of more schemes and services
- ix. Customer Survey and plans to ensure customer loyalty
- x. Focused approach for business – segment wise
- xi. Required organizational re-structuring
- xii. Enhancing client base
- xiii. Specialized marketing campaign (CASA and Time deposits mobilization) at all branches twice in a year
- xiv. Effective marketing of multi-city cheque facility and other CBS products
- xv. Vigorous door to door campaign activities
- xvi. Focus on enhancing fee based income mainly through LG/LC business and Para Banking activities
- xvii. Categorization of branches for undertaking specific type of business viz. Corporate Business, Forex Business, SME Segment, Agriculture & Trade, Personal Banking

Our products & services

Deposits

1. Fixed Deposits

This type of deposit is suitable for planned expenditure or savings. The deposit period ranges from 15 days to 10 years with assured regular Monthly/ Quarterly income. Minimum Deposit Amount is of Rs. 1000/- with no ceiling for the maximum amount. The Deposit can be opened individually, jointly and in the name of corporates.

2. Dhanachakra Deposits

Main feature is the automatic compounding of accrued interest which yields higher returns, and is ideal for planning financial commitments for the future- children's higher education/ son's/ daughter's marriage/ celebration of festivals etc. Deposit period ranges from 6 months to 10 years. Minimum Deposit Amount is of Rs. 100/- with no ceiling for the maximum amount.

3. Recurring Deposits

This type of deposit is suitable for Tax planning, Annual payment commitments like Insurance premium, long term requirements like purchase of consumer articles/ durable, house construction, Children's education etc. Minimum Deposit Amount is of Rs. 100/- with no ceiling for the maximum amount. The deposit period ranges from 12 months to 120 months. The added advantage of this account is that the interest earned is exempt from TDS.



4. Lakshmi Lakhpathy Recurring Deposit

It is a Recurring deposit with the additional benefit of General insurance cover of Rs. 1.20 Lacs on specified items. Deposit period ranges for 78 Months. The minimum deposit amount is Rs. 1,000/- per month. The advantage this scheme offers is that the Interest is exempted from TDS as per existing guidelines.

5. Lakshmi Freedom Deposit(LFD)

This scheme is a type of sweep-in deposit account where if the minimum balance is above Rs.5000/- the system will transfer Rs 5000/- and multiples of Rs 5000/- automatically, to LFD (Lakshmi Freedom Deposit) for a period of 46 Days. The account is ideal for saving money for a targeted festive activity, such as marriage. If no sweep-in happens within the deposit period, the entire deposit amount will be renewed.

6. Lakshmi Tax Saver Deposit

This deposit scheme is a Fixed deposit with interest payment on monthly, quarterly, half yearly or yearly with a fixed tenure of 5 Years. The Minimum Deposit Amount is Rs.100 /- and maximum Amount is Rs.1,00,000/-. The Tax benefit available up to a maximum limit of Rs.1,00,000/- under Sec 80C for the first holder of the deposit

7. No-Frills SB Account

This savings deposit is primarily available to the low income group people, senior citizens and the weaker sections of society, financially and economically backward people mainly residing in the rural and semi urban areas of India.

8. Lakshmi Savings Gold

This scheme requires maintenance of Average Monthly Minimum Balance of Rs. 10,000 and offers special attractive features including certain concessional charges coupled with Personal Accident Insurance Cover.

9. Lakshmi Savings Star Gold

Lakshmi Savings Gold account offers special privileges to our customers who maintain an Average Monthly Minimum Balance of Rs. 20,000 and above. There are several special facilities offered to account holders like concessional service charges coupled with Personal Accident Insurance Cover.

10. Lakshmi Savings Balance Free

This scheme is a Zero balance account where the salary of the employees shall be credited directly to the employees account. The employer firm/organization is required to maintain an account with the bank.

11. Lakshmi Savings Youth Power

This deposit is targeted at Children/Youth in the age group between 12 – 17 years and shall be self operated. The Minimum balance to be kept Rs. 100/-

12. Lakshmi Current Diamond

This is a special scheme which offers added benefits to the customers who maintain an Average Monthly Minimum Balance of Rs. 5 Lacs and above.

13. Lakshmi Current Diamond Plus

This is a special scheme for customers who maintain an Average Monthly Minimum Balance(AMMB) of Rs.10 Lakhs and above and offers a variety of special features

14. Lakshmi Current Silver

This is a special scheme for customers who maintain an Average Monthly Minimum Balance(AMMB) of Rs.1 Lakhs and above and offers a variety of special features

Loans

1. Lakshmi Business Credit

This is a convenient loan scheme designed to the trading community to extend quick and hassle free loans to meet their financial needs. Lakshmi Business Credit can be availed by department stores, wholesalers, retailers, distributors, jewelers, grocery merchants and all kinds of traders. It is suitable for traders with a good track record.

2. Lakshmi Home Loan

Individuals and HUFs (operating through Kartas) having sufficient income and who can produce satisfactory proof of such income by way of salary certificates, I.T. certificates etc. can avail loans under the scheme. The various activities include-construction/purchase of a new house, alterations carried out.

3. Lakshmi Rental Loan

The borrowers can utilize this loan facility to meet their personal expenditure requirements for investments or for general corporate purposes. The main customers include owners of commercial and residential properties in semi-urban, urban and metro centres who receive rental income.

4. Lakshmi Easy Loan

Unique scheme aimed at individuals having sufficient income to meet their domestic and personal expenses against the pledge of NSC, Kisan Vikas Patras and LIC policies. The margin is 20% of the accrued values of NSC/KVPs or surrender value of the LIC policy for both demand loans and SOD.

5. Lakshmi Personal Vehicle Loan

Personalised loan products for purchase of Car / Van / Jeeps (New and Used) and new two wheelers. This scheme is available for salaried persons who are permanent employees of State/Central Govt. PSUs, private sector companies, professionals and self employed persons.

6. Lakshmi Property Power

This is a simplified mortgage loan product available to individuals and business entities, for personal expenditure and / or investments. Business entities may avail the facility for working capital purposes or for Investment in fixed assets.

7. Lakshmi Composite Business Credit

This term loan is available for Individuals, Business entities, Commission Agents, Contractors, Professionals etc. who are in the business/profession for at least one year, may avail the facility for working capital purposes or for investment in fixed assets.

8. Vidya Lakshmi Loan

This loan is designed to meet expenses related to higher secondary education, specific courses of study at recognized institutions including professional/job-oriented courses which will offer reasonable opportunity for employment.



Distribution of Financial Products

1. Life Insurance Segment

The Bank has entered into an MOU with M/s Aviva Life Insurance Company Ltd. to market their policies through the Bank branches. During the financial year 2008-09 the Bank received 2014 fresh policies with a total first year premium collection of Rs.447.22lacs. Further the Bank has also renewed 16466 policies with a premium collection of Rs.819.60 Lacs in 2008-09.

2. General Insurance Segment

The Bank has entered into an MOU with M/S Bajaj Allianz General Insurance Company Ltd. to market their policies through the Bank branches. During the financial year 2008-09 the Bank received 9852 proposals with a total first year premium collection of Rs.271.22Lacs.

3. Mutual Fund

The Bank has entered into an MOU with 10 companies to distribute the mutual fund products through their branches including- Franklin Templeton, Kotak, UTI, Prudential ICICI, TATA, Sundaram BNP Paribas, SBI,HDFC, DBS Cholamandam.

Other Services Offered

1. National Electronic Fund Transfer(NEFT)

NEFT enables an efficient, secure, economical and reliable system of transfer of funds between accounts of customers of different banks.

2. Real Time Gross Settlement System(RTGS)

RTGS enables an efficient, secure, economical and reliable system of transfer of funds between accounts of customers of different banks.

3. Internet Banking-Retail and corporate users

This facility allows customers to conduct financial transactions on a secure website operated by their retail or corporate services. It is a cost effective delivery channel offered to all customers having an operative account with the Bank.

4. SMS Banking

Customers having a savings or current account with the Bank can enquire about their latest account balance using this facility.

5. Cash Tree and National Financial Switch (NFS)

The Bank is a member of the NFS which is an inter-bank ATM network with 34 other major banks. This system is conceived and run by IDRBT-an arm of the RBI

6. Electronic Clearing Service (ECS)

It allows funds transfer electronically between accounts held at different banks facilitated through a clearing house. This facility is generally used for bulk credit and debit transactions like distribution of dividends, interest, salary pension, payment of utility bills like telephone, insurance, taxes, etc. based on mandated obtained from the beneficiary/payee. This facility is offered by the RBI and can be available at the selected locations.

7. FOREX Services

All 251 branches of the Bank are authorized to open and maintain Non-Resident Deposit accounts. The Forex services of the Bank are delivered through the 17 authorised 'B' Category branches. The Bank deals in 9 major currencies and have correspondent relationships with the world's leading banks.

8. Locker facility

This facility allows the customers to store their valuables in a safe place. The customers can access their lockers even after the Bank's business hours.

9. Western Union Money Transfer

This facility enables the customers to receive their money worldwide by simply filling up a form at the Bank's branches and showing proper photo identification. After the client details are found to be accurate the Bank immediately pays the customer.

Details of sources of Funds

As on March 31	Deposits (Rs. in crore)				
	2005	2006	2007	2008	2009
Deposits	3495.91	4336.38	5019.87	5618.48	7360.91
Annual Growth – Amount	200.11	840.45	683.49	598.62	1742.41
% Annual Growth	6.07	24.04	15.76	11.93	31.01
Cost of Deposits (%)	5.67%	5.83%	6.27%	7.31%	7.96%

The cost of the deposits has been increasing over past 5 years and has gone up down from 5.67% as on March 2005 to 7.96% as on March 2009. Increase in interest is attributed to tougher interest regimes and increase in share of deposit term deposits.

The average cost of deposits is shown in the following table

As on March 31	2005	2006	2007	2008	2009
Demand Deposits	-	-	-	-	-
Saving Bank Deposits	2.89%	2.87%	2.77%	2.66%	2.87%
Term Deposits	7.04%	7.29%	7.65%	8.96%	9.42%

Break up of Deposits of the bank for the last 5 years (Rs. in crore):

As on March 31	2005	2006	2007	2008	2009
Demand Deposits	426.99	453.08	506.92	559.19	492.08
Saving Bank Deposits	468.56	547.86	599.65	658.51	743.22
Term Deposits	2600.36	3335.44	3913.3	4400.78	6125.61

The Maturity Profile of Deposits

The maturity profile in the last 3 Years is as under (Rs. in crore)

Year ended	March 31, 2007		March 31, 2008		March 31, 2009	
	Amount	%	Amount	%	Amount	%
Upto 1 year	2414.45	48.10	2926.02	52.08	3190.24	43.34
1 year to 3 years	1395.47	27.80	1267.70	22.56	2720.70	36.96
3 years to 5 years	257.47	5.13	350.96	6.25	283.08	3.85
Over 5 years	952.48	18.97	1073.80	19.11	1166.88	15.85
Total	5019.87	100.00	5618.48	100.00	7360.90	100.00

Category-wise break-up of Term Deposits

The category-wise break-up of term deposits as on March 31, 2009 is given below: (Rs. in crore)

Maturity	Retail	Wholesale	Total
1-14 days	95.62	210.95	306.57
15-28 days	106.01	111.76	217.77
29 days to 3 months	343.59	406.78	750.37
3 – 6 months	406.33	408.83	815.16
6 – 12 months	982.33	717.05	1699.38
1 – 3 years	1899.30	236.94	2136.24
3 – 5 years	118.11	6.15	124.26
Over 5 years	75.86	0.00	75.86
Total	4027.15	2098.46	6125.61

Note:

- Wholesale Deposits are taken as individual Deposits of Rs.1 crore and above

Borrowings

Details of borrowings of the Bank as on March 31, 2009 are as under:

(Rs in crores)

Sr. No.	Name of the Lender	Out standing Balance	Interest Rate (%)
1	National Housing Board	3121.90	10.05%
2	NABARD	0.29	5.50%
3	NABARD	18.48	6.25%
4	NABARD	8.92	6.75%
5	NABARD	6.66	8.00%
6	NABARD	42.41	8.00%

Details of deployment of funds

Advances

The growth of the Bank's gross advances during the past five years is as follows:

(Rs in crores)

Year ended	March 31, 2005	March 31, 2006	March 31, 2007	March 31, 2008	March 31, 2009
Gross Credit	2379.13	3013.75	3679.17	3931.09	5319.78
Annual Increase (%)	11.38	26.67	22.08	6.85	35.33

The gross advances portfolio of the Bank grew by 223.6% to Rs. 5319.78 crore in 2009 from Rs. 2379.13 in 2005.

Approvals

Credit Approval Authority and Procedures

The Bank adopts stringent standards of appraisal for its advances. The various levels of authorities are vested with discretionary powers to sanction credit limits as per the scheme of delegation of lending powers. Detailed guidelines have been formulated to appraise, sanction and monitor the credit proposals.

The RBI guidelines on credit risk management require that large value loans beyond a specified cutoff level may be approved through a grid or committee system. In line with the RBI guidelines, all proposals falling

beyond the lending powers of COO (i.e. proposals coming under the lending powers of the MD and the Management Committee of the Board) are being pre – cleared by the Credit Committee of Executives (CCE) for sanction by the respective sanctioning authorities. The CCE consists of (a) Chief Operating Officer as Chairman (b) Chief Financial Officer (c) General Manager (Credit) (d) Dy. General Manager (credit) (e) Dy. General Manager (Risk Management) as members.

The credit limits sanctioned by one layer of authority is being reviewed by the next higher layer authority and any comments / observations of higher authority are taken up for rectification.

The sector-wise credit portfolio of the Bank as on last reporting Friday of March 31, 2009 is as follows:
(Rs. in crores)

Sr. No.	Industry	Gross Bank Credit Amount	Exposure to gross bank credit (%)
	Gross Bank Crdit	5168.80	
1	Food Credit	-	-
2	Non Food Credit :		
	Medium & Large Scale Industry	1776.89	34.37
	Priority Sector	1763.18	34.12
	Export Credit	197.40	3.82
	Other Sectors	1431.33	27.69

Industry wise outstanding as on March 31, 2009 was as follows: (Rs. in crore)

Industry	Outstanding	Total Outstanding of the top 10 companies	Total Outstanding of the top 10 companies as a percentage of the total exposure to the industry
Agriculture	693.52	4.4	0.63
Textiles (Cotton, Jute)	538.77	227.7	42.26
Chemical, Dyes, Paints, Drugs & Pharma Fertilizers and Petrochemicals	474.21	338.6	71.4
Trading	467.65	1.4	0.3
Iron & Steel	287.15	236.56	82.38
NBFC	271.19	58.92	21.73
Others Industries	818.39	154.51	18.88
Infrastructure (Power+Telecom+ Roads+Ports)	174.62	104.08	52.85
Automobiles (including Trucks)	117.36	102.89	87.67
Construction	117.29	59.75	50.95
Sugar, Tea, Food Processing & Vegetable Oil	114.13	43.11	37.78
Cement	93.06	46.84	50.33
Other Metal & Metal Products	80.67	41.64	51.61
All Engineering including Electronics	56.04	29.62	52.85
Paper & Paper Products	45.93	42.93	93.48
Leather & Leather Products	7.19	5.74	79.89
Rubber & Rubber Products	4.09	3.54	86.5
Petroleum	2	0.85	42.66
Coal & Mining	1.96	0.87	44.5
Computer Software	1.09	0.78	72.1
Tobacco & Tobacco Products	0.71	0.14	19.94
Others	932.30	-	
Total Industrial Credit outstanding	5319.78		

Exposure to Top 10 Companies

The top 10 borrowers of the Bank have the following industry-wise classification in respect of advances of the Bank as on March 31, 2009: (Rs. In crore)

Account Name	Industry of the Borrower	Outstanding Amount to the Borrower	Outstanding Amount to Industry	Outstanding to the Borrower as a % of Gross Advances	Outstanding to the Borrower as a % of Outstanding Amount to the Industry	Asset Quality
Borrower A	Infrastructure	88.04	174.63	1.40	50.42	Standard
Borrower B	NBFC	69.68	271.19	1.11	25.69	Standard
Borrower C	Others	50.30	685.85	0.80	7.33	Standard
Borrower D	Infrastructure	50.00	174.63	0.80	28.63	Standard
Borrower E	NBFC	44.94	271.19	0.72	16.57	Standard
Borrower F	Others	41.45	685.85	0.66	6.04	Standard
Borrower G	Manufacturers of Iron and Steel	40.00	287.15	0.64	13.93	Standard
Borrower H	Others	39.99	685.85	0.64	5.83	Standard
Borrower I	Others	39.69	685.85	0.63	5.79	Standard
Borrower J	Drugs and Pharmaceuticals	38.32	465.73	0.61	8.23	Standard
Total		502.41	4387.89	8.00		

Exposure to top five business groups as on March 31, 2009

(Rs. In crores)

Borrower	Amount outstanding		Fund based Outstanding to total Advances (%)
	Fund based	Non fund based	
Group I	164.06	14.51	3.13
Group II	22.46	149.99	0.43
Group III	150.00	-	2.86
Group IV	-	99.92	-
Group V	87.67	2.40	1.67

Export Credit

The following table provides a summary of the total export credit for the last five years: (Rs. in crore)

Year ended	March 31, 2005	March 31, 2006	March 31, 2007	March 31, 2008	March 31, 2009
Export Credit	122.32	119.35	150.22	163.67	206.64
% of Export Credit to Net Credit	5.28%	4.04%	4.16%	4.24%	3.94%

Priority Sector Lending

As per RBI norms, the Private Sector Banks' credit to the Priority Sector should be 40% of the Net Bank Credit and that for agriculture should be 18% of the Net Bank Credit. The policy of the Bank with regard to financing to the Priority Sector is based upon the norms stipulated by Reserve Bank of India. As on March 31, 2009, the

Priority Sector credit stood at 45.67% of the Net Bank Credit. Details of sector-wise distribution of gross Priority Sector Advances for the last five years is given below:

(Rs. in crores)

Reporting date	March 18, 2005	March 31, 2006	March 30, 2007	March 28, 2008	March 27, 2009
Agriculture	306.12	480.36	651.38	637.50	798.78
Small Scale Industry	304.34	379.15	447.00	481.70	487.69
Other Priority Sector Advances	288.09	319.43	372.65	368.98	476.72
Gross Priority Sector Advances	898.55	1178.94	1471.02	1488.19	1763.18
% to Net Bank Credit	41.81	40.20	41.08	41.19	45.67
Targets (%)	40.00	40.00	40.00	40.00	40.00

Write Off Policy

A number of small loans extended by the Bank including loans to weaker section of the society under various Government Sponsored Schemes were pending for a long time due to various reasons such as whereabouts of the borrower were not known, inability of the borrowers to repay the loan etc. In some cases the outstanding amount being very small legal action was not considered desirable. In spite of the best efforts taken, the Branch could not recover the dues from the above said accounts in the normal course. Such accounts shall normally be considered for write-off.

While writing off, the following qualifying factors were taken into account:

1. The borrowal account has been classified as "Loss Asset".
2. No lapses on part of the staff.
3. Whenever loans are written-off in compliance to the norms specified already, a comprehensive note is placed to the Board and approval is obtained.

Further, provisioning is made duly adhering to RBI norms.

Since the technical write off is done only to the extent of provision already made or to the extent of loss asset, this will not have any impact on the operating profit in the balance sheet.

The details of assets actually written off though there are pending litigations such matters are furnished below:

(Rs in lakhs)

S.No.	DIVISION	BORROWER	CIVIL COURT / DRT	VALUE OF SUIT CLAIM
1	Chennai	Rathidevi	Civil	0.15
2	Chennai	A Jayaseelan	Civil	0.18
3	Karur	K Seethalakshmi	Civil	2.64
4	Salem	G. Nadanaganapathy	Civil	1.72
5	Chennai	Saraco Impex	DRT	41.14
6	Karur	Selvin Exports	DRT	121.55
7	Karur	Lotus Impex	DRT	143.60

Investments

Investment Policy:

The main objectives of the investment policy are as follows:

- Compliance with SLR/CRR requirements

- Judicious and optimum utilization of funds available with the bank
- Improving the return on investments made in government other approved securities, corporate shares/bonds, units of mutual funds and other securities that the bank may hold from time to time, taking into account the safety of the investment, liquidity requirements, capital adequacy norms, etc., as applicable from time to time and in conformity of ALM policy of the bank.
- Maintenance of balanced maturity mix of securities to minimize the interest rate risk and consequential price risk
- Reduction of tax incidence by investments in tax-free instruments
- Trading in securities and money market instruments to improve income through arbitrage
- Conducting all investment and dis-investment transactions within the overall mandatory and statutory regulations
- Proper delegation and decentralization of powers with checks and balances to prevent frauds, misappropriations or misdemeanor by the concerned while dealing in securities

The following table shows pattern of investments in the last three years

(Rs. in crore)

As on March 31	2007	2008	2009
Gross Investments	1353.65	1744.04	1889.71
SLR Investments total	1227.85	1598.87	1686.87
- Permanent Investments /Held to maturity	932.53	1079.58	1358.37
- Current Investments /Available for sale	295.32	519.29	328.51
Current Investments to total SLR Investments (%)	24.05	32.48	19.47

The Following table shows aggregate value of quoted and unquoted Non-SLR Investments (Rs. in crore)

Particulars	2007	2008	2009
Quoted Non SLR investments	107.72	130.10	189.09
Unquoted Non SLR investments	18.07	15.07	12.75

Yield on Investments

The yield on investments (%) for the last five years is given below:

As on March 31	2005	2006	2007	2008	2009
Yield including profit on sale of investments (%)	6.91	5.71	6.57	8.11	8.48
Yield excluding profit on sale of investments (%)	7.45	6.53	6.66	6.78	6.84

Control System in the Bank

The Bank has well defined control systems in all critical areas of operation i.e. corporate credit, forex, treasury and retail finance which are documented and reviewed from time to time. The Bank also has a full fledged internal inspection & audit machinery through which all branches are put under regular inspection encompassing the whole range of activities, i.e. business development, profitability, NPA Recovery, credit management, house keeping & internal controls, status of audit reports, customer service, branch administration, premises, adherence to RBI & GoI guidelines, etc. The policies related to advances, investments, foreign exchange are reviewed by the Board of Directors on a regular basis. The inspection and audit of branches are reviewed by the Audit Committee of the Board (ACB) on a regular basis and the compliance with audit reports are followed up closely.

Objectives:

1. Aiding the Bank Management in achieving efficiency and effectiveness in all the operations, thereby ensuring that the branches are run on sound lines both from the financial and organizational points of view

2. keeping in high esteems the ethics, purity and integrity of the institution in the process of upholding confidence among general public
3. achieving excellence in performance though implementing effectively the strategies chalked out towards corporate goal
4. providing invaluable information to the controller for a sound administration of entire functions of the bank
5. ensuring that the laid down systems and procedure are followed scrupulously and the regulatory requirements are met meticulously
6. subjecting on and off balance sheet items for thorough inspection so these reflect true and fair picture of the bank
7. employing suitable mechanism for an incisive, comprehensive and effective inspection and audit and upgrading it to be compatible with the growing needs of banking mechanization
8. enabling the branches and controlling offices to set right the house at the earliest given opportunity before any serious setback creeps in
9. maximizing profit and minimizing the loss in the business transactions

Asset Classification of Performing and Non-Performing Assets

Asset Classification of Performing and Non-Performing Assets for the last 5 years is given below:

(Rs. in crore)

Classification of assets as on	March 31, 2005	March 31, 2006	March 31, 2007	March 31, 2008	March 31, 2009
Standard Assets	2191.69	2888.99	3548.00	3793.11	5175.73
Sub Standard Assets	41.95	11.28	19.70	21.09	31.60
Doubtful Assets	143.26	111.12	108.84	111.98	103.89
Loss Assets	2.23	2.36	2.64	4.91	8.57
Gross NPAs	187.44	124.76	131.18	137.98	144.05
Gross Advances	2379.13	3013.74	3679.18	3931.09	5319.78

Advances given above are Gross Advances while the Balance Sheet indicates Net Advances after setting off provisions, interest suspense etc: Gross Advances – (Provisions, Interest Suspense and DICGC & ECGC claims) = Net Advances. The details of Non-Performing Assets of the Bank are furnished in the various tables below:

(Rs. in crore)

As on March 31	2005	2006	2007	2008	2009
Gross NPA at the beginning of the year	216.83	187.44	124.76	131.18	137.98
Addition during the year	44.19	11.97	79.50	46.32	36.49
Reduction during the year	13.80	74.65	73.08	39.52	30.42
Upgradation	3.94	26.50	4.53	4.53	3.64
Cash Recovery	9.86	17.31	21.68	26.55	26.29
Compromise / Write-off	2.13	19.84	30.21	8.44	0.49
Sale of Assets	-	11.00	16.66	-	-
Gross NPA at the end of the year	187.44	124.76	131.18	137.98	144.05
Provision	61.42	60.93	66.47	72.30	73.95
Interest Suspense	-	-	-	-	-
DICGC & ECGC Balance	9.27	7.07	7.07	4.34	3.91
Net NPA at the end of the year	109.48	91.97	55.60	56.94	59.52
Gross Advances	2379.13	3013.75	3679.17	3931.09	5319.78
Gross NPAs	187.44	124.76	131.18	137.98	144.05

Gross NPAs to Gross Advances (%)	7.88%	4.14%	3.57%	3.51%	2.71%
Net Advances	2306.73	2944.58	3604.94	3852.63	5240.58
Net NPAs	115.05	55.60	56.94	59.52	64.85
Net NPA to Net Advances (%)	4.98%	1.89%	1.58%	1.54%	1.24%

Industry-Wise Classification on Non-Performing Assets

The industry classification of the top ten NPAs (borrower-wise classification) of the Bank as at March 31, 2009 is given hereunder:

(Rs in crore)

Sr. No.	Industry	Amount	% of the Total Gross Advances	Asset Quality as on March 31, 2009
1.	Trading	37.01	0.70	Sub-std,Doubtful-2,Doubtful-3 & Loss
2.	Electricals	2.42	0.05	Doubtful-3
3.	Cotton Textiles	5.78	0.11	Doubtful-2
4.	Polymers	4.28	0.08	Doubtful-3
5.	Vegetable Oil and Vanaspathy	4.34	0.08	Doubtful-3
6.	Other Textiles	2.77	0.05	Doubtful-3
7.	Residual Advance	2.24	0.04	Doubtful-1
8.	Trading	37.01	0.70	Sub-std,Doubtful-2,Doubtful-3 & Loss
9.	Electricals	2.42	0.05	Doubtful-3
10.	Cotton Textiles	5.78	0.11	Doubtful-2

NPA Management Strategy

The NPA cash recovery target for the year 2008-2009 was fixed at Rs. 70.00 crores whereas the actual recovery made upto is Rs. 63.19 crores. The Bank is utilizing the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 as an effective tool. Senior level executives visit the regions to take decisions on the spot for One Time Settlement (OTS)/ Out-of-court settlement (OCS). Second Level executives are allotted responsibility for NPA recovery.

As regards revamping of recovery mechanism we would like to add that as an ongoing exercise and also with a view to enable us to have a focused approach for recovery, the Bank has been adopting various measures. Further, to accelerate the recoveries and reduction of NPAs, the Bank has inter-alia continue to adopt the following strategies:-

1. Visiting the Branches (by Executives / Officers from A.O.), where the NPA position is high and meeting the defaulting parties directly, in order to gear up the recovery efforts.
2. Wherever possible, settling the NPA accounts by direct compromise /through Lok Adalats to the advantage of the Bank within the Policy parameters.
3. Continuing the recovery follow-up and trying for recovery even in the case of written-off small loan accounts and other bad debts/ Loss assets.
4. Following-up with the Advocates of the suit filed accounts including the decreed debt accounts towards execution proceedings on a continuous basis.
5. Motivating the other Staff in the Branch to involve in the follow-up and recovery of NPA accounts / irregular accounts and recognizing the successful efforts made by them in the recovery process, by placing on record their positive contribution and issuing appreciation letters.
6. Handling one period / session in every program conducted by our STC on 'Recovery Management', 'Legal aspects of Banking', 'Management of NPAs' etc.
7. The Large and Medium NPAs are targeted for monitoring and recovery by the Executives at the Administrative Office and the Divisional Offices.

8. Recovery for 2008-2009 was fixed at Rs.70.00 crores for the Divisional Offices. After restructuring, DGM (R&L) has been exclusively entrusted with the job of upgradation of Sub-Std NPA accounts.
9. To improve the recovery follow-up in suit filed/decreed cases, Law Officer and Advocate's meets are conducted. And the Executives / Officers of the Recovery & Legal Department during their visits to Branches meet the Panel Advocate handling the cases.
10. Steps are taken to expedite the recovery process in the case of suit filed accounts by bringing pressure on the parties, by filing applications for the advancing of the hearing dates, for Attachment Before Judgment in respect of the assets of the parties, for appointment of Commissioner / Receiver to dispose of the mortgaged securities even during the pendency of the cases etc.
11. Wherever necessary the borrowers are called at A.O. for meeting with top-level Executives including the Managing Director, in order to expedite/explore the recovery through amicable settlements.
12. The Bank's Recovery Policy has been thoroughly reviewed and revised and a new Corporate Compromise Policy has been introduced facilitating hassle free settlements. Adequate powers have been delegated to the Divisional Heads also and within the parameters of the recovery policy, the Settlement Proposals are entertained and considered based on the merits of the individual cases.
13. NPA Review Committee meeting of the Executives headed by Managing Director are held every month to review the NPA accounts having balance O/s Rs.15.00 lacs and above and immediate action is initiated as per directions of Committee.
14. For managing the NPAs, besides various Administrative measures, Top level intervention including the Board, is also sought for, wherever needed. The meeting of NPA Review Committee of the Board is held every quarter to review the NPA position and give suitable directions to the Administration.
15. It is well known that Banks had been persistent in their demand to take effective measures for recovery of the huge impaired assets, by implementing stringent legal measures. Now that the Government has come out with a new legislation – Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 which came into force on 21.06.02. Sequel to this, our Board has directed the Administration to take all necessary steps for effectively exercising the rights under the provisions of the Act and constructively use the same towards NPA recovery follow-up. Thus we have issued the 60 day Statutory Demand Notices in respect of 915 borrowal accounts as on 31.03.2009 involving Rs. 229.44 crores. In 648 cases, a total amount of Rs. 90.67 crores have been recovered and out of this, 359 cases have been settled involving a recovery of Rs.60.48 crores.
16. Lok Adalat exclusively for LVB cases have been convened at till date at various places and we could settle 322 cases involving a recovery of Rs. 6.47 crores.

In line with the international practices and as per the recommendations made by the Committee on the Financial System (Chairman Shri M. Narasimham), the Reserve Bank of India has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks so as to move towards greater consistency and transparency in the published accounts. Accordingly the Reserve Bank of India has revised from time to time prudential norms for assets classification and income recognition. Under the existing prudential norms, loan assets are broadly classified into 2 categories namely performing and non-performing. Performing assets are those on which the Bank recovers interest charges/installments of principal amount within a period of 90 days from the due date. The loan account in which irregularity regarding payment of principal or interest continues for a period beyond 90 days are classified as non-performing assets (NPAs).

The NPAs are further classified depending upon the period of delinquency and availability of tangible security as follows:

	Category	Definition
A.	Performing Standard Assets	An asset which is currently performing and in respect of which interest and principal payments are received regularly and where arrears of interest and principal, if any, do not exceed 90 days from the due date.
B.	Non Performing Assets	A non-performing asset (NPA) shall be a loan or an advance where interest and/or installment of principal remains overdue for a period of more than 90 days. Further banks are required to classify non-performing into the following three categories based on the period for which the asset has remained non-performing and the realisability of dues:
	i. Sub-standard assets	With effect from March 31,2005, a substandard asset is one which has been an NPA for a period less than or equal to 12 months.
	ii. Doubtful assets	With effect from March 31,2005 a doubtful asset is one which has remained substandard category for 12 months.
	iii. Loss assets	A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

When an account is classified as an NPA, interest already debited to the account is de-recognised and further interest accrued is on cash basis.

Provisions are arrived on all outstanding advances, as under:

- Standard Assets:** The banks should make a general provision of a minimum of 0.40 percent on standard assets on global loan portfolio basis.
- Sub-standard Assets:** A general provision of 10 percent on total outstanding should be made without making any allowance for DICGC/ECGC guarantee cover and securities available. The 'unsecured exposures' which are identified as 'substandard' would attract additional provision of 10 per cent, i.e., a total of 20 per cent on the outstanding balance.
- Doubtful Assets:** Unsecured Assets – 100% of the outstanding amount - Secured Assets – provision may be made on the following basis, at the rates ranging from 20 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful

Period for which advance has remained in Doubtful category	Provision requirement (%)
Up to one year	20
One to three years	30
More than three years	100

- Loss Assets:** The entire asset should be written off. If the assets are permitted to remain in the Books for any reason, 100 percent of the outstanding should be provided for.

Sector / Industry analysis of gross Non Performing Assets

A sector-wise analysis of gross Non Performing Assets for the last four years is shown below:

(Rs. in crore)

Industry	2006		2007		2008		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
Large & Medium Industry	6.85	5.49	34.42	26.24	22.08	16.00	44.67	31.01
Small Scale Industries	28.34	22.72	31.25	23.82	15.16	10.99	9.63	6.69
Priority Sector (Agriculture)	6.95	5.57	5.42	4.13	4.95	3.59	9.72	6.75
Other	82.62	66.22	60.09	45.81	95.79	69.42	80.03	55.56
TOTAL	124.76	100.00	131.18	100.00	137.98	100.00	144.05	100.00

Asset Liability Management

Maturity Profile of the Asset Liability as on March 31, 2009

Maturity	1 Day	2 to 7 days	8-14 days	15-28 days	29 days- 3 months	3 – 6 months	6 – 12 months	1 – 3 years	3 – 5 years	Over 5 years	Total
1. Outflows											
Capital	-	-	-	-	-	-	-	-	-	48.78	48.78
Reserves & Surplus	-	-	-	-	-	-	-	-	-	404.94	404.94
Deposits	54.37	196.39	142.93	213.83	695.41	671.26	1216.06	2720.70	283.08	1166.88	7360.90
Borrowings	-	-	-	-	1.05	3.85	7.97	19.72	-	-	32.59
Other Liability & Provision	24.57	4.91	44.91	0.31	15.03	12.20	-	268.96	-	30.00	400.88

Unavailed portion of Cash credit / Overdraft / demand loan LC/	0.85	5.15	6.01	12.02	53.21	27.25	55.70	-	-	-	160.19
Guarantees	0.11	0.67	0.78	1.56	6.89	-	-	-	-	-	10.00
Interest Payable	0.50	2.97	3.46	6.91	30.63	44.47	-	-	-	-	88.94
A: Total Outflows	80.40	210.09	198.08	234.63	802.22	759.03	1279.73	3009.38	283.08	1650.60	8507.23
B: Cumulative Outflows	80.40	290.48	488.57	723.19	1525.41	2284.44	3564.17	6573.55	6856.63	8507.23	8507.23
2. Inflows											
Cash	97.71	-	-	-	-	-	-	-	-	-	97.71
Balance With RBI	141.85	5.73	8.81	6.63	34.66	29.57	58.42	137.48	13.60	57.50	494.26
Balance With Other Bank	53.39	-	-	75.00	56.40	50.00	50.25	4.40	-	-	289.45
Investments	45.91	53.70	-	34.96	74.16	30.95	21.42	165.51	160.70	1254.22	1841.53
Advances Performing	63.36	75.53	78.29	198.31	558.74	565.92	624.36	2350.85	423.00	237.37	5175.72
Non – Performing Assets	-	-	-	-	-	-	-	-	28.42	42.63	71.05
Fixed Assets	-	-	-	-	-	-	-	-	-	53.98	53.98
Other Assets	22.22	-	-	-	-	-	-	208.81	-	3.34	234.36
Interest Receivable	0.22	1.29	1.50	3.00	13.30	19.31	-	-	-	-	38.61
C: Total Inflows	424.66	136.25	88.60	317.89	737.26	695.75	754.45	2867.05	625.72	1649.04	8296.67
3. Mismatches											
D: Mismatch(C-A)	344.26	-78.83	109.48	83.27	-64.96	-63.28	-525.28	-142.33	342.64	-1.56	-210.56
E: % Mismatch (D as a % of A)	428.19	-35.15	-55.27	35.49	-8.10	-8.34	-41.05	-4.73	121.04	-0.09	-2.48
F: Cumulative mismatch	344.26	270.42	160.94	244.21	179.25	115.97	-409.31	-551.64	-209.00	-210.56	-210.56
G: % Cumulative Mismatch F as % of B	428.19	93.09	32.94	33.77	11.75	5.08	-11.48	-8.39	-3.05	-2.48	-2.48

Asset-Liability mis-match

The following table shows the asset-liability mis-match for the last three years:

(Rs. in crores)

Year	1 Day	2 to 7 days	8-14 days	15-28 days	29 days to 3 months	3 months to 6 months	6 months to one year	One year to 3 years	3 years and upto 5 years	5 years & above
2006-07	NA	NA	62.86	(47.33)	(407.23)	(6.18)	(72.38)	184.20	132.64	(113.59)
2007-08	(22.94)	(83.27)	(18.47)	(112.72)	(40.24)	(154.77)	(806.91)	676.81	107.42	61.42
2008-09	344.26	(78.83)	(109.48)	83.27	(64.96)	(63.28)	(525.28)	(142.33)	342.64	(1.56)

Structural Liquidity

The structural liquidity as on March 31 for the last three years is given below

(Rs. in crores)

	Total inflows			Total outflows			Mismatch		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
1 day	80.4	293.68	NA	424.66	316.62	NA	344.26	-22.94	NA
2 to 7 days	210.09	82.78	NA	136.25	166.05	NA	-78.83	-83.27	NA
8 to 14 days	198.08	79.56	605.56	88.6	98.03	542.69	-	-18.47	62.86
15-28 days	234.63	190.37	263.26	317.89	303.09	310.59	83.27	-	-47.33
29 days and upto 3 months	802.22	619.30	613.22	737.26	659.55	1020.44	-64.96	-40.24	-
Over three months and upto 6 months	759.03	440.44	357.29	695.75	595.21	363.46	-63.28	154.77	-6.18
Over 6 months and upto 1 year	1279.73	463.98	423.10	754.45	1270.89	495.48	-	-	-72.38
Over 1 year and 3 years	3009.38	2266.28	1805.28	2867.05	1589.47	1621.07	-	-	-
Over 3 year and upto 5 years	283.08	469.25	430.99	625.72	361.83	298.35	142.33	676.81	184.2
Over 5 years	1650.6	1613.62	1264.98	1649.04	1552.20	1378.57	342.64	107.42	132.64
Over 5 years	1650.6	1613.62	1264.98	1649.04	1552.20	1378.57	-1.56	61.42	-
Total	8507.23	6519.25	5763.66	8296.67	6912.93	6030.67	210.56	393.67	267.00

Fixed and Floating Rate Liabilities

The liabilities and assets as on March 31, 2009 are given below

(Rs. in crore)

Liabilities	Fixed	Floating	Total
Deposits	7360.90	-	7360.90
Borrowings	0.78	31.82	32.60
Other Liabilities	-	-	-
Bills Payable	-	-	-
Int. Accrued	-	-	-

Subordinate Bond	110.00	-	110.00
Assets			
Investments	1863.06	-	1863.06
Advances	1394.94	3780.79	5175.73
Others	-	-	-

Financial Ratios and other Financial Information

Key Accounting Ratios

For the Year/ Nine months ended	March 31, 2005	March 31, 2006	March 31, 2007	March 31, 2008	March 31, 2009
Earnings per Share (EPS) (Rs.)	2.91	11.50	3.60	5.18	10.31
Cash Earnings per Share (Rs.)	8.19	14.75	5.24	6.94	12.92
Book Value per Share/ Net Asset value per share (Rs.)	199.83	149.00	81.18	85.63	93.02
Return on Net worth (%)	1.45	8.63	5.12	6.21	11.54
OTHER RATIOS					
Net NPA to Net Advances Ratio (%)	4.98	1.89	1.58	1.55	1.24
Interest Income/ Working Funds (%)	7.66	7.58	7.98	8.17	9.29
Non-Interest Income/ Working Funds (%)	0.98	1.08	0.85	1.33	1.51
Return on Average Assets (%)	0.08	0.53	0.33	0.41	0.71
Business per Employee (Rs. in crore)	2.96	3.71	4.30	4.53	5.10
Net Profit per Employee (Rs. In lacs)	0.17	1.20	0.91	1.22	2.07
Capital Adequacy Ratio (%)	11.32	10.79	12.43	12.73	10.09
Tier I	5.67	6.94	9.93	10.53	8.63
Tier II	5.65	3.85	2.50	2.20	1.46
Credit/ Deposit Ratio (%) (net)	68.05	69.50	73.29	69.97	72.27
Operating Profit/ Average Working Funds (%)	1.40	0.94	1.37	1.45	1.54
Yield on Advances (%)	9.21	9.27	9.76	11.09	12.25
Yield on Investments (%)	6.91	5.71	6.57	8.11	8.48
Cost of Deposits (%)	5.67	5.83	6.27	7.31	7.96
Gross Profit per Employee (Rs. In lacs)	2.84	2.13	3.82	4.34	4.47

Definitions of Key Ratios:

Earnings per Share (EPS) (Rs.)	Profit After Tax/ No. of Equity Shares
Cash Earnings per Share (Rs.)	(Profit After Tax + Depreciation)/ No. of Equity Shares
Book Value per Share/ Net Asset value per share (Rs.)	Networth at year end/ No. of Equity Shares
Return on Net worth (%)	Net Profit/ Average Equity
Net NPA to Net Advances Ratio (%)	Net NPAs/ Net Advances
Interest Income/ Working Funds (%)	Interest Income/ Average Working Funds (Total Average of monthly total assets as per Form X)
Non-Interest Income/ Working Funds (%)	Non-Interest Income/ Average Working Funds (Total Average of monthly total assets as per Form X)
Return on Assets (%)	Net Profit/ Average Total Assets
Business per Employee (Rs. In lacs)	(Deposit + Advances)/ No. of Employees
Net Profit per Employee (Rs. In lacs)	Net Profit/ No. of Employees
Capital Adequacy Ratio (%)	
Tier I	Tier I Capital/ Risk Weighted Assets
Tier II	Tier II Capital/ Risk Weighted Assets

Minimum requirement of Capital Funds

Banks were required to maintain a minimum capital to Risk weighted Assets Ratio (CRAR) Norm of 9 percent on an ongoing basis up to the year ending March 1999. As a measure of abundant caution, RBI requires the Bank to maintain CRAR of 1-12% at any point of time.

To maintain uniform credit growth and stipulated CRAR throughout fiscal 2010, Bank requires additional capital. Hence the Bank has decided to augment its Tier I capital base.

The Bank has also raised Tier II Capital by way of private placement of unsecured, redeemable bonds in the nature of promissory notes/ debentures to augment capital adequacy as under:

Issue Series	Year of Placement	Deemed Date Of Allotment	Issue Amount (Rs. In crores)	Tenure (in months)	Credit Rating	Coupon Rate (% p.a. annually)	Redemption Date
Series IIIA	2003-04	12.09.2003	40.00	67	BBB+	7.20	11.04.2009
Series IIIB	2003-04	12.09.2003	10.00	91	BBB+	7.40	11.04.2011
Series IV-A	2004-05	31.03.2005	19.00	67	BBB+	8.25	31.10.2010
Series IV-B	2005-06	31.05.2005	11.00	67	BBB+	8.25	31.12.2010
Series V	2006-07	30.09.2006	30.00	115	BBB+	9.95	30.04.2016

Risk Weighted Assets

Both under Basel I and II, Each class of assets of the Bank (including off-balance sheet assets) is assigned a risk weight (following certain norms laid down by RBI). The value of risk weighted assets for each class of assets is obtained by multiplying the amount of each asset class by its risk weight. The total risk weighted assets are obtained by summing up the individual risk weighted assets. The Bank has implemented the Basel II norm with effect from March 31, 2009.

An International Committee of Banking Regulations and Supervisory Practices of the BIS released an agreed framework on international convergence of CAR for commercial Banks. The minimum CAR was set at 8%. The capital adequacy norms are to be enforced by the Banking Supervisory Authority of the respective country. RBI being the Central Bank of the country had issued guidelines and prescribed that Indian Banks should achieve CAR of 9%, by March 31, 2000.

Capital Adequacy Position of the Bank

The Capital Adequacy Ratio ("CAR") of the Bank as on March 31, 2009 was 10.09% as against the RBI stipulation of 9.00%. Details of capital vis-à-vis risk weighted assets are as under:

As on	(Rs. In crores)				
	March 31, 2005	March 31, 2006	March 31, 2007	March 31, 2008	March 31, 2009
Capital Funds					
Tier I Capital					
Paid up Equity Capital	11.51	19.53	47.81	48.77	48.78
Less Investment in Subsidiary	-	-	-	-	-
Reserves & Surplus (net of DTA/DTL)	118.85	184.33	295.86	345.71	385.45
Total Tier I Capital	130.36	203.86	343.67	394.48	434.23
Tier II Capital					
Revaluation Reserve	-	-	-	-	-

General Provisions	5.55	10.30	14.45	26.45	33.31
Subordinated Debt	65.18	62.16	72.00	56.00	40.00
Investment Fluctuation Reserve	35.99	40.74	-	-	-
Contingency Reserves	3.87	-	-	-	-
Building Reserve	4.48	-	-	-	-
Development Reserve	14.86	-	-	-	-
Total Tier II Capital	129.93	113.20	86.45	82.45	73.31
Total Capital Fund	260.29	317.06	430.12	476.93	507.65
Risk Weighted Assets	2299.47	2938.20	3460.74	3747.74	5032.49
Capital Adequacy Ratio (%)	11.32	10.79	12.43	12.73	10.09

Risk Management

The bank has adopted suitable risk management practices for managing market risk, credit risk and operational risk taking into consideration the volume and nature of business activities.

The Integrated Risk Management Committee of the Board ensures that risks are appropriately managed in the Bank. The policies put in by the Bank help to meet the dynamic challenges in the external and internal environments in which the Bank operates and also to comply with the regulatory requirements. The present capital adequacy ratio places the bank in a satisfactory level as per Basel II norms.

During the current year the bank migrated to Basel II as per RBI guidelines and calculated capital adequacy ratios under Basel II. The bank is maintaining CRAR well above the minimum level of 9%. Internal Capital Adequacy Assessment Process (ICAAP) document has been prepared for the bank as per RBI guidelines.

Risk Management Committee

The Integrated Risk Management Committee constituted as per RBI guidelines, formulates Bank's Credit, Operational and Market risk policies and reviews the Assets and Liabilities of the Bank based on the daily structural liquidity and dynamic liquidity statements on outflows and inflows and also periodically analyze the interest rate sensitivity of assets and liabilities.

Besides to monitor the asset quality rating transition matrix was analyzed and advises the functional departments to take corrective steps to protect the asset quality, wherever necessary.

Credit Risk Assessment

The Bank prescribes minimum borrower standards in terms of parameters such as Credit Rating (for smaller credit) or Credit Risk Assessment Grade (for larger credit), Debt-Equity Ratio (TOL/TNW), margins on assets financed, Debt Service Coverage Ratio, Current Ratio, etc.

The "Credit Risk Assessment" (CRA) system was developed in 2004 in consultation with ICRA and was introduced in the same year as part of credit risk management systems in the Bank, providing a framework for objective risk assessment. The system takes into account risk parameters under the following four broad categories:

- (a) Financial risk parameters
- (b) Management risk parameters
- (c) Industry risk parameters, and
- (d) Risks evidenced by the account operations

The goal of credit risk management is to ensure that it is within the acceptable risk appetite & tolerance limit set by the management.

**Information Technology**

The Bank has consolidated on its Technology infrastructure after implementing Core Banking Solutions across the Bank. All the Branches / Offices are networked with built in redundancies. An email communication system on Microsoft Exchange Platform and a unified communication system with voice, data, and video are available across the bank for effective and speedier communication.

The entire IT infrastructure is optimized from Technology Centre, Chennai and Disaster Recovery site at Bangalore. A board approved Business Continuity Plan (BCP) is in place and as part of it regular Business Continuity Drills are conducted by the Bank.

The Bank's network, security infrastructure and production environment is monitored on a 24X7 basis by professionally qualified people to ensure that systems are continuously available.

A well defined Backup process is in place with online replication happening between the primary site and the Disaster Recovery site.

The Bank has enhanced the following products / services / applications on its technology platform.

1. Internet Banking – Corporate / Retail
2. SMS Banking
3. RTGS / NEFT / ECS
4. RTGS on the Internet
5. ATM tie – up with NFS, Cash Tree consortium giving access to nearly 40,000 plus ATMs across the country
6. An interactive website
7. Several IT enabled products
8. Fund transfer on ht internet
9. A comprehensive MIS system where reports are available to all key personnel across the bank
10. Executive Dashboard to enable executive to access key Data on a near real time basis

Disaster Recovery and Backup Policy

The Disaster Recovery Policy (DRP) and Backup strategy plan and procedure is implemented to guide the Bank in establishing a process or system to provide continuity of business functions / activities in cases of major and minor disasters. The policy identifies the options available to the Bank for establishing a DRP system, the linkages with Bank's overall corporate DR plan and business functions and other general guidelines to prevent or minimize disruption when disaster strikes.

BCP & DR has been approved by the Board. We have set up our DR site for CBS at Bangalore and we are conducting DR Drill periodically as per the Business Continuity and Disaster Recovery Plan. Recovery Time Objective and Recovery Point Objective have been defined and backup of data is done based on these benchmarks.

KEY REGULATIONS AND POLICIES

The main legislation governing commercial banks in India is the Banking Regulation Act, 1949. Other important laws include RBI Act, the Negotiable Instruments Act and the Banker's Books Evidence Act. Additionally, RBI, from time to time, issues guidelines to be followed by banks. Compliance with all regulatory requirements is evaluated with respect to financial statements under Indian GAAP. Banking companies are also subject to the purview of the Companies Act and if such companies are listed on a stock exchange in India then various regulations of SEBI would additionally apply to such companies.

Reserve Bank of India Regulations

Commercial banks in India are required under the Banking Regulation Act to obtain a license from RBI to carry on banking business in India. Before granting the license, 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. 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 RBI. RBI requires us to furnish statements, information and certain details relating to our business. It has issued guidelines for commercial banks on recognition of income, classification of assets, valuation of investments, maintenance of capital adequacy and provisioning for non-performing assets. RBI has set up a Board for Financial Supervision, under the chairmanship of the Governor of RBI. The appointment of the auditors of banks is subject to the approval of RBI. RBI can direct a special audit in the interest of the depositors or in the public interest.

Regulations relating to the Opening of Branches

Section 23 of the Banking Regulation Act provides that banks must obtain the prior approval of RBI to open new branches. Permission is granted based on factors such as the financial condition and history of the banking company, its management, adequacy of capital structure and earning prospects and the public interest. RBI may cancel the license for violations of the conditions under which it was granted. 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. These population figures relate to the 2001 census conducted by the Government of India. In September 2005, RBI issued a new branch authorization policy in terms of which the system of granting authorizations for opening individual branches from time to time was replaced by a system of aggregated approvals on an annual basis. RBI discusses with individual banks their branch expansion strategies and plans over the medium term. The term "branch" for this purpose has been defined to also include extension counters, administrative offices and back offices. While processing authorization requests, RBI gives importance to the nature and scope of banking services particularly in under-banked areas, actual credit flow to the priority sector and efforts to promote financial inclusion, the need to induce enhanced competition in the banking sector, the bank's regulatory compliance, quality of governance, risk management and relationships with subsidiaries and affiliates.

Capital Adequacy Requirements

The Bank is subject to the capital adequacy requirements as specified by RBI from time to time. The Bank has to maintain a minimum ratio of capital to riskweighted assets of 9.0%, at least 6% of risk weighted assets must be Tier I capital.

The total capital of a bank 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 reserves, pursuant to the Indian Income Tax Act, as reduced by equity investments in subsidiaries, intangible assets, gaps in provisioning, and losses in the current period and brought forward from the previous period. In fiscal year 2003, the RBI issued guidelines requiring a bank's deferred tax asset to be treated as an intangible asset and deducted from its Tier I capital. Tier II capital consists of undisclosed reserves, revaluation reserves (at a discount of 55.0%), general provisions and loss reserves (allowed up to a maximum of 1.25% of riskweighted 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 during the last five years of the tenure for inclusion in Tier II capital and total subordinated debt considered as Tier II capital cannot exceed 50.0% of Tier I capital. Total Tier II capital cannot exceed Tier I capital.



With a view to providing banks with additional options to raise capital funds, the RBI, by a circular dated January 25, 2006, authorised the issue of instruments such as (i) Innovative Perpetual Debts Instruments ("IPDIs") as part of Tier I capital and (ii) Upper Tier II subordinated debt as part of Tier II capital.

As per these guidelines, IPDIs have a call option after not less than ten years from the date of issue, to be exercised with the RBI's prior approval, for inclusion as Tier I capital up to a maximum of 15.0% of total unimpaired non-innovative Tier I capital. Upper Tier II instruments have a minimum maturity of 15 years and a call option after not less than ten years from the date of issue, to be exercised with the RBI's prior approval, for inclusion as Tier II capital. On July 21, 2006, the RBI also issued guidelines permitting the issuance of Tier I and Tier II debt instruments denominated in foreign currencies to the extent of and subject to the conditions stipulated therein.

Risk-adjusted assets and off-balance sheet items considered for determining the capital adequacy ratio are the risk weighted total of specified funded and non-funded exposures. Degrees of credit risk expressed as percentage weighting have been assigned to various balance sheet asset items and for off-balance sheet items. In respect of off balance sheet exposure, the percentage risk-weightage is made with the appropriate credit conversion factor. The book value of each item is multiplied by the relevant weight and/ or conversion factor to produce risk-adjusted values of assets and off-balance sheet items. Standby letters of credit or guarantees and documentary credits are treated as similar to funded exposure and are subject to similar risk weight. All foreign exchange and gold open position limits carry a 100.0% risk weight. Capital requirements have also been prescribed for open foreign currency exposures and open positions in gold.

In June 2004, the RBI issued guidelines requiring banks to maintain a capital charge for market risk in respect of:

- securities included in the held for trading category (including derivatives) w.e.f March 31, 2005; and
- securities included in the available for sale category by w.e.f March 31, 2006.

Currently, held-to-maturity securities are not marked to market and are carried at acquisition cost or at an amortised cost if acquired at a premium over the face value. Securities classified as available for sale or held for trading are valued at market or fair value as of the balance sheet date. The aggregate risk-weighted assets are taken into account for determining the capital adequacy ratio. Accordingly, the Bank has provided a capital charge for market risk on the securities included in the trading book, as per the standardized duration method.

In April 2007, the RBI issued final guidelines for the implementation of the revised capital adequacy framework of the Basel Committee ("Basel II framework"). These guidelines specify that foreign banks operating in India and Indian banks having an operational presence outside India should migrate to the Basel II framework by adopting the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk with effect from March 31, 2008. All other commercial banks (except local area banks and regional rural banks) are encouraged to migrate to the Basel II framework no later than March 31, 2009 by adopting one of these approaches, as appropriate these approaches. After adequate expertise has been developed, both at the banks and at the supervisory level, some banks may be allowed to migrate to the Internal Ratings based approach after obtaining RBI approval. The guidelines also prescribe a 75.0% risk weight for retail credit exposures, differential risk weights for other credit exposures linked to their credit rating, and a capital charge for operational risk based on a factor of 15.0% of the sum of a bank's previous three year average net interest income and non-interest income (excluding extraordinary income). The RBI has, in January 2008, decided that educational loans will no longer qualify as consumer credit and carry a risk weight of 100% under the Basel I framework and 75% under the Basel II framework.

Issuance of Preference Shares as Part of Regulatory Capital

With a view to providing banks with a wider choice of instruments to raise Tier I and Tier II capital, the RBI, through its circular dated October 29, 2007, permitted the issue of preference shares in Indian Rupees. The said circular provides, inter alia, that preference shares shall be eligible for inclusion in Tier I or Tier II capital as set out below:

Tier I capital:

- the outstanding amount of Tier I preference shares along with innovative Tier I instruments must not exceed 40% of total Tier I capital;
- the shares shall be perpetual non-cumulative preference shares and shall be fully paid up, unsecured and free of restrictive clauses;

- the shares shall be issued without a put or step-up option; however, a call option is permitted provided it is exercisable only after a period of ten years and with the prior approval of the RBI;
- no dividend may be declared if the Bank's CRAR is below (or is caused by the payment to fall below) the minimum stipulated CRAR or if the half yearly (for a half yearly dividend) or current year's balance sheet shows accumulated losses; and
- the dividend shall not be cumulative, for example a dividend missed in one year will not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum.

Tier II capital:

- the outstanding amount of these instruments, along with other components of Tier II capital, must not exceed 100% of Tier I capital at any point in time;
- the shares may be perpetual cumulative preference shares, redeemable non-cumulative preference shares or redeemable cumulative preference shares and shall be fully paid up, unsecured and free of any restrictive clauses;
- the period of maturity for redeemable non-cumulative preference shares and redeemable cumulative preference shares shall be at least 15 years;
- Shares shall be issued without a put option; a call option, however, is permitted provided such option is exercisable only after a period of ten years and with the prior approval of the RBI. A step-up option may be exercised only once during the term of the instrument and must not exceed 100 basis points;
- the coupon rate payable should be a fixed or floating rate referenced to a market determined Rupee interest benchmark rate and will not be payable if the Bank's CRAR is below (or is caused by the payment to fall below) 9% or if the Bank suffers a net loss; and
- redemption shall not be at the initiative of the holder and shall only be made with the prior approval of the RBI, even at maturity.

The Redeemable Preference Shares (both cumulative and non-cumulative) shall be subjected to a progressive discount for capital adequacy purposes over the last five years of their tenor, as they approach maturity.

Loan Loss Provisions and Non-Performing Assets

In April 1992, RBI issued formal guidelines on income recognition, asset classification, provisioning standards and valuation of investments, which are revised from time to time.

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

Asset Classification

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank. An NPA is an asset in respect of which either the principal or interest remains overdue for more than 90 days.

An NPA is a loan or an advance where:

- interest and/or the instalment of principal has remained overdue for a period of more than 90 days in respect of a term loan;
- the account has remained "out-of-order" (as defined below) in respect of an overdraft or cash credit for more than 90 days;
- the bill has remained overdue for a period of more than 90 days in the case of purchased and discounted bills;
- the installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- the installment of principal or interest thereon remains overdue one crop season for long duration crops, and
- any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Once an account has been classified as a non-performing asset, the unrealised interest and other income already debited to the account is de-recognised and further interest is not recognised or credited to the income account unless collected.

“Out of Order” Status

An account should be treated as “out-of-order” if the outstanding balance remains continuously in excess of the sanctioned drawing limit. In circumstances where the outstanding balance in the principal operating account is less than the sanctioned drawing limit, but (i) there are no credits continuously for a period of 90 days as of the date the balance sheet of the bank or (ii) the credits are not sufficient to cover the interest debited during the same period, these accounts should be treated as “out-of-order”.

Non-performing assets are classified as described below.

Sub-Standard Assets: Assets that are non-performing assets for a period not exceeding 12 months. 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 jeopardize the liquidation of the debt and are characterized by the distinct possibility that the bank will sustain some loss, if deficiencies are not corrected.

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

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

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

RBI also has separate guidelines for restructured loans. A fully secured restructured standard asset can be restructured by rescheduling principal repayments and/or the interest element, but must be separately disclosed as a restructured asset. A rescheduling of the instalments of principal amount alone does not result in a standard asset being classified as substandard provided the loan/credit facility is fully secured. The amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved. Similar guidelines are applicable to substandard assets. A rescheduling of interest shall not result in an asset being downgraded to sub-standard, provided that the amount of sacrifice, measured in present value terms, is 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 by whatever modality, whether in respect of the 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. RBI has issued separate guidelines concerning debt-restructuring mechanisms for small and medium enterprises. 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 made 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 to Agri and SME advances. A general provision of 0.40% is required to other advances.

Sub-Standard Assets: A general provision of 10.0% of the total outstanding and an additional 10.0% total outstanding on the "unsecured exposures" identified as "Substandard" (i.e. the total provisioning on the unsecured exposures shall be 20.0%). For purposes of this classification, an unsecured exposure is one where the realizable value of security is not more than 10.0%, ab initio, of the outstanding exposure. Also "exposure" shall include both funded and non-funded exposure.

Doubtful Assets: Provision at 100.0% of the extent to which the advance is not covered by the realisable value of security. With regard to the secured portion, provision is to be made as set out below:

Period for which advance remained in "Doubtful" category	Provisioning requirement (%)
Up to one year	20.0%
One to three years	30.0%
More than three years	100.0%

Banks are, however, permitted to provide the additional provisioning, required due to the reduction in the transition period from "sub-standard" to "doubtful asset," from 18 to 12 months over a four year period commencing from the year ending March 31, 2005, with a minimum of 20.0% each year.

Loss Assets: The entire asset shall be written off. However, if, for any reason whatsoever, the asset is retained on the books, a 100.0% provision shall be made on the outstanding amount.

Restructured Loans: The amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

In June 2006, RBI issued prudential norms on creation and utilization of floating provisions (i.e., provisions which are not made in respect of specific non-performing assets or are made in excess of regulatory requirements for provisions for standard assets). The norms state that floating provisions can be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining approval from the Board of Directors and with the prior permission of RBI. In March 2007, RBI issued a guideline stating that extra-ordinary circumstances refer to losses which do not arise in the normal course of business and are exceptional and non-recurring in nature. The extra-ordinary circumstances have been broadly classified into three categories, namely General, Market and Credit. General category includes situations where a bank is put unexpectedly to loss due to events such as civil unrest or collapse of currency in a country. Natural calamities and pandemics may also be included in the General category. Market category would include events such as a general melt down in the markets, which affects the entire financial system. Among the Credit category only exceptional credit losses would be considered as an extra-ordinary circumstance. Floating provisions for advances and investments would be held separately and cannot be reversed by credit to the profit and loss account. Until utilization of such provisions, they can be netted off from gross non-performing assets to arrive at disclosure of net non-performing assets. Alternatively, floating provisions can be treated as part of Tier II capital within the overall ceiling of 1.25% of total risk-weighted assets. Floating provisions do not include specific voluntary provisions made by banks for advances which are higher than the minimum provision stipulated by RBI guidelines.

Regulations relating to Making Loans

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

- 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. Banks are required to declare a benchmark prime lending rate based on various parameters including cost of funds, non-interest expense, capital charge and profit margin. Each bank should also indicate the maximum spread over the prime lending rate for all credit exposures other than retail loans. The interest charged by banks on advances up to Rs. 2 lakhs to any one entity (other than certain permitted types of loans including loans to individuals for acquiring residential property, loans for purchase of consumer durables and other non-priority sector personal loans) must not exceed the benchmark prime lending rate. Banks are also given freedom to lend at a rate below the prime lending rate in respect of creditworthy borrowers and exposures. Banks are also free to stipulate lending rates without reference to their own benchmark prime lending rates in respect of certain specified categories of loan.
- Section 21A of the Banking Regulation Act provides that the rate of interest charged by a bank shall not be reopened by any court on the ground that the rate of interest charged by a bank is excessive. In May 2007, RBI notified that the boards of banks should lay down internal principles and procedures so that interest rates charged by banks are in conformity with normal banking prudence and are not usurious. The Banking Regulation Act provides for protection to banks for interest rates charged by them.
- In terms of Section 20(1) of the Banking Regulation Act, a bank cannot grant any loans and advances against the security of its own shares, a banking company is prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company (not being a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, 1956, or a government company) of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor. There are certain exemptions in this regard as the explanation to the section provides that 'loans or advances' shall not include any transaction which RBI may specify by general or special order



as not being a loan or advance for the purpose of such section.

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

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

Corporate Debt Restructuring Mechanism

In order to put in place as institutional mechanism for the restructuring of corporate debt, the RBI devised a Corporate Debt Restructuring ("CDR") System, guidelines pertaining to which were issued on August 23, 2001. Subsequently, detailed guidelines were issued of February 5, 2003. The objective of this framework is to ensure a timely and transparent mechanism for the restructuring of corporate debts of viable entities facing problems, but outside the purview of the Board for Industrial and Financial Reconstruction, debt recovery tribunals and other legal proceedings. In particular, the framework aims to preserve viable corporates that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring program. The corporate debt restructuring system is a non-statutory mechanism and a voluntary system based on debtor-creditor and intercreditor agreements. Secured creditors having a minimum 20.0% exposure in term loans or working capital may make a reference to the CDR Forum. The system established by the RBI has a three-tier structure, led by the CDR Standing Forum, which is the general body for all member institutions, out of which is carved out the CDR Core Group, a niche body of select institutions that decides policy matters. Decisions on restructuring are taken by the CDR Empowered Group, which has all the member banks and financial institutions as its members. A CDR Cell has been formed to assist the CDR Forum in administrative matters and for analysis of the restructuring packages.

The RBI has, by its circular dated November 10, 2005, amended the above guidelines on CDR. The major amendments include:

- extending the scheme to entities with an outstanding exposure of Rs. 100 million or more;
- requiring the support of 60.0% of creditors by number in addition to the support of 75.0% of creditors by value,
- with a view to making the decision-making more equitable;
- giving discretion to the Core Group in dealing with wilful defaulters in certain cases, other than cases involving fraud or the diversion of funds with mala fide intentions;
- linking the restoration of asset classification prevailing on the date of reference to the CDR Cell to implementation of the CDR package within four months from the date of approval of the package;
- restricting the regulatory concession in asset classification and provisioning to the first restructuring, where the package also has to meet norms relating to the turn-around period, minimum sacrifice and injection of funds by promoters;
- converging in the methodology used by banks and financial institutions for the computation of economic sacrifice;
- limiting RBI's role to providing broad guidelines for the CDR mechanism;
- enhancing disclosures in the balance sheet to provide greater transparency;
- requiring the pro-rata sharing of additional finance requirements by both term lenders and working capital lenders;
- allowing one-time settlement as a part of the CDR mechanism to make the exit option more flexible; and requiring the valuation and regulatory treatment of non-SLR instruments acquired while funding interest or in lieu of outstanding principal.

Furthermore, on September 8, 2005, a debt restructuring mechanism in line with the CDR mechanism prevailing in the banking sector was introduced for units in the SME sector.

Enforcement of Security Interests under the SARFAESI Act

To assist banks and financial institutions in recovering their unpaid advances and to ensure financial discipline among borrowers, the Government enacted the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act ("SARFAESI Act") in December 2002. The SARFAESI Act provides the legal framework for (i) the securitisation of financial assets by setting up a Securitisation Company ("SC") or

Reconstruction Company ("RC"); (ii) the foreclosure of assets through an SC or RC; and (iii) the foreclosure of NPA accounts. Pursuant to the SARFAESI Act, a secured creditor may, in respect of loans classified as NPAs, give notice in writing to the borrower, requiring it to discharge its liabilities within 60 days, failing which, and in the absence of any satisfactory objections or representations made by the borrower, the secured creditor may take the following measures to recover the amounts due:

- taking possession of the secured assets of the borrower including the right to transfer by way of lease, assignment or sale in order to realise the secured assets;
- taking over the management of secured assets, including the right to transfer these assets by way of lease, assignment or sale in order to realise the secured loans;
- appointing any person to manage the secured assets after taking possession; or
- advising any person who owes money, due to the acquisition of any of the secured assets from the borrower, to pay the money directly to the banks and institutions.

If required, the secured creditors may request the Chief Metropolitan Magistrate or the District Magistrate to take possession of part or whole of the secured assets and other related documents and forward the assets and documents to the secured creditors. The sale proceeds would first be utilized to meet all the expenses incurred in enforcement of the security interest and then for payment of amounts due to secured creditors. The remaining amount would be paid to others in accordance with their rights and interests. In case the amounts due are not fully recovered by the sale of secured assets, then the secured creditors may file an application to the Debt Recovery Tribunal for the remaining amounts due. The secured creditors are also entitled to proceed against the guarantors and sell the pledged assets independent of their action for enforcement of the security interest.

Pursuant to the SARFAESI Act, the borrower cannot make a reference to the BIFR after the transfer of financial assets to an SC or a RC. Similarly, any pending reference before the BIFR shall be withdrawn if 75.0% of the secured creditors (in terms of amount outstanding) have taken any action to recover their amounts due under the SARFAESI Act. On April 8, 2004 the Supreme Court pronounced a judgment upholding the constitutional validity of the SARFAESI Act (with the exception of section 17(2)). The Government has since enacted the Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Act, 2004 (the "Amended Act"). The Amended Act includes:

- a new provision in the Amended Act making it mandatory for the secured creditor to consider any representation or objection raised by the borrower (on whom notice had been served) and communicate reasons for rejection of the representation or objection within one week from the date of receipt of such representation or objection; and
- a new section 13(4)(b) empowering the secured creditor to take over management of the business of such borrower, which is related to the security of the debt. Where a substantial part of the business of the borrower is held as security for the debt, the secured creditor is also empowered to take over the management, including the right to transfer by way of lease, assignment or sale in order to realise the secured asset. However, the term "substantial part of the business" has not been defined;
- an amendment to the Debt Recovery Tribunal Act, 1993, whereby banks and financial institutions may withdraw the recovery application filed by them at the Debt Recovery Tribunal ("DRT") in the event that they propose to initiate action under the SARFAESI Act; and
- two new provisions enabling the aggrieved borrower to make an application to the DRT against any action taken under the SARFAESI Act. The application is required to be decided within 60 days. Further, an appeal can be filed against the order of the DRT before the Debt Recovery Appellate Tribunal ("DRAT") after the borrower has deposited 50.0% of the amount of debt (such sum may be reduced to 25.0% by the DRAT for reasons to be recorded in writing).

On November 29, 2006 the Supreme Court pronounced a judgment on whether withdrawal of an application from the DRT is a condition precedent to having recourse under the SARFAESI Act as defined. The following three points were discussed:

- whether the banks or financial institutions that have elected to seek a remedy under the Recovery of Debts due to Banks and Financial Institutions Act, 1993 ("DRT Act") can still invoke the SARFAESI Act in order to realise the secured assets, without withdrawing or abandoning the original application filed before the DRT pursuant to the DRT Act;
- whether recourse to take possession of the secured assets of the borrower pursuant to section 13(4) of the SARFAESI Act encompasses the power to take actual possession of the immovable property; and
- whether an ad valorem court fee prescribed under rule 7 of the DRT (Procedure) Rules, 1993, is payable on an application under section 17(1) of the SARFAESI Act in the absence of any rule framed under the said Act.



- The Supreme Court discussed various provisions of the DRT Act and the SARFAESI Act and observed that the SARFAESI Act is treated as an additional remedy and is not inconsistent with the DRT Act. Therefore, the withdrawal of an application pending before the DRT under the DRT Act is not a pre-condition for recourse under the SARFAESI Act. It is for the banks or the financial institutions to exercise their discretion in withdrawing cases from the DRT.

Regulations relating to the Sale of Assets 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 that the asset is an NPA. These assets are to be sold on a non-recourse basis only. A bank may sell a standard asset only if the borrower has a consortium or multiple banking arrangements, at least 75.0% by value of the total loans to the borrower are classified as non-performing and at least 75.0% by value of the banks and financial institutions in the consortium or multiple banking arrangements 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 risk 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. Whilst each bank is required to make its own assessment of the value offered in the sale before accepting or rejecting an offer for the purchase of financial assets by an asset reconstruction company, in consortium or multiple banking arrangements where more than 75.0% by value of the banks or financial institutions accept the offer, the remaining banks or financial institutions are obliged to accept the offer. Consideration for the sale may be in the form of cash, bond, debentures or security receipts. Banks may invest in pass-through certificates issued by the asset reconstruction company or trusts set up by it to acquire the financial assets.

In February 2006, the RBI issued guidelines for the securitisation of standard assets. The guidelines provide that for a transaction to be treated as a securitisation, a two-stage process must be followed. In the first stage, the pooling of assets and their transfer to a bankruptcy remote vehicle (a special purpose vehicle, "SPV") should take place and in the second stage, the repackaging of the security interests representing claims on incoming cash flows from the pool of assets and their sale to third party investors should be effected. Further, to enable the transferred assets to be removed from the balance sheet of the seller in a securitisation structure, the isolation of assets or the "true sale" from the seller or originator to the SPV is an essential prerequisite. In addition, arm's length relationship must be maintained between the originator and seller, and the SPV. The RBI also issued guidelines in July 2005 in relation to the sale or purchase of NPAs by banks, financial institutions and NBFCs (excluding securitisation companies and reconstruction companies). These guidelines set out the procedure for the purchase or sale of non-performing financial assets by banks, including valuation and pricing aspects and prudential norms in the following areas: (a) asset classification, (b) provisioning, (c) accounting of recoveries, (d) capital adequacy, (e) exposure and (f) disclosure requirements. On October 4, 2007, RBI issued guidelines on the sale and purchase of NPAs, wherein it imposed on banks the consideration that while selling NPAs, banks have to account for the net present value of the estimated cash flows associated with the realisable value of the available securities, net of the cost of realisation. Further, the sale price should generally not be lower than the net present value. The said principle should be applied to compromise settlements entered into by the banks.

Certain regulatory norms relating to capital adequacy, valuation, profit and loss on the sale of assets, income recognition and provisioning for originators and service providers (such as credit enhancers), liquidity support providers, underwriters and investors, and also relating to the accounting treatment for securitisation transactions and disclosure norms, have been prescribed. Apart from banks, these guidelines are also applicable to financial institutions and Non- Banking Financial Companies ("NBFCs").

Classification of SMEs

The Government passed the Micro, Small & Medium Enterprises Development Act, 2006 in June 2006 to promote lending to SMEs and to create uniformity in the way that banks classify SMEs. Entities are divided into micro-, small- and medium-sized entities. Micro-sized entities comprise manufacturing companies with investments in plant and machinery of up to Rs. 25 lakhs or service companies with investments in equipment of up to Rs. 10 lakhs. Small-sized entities comprise manufacturing companies with investments in plant and machinery of over Rs. 25 lakhs but less than Rs. 5 crores and service companies with investments in equipment of over Rs. 10 lakhs but less than Rs. 2 crores. Medium-sized entities comprise manufacturing companies with

investments in plant and machinery of over Rs. 5 crores but less than Rs. 10 crores and service companies with investments in equipment of over Rs. 2 crores but less than Rs. 5 crores.

Guidelines on Sale and Purchase of Non-performing Assets

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

Priority Sector Lending

Till fiscal 2007 RBI's directed lending norms required commercial banks to lend a certain percentage of their net bank credit to specific sectors (the priority sectors), such as agriculture, small-scale industry, small businesses and housing finance. Total priority sector advances were set at 40.0% of net bank credit with agricultural advances required to be 18.0% of net bank credit and advances to weaker sections required to be at 10.0% of the net bank credit, and 1.0% of the previous year's total advances outstanding is required to be lent under the Differential Rate of Interest scheme. In April 2007, RBI issued revised guidelines on lending to the priority sector. RBI has linked the priority sector lending targets to adjusted net bank credit (net bank credit plus investments made by banks in non-statutory liquidity bonds included in the held to maturity category and excluding recapitalisation bonds floated by the Government) or credit equivalent amount of off-balance sheet exposure, whichever is higher. Under the revised guidelines the limit on the housing loans eligible for priority sector lending has been increased from Rs. 15 lakhs to Rs. 20 lakhs per borrower. The guidelines have capped eligible direct agriculture finance to non-individuals (i.e. partnership firms, corporates and institutions) at Rs 100 lakhs per borrower. One-third of loans in excess of Rs. 100 lakhs per borrower would also be considered as direct finance while the remaining two-thirds would constitute indirect finance.

In May 2007 RBI issued revised guidelines on lending to the priority sector. According to the revised guidelines, loans given to people forming part of weaker sections of minority communities (as may be notified by the Government of India from time to time) have been brought within the purview of priority sector loans.

In addition, fresh deposits placed by banks' on or after April 30, 2007 with NABARD/SIDBI on account of non-achievement of priority sector lending targets/sub-targets would not be eligible for classification as indirect finance to agriculture / Small Enterprises Sector, as the case may be. However, the deposits placed with NABARD/SIDBI by banks on the above account and outstanding as on April 30, 2007 would be eligible for classification as indirect finance to agriculture/Small Enterprises sector, as the case may be, till the date of maturity of such deposits or March 31, 2010, whichever is earlier.

Export Credit

RBI also requires commercial banks to make loans to exporters at concessional rates of interest. This enables exporters to have access to an internationally competitive financing option. Pursuant to existing guidelines, 12.0% of a bank's net bank credit is required to be in the form of export credit.

Credit Exposure Limits

As a prudent measure aimed at better risk management and avoidance of concentration of credit risk, 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 currently set by RBI are as follows:

- The exposure ceiling for a single borrower is 15.0% of capital funds and group exposure limit is 40.0% of capital funds. In case of financing for infrastructure projects, the exposure limit to a single borrower is extendable by another 5.0%, i.e., up to 20.0% of capital funds and the group exposure limit is extendable by another 10.0%, i.e., up to 50.0% of capital funds. Banks may, in exceptional circumstances, with the approval of their Board of Directors, consider enhancement of the exposure to a borrower up to a maximum of further 5.0% of capital funds, subject to the borrower consenting to the banks making appropriate disclosures in their annual reports.
- Capital funds is the total capital as defined under capital adequacy norms (Tier I and Tier II capital).
- Exposure shall include credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments). Non-fund based exposures are calculated at 100.0% and in addition, banks include forward contracts in foreign exchange and other derivative



products, like currency swaps and options, at their replacement cost value in determining individual or group borrower exposure ceilings, effective April 1, 2003.

To ensure that exposures are evenly spread, RBI requires banks to fix internal limits of exposure to specific sectors. These limits are subject to periodical review by the banks.

Limits on exposure to Non-Banking Finance Companies

On December 12, 2006, RBI issued guidelines on the financial regulation of systemically important non-banking financial companies and banks' relationship with them with a view to remove the possibility of regulatory arbitrage leading to an uneven playing field and potential systemic risk. Within non-deposit taking non-banking financial companies, the guidelines classify those with an asset size above Rs. 100 crores as per the last audited balance sheet as systemically important. These non-banking financial companies are required to maintain a minimum capital to risk weighted assets ratio of 10.0%, in addition to conforming with single and group exposure norms. The guidelines restrict banks' holding in a deposit taking non-banking financial company, excluding housing finance companies, to 10.0% of the paid up equity capital of the entity. The total exposure to a single non-banking financial company has been limited to 10.0% of the bank's capital fund while exposure to a non-banking asset finance company has been restricted to 15.0% of the bank's capital fund. The limit may be increased to 15.0% and 20.0% respectively provided that the excess exposure is on account of funds lent by the non-banking finance company to infrastructure sectors.

Regulations relating to Investments and Capital Market Exposure Limits

Pursuant to RBI guidelines, a bank's exposure to capital markets by way of investments in shares, convertible debentures, units of equity oriented mutual funds and loans to brokers, should not exceed 40% of its net worth on a stand alone and consolidated basis. Within this limit direct investments in shares, convertible bonds/debentures, units of equity oriented mutual funds and all exposures to venture capital funds have been restricted to 20% of their net worth.

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

Consolidated Supervision Guidelines

In fiscal 2003, 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:

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

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

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

Effective April 1, 2007 RBI has revised norms for capital market exposure. As per the new guidelines, consolidated capital market exposure by way of investment in shares, convertible debentures, and units of equity oriented mutual funds and loans to brokers should not exceed 40.0% of consolidated net worth. Within

this limit direct investment in shares, convertible bonds/debentures, units of equity oriented mutual funds and all exposures to ventures capital funds have been restricted to 20.0% of consolidated net worth.

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

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

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

Net appreciation in each basket, if any, that is not realized is ignored, while net depreciation is provided for.

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

RBI has recently issued draft revised guidelines on investment classification, valuation and accounting which have not yet been finalized.

Limit on Transactions through Individual Brokers

Guidelines issued by 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. RBI specifies that not more than 5.0% of the total transactions through empanelled brokers can be transacted through one broker. If for any reason this limit is breached, RBI has stipulated that the Board of Directors of the bank concerned should ratify such action.

Regulations relating to Deposits

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 up to 3.5% per annum on savings deposits.

Domestic time deposits have a minimum maturity of seven days. Time deposits from non-resident Indians denominated in foreign currency have a minimum maturity of one year and a maximum maturity of three years.

Starting April 1998, 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. 15 lakhs 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.

Reserve Bank of India through its circular No.DBOD.No.Dir.BC.82/13.03.00/2008-09 dt.15.11.2008 has advised that the NRE Term Deposit Rates for one to three years maturity should not exceed the LIBOR/SWAP rates plus 175 basis points as on the last working day of the previous month, for US Dollar of corresponding maturities and it is effective from 16.11.2008. The interest rate on non-resident savings deposits is at the rate applicable to domestic savings deposits.

Regulations relating to Knowing the Customer and Anti-Money Laundering

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



sufficient information necessary to establish the identity of each new customer and the purpose of the intended banking relationship. The guidelines also provide that banks should monitor transactions depending on the account's risk sensitivity. In February 2006, RBI issued guidelines on the obligations of banks under the Prevention of Money Laundering Act, 2002. RBI also issued anti money laundering guidelines to other entities such as non-bank finance companies and authorized money changers.

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

The Indian Parliament had enacted the Prevention of Money Laundering Act in 2002. Effective July 1, 2005, the provisions of this Act have come into force. The Act seeks to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering. In addition, the applicable exchange control regulations prescribe reporting mechanisms for transactions in foreign exchange and require authorized dealers to report identified suspicious transactions to RBI. In December 2004, the Indian Parliament passed the Unlawful Activities (Prevention) Amendment Ordinance/Act, 2004 incorporating the provisions considered necessary to deal with various facets of terrorism. The Narcotic Drugs and Psychotropic Substances Act, 1985 deals with proceeds of drug related crime.

Regulations on Asset Liability Management

At present, 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. The structural liquidity report and the interest rate sensitivity report are to be submitted to RBI on fortnightly and monthly, respectively. 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, RBI has asked banks to manage their asset-liability structure such that the negative liquidity gap in the day 1, 1-7day, 8-14 day, 15-28 day periods do not exceed 5%, 10%, 15% and 20% respectively of cash outflows in these time periods. In respect of other time periods, RBI has directed banks to lay down internal norms in respect of negative liquidity gaps.

In March 2007, RBI issued guidelines regarding prudential limits for interbank liabilities. Interbank liabilities of a bank cannot exceed 200% of its net worth as on the last day of the previous fiscal year. Individual banks have been permitted, with the approval of their boards of directors, to fix a lower limit for their inter-bank liabilities, keeping in view their business model. However banks whose capital to risk assets ratio is at least 25% more than the minimum capital to risk assets ratio (currently 9%) i.e. 11.25% as on the last day of the previous fiscal year are allowed a higher limit with respect to inter-bank liability of upto 300% of their net worth. It may be noted that the limits prescribed above would include only fund based inter-bank liabilities within India (including inter-bank liabilities in foreign currency to banks operating within India) and inter-bank liabilities outside India are excluded. RBI guidelines also stipulate that existing limits on call-money borrowing shall form a sub-limit of the above-mentioned limit.

Foreign Currency Dealership

RBI grants full-fledged authorized dealers' license to deal in foreign exchange through designated branches. Under this license, permission is granted to:

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

In the Annual Policy statement for fiscal 2008 RBI permitted banks and primary dealers to begin transactions in single-entity credit default swaps. However, guidelines regarding these transactions are yet to be issued. Further in April 2007 RBI published comprehensive guidelines on derivatives.

Foreign exchange operations are subject to the guidelines specified by RBI in the exchange control manual. An authorized dealer is required to enroll as a member of the Foreign Exchange Dealers Association of India, which prescribes the rules relating to foreign exchange business in India.

Authorized dealers are required to determine their limits on open positions and maturity gaps in accordance with RBI's guidelines and these limits are approved by RBI.

Restrictions on Payment of Dividends

As regards the guidelines issued by the RBI pertaining to the payment of dividends, banks have been given general permission to declare dividends, subject to compliance with the following norms:

- Capital to Risk Asset Ratio ("CRAR") of at least 9.0% for the preceding two completed years and the accounting year for which the bank proposes to declare a dividend; and
- net NPA ratio of less than 7.0%.

In the event a bank does not meet the above CRAR norms, but has a CRAR of at least 9.0% for the accounting year for which it proposes to declare a dividend, it would be eligible to declare a dividend provided its net NPA ratio is less than 5.0%.

The bank should also satisfy the following conditions:

- the bank should comply with the provisions of sections 15 and 17 of the Banking Regulation Act, 1949;
- the bank should comply with the prevailing regulations/guidelines issued by the RBI in respect of creating adequate provisions for the impairment of assets and staff retirement benefits, the transfer of profits to statutory reserves etc;
- the dividend payout ratio should not exceed 40.0%;
- the proposed dividend should be payable out of the current year's profit;
- the financial statements pertaining to the financial year for which the bank is declaring a dividend should be free of any qualifications by the statutory auditors which have an adverse bearing on the profit during that year; and
- the RBI should not have placed any explicit restrictions on the bank as regards the declaration of dividends.

In the event that a bank fulfils the conditions stated above, it can declare dividends without the consent of the RBI. If a bank does not comply with the conditions stated above but wishes to declare dividends or a higher rate of dividend, no exemptions shall be available from the RBI

Moratorium, Reconstruction & Amalgamation of Banks

RBI can apply to the Government of India for suspension of business by a banking company. The Government of India after considering the application of RBI may order a moratorium staying commencement of action or proceedings against such company for a maximum period of six months. During such period of moratorium, RBI may (a) in the public interest; or (b) in the interest of the depositors; or (c) in order to secure the proper management of the bank; or (d) in the interests of the banking system of the country as a whole, prepare a scheme for the reconstruction of the bank or amalgamation of the bank with any other bank. In circumstances entailing reconstruction of the bank or amalgamation of the bank with another bank, RBI invites suggestions and objections on the draft scheme prior to placing the scheme before the Government of India for its sanction. The Central Government may sanction the scheme with or without modifications. The law does not require consent of the shareholders or creditors of such banks.

Statutes Governing Foreign Exchange and Cross-Border Business Transactions

Foreign exchange and cross border transactions undertaken by banks are subject to the provisions of the Foreign Exchange Management Act.

RBI issued guidelines on External Commercial Borrowings via its Master Circular in July 2005, which stated that no financial intermediary, including banks, will be permitted to raise such borrowings or provide guarantees in favor of overseas lenders for such borrowings. Eligible borrowers may raise such borrowings to finance the import of equipment and to meet foreign exchange needs of infrastructure projects. In a guideline dated August 1, 2005 RBI announced that external commercial borrowing proceeds can be utilized for overseas direct investment in joint ventures/wholly owned subsidiaries subject to the existing guidelines on Indian Direct Investment in joint ventures/wholly owned subsidiaries abroad. Further utilization of external commercial borrowing proceeds is not permitted for lending, capital market investments or acquisitions in India or real estate investments (including integrated townships). In May 2007 RBI decided to reduce the all-in-cost ceilings for External Commercial Borrowings from LIBOR plus 350 basis points to LIBOR plus 250 basis points (for External Commercial Borrowings with an average maturity period of over five years)..

In March 2006, in view of enhanced stability in India's external and financial sectors and increased integration of the financial sector in the global economy, RBI constituted a Committee to set out a roadmap towards fuller capital account convertibility. The Committee has submitted its report in July 2006.

In October 2006, RBI permitted banks to borrow funds from their overseas branches and correspondent banks (including borrowings for financing export credit, ECBs and overdrafts from their Head Office/Nostro account) up to a limit of 50% of unimpaired Tier I capital or US\$ 10.0 million, whichever is higher, as against the earlier overall limit of 25% (excluding borrowings for financing export credit). However, short-term borrowings up to a period of one year or less should not exceed 20% of unimpaired Tier I capital within the overall limit of 50%. Capital funds raised by issue of innovative perpetual debt instruments and other overseas borrowings with the specific approval of the Reserve Bank would continue to be outside the limit of 50%. In April 2007 RBI issued a circular deferring the implementation of the above guidelines till further notice.

Legal Reserve Requirements

Cash Reserve Ratio

A bank is required to maintain a specified percentage of its net demand and time liabilities, excluding inter-bank deposits, by way of cash reserve with itself and by way of balance in current account with RBI. Following the enactment of RBI (Amendment) Bill 2006, the floor and ceiling rates (earlier 3% and 20% respectively) on the cash reserve ratio were removed.

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

- inter-bank liabilities;
- liabilities to primary dealers;
- refinancing from RBI and other institutions permitted to offer refinancing to banks; and
- perpetual debt qualifying for lower Tier I capital treatment.

The cash reserve ratio is 5% effective January 17, 2009. Further, effective April 13, 2007 RBI does not pay any interest on cash reserve ratio balances.

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 bank is required to maintain a specified percentage of its net demand and time liabilities by way of liquid assets like cash, gold or approved unencumbered securities. The percentage of this liquidity ratio is fixed by RBI from time to time, and it can be a minimum of 25% and a maximum of 40% pursuant to section 24 of the Banking Regulation Act. At present, RBI requires banking companies to maintain a liquidity ratio of 24%. The Banking Regulation (Amendment) Bill, 2005 introduced in the Indian Parliament proposes to amend section 24 of the Banking Regulation Act to remove the minimum statutory Liquidity Ratio stipulation, thereby giving RBI the freedom to fix the Statutory Liquidity Ratio below this level.

Requirements of the Banking Regulation Act

Prohibited Business

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

Reserve Fund

According to Section 17 of the Banking Regulation Act, a bank is required to create a reserve fund and transfer atleast 20% of its disclosed profits to that account. In September 2000, RBI issued a circular increasing the amount transferable to the reserve fund from 20% to 25% of the disclosed profits of each year before dividends. If there is an appropriation from this account, the bank is required to report the same to RBI within 21 days, explaining the circumstances leading to such appropriation. The Government of India may, on the recommendation of RBI, exempt a bank from requirements relating to its reserve fund. In 2006, RBI issued a circular advising banks that all expenses including provisions and write-offs recognized in a period, whether mandatory or prudential, should be reflected in the profit and loss account for the period before the net profit is arrived at. Further, banks also need to ensure that suitable disclosures are made in the “Notes on accounts” to the balance sheet whenever a draw down of reserves occurs.

Payment of Dividend

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

Restriction on Share Capital and Voting Rights

Banks can issue only ordinary shares. The Banking Regulation Act specifies that no shareholder in a banking company can exercise voting rights on poll in excess of 10% of total voting rights of all the shareholders of the banking company.

Only banks incorporated before January 15, 1937 can issue preference shares.

A legislation has been introduced in Parliament to amend the Banking Regulation Act to remove the limit of 10% on the maximum voting power exercisable by a shareholder in a banking company and allow banks to issue redeemable and non-redeemable preference shares.

Restrictions on Investments in a Single Company

No bank may hold shares, as a pledgee, mortgagee or absolute owner in any company other than a subsidiary, exceeding 30% of the paid up share capital of that company or 30% of its own paid up share capital and reserves, whichever is less.

Regulatory Reporting and Examination Procedures

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

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



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

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

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.

Prohibition of trading

BR Act also states that no banking company shall directly or indirectly deal in the buying or selling or bartering of goods, except in connection with the realization of security given to or held by it, or engage in any trade, or buy, sell or barter goods for others otherwise than in connection with bills of exchange received for collection or negotiation or with such of its business as is referred to in the BR Act.

OUR HISTORY AND CERTAIN CORPORATE MATTERS

History and Major Events

The Lakshmi Vilas Bank Limited was founded eight decades ago (in 1926) by seven people of Karur under the leadership of Shri V. S. N. Ramalinga Chettiar, mainly to cater to the financial needs of varied customer segments. The Bank was incorporated on November 03, 1926 under the Indian Companies Act, 1913 and obtained the certificate to commence business on November 10, 1926. The Bank obtained its license from RBI in June 1958, and in August 1958, it became a Scheduled Commercial Bank. The Bank has shifted its Registered and Head Office from 693, Jawahar Bazaar, Karur – 639 001 to the present registered office at Salem Road, Kathapara, P.O. Karur – 639006, Tamil Nadu on September 11, 1991.

During 1961-65 LVB took over nine Banks and raised its branch network considerably. To meet the emerging challenges in the competitive business world, the Bank started expanding its boundaries beyond Tamil Nadu after 1974 by opening branches in the neighboring states of Andhra Pradesh, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Gujarat, West Bengal, Haryana, Jharkhand, Orissa, Rajasthan, Uttar Pradesh and the National Capital Territory of Delhi and the Union Territory of Pondicherry. The Bank has successfully completed CBS implementation at all the branches in March 2008. As on March 31, 2009 LVB had 251 branches spread over 13 States and the National Capital Territory of Delhi and Union Territory of Pondicherry. LVB has a strong and wide base in the State of Tamil Nadu, one of the most progressive States in the country, which is politically stable and has a vibrant industrial environment.

It is our Bank's mission to develop a range of quality services, to create value for customers, shareholders and the society, to motivate people to achieve excellence in performance, leading to sustained profitable growth and build a vibrant organization.

Major Events

Some of the significant milestones in the history of the bank are:

Year	Milestones/ Achievements
1961-65	Take over of nine small banks
1974	Opening of a branch in Karnataka, the first branch outside Tamil Nadu
1976	License to deal in foreign exchange
1988	Initial public offering
1991	Inauguration of the bank's new administrative office complex at Karur
1995	Opening of currency chest and small coin depot at Salem Branch
1995	Bonus issue in the ratio of 1:1 followed by rights issue in the ratio of 1:1
2001	Platinum jubilee year
2002	Bancassurance tie-up with AVIVA Life Insurance for distribution of their life insurance products
2003	Tier II bonds (Series III) of Rs 50 crores issued
2005	Tier II bonds (Series IV) of Rs 30 crores issued
2005	Rights Issue in the ratio of 7:10
2006	LVB switches to Flexcube of I-Flex Solutions for CBS
2006	Adoption of New Logo
2006	Tie up with Western Union Financial Services, U.S.A. through M/S. Weizmann Forex Ltd
2006	Tier II bonds (Series V) of Rs 30 crores issued
2006	Distribution pact with Bajaj Allianz General Insurance Company
2007	Bonus issue in the ratio of 1:2 followed by rights issue in the ratio of 1:1
2008	Distribution pact with Export Credit Guarantee Corporation of India Ltd



Main objects of the bank

The main object clause of the Memorandum of Association of the Bank enables it to undertake the activities for which the funds are being raised and the activities which it has been carrying on till date.

The main objects of the Bank as contained in its Memorandum of Association are:

It is the object of this Bank that it should utilize the resources gathered from the Bank's Share holders and its depositors by advancing loans to applicants of integrity against guarantees, and on the security of commercial products, at a fair rate of interest; to conduct prize deposits and to carry on the affairs of the Bank in terms of the resolutions passed in the General Meetings dated 23-3-1959 and 30-3-1960 as confirmed by the Madras High Court in its order No. O.P.211/1959 dated 15-4-60, as per provisions of Sec. 6 of the Banking Companies Act, 1949 detailed below.

To carry on the business of:

1. the borrowing, raising or taking up of money; the lending or advancing of money either upon or without security; the drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundies, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments, and securities, whether transferable or negotiable or not; the granting and issuing of letters of credit, travellers' cheques and circular notes; the buying, selling and dealing in bullion and species; the buying and selling of foreign exchange including foreign bank notes; the acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds; the purchasing and selling of bonds, scrips of other forms of securities on behalf of constituents or other, the negotiating of loans and advances; the receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise; the providing of safe deposit vaults; the collecting and transmitting of money and securities;
2. acting as agents for any Government or local authority or any other person or persons; the carrying on of agency business of any description including the clearing and forwarding of goods, giving of receipts and discharges and otherwise acting as an attorney on behalf of customers but excluding the business of a managing agent of a company.
3. contracting for public and private loans and negotiating and issuing the same;
4. the effecting, insuring, guaranteeing, underwriting participating in managing and carrying out of any issue, public or private of State, municipal or other loans or of shares, stock, debentures or debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue;
5. carrying on and transacting every kind of guarantee and indemnity business;
6. managing, selling and realizing any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims;
7. acquiring and holding and generally dealing with any property or any right, title or interest in any such property which may form the security or part of the security for any loans, or advances or which may be connected with any such security;
8. undertaking and executing trust;
9. undertaking the administration of estates as executor, trustee or otherwise;
10. establishing and supporting or aiding in the establishment and support of association, institutions, funds trusts and conveniences calculated to benefit employees or ex-employees of the company or the dependants or connections of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent objects or for any exhibition or for any public, general or useful object;
11. the acquisition, construction, maintenance and alteration of any building or works necessary or convenient for the purposes of the company;
12. selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with all or any part of the property and rights of the company;
13. acquiring and undertaking the whole or any part of the business of any person or company, when such business is of a nature enumerated or described in the above clauses;
14. doing all such other things as are incidental or conducive to the promotion or advancement of the business of the company.
15. any other form of business which the Central Government may, by notification in the Official Gazette, specifying as a form of business in which it is lawful for a banking company to engage.

16. 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 or other arrangements for undertaking such functions with the Reserve Bank of India.
17. to finance Hire Purchase, Leasing out movable properties of any kind including machinery and plants of all kinds.
18. to purchase, invest, subscribe, sell, resell, exchange or acquire otherwise or hold or transfer or deal otherwise in Mutual Funds of all types including UTI.
19. to operate and conduct organised Credit Card Business by issuing Credit Cards to members and to enter into contracts with relative establishments in this behalf.

The present business of the Bank is as per the main objects as contained in the Memorandum of Association.

Changes in Memorandum of Association

The Changes in the Memorandum of Association of the Bank since August 29, 2000 are as under:

Date	Changes
September 29, 2005	The authorised share capital of our Bank was increased from Rs. 20,00,00,000 (divided into 2,00,00,000 Equity Shares) to Rs. 100,00,00,000 (divided into 10,00,00,000 Equity Shares)
September 26, 2007	The authorised share capital of our Bank was increased from Rs. 100,00,00,000 (divided into 10,00,00,000 Equity Shares) to Rs. 150,00,00,000 (divided into 15,00,00,000 Equity Shares)

Change in the Registered Office

Date	Registered Address Changed From	Changed To
September 11, 1991	693, Jawahar Bazaar, Karur – 639 001	Salem Road, Kathaparai, P.O. Karur – 639006, Tamil Nadu

Our Subsidiary

As on the date of the Draft Letter of Offer, our Bank has no subsidiary.

Shareholders Agreement

There are no subsisting shareholders' agreements among our shareholders in relation to our Bank, to which our Bank is a party or otherwise has notice of the same.

Other Agreements

As on the date of filing this Draft Letter of Offer with SEBI, we are not a party to any other agreement, except the contracts entered into in the ordinary course of business carried on or intended to be carried on.

Strategic or Financial Partners

We do not have any strategic or financial partners.

DIVIDENDS

The declaration and payment of dividends will be recommended by our Board of Directors and approved by our shareholders, at their discretion, and will depend on a number of factors, including but not limited to our profits, capital requirements and overall financial condition. The Board may also from time to time pay interim dividends. All dividend payments are made in cash to the shareholders of the Company.

The following are the dividend payouts on the Equity Shares in the last five years by our bank –

Financial Year	Dividend	
	Rate (%)	Amount (<i>In Rs. crores</i>)
Fiscal 2009	25*	12.20
Fiscal 2008	15	7.32
Fiscal 2007	7	3.42
Fiscal 2006	25	4.88
Fiscal 2005	Nil	Nil

* **Proposed Dividend**

The amounts paid as dividends in the past are not necessarily indicative of our dividend policy or dividend amounts, if any, in the future.

OUR MANAGEMENT

Board of Directors

As per our Articles of Association, our Board shall consist of not less than nine (9) Directors and not more than twelve (12) Directors. Our Bank is currently managed by a Board of Directors comprising eleven (11) Directors.

Name, Father's name, Designation, Address, Occupation, DIN and Nationality	Age (Years)	Particulars of other Directorship(s)/Partnership(s)
<p>Dr. S. Narayan S/o Mr. K.N. Subbaraman</p> <p>Non Executive Chairman/Independent Director</p> <p>64, Archbishop, Mathias Avenue, Chennai – 600 028</p> <p>Professional</p> <p>DIN: 00094081</p> <p>Indian</p>	66	<p>Apollo Tyres Ltd.</p> <p>Dabur India Ltd.</p> <p>Seshasayee Paper & Boards Ltd.</p> <p>Teesta Urja Ltd.</p> <p>Godrej Properties Ltd.</p> <p>Castlewood Trading Private Limited</p> <p>AIP Power Private Limited</p> <p>Artemis Medicare Services Private Limited</p>
<p>Mr. V. S. Reddy S/o Mr.V.R.Reddy</p> <p>Managing Director/Non Independent Director</p> <p>“Lakshmi Nivas” New No. 50/Old No.10, Vasavi Nagar, L.N.Samudram, Karur – 639 002</p> <p>Professional</p> <p>DIN:00353530</p> <p>Indian</p>	61	NIL
<p>Mr. M. P. Shyam S/o Mr. M.K.Panduranga Chetty</p> <p>Non Executive Director/Non Independent Director</p> <p>No.1691, “Shreevaari” 30th Cross, 15th Main, BSK 2nd Stage, Bangalore – 560 070</p> <p>Business</p> <p>DIN: 00293568</p> <p>Indian</p>	48	<p>Advaith Marketing Pvt Ltd</p> <p>Cauvery Motors Pvt. Ltd</p> <p>Advaith Motors Pvt. Ltd</p> <p>Ananya Software Systems Pvt Ltd</p> <p>Mysore Vegetables Oils Ltd</p> <p>Advaith Automation Pvt. Ltd</p> <p>Akshara Motors Pvt. Ltd.</p>



Name, Father's name, Designation, Address, Occupation, DIN and Nationality	Age (Years)	Particulars of other Directorship(s)/Partnership(s)
<p>Mr. K. Balaji S/o Mr. V.N.Krishnamoorthy</p> <p>Non Executive Director/Independent Director</p> <p>13, Vasavi Nagar, L.N.S. Post, Karur – 639 002</p> <p>Business</p> <p>DIN: 00111174</p> <p>Indian</p>	35	<p>Directorship</p> <p>Nil</p> <p>Partner</p> <p>V.S.N.C.Narasimha Chettiar Sons. M/s. Hanuman Dyeing Danesh Home Fashions The Adventure Charitable Trust-Trustee</p>
<p>Mr. N. Saiprasad S/o Mr. K.V.Narayanan</p> <p>Non Executive Director/Non Independent Director</p> <p>No. 2, North Madaviligam Street, Karur – 639 001</p> <p>Business</p> <p>DIN: 00137910</p> <p>Indian</p>	45	<p>Directorship</p> <p>Nil</p> <p>Partner</p> <p>Venkateswara Exports Narayana Handlooms Vigneshware Handlooms K.N. Vishwanatha Chettiar & Sons K.V.N. Finance Sri Gayathiri Credit Co. Sri Gayathiri & Co. Sri Gayathiri Financiers Sri Gayathiri Chits Rajaganapathy Enterprises</p>
<p>Mr. K. Ravindrakumar S/o Mr. K.R.Karunakaran</p> <p>Non Executive Director/Non Independent Director</p> <p>123, Jawahar Bazar, Karur – 639 001</p> <p>Business</p> <p>DIN: 00140723</p> <p>Indian</p>	50	<p>Directorship</p> <p>Nil</p> <p>Partner</p> <p>K.P.Radhakrishna Chettiar & Co., Vasavi Educational Trust (Regd) – Managing Trustee</p>
<p>Mr. Kusuma R Muniraju S/o Mr. K R Setty</p>	60	<p>Nil</p>

Name, Father's name, Designation, Address, Occupation, DIN and Nationality	Age (Years)	Particulars of other Directorship(s)/Partnership(s)
<p>Non Executive Director/Independent Director</p> <p>70/1, Shankarmutt Main Road, Shankarpuram, Bangalore – 560 004</p> <p>Professional</p> <p>DIN: 02111974</p> <p>Indian</p>		
<p>Mr. D. L. N. Rao S/o Mr. D.G.Rao</p> <p>Non Executive Director/Independent Director</p> <p>27/106, 11 B Cross, 11th Main, Malleshwaram, Bangalore – 560 003</p> <p>Professional</p> <p>DIN:02305079</p> <p>Indian</p>	60	Nil
<p>Mr. B. K. Manjunath S/o Mr.B.A.Krishnasetty</p> <p>Non Executive Director/Independent Director</p> <p>1/20, 8th Cross, Kumarapark West, Bangalore – 560 020</p> <p>Professional</p> <p>DIN: 00319891</p> <p>Indian</p>	49	South Star Distilleries and Breweries Pvt. Ltd
<p>Mr. K. R. Pradeep S/o Mr. K.N.R.Setty</p> <p>Non Executive Director/Non Independent Director</p> <p>20,Eden Park, Flat No.101 1st Floor, Vittal Mallya Road, Bangalore – 560 001</p> <p>Professional</p>	48	Pranava Electronics Pvt. Ltd Kare Electronics & Developments Pvt. Ltd Sanath Exports Pvt. Ltd.

Name, Father's name, Designation, Address, Occupation, DIN and Nationality	Age (Years)	Particulars of other Directorship(s)/Partnership(s)
DIN:00153097 Indian		
Mr. S.G. Prabhakaran S/o Mr. S. Gunneswaran Non Executive Director/Non Independent Director "Pebble Green" No. 14, Sterling Avenue, Sakthi Nagar Road, Porur, Chennai – 600 116 Professional DIN: 00005140 Indian	54	Ariston Capital Asset Holdings Pvt. Ltd XS Real Properties Pvt. Ltd RoyalSoft Services Ltd

Brief Biographies of the Directors

The details of our directors (except for Mr. K.R.Pradeep and Mr. S.G. Prabhakaran, whose details have been provided under the section "Our Promoters and Promoters Group" on page 112) of this Letter of Offer are as follows:

Dr. S. Narayan, was appointed on the Board of the Bank on January 29, 2009. Dr. S. Narayan has been appointed as the Part Time Chairman and Non Executive Chairman of the Bank till the approval of the Shareholders. He has completed his M.Sc., MBA, M.Phil., PhD. He was economic advisor to the Prime Minister, during the year 2003-2004. Prior to this assignment, between 2000 and 2003, he was in the Government of India as Finance & Economic Affairs Secretary and Secretary in the Department of Revenue, in the Ministry of Finance.

Mr.V.S.Reddy, was appointed on the Board of the Bank on September 26, 2007 as the Managing Director. His qualifications include CAIIB and a Master's degree in Arts (Economics). Prior to joining our Bank, he was working with Canara Bank as General Manager of the Corporate Credit department. He has over 37 years of experience in various positions at Canara Bank.

Mr. M.P.Shyam, was appointed on our Board on March 11, 2002. He is a Mechanical Engineer and a Master in grain science from Kansas State University, U.S.A. He is an entrepreneur and a dealer of Kinetic Honda, Hyundai and Ford vehicles in Bangalore and Mysore.

Mr. K.Balaji, was appointed on our Board on September 29, 2005. Mr. K. Balaji has attended a three years bachelor's degree in Business Management. He is a partner in a textile firm operating out of Karur, Tamil Nadu.

Mr. N.Saiprasad, was appointed on our Board on August 14, 2006. He is a post graduate in Business Administration and has a Master's degree in Science. He is the Managing Partner of a textile unit at Karur and partner in other businesses.

Mr. K.Ravindrakumar, was appointed on the Board of the Bank on August 14, 2006. Mr. K.Ravindrakumar, has received a master's degree in Commerce. He has been in the jewellery business since the year 1981

Mr. Kusuma R. Muniraju, was appointed on our Board on August 14, 2008. Mr. Kusuma R. Muniraju, is an advocate with 37 years of experience with particular reference to legal issues in the realty sector.

Mr. B.K.Manjunath, was appointed on our Board on August 14, 2008. He is a practicing Chartered Accountant with nearly two decades of experience in the areas of audit, accountancy, taxation and finance.

Mr. D.L.N.Rao, was appointed on the Board of the Bank on August 14, 2008. He is a practicing advocate with about four decades of experience in the areas of civil law, constitutional law, mining law and taxation in the High Court of Karnataka.

Terms of Appointment of Part Time Chairman and Non-Executive Chairman – Dr. S Narayan

In terms of Section 10B (1A) of the Banking Regulation Act, 1949, RBI has conveyed its approval for appointment of Dr. S. Narayan as Part Time Chairman and Non-Executive Chairman of the Bank for a period of two years on the following terms and conditions.

Salary	Rs.50,000/- per month.
Perquisites	<ul style="list-style-type: none"> i. Bank's car with Chauffeur. Fuel at Bank's cost. ii. Traveling and Halting allowance:- Will be governed by the rules as applicable to the whole time director of the Bank with regard to the reimbursement of his travel, halting allowance and other expenses incurred for attending the meetings of the Board and other official business and visits. iii. Communication modes – Free use iv. Insurance – Rs. 25 lacs for travel by air/train/road v. Sitting fees – He will be paid sitting fees for attending the Board and or Committee meeting of the Board as applicable to other Non-Executive Directors of our Bank.

Terms of Appointment of Managing Director & CEO

Pursuant to Article 70(i) of the Articles of Association, Mr. V. S. Reddy was appointed as Managing Director and Chief Executive Officer on the terms and conditions approved by the Board and RBI as mentioned hereunder-

Salary	Rs. 2,00,000/- per month
Perquisites	<ul style="list-style-type: none"> i. Entertainment allowance – Rs. 10,000/- per annum, 25% against self-declaration and 75% against vouchers. ii. Free furnished house – free furnished residential accommodation with water, gas and electricity. (Monetary equipment: Market value of rent: Rs. 4000 + value of water, gas and electricity: Rs. 1000) iii. Free use of Bank's Car with driver for official purpose iv. Provident Fund – 10% of Rs. 75,000 on contributory basis v. Gratuity – one months salary/pay for every completed year of service vi. Free use of Bank's telephone vii. Insurance – upto Rs. 25 lacs for travel by air/train/road viii. Travelling Allowances & Halting Allowances: As applicable to CMD of Public Sector Banks. ix. Medical Benefits: Actual for self and dependent family members x. Casual Leave: 12 days per year with provision to carry forward the unavailed Casual Leave. xi. Ordinary Leave: One month for each completed 11 months of service and accumulation of PL upto 240 days Encashment of leave as on the date of demitting office xii. Sick Leave: One month for each year of service subject to a maximum of 18 months xiii. Leave Fare Concession: Once in a year to any place in India – Single return fare by the highest available class.



Borrowing powers of the Board of Directors

At the Annual General Meeting held on August 07, 2003, the shareholders of the Bank accorded their consent, pursuant to Section 293(1)(d) of the Companies Act, 1956, to the Board of Directors to borrow from time to time any sum or sums of money for the purpose of business of the Bank, notwithstanding that the monies to be borrowed which together with the monies already borrowed may exceed, the aggregate for the time being of the paid up capital and its free reserves, that is to say, reserves not set apart for any specific purpose, provided however the aggregate amount of such monies which may be borrowed shall not at any time exceed the limit of Rupees Five Hundred Crores.

Compensation of Directors

Other than the Managing Director all Directors are non-executive Directors and are not paid any remuneration other than the sitting fees for attending the meetings of the Board / Committee of Directors. The remuneration and other perquisites paid to the Part-time Chairman and Managing Director are as approved by the Reserve Bank of India

Note:

1. No Director is related to any other Director on the Board.
2. The Bank does not have any scheme for grant of stock options to its Directors or Employees.

Corporate Governance

In line with the guidelines issued by the RBI from time to time & the provisions of Clause 49 of the Listing Agreement entered into with the Stock Exchanges, the Board of Directors has constituted the following committees with suitable mixture of both Executive & Non-Executive Directors. The Board has also defined the role & function /power entrusted to each of the committees, frequency and quorum for the meeting. The Committee acts as the bridge between the various departments of the Bank and the Board of Directors of the Bank.

Audit Committee

The Board of the Bank has constituted a six member Audit Committee, all members being non-executive Directors and is comprised as under:

- Mr. B K Manjunath, Non Executive Director;
- Mr. K Balaji, Non Executive Director;
- Mr. K Ravindrakumar, Non Executive Director;
- Mr. S.G.Prabhakaran, Non Executive Director;
- Mr. Kusuma R Muniraju, Non Executive Director; and
- Mr. K R Pradeep, Non Executive Director.

Brief description of the terms of reference:

The terms of reference are in accordance with the provisions of the Companies Act, 1956, Banking Regulation Act, 1949 and Clause 49 of the Listing Agreement, inter-alia includes the following:

- a. Overseeing the Bank's financial reporting process and ensuring correct, adequate and credible disclosure of financial information
- b. Recommending appointment and removal of external auditors and fixing of their fees
- c. Reviewing with the management the annual financial statements before submission to the Board with special emphasis on accounting policies and practices, compliance with accounting standards and other legal requirements concerning financial statements and
- d. Reviewing the adequacy of the audit and compliance function, including their policies, procedures, techniques and other regulatory requirements.

Details of meetings held in the last three years are:

2006-07

Five meetings of the Audit Committee were held during the financial year 2006-07. The meetings were held on May 15, 2006, July 17, 2006, July 28, 2006, October 18, 2006 and January 31, 2007. The details of attendance of the directors are provided below:

Director	Number of Audit Committee Meetings#	
	Held	Attended
DL Suresh Babu	5	5
M P Shyam	5	3
R Dhandapani	5	5
K Balaji	5	5
E Sreedhar	5	5
N Saiprasad	5	5
G Sudhakar Gupta	5	4

The number of meetings held during the tenure of the member are mentioned.

2007-2008

Eight meetings of the Audit Committee were held during the financial year 2007-08. The meetings were held on April 10, 2007, May 13, 2007, June 18, 2007, June 31, 2007, October 24, 2007, December 18, 2007, January 30, 2008 and February 28, 2008. The details of the attendance of the Directors are provided below:

Director	Number of Audit Committee Meetings#	
	Held	Attended
D L Sursh Babu	8	8
M P Shyam	8	6
R Dhandapani	8	4
K Balaji	8	7
E Sreedhar	8	8
N Saiprasad	8	7
G Sudhakargupta	8	8

The number of meetings held during the tenure of the member are mentioned.

2008-2009

Six meetings of the Audit Committee were held during the financial year 2008-09. The meetings were held on April 29, 2008, May 26, 2008, July 25, 2008, October 30, 2008, January 29, 2009 and February 7, 2009. The details of the attendance of the Directors are provided below:

Director	Number of Audit Committee Meetings#	
	Held	Attended
SL Sivashanmugham	6	6
K Balaji	4	3
N Saiprasad	4	4
G Sudhakargupta	2	1
R Mohan	6	6
E Sreedhar	2	1
M P Shayam	2	1

K Ravindrakumar	4	4
B K Manjunath	2	2

The number of meetings held during the tenure of the member are mentioned.

Share Transfer & Investor Grievance Committee

The Share Transfer & Investor Grievance Committee consists of 4 members as on date. The Committee is comprised as under:

- Mr. M.P.Shyam, Non Executive Director
- Mr. N Saiprasad, Non Executive Director
- Mr. K Ravindrakumar, Non Executive Director
- Mr. D.L.N. Rao, Non Executive Director

Brief description of the terms of reference:

The Share Transfer and Investor Grievances Committee approves and monitors share transfers, transmission, issue of duplicate shares, physical shares, physical shares on demat requests, fixing book closure/record date etc. The Committee monitors the redressal of complaints of investors like complaints on Share transfer, non – receipt of dividend declared, non – receipt of annual reports and other related matters. The Committee also reviews the compliance of provisions and requirements of Reserve Bank of India, SEBI, Stock Exchanges, Registrar of Companies, Depositories, and other statutory bodies.

We have formed other committees including Management Committee, Integrated Risk Management Committee, Nomination Committee, Customer Service Committee, Infrastructure Development Committee, Fraud Management Committee and Business Strategy Advisory Committee

Remuneration Committee

No committee has been formed as the remuneration of whole time Director and sitting fees payable to other directors is decided by the Board of Directors. The remuneration of Managing Director was approved by RBI on the recommendations of the Board, details of which are given in this section of draft Letter of Offer. The other directors were paid Rs. 15,000 as sitting fees for Board / Committee of Board meetings which is within the limits prescribed under the Companies Act 1956.

Shareholding of the Directors in the Bank

As per our Articles of Association, all our Directors except Chairman and Managing Director needs to hold not less than one hundred fully paid shares of our Bank in his own name. The following table details the shareholding of our Directors in their personal capacity and either as sole or first holder, as at the date of this Draft Letter of Offer.

Sr. No	Name	Number Of Equity Shares held	Pre Issue %
1	Mr. S G Prabhakaran	1,001	Negligible
2	Mr. B K Manjunath	500	Negligible
3	Mr. Kusuma R Maniraju	86,134	0.18
4	Mr. K Ravindrakumar	12,651	0.03
5	Mr. K R Pradeep	9,07,018	1.86
6	Mr. N Saiprasad	47,258	0.10
7	Mr. K. Balaji	27,925	0.06
8	Mr. M P Shayam	96,488	0.20
9	Mr. D. L. N. Rao	200	Negligible
10	Mr. V.S.Reddy	500	Negligible

Changes in Directors during the last three years:

The changes in our Board of directors during the last 3 years are as under:

Director	Date of Appointment	Date of Cessation	Reason
Mr. R. M. Nayak	June 20, 2005	June 19, 2007	Retired
Mr. R Mohan	August 21, 2007	June 23, 2009	Resigned
Mr. R Dhandapani	April 16, 2003	August 21, 2007	Resigned
Mr. V. S. Reddy	September 26, 2007	Not Applicable	Appointment as Managing Director
Mr. D. L. Suresh Babu	March 01, 2000	February 28, 2008	Resigned
Mr. K. B. Krishnan	June 02, 2000	May 26, 2008	Resigned
Mr. D. L. N. Rao	August 14, 2008	Not Applicable	Appointment as Director
Mr. B K Manjunath	August 14, 2008	Not Applicable	Appointment as Director
Mr. Kusuma R Muniraju	August 14, 2008	Not Applicable	Appointment as Director
Mr. E Sreedhar	August 14, 2006	November 27, 2008	Appointed and Resigned later
Dr. S. Narayan	January 29, 2009	Not Applicable	Appointment as Non Executive Chairman
Mr. K R Pradeep	February 27, 2009	Not Applicable	Appointment as Director
Mr. S. L. Sivashanmugam	February 28, 2008	February 23, 2009	Appointed and Resigned later
Mr. G. Sudhakara Gupta	March 20, 2006	June 15, 2009	Resigned
Mr. S G Prabhakaran	June 23, 2009	Not Applicable	Appointment as Director

Nature and Interest of Directors

All Directors of our Bank may be deemed to be interested to the extent of fees, if any, payable to them for attending meetings of the Board or a Committee. The Chairman and the Managing Director will be interested to the extent of remuneration paid to him for services rendered by him as officer of our Bank. All our directors may also be deemed to be interested to the extent of Equity Shares, if any, already held by them or their relatives in our Bank, or that may be subscribed for and allotted to them, out of the present Issue in terms of the Draft Letter of Offer and also to the extent of any dividend payable to them and other distributions in respect of the said Equity Shares. Our Directors may also be regarded as interested in the Equity Shares, if any, held by or that may be subscribed by and allotted to the companies, firms and trust, in which they are interested as directors, members, partners and/or trustees. As on March 31, 2009 our directors are not interested in any loan or advance given by our Bank to any person(s)/ company/companies nor are they beneficiaries of any loan or advance except as provided below:

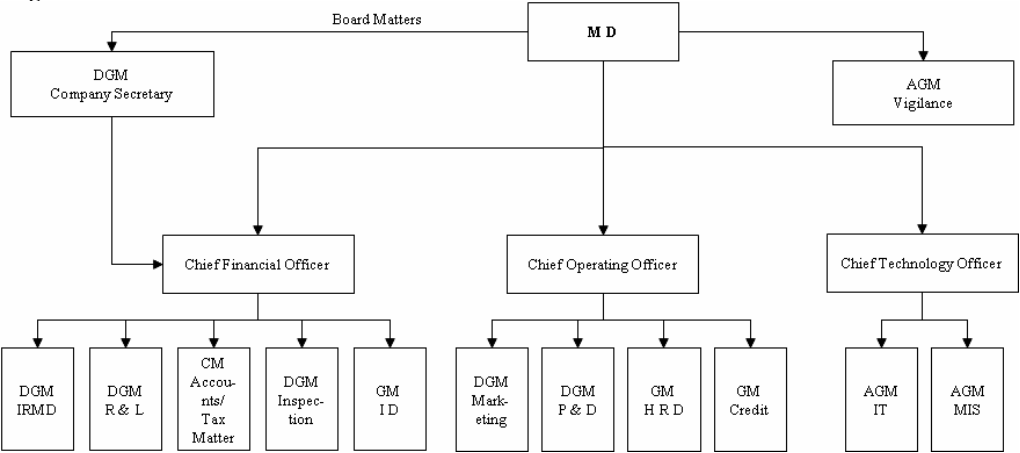
(Rs. in crores)

Name	Relationship	Facility	Limit	Balance as on 31.03.09	Asset Classification
Voora Property Developers (P) Ltd. Directors: a. Shri. V. Lakshmi Narasimha Rao Voora b. Smt. V. Hemalatha c. Shri. Suman Voora	Shri. Suman Voora – Director of the company is son-in-law of Promoter & Ex-Director Shri. N. Malayalaramamirtham, who is the brother of present Director Shri. N. Saiprsad. (a) & (b) are father & mother of Shri. Suman Voora.	Term Loan	20.00	5.56	Standard
Vaishnavi Enterprises Partners: a. Smt. A.V. Vasanthi	Smt. Sharmila – Partner of the firm is wife of Director Shri. M.P. Shyam.	ILC	0.37	*0.37	Standard

b. Smt. D. Geethanjali c. Smt. S. Sharmila	(a) is wife and (b) & (c) are daughters of Promoter Shri. A.R. Venkataraman.				
<p>*Due to difference in our borrower & the beneficiary of the LC, our borrower had filed a civil suit OS 322-2005 against M/s Chakola Ayurvedics and the Bank has obtained an injunction on 12.8.2005 from the Hon'ble Sub-court, Madurai. The same was made absolute on 15.11.2005, thereby restraining us from effecting payment to Allahabad Bank, Calicut who negotiated these bills. Subsequently Allahabad Bank was impleaded as one of the defendants in the suit and the said suit is pending. The collateral security, office and residence building situated at TS No.831/111 and 831/1-3, Plot No.4, Bharathi Ulla Road, Race Course, Madurai (7725 sq.ft.) belonging to the borrower has been permitted to be released in lieu of lien marked fixed deposits equivalent to the LC amount of Rs. 37.27 lakhs. At present there is no outstanding to the account except the claim of LC amount from Allahabad Bank.</p>					

Organization Chart of our Bank

The organization structure of the senior management in the various departments is given below:
Organization Chart of the Bank



Please see below for functional responsibilities of Executives.

Key Managerial Personnel

The day-to-day management of the Bank is looked after by Mr. V. S. Reddy, Managing Director. He is assisted in the management of the Bank by a team of qualified professionals. In addition to our Bank's Managing Director, Mr. V. S. Reddy, whose details have been provided above under "Biographies of our Directors" and "Remuneration of our Directors", the details of our other key managerial employees, as of the date of this Draft Letter of Offer, are as follows:

Mr. Naganna Prabhakaran (Chief Operating Officer), aged 59 years, is incharge of Planning & development, Credit, Human Resource Development services, Forex and Para banking. He joined the Bank on May 8, 2003. He received a master's degree in Arts (Economics) and bachelor's degree in CAIIB. Prior to joining us, he was at RBI. In past he has also worked with Andhra Bank and ING Vysya Bank. He has over 34 years of experience in the Banking industry. The remuneration paid to him for Fiscal 2009 was Rs. 11.16 Lakhs.

Mr. R. Sridharan (Chief Financial Officer), aged 60 years, is responsible for Integrated Risk Management, Inspection, Accounts, Credit Monitoring, Secretarial, recovery & Legal departments of our Bank. He joined us on November 11, 1973. He is Chartered Accountant and has received bachelor's degree in commerce. He has been working with our Bank for more than three decades. He has over 36 years of experience in the Banking industry. The remuneration paid to him for Fiscal 2009 was Rs. 11.16 Lakhs

Mr. Murali Nair (Chief Technology Officer), aged 57 years, carries the responsibility of Information Technology department and MIS department of our Bank. He joined us on May 3, 2006. He received a master's degree in commerce, bachelor's degree in law, has also done Diploma in Business Management and CAIIB. Prior to joining us, he was working with Bank of India for four years. In past he has also worked with Union Bank of India for 28 Years. He has over 35 years of experience in the Banking industry. The remuneration paid to him for Fiscal 2009 was Rs. 9.96 Lakhs.

Mr. S.R.Narayanamurthy (General Manager), aged 55 years, looks after the credit department of our Bank. He joined us on August 2, 1999. He is CAIIB and has received a bachelor's degree in science. Prior to joining us, he was working with State Bank of India for 22 Years. He has over 32 years of experience in the Banking industry. The remuneration paid to him for Fiscal 2009 was Rs. 7.47 Lakhs.

Mr.S.Ravishankar (General Manager), aged 55 years, carries the overall responsibility of Bank's Coimbatore Zone. He joined the Bank on November 11, 1975. He is CAIIB and has received a bachelor's degree in commerce. He has over 33 years of experience in the Banking industry. The remuneration paid to him for Fiscal 2009 was Rs.6.22 Lakhs.

Mr.V.Sudarsan (General Manager), aged 57 years, carries the overall responsibility of our Bank's Chennai Zone. He joined the Bank on June 30, 2008. He has received a master's degree in arts. Prior to joining us, he was working with Andhra Bank. He has over 34 years of experience in the Banking industry. The remuneration paid to him for Fiscal 2009 was Rs.5.42 Lakhs.

Mr.T.N.Sundaram (General Manager), aged 60 years, carries the overall responsibility of our Bank's Mumbai Zone. He joined the Bank on November 20, 2008. He is CAIIB – I and has received a bachelor's degree in science. Prior to joining us, he was working with Canara Bank. He has over 29 years of experience in the Banking industry. The remuneration paid to him for Fiscal 2009 was Rs.4.08 Lakhs.

Mr.K.V.Ramesh (General Manager), aged 56 years, looks after the International Division, Mumbai of our Bank. He joined the Bank on April 01, 2009. He is CAIIB and has received a bachelor's degree in commerce and science. He has over 33 years of experience in the Banking industry.

Mr.S.Venkateswaran (Deputy General Manager and Company Secretary), aged 50 years, looks after Shares and Planning & Development department of the Bank. He joined the Bank on June 13, 1995. He has received master's degree in commerce, bachelor's degree in law and general law as well and Fellow member of The Institute of Company Secretaries of India. Prior to joining us, he was working with TCI Ltd., Utility Alloys (P) Ltd., Rasi Seeds (P) Ltd., and Kumar Polycot Mills Ltd. He has overall 29 years of experience, out of which 16 years of experience is explicitly in the banking industry. The remuneration paid to him for Fiscal 2009 was Rs.5.49 Lakhs.

All the above mentioned key managerial personnel are employees of our Bank. The remuneration of each of our key personnel is as per the statement pursuant to Section 217(2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975.

Shareholding of the Key Managerial Personnel

Other than as disclosed below, none of our key managerial personnel holds Equity Shares in our Bank

S. No	Name	Number Of Equity Shares held	Pre Issue %
1	Mr. Reddy, Managing Director	500	Negligible
2	Mr. Murali Nair, Chief Technology Officer	70	Negligible
3	R Sridharan, Chief Financial Officer	552	Negligible
4	S. Ravishankar, General Manager	345	Negligible

Bonus or profit sharing plan of the key managerial personnel

There is no bonus or profit sharing plan for our key managerial personnel. There is no employee stock option scheme or employee stock purchase scheme for any our employees or Directors.

Interest of Directors and key managerial personnel

None of our key managerial personnel have any interest in our Bank other than to the extent of the remuneration or benefits to which they are entitled to as per their terms of appointment and reimbursement of expenses incurred by them during the ordinary course of business and to the extent of the Equity Shares held by them in our Bank, if any.

Except as stated otherwise in this Draft Letter of Offer, we have not entered into any contract, agreement or arrangement during the preceding two years from the date of this Draft Letter of Offer in which our Directors are interested directly or indirectly and no payment have been made to them in respect of these contracts, agreements or arrangements or are proposed to be made to them. . As on March 31, 2009 our key managerial personnel are not interested in any loan or advance given by our Bank to any person(s)/ company/companies nor are they beneficiaries of any loan or advance.

Change in Key Managerial Personnel during the last 3 years

S. No	Name	Designation	Appointed / Promoted on	Relieved on	Remarks
1.	Mr. S.R.Narayanamurthy	General Manager	01.08.2006	---	Promotion
2.	Mr. R.M.Nayak	Chairman	20.06.2005	19.6.2007	Retired
3.	Mr. B.Murali Nair	Chief Technology Officer	01.08.2007	---	Appointment
4.	Mr. Naganna Prabhakaran	Chief Operating Officer	01.08.2007	---	Appointment
5.	Mr. V.S.Reddy	Managing Director	26.09.2007	---	Appointment
6.	Mr. R.Sridharan	Chief Financial Officer	01.02.2008	---	Appointment
7.	S.Ravi Shankar	General Manager	25.03.2008	---	Promotion
8.	Mr. V.Sudarsan	General Manager	30.06.2008	---	Appointment
9.	Mr. T.N.Sundaram	General Manager	20.11.2008	---	Appointment
10.	Mr. S.Rajagopal	Senior General Manager	24.04.2006	11.04.2009	Dismissed

Relation between any director and Key Managerial Personnel

Except as disclosed under “Brief Biographies of our Directors” above, none of our Directors or key managerial personnel are related to each other.

Human Resources

The total manpower strength of our Bank as on March 31, 2009 was 2433. The manpower position of the bank for the last five years is as under:

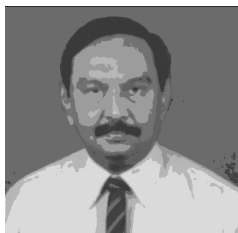
As at March 31	Total no. of employees
2005	1928
2006	1873
2007	1926
2008	2078
2009	2433

OUR PROMOTER AND PROMOTER GROUP

Background

Our Bank was promoted by Late Shri V.S.N. Ramalinga Chettiar and six other businessmen of Karur. Under the Banking Regulation Act, 1949, the Board's chairman is a professional appointed by the Board with the prior approval of the RBI.

The current promoters of the Bank are:



Mr. A.R. Venkataraman,

Voter ID No.: TN/24/142/0195085

Passport no.: E2337125

PAN: ADHPV2409G

Bank Account No.: 0444301000008088 (LVB, Tallakulam Branch)

Mr. A.R. Venkataraman, age 70 years hails from a philanthropic business family of Karur. He has received his Master's degree in Philosophy, Sociology and Psychology from Madras University. He was a director of the Bank for a period of 15 years. He has a varied business interest in wholesale distribution and marketing of various products. Ventures promoted by him include Vaibhav Polycot Pvt. Ltd., Vaishnavi Marketing and Vaishnavi Aces



Mr. N. Malayala Ramamirtham

Voter Id No.: FZC2453637

Driving License: R/TN/47/000789/2006

Passport no.: G6225949

PAN: AAAHM4687F

Bank Account No.: 0362301000002182 (LVB, Karur Jawahar Bazaar Road Branch)

Mr. N. Malayala Ramamirtham, age 60 years, received his Bachelor's degree in Commerce from Madras University. He has been a director of the Bank over a period of 14 years. He is the partner of a textile export house of Karur and has travelled widely. Ventures promoted by him include Venkateswara Exports, KVN Finance, and Venkateswara Marketing.



Mr. C. Krishnakumar,

Voter Id No.: TN/26/152/0282350

PAN: AALPK5806D

Bank Account No.: 0362301000001063 (LVB, Karur Jawahar Bazaar Road Branch)

Mr. C. Krishnakumar age 53 years, received his Bachelor's degree in Commerce from Madras University. He has been a director of the Bank for a period over 15 years. His father, K. R. Chandrasekharan was a director of the Bank for over 29 years. His business interest includes jewellery, yarn and finance. Ventures promoted by him include Sri Renuka Financiers, Sri Renuka Enterprises & Chits and Sri Renuka Investments



Mr. K R Pradeep

Voter Id No.: ZLW0579359

Passport no.: Z1733219

Bank Account No.: Lakshmi Vilas Bank, 0164301000034180

Mr. K R Pradeep, age 48 years, has received his Bachelor's degree in Business Management and is also a Chartered Accountant. He is a practicing Chartered Accountant with 25 years of experience in the areas of Direct Taxes. He is also a consultant and advisor to various Industries and Multinational Companies in India.



Mr. S.G.Prabhakaran
 Voter Id No.: AZZ0322420
 Passport no.: G3711452

Mr. S.G. Prabhakaran, age 54 years, has received Bachelor's degree in Commerce and Law, also an Associate Member of The Institute of Company Secretaries of India. He was instrumental in setting up the first Private Sector Mutual Fund in collaboration with Pioneer Mutual Fund, Boston, USA in 1993 and was a Director of Kothari Pioneer Asset Management Company.

Confirmation

We confirm that the details of the permanent account numbers, bank account numbers and passport numbers of our Promoters have been submitted to the NSE at the time of filing the Draft Letter of Offer. Further, the Promoters have not been detained as a willful defaulter by the Reserve Bank of India or any other Government authority and there are no violations of securities laws committed by the Promoters in the past on any such proceedings are pending against the promoters.

The aforementioned promoters named are not the descendants of the original promoters of the Bank when it was promoted in 1926. They have been named as promoters of the Bank on implementation of Code of Corporate Governance vide Clause 41 of the Listing Agreement entered with NSE, Mumbai since 31.03.2001 and re-classified at the Board Meeting held on 23rd June, 2009.

Promoter Group

Promoter Group Individuals

Relatives of the Promoter that form part of the Promoter Group under Clause 6.8.3.2(m), Explanation II of the SEBI Guidelines are as under:

Promoter	Name of Relative	Relationship
Mr. A.R. Venkatraman	Ms. A V Vasanthi	Wife
	Ms. M S Sharmila	Daughter
	Ms. Yathugiri Sridhar V	Sister
	Mr. M P Shyam	Son in-law (also Director in the Bank)
	Mr. S Dattathreyan	Son in-law
	Ms. D. Geethanjali	Daughter
Mr. N.Malayala Ramamirtham	Ms. R .Ambujam Ammal	Mother
	Mr. A.R.Mohanran	Brother
	Ms. M Geetha	Wife
	Mr. M Balasubramanian	Son
	Ms. B Charanya	Daughter in-law
	Ms. M Shalini	Daughter
Mr. C.Krishnakumar	Ms. N Susila	Mother
	Mr. N Saiprasad	Brother (also Director in the Bank)
	Mr. N Sivakumar	Brother
	Mr. N Dwarakanathan	Brother
	Mr. V N Jayaprakash	Brother
	Mr. Suman Voora	Son-in-law
	Ms. K Nirmala	Wife
	Mr. K R Chandrasekaran	Father
	Mr. C Ramkumar	Brother
	Ms. S Rajalakshmi	Sister
Mr. K R Pradeep (also a	Ms. K Divya	Daughter
	Mr. K Hari Prasad	Son
	Ms. Anuradha Pradeep	Wife

Director in the Bank)		
	Mr. Anirudh P Kare(minor)	Son
	Ms. Parinitha P Kare(minor)	Daughter
	Mr. K R Nagesh	Brother
	Mr. K R Satish	Brother
Mr. S.G. Prabhakaran (also a Director in the Bank)		
	Ms. Usha R Prabhakaran	Wife
	Mr. G P Prajesh	Son
	Mr. S. Gunneswaran	Father
	Mr. G. Sudhakara Gupta	Brother
	Ms. M R Sasikala Devi	Sister
	Ms. S G Chandralakshmi	Mother

Interest of Promoters in our Bank

No promoter of the Bank is interested in the appointment of the Lead Manager and Registrars.

Except the section "Related Party Transactions" forming part of the section "Financial Statements" on page 125 of this Draft Letter of Offer, and to the extent of shareholding in our Bank, the Promoters and Promoter Group do not have any other interest in our Bank. Our promoters and Promoter Group are not interested in any loan or advance given by our Bank to any person(s)/company/companies nor are they beneficiaries of any loan or advance except as mentioned below as on 31.03.2009:

(Rs. in crores)						
Name	Relationship	Facility	Limit	Balance as on 31.03.09	Asset Classification	
Voora Property Developers (P) Ltd. Directors: a. Shri. V. Lakshmi Narasimha Rao Voora b. Smt. V. Hemalatha c. Shri. Suman Voora	Shri. Suman Voora – Director of the company is son-in-law of Promoter & Ex-Director Shri. N. Malayalaramamirtham, who is the brother of present Director Shri. N. Saiprsad. (a) & (b) are father & mother of Shri. Suman Voora.	Term Loan	20.00	5.56	Standard	
Vaishnavi Enterprises Partners: a. Smt. A.V. Vasanthi b. Smt. D. Geethanjali c. Smt. S. Sharmila	Smt. Sharmila – Partner of the firm is wife of Director Shri. M.P. Shyam. (a) is wife and (b) & (c) are daughters of Promoter Shri. A.R. Venkataraman.	ILC	0.37	*0.37	Standard	
*Due to difference in our borrower & the beneficiary of the LC, our borrower had filed a civil suit OS 322-2005 against M/s Chakola Ayurvedics and the Bank has obtained an injunction on 12.8.2005 from the Hon'ble Sub-court, Madurai. The same was made absolute on 15.11.2005, thereby restraining us from effecting payment to Allahabad Bank, Calicut who negotiated these bills. Subsequently Allahabad Bank was impleaded as one of the defendants in the suit and the said suit is pending. The collateral security, office and residence building situated at TS No.831/111 and 831/1-3, Plot No.4, Bharathi Ulla Road, Race Course, Madurai (7725 sq.ft.) belonging to the borrower has been permitted to be released in lieu of lien marked fixed deposits equivalent to the LC amount of Rs. 37.27 lakhs. At present there is no outstanding to the account except the claim of LC amount from Allahabad Bank.						

The total amount of limit including non-funded advances sanctioned to such relatives/associates is 0.09 % of the total advances of the Bank as on March 31, 2009.

Interest in the property of our Bank

Our Promoters do not have any interest in property acquired by our Bank within two years preceding the date of this Draft Letter of Offer or proposed to be acquired by our Bank.

Payment of benefits to our Promoters during the last two years

The promoters of the Bank are interested to the extent of dividend which is distributed on the shares held by them and/or by their friends and relatives at the end of the financial year after necessary appropriation.

COMPANIES UNDER THE SAME MANAGEMENT

There are no companies under the same management within the meaning of section 370(1) (B) of the Companies Act, 1956

PROMOTER GROUP

Following are the ventures promoted by the promoters of the Bank:

1. Sri Renuka Investments;
2. Sri Renuka Enterprises & Chits ;
3. Sri Renuka Financiers ;
4. Vaibhav Polycot Private Limited;
5. Vaishnavi Aces;
6. Vaishnavi Marketing ;
7. Venkateswara Exports;
8. Venkateswara Marketing;
9. K.V.N. Finance;
10. Sanath Export Private Limited;
11. Kare Electronics and Development Private Limited.;
12. Pranava Electronics Private Limited;
13. K.R.Pradeep;
14. RoyalSoft Services Limited;
15. Ariston Capital Asset Holdings Private Limited; and
16. XS Real Properties Private Limited

Brief details of the ventures promoted by the promoters:

Sri Renuka Investments

Sri Renuka Investments was formed on September 13, 1989 as a partnership firm. Its office is situated at 375, Jawahar Bazaar, Karur – 639 001, Tamil Nadu, India. Sri Renuka Investments is a finance firm.

The firm has the following partners

Name of the Partners	Profit Sharing ratio (%)
C. Krishnakumar	2.65
L. Bommi	16.67
R. Vijayakumari	16.67
R. Nagalakshmi	16.67
L. Dhanalakshmi	16.67
R. Mohan	16.67
S. Sathivathy	14.00

Financial Performance (Rs in lakhs)

Particulars	For the year ended March 31		
	2005	2006	2007
Total Income	1.59	1.33	0.32
Net Profit	0.01	0.02	(0.03)
Capital	1.25	1.26	0.99

Sri Renuka Enterprises & Chits

Sri Renuka Enterprises & Chits was formed on April 17, 1981 as a partnership firm. Its office is situated at 375, Jawahar Bazaar, Karur – 639 001, Tamil Nadu, India. Sri Renuka Enterprises & Chits is a finance firm.

The firm has the following partners

Name of the Partners	Profit Sharing ratio (%)
C. Krishnakumar	2.65
L. Bommi	16.67
R. Rajasekaran	16.67
R. Mohan	16.67
P. Santhi	16.67
R. Nagalakshmi	16.67
S. Sathiavathy	14.00

Financial Performance (Rs in lakhs)

Particulars	For the year ended March 31		
	2005	2006	2007
Total Income	3.41	3.03	1.33
Net Profit	0.01	0.02	0.04
Capital	13.43	14.38	8.20

Sri Renuka Financiers

Sri Renuka Financiers was formed on October 13, 1978 as a partnership firm. Its office is situated at 375, Jawahar Bazaar, Karur-639001, India. Sri Renuka Financiers is a finance firm.

The firm has the following partners

Name of the Partners	Profit Sharing ratio (%)
Mr. C. Krishnakumar	2.65
K. Loganathan	16.67
R. Rajasekaran	16.67
T. RameshBabu	16.67
R. Ramanujam	16.67
L. Dhanalakshmi	16.67
S. Sathiavathy	14.00

Financial Performance (Rs in lakhs)

Particulars	For the year ended March 31		
	2005	2006	2007
Total Income	4.47	2.73	1.83
Net Profit	0.01	0.02	0.01
Capital	9.36	8.42	8.76

Vaibhav Polycot Private Limited

Vaibhav Polycot Pvt. Ltd was incorporated as a private limited company on February 29, 2000 under the Companies Act, 1956. Its CIN No. is U17118TN2000PTC044278. Its registered office is situated at 49 A Bharathi Ula Road, Race Course, Madurai – 625 002, India. Vaibhav Polycot Pvt. Ltd is an agent to Reliance Industries Ltd for supplying polyester staple fibre.

**Shareholding Pattern as on June 30, 2009**

Name of the Promoters	% of holding (%)
Mr. A.R.Venkatraman	78
Mr. S. Dattathreyan	1
Mr. M.P. Shyam	5
Ms. A.V. Vasanthi	12
Ms. D. Geethanjali	4

Board of Directors as on June 30, 2009

Name of the Directors	Designation
Mr. A.R.Venkatraman	Director
Mr. S. Dattathreyan	Director

Financial Performance (Rs in lakhs)

Particulars	For the year ended March 31		
	2007	2008	2009
Sales	Nil	Nil	Nil
Net Profit	0.56	0.23	0.25
Capital	10	10	10
Reserves	Nil	Nil	Nil
EPS (Rs.)	0.56	0.23	0.25
Book Value per share (Rs.)	8.70	8.90	8.90

Vaishnavi Aces

Vaishnavi Aces was formed on October 15, 2004 as a partnership firm. Its office is situated at 67, Pathivilas Street, Gobichettipalayam – 638 452, India. Vaishnavi Aces is a distributor for Aircel Prepaid Cards.

The firm has the following partners:

Name of the Partners	Profit Sharing ratio (%)
Mr. A.R.Venkatraman	40
S. Saraswathi	15
S. Dattathreyan	15
S. Dayanand	15
S. Aravind	15

Financial Performance (Rs in lakhs)

Particulars	For the year ended March 31		
	2006	2007	2008
Total Income	403.92	683.45	1062.26
Net Profit	0.78	2.81	1.49
Capital	6.92	10.56	13.32

Vaishnavi Marketing

Vaishnavi Marketing was formed on January 24, 1994 as a partnership firm. Its office is situated at {No. 67 (23-A), Pathivilas Road, Gobichettipalayam – 638 452}, India. Vaishnavi Marketing is a distributor of fast moving consumer products.

The firm has the following partners:

Name of the Partners	Profit Sharing ratio (%)
Mr. A.R.Venkatraman	25.03
M.K. Pandurangasetty	4.88
M.P. Shyam	10.01
M.P. Vikram	10.01
S. Arvind	16.69
S. Dattathreyan	16.69
S. Dayanand	16.69

Financial Performance (Rs in lakhs)

Particulars	For the year ended March 31		
	2006	2007	2008
Total Income	1114.82	1453.75	1585.95
Net Profit	(0.67)	(3.78)	2.73
Capital	23.13	22.13	27.52

Venkateswara Exports

Venkateswara Exports was formed on October 25, 1993 as a partnership firm. Its office is situated at No. 41/1-50 Feet Road, Ramakrishnapuram, Karur – 639 001, Tamil Nadu, India. Venkateswara Exports is engaged in the business of exporting textiles made ups.

The firm has the following partners:

Name of the Partners	Profit Sharing ratio (%)
Mr. N. Malayala Ramamirtham	20
Mr. V.N. Jayaprakash	20
Ms. D. Manjula	20
Mr. N. Sivakumar	20
Mr. N. Saiprasad	20

Financial Performance (Rs in lakhs)

Particulars	For the year ended March 31		
	2006	2007	2008
Total Income	400.72	497.37	564.63
Net Profit	6.63	12.95	10.98
Capital	45.87	60.41	78.64

Venkateswara Marketing

Venkateswara Marketing was formed on November 18, 2001 as a partnership firm. Its office is situated at No. 34/70, Raja Complex, Chinnandan Koil Road, Karur – 639 001, Tamil Nadu, India. Venkateswara Marketing is engaged in the business of re-distributing products of Hindustan Lever Ltd.

The firm has the following partners:

Name of the Partners	Profit Sharing ratio (%)
Mr. N. Malayala Ramamirtham	20
Mr. N. Dwarakanathan	20
Mr. N. Sivakumar	20
Ms. J. Umamaheswari	20
Ms. S. Sumitha	20

Financial Performance (Rs in lakhs)

Particulars	For the year ended March 31		
	2006	2007	2008
Total Income	410.57	332.64	376.90
Net Profit	0.57	0.14	0.15
Capital	10.09	5.84	5.84

K.V.N. Finance

K.V.N. Finance was formed on November 03, 1989 as a partnership firm. Its office is situated at 239, Jawahar Bazaar, Karur – 639 001, Tamil Nadu, India. K.V.N. Finance is engaged in trade finance.

The firm has the following partners:

Name of the Partners	Profit Sharing ratio (%)
Mr. N. Malayala Ramamirtham	10
V.N. Jayaprakash	20
N. Dwarakanathan	20
S. Premakumari	20
N. Saiprasad	20
M. Balasubramanian	10

Financial Performance (Rs in lakhs)

Particulars	For the year ended March 31		
	2006	2007	2008
Total Income	3.41	2.84	1.16
Net Profit	0.06	0.06	(1.07)
Capital	3.67	3.72	2.77

Sanath Export Private Limited

Sanath Export Private Limited was incorporated on August 18, 2003 under the Companies Act, 1956. Its CIN No. is U51102KA2003PTC032408.. Its registered office is situated at #20, 1st Floor, Eden Park, Vittal Mallya Road, Bangalore – 560 001, India. It is engaged in exports business.

Shareholding Pattern as on June 30, 2009

Name of the Shareholders	No. of shares held	% of holding (%)
Mr. K. R. Pradeep	50000	50
Mr. K.T.Sanath	50000	50

Board of Directors as on June 30, 2009

Directors Name	Designation
Mr. K. R. Pradeep	Director
Mr. S.R.Ajit	Director
Mr. Raghuraj Gujjar	Director

Financial Performance (Rs in Lacs)

Particulars	For the year ended March 31		
	2006	2007	2008
Total Income	0.40	0.00	0.00
Net Profit	0.21	(0.14)	(0.18)
Capital	10.00	10.00	10.00
Reserves	0.00	(0.14)	(0.32)

EPS (Rs.)	0.21	(0.14)	(0.18)
Book Value per share (Rs.)	10.00	9.86	9.68

Kare Electronics and Development Private Limited

Kare Electronics and Development Private Limited was incorporated on November 16, 1995 under the Companies Act, 1956 as Kare Electronics Private Limited. Its name was changed to Kare Electronics and Development Private Limited on December 23, 2004. Its CIN No. is U31909KA1995PTC019177. Its registered office is situated at #20, 1st Floor, Eden Park, Vittal Mallya Road, Bangalore – 560 001, India. Kare Electronics and Development Pvt. Ltd is engaged in electronics development.

Shareholding Pattern as on June 30, 2009

Name of the Shareholders	No. of shares held	% of holding (%)
Pranava Electronics Pvt. Ltd	10000	50.0
Mr. K. R. Pradeep	9800	49.0
Ms. Anuradha Pradeep	100	0.5
Mr. S.R.Ajit	100	0.5

Board of Directors as on June 30, 2009

Directors Name	Designation
Mr. K. R. Pradeep	Director
Ms. Anuradha Pradeep	Director
Mr. S.R.Ajit	Director

Financial Performance (Rs in Lacs)

Particulars	For the year ended March 31		
	2006	2007	2008
Total Income	881.04	186.26	1227.37
Net Profit	(3.60)	(8.48)	926.90
Capital	2.00	2.00	2.00
Reserves	(2.37)	(10.85)	916.05
EPS (Rs.)	(17.99)	(42.40)	4634.48
Book Value per share (Rs.)	(1.85)	(44.25)	4590.24

Pranava Electronics Private Limited

Pranava Electronics Private Limited was incorporated as a private limited company on December 29, 2003 under the Companies Act, 1956. Its CIN No. is U31909KA2003PTC033106. Its registered office is situated at #20, 1st Floor, Eden Park, Vittal Mallya Road, Bangalore – 560 001, India. It is engaged in the electronics business.

Shareholding Pattern as on June 30, 2009

Name of the Shareholders	No. of shares held	% of holding (%)
Mr. K. R. Pradeep	1500000	93.75
Ms. Anuradha Pradeep	100000	6.25

Board of Directors as on June 30, 2009

Directors Name	Designation
Mr. K. R. Pradeep	Director
Ms. Anuradha Pradeep	Director
Mr.S.R.Ajit	Director
Mr. Durbha Lakshminarasimhum Murthy	Director

Financial Performance (Rs in Lacs)

Particulars	For the year ended March 31		
	2006	2007	2008
Total Income	439.02	324.28	1298.65
Net Profit	305.92	177.34	1005.03
Capital	1.60	1.60	1.60
Reserves	361.01	538.34	1543.37
EPS (Rs.)	1912.03	1108.35	6281.41
Book Value per share (Rs.)	2266.29	3374.63	9656.04

K.R.Pradeep

K. R. Pradeep started his practice as a Chartered Accountant on August 2, 1984 and established a full fledged office on January 31, 1985. The office is situated at #20, 1st Floor, Eden Park, Vittal Mallya Road, Bangalore – 560 001 , India.

Financial Performance (Rs in Lacs)

Particulars	For the year ended March 31		
	2006	2007	2008
Total Income	403.98	915.82	920.52
Net Profit	285.89	822.05	703.67
Capital	5930.94	7289.76	9074.80

RoyalSoft Services Limited

RoyalSoft Services Limited was incorporated on December 12, 1994 under the Companies Act as XS Financial Services Private Limited. Its name was changed to XS Financial Services Limited on July 3, 1995 and subsequently changed to RoyalSoft Services Limited on May 13, 2003. Its CIN No. is L67190TN1994PLC029501. RoyalSoft Services Limited received its certificate of commencement of business on 13.05.2003. Its registered office is situated at 12, South Mada Street, Srinagar Colony, Saidapet, Chennai – 600 015, India. RoyalSoft Services Limited is engaged in the business to manufacture, develop and/or deal in Computer Software and/or Computer Hardware.

RoyalSoft Services Ltd., was incorporated with the main object: “To carry on all or any of the business as builders, developers, purchasers, proprietors, promoters, contractors and operators and sellers of buildings, flats, maisonettes, dwelling houses, corporate guest houses, shops, offices and clubs, townships, apartments, retiring homes, holiday homes and resorts, hotels, restaurants, market complexes, beach houses, cottages, holiday resorts, office complexes, industrial estates, parks, community halls, choultries, time shares of properties, hostels, schools, colleges, educational complex, art theatre and for these purposes to purchase , take on lease or enter into joint venture or otherwise acquire and hold any lands or buildings of any tenure or description wherever situate, or rights or interests therein or connected therewith to prepare layouts of building sites and to construct, reconstruct, pull down, alter, improve, decorate, remodel, furnish and maintain flats, maisonettes, dwelling houses, shops, offices, clubs, buildings, works and conveniences of all kinds, to lay roads, streets and pleasure gardens and recreation grounds, to provide for sewage or otherwise improve the land or any part thereof for the purposes and in connection with the business of the Company”

Shareholding Pattern as on June 30, 2009

Sr. No.	Category	No. of Holders	No. Of shares	% of shares
1.	Resident Indian	3926	1169400	38.98
2.	Domestic Companies	31	1368000	45.60
3.	NRI/OCBs	58	315900	10.53
4.	Promoters	1	40100	1.34
5.	Directors & Relatives	8	106600	3.55
6.	FIIIs	-	-	-

7.	Mutual Funds	-	-	-
8.	Financial Institutions	-	-	-
	Total	4024	3000000	100.00

Board of Directors as on June 30, 2009

Directors Name	Designation
Mr. S.G. Prabhakaran	Vice-Chairman (Non Executive)
Mr G. Chidambar	Director (Non executive Independent)
Mr M. Namasivayam	Director (Non executive Independent)
Mr. A Satish Kumar	Director(Non executive Independent)

Financial Performance (Rs in Lacs)(Audited)

Particulars	For the year ended March 31		
	2006	2007	2008
Total Income	21.86	10.58	67.02
Net Profit	8.18	1.10	(8.51)
Capital	300.00	300.00	300.00
Reserves	(199.93)	(198.83)	(207.34)
EPS (Rs.)	0.27	0.04	(0.28)
Book Value per share (Rs.)	3.34	3.37	3.09

RoyalSoft has not made a public or rights issue in the preceding three years.

XS Financial Services Limited made Public Issue of 1477300 equity shares of Rs. 10/- each for cash at par on 1st September 1995. The basis of allotment was finalized on 9th October 1995 and the shares were listed on Madras Stock Exchange on 30th October 1995, Coimbatore Stock Exchange on 1st November 1995 and Ahmedabad Stock Exchange on 1st November,1995.

RoyalSoft does not fall under the definition of a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1985 nor is it under winding up.

The shares of RoyalSoft Services Limited are not traded on any stock exchange for the last six months.

Ariston Capital Asset Holdings Private Limited

Ariston Capital Asset Holdings Private Limited was incorporated on February 7, 2008, under the Companies Act, 1956 as Ariston Equity Stock Holdings Private Limited. Its name was changed to Ariston Capital Asset Holdings Private Limited on March 27, 2009. Its CIN No. is U74900TN2008PTC066356. Its registered office is situated at 12, South Mada Street, Srinagar Colony, Saidapet, Chennai-600 015,.Ariston Capital Asset Holdings Private Limited is engaged in the business of dealing with any immovable property.

Shareholding Pattern as on June 30, 2009

Name of the Shareholders	% of holding
Mr. S.G. Prabhakaran	1%
Mrs. Usha R Prabhakaran	99%

Board of Directors as on June 30, 2009

Directors Name	Designation
Mr. S.G. Prabhakaran	Director
Mrs. Usha R Prabhakaran	Director

Financial Performance (Rs in Lacs)

Financial performance of Ariston Capital Asset Holdings Pvt. Ltd. is not given as accounts are under finalization and audit.

XS Real Properties Private Limited

XS Real Properties Private Limited was incorporated on April 5, 1995 under the Companies Act, 1956. Its CIN No. is U70101TN1995PTC030815. Its registered office is situated at 12, South Mada Street, Srinagar Colony, Saidapet, Chennai-600 015, India. XS Real Properties Pvt. Ltd is engaged in the business of property development.

Shareholding Pattern as on 31st March,2009,

Name of the Shareholders	No. of Shares Held	% of holding
Mrs. Usha R Prabhakaran	63000	25.20%
Megapro Investments Pvt. Ltd.	120000	48.00%
Cherry International Trading Pvt. Ltd.	67000	26.80%

Board of Directors as on June 30, 2009

Directors Name	Designation
Mr. S.G. Prabhakaran	Director
Mrs. Usha R Prabhakaran	Director

Financial Performance (Rs in Lacs)

Particulars	For the year ended March 31		
	2006	2007	2008
Total Income	1347.06	1336.47	684.04
Net Profit	52.44	65.92	96.68
Capital	25.00	25.00	25.00
Reserves	646.36	712.28	808.96
EPS (Rs.)	20.98	26.37	35.09
Net Asset Value	671.36	737.28	833.96

Defunct Promoter Group Companies

The following ventures of the promoters of the Bank are not operational:

1. M/s. K.V.N Viswanatha Chettiar Sons
2. M/s. Ananthanarayana Combines
3. M/s. Lakshminarayana Enterprises
4. M/s. Mahaganapathy Enterprises
5. M/s. Narayan Handlooms
6. M/s. Vigneshwara Handlooms

Other Confirmations

None of our Promoter Group companies have been become sick companies under the meaning of the SICA. None of the Promoters or Promoter Group Companies have been restrained or prohibited by SEBI or any other regulatory authority from accessing the capital markets for any reason. None of our Promoter Group companies are currently under winding up nor do any of them have negative net worth. Further, no application has been made in respect of any of our Promoter Group companies, to the RoC for striking off their names.

Outstanding Litigation

There are no outstanding litigations against our Promoter and Promoter Group, except as disclosed in the sections "Risk Factors" and "Legal and Other Information" on page viii and 180 respectively.

Related Party Transactions

For details of the related party transactions, see the section “Related Party Transactions” forming part of the section “Financial Statements” on page 125.

Sales or purchases among our Promoter Group companies

There have been no sales or purchases among companies in our Promoter Group, the aggregate value of which exceeds 10% of the total sales and purchases of our Bank. For details, see the section “Related Party Transactions” forming part of the section “Financial Statements” on page 125.

**FINANCIAL STATEMENTS
“AUDITORS REPORT”**

M/s. SUNDARAM & SRINIVASAN
Chartered Accountants
Chennai-600018

M/s. ABARNA & ANANTHAN
Chartered Accountants
Bangalore-560085

AUDITORS' REPORT

To,
The Board of Directors
The Lakshmi Vilas Bank Limited.
Regd & Admin.office, Kathapara, Salem Road,
Karur 639 006
Tamil Nadu

Dear Sirs,

We have been engaged to examine and report on the financial information of **The Lakshmi Vilas Bank Limited** (“ the Bank ”) for each of the financial years ended on March 31 2009, 2008, 2007, 2006, 2005 annexed to this report, as approved by the Board of Directors of the Bank, which have been prepared in terms of the requirements of Paragraph B(1) of part II of Schedule II to the Companies Act ,1956 (the Act) and the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 as amended thereto from time to time (“SEBI Guidelines”) in pursuance of Section 11 of the Securities Exchange Board of India Act 1992, to the extent they are not inconsistent with the Banking Regulation Act, 1949 (the Banking Regulation Act) and in terms of our engagement letter dated 2nd July 2009 in connection with the proposed rights issue of equity shares of the Bank.

The preparation and presentation of this financial information is the responsibility of the Bank’s Management. We have reported on the above said financial statements on the basis of information and explanations provided by the Management, books and records produced to us, so as to obtain a reasonable assurance that such statements are free of material misstatements. This financial information are proposed to be included in the offer document of the Bank in connection with the proposed Rights issue of Equity Shares.

We have examined the attached “Summary Statement of Assets and Liabilities , as restated ” of the Bank as at 31st March 2009, 2008, 2007, 2006 and 2005 (Annexure I) and the attached “ Summary Statement of Profit and Loss as restated ”for each of the financial years ended 31st March 2009, 2008, 2007, 2006 and 2005 (Annexure II).Based on our examination of these summary statements and in accordance with the requirements of Part II B of Schedule II to the Act, the SEBI guidelines and terms of our engagement agreed with you, we report that :

- a) The Restated Summary Statement of Assets and Liabilities of the Bank as at 31st March 2009, 2008, 2007, 2006 and 2005 as set out in Annexure I to this report are after making adjustments and regrouping as in our opinion were appropriate and more fully described in significant Accounting Policies, Notes on accounts, Changes in Significant Accounting Policies, and statement of adjustments /restatements in the financial information. (Refer Annexure VII, VIII, and IX)
- b) The Restated Summary Statement of Profit and Loss of the Bank for each of the Financial year ended 31st March 2009, 2008, 2007, 2006 and 2005, as set out in Annexure II to this report are after making adjustments and regrouping as in our opinion were appropriate and more fully described in significant Accounting Policies, Notes on accounts, Changes in Significant Accounting Policies, Notes on accounts, Changes in Significant Accounting Policies and statement of adjustments /restatements in the financial information. (Refer Annexure VII, VIII, and IX)
- c) Based on above, we are of the opinion that the restated financial information have been made after incorporating:
 - i) Adjustments for the changes in accounting policies retrospectively in respective financial years to reflect the same accounting treatment as per changed accounting policy for all the reporting periods.

- ii) Adjustments for the material amounts in respective financial years to which they relate and that there are no extraordinary items that need to be disclosed separately in the Summary Statements.
- d) The adjustments carried out to the restated financial information mentioned in para (c) above are subject to the following:
- a. The adjustments in respect of audit qualifications have not been made since the impact of qualifications were not quantified.
 - b. The adjustments in respect of transitional liability as on 31.03.04 in respect of sick leave has been made on an estimated basis.

We have examined the following other financial information set out in Annexure (II-A to XII) prepared by the management and approved by the Board of Directors relating to the Bank for each of the Financial year ended 31st March 2009, 2008, 2007, 2006 and 2005.

- i) Statement of Cash Flow for 5 years (Annexure II-A)
- ii) Statement of Disputed Income Tax Liability (Annexure III)
- iii) Statement of Dividends payment (Annexure IV)
- iv) Statement of Investments (Annexure V)
- v) Statement of Accounting Ratios (Annexure VI)
- vi) Statement of Capitalization as at 31st March 2009 (Annexure X)
- vii) Statement of Tax Shelter (Annexure XI)
- viii) Statement of borrowings and their Principle Terms (Annexure XII)

In our opinion, the financial information contained in Annexure I to XII of this report read along with the Significant Accounting Policies, Notes on accounts, Changes in Significant Accounting Policies, Statement of adjustments /restatements in financial information (Referred to in Annexure VII, VIII and IX) after making adjustments and regroupings as considered appropriate have been prepared in accordance with Paragraph B(1) of part II of Schedule II to the Companies Act ,1956 (the Act) and the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 as amended till date after charging all expenses and making adjustments and re-grouping which in our opinion are appropriate.

There are no discontinued activities of the Bank during the period covered in our report having a material impact on the accounts.

This report should not in any way be construed as a re –issuance or re-dating of any of the previous audit reports issued by us nor should this report be construed as a fresh opinion on any financial statements referred to herein.

Our report is intended solely for use of management and for inclusion in the offer document in connection with the proposed rights issue of equity shares of the Bank and should not be used, referred to or distributed for any other purpose without our prior written consent.

For M/s Sundaram & Srinivasan
Chartered Accountants

For M/s. Abarna & Ananthan
Chartered Accountants

C. Naresh
M. No: 28684

C.S Gopalakrishna
M.No:14706

Date : 21 /07/2009.
Place : Chennai.

ANNEXURE I
SUMMARY STATEMENT OF ASSETS AND LIABILITIES (RESTATED)

(Rs. In Crores)

As on					
	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09
A Assets					
1 Cash in Hand	42.06	44.69	43.10	59.23	97.70
2 Balance with RBI	216.72	155.42	243.20	326.12	494.26
3 Balances with Bank in India	79.69	250.77	293.99	210.60	261.01
Balances with Bank Outside India	15.77	12.52	11.17	18.95	28.44
4 Money at Call & Short Notice	--	--	50.00	--	--
5 Investments					
Investments in India	1180.86	1279.87	1309.30	1693.67	1863.06
Investments outside India	--	--	--	--	--
Total Investments	1180.86	1279.87	1309.30	1693.67	1863.06
6 Advances					
Advances in India	2317.71	2952.82	3612.70	3858.79	5245.83
Advances Outside India	--	--	--	--	--
Total Advances	2317.71	2952.82	3612.70	3858.79	5245.83
7 Fixed Assets	34.11	32.66	35.31	39.94	53.98
8 Other Assets	167.52	193.67	232.83	318.14	277.64
TOTAL (A)	4054.44	4922.42	5831.60	6525.44	8321.92
B LIABILITIES					
1 Demand Deposits	426.99	453.08	506.92	559.20	492.08
From Banks	3.32	1.82	4.89	6.95	9.86
From Others	423.67	451.26	502.03	552.25	482.22
2 Savings Deposits	468.56	547.86	599.65	658.51	743.21
3 Term Deposits	2600.37	3335.43	3913.30	4400.78	6125.61
From Banks	159.46	391.48	408.27	119.46	283.73
From Others	2440.91	2943.95	3505.03	4281.32	5841.88
Total Deposits (1+2+3)	3495.92	4336.37	5019.87	5618.49	7360.90
4 Borrowings					
In India	28.41	5.30	79.75	52.74	32.58
outside India	40.53	0.00	0.00	0.05	0.02
Total Borrowings	68.94	5.30	79.75	52.79	32.60
5 Other Liabilities & Provisions					
Other Liabilities & Provisions	151.63	194.03	214.93	335.79	373.65
Subordinate Debts	109.80	100.80	130.80	110.00	110.00
Sub - Total	261.43	294.83	345.73	445.79	483.65
TOTAL (B)	3826.29	4636.50	5445.35	6117.07	7877.15
C NET ASSETS (C=A-B)	228.15	285.92	386.25	408.37	444.77
Represented By:					
D Share Capital	11.51	19.53	47.81	48.77	48.78
E Reserve & Surplus					
1 Statutory Reserve	121.20	155.41	208.65	215.65	230.91
2 Capital Reserve	16.83	17.84	18.61	27.16	45.94
3 Share Premium	14.42	50.55	113.73	117.63	117.64
4 Investment Fluctuation Reserve	35.99	40.74	0.00	0.00	0.00
5 Other Reserve	29.82	6.61	6.85	7.01	8.01

6	Special Reserve u/s 36(1) (viii) of IT Act 1961	0.00	0.00	0.00	1.15	2.15
6	Balance of Profit and loss Account (Adjusted)	(1.62)	(4.76)	(9.40)	(9.00)	(8.66)
	TOTAL (E)	216.64	266.39	338.44	359.60	395.99
F	TOTAL (D+E)	228.15	285.92	386.25	408.37	444.77
G	Contingent Liabilities					
	Claims against the Bank not acknowledgement as debts	65.60	73.09	176.79**	121.98	135.19
	Liability for partly paid investments	-	-	-	-	-
	Liability on account of forward exchange contracts	522.46	627.89	266.64	412.35	588.26
	Guarantees given on behalf of Constituents	101.15	96.60	114.63	132.71	271.70
	Acceptances,Endorsements and other obligations	155.65	168.46	147.18	218.34	687.03
	Other items for which the bank is contingently Liabe	0.18	0.00	0.00	0.00	0.00
	Total (G)	845.04	966.04	705.24	885.38	1682.18
	BILLS FOR COLLECTION	132.83	178.85	133.80	150.56	231.95

** During the year 2006-07,the disputed demand outstanding of Rs.456.40 crores has been published instead of disputed tax liability of Rs. 176.79 crores.

**ANNEXURE II
SUMMARY STATEMENT OF PROFIT AND LOSS ACCOUNT (RESTATED)**

(Rs. In Crores)

For the Period Ended	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09
INCOME					
1 Interest Earned					
1.1 Interest / Discount on Advances / Bills	186.85	216.67	312.13	378.98	517.92
1.2 Income on Investments **	100.48	84.21	89.15	103.10	126.14
1.3 Interest on Balances with RBI and other Inter-Bank Funds.	3.26	10.03	16.16	13.65	8.56
1.4 Others	0.54	0.02	0.82	10.32	4.99
2 Other Income					
2.1 Commission, Exchange & Brokerage	28.82	31.19	35.70	28.40	42.57
2.2 Profit on Sale of Investments (Net)	(7.47)	(10.70)	(1.25)	21.33	30.36
2.3 Profit on Sale of Land, Buildings & Other Assets (Net)	0.02	(0.06)	0.41	5.48	2.62
2.4 Profit on Exchange Transactions (Net)	5.06	4.56	5.55	6.17	8.81
2.5 Income From Dividends	3.44	0.71	3.37	5.57	0.30
2.6 Miscellaneous Income **	8.45	20.37	12.94	15.54	22.33
Total Income	329.45	357.00	474.98	588.54	764.60
EXPENDITURE					
1 Interest Expended					
1.1 Interest on Deposits	180.35	206.82	284.35	363.20	481.55
1.2 Income on Balances with RBI / Inter - Bank Borrowings	1.83	0.51	3.30	5.55	16.18
1.3 Others	9.36	9.24	11.54	13.18	6.34
2 Operating Expenses					
2.1 Payment to and Provisions for Employees	45.47	59.16	56.24	63.04	78.45
2.2 Rent, Taxes & lighting	7.34	7.73	8.29	9.78	13.15
2.3 Printing & Stationery	1.23	1.50	1.47	1.51	1.51
2.4 Advertisements & Publicity	0.80	0.72	1.26	1.18	1.74
2.5 Depreciations on Banks Property	6.07	6.14	7.65	8.58	12.72
2.6 Directors' Fees, Allowances and Expenses	0.17	0.20	0.18	0.43	0.57
2.7 Auditors Fees and Expenses	0.17	0.17	0.24	0.28	0.32
2.8 Law Charges	0.67	0.34	0.50	0.47	0.44
2.9 Postage, Telegrams and Telephones	2.65	2.86	2.54	4.97	4.33
2.10 Repairs and Maintenance	0.41	0.48	0.64	0.66	0.63
2.11 Insurance	2.80	3.59	4.38	4.96	5.92
2.12 Other Expenditure **	13.72	16.88	19.06	20.59	31.91
Total Expenditure	273.04	316.34	401.64	498.38	655.76
Gross Profit Before Provisions & Contingencies	56.41	40.66	73.34	90.16	108.84
Provisions & Contingencies	54.91	21.49	60.26	64.55	58.20
Net Profit / (Loss) For The Year	1.50	19.17	13.08	25.61	50.64
Add: Transfer from Investment Fluctuation Reserve	--	--	40.74	--	--
Add: Balances of Profit/(Loss) Brought Forward	0.22	(1.62)	(4.76)	(9.20)	(9.00)
Profit Available For Appropriation	1.72	17.55	49.06	16.41	41.64
APPROPRIATIONS					
Transfer to Statutory Reserve	0.85	10.00	53.24	7.00	15.25
Transfer to Capital Reserve	2.49	1.00	0.77	8.55	18.79
Transfer to (from) Investment Fluctuation Reserve	0.00	4.75	0.00	0.00	0.00
Transfer to Other Reserve	0.00	1.00	0.25	1.30	1.00

Transfer to Special Reserve u/s 36(1)(viii) of IT Act 1961	0.00	0.00	0.00	0.00	1.00
Proposed Dividend	0.00	4.88	3.42	7.32	12.20
Tax on Dividend	0.00	0.68	0.58	1.24	2.07
Balance Carried Over to Balance Sheet	(1.62)	(4.76)	(9.20)	(9.00)	(8.66)
	1.72	17.55	49.06	16.41	41.65

** Amortisation expenses have been regrouped and adjusted against the interest income of investments as per RBI guidelines.
The regroup of amortisation for the year 2005, 2006, 2007.

ANNEXURE II (Continued)					
Adjustments resulting from Audit Qualifications, material amounts relating to adjustments for previous years and changes in Accounting Policies					
	(Rs. In Crores)				
Particulars	Year Ended				
	31.03.05	31.03.06	31.03.07	31.03.08	31.03.09
Net Profit/(Loss) as per Audited Accounts	3.34	22.47	17.58	25.27	50.30
Adjustments for:					
Depreciation on conversion of Assets to Banking and NB		0.20	(0.20)	-	-
Additional Liability as per AS 15 (Revised)	(2.90)	(5.28)	(6.48)	0.52	0.52
Deferred Tax Benefit to the extent of AS 15 R	1.06	1.78	2.18	(0.18)	(0.18)
Adjusted Profit / (Loss)	1.50	19.17	13.08	25.61	50.64
Appropriations					
Total	1.50	19.17	13.08	25.61	50.64
Impact on Reserves & Surplus	(1.84)	(3.30)	(4.50)	0.34	0.34
Provisions & Contingencies		-	-	-	-
Total	(1.84)	(3.30)	(4.50)	0.34	0.34
Increase/Decrease in Assets & Liabilities (Cumulative)			(Rs. In Crores)		
Nature of Adjustments	Year Ended				
	31.03.05	31.03.06	31.03.07	31.03.08	31.03.09
Assets					
Furniture & Fittings- Classification of asset	-	0.20	(0.20)	-	-
Deferred Tax Assets	1.06	1.78	2.18	(0.18)	(0.18)



Increase / decrease in Assets - (A)	1.06	1.98	1.98	(0.18)	(0.18)
Liabilities					
Additional Liability as per AS 15 (Revised)	(2.90)	(5.28)	(6.48)	0.52	0.52
	-	-	-	-	-
	-	-	-	-	-
	(2.90)	(5.28)	(6.48)	0.52	0.52
Reserves & Surplus	(1.84)	(3.30)	(4.50)	0.34	0.34
Increase / decrease in Liabilities - (L)	1.06	1.98	1.98	(0.18)	(0.18)
	-	-	-	-	-

ANNEX II A- CASH FLOW STATEMENT				
RESTATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2005				
(Rs. in Cr)				
	31.03.2005		31.03.2004	
CASH FLOW FROM OPERATING ACTIVITIES:				
Net Profit as per Profit & Loss Account	1.50		41.05	
ADJUSTMENTS FOR:				
Provisions & Contingencies	54.91		45.71	
Depreciation	6.08		4.96	
Loss on sale of assets	(0.02)		0.03	
Income Tax / T D S paid	(16.98)		(20.51)	
Net cash flow before changes in Working Capital		45.49		71.24
CHANGES IN WORKING CAPITAL :				
LIABILITIES : Increase/Decrease in				
Deposits	200.10		525.32	
Refinances	38.71		(33.89)	
Other Liabilities	(128.69)		42.26	
		110.12		533.69
ASSETS : Increase/Decrease in				
Investments	(140.10)		308.16	
Advances	242.10		295.03	
Leased-out Assets	0.00		0.00	
Other Assets	(16.10)		(7.47)	
		(85.90)		(595.72)
CASH FLOW FROM INVESTING ACTIVITIES :				
Purchase of Fixed Assets	(8.95)		(6.50)	
Sale of Fixed Assets	0.10	(8.85)	0.08	(6.42)
CASH FLOW FROM FINANCING ACTIVITIES:				
Share issue including share premium net of forfeited shares	0.00		0.00	
Tier II Bonds	19.00		50.00	
Dividends paid	(5.75)	13.25	(5.64)	44.36
Cash flow for the year		74.11		47.15
Cash & Cash equivalents at the beginning of the year		280.13		232.98
Cash & Cash equivalents at the end of the year		354.24		280.13
<p>Note: Cash, Balances with Other Banks, Balances with R B I, and Money at Call and Short Notice have been considered as cash and cash equivalents.</p>				



ANNEX II A (Continued) - CASH FLOW STATEMENT				
RESTATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2006 (Rs. in Cr)				
	31.03.2006		31.03.2005	
CASH FLOW FROM OPERATING ACTIVITIES:				
Net Profit as per Profit & Loss Account	19.17		1.50	
ADJUSTMENTS FOR:				
Provisions & Contingencies	21.49		54.91	
Depreciation	6.14		6.08	
Loss on sale of assets	0.07		(0.02)	
Income Tax / T D S paid	(8.62)		(16.98)	
Net cash flow before changes in Working Capital		38.25		45.49
CHANGES IN WORKING CAPITAL :				
LIABILITIES : Increase/Decrease in				
Deposits	840.46		200.10	
Refinances	(63.64)		38.71	
Other Liabilities	10.52		(128.69)	
		787.34		110.12
ASSETS : Increase/Decrease in				
Investments	94.01		(140.10)	
Advances	635.62		242.10	
Leased-out Assets	0.00		0.00	
Other Assets	17.10		(16.10)	
		(746.73)		(85.90)
CASH FLOW FROM INVESTING ACTIVITIES :				
Purchase of Fixed Assets	(4.85)		(8.95)	
Sale of Fixed Assets	0.09	(4.76)	0.10	(8.85)
CASH FLOW FROM FINANCING ACTIVITIES:				
Share issue including share premium net of forfeited shares	44.16		0.00	
Tier II Bonds	(9.00)		19.00	
Dividends paid	(0.10)	35.06	(5.75)	13.25
Cash flow for the year		109.16		74.11
Cash & Cash equivalents at the beginning of the year		354.24		280.13
Cash & Cash equivalents at the end of the year		463.40		354.24
<p>Note: Cash, Balances with Other Banks, Balances with R B I, and Money at Call and Short Notice have been considered as cash and cash equivalents.</p>				

ANNEX II A (Continued) - CASH FLOW STATEMENT				
RESTATED CASH FLOW STATEMENT FOR THE YEAR ENDED				
31st MARCH, 2007				
(Rs. in Cr)				
	31.03.2007	31.03.2006		
CASH FLOW FROM OPERATING ACTIVITIES:				
Net Profit as per Profit & Loss Account	13.08		19.17	
ADJUSTMENTS FOR:				
Provisions & Contingencies	60.26		21.49	
Depreciation	7.65		6.14	
Loss on sale of assets	(0.41)		0.07	
Income Tax / T D S paid	(8.67)		(8.62)	
Net cash flow before changes in Working Capital		71.91		38.25
CHANGES IN WORKING CAPITAL :				
LIABILITIES : Increase/Decrease in				
Deposits	683.49		840.46	
Refinances	74.45		(63.64)	
Other Liabilities	(32.64)		10.52	
		725.30		787.34
ASSETS : Increase/Decrease in				
Investments	36.80		94.01	
Advances	665.43		635.62	
Leased-out Assets	0.00		0.00	
Other Assets	22.86		17.10	
		(725.09)		(746.73)
CASH FLOW FROM INVESTING ACTIVITIES :				
Purchase of Fixed Assets	(13.87)		(4.85)	
Sale of Fixed Assets	3.79	(10.08)	0.09	(4.76)
CASH FLOW FROM FINANCING ACTIVITIES:				
Share issue including share premium net of forfeited shares	91.45		44.16	
Tier II Bonds	30.00		(9.00)	
Dividends paid	(5.43)	116.02	(0.10)	35.06
Cash flow for the year		178.06		109.16
Cash & Cash equivalents at the beginning of the year		463.40		354.24
Cash & Cash equivalents at the end of the year		641.46		463.40
Note: Cash, Balances with Other Banks, Balances with R B I, and Money at Call and Short Notice have been considered as cash and cash equivalents.				

ANNEX II A (Continued) - CASH FLOW STATEMENT				
RESTATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st				
MARCH, 2008				
(Rs. in Cr)				
	31.03.2008		31.03.2007	
CASH FLOW FROM OPERATING ACTIVITIES:				
Net Profit as per Profit & Loss Account	25.61		13.08	
ADJUSTMENTS FOR:				
Provisions & Contingencies	64.55		60.26	
Depreciation	8.58		7.65	
Loss on sale of assets	0.03		(0.41)	
Income Tax / T D S paid	(20.99)		(8.67)	
Net cash flow before changes in Working Capital		77.78		71.91
CHANGES IN WORKING CAPITAL :				
LIABILITIES : Increase/Decrease in				
Deposits	598.62		683.49	
Refinances	(26.96)		74.45	
Other Liabilities	10.29		(32.64)	
		581.95		725.30
ASSETS : Increase/Decrease in				
Investments	384.38		36.80	
Advances	246.08		665.43	
Leased-out Assets	0.00		0.00	
Other Assets	64.50		22.86	
		(694.96)		(725.09)
CASH FLOW FROM INVESTING ACTIVITIES :				
Purchase of Fixed Assets	(13.29)		(13.87)	
Sale of Fixed Assets	0.25	(13.04)	3.79	(10.08)
CASH FLOW FROM FINANCING ACTIVITIES:				
Share issue including share premium net of forfeited shares	4.88		91.45	
Tier II Bonds	20.80		30.00	
Dividends paid	(3.97)	21.71	(5.43)	116.02
Cash flow for the year		(26.56)		178.06
Cash & Cash equivalents at the beginning of the year		641.46		463.40
Cash & Cash equivalents at the end of the year		614.90		641.46
Note: Cash, Balances with Other Banks, Balances with R B I, and Money at Call and Short Notice have been considered as cash and cash equivalents.				

ANNEX II A (Continued) - CASH FLOW STATEMENT				
RESTATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2009				
	31.03.2009		31.03.2008	
CASH FLOW FROM OPERATING ACTIVITIES:				
Net Profit as per Profit & Loss Account	50.64		25.61	
ADJUSTMENTS FOR:				
Provisions & Contingencies	58.21		64.55	
Depreciation	12.71		8.58	
Loss on sale of assets	0.07		0.03	
Income Tax / T D S paid	(29.55)		(20.99)	
Net cash flow before changes in Working Capital		92.08		77.78
CHANGES IN WORKING CAPITAL :				
LIABILITIES : Increase/Decrease in				
Deposits	1742.41		598.62	
Refinances	(20.18)		(26.96)	
Other Liabilities	(36.91)		10.29	
		1685.32		581.95
ASSETS : Increase/Decrease in				
Investments	169.38		384.38	
Advances	1387.04		246.08	
Leased-out Assets	0.00		0.00	
Other Assets	(79.54)		64.50	
		(1476.88)		(694.96)
CASH FLOW FROM INVESTING ACTIVITIES :				
Purchase of Fixed Assets	(27.10)		(13.29)	
Sale of Fixed Assets	0.27	(26.83)	0.25	(13.04)
CASH FLOW FROM FINANCING ACTIVITIES:				
Share issue including share premium net of forfeited shares	0.01		4.88	
Tier II Bonds	0.00		20.80	
Dividends paid	(7.19)	(7.18)	(3.97)	21.71
Cash flow for the year		266.51		(26.56)
Cash & Cash equivalents at the beginning of the year		614.90		641.46
Cash & Cash equivalents at the end of the year		881.41		614.90
Note: Cash, Balances with Other Banks, Balances with R B I, and Money at Call and Short Notice have been considered as cash and cash equivalents.				



ANNEXURE III

Statement of Disputed Income Tax Liability						
Year ended	2005	2006	2007	2008	2009	
a	Disputed Income Tax Liability included under contingent liability item no. (G1)	60.97	69.05	174.57	118.62	132.19
b	Disputed tax liability paid under protest (included in item (a) above)	60.79	60.79	174.57	88.2	109.25
c	Disputed tax liability fully provided for	-	-	-	-	-
d	Disputed tax liability shown under Contingent liability item no. (G6)	-	-	-	-	-
	Total disputed tax liability	0.18	8.26	0.00	30.42	22.94

RE-STATEMENT RATIOS

ANNEXURE IV

STATEMENT OF DIVIDENDS PAID

Y.E. March 31	2005	2006	2007	2008	2009
For the year	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Number of Shares (as on record date)	19543948	19534569	48789555	48775848	48779476
Rate of Dividend (%)	Nil	25	7	15	25
Amount of Dividend (Rs. in crore) (excluding dividend distribution tax)	Nil	4.88	3.42	7.32	12.19

ANNEXURE V

STATEMENT OF INVESTMENTS (GROSS)

(in crore)

Y.E. March 31	2005	2006	2007	2008	2009
SLR Investments	1110.43	1206.65	1227.86	1598.87	1686.87
Non SLR Investments	112.42	110.21	125.79	145.17	202.84
Total	1222.85	1316.86	1353.65	1744.04	1889.71

ANNEXURE VI

STATEMENT OF ACCOUNTING RATIOS

Y.E. March 31	2005	2006	2007	2008	2009
Earnings Per Share (Rs.)	1.30	9.83	2.68	5.25	10.38
Net Asset Value Per Share (Rs.)	198.39	146.63	79.15	83.68	91.14
Return on Net Worth (%)	0.66%	7.46%	3.89%	6.45%	11.87%

ANNEXURE VII - SCHEDULE 17 A OF 2008-09 AUDITED BALANCE SHEET.

PART I - Significant Accounting Policies

1. General:

The financial statements have been prepared in accordance with the historical cost convention except where otherwise stated and conform to the statutory provisions and practices prevailing within the banking industry in India and the guidelines / instructions of Reserve Bank of India issued from time to time.

2. Foreign Exchange Transactions:

- (a) Foreign Currency Assets and Liabilities have been translated at the exchange rates prevailing at the close of the year as per the guidelines issued by FEDAI. The resultant profit or loss is accounted for.
- (b) Income and Expenditure in foreign currency are translated at the exchange rates prevailing on the date of the respective transaction.
- (c) Outstanding foreign exchange forward contracts are revalued at the rates applicable on the closing date as advised by FEDAI. The resultant profit/loss is taken into profit and Loss Account.
- (d) Contingent liabilities on guarantees, letters of credit, acceptances and endorsements are reported at the rates prevailing on the Balance Sheet date.

3. Investments

Investments are categorized under the heads 'Held to Maturity', 'Available for Sale' and 'Held for Trading' and are valued category wise, in accordance with the guidelines of the Reserve Bank of India.

4. Advances

4.1 In accordance with the prudential norms issued by RBI:

- (i) Advances are classified into standard, sub-standard, doubtful and loss assets borrower-wise;
- (ii) Provisions are made for loan losses, and
- (iii) General provision for standard advances is made.

4.2 Advances disclosed are net of provisions made for non-performing assets.

5. Fixed Assets

- (a) Fixed Assets have been accounted for at their historical cost.
- (b) Depreciation on assets other than computers has been provided for on the diminishing balance method at the rates specified in Schedule XIV to the Companies Act, 1956.
- (c) Depreciation on computers has been provided for on straight-line method at the rate of 33.33% as per the guidelines issued by the Reserve Bank of India.
- (d) Operating Software, which is an integral part of hardware, is capitalized and depreciation is provided for at the rate of 33.33% on straight-line method.
- (e) For premises, in which land cost and construction cost could not be ascertained separately, depreciation is provided for on the total cost.
- (f) None of the fixed assets have been revalued during the year.

6. Staff Benefits

Annual contribution to the approved Employees' Gratuity Fund approved Pension Fund and provision for Leave Encashment including Sick leave Benefits have been made on actuarial basis. Contribution to Provident Fund is accounted for on actual basis.

7. Taxes on Income

Provision for taxation is made on the basis of the estimated tax liability with adjustment for deferred tax in terms of the Accounting Standard 22 (Accounting for Taxes on Income) formulated by the Institute of Chartered Accountants of India.

8. Recognition of Income and Expenditure

- (a) Income and expenditure are accounted for on accrual basis.

- (b) The following items of income are recognized on realization basis, owing to the significant uncertainty in collection thereof:
- (i) Interest on non-performing advances, including overdue bills and dividend income on investments.
 - (ii) Interest on non-performing investments.
 - (iii) Interest on tax refund received from Income Tax Department

9. Net profit

The net profit as per the Profit & Loss account is arrived at after necessary provisions towards –

1. Taxation.
2. Advances and other assets.
3. Shortfall in the value of investments
4. Staff Retirement benefits including revision in wages.
5. Other usual and necessary provisions.

10. Accounting Standards

Accounting Standards as specified in section 211(3C) of the Companies Act 1956, to the extent they are applicable to Banking Companies and as per directions issued by the RBI from time to time, have been followed.

11. Segment Information:

The reportable business segments have been classified in accordance with the guidelines issued by Reserve Bank of India. The directly attributable income and assets are considered under respective segments and the other income; expenses, other assets & liabilities are apportioned on appropriate basis.

ANNEXURE VIII - SCHEDULE 17 B OF 2008-09 AUDITED BALANCE SHEET.

PART II – MATERIAL NOTES ON ACCOUNTS

1. (a) The initial matching of entries under inter branch reconciliation has been done up to 31.03.2009. The unreconciled entries up to June 2007 have been eliminated and the matching process through the system is in progress for the period subsequent to 1st July 07. There were no net debit entries outstanding for more than six months as of 31.03.2009.

(b) In a few branches, tallying of the balances in the accounts as per General Ledger with those of subsidiary ledgers/registers/schedules is in progress. The effect of this on the profit of the Bank is not ascertainable.

2. “Payment to and Provision for Employees” includes remuneration paid to Chairman and Managing Director of the Bank as detailed below:

	Managing Director (Rs.)	Chairman (Rs.)
Consolidated Pay	24,00,000.00	1,04,838.70
Employers' contribution to Provident Fund	90,000.00	NIL
Leave encashment	NIL	NIL
Gratuity	NIL	NIL
Monetary value of perquisites #	25,123.00	NIL
Leave Fare Concession	NIL	NIL

Medical & Entertainment expenditure	16,883.50	NIL
Total	25,32,006.50	1,04,838.70

(at cost in terms of amended provisions of sec.217 (2A) of the Companies Act, 1956)

3. Provision for income tax for the year is arrived at after due consideration of the various favourable judicial decisions on disputed issues.

(b) The disputed Income Tax demand outstanding as on 31.03.2009 amounts to Rs.132.20 crores (previous years Rs.107.65 crores) and is included under Item I of Schedule 12 (Contingent Liabilities) of the above Rs.109.21 crores (Previous year Rs.88.20 crores) has been paid or adjusted by the Income Tax demand. No provision is considered necessary in respect of the disputed liabilities in view of favourable decisions by various appellate authorities on similar issues.

4. DISCLOSURE REQUIREMENTS

4.1 Capital

Items	2008-09	2007-08
i) CRAR (%) (BASEL I)	9.91	12.48
ii) CRAR – Tier I capital (%)	8.45	10.28
iii) CRAR – Tier II Capital (%)	1.46	2.20
iv) Percentage of the shareholding of the Government of India in nationalized banks	NIL	NIL
v) Amount of subordinated debt raised as Tier-II capital (Rs. in Crore)	110.00	110.00

4.2.1

In respect of securities held under HTM category premium of Rs.11.71 crores (previous year Rs.9.24 crores) has been amortized during the year and debited under interest received on Government Securities.

4.2.2 Investments

Items	(Rs. In Crore)	
	2008-09	2007-08
(1) Value of Investments		
(i) Gross Value of Investments		
(a) In India	1889.71	1744.04
(b) Outside India,	NIL	NIL
(ii) Provisions for Depreciation		
(a) In India	26.66	50.36
(b) Outside India,	NIL	NIL
(iii) Net Value of Investments		
(a) In India	1863.05	1693.68
(b) Outside India.	NIL	NIL

(2) Movement of provisions held towards depreciation on investments.		
i. Opening balance	50.36	44.35
Add: Provisions made during the year	7.71	6.01
ii. Less: Write-off / Write-back of excess provisions during the year	31.41	NIL
Closing Balance	26.66	50.36

4.2.2 Repo Transactions

(Rs. In Crore)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As on March 31 2009
Securities sold under repos	5.25 (10.03)	149.40 (126.00)	32.25 (7.34)	0.00 (31.50)
Securities purchased under reverse repos	5.25 (1.00)	162.75 (78.75)	10.41 (6.40)	0.00 (0.00)

4.2.3. Non-SLR Investment Portfolio

i) Issuer composition of Non SLR investments

(Rs. in Crore)

No.	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
(i)	PSUs	10.96	7.00	0.00	0.00	0.00
(ii)	FIs	32.44	10.92	0.91	0.91	0.91
(iii)	Banks	22.63	19.94	0.25	0.25	0.25
(iv)	Private Corporate ***	41.61	11.59	11.59	11.59	11.59
(v)	Subsidiaries/ Joint Ventures	0.00	0.00	0.00	0.00	0.00
(vi)	Others **	95.20	0.00	0.00	0.00	0.00
(vii)	Provision held towards depreciation	23.56	X X X	X X X	X X X	X X X
	Total	179.28	49.45	12.75	12.75	12.75

** Others – include investment in Mutual Funds and RIDF

*** Private Corporate– includes Commercial Paper and unrated preference shares

ii) Non-performing Non-SLR investments

Particulars	(Rs. in Crore)	
	Amount	
Opening balance	8.72	
Additions during the year since 1st April 2008	0.00	
Reductions during the above period	0.90	
Closing balance	7.82	
Total provisions held	6.88	

4.3 Derivatives

4.3.1 Forward Rate Agreement/ Interest Rate Swap

Items	2008-09	2007-08
i) The notional principal of swap agreements	NIL	NIL
ii) Losses which would be incurred if counter parties failed to fulfill their obligations under the agreements	NIL	NIL
iii) Collateral required by the bank upon entering into swaps	NIL	NIL
iv) Concentration of credit risk arising from the swaps	NIL	NIL
v) The fair value of the swap book	NIL	NIL

4.3.2 Exchange Traded Interest Rate Derivatives:

(Rs. Crore)

S.No.	Particulars	Amount
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise)	NIL
(ii)	Notional principal amount of exchange traded interest rate derivatives outstanding as on 31st March 2009 (instrument-wise)	NIL
(iii)	Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument-wise)	NIL
(iv)	Mark-to-market value of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument-wise)	NIL

4.3.3 Disclosures on risk exposure in derivatives
Quantitative Disclosures
(Rs. in Crore)

Sl.No	Particular	Currency Derivatives	Interest rate derivatives
(i)	Derivatives (Notional Principal Amount)	NIL	NIL
	a) For hedging	NIL	NIL
	b) For trading	NIL	NIL
(ii)	Marked to Market Positions [1]	NIL	NIL
	a) Asset (+)	NIL	NIL
	b) Liability (-)	NIL	NIL
(iii)	Credit Exposure [2]	NIL	NIL
(iv)	Likely impact of one percentage change in interest rate (100*PV01)	NIL	NIL
	a) On hedging derivatives	NIL	NIL
	b) On trading derivatives	NIL	NIL
(v)	Maximum and Minimum of 100*PV01 observed during the year		
	a) On hedging	NIL	NIL
	b) On trading	NIL	NIL

4.4 Asset Quality
4.4.1 Non-Performing Asset
(Rs. in Crore)

Items	2008-09	2007-08
(i) Net NPAs to Net Advances (%)	1.24%	1.55%
(ii) Movement of NPAs (Gross)		
(a) Opening balance	137.98	131.18
(b) Additions during the year	36.49	46.32
(c) Reductions during the year	30.42	39.52
(d) Closing balance	144.05	137.98
(iii) Movement of Net NPAs		
(a) Opening balance	59.52	56.95
(b) Additions during the year	29.54	37.28
(c) Reductions during the year	24.21	34.71
(d) Closing balance	64.85	59.52

(iv) Movement of provisions for NPAs (excluding provisions on standard assets)		
(a) Opening balance	72.30	66.47
(b) Provisions made during the year	1.84	18.28
(c) Write-off/ write-back of excess provisions		
(d) Closing balance	0.19	12.45
	73.95	72.30

4.4.2 Details of Loan Assets subjected to Restructuring

In accordance with the option given by the Reserve Bank of India, the Bank has made provision at 5% of the total dues to the Bank in respect of diminution in the fair value of restructured advances where the total dues to the Bank is less than rupees one crore. The auditors have relied on the data provided by the management in regard to the compliance of Reserve Bank of India circulars on full implementation of the restructuring packages in respect of the said restructured advances.

(Rs. in Crore)

		CDR Mechanism	SME Debt Restructuring	Others
Standard Advances	No. of Borrowers	NIL	NIL	54
	Amount Outstanding	NIL	NIL	170.23
	Sacrifice (Diminution in the fair value)	NIL	NIL	2.60
Sub standard advances restructured	No. of Borrowers	NIL	NIL	31
	Amount Outstanding	NIL	NIL	1.10
	Sacrifice (Diminution in the fair value)	NIL	NIL	0.06
Doubtful advances restructured	No. of Borrowers	NIL	NIL	NIL
	Amount Outstanding	NIL	NIL	NIL
	Sacrifice (Diminution in the fair value)	NIL	NIL	NIL
TOTAL	No. of Borrowers	NIL	NIL	85
	Amount Outstanding	NIL	NIL	171.33
	Sacrifice (Diminution in the fair value)	NIL	NIL	2.66

Additional disclosure regarding restructured accounts:

SI No.	Disclosures	Number	Amount (Rs. in crore)
1.	Application received upto March 31, 2009 for restructuring, in respect of accounts which were standard as on September 1, 2008.	154	240.60
2.	Of (1), proposals approved and implemented as on March 31, 2009 and thus became eligible for special regulatory treatment and classified as standard assets as on the date of the balance sheet.	85	171.33
3.	Of (1), proposals approved and implemented as on March 31, 2009 but could not be upgraded to the standard category.	NIL	NIL
4.	Of (1), proposals under process / implementation which were standard as on March 31, 2009.	10	57.89
5.	Of (1), proposals under process / implementation which turned NPA as on March 31, 2009 but are expected to be classified as standard assets on full implementation of the	59	11.38



package.		
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4.4.3 Details of financial assets sold to Securitisation / Reconstruction

Company for Asset Reconstruction

(Rs. in Crore)

Item	2008-09	2007-08
(i) No. of accounts	NIL	NIL
(ii) Aggregate value (net of provisions) of accounts sold to SC/RC	NIL	NIL
(iii) Aggregate consideration	NIL	NIL
(iv) Additional consideration realized in respect of accounts transferred in earlier years	NIL	NIL
(v) Aggregate loss over net book value.	NIL	NIL

4.4.4. Details of non-performing financial assets purchased / sold

Particulars	2008-09	2007-08
1 (a) No. of accounts purchased during the year	NIL	NIL
(b) Aggregate outstanding	NIL	NIL
2 (a) Of these, number of accounts restructured during the year	NIL	NIL
(b) Aggregate outstanding	NIL	NIL

Details of non-performing financial assets sold:

Particulars	2008-09	2007-08
1. No. of accounts sold	NIL	NIL
2. Aggregate outstanding	NIL	NIL
3. Aggregate consideration received	NIL	NIL

4.4.5 Provisions on Standard Asset

(Rs. in Crore)

Item	2008-09	2007-08
Provisions towards Standard Assets	24.20	23.45

4.5. Business Ratios

Items	2008-09	2007-08
(i) Interest Income as a percentage to working Funds	9.29	8.17
(ii) Non-interest income as a percentage to Working	1.51	1.33

Funds		
(iii) Operating Profit as a percentage to Working Funds	1.54	1.45
(iv) Return on Assets (%)	0.72	0.41
(v) Business (Deposits plus advances) per employee (Rs. in Crs)	5.10	4.53
(vi) Profit per employee (Rs.in lakhs)	2.08	1.23

4.6 Asset Liability Management

Maturity pattern of certain items of assets and liabilities

(Rs. in Crore)

	1 to 14 days	15 to 28 days	29 days to 3 months	Over 3 months & up to 6 months	Over 6 months & up to 1 year	Over 1 year & up to 3 years	Over 3 years & up to 5 years	Over 5 years	Total
Deposits	393.69 (409.79)	213.83 (282.26)	695.41 (567.79)	671.26 (522.87)	1216.06 (1143.31)	2720.70 (1267.70)	283.08 (350.96)	1166.88 (1073.80)	7360.90 (5618.48)
Advances	217.19 (202.47)	198.31 (151.76)	558.74 (519.12)	565.92 (305.58)	624.36 (320.97)	2350.85 (1920.10)	451.42 (235.60)	279.05 (203.19)	5245.83 (3858.79)
Investments	101.31 (-31.50)	34.21 (0.00)	72.04 (0.50)	28.96 (15.32)	21.41 (78.16)	154.20 (96.72)	166.86 (243.51)	1284.08 (1290.97)	1863.06 (1693.68)
Borrowings	0.00 (0.00)	0.00 (0.00)	1.05 (0.36)	3.85 (0.42)	7.97 (50.78)	19.73 (0.56)	0.00 (0.67)	0.00 (0.00)	32.60 (52.79)
Foreign Currency assets	1.62 (5.69)	0.37 (0.23)	10.40 (0.56)	8.93 (4.82)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	1.65 (0.00)	22.97 (11.30)
Foreign Currency liabilities	22.14 (10.92)	0.33 (1.22)	7.49 (3.39)	5.79 (2.21)	10.27 (6.47)	2.42 (6.68)	0.00 (0.45)	0.48 (0.00)	31.34 (31.34)

4.7 Lending to Sensitive Sector
4.7.1 Exposure to Real Estate Sector (Rs. in Crore)

Category	2008-09	2007-08
<i>a) Direct exposure</i>		
(i) Residential Mortgages –	421.21	297.57
(ii) Commercial Real Estate –	73.22	37.75
(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
a. Residential,		
b. Commercial Real Estate.	0.00	0.04
<i>b) Indirect Exposure</i>	0.00	0.00
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	69.41	169.50
Total advance to real estate sector	563.84	504.86

4.7.2 Exposure to Capital Market

(Rs. in Crore)

Items	2008-09	2007-08
(i) Direct Investments in		
a) Equity shares,	7.36	5.17
b) Convertible bonds / convertible debentures and	0.00	0.00
c) Units of equity oriented mutual funds corpus of which is not exclusively invested in corporate debt.	25.64	25.64
(ii) Advances against shares / bonds / debentures or other securities are on clean basis to individuals for investments in shares (including IPOs/ESOPS), convertible bonds, convertible debentures and units of equity oriented mutual funds	4.42	3.84
(iii) Advances for any other purpose where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;	13.13	-
(iv) Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares/ convertible bonds / convertible debentures / units of equity oriented mutual funds does not fully cover the advances;	NIL	10.90
(v) Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;		
(vi) Loans sanctioned to corporate against the security of shares/bonds/debentures or other securities or on clean		

	basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;	70.00	72.03
(vii)	Bridge loans to companies against expected equity flows/issues;		
(viii)	Underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;	NIL	NIL
(ix)	Financing to stockbrokers for margin trading:	NIL	NIL
(x)	All exposures to Venture Capital Funds (both registered and unregistered) will be deemed to be on par with equity and hence will be reckoned for compliance with the capital market exposure ceilings (both direct and indirect)	NIL	NIL
Total Exposure to Capital Market		NIL	NIL
		NIL	NIL
		120.55	117.58

4.7.3 Risk Category wise Country Exposure (As compiled by Management)

(Rs.in Crore)

Risk Category	Exposure (net) as at 31.3.2009	Provision held as at 31.3.2009	Exposure (net) as at 31.3.2008	Provision held as at 31.3.2008
Insignificant	84.17	NIL	89.47	NIL
Low	62.77	NIL	34.16	NIL
Moderate	6.83	NIL	17.98	NIL
High	0.88	NIL	0.45	NIL
Very High	0.00	NIL	0.00	NIL
Restricted	0.00	NIL	0.00	NIL
Off-credit	0.00	NIL	0.00	NIL
Total	154.65	NIL	142.06	NIL

4.7.4 Details of Single Borrower Limit (SGL), Group Borrower Limit (GBL) exceeded by the bank.

For the period 1.4.08 to 31.03.09 (Based on the capital funds of Rs.476.93 cr. as on 31.03.2008.)
NIL

4.8 Miscellaneous

4.8.1 Amount of Provisions made for Income-tax during the year;

(Rs.in Crore)

	2008-09	2007-08
Provision for Income Tax inclusive of DTA and Fringe Benefit Tax	31.37	28.03

**4.8.2 Disclosure of Penalties imposed by RBI**

No penalties were imposed by Reserve Bank of India during the year.

4.9. Disclosure in terms of Accounting Standard**Employee benefits (AS 15)**

Payments to and provision for employees include provision made during the year towards pension, gratuity and leave encashment etc in accordance with Revised Accounting standard AS-15.

Retirement benefits to employees

The effect of transitional liability till 31.03.07 as required by the accounting standard has been recognized as an expense on straight line basis over a period of five years pursuant to limited revision of standard on 17.10.07. Accordingly an amount of Rs.3.96 crores has been charged to Profit & Loss Account for the year ended 31.03.09 being 1/5th of the transitional liability. An amount of Rs.11.89 crores is being carried forward to be charged to profit and loss account in the next three years.

The summarized position of Post-employment benefits and long term employee benefits recognized in the profit and loss account and balance Sheet as required in accordance with the Accounting standard -15 (revised) are as under:

I) Principal Actuarial Assumptions at the Balance Sheet Date
(Expressed as weighted Averages)

Particulars	Gratuity (Funded)	Pension (Funded)	Leave Encashment (Unfunded)
Discount Rate	7.50%	7.50%	7.50%
Salary Escalation Rate	4.75%	4.75%	4.75%
Attrition Rate	3.00%	3.00%	3.00%
Expected Rate of return on Plan Assets	8.75%	8.75%	0.00%

II) Change in the Present value of obligations:

(Rs. in lacs)

Particulars	Gratuity (Funded)	Pension (Funded)	Leave Encashment (Unfunded)
Present Value of obligations as at the beginning of the year	2689	1902	1750
Interest Cost	208	139	137
Current Service Cost	135	289	96
Past service cost (non-vested benefits)	0	0	0
Past service cost (vested benefits)	0	0	0
Benefits Paid	(187)	(321)	(66)
Actuarial loss/(gain) on obligation (balancing figure)	51	167	130
Present Value of obligations as at the year end	2896	2176	2047

III) Change in Fair Value of Plan Asset

(Rs. In lakhs)

Particulars	Gratuity (Funded)	Pension (Funded)	Leave Encashment (Unfunded)
Present Value of Plan Assets at the beginning of the year	2703	1467	0
Expected return on Plan Assets	222	123	0
Employer's Contribution	0	272	66
Benefits Paid	(187)	(321)	(66)
Actuarial loss/(gain) on plan assets (balancing figure)	(57)	(13)	0
Fair Value of Plan Asset at the end of the year	2681	1528	0

IV) Actual Return on Plan Assets

(Rs. In lakhs)

Particulars	Gratuity (Funded)	Pension (Funded)	Leave Encashment (Unfunded)
Expected return on plan assets	222	123	0

Actuarial gain/(loss) on plan assets	(57)	(13)	0
Actual return on plan assets	165	110	0

V) Actuarial Gain / Loss recognized

(Rs. In lakhs)

Particulars	Gratuity (Funded)	Pension (Funded)	Leave Encashment (Unfunded)
Actuarial gain/(loss) for the Period - Obligation	(51)	(167)	(130)
Actuarial gain/(loss) for the Period - Plan Assets	(57)	(13)	0
Total (gain)/loss for the period	108	180	130
Actuarial gain/(loss) recognized in the period	108	180	130
Unrecognized actuarial (gain)/loss at the end of the year	0	0	0

VI) Amount recognized in Balance Sheet

(Rs. In lakhs)

Particulars	Gratuity (Funded)	Pension (Funded)	Leave Encashment (Unfunded)
Present value of the Obligation	2,896	2176	2047
Fair value of plan assets	2681	1528	0
Difference	215	648	2047
Unrecognized Transitional liability	(50)	(76)	(468)
Unrecognized past service cost (non vested benefits)	0	0	0
Liability recognized in the Balance Sheet	165	572	1579

VII) Expenses Recognized in Profit & Loss Account

(Rs. In lakhs)

Particulars	Gratuity (Funded)	Pension (Funded)	Leave Encashment (Unfunded)
Current Service Cost	135	289	96

Interest Cost	208	139	137
Expected return on Plan assets	(222)	(123)	0
Net actuarial (gain)/loss recognised in the year	108	180	130
Transitional Liability recognised in the year	17	25	156
Past service cost (non-vested benefits)	0	0	0
Past service cost (vested benefits)	0	0	0
Expenses Recognized in Profit & Loss Account	246	510	519

VIII) Movements in the Liability Recognized in the balance Sheet

(Rs. In lakhs)

Particulars	Gratuity (Funded)	Pension (Funded)	Leave Encashment (Unfunded)
Opening net Liability	0	334	1126
Opening amount determined under para 55 of AS15R	(81)	-	-
Expense as Above	(246)	510	519
Contribution paid	0	(272)	(66)
Closing Net Liability	165	572	1579

IX) Amount for the Current Period

(Rs. In lakhs)

Particulars	Gratuity (Funded)	Pension (Funded)	Leave Encashment (Unfunded)
Present value of Obligation	2896	2176	2047
Plan Assets	2681	1528	0
Surplus/(Deficit)	(215)	(648)	(2047)
Experience adjustments on Plan Liabilities - (loss)/gain	36	(101)	(69)

Experience adjustments on Plan Assets - (loss)/gain	(57)	(13)	0
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X) Major categories of Plan Assets

(As % of Total Plan Assets)

Particulars	Gratuity (Funded)	Pension (Funded)
Government of India Securities	18.28%	13.30%
State Government Securities	11.08%	8.19%
High Quality Corporate Bonds	43.38%	30.60%
Equity Share of listed companies	0.00%	0.00%
Property	0.00%	0.00%
Special Deposit Scheme	16.10%	0.00%
Funds managed by Insurer	0.00%	15.49%
Others (to specify)	11.16%	32.42%
Total	100.00%	100.00%

XI) Enterprises Best Estimate

(Rs. In lakhs)

Particulars	Gratuity (Funded)	Pension (Funded)
Enterprise's Best Estimate of Contribution during next year	300	450

XII) Other Long Term Employee benefit (Un-Funded)

(Rs. In lakhs)

	Sick leave
Liability as on 01-04-2008	991.82
Liability as on 31-03-2009	1105.43
Transitional Liability debited to Profit & Loss Account (cumulative)	396.72
Amount debited to Profit & Loss Account	113.61

5. Accounting Standard 17 – Segment Reporting

(As compiled by the management)

PART A - BUSINESS SEGMENTS

(Rs. In Crore)

Business Segments	3 months ended 31/03/2009 (Audited)	12 months ended 31/03/2009 (Audited)	12 months ended 31/03/2008 (Audited)
Segment Revenue			
Treasury	40.42	166.58	137.31
Wholesale Banking	43.75	171.01	133.62
Retail Banking	140.81	424.79	316.64
Unallocated	1.04	2.22	0.97

Total	226.02	764.60	588.54
<u>Segment Result</u>			
Treasury	8.83	25.83	19.33
Wholesale Banking	19.43	54.64	87.14
Retail Banking	30.42	89.50	97.57
Unallocated	0.21	1.90	0.69
Total	58.89	171.87	204.72
Unallocated expenses	25.73	63.03	114.55
Operating Profit - Before Extraordinary items	33.16	108.84	90.17
Provisions & Contingencies	12.96	26.83	36.53
Income Tax	(0.13)	31.37	28.03
Extraordinary Profit / (Loss)	0.00	0.00	0.00
Net Profit	20.33	50.64	25.61
<u>OTHER INFORMATION</u>			
<u>Segment Assets</u>			
Treasury	2661.92	2661.92	1732.61
Wholesale Banking	2268.34	2268.34	1318.23
Retail Banking	2977.48	2977.48	2546.68
Unallocated Assets	414.19	414.19	927.91
Total Assets	8321.93	8321.93	6525.43
<u>Segment Liabilities</u>			
Treasury	395.06	395.06	110.25
Wholesale Banking	1782.03	1782.03	903.03
Retail Banking	5295.15	5295.15	4715.46
Unallocated Liabilities	404.92	404.92	388.32
Total Liabilities	7877.16	7877.16	6117.06

PART B - GEOGRAPHICAL SEGMENTS

Since the Bank is having domestic operations only, no reporting is necessary under this segment.

6. Accounting Standard 18 – Related Party disclosures

The disclosure under AS-18 is furnished in Note no.2 in respect of remuneration to Key Management Personnel.

7. Accounting Standard 20 – Earnings Per Share (EPS):

EPS calculation in accordance with the AS-20 issued by the ICAI is as under:

	2008-09	2007-08
Net profit after Tax [Rs. In crores]	50.64	25.61
No. of shares	48776176	48772189
Earnings per share – Basic & diluted (Rs.)	10.38	5.25

Note: There are no potential dilutive equity shares.

8. Accounting Standard 22 – Accounting for Taxes on Income

The bank has accounted for Income Tax in compliance with AS 22. Accordingly, Deferred Tax Assets & Liabilities are recognized. The major components of Deferred Tax are as under:

[Rs.

In Crore]

Components	Deferred Tax Assets	Deferred Tax Liability
Leave Encashment	3.44 (2.13)	--
Depreciation on Fixed Assets	--	3.52 (2.64)
Carried forward Loss	- (24.34)	--
Depreciation on investments	-	2.45 (17.81)
Others	13.83 (11.36)	-
Net Deferred Tax Asset/Liability	11.29 (17.38)	-

Figures in brackets pertain to previous year.

9. Intangible Assets AS 26:

The Bank has followed the AS 26 – Intangible asset issued by ICAI and the guidelines issued by the RBI and has been complying with the same.

10. Accounting Standard 28 – Impairment of Assets:

A substantial portion of the bank's assets comprises financial assets to which Accounting Standard 28 is not applicable. In the opinion of the bank, there is no impairment of other assets to any material extent as at 31st March 2009 requiring recognition in terms of the said standard.

11. Break up of 'Provisions & Contingencies' shown under the head in Profit & Loss Account

(Rs.in Crore)

Particulars	31.03.2009	31.03.2008
Provisions for Standard assets	0.75	9.00
Bad and Doubtful Debts	1.84	18.28
Taxation (Net of Deferred Tax)/FBT/ Int. Tax	31.37	28.03
Investment Depreciation	7.71	6.01
Transitional Termination Benefits under revised AS15.	3.44	3.44
Provision for Sick Leave	1.14	0.00
Provision for leave encashment	3.62	1.35
Provision for other Assets	0.25	0.25
MAT Tax Credit entitlement	0.00	(4.81)
Floating Provision	5.62	3.00
Provision for Economic sacrifice	2.46	-
Total	58.20	64.55

12. Details of movement in provisions in accordance with Accounting Standard 29:

Particulars	(Rs. in Crore)			
	Opening as on 01.04.2008	Provision made during the year	Provisions reversed/ adjusted	Closing as on 31.03.2009
Prov. for Standard Assets	23.45	0.75	0.00	24.20
Prov. for Bad and Doubtful debts	72.30	1.84	0.19	73.95
Investments	50.36	7.71	31.41	26.66
Income Tax	3.62	30.50	6.09	28.03
Floating Provision	3.00	5.62	1.62	7.00
Interest Tax	0.10	0.00	0.00	0.10
Fringe Benefit Tax	1.20	0.70	0.00	1.90
Prov. for Dividend (incl. Div.Tax)	8.56	14.27	8.56	14.27
Prov .for Loss assets (excl.adv)	1.87	0.25	0.00	2.12
Prov. for Leave encashment (excluding Transitional Liability)	10.80	3.62	0.65	13.77
Prov. for Sick Leave (excluding Transitional Liability)	5.44	1.14	0.00	6.58
Provision for interest sacrifice	1.89	-	0.19	1.70
Provision for Economic Sacrifice	-	2.66	-	2.66
Transitional Liability	9.80	3.44	3.96	9.28
<u>Others</u>				
Prov. for Bonus.	0.18	0.42	0.15	0.45
Prov. for pension. (including Transitional Liability)	3.35	3.91	3.45	3.81
Prov. for Gratuity. (including Transitional Liability)	NIL	2.30	2.17	0.13
Wage arrears	3.00	9.20	0.0	12.20

13. The Bank earned a profit of Rs.18.79 Crores on sale of securities under HTM category in the year 2008-09. As per the guidelines of the Reserve Bank of India, this profit has been transferred to Capital Reserve.

14. Previous year's figures have been regrouped / reclassified wherever considered necessary to conform to the current year's classification.

15. A. Customer Complaints:

(a)	No. of complaints pending at the Beginning of the year	30
(b)	No. of complaints received during the year	134
(c)	No. of complaints redressed during the year	145
(d)	No. of complaints pending at the end of the year	19

15. B. Awards passed by the Banking Ombudsman.

(a)	No. of unimplemented Awards at the beginning of the year	0
(b)	No. of Awards Passed by the Banking Ombudsmen during the year	0
(c)	No. of Awards implemented during the year	0
(d)	No. of unimplemented Awards at the end of the year	0

Movement Floating provisions

[Rs. In crores]

Particulars	2008-09	2007-08
Floating Provisions at the beginning of the year	3.00	-
Floating Provisions made during the year	5.62	3.00
Floating Provisions utilization during the year	1.62	-
Floating Provisions at the end of the year	7.00	3.00

Letter of Comforts (LOCs) Disclosure.

Letter of comfort issued in earlier years and outstanding as on 01.04.08 NIL

 ADD: LoC issued during the year NIL

 LESS: LoC expired during the year NIL

 LoC outstanding as on 31.03.2009 NIL

ANNEXURE IX

ADJUSTMENTS INCORPORATED IN THE SUMMARISED AUDITED FINANCIAL RESULTS GIVEN IN PART I & II CONSEQUENT TO CHANGE IN ACCOUNTING POLICIES AND QUALIFICATIONS IN AUDIT REPORT.

Particulars of significant changes in Accounting Policies & Practices and restated statements

1.1 -for the financial years 31/03/2005 to 31/03/2009:

During the five consecutive financial years ended March 31, 2009, various guidelines were issued by Reserve Bank of India (RBI) on income recognition, Asset Classification, Provisioning of Assets, Classification of investments and depreciation on Fixed Assets. Necessary Changes in the Accounting Policies have been made in the relevant years, to be in conformity with RBI Guidelines.

No adjustment for the above has been made in the restated Accounts, being changes following Statutory Guidelines of RBI.

1.2 - for the financial years ended 31/03/2005 to 31/03/09

During the year ended 31/03/2008, the bank has adopted the Revised Accounting Standard (AS 15) on "Employee Benefits" issued by the Institute of Chartered Accountants of India on Accounting for Retirement Benefits as against the method followed in the earlier years where the then existing Accounting Standard 15 was followed. In accordance with the option given, the transitional liability as on 31.3.07 was charged to the profit & loss account over a period of five years from the year 31.3.08. In the restated accounts, the transitional liability determined on the actuarial valuation (other than for sick leave which was determined on an estimated basis) for the periods upto 31/03/04 amounting to Rs.17.20 Crores has been provided by debit to Profit and Loss Account in the years 2005, 2006, 2007, 2008 and 2009. The incremental liability consequent on AS-15 (Revised) for each year 2005, 2006 and 2007 has also been provided for. Consequently, the proportionate transitional liability provided for in the years 2008 and 2009 has been reversed. Due to this change, the net profit of the said years were (lower) / higher by Rs. (2.90 crores), Rs. (5.28 crores), Rs. (6.48 crores), Rs.0.52 crores and Rs.0.52 crores for the years 2005, 2006, 2007, 2008 and 2009 respectively with the consequent impact on Reserves & Surplus and other Liabilities.

1.3 – for the financial years ended 31/03/05 to 31/03/07.

During the year ended 31/03/07, two assets which were earlier accounted as banking assets have been treated as non-banking assets. In the restated accounts, appropriate effect has been given in the respective years. As a result of this, the depreciation of Rs.0.20 crore provided in 2006 and withdrawn in 2007 was reversed, with consequential impact on Net profit, Reserves & Surplus, Fixed Assets and Other Assets of those years.

1.4 For the financial years ended 31/03/05 to 31/03/09.

Consequent on the adjustments made as detailed in para 1.2 above, the effect of deferred tax has also been incorporated resulting in increase / (decrease) in net profit of Rs. 1.06 crores, Rs.1.78 crores, Rs.2.18 crores, Rs.(0.18 crores) and Rs. (0.18 crores) for the years 2005, 2006, 2007, 2008 & 2009 respectively with consequential impact on Reserves & surplus and other assets.

2. Annexure A –Part 4.

2.1 Auditors Qualification for which adjustments could be carried out.

NIL

2.2. Auditors Qualification for which adjustments could not be carried out.

Inter Branch transactions and tallying of book of accounts (Financial Years ended 31/03/2005 to 31/03/2009):

The effect if any in respect of reconciliation of inter branch transactions for years ended 31/03/2005 to 31/03/2009 and tallying of balances in the accounts as per General Ledger with those of subsidiary ledger for those years could not be ascertained and hence not adjusted.

ANNEXURE IX (Continued)					
The following information as appearing in the notes on accounts of the earlier years which undergoes change have been restated and furnished hereunder.					
Key Ratios	31/03/2005	31/03/2006	31/03/2007	31/03/2008	31/03/2009
Tier I %	5.59%	6.76%	9.65%	10.28%	8.45%
Tier II %	5.65%	3.85%	2.50%	2.20%	1.46%
CRAR %	11.24%	10.61%	12.15%	12.48%	9.91%
Return on Assets (%)	0.04%	0.45%	0.24%	0.41%	0.72%
EPS	1.30	9.83	2.68	5.25	10.38
Profit per employee (in lakhs)	0.08	1.02	0.68	1.23	2.08
4.8 Miscellaneous					
4.8.1 Amount of Provisions made for Income-tax during the year					
	31/03/2005	31/03/2006	31/03/2007	31/03/2008	31/03/2009
PROVISION FOR INCOME TAX INCLUSIVE DTA AND FRINGE BENEFIT TAX	(33.10)	(5.88)	(7.63)	28.03	31.37
(RESTATED BREAK UP OF PROVISIONS & CONTINGENCIES)					
BREAK UP OF PROVISIONS & CONTINGENCIES SHOWN UNDER THE HEAD IN PROFIT & LOSS ACCOUNT					
Particulars - Provision for	31/03/2005	31/03/2006	31/03/2007	31/03/2008	31/03/2009
Standard Assets	0.70	4.75	4.15	9.00	0.75
Bad & Doubtful Debts	20.58	19.36	47.39	18.28	1.84
Investment Depreciation	60.89	(5.00)	7.36	6.01	7.71
Floating Provision	0.00	0.00	0.00	3.00	5.62
Transitional Liability	3.44	3.44	3.44	3.44	3.44
Other Assets	0.00	0.00	1.00	0.25	0.25
Taxation (Net of Deferred Tax) / FBT / Int. Tax	(33.10)	(5.88)	(7.63)	28.03	31.37
Leave Encashment	0.90	3.04	2.39	1.35	3.62
Sick Leave	1.50	1.78	2.16	0.00	1.14
Economic Sacrifice	0.00	0.00	0.00	0.00	2.46
MAT Tax Credit entitlement	0.00	0.00	0.00	(4.81)	0.00
	54.91	21.49	60.26	64.55	58.20

RE-STATED				
MOVEMENT OF PROVISIONS				
	Opening as on 01.04.08	Provision made during the year	Provisions reversed / adjusted	Closing as on 31.03.09
FOR THE Y.E. 31/03/2009				
Prov for Standard Assets	23.45	0.75	0.00	24.20
Prov for Bad and Doubtful debts	72.30	1.84	0.19	73.95
Investments	50.36	7.71	31.41	26.66
Income Tax	3.62	30.50	6.09	28.03
Floating provision	3.00	5.62	1.62	7.00
Interest Tax	0.10	0.00	0.00	0.10
Fringe Benefit Tax	1.20	0.70	0.00	1.90
Prov for Dividend (incl Div Tax)	8.56	14.27	8.56	14.27
Prov for Loss Assets (Excl. adv)	1.87	0.25	0.00	2.12
Prov for Leave Encashment (excl Transitional Liability)	10.80	3.62	0.65	13.77
Prov for Sick Leave (excl Transitional Liability)	5.44	1.14	0.00	6.58
Prov for interest sacrifice	1.89	0.00	0.19	1.70
Prov for Economic Sacrifice	0.00	2.66	0.00	2.66
Transitional Liability	9.80	3.44	3.96	9.28
Prov for Bonus	0.18	0.42	0.15	0.45
Prov for Pension	3.35	3.91	3.45	3.81
Prov for Gratuity	0.00	2.30	2.17	0.13
Wage Arrears	3.00	9.20	0.00	12.20
FOR THE Y.E. 31/03/2008				
Prov for Standard Assets	14.45	9.00	0.00	23.45
Prov for Bad and Doubtful debts	66.47	18.28	12.45	72.30
Investments	44.35	6.01	0.00	50.36
Income Tax	6.94	27.35	30.67	3.62
Floating provision	0.00	3.00	0.00	3.00
Interest Tax	0.10	0.00	0.00	0.10
Fringe Benefit Tax	0.70	0.50	0.00	1.20
Wage arrears	0.00	3.00	0.00	3.00
Prov for Bonus	0.09	0.45	0.36	0.18
Prov for Pension	3.60	3.35	3.60	3.35
Prov for Dividend (incl Div Tax)	4.00	8.56	4.00	8.56
Prov for Loss Assets (Excl. adv)	1.62	0.25	0.00	1.87
Prov for Gratuity	0.00	4.05	4.05	0.00
Prov for Leave Encashment (excl Transitional Liability)	10.11	1.35	0.66	10.80
Prov for Sick Leave (excl Transitional Liability)	5.44	0.00	0.00	5.44
Transitional Liability	10.32	3.44	3.96	9.80

RE-STATED				
	Opening as on 01.04.06	Provision made during the year	Provisions reversed / adjusted	Closing as on 31.03.07
FOR THE Y.E. 31/03/2007				
Prov for Standard Assets	10.30	4.15	0.00	14.45
Prov for Bad and Doubtful debts	60.93	47.39	41.85	66.47
Investments	36.99	7.36	0.00	44.35
Income Tax (incl FBT / Int Tax)	7.47	1.29	1.02	7.74
Wage arrears	0.30	0.00	0.30	0.00
Prov for Bonus	0.08	0.10	0.09	0.09
Prov for Pension	5.51	3.60	5.51	3.60
Prov for Dividend (incl Div Tax)	5.57	4.00	5.57	4.00
Prov for Loss Assets (Excl. adv)	0.62	1.00	0.00	1.62
Prov for Gratuity	0.33	0.00	0.33	0.00
Prov for Leave Encashment	8.36	2.39	0.64	10.11
Prov for Lease assets	0.41	0.00	0.41	0.00
Transitional Liability	6.88	3.44	0.00	10.32
Sick Leave	3.28	2.16	0.00	5.44
	Opening as on 01.04.05	Provision made during the year	Provisions reversed / adjusted	Closing as on 31.03.06
FOR THE Y.E. 31/03/2006				
Prov for Standard Assets	5.55	4.75	0.00	10.30
Prov for Bad and Doubtful debts	61.42	19.35	19.84	60.93
Investments	41.99	0.00	5.00	36.99
Income Tax (incl FBT / Int Tax)	6.12	1.35	0.00	7.47
Wage arrears	8.50	0.30	8.50	0.30
Leave Encashment	6.09	3.04	0.77	8.36
Transitional Liability	3.44	3.44	0.00	6.88
Sick Leave	1.50	1.78	0.00	3.28
Miscellaneous	6.41	10.69	4.03	13.07
	Opening as on 01.04.04	Provision made during the year	Provisions reversed / adjusted	Closing as on 31.03.05
FOR THE Y.E. 31/03/2005				
Prov for Standard Assets	4.85	0.70	0.00	5.55
Prov for Bad and Doubtful debts	97.32	20.58	56.48	61.42
Investments	24.78	60.89	43.68	41.99
Income Tax (incl FBT / Int Tax)	17.94	0.00	11.82	6.12
Leave Encashment	5.43	0.90	0.24	6.09
Transitional Liability	0.00	3.44	0.00	3.44
Sick Leave	0.00	1.50	0.00	1.50
Miscellaneous	6.41	0.00	0.00	6.41

ANNEXURE X - STATEMENT OF CAPITALISATION

	Pre-issue as at 31.03.2009	AS ADJUSTED FOR POST ISSUE *
Borrowings		
Short Term Debt	0.01	*
Long Term Debt	32.59	*
Total debt	32.60	*
Share Holders Fund		
Share Capital		
Equity	48.77	*
Less Calls in arrears	-	*
Preference	-	*
Share Premium	117.64	*
Reserves & Surplus	287.30	*
Less miscellaneous Expenditure not written off	-	
Total Share Holders funds	453.71	*
Long Term Debt/Equity Ratio (in%)	7.19%	*

* - SINCE PRICING WILL BE DONE AFTER APPROVAL OF SEBI, IT WILL BE FURNISHED IN THE FINAL LETTER OF OFFER

THE LONG TERM DEBT HAS BEEN ARRIVED AT BASED ON THE TENOR OF THE LOAN AT THE TIME OF AVAILMENT.

ANNEXURE XI - TAX SHELTER STATEMENT					(Rs. in crore)
Year Ending March 31,	2005	2006	2007	2008	2009
Tax rate (including surcharge)	36.60%	33.66%	33.66%	33.99%	33.99%
Net Profit before Tax - Restated	(31.60)	13.29	5.45	48.83	82.02
Tax at actual rate		4.47	1.83	16.60	27.88
Adjustments:					
(i) Permanent Differences					
Interest on tax free bonds	(2.00)	(0.11)	(0.12)	(0.12)	
Dividends from companies / Mutual Funds	(3.44)	(0.71)	(3.37)	(5.57)	
Provision for Bad Debts / NPA	(47.32)	(8.70)	(4.56)	(7.76)	(0.17)
Profit / loss on sale of fixed assets				(5.47)	(2.62)
Other adjustments	0.00	0.03	0.06	3.42	2.71
Total (i)	(52.76)	(9.49)	(7.99)	(15.50)	(0.08)
(ii) Timing Differences					
Difference between book depreciation & IT depreciation on fixed assets	(0.98)	0.81	(0.29)	(0.87)	(2.61)
Provisions for Standard Assets	0.70	4.75	4.15	9.00	0.75
Other adjustments	(9.39)	(25.21)	(16.53)	(45.42)	(13.26)
Total (ii)	(9.67)	(19.65)	(12.67)	(37.29)	(15.12)
Net adjustments (i) + (ii)	(62.43)	(29.14)	(20.66)	(52.79)	(15.20)
Taxable Income	(94.03)	(15.85)	(15.21)	(3.96)	66.82
Tax shelter	22.85	9.81	6.95	17.94	5.17
MAT	0.00	1.35	0.70	4.68	
Total Taxation	0.00	0.00	0.00	0.00	22.71
*Adjusted for restated financials and does not include Capital Gains tax on Rs.0.58Lakhs					

ANNEXURE XII

Details of Borrowing as on 31.03.09							(Rs. In Crores)
S.No	Name of the Lender	Balance O/S as on 31.03.09	Interest Rate (%)	Duration	Date of Borrowing	Repayment Terms	
I	NHB	31.81	10.05% p.a	3 Y – 2 M – 23 D	24.03.08	Equal Quarterly Installments	
		0.01	7.10% p.a	14 Y – 7 M – 29 D	30.03.95	---do---	
	Total	31.82	Rounded of to Rs .31.82 Crores				
II	NABARD	0.01	5.50% p.a	Upto 31.01.10	18.11.04	10 Half Yearly installments	
		0.15	6.25% p.a	Upto 31.01.10	18.11.04	---do---	
		0.03	6.25% p.a	Upto 31.01.10	11.03.05	---do---	
		0.09	6.75% p.a	Upto 31.01.10	18.11.04	---do---	

		0.07	8.00% p.a	Upto 31.07.11	26.12.06	5 Yearly installments
		0.42	8.00% p.a	Upto 31.07.11	26.12.06	10 Half Yearly installments
	Total	0.77	Rounded of to Rs. 0.77 Crores			
III	Outside India	0.01	--			

Grand Total Rs.32.60 crores

SERVICING BEHAVIOUR: The Bank has not defaulted in the payment of interest and repayment of principal to other Banks, Institutions, deposit holders and other statutory dues.



MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Shareholders should read the following discussion of Bank's financial condition and results of operations together with restated audited financial statements which appear in the section titled "Auditors Report" in this Draft Letter of Offer. The following discussion is based on restated financial statements for financial year 2007, 2008 and 2009. The Bank's financial year 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.

Overview

Lakshmi Vilas Bank, a private sector bank, commenced its operations on November 10, 1926. As on March 31, 2009 LVB had a network of 251 branches spread over 13 States and the National Capital Territory of Delhi and Union Territory of Pondicherry. The Bank started expanding its boundaries beyond Tamil Nadu after 1974 by opening branches in the neighboring states of Andhra Pradesh, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Gujarat, West Bengal, Delhi, Pondicherry, Haryana, Jharkhand, Orissa, Rajasthan, and Uttar Pradesh. LVB has a strong and wide base in the State of Tamil Nadu, one of the most progressive States in the country, which is politically stable and has a vibrant industrial environment.

The rating agency CARE after due surveillance as on December 29, 2008, assigned the revised rating of BBB+ (Triple B plus) from A- (A minus) assigned earlier to Lower Tier II Bonds aggregating to Rs. 110 crores (Series IIIA and IIIB – Rs. 50 crores, Series IVA and IVB – Rs. 30 crores and Series V – Rs. 30 crores) indicating moderate safety for timely servicing of debt obligations.

The Bank's business crossed Rs. 12,606.73 crore as on March 31, 2009. The Bank earned Net Profit of Rs. 50.30 crores. The Net Owned Funds of the Bank reached Rs. 453.72 crore. With a fairly good quality of loan assets the Net NPA of the Bank was pegged at 1.24% as on March 31, 2009, down from 1.55% as on March 31, 2008.

Factors Affecting our Results of Operations

The Bank's loan portfolio, financial condition and results of operations have been, and are expected to be, influenced by economic conditions in India, expected growth in retail credit in India and certain global developments, particularly in commodity prices relating to the business activities of the Bank's corporate customers. To facilitate the understanding of the discussion of the Bank's results of operations that follows, you should consider the introductory discussion of these macroeconomic factors.

The Indian Economy

Our financial condition and results of operations are influenced largely by general economic conditions prevailing in India. The Indian economy has grown at decreasing rate over the past three fiscal years. GDP growth was 9.7 in Fiscal 2007, 9.0% in Fiscal 2008 and 7.1 (estimated) in Fiscal 2009. The real GDP growth in Fiscal 2009 was contributed to by sustained accelerated growth in the services sector notwithstanding slow growth in the agriculture sector and Industry.

The growth in agriculture sector dropped from the high of 4.9% in fiscal 2008 to 2.6% (estimated) in fiscal 2009. Similarly, growth in Industrial Sectors also decreased from 8.1% in fiscal 2008 to 4.8% (estimated) in 2009. However, resilience by Services Sector which grew 9.6% (estimated) in fiscal 2009 vis-à-vis 10.9% in fiscal 2008, helped economy achieve GDP growth rate of 7.1% (estimated) in fiscal 2009.

Our business is affected by seasonal trends in the Indian economy that affect the overall banking industry.

Interest Rates

The majority of the Bank's corporate and commercial loans are priced at a floating rate based on the Bank's prime lending rate. This rate is primarily determined by the RBI's lending rate. The RBI lending rate has risen

steadily since 2004 till 2008, partly to reduce the money supply and partly to reduce liquidity at Indian banks. However the lending rates were reduced subsequent to global financial crisis partly to improve money supply.

The table below shows the average monthly RBI bid (reverse repo rates) and ask (repo rates) as on the dates indicated:

As of year ended March 31,	Bank Rate	Reverse Repo Rate	Repo Rate
2004	6.00%	4.50%	6.00%
2005	6.00%	4.75%	6.00%
2006	6.00%	5.50%	6.50%
2007	6.00%	6.00%	7.75%
2008	6.00%	6.00%	7.75%
2009 (June 30, 2009)	6.00%	3.25%	4.75%

Source : RBI

Laws, Rules, Regulations, Guidelines and Norms Applicable to the Banking Industry

Banks in India are subject to detailed supervision and regulation by the RBI. In addition, banks are subject generally to changes in Indian law, as well as to changes in regulation and government policies and accounting principles. Any change in the laws, rules, regulations, guidelines or norms applicable to the banking industry could materially and adversely affect our business, results of operations and financial condition.

The more material regulations that have an influence on our financial condition and results of operations are given in the section “Key Regulations and Policies” on page number 80.

RESULTS OF OPERATIONS

		(Rs. In crores)		
For the Period Ended		31-Mar-07	31-Mar-08	31-Mar-09
INCOME				
1	Interest Earned			
1.1	Interest / Discount on Advances / Bills	312.13	378.98	517.92
1.2	Income on Investments **	89.15	103.10	126.14
1.3	Interest on Balances with RBI and other Inter-Bank Funds.	16.16	13.65	8.56
1.4	Others	0.82	10.32	4.99
2	Other Income			
2.1	Commission, Exchange & Brokerage	35.70	28.40	42.57
2.2	Profit on Sale of Investments (Net)	(1.25)	21.33	30.36
2.3	Profit on Sale of Land, Buildings & Other Assets (Net)	0.41	5.48	2.62
2.4	Profit on Exchange Transactions (Net)	5.55	6.17	8.81
2.5	Income From Dividends	3.37	5.57	0.30
2.6	Miscellaneous Income **	12.94	15.54	22.33
Total Income		474.98	588.54	764.60
EXPENDITURE				
1	Interest Expended			
1.1	Interest on Deposits	284.35	363.20	481.55
1.2	Income on Balances with RBI / Inter - Bank Borrowings	3.30	5.55	16.18
1.3	Others	11.54	13.18	6.34
2	Operating Expenses			

2.1	Payment to and Provisions for Employees	56.24	63.04	78.45
2.2	Rent, Taxes & lighting	8.29	9.78	13.15
2.3	Printing & Stationery	1.47	1.51	1.51
2.4	Advertisements & Publicity	1.26	1.18	1.74
2.5	Depriciations on Banks Property	7.65	8.58	12.72
2.6	Directors' Fees, Allowances and Expences	0.18	0.43	0.57
2.7	Auditors Fees and Expenses	0.24	0.28	0.32
2.8	Law Charges	0.50	0.47	0.44
2.9	Postage, Telegrams and Telephones	2.54	4.97	4.33
2.10	Repairs and Maintanance	0.64	0.66	0.63
2.11	Insurance	4.38	4.96	5.92
2.12	Other Expenditure **	19.06	20.59	31.91
Total Expenditure		401.64	498.38	655.76
Gross Profit Before Provisions & Contingencies		73.34	90.16	108.84
Provisions & Contingencies		60.26	64.55	58.20
Net Profit / (Loss) For The Year		13.08	25.61	50.64
Add: Transfer from Investment Fluctuation Reserve		40.74	--	--
Add: Balances of Profit/(Loss) Brought Forward		(4.76)	(9.20)	(9.00)
Profit Available For Appropriation		49.06	16.41	41.64
APPROPRIATIONS				
Transfer to Statutory Reserve		53.24	7.00	15.25
Transfer to Capital Reserve		0.77	8.55	18.79
Transfer to (from) Investment Fluctuation Reserve		0.00	0.00	0.00
Transfer to Other Reserve		0.25	1.30	1.00
Transfer to Special Reserve u/s 36(1)(viii) of IT Act 1961		0.00	0.00	1.00
Proposed Dividend		3.42	7.32	12.20
Tax on Dividend		0.58	1.24	2.07
Balance Carried Over to Balance Sheet		(9.20)	(9.00)	(8.66)
		49.06	16.41	41.65

** Amortisation expenses have been regrouped and adjusted against the interest income of investments as per RBI guidelines. The regroup of amortisation for the year 2005, 2006, 2007.

Year ended March 31, 2009 compared with the Year ended March 31, 2008

Income

Our total income increased by 29.9 % from Rs. 588.5 crores in Fiscal 2008 to Rs. 764.6 crores in Fiscal 2009 and our total expenditure increased by 31.6% from Rs. 498.4 crores in Fiscal 2008 to Rs. 655.8 crores in Fiscal 2009. Our operating profit increased by 20.7% from Rs. 90.2 crores in Fiscal 2008 to Rs.108.8 crores in Fiscal 2009. Our net profit after tax increased by 97.7%, from Rs. 25.6 crores in Fiscal 2008 to Rs. 50.6 crores in Fiscal 2009.

Our total income was higher in Fiscal 2009 mainly on account of a 36.7% increase in interest earned on advances (including discount on bills) from Rs. 379 crores in Fiscal 2008 to Rs. 518 crores in Fiscal 2009.

Interest Income

Our interest income increased by 29.9% from Rs. 506 crores in Fiscal 2008 to Rs. 657.6 crores in Fiscal 2009.

Interest on advances and discount on bills increased by 36.7%, from Rs. 379 crores in Fiscal 2008 to Rs. 518 crores in Fiscal 2009, reflecting a 35.9% increase in average advances from Rs. 3858.8 crores in Fiscal 2008 to 5245.8 crores in Fiscal 2009. This was augmented by an increase in the average yield on advances from 11.09 % in Fiscal 2008 to 12.25% in Fiscal 2009.

Income from investments increased by 22.3% from Rs.103.1 crores in Fiscal 2008 to Rs.126.1 crores in Fiscal 2009. Our average volume of investments increased by 10.0% from Rs. 1693.7 crores in Fiscal 2008 to Rs.

1863.1 crores in Fiscal 2009. The average yield on our investments increased from 8.11% in Fiscal 2008 to 8.48% in Fiscal 2009.

Interest on balances with RBI is the interest paid on our required cash reserve ratio balance. Interest on other inter-bank lending includes interest on call and term lending and interest on repo lending. Interest on balances with the RBI and other inter-bank lending decreased by 37.3%, from Rs. 13.7 crores in Fiscal 2008 to Rs. 8.6 crores in Fiscal 2009.

Interest Expense

Our interest expense increased by 32.0%, from Rs. 382 crores in Fiscal 2008 to Rs. 504.1 crores in Fiscal 2009.

This was principally due to an increase of 32.6% in interest on Deposits from Rs 363.2 crores in Fiscal 2008 to Rs 481.6 crores in Fiscal 2009, which resulted in an increase in the cost of deposits from 7.31 % in Fiscal 2008 to 7.96% in Fiscal 2009. Our average deposits increased by 31.0% from Rs. 5618.5 crores in Fiscal 2008 to Rs. 7360.9 crores in Fiscal 2009.

Our interest expense on RBI and other borrowings increased by 191.5% from Rs. 5.6 in Fiscal 2008 to Rs. 16.2 crores in Fiscal 2009.

Other Income

Comparative position of other income for the Fiscal 2008 & 2009 is furnished below

Particulars	(Rs. in crore)	
	March 31, 2008	March 31, 2009
Commission, Exchange & Brokerage	28.4	42.57
Profit on Sale of Investments (Net)	21.33	30.36
Profit on Sale of Land, Buildings & Other Assets (Net)	5.48	2.62
Profit on Exchange Transactions (Net)	6.17	8.81
Income From Dividends	5.57	0.3
Miscellaneous Income	15.54	22.33
Total	82.49	106.99

Our other income increased by 29.7%, from Rs. 82.5 crores in Fiscal 2008 to Rs. 107.0 crores in Fiscal 2009 due to increased profit from sale of investments. Profit from sale of Investments increased by 42.3% from Rs. 21.3 crores to Rs.30.4 crores.

Income from commission, exchange and brokerage decreased by 49.9% from Rs. 28.4 crores in Fiscal 2008 to Rs. 42.6 crores in Fiscal 2009. Net profit on exchange transactions increased by 42.8%, from Rs. 6.2 crores in Fiscal 2008 to Rs. 8.8 crores in Fiscal 2009. Miscellaneous income includes service charges on SB, CD and loans, processing charges and locker rent. Our miscellaneous income increased by 43.7% from Rs. 15.5 crore in Fiscal 2008 to Rs. 22.3 crores in Fiscal 2009.

Expenditure

Operating Expenses

Total operating expenses increased by 30.3 % from Rs. 116.5 crores in Fiscal 2008 to Rs. 151.7 crores in Fiscal 2009. As a percentage of our total income, operating expenses was stable at 19.8% in Fiscal 2009.

The primary component of our operating expenses was payment and provisions to employees, which increased by 24.4%, from Rs. 63.0 crores in Fiscal 2008 to Rs. 78.5 crores in Fiscal 2009.

Depreciation expenses on our property increased by 48.3% from Rs. 8.6 crores in Fiscal 2008 to Rs. 12.7 crores in Fiscal 2009.

Insurance expenses increased by 19.4% from Rs. 5 crores in Fiscal 2008 to Rs. 5.9 crores in Fiscal 2009.

Other expenditure increased by 55.0 % from Rs. 20.6 crores in Fiscal 2008 to Rs. 31.9 crores in Fiscal 2009.

Operating Profit

As a result of the foregoing factors, our operating profit before provisions and contingencies increased by 20.7%, from Rs. 90.2 crores in Fiscal 2008 to Rs.108.8 crores in Fiscal 2009. As a percentage of total income, our operating profit decreased from 15.3% in Fiscal 2008 to 14.2 % in Fiscal 2009.

Provisions and Contingencies

Provisions and contingencies made in Fiscal 2009 decreased by 9.8% from Rs. 64.55 crores in Fiscal 2008 to Rs. 58.20 crores in Fiscal 2009.

Particulars	(Rs. in crores)	
	March 31, 2008	March 31, 2009
Standard Assets	9.00	0.75
Bad & Doubtful Debts	18.28	1.84
Investment Depreciation	6.01	7.71
Floating Provision	3.00	5.62
Transitional Liability	3.44	3.44
Other Assets	0.25	0.25
Taxation (Net of Deferred Tax) / FBT / Int. Tax	28.03	31.37
Leave Encashment	1.35	3.62
Sick Leave	0.00	1.14
Economic Sacrifice	0.00	2.46
MAT Tax Credit entitlement	(4.81)	0.00
Total	64.55	58.20

Our required provisioning in respect of non-performing advances decreased by 89.9% from Rs.18.3 crores in Fiscal 2008 to Rs. 1.8 crores in Fiscal 2009. This was due to a marginal increase in gross NPAs from Rs. 138 crores in Fiscal 2008 to Rs.144.1 crores in Fiscal 2009.

Income Tax

Our provision for income tax was Rs. 28.0 crores in Fiscal 2008 and was Rs. 31.4 crores in Fiscal 2009. This increase was primarily due to increase in taxable income.

Net Profit

As a result of the foregoing factors, our net profit after tax increased by 97.7% from Rs. 25.6 crores in Fiscal 2008 to Rs. 50.6 crores in Fiscal 2009. As a percentage of total income, our net profit after tax increased from 4.4% in Fiscal 2008 to 6.6% in Fiscal 2009.

Year ended March 31, 2008 compared with the Year ended March 31, 2007

Income

Our total income increased by 23.9% from Rs. 475 crores in Fiscal 2007 to Rs. 588.5 crores in Fiscal 2008 and our total expenditure increased by 24.1% from Rs. 401.6 crores in Fiscal 2007 to Rs. 498.4 crores in Fiscal 2008. Our operating profit increased by 22.9% from Rs. 73.3 crores in Fiscal 2007 to Rs. 90.2 crores in Fiscal 2008. Our net profit after tax increased by 95.8%, from Rs. 13.1 crores in Fiscal 2007 to Rs. 25.6 crores in Fiscal 2008.

Our total income was higher in Fiscal 2008 mainly on account of a 21.4% increase in interest earned on advances (including discount on bills) from Rs. 312.1 crores in Fiscal 2007 to Rs. 379 crores in Fiscal 2008.

Interest Income

Our interest income increased by 21% from Rs. 418.3 crores in Fiscal 2007 to Rs. 506 crores in Fiscal 2008.

Interest on advances and discount on bills increased by 21.4%, from Rs. 312.1 crores in Fiscal 2007 to Rs. 379 crores in Fiscal 2008, reflecting a 6.8% increase in average advances from Rs. 3612.7 crores in Fiscal 2007 to 3858.8 crores in Fiscal 2008. This was augmented by an increase in the average yield on advances from 9.76 % in Fiscal 2007 to 11.09% in Fiscal 2008.

Income from investments increased by 15.6% from Rs.89.2 crores in Fiscal 2007 to Rs. 103.1 crores in Fiscal 2008. Our average volume of investments increased by 29.4% from Rs. 1309.3 crores in Fiscal 2007 to Rs. 1693.7 crores in Fiscal 2008. The average yield on our investments increased from 6.57% in Fiscal 2007 to 8.11% in Fiscal 2008.

Interest on balances with RBI is the interest paid on our required cash reserve ratio balance. Interest on other inter-bank lending includes interest on call and term lending and interest on repo lending. Interest on balances with the RBI and other inter-bank lending decreased by 15.5%, from Rs. 16.2 crores in Fiscal 2007 to Rs. 13.7 crores in Fiscal 2008.

Interest Expense

Our interest expense increased by 27.7%, from Rs 299.2 crores in Fiscal 2007 to Rs. 382 crores in Fiscal 2008.

This was principally due to an increase of 27.7% in interest on Deposits from Rs 284.4 crores in Fiscal 2007 to Rs 363.2 crores in Fiscal 2008, which resulted in an increase in the cost of deposits from 6.27% in Fiscal 2007 to 7.31% in Fiscal 2008. Our average deposits increased by 11.9% from Rs5019.9 crores in Fiscal 2007 to Rs. 5618.5 crores in Fiscal 2008.

Our interest expense on RBI and other borrowings increased by 68.2% from Rs. 3.3 in Fiscal 2007 to Rs. 5.6 crores in Fiscal 2008.

Other Income

Comparative position of other income for the Fiscal 2007 & 2008 is furnished below

Particulars	(Rs. In crore)	
	March 31, 2007	March 31, 2008
Commission, Exchange & Brokerage	35.7	28.4
Profit on Sale of Investments (Net)	(1.25)	21.33
Profit on Sale of Land, Buildings & Other Assets (Net)	0.41	5.48
Profit on Exchange Transactions (Net)	5.55	6.17
Income From Dividends	3.37	5.57
Miscellaneous Income	12.94	15.54
Total	56.72	82.49

Our other income increased by 45.4%, from Rs. 56.72 crores in Fiscal 2007 to Rs. 82.49 crores in Fiscal 2008 due to increased profit from sale of investments. Profit from sale of Investments increased from negative Rs. 1.3 crores to Rs. 21.3 crores.

Income from commission, exchange and brokerage decreased by 20.4% from Rs. 35.7 crores in Fiscal 2007 to Rs. 28.4 crores in Fiscal 2008. Net profit on exchange transactions increased by 11.2%, from Rs. 5.6 crores in Fiscal 2007 to Rs. 6.2 crores in Fiscal 2008. Miscellaneous income includes service charges on SB, CD and loans, processing charges and locker rent. Our miscellaneous income increased by 20.1% from Rs. 12.9 crore in Fiscal 2007 to Rs. 15.5 crores in Fiscal 2008.

Expenditure

Operating Expenses

Total operating expenses increased by 13.7 % from Rs. 102.5 crores in Fiscal 2007 to Rs. 116.5 crores in Fiscal 2008. As a percentage of our total income, operating expenses decreased from 21.6% in Fiscal 2007 to 19.8% in Fiscal 2008.

The primary component of our operating expenses was payment and provisions to employees, which increased by 12.1%, from Rs. 56.2 crores in Fiscal 2007 to Rs. 63.0 crores in Fiscal 2008.

Depreciation expenses on our property increased by 12.2% from Rs. 7.7 crores in Fiscal 2007 to Rs. 8.6 crores in Fiscal 2008.

Insurance expenses increased by 13.2% from Rs. 4.4 crores in Fiscal 2007 to Rs. 5.0 crores in Fiscal 2008.

Other expenditure increased by 8.0 % from Rs. 19.1 crores in Fiscal 2007 to Rs. 20.6 crores in Fiscal 2008.

Operating Profit

As a result of the foregoing factors, our operating profit before provisions and contingencies increased by 22.9%, from Rs. 73.3 crores in Fiscal 2007 to Rs. 90.2 crores in Fiscal 2008. As a percentage of total income, our operating profit decreased from 15.4% in Fiscal 2007 to 15.3 % in Fiscal 2008.

Provisions and Contingencies

Provisions and contingencies made in Fiscal 2008 increased by 7.1% from Rs. 60.26 crores in Fiscal 2007 to Rs. 64.55 crores in Fiscal 2008.

Particulars	(Rs. in crores)	
	March 31, 2007	March 31, 2008
Standard Assets	4.15	9.00
Bad & Doubtful Debts	47.39	18.28
Investment Depreciation	7.36	6.01
Floating Provision	0.00	3.00
Transitional Liability	3.44	3.44
Other Assets	1.00	0.25
Taxation (Net of Deferred Tax) / FBT / Int. Tax	(7.63)	28.03
Leave Encashment	2.39	1.35
Sick Leave	2.16	0.00
Economic Sacrifice	0.00	0.00
MAT Tax Credit entitlement	0.00	(4.81)
Total	60.26	64.55

Our required provisioning in respect of non-performing advances decreased by 61.4% from Rs.47.4 crores in Fiscal 2007 to Rs. 18.3 crores in Fiscal 2008. This was due to a marginal increase in gross NPAs from Rs. 131.2 crores in Fiscal 2007 to Rs.138 crores in Fiscal 2008.

Income Tax

Our provision for income tax was negative Rs. 7.6 crores in Fiscal 2007 and was Rs. 28.0 crores in Fiscal 2008. This increase was primarily due to increase in taxable income.

Net Profit

As a result of the foregoing factors, our net profit after tax increased by 95.8% from Rs. 13.1 crores in Fiscal 2007 to Rs. 25.6 crores in Fiscal 2008. As a percentage of total income, our net profit after tax increased from 2.8% in Fiscal 2007 to 4.4% in Fiscal 2008.

Cash Flows

	(Amount in crores)		
	Year ended 31.03.2007	Year ended 31.03.2008	Year ended 31.03.2009
Cash flows from Operating Activities	72.12	(35.23)	300.52
Cash flows from Investing Activities	(10.08)	(13.04)	(26.83)
Cash flows from Financing Activities	116.02	21.71	(7.18)
Cash & Bank balances at the beginning of the year	463.40	641.46	614.90
Cash & Bank balances at the end of the year	641.46	614.90	881.41

Cash Flow from Operations

Our net cash flow from operating activities reflects interest received during the period from advances and investments, other income during the period, as well as adjustments for cash charges. In addition, our net cash from operating activities reflects changes in operating assets and liabilities, including investments, advances, deposits and borrowings, as well as other assets and liabilities. Change in borrowings reflects only short-term borrowings and not Tier II Bonds, which are included in cash flows from financing activities.

Our net cash received from operating activities was Rs. 72.12 crores in Fiscal 2007 and Rs. 300.52 crores in Fiscal 2009. Net cash used in operating activities was Rs. 35.23 crores in Fiscal 2008.

Cash Flow from Investing Activities

Our net cash used in investing activities reflects the expenses towards purchase of fixed Assets. Net cash used in investing activities was Rs.10.08 crores in Fiscal 2007, Rs. 13.04 crores in Fiscal 2008 and Rs.26.83 crores in Fiscal 2009. The purchase of fixed assets was Rs. 13.87 crores in Fiscal 2007, Rs. 13.29 crores in Fiscal 2008 and Rs. 27.10 crores in Fiscal 2009. This was partially offset by sale of old fixed assets.

Cash Flows from Financing Activities

Our net cash from financing activities reflects proceeds / redemptions of our Tier II Bonds and dividends paid including taxes paid thereon. Our net cash received from financing activities was Rs. 116.02 crores in Fiscal 2007, comprising of Rs. 91.45 crores received from issue of shares and Rs. 30 crores being the amount of Tier II bonds raised. Our net cash used in financing activities was Rs. 21.71 crores in Fiscal 2008, reflecting mainly Rs.20.80 crores being the amount of Tier II bonds raised. Our net cash used in financing activities was Rs. 7.18 crores in fiscal 2009 comprising mainly of dividend paid.

Capital

We are subject to the capital adequacy requirements of the RBI, which are primarily based on the capital adequacy accord reached by the Basel Committee of the Bank of International Settlements. We are required to maintain a minimum 9% capital to risk weighted assets, at least half of which must be Tier I capital. Our regulatory capital and capital adequacy ratios, based on our restated financial statements, are as follows:

(Amount in crores)

	2007	2008	2009
Tier I capital	343.67	394.48	434.23
Tier II capital	86.45	82.45	73.31
Total capital	430.12	476.93	507.65
Total risk weighted assets and contingents	3460.74	3747.74	5032.49
Capital adequacy ratios:			
Tier I	9.93	10.53	8.63
Tier II	2.50	2.20	1.46
Total capital adequacy ratio	12.43	12.73	10.09
Minimum capital ratio required by the RBI	9.00	9.00	9.00

Liabilities

Our total liabilities increased by 12.3 % from Rs. 5445.4 crores as at March 31, 2007 to Rs. 6117.1 crores as at March 31, 2008 and further increased by 28.8% to Rs. 7877.2 crores as at March 31, 2009. Other liabilities and provisions include bills payable, interest accrued on deposits and borrowings, inter-office adjustments, provisions for standard advances, deferred tax liability and other provisions. Subordinate debts are our Tier II Bonds.

Our total deposits increased by 11.9 % from Rs. 5019.9 crores as at March 31, 2007 to Rs. 5618.5 crores as at March 31, 2007, and further increased by 31% to Rs. 7360.9 crores as at March 31, 2009. Demand (current) deposits grew by 10% from Rs. 502 crores as at March 31, 2007 to Rs. 552.3 crores as at March 31, 2008 and then decreased by 12.7% to Rs. 482.2 crores as at March 31, 2009. Term deposits grew by 12.5% from Rs.3913.3 crores as at March 31, 2007 to Rs. 4400.8 crores as at March 31, 2008, and further increased by 39.2% to Rs. 6125.6 crores as at March 31, 2009. Savings deposits grew by 9.8% from Rs. 599.7 crores as at

March 31, 2007 to Rs. 658.5 crores as at March 31, 2008 and further increased by 12.9% to Rs. 743.2 crores as at March 31, 2009.

Contingent Liabilities

Contingent liabilities increased by 25% from Rs. 705.2 crores as at March 31, 2007 to Rs. 885.4 crores as at March 31, 2008 and increased by 90.0%, to Rs. 1682.2 as at March 31, 2009.

The variation in contingent liabilities was mainly due to the changes in liabilities on account of outstanding forward exchange contracts and acceptances, endorsements and other obligations.

Foreign Exchange Transactions

Our foreign exchange contracts arise out of spot and forward foreign exchange transactions with corporate and non-corporate customers and inter-bank counter parties. We earn profit on inter-bank and customer transactions by way of a spread between the purchase rate and the sale rate. The aggregate notional principal amount of our forward foreign exchange contracts was Rs. 266.6 crores as at March 31, 2007, Rs. 412.4 crores as at March 31, 2008 and Rs. 588.3 crores as at March 31, 2009. Since these contracts are marked to market, their fair value as at those dates was the same as their notional value.

Changes in Accounting Policies

During the five consecutive financial years ended March 31, 2009, various guidelines were issued by Reserve Bank of India (RBI) on income recognition, Asset Classification, Provisioning of Assets, Classification of investments and depreciation on Fixed Assets. Necessary Changes in the Accounting Policies have been made in the relevant years, to be in conformity with RBI Guidelines.

No adjustment for the above has been made in the restated Accounts, being changes following Statutory Guidelines of RBI. For further details on changes in accounting policies please refer to Annexure IX in the section titled "Financial Statements" beginning on page 125

AN ANALYSIS OF REASONS FOR THE CHANGES IN SIGNIFICANT ITEMS OF INCOME AND EXPENDITURE IS GIVEN BELOW

1. *Unusual or Infrequent Events or Transactions*

To our knowledge there have been no unusual or infrequent events or transactions that have taken place during the last three years, except as disclosed as extraordinary items in this section.

2. *Significant economic changes that materially affected or are likely to affect income from continuing operations.*

Other than as described in this Letter of Offer, particularly in "Risk Factors" and "Business", there are no significant economic / regulatory changes that materially affect or are likely to affect the income from continuing operations.

3. *Known Trends or Uncertainties*

Our business has been impacted and we expect will continue to be impacted by the trends identified above in "Factors Affecting our Results of Operations" and the uncertainties described in the section titled "Risk Factors" beginning on page viii of this Draft Letter of Offer. To our knowledge, except as we have described in this Draft Letter of Offer, there are no known factors, which we expect to have a material adverse impact on our revenues from continuing operations.

4. *Future Relationship between Expenditure and Revenues*

Other than as described elsewhere in this Letter of Offer, there are no known factors which will have a material adverse impact on the bank's operation and finances.

5. New products or services

Other than as described elsewhere in this Letter of Offer, the Bank has not launched any new product or services.

6. Status of any publicly announced new products or business segment.

After closure of FY 2009, our Bank has not announced any new products or business segment.

7. Seasonality of Business

Bank's business is not likely to be affected by seasonality

8. Competitive Conditions

We expect competition to increase due to, among other things, an increase in regulatory reforms in the banking sector. For further details, see the section titled "Risk Factors–External Risk Factors" and "Our Business–Competition" beginning on pages viii and 56, respectively, of this Draft Letter of Offer.

9. Significant Developments after March 31, 2009

Except as stated otherwise in this Draft Letter of Offer, in the opinion of our Directors no circumstances have arisen since March 31, 2009, the date of the last financial statements as disclosed in this Draft Letter of Offer, which materially and adversely affect or are likely to affect, the trading and profitability of the Bank or the value of our assets or our ability to pay our liabilities within the next twelve months.

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:

Working Results of the Bank

The unaudited working results (limited reviewed) of the Bank for the quarter ended June 30, 2009 is as given as under:

Particular	Rs. In crore
Interest/Discount on Advances/Bills	171.03
Interest on Investment	35.65
Interest on bal. with RBI & other inter bank funds	2.70
Other Interest	0.35
Other Income	25.71
TOTAL INCOME	235.44
Interest Expended	161.39
Operating Expenses	41.60
TOTAL EXPENDITURE	202.99
Operating Profit Before Prov. & Cont.	32.45
Provisions & Contingencies	(1.48)
Provision for Taxes	11.27
Net Profit	22.66

DESCRIPTION OF CERTAIN INDEBTEDNESS

Details of Tier II Capital of the Bank

Issue Series*	Date of Issue	Amount Outstanding as of March 31, 2009	Date of Repayment	Coupon (%)	Security
Series IIIA	12.09.2003	40.00	12.04.2009	7.20	Unsecured
Series IIIB	12.09.2003	10.00	12.04.2011	7.40	Unsecured
Series IV-A	31.03.2005	19.00	31.10.2010	8.25	Unsecured
Series IV-B	31.05.2005	11.00	31.12.2010	8.25	Unsecured
Series V	30.09.2006	30.00	30.04.2016	9.95	Unsecured

Details of Unsecured Borrowing

Set forth below is a brief summary of our aggregate unsecured borrowings as on March 31, 2009

Names	Amount Outstanding Rs. in Lakhs	Rate of Interest (%)	Duration	Date of borrowing	Repayment terms
National Housing Board	3121.90	10.05	36 months	24.03.2008	Equal quarterly instalments, interest compounded monthly
NABARD	0.29	5.50	Upto 31.01.10	18.11.2004	10 Half yearly instalments
NABARD	18.48	6.25	Upto 31.01.10	18.11.2004 and 11.03.2005	10 Half yearly instalments
	8.92	6.75	Upto 31.01.10	18.11.2004	10 Half yearly instalments
NABARD	6.66	8.00	Upto 31.07.11	26.12.2006	5 yearly instalments
NABARD	42.41	8.00	Upto 31.07.11	26.12.2006	10 Half yearly instalments

Borrowings in India

Borrowings within India comprise of borrowings from the banks and financial institutions and agencies. These borrowings are in the ordinary course of the Bank's business comprising of money market operations and refinance arrangements. All of these borrowings are unsecured.

Borrowings in Foreign Exchange

Borrowings outside India represent credit balance in Nostro Accounts as per books of accounts.

Servicing Behaviour

The Bank has not defaulted in the payment of interest and repayment of principal to other Banks, institutions, deposit holders etc. The Bank has not defaulted in meeting statutory dues, institutional dues and dues on fixed deposits and other arrears.

STOCK MARKET DATA FOR SHARES OF THE BANK

Our Equity Shares are listed and actively traded on the NSE. Our stock market data have been given for this Stock Exchange.

NSE

The following table is the movement in the share price of the Bank on NSE during the last three years:

Year	High			Low			Average
	Date	Rs.	Volume	Date	Rs.	Volume	
2007	14-Nov-06	175.00	836007	19-Feb-07	67.40	200	101.25
2008	8-Jan-08	198.00	200778	2-Apr-07	72.00	46709	105.89
2009	25-Apr-08	124.00	787267	4-Mar-09	51.30	10793	80.68

The average price has been computed based on the daily average price of Equity Shares.
[Source: NSE]

Movement of the share price of the Bank during the last six months at NSE

Month ending	High Price (Rs.)	Date of High	Volume of shares traded on the high date	Low Price (Rs.)	Date of Low	Volume of shares traded on the date of low	Average price for the period (Rs.)
February, 2009	76.00	16-Feb-09	15006	53.65	27-Feb-09	35145	60.52
March, 2009	65.40	16-Mar-09	96666	51.30	4-Mar-09	10793	59.42
April, 2009	84.40	17-Apr-09	332230	62.30	8-Apr-09	6782	70.11
May, 2009	94.00	21-May-09	847846	69.00	4-May-09	23784	82.75
June, 2009	96.40	5-Jun-09	1441493	74.25	23-Jun-09	43881	83.89
July, 2009	88.00	24-Jul-09	255187	72.25	13-July-09	56724	80.22

The average price has been computed based on the daily average price of Equity Shares.
[Source: NSE]

Details of Volume of shares transacted during the past six months are as follows:

Month ending	Volume (No. of shares)
February, 2009	502261
March, 2009	587214
April, 2009	1243234
May, 2009	4174166
June, 2009	4340543
July, 2009	1830504

[Source: NSE]

1. Except as disclosed in this Draft Letter of Offer, there is no material change or commitments likely to affect the financial position of the Bank since the last date upto which audited information is incorporated in the Draft Letter of Offer.

2. Information in relation to Equity Shares:

- a) Week end prices of Equity Shares of the Company for the last four weeks on NSE is as below:

Period	High (Rs.)	Low (Rs.)	Average	No. of shares
20.07.09 to 24.07.09	88.00	79.00	82.52	690917
27.07.09 to 31.07.09	86.80	80.10	83.70	458796
03.08.09 to 07.08.09	93.00	85.25	89.15	1104969
10.08.09 to 14.08.09	91.80	86.10	89.16	329685

- b) The market price of the Equity Shares of the bank as on May 14, 2009, the date on which the resolution of the Board of Directors approving the Issue was passed was Rs. 80.03 on NSE.
- c) The closing price of the Equity Shares of the Bank on May 15, 2009 (i.e. one day after the Board of Directors approved the Rights Issue) was Rs. 79.30 on NSE.
- d) The Equity Shares of the Bank were in no delivery period from [•] to [•]
- e) The cum-rights closing price of the shares of the Bank as on [•] was Rs. [•] on NSE.
- f) The ex-rights closing price of the shares of the Bank as on [•] was Rs. [•] on NSE.

LICENSES AND APPROVALS

On the basis of the indicative list of approvals provided below, we can undertake this Issue and our current business activities and no further major approvals from any government authority/RBI are required to continue these activities. All legal requirements under these licences and approvals have been complied with. It must be distinctly understood that, in granting these licenses, the GoI and/or the RBI does not take any responsibility for our financial soundness or for the correctness of any of the statements made or opinions expressed in this behalf.

Approvals for the Issue

1. In-principle approval from the National Stock Exchange of India Limited dated [•].

The Bank has obtained the following approvals/licenses/permissions:

1. Reserve Bank of India has issued Banking License No. mad/15 dated June 19, 1958 under section 22(1) of the Banking Companies Act, 1949, to the Bank to enable it to carry on banking business in India.
2. RBI notification No.DBO.46/Incl.C.102/58 dated August 11, 1958 whereby the Bank was included in the second schedule to the RBI Act 1934.
3. Permissions under Sec. 23 of the Banking Regulation Act, 1949 (10 of 1949) issued by the Department of Banking Operations and Development, Reserve Bank of India to operate 251 Branches and 5 Extension Counters under the categories Metro, Urban, Semi Urban and Rural together with Extra Large, Very Large, Medium and Small.
4. General Permission under Sec. 23 of the Banking Regulation Act, 1949 vide Circular No. DBOD No. BP.BC. 152/21.03.051-94 dated 29.12.1994 issued by the Department of Banking Operations & Development, Reserve Bank of India, wherein the Bank is generally permitted to install on site Automated Teller Machines at branches which have been licensed by the Reserve Bank of India.
5. Circular No. DBOD.No.BL.BC.137/22.01.001/2008-09 by RBI permitting all Sceduled Commercial Banks to install off-site ATMs at cenres /places identified by them, without having the need to take permission from the Reserve Bank in each case.
6. Letter issued by the RBI, number DBOD.No.3085/08.94.004/2007-08 under section 35B of the Banking Regulation Act, 1949, dated September 20, 2007 for appointment of Mr. V. S. Reddy as Managing Director / chief executive officer of the Bank for a period of 2 years from the date of taking charge.
7. Letter issued by the RBI, number DBOD.No.11129/08.44.001/2008-09 under section 10B (1A) of the Banking Regulation Act, 1949, dated January 9, 2009 for appointment of Dr. S. Narayan as Part time Chairman and Non Executive Chairman of the Bank for a period of 2 years .
8. Permanent Account Number AA ACT4291P
9. Tax deduction Account CHET 04639F
10. Certificate of registration with Central Excise Deptment for collecting Service Tax was granted with Registration No. AA ACT 4291 P ST 001 dated October 13, 2004.
11. Certificate of Registration issued by the the Commercial Tax Officer, Karur East for registration as a dealer under the Tamil Nadu Tax Act, 2006 with Tax Payer's Identification Number (TIN) 33623764951 with effect from January 1, 2007
12. The Bank was granted renewal of licnese No 1 – A, to deal in foreign exchange on permanent basis vide its letter dated June 26, 1997.

13. The Bank holds licence no. 888603 issued on November 24, 2008 issued by the Insurance Regulatory & Development Authority (IRDA) to act as a corporate agent for a period of three years from December 4, 2008 for procuring or soliciting insurance business of both life insurance and general insurance.
14. The Bank is enrolled as AMFI Registered Mutual Fund Advisor and has been assigned AMFI Registration No ARN – 20626 vide certification of registration dated July 1, 2004
15. The Bank holds a certificate of registration as a banker to an issue bearing registration number INBI00000057. The certificate has been issued on December 22, 2006 and is valid till November 30, 2009.

Licenses applied for and not granted:

We have never been denied any license by RBI or any other regulatory authority.

LEGAL AND OTHER INFORMATION

Except as described below, there are no outstanding litigations, suits or criminal or civil prosecutions, proceedings or tax liabilities against our Bank, its Directors, its promoters or companies/firms promoted by its promoters that would have a material adverse affect on our business and there are no defaults, non payment or overdues of statutory dues, Institutional/bank dues and dues payable to holders of any debentures, bonds and fixed deposits that would have a material adverse effect on the Bank's business.

Litigation against The Lakshmi Vilas Bank Limited

Litigation involving Criminal Offences: Nil

Litigation involving Securities Related Offences: Nil

LEGAL AND OTHER INFORMATION OUTSTANDING LITIGATIONS AGAINST THE BANK

LITIGATION INVOLVING CIVIL CASES AGAINST THE BANK ON FRAUD COMMITTED BY THIRD PARTIES.

Sr. No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh	Nature of claim made against the Bank
1.	Complaint (Complaint No.980/2003) dated 09-01-2004	Complainant - M/s.Rakesh Chawla Respondent Lakshmi Vilas Bank & Others.	Karolbagh	1.70	Proprietor of M/s. Link International, having Current Account No. 10277 with the bank's Karolbagh Branch, New Delhi, enquired about the balance in his account. When further enquiring about a cheque for Rs.1.70 Lacs claimed to have been deposited by his employee on 01.07.2003 the branch could not locate the same. However, after verification it was found that the said cheque was paid by means of cash at Bank of Punjab, Karolbagh Branch by canceling the crossing and also affixing the stamp of the drawer (in the stamp, the name of the drawer has been wrongly spelt as 'Fair Textaile Trading' instead of 'Fair Textile Trading'. FIR lodged with Karolbagh Police Station on 03.07.2003 by the customer M/s. Link International. They have claimed the amount from the Bank by issuing lawyer's notice. The branch has suitably issued reply to lawyer's notice. The party has filed a suit against the Bank at District Consumer Disputes Redressal Forum at ISBT, New Delhi. The Court on 19.05.2008 has adjourned the matter sine die.



2	No Suit	Sri Sathanarayana Barik Complaint dated 09-03-1997	Habsiguda	0.15	Habsiguda –Rs.15,000/-Police Complaint lodged against the Customer viz.Sri Sathanarayanan Barik on 09.03.1997 by the Bank. The police have closed the file on 18.10.1997 for the reason "Undetected". The total amount involved Rs.30,100/- (comprising UTI dividend warrant for Rs.15,100/- and two SBI instruments for Rs.7,500/- each). UTI has claimed the amount of Rs.15,100/- which was paid by the Bank on 07.05.2003. No claim received so far from State Bank of India.
3	No Suit filed.	FIR with Devaraja Police Station, Mysore on 27-03-2002.	Mysore	5.00	On 18.10.2001 a current a/c was opened with the Mysore branch by 4 persons in the name of M/s. Wilson Distilleries P Ltd, Mysore. On 19.10.2001, they deposited with the branch a DD for Rs.5,00,000/- drawn on Canara Bank, Mysore for Collection. The DD was collected by the branch through local clearing. The amount was withdrawn by the account holders by four cheques within 23/10/2001. Subsequently there was no operation in the current account. On 14/02/2002, the branch received a letter supposed to have been issued by the Mysore branch office of M/s.Wilson Distilleries P Ltd, stating that the DD was encashed by the unauthorized persons and Bank should refund the amount to the authorized persons of the company. But there was no other claim from the company. The branch has filed a complaint with Police on 27.03.2002. The police investigation is under progress.
4	Police Complaint lodged with Theni Police Station FIR No.312/97 dated 10-05-1997. No Suit filed.	L. Krishnamoorthy	Theni	0.34	The Theni branch opened a SB account No.85 on 22.01.94 in the name of L.Krishnamoorthy and through local clearing on 27.01.94 collected a redemption warrant of UTI for Rs.33,547-50 issued in favour of L.Krishnamoorthy. The

					<p>redemption warrants were payable at par at all branches of SBI. On 27.09.96 the branch received a letter from one Sri Raghunath from Mysore, claimed to be the legal heir of L.Krishnamoorthy deceased. He claimed that the branch had collected the redemption warrant to a person not entitled to it. UTI also wrote a letter to the branch and asked for details. It was alleged that some impostor had fraudulently encashed the amount by opening an SB account in the name of Late Krishnamoorthy.</p> <p>The branch filed a police complaint on 04.12.96. Sri Raghunath issued a legal notice to the bank on 24.03.97. The branch sent a reply notice on 02.05.97. He also lodged a complaint with police on 08.11.97 on which there is no development.</p> <p>Subsequently there is no claim received from either UTI or from the legal heir. On 22.01.99 the branch has informed that the fraudster was not traceable by the police. As the collecting banker, LVB has not sustained any loss.</p>
5	Jalahalli Police Station complaint dated 12-05-1995	Shri.Virendra Singh	Jalahalli	0.21	<p>A redemption warrant dt.30/6/93 issued by SBI Mutual Fund for Rs.20,520/- in favour of Virendra Singh drawn on SBI payable at par at all branches was fraudulently encashed at the Jalahalli branch on 5/10/93 through an a/c opened in the name of Virendra Singh, who was properly introduced to the Bank. SBI Mutual Fund contended in their letter dated 14.06.96 that the branch paid the amount to a wrong person and claimed the amount from the branch. The branch has replied that the instrument was collected to the customer in good faith and without negligence and hence not liable to pay. On enquiry about the present status of the</p>

					case, the branch in its letter dated 07.11.2000 informed that there is no further claim from SBI Mutual fund or from the beneficiary. There is no police complaint against the bank. As collecting banker LVB has not sustained any loss.
6	No Suit filed.	Complaint filed with II Town Police Station, Chittoor. FIR No.38/95 dated 04-04-1995.	Chittoor	0.26	<p>Fraudulent encashment of redemption warrant A redemption warrant dt.2/9/93 for Rs.25,780/- issued by National Thermal Power Corpn. Ltd., New Delhi, favouring Srinivasan Murali drawn on PNB, Parliament Street branch, New Delhi payable at par at all branches of PNB. The warrant was collected by the Chittoor branch to the credit of SB account No.2259 opened in the name of Srinivasan Murali and the amount was withdrawn by him. NTPC has informed the Chittoor branch that the redemption warrant was collected to an impostor and not to the genuine beneficiary.</p> <p>The Chittoor branch of the Bank has filed a complaint with police on 04.04.1995 against the account holder Sri Srinivasa Murali and his whereabouts is not known. The NTPC in its letter dated 23.09.1994 requested the branch to stop further operation in the account and called for the particulars of the account. Subsequent to that there is no further claim from NTPC. The branch in its letter dated 17.11.2000 has informed that the police authorities in their letter CR/38/95 dated 31.01.1996 informed the branch that the case was not detectable. As a collecting banker LVB has not sustained any loss..</p>
7	Criminal Complaint lodged with the Inspector of Police, Central Crime Branch X, Egmore, Chennai - 8, Crime	Complaint of A.V. Alwar against A. Arumugam	Nungambakkam	0.49	SB fraudulent encashment It has been reported that the Nungambakkam branch of the Bank opened a SB A/c. No.2778 in name of A.V.Alwar on 06.12.93. Smt. Anupama Agarwal an account holder of Indian Bank who was a tenant

	Branch No.383/96 No suit filed				<p>of A.V.Alwar issued 18 cheques each for Rs.2700/- in favour of A.V.Alwar. These cheques were alleged to have been encashed through the Nungambakkam branch of the Bank by opening a fictitious account in the name of Mr.A.V.Alwar during the period from 07.01.93 to 24.05.96. The drawer of the cheque had filed a complaint with police and investigation is pending without any progress. As a collecting banker the Bank has not sustained any loss.</p> <p>The branch in its letter dated 22.11.2000 reported that the police authorities have informed that the accused is not alive and that the case will be referred to the Court and will inform the branch at the appropriate time..</p>
8	Suit filed at City Civil Court, Bangalore claiming for Rs. 10.00 Lakh + Interest under OS No. 10634/ 1995.	United Western Bank	City Market - Bangalore	10.00	<p>On 13.06.1994, two persons reportedly from United Western Bank Ltd., Gandhi Nagar Branch, approached the Bangalore Main Branch of the Bank, along with a pay order for Rs. 10.00 lakhs favouring the Bank along with a covering letter and demanded cash, as per the practice in vogue then. As the Branch did not have enough cash, they directed them to City Market Branch, Bangalore and the Branch effected payment against the pay order. The pay order was sent for collection through clearing on 13.06.1994 itself and the Reserve Bank of India had credited the amount with our account.</p> <p>The United Western Bank on 14.06.1994 found that there was no instrument for Rs. 10.00 lakhs and when it was explained to them that it was due to cash payment against their pay order of Rs. 10.00 lakhs. The United Western Bank Ltd., verified their records and found that they had not issued any pay order on 13.06.1994, nor given any letter, though they belonged to</p>



					their branch and that their staff members had not received any cash. Though The United Western Bank Ltd., demanded reimbursement of the amount, the Bank did not comply to the same as they had acted in good faith. The United Western Bank Ltd., therefore has filed a suit against the Bank, Bangalore Main and City Market Branch Managers for payment of Rs. 10,00,000/-, interest of Rs.2,11,740/- and notice charges totalling to Rs. 12,12,740/- and it is pending. Apart from the suit, The United Western Bank Ltd., has also filed a compliant with Upparpet Police Station, Bangalore against theft, forgery & cheating. They are pending.
9	Case No.33/2005 (District Consumer Forum)	Shri. A. Sundararajan, Proprietor - M/s.Power & Measurement Electronics.	Hosur	2.91	Shri.A.Sundararajan, Proprietor - M/s.Power & Measurement Electronics, (Current Account No.958) has alleged that a sum of Rs. 1,46,700/- and Rs. 1,44,000/- have been fraudulently withdrawn by issuing two cheques on 30.10.2004 and 01.11.2004 respectively. While verifying the records, it was noted that one Mr.T.S.Muthuvel had withdrawn the amount from the above account. The party had already lodged police complaint. The party has taken up the matter before consumer Forum and is at the hearing stage.
10	Criminal complaint No.379/2005 against the Bank.	Filed by K.Pitchamuthu pending before the Court of Judicial Magistrate No.VI, Coimbatore	Ramanathapuram	50.05	Sri K.Pichamuthu, Proprietor of M/s.Apple Yarns, residing at Pasupathy Natesan Nagar, Ramakrishna- puram, Karur opened a Current account in the name of M/s.Apple Yarns in our Ramanathapuram, Coimbatore branch. Sri S.Ramamoorthy proprietor of three concerns viz. M/s.Karpaga Vinayaka Traders, Karpaga Vinayaka Fabrics and Karpaga Vinayaka Textiles was enjoying credit facilities of Rs.9.00 lacs, Rs.5.00 lacs and Rs.15.00 lacs respectively with our Ramanathapuram Branch. (all

				<p>the 3 accounts since closed).</p> <p>Shri. K.Pitchamuthu vide his letter dt. 15.06.1998 gave authorization to our Ramanathapuram Branch to transfer funds to Karpaga Vinayaka Group companies belonging to Shri.S.Ramamoorthy any required funds from his current account as and when needed by Shri.S.Ramamoorthy. As per this authorization letter given by Shri. K.Pitchamuthu, funds were transferred from M/s.Apple Yarns' current account to Karpaga Vinayaka group accounts and similarly, as per the authorization letter given authorized signatories of Karpaga Vinayaka group of accounts; funds were also transferred from Karpaga Vinayaka groups to M/s.Apple yarns current account. These kinds of inter-transfer of funds from one account to other and vice-versa happened for almost three and half years i.e. from Feb' 1998 upto sep 2001 with the full knowledge of both the parties.</p> <p>Suddenly, Shri. K.Pitchamuthu, proprietor of M/s.Apple yarns preferred a criminal complaint (registered under crime No.768/2002 on 09.05.2002 before the B-7 police station, Coimbatore) against the bank's staff (of the Ramanathapuram Branch) – Shri. Chandramohan (cited as Accused No.3, presently posted as Manager, Erode Branch), Mrs. Geeta Bai (cited as Accused No.4, presently posted as clerk, Gandhipuram Branch), Shri. Mahesh (cited as Accused No.5, presently posted as Manager, Thrissur Branch), Shri. Murugan (cited as Accused No.6, since dismissed) and Shri Swaminathan (cited as Accused No.7, since dismissed) along with one Shri. Ramamurthy (I Accused) and his wife Smt. Sudha</p>
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					<p>Ramamurthy (II Accused) of M/s. Karpaga Vinayagar group of accounts, alleging criminal misappropriation of funds (to the tune of Rs.50.05 lakhs) and forgery.</p> <p>The criminal case is still pending for trial before the court of Judicial Magistrate No. VI, Coimbatore under C.C.No.379/2005. Shri. Pitchamuthu also made a complaint against our Ramanathapuram Branch with Banking Ombudsman, Chennai on 09.01.2002. The Banking Ombudsman vide its letter dt. 18.10.2002 closed the matter indicating that the matter is still pending before Judicial Magistrate at Coimbatore for adjudication.</p>
	Total			71.11	

LITIGATION INVOLVING CIVIL OFFENCES AGAINST THE BANK:

I. Details of cases, suits or writs with claims of more than Rs.10 lakhs as on 31.03.2009.

S. No	Case Details	Name Of The Party	Amount Claimed (Rs. in Lakhs)	Nature Of Claim Made Against the Bank
1.	Special Leave to Appeal (Civil) No. 25440/2008	Shilpa Antibiotics Ltd, Bangalore	10.13	The bank had opened LC on behalf of the complainant; later the LC opener, the complainant advised the bank not to honour the bills drawn under the LC. However the bank had to honour its commitment under the terms of LC and made payment to the beneficiary. Aggrieved by the action of the Bank, the Complainant had preferred a Complaint before the Karnataka State Consumer Disputes Redressal Commission, Bangalore under Case No.126/02. Upon this, the State Commission had allowed the complaint in part. Challenging the impugned Orders of the State Commission, the Bank filed an Appeal before the National Consumer Disputes Redressal Commission at New Delhi under First Appeal No.254/06. The Appeal filed by the bank was allowed in favour of Bank by National Commission. Now, the complainant has filed Special Leave Petition before Supreme Court.
2.	City Civil Court, Bangalore, Case No. 10634/95	United Western Bank, Bangalore	10.00	The plaintiff received cash for its business purposes and returned the same by way of their pay order, in the normal banking practice for exchange of cash between banks. The pay order

				was also honoured by the plaintiff in clearing. The plaintiff alleged fraud stating that they had not received cash and issued any such pay order. The case is posted for defendant's evidence.
3.	High Court, Madras C.S No. 64/03	Ashok Leyland Finance Ltd., Chennai	124.30	The bank collected third party cheque as per the tenor of the instrument, after obtaining letter from the payee/original beneficiary of the instrument and made payment to the intended beneficiary. Now the drawer of the cheque, the plaintiff, alleges wrongful payment. The case is yet to be listed for trial.
4.	High Court, Madras C.S. No. 221/03	Surana & Surana, Chennai	16.80	Cheques issued by the client in favour of the Advocate - Plaintiff firm could not be honoured for want of funds in the party's account. The plaintiff claims relief against the bank also alleging that the bank had certified the instruments - "good for payment". The case is yet to be listed for trial.
5.	Banking Ombudsman, Chennai, Complaint No. 1/2005	M/s Anusha (M/s Sentinel Clothing Company), Tirupur	15.00	The Complainant has preferred the Complaint against the Bank, claiming Agency Commission due to them with regard to an L/C, wherein M/s Sentinel Clothing, one of the constituents is the beneficiary. However since the period of L/C had expired and the L/C was not negotiated within the expiry date, Bank had not acted as per the terms of L/C and the payment received from the importer was directly credited to the beneficiary's account; It is also pertinent to note that, the Complainant had agreed to receive Commission from the beneficiary directly and in fact received an amount of Rs.3.83 lakhs towards part payment. Hence suitable counter statement has been filed seeking dismissal of the Complaint. Orders are yet to be passed by the Ombudsman.
6.	State Consumer Disputes Redressal Commission, Chennai C.C No. 43/2007	Shri K.Pitchaimuthu	100.00	Shri K. Pitchamuthu, proprietor of M/s.Apple Yarns had authorised the Branch to transfer funds to one M/s Karpaga Vinayaka Group companies belonging to Shri S. Ramamoorthy, any required funds from his current account as and when needed by Shri.S.Ramamoorthy. Similarly, the other company had also authorised the Branch to transfer funds from their a/c to M/s Apple Yarns. Upon this, funds were transferred between both accounts. These kind of inter-transfer of funds happened for almost 3½ years with the full knowledge of both the



				parties. However, the complainant had alleged forgery and misappropriation of funds and has preferred the complaint. Suitable counter statement has been filed seeking dismissal of the Complaint. Matter yet to be listed for Enquiry.
7.	State Consumer Disputes Redressal Commission, Chennai. O.P No. 44/05	M/s Prakassh Exports, Karur West	43.31	The Complainant had exported certain goods to a Company in USA and submitted all the documents to the Bank and the Bank had sent the documents to the Importer for collection. Out of the total value of the exports, the Bank had collected only part amount and failed to collect the balance value of the export. On enquiry, the Bank informed the Complainant that the original documents sent for collection had been missed and some fabricated documents were returned and received by the bank. Aggrieved by the action of the bank, the Complainant has preferred the Complaint against the Bank. Case is pending for arguments.
Total			319.54	

Apart from the list of seven cases, suits or writs with claims more than Rs.10 lakhs, (litigation involving civil offences against the bank), there are 26 civil cases and complaints for claims below Rs.10 lakhs, aggregating Rs.79.14 lakhs.

Fraud cases where suits have been filed by the bank.

Mr. Rahim Khan					
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh	
1	Police complaint by the bank.	Mr.Rahim Khan	Service Branch Chennai	6.10	
Brief History					
The Bank's Vellore branch had issued the following Demand Drafts on Service Branch, Chennai :					
S.No.	DD No.	Date	Amount	Payee name	
01	562195	10.04.2006	Rs.500/-	Priya	
02	562196	10.04.2006	Rs.1000/-	Ajay Kumar	
The above demand drafts were materially altered as follows and presented for payment in High Value Clearing through UTI Bank, Dr.Radhakrishnan Salai Branch, Chennai. The drafts were materially altered in respect of the amount and name of the payee, as furnished hereunder					
S.No.	DD No.	Date	Amount	Payee Name	Presented on
01	562195	10.04.2006	Rs.2,30,000/-	Rahim Khan	11.04.2006

02	562196	10.04.2006	Rs.3,80,000/-	Rahim Khan	12.04.2006
<p>The first DD was presented in High Value Clearing by UTI Bank on 11.04.2006 and was paid under 'Ex-advice' (pending receipt of Advice from Vellore branch) by Service branch, Chennai, as the alterations were not apparently visible. Out of this, the party had withdrawn Rs.40000/- each on 11.04.2006 and 12.04.2006 through UTI Bank ATM at Arumbakkam, Chennai.</p> <p>The second DD was presented by the same branch of the UTI Bank in clearing for Rs.3,80,000/- on 12.04.2006, by when, DD protection advice from our Vellore branch had been received and therefore the manipulations came to light, which had helped the Service Branch, Chennai to return the Demand Draft to UTI Bank on reasons of "Fraudulent material alterations".</p> <p>Since the relative advice of the demand draft issued by the Vellore branch on 10.04.2006 for Rs.500/- was not received on 11.04.2006 at Service branch, Chennai, the branch had honoured the altered draft without knowing the fraudulent transaction. In respect of this materially altered demand draft for which the Service Branch had paid the proceeds to UTI Bank, at our Bank's request, the UTI Bank had frozen the party's account with them, without allowing any further operations including that of withdrawal through ATM.</p> <p>Rs.1.50 lakh have been recovered and kept under sundries account. The insurance claim has been lodged.</p> <p>The police complaint had been lodged (FIR No.326/2006 dt.14.04.2006) and the hearing of case is posted to 25.08.2009.</p>					
Mr. Dharamvir					
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh	
2	Police complaint by the bank.	Mr. Dharamvir	Nagpur	Rs.4.92	
Brief History					
<p>Demand Draft No.162228 dated 10.07.2006 originally issued by our Andheri branch for Rs.500/- favouring Yogesh Sawant payable at Pune was materially altered for Rs.4,92,000/- favouring DHARAMVIR and made payable at our Nagpur Branch. This DD was deposited by the culprit DHARAMVIR for the credit of his Savings Account maintained by him at Bank of India, Vikaspuri Branch, New Delhi. The Vikaspuri, Delhi Branch of Bank of India had forwarded the same for collection to our Branch through their Nagpur Branch. On collection, the proceeds were credited to the SB Account of Dharamvir by Bank of India on 19.07.2006. As the material alteration made in the Demand Draft was not visible, the DD was paid by our Nagpur Branch in due course.</p> <p>The culprit had materially altered the second DD (as referred in the table above) for Rs.5,98,860/- favouring himself (Dharamvir) and deposited the same at Bank of India, Vikaspuri Branch, New Delhi and presented in clearing on 25.07.2006. But our Nagpur Branch on getting some doubt, as the value of this draft was large and this draft had been presented in quick succession, made enquiries with Andheri Branch and found that no such DD was issued on Nagpur Branch. Then Draft was returned to Bank of India unpaid.</p> <p>By now, the Nagpur Branch having come across the fraudulent transaction had verified the drafts passed for payment on 19.07.2006. They came to know about the material alteration of the first Draft referred to above by the culprit DHARAMVIR, and reported to the police authorities on the same day itself i.e., 25.07.2006. FIR has been filed on 26.07.2006 and police investigation is under way (FIR No.203/06 dt.26.07.2006.) The insurance claim is already lodged.</p>					
M/s. R.J.Agr Source					
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh	
3	DRT case filed by the Bank	M/s. R.J.Agr Source	Bangalore Main branch	3791.62	
Brief History					

The borrower M/s. R. J. Agri Source is a partnership firm with two partners, viz., Sri Jeevanand Kini and Sri. Rajesh Pai. The firm was established on 19.04.2006 as per the registered partnership deed. The firm had applied for goods loan against warehouse receipts and the Bank had sanctioned such a loan for Rs.40Crores against primary and collateral securities as agreed upon by the firm. The Credit facilities sanctioned were disbursed during July and November 2006 (Rs.20 Cr. Each) and it was found subsequently that the borrower had cheated the bank in respect of the securities offered.

While the borrower had stored the specified goods in the warehouse they had furnished to the bank falsified warehouse receipts. The officials of the branch did not verify lien registration in favour of the Bank in the books of the warehouse godown. The warehouse keeper had misinformed the branch officials that the registration of lien in favour of the bank is carried out only in their regional office of the central Warehouse Corporation. The borrower had brought a letter purported to have been issued by the Regional Office of the Central Warehouse Corporation for having registered the lien in their books. Later on, when the genuineness of the certificate verified, it came to light that the certificate was also fabricated by the borrower.

1. The borrower had stored wheat at the Central Warehousing Corporation (CWC) godowns in three different locations in Bangalore relating to which the lien was marked in favour of a lender at Delhi.
2. At the time of borrowing from our bank, the borrower had furnished warehouse receipts wherein the lien in favour of The Lakshmi Vilas Bank Ltd (LVB) was already marked.
3. The branch officials / concurrent auditors / inspector of branches who had carried out stock verification reported that at the time of inspection on two occasions they were made to believe that the goods were under lien to the LVB.
4. Within a couple of days the borrower had produced a letter from Regional office of CWC reporting that for the goods referred to in that letter were lien marked in favour of LVB.
5. During the first week of December 2006 when doubts were raised as to the genuineness of transactions coupled with the information that the borrower had raised loans in two or three banks against the same properties, our Bank had verified the genuineness of the warehouse receipts and the collateral security. The warehouse keeper has denied having any stock of wheat under lien to LVB and that the warehouse receipts held by the bank were fabricated one.
6. The commercial flats located at residency road, Bangalore of the partners were offered as collateral securities to the bank. Both the partners had committed suicide.
7. We also came to know that the borrowers in the name of their sister concerns had availed facilities with other banks such as Indian Overseas Bank, Karnataka Bank etc. and we are trying to find out whether there are common securities lodged with all the banks by fabricating title deeds and connected documents.

Branch Manager, Inspecting officer and Concurrent Auditor did not carry out actual physical verification of the goods stored and charged to the Bank before, during or after disbursement of the loan. Also at the time of disbursement of enhanced part of the Loan on 23rd and 24th November 2006, Branch had neither verified the stocks in the Warehouse nor obtained the confirmation of Registration of Lien.

DETAILS OF PENDING CASES OF CIVIL NATURE:

DRT, BANGALORE, O.A No.49/2007: Recovery Application was filed by our Bank on 20.02.2007 claiming a sum of Rs.3828.88 lakhs with future interest at 13.50% p.a. The matter is posted for 20.07.2009 for passing of Final Orders. In this Recovery Application, the bank had filed three Interim Applications, the status of which is given hereunder:

- i) I.A No.1099/2007, seeking impleadment of M/s Vijaya Bank as a defendant and claiming a refund of Rs.17.75 crores, siphoned off from and out of the subject loan proceeds. The said I.A was dismissed by DRT on 02.03.2009. Aggrieved by the order, the Bank has filed an Appeal before DRAT, Chennai under S.R. No.451/2009 and the Appeal is still pending before DRAT. DRT, Bangalore has already been advised in this regard through our Panel Advocate.
- ii) I.A No.1100/2007, seeking attachment of nine items of properties (not secured to us, however reportedly secured to other banks) situated in various places in the States of Goa, Karnataka and Tamilnadu and belonging to the Group Concerns of M/s R.J.Aagri Source, wherein late Jeevanand Kini and Rajesh Pai (the deceased Partners of our borrower Firm), were the Partners / Directors. DRT has since passed orders in this I.A.

- iii) I.A No.679/2007, seeking Garnishee Order against one M/s Cargill India Private Ltd., for an amount of Rs.344.34 lakhs (the amount was due to be paid by M/s Cargil India Private Ltd. to M/s R.J.Agro Industries Pvt. Ltd., a sister concern of our borrower; M/s R.J.Agro Industries Pvt. Ltd. had executed an Assignment Deed in favour of our Bank, based upon which we had made our claim against M/s Cargil India Private Ltd). However, this Application was dismissed by DRT on 16.05.2007, as not maintainable.
- Aggrieved by the said order passed by DRT, the bank had filed an Appeal under M.A. No.82/2007 before the Hon'ble Debts Recovery Appellate Tribunal at Chennai. The DRAT vide its Order dated 08.06.2007 in I.A No.506/2007 in the said M.A, had issued an Interim Order for attachment of Rs.344.34 lakhs in the hands of M/s Cargil India Private Ltd., with a direction to them to send the amount to the Bank; and the Bank shall keep the amount in interest earning 'No Lien Account' until further Orders. However, the Company did not comply the Orders and had obtained stay from the High Court.
 - Aggrieved by the above Interim Order passed by DRAT, Chennai, the Company (M/s Cargil India Private Ltd.) filed a Writ Petition before High Court, Bangalore under W.P No.9285/2007; and the High Court, upon motion has directed the Writ Petitioner to adjudicate the issues before the DRAT and meanwhile granted stay of the Interim Order passed by DRAT, Chennai.
 - Meanwhile, the aforesaid Company (M/s Cargil India Private Ltd.) had filed an Inter-pleader Suit against our Bank and M/s Indian Overseas Bank under O.S No.25862/2007 before City Civil Court, Bangalore, praying for permission to deposit an amount of Rs.385.50 lakhs and a complete discharge from all liability in relation to the above money. In this suit, our Bank had filed an Interim Application requesting the court to direct the company to deposit the suit amount with our bank until the suit is decided. On this I.A, the Court has passed Orders on 15.07.2008 directing M/s Cargil India Private Ltd. to deposit the amount in an 'Interest Bearing No-Lien A/c' with our Bank. **Accordingly, the company has deposited the amount with our Bangalore Main Branch in an 'Interest Bearing No-Lien A/c'**. This case is posted on 25.07.2009 for commencement of trial.
 - The DRAT, Chennai, upon perusing the Memo filed by M/s Cargil India Private Ltd. regarding the deposit of the suit amount of Rs.385.50 lakhs with our bank and the pendency of the Inter-pleader Suit before City Civil Court, Bangalore, vide its order dated 11.08.2008 had opined that the said Civil Court is the competent authority to decide the issue involved in the suit and hence dismissed the said M.A. No.82/2007 as in fructuous.

In brief, we state that the following cases are pending, arising out of our recovery claims.

- a) Recovery Application filed by our Bank before DRT, Bangalore under O.A No.49/2007, which is posted on 20.07.2009 for passing of Final Order.
- b) Appeal before DRAT, Chennai under S.R. No.451/2009 filed by our Bank against the order passed by DRT, Bangalore dismissing our Petition filed for impleading M/s Vijaya Bank. This Appeal is yet to be listed for hearing.
- c) Inter-pleader Suit filed by M/s Cargil India Private Ltd. against our Bank and M/s Indian Overseas Bank under O.S No.25862/2007 before City Civil Court, Bangalore. This case is posted on 25.07.2009 for commencement of trial.

CIVIL SUIT AT CITY CIVIL COURT, BANGALORE:

Suit filed by M/s HMG Ambassador Property Management Private Ltd. & two others under O.S No.487/2007, City Civil Court, Bangalore seeking permanent injunction restraining the defendants from interfering with the Plaintiffs peaceful possession of the suit property. In this suit, our bank has been impleaded as defendant No.6 and M/s Indian Overseas Bank and M/s Vijaya Bank have been impleaded as defendants Nos. 5 & 7 respectively. M/s HMG Ambassador Property Private Ltd. has claimed that they are the rightful owners of the suit property (the 7th & 8th Floors of the Commercial Office building "HMG Ambassador" at 137, Residency Road, Bangalore) and the alleged sale deeds through which the banks claim mortgage rights are bogus and fabricated and hence the sale deeds are to be declared as null and void. This case stands posted on 03.10.2009 for framing of Issues.

DETAILS OF PENDING CRIMINAL CASES:

IV: CRIMINAL COMPLAINT NO.9/2007 FILED BY US IN KARNATAKA POLICE (FRAUD SQUAD – COD) UPPARPET POLICE STATION:

In the Criminal Complaint preferred by our Bank before the Upparpet Police, Bangalore City (Cr. No.9/2007), investigation is still being carried out by the Karnataka Police (Fraud Squad – COD), and we are awaiting the filing of



the Charge Sheet / Final Report.

V: CBI CASE NO. RC(E)/2008 FILED BY IOB:

Apart from our criminal complaint, a separate complaint has been lodged by M/s Indian Overseas Bank before the Central Bureau of Investigation, BS&FC, Bangalore under Case No.RC(E)/2008, where also the investigation is still pending.

The departmental enquiry has since been completed and the Sr.GM had been dismissed from the services of the Bank. The inspecting official had been discharged from the service. The enquiry against the other delinquent officials is in its final stages.

The present outstanding in the account is Rs.3737.45 lakhs out of which Rs.3393.45 lakhs is technically written off, and we are holding a provision of Rs.344 lakhs. The insurance claim is already lodged.

Mr. Kondalarao

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
4	Police case	Mr. Kondalarao	Malkajgiri	31.50

Brief History

A fraudster has impersonated as Mr.Samson Sanjeeva Rao, owner of 773 sq. yards land in Malkajgiri. One Mr.Kondala Rao had introduced himself as the builder of the flats on the lands belonging to Mr.Samson Sanjeeva Rao. Mr.Kondala Rao had introduced 7 persons and recommended Housing loan for them. 5 of them were reported as employed in South Central Railway and remaining 2 of them were reported as employed in Nuclear Fuel Complex, Hyderabad. These 7 people had submitted forged salary certificates.

Our Divisional office, Hyderabad, at the recommendation of our Malkajgiri branch had sanctioned Housing Loans of Rs.4.50 lakhs each to the 7 applicants. The loan proceeds and the margin money etc., were credited to the accounts of the builder and the promoter. The sale deeds were executed by a person impersonating Mr.Samson Sanjeeva Rao in favour of the Borrowers. Equitable Mortgage was created with the sale deeds.

The borrowers did not occupy the flats, as it unfolded that these persons were hired by Sri.Kondal Rao to execute loan documents with the Bank for availing the Housing loans. The borrowers had executed the loan documents with the bank for monetary considerations agreed with Sri.Kondal Rao. Further it came to light that the land and flat property were subject of prior mortgage to a co-operative bank and the bank had obtained a court decree for recovery of their dues. The person who had acted as promoter as also property owner i.e., Mr.Samson Sanjeeva Rao had submitted a Xerox copy of sale deed only as his title deed. He did not submit the original sale deed (Title deed for the 773 sq. yards of land).

Thus, the borrowers did not acquire any title over the flats. The equitable mortgages created by them were nullified. Out of the Seven Housing loans One loan account was closed and repayments were made for a few months in the other accounts. All these repayments were made by Mr. Kondala Rao and not by the borrowers.

The insurance claim had been lodged and the police investigation on branch complaints is still pending (FIR No.392/2007 dt.10.07.2007). The case is posted on 27.07.2009 for trial. Another case under No.RC 32(A)/2005 – CBI ,Anti-Corruption branch, Koti Hyderabad is also pending in respect of the above party.

Mr.R.Muralidharan

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
5	--	Mr. R.Muralidharan	Jayanagar, Bangalore	1.08

Brief History

It is reported that certain irregularities were observed in the Staff Clean Over Draft (SCOD) account of Mr. Muralidharan, Support cell officer, D.O. Bangalore (Staff) at our Jayanagar branch.

Mr.R.Muralidharan, Support Cell officer of Bangalore Divisional Office, misappropriated the clearing proceeds of one of the customers of Jayanagar Branch, for deriving personal benefit through the back end of the computer system. The detail of the fraud perpetrated is given hereunder.

The customer, whose account was manipulated, complained that the clearing credit of his account was missing. An equivalent amount of credit found in the official's account on the same date lead to suspicion and the fraud came to light.

On verification of the database it was found that the official had diverted the outward clearing proceeds of three cheques, pertaining to a customer to the credit of his personal account. The details of the transactions are as follows.

S.No	Cheque Particular			Date of lodgment of clearing cheque	Date on which clearing proceeds were credited
	No	Date	Amount Rs.		
1	336884	16.10.06	39810.00	28.10.2006	30.10.2006
2	820566	31.10.06	33709.00	04.11.2006	06.11.2006
3	845927	09.11.06	34900.00	11.11.2006	13.11.2006
	TOTAL		108419.00		

The staff had reduced a sum of Rs.39810/- (NO 1 above) from the uncleared balance pertaining to the customer, by altering the process flag from the backend to ensure that the amount which would otherwise get credited to the account of the customer was not credited to the customer's account. An entry for equivalent amount was created in favour of the official's account.

In terms of the facts as informed by the Branch Manager, it is understood that the customer on a later date complained about the absence of credit entry pertaining to the instrument in his account statement. Mr.Muralidharan(official) then inserted an entry in the account statement using "Rebuildhist.exe" (This program is used to insert an entry in account statement). The balance has been re-arrived on 5-11-06. On the same day itself the official had reduced the uncleared balance of the customer by Rs.73519/- (Rs.39810/- + Rs.33709/-). The official inserted an entry in the account statement of the customer for Rs.33709/-, but the balance in the master table was not altered. The official had also inserted an entry in his account statement to reflect a credit entry.

Similarly the official on 13-11-2006 diverted an amount of Rs.34900/- to his account.

The concerned officer has been dismissed from service and the insurance claim had been lodged.

Mr.K.Sethumadhavan

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
6	Police complaint by the bank.	Mr. Sethumadhavan	Indore	1.46

Brief History

Mr.K.Sethumadhavan, officer, was in the habit of transferring money from various customers' accounts to the credit of his account for deriving personal benefits. This kind of misappropriation of funds was carried out between 04.06.2005 and 19.04.2006 totaling to Rs.1,46,260/-. The transfers were carried out without cheques / written authorization of the customers and hence amount to unauthorized debits. The official had prepared internal vouchers for a few transfers amounting to Rs.32,230/-, while for the rest of the transfers, he had not prepared any vouchers.

It is ascertained from the investigation report that Mr.K.Sethumadhavan had posted the transfer vouchers under officer's password and authorized them under his Manager's password. He had created and used multiple user Ids with different job roles namely Administrator, Manager, Officer and Teller, whereas a user can have single user ID at their role (Manager, Officer or Teller).

The computer system in vogue in the branch has a validation check and it will not allow voucher posting and authorization by the same user, as maker and checker of the vouchers should be of different persons.

Mr.K.Sethumadhavan has circumvented this requirement of security by using different user Ids.

'Particulars' column of vouchers were either left blank or filled in with the words 'By cash', notwithstanding the fact that these entries were transferred from Current /CC / OD accounts. The words 'By cash' have been wantonly fed by



the official to mislead others and to avert immediate suspicion / detection.

The total amount of misappropriation through such irregular transfers made is Rs.1,46,260/-.

The police complaint and the insurance claim had been lodged. The concerned employee is now dismissed.

Mr. Kumudesh

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
7	Police complaint by the bank.	Mr. Kumudesh	Koramangala	2.78

Brief History

Upon receipt of a complaint from a Savings Bank Account holder, it came to light that 15 ATM cards along with Pin Mailers, kept for issuance to the respective account holders were missing. An amount of Rs.2,77,900/- was fraudulently withdrawn from the ATM machine through these 15 ATM cards. The security-in-charge of the ATM machine is the prime suspect. His whereabouts are not known since 07.05.2005. A police complaint was lodged and FIR was registered on 06.06.2005.

Mr.G.Ramachandran

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
8	Police case	Mr. G. Ramachandran	Vishakapattanam – EC	2.72

Brief History

Extension Counter of Vishakapatnam Branch had issued duplicate deposit receipt on 28.04.2004 for 7 accounts without any request/authority from the depositor. EC had renewed and consolidated the already matured above 7 FD accounts (ODFD) and issued single deposit receipt on 06.05.2004. On the same day the OIC had extended a deposit loan for Rs.2.00 Lakh in the name of Shri. Mukesh Kumar Sarma and except him no clerk/cashier was present at EC on that day. Though the depositor is having a savings bank account with EC, the said loan was authorized for cash payment and without the depositor's signature in the voucher. On 26.07.2005 the said loan was adjusted with the maturity amount of the deposit and for the balance amount a pay order was issued and authorized for cash payment by the OIC without the payee's/depositor's signature/authority.

On 26.12.2004, OIC prepared a deposit loan voucher and authorized for cash payment without the signature of the depositor for Rs.1.80 Lakh. He prepared the loan voucher in the name of M. Kumar Sarma but loan account was opened in ledger (manual) as Shri. I.B. Acharya. On the said date, no deposit in the name of M. Kumar Sarma/Mukesh Sarma/M.K. Sarma was existing in the books of EC (Deposit module computerized). On the same day OIC prepared a credit (cash) voucher for Rs.1,76,656/- and credited to the savings account of Mr. Mukesh Kumar Sarma (in the name of the depositor as noted in para 1).

On 15.04.2005, EC closed the above deposit loan in the name of Shri. I.B. Acharya and a new loan account in the name of Shri. G. Subbarao was opened without the concerned vouchers.

On 09.07.2005, the OIC had withdrawn Rs.2.00 Lakh from his savings account and adjusted Rs.1,83,252/- towards the closure of the above deposit loan account in the name of Shri. G. Subbarao. The said credit cash voucher was prepared by OIC and the said voucher did not bear the signature of the remitter. Branch issued a pay order to Mr. Kondal Rao and Ms. G. Anupama for Rs.13,589/- respectively, being the balance amount after adjusting the matured deposit amount towards deposit loan accounts. The said pay orders were prepared and authorized for cash payment by the OIC. The depositors beneficiaries are disputing the receipt of the balance amount and also the signature(s) found in the pay orders.

On 26.04.2005, OIC has prepared a debit cash voucher and authorized for cash payment for Rs.15,000/- to the debit of current account in the name of M/s.Lakshmi Bharathi Stationery without account holder's authority/confirmation cheque. On enquiry the cashier who attended cash section on that day informed that the said payment was adjusted towards a mail transfer voucher prepared by OIC for Rs.15,000/- to the credit of Shri. A. Thirumoorthulu, Sub-Staff of our Secunderabad Branch. The concerned officer had been dismissed. The insurance claim had been lodged.

The police complaint had been lodged (FIR No.214/2005 dt.03.12.2005) and the final investigation report is pending. The case is on the trial of Honorable CMM Court of Vishakapatnam under CC 433/06 dt.02.04.2005.

Mr.Sivaprakasam

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh																		
9	Police case	Mr. Sivaprakasam	Palakad	2.26																		
Brief History																						
<p>The jewels were appraised by Commission Basis Appraiser and based on his certificate jewel loans were extended by the branch officials. Mr.R.Sivaprakasam, who was the Commission Basis Appraiser of Palakkad branch since 19.06.2003 had appraised the jewels. The regular re-appraising of jewels at our Palakkad branch was taken up by Mr. E.K. Jayaraj (Commission Basis Appraiser attached to our Kozhicode Branch) between 02.12.2005 and 12.12.2005. During the re-appraisal it was found that 36 jewel loans to the tune of Rs.2.26 Lakh were extended against spurious jewels. It was informed by the branch that so far they had received Rs.0.19 Lakh from the borrower/ appraiser.</p> <p>Branch filed a complaint with police authorities in this regard (FIR No.499/05 dt.12.12.2006) and final investigation report has been received. Insurance claim had been lodged. Provision has been made for Rs.2.07 lacs.</p>																						
M/s.Goodwill Enterprises & its groups																						
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh																		
10	Police case	M/s.Goodwill Enterprises & its groups	Mount Road	14.90																		
Brief History																						
<p>M/s. Goodwill Enterprises was granted a Cash Credit facility for Rs.5.00 lacs on 12.08.1999 against hypothecation of stocks and collateral security of immovable property belonging to a third party. EM was created on 13.08.1999. This facility was enhanced to Rs.9.00 lacs in March 2000. Subsequently, SOD facility of Rs.5.00 lacs against the security of the same property was extended to the sister concern M/s.Goodwill Hardwares. The balance outstanding in the two accounts are:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">M/s. Goodwill Enterprises</td> <td style="width: 10%; text-align: right;">Rs. 9,90,044.00</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>M/s. Goodwill Hardwares</td> <td style="text-align: right;">Rs. 4,99,827.00</td> <td style="text-align: center;">-----</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;">Total</td> <td></td> <td style="text-align: right;">Rs. 14,89,871.00</td> <td style="text-align: center;">-----</td> <td></td> <td></td> </tr> </table> <p>Police complaint lodged on 29.03.2003. We have reported the case to RBI on 11.02.2003. There is no further development. The provision had been made for Rs. 13.45 lacs as a party had remitted some amount.</p>					M/s. Goodwill Enterprises	Rs. 9,90,044.00					M/s. Goodwill Hardwares	Rs. 4,99,827.00	-----				Total		Rs. 14,89,871.00	-----		
M/s. Goodwill Enterprises	Rs. 9,90,044.00																					
M/s. Goodwill Hardwares	Rs. 4,99,827.00	-----																				
Total		Rs. 14,89,871.00	-----																			
M/s. Shanthi Computers																						
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh																		
11	Police case	M/s. Shanthi Computers	Mount Road	42.55																		
Brief History																						
<p>The branch had extended credit facilities viz OCC, ILC and CCBD to the proprietary concern M/s.Shanthi Computers. The limits were availed by the borrower on 29-01-2001. A commercial complex building situated in Chennai valued at Rs.150 lacs belonging to a third party was taken as security and EM was created. The loan became irregular and a letter sent to the guarantor returned undelivered. Later, it was found that the security was already sold on 10-11-1994. EM was created with the documents, which were withheld by him. EC produced was fabricated. Complaint was lodged with the police 08.05.2002 and this as registered under FIR No.374/2002 dt. 09.05.2002) No further developments. The insurance claim was lodged.</p>																						
M/s. Supra Ceramics																						
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh																		
12	Police case	M/s. Supra Ceramics	Cathedral Road	7.08																		

**Brief History**

The firm was sanctioned OCC facility for Rs.9.00 lakhs on 12-04-2002. The account slipped to NPA. There was no operation in the account. Stocks were removed and sold without the knowledge of the Bank. The branch, while verifying the title deeds for re-valuation came to know that the borrower had fabricated the title deed and the sale price of the land was altered in the sale deed to inflate the value. The chitta adangal and other documents were bogus. Thus the borrower had cheated the Bank. The technical write off amount is Rs.5.75 lacs. The Insurance claim has been rejected as no staff was involved in the fraud. FIR is registered under No.356/2003 dt. 06.05.2003. A suit was filed against the borrower under reference No.240/2004 dt. 16.04.2003.

Mr.Nallasivam & Others

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
13	Police case	Mr.Nallasivam & Others	Unjalur	13.45

Brief History

Five goods loans were extended for Rs.8.66 lacs against the pledge of turmeric on 20-04-2000. As the loan was not repaid, accounts were recalled and legal notices were issued to borrowers on 02-04-2003. On 07-04-2003, when the branch manager along with the officials of DO/AO visited the godown, they found that the lock was broken open and the entire turmeric bags were removed. Similarly, stocks of turmeric were also removed from another godown relating to these accounts.

Complaints were lodged with the police 08-04-2003 (FIR No. 46/2003 and 47/2003 dt. 08.04.2003). Recovery application was filed before DRT, Coimbatore. 100 bags of turmeric were seized on 09-09-2003 worth Rs.2.75 lacs by the police authorities. Staff accountability action completed and punishment awarded. An amount of Rs.10.61 lacs provided for. No further developments

Mr. K.P.Ganesan & Others

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
14	Police case	Mr. K.P.Ganesan & Others	Lakkapuram	48.17

Brief History

Branch has sanctioned 12 Goods Loans against the security of WHRs, for the turmeric stored in the Central Warehousing Corporation, Bhavani Road, Erode to the tune of Rs.47.16 Lacs.

All the 12 borrowers belong to one group of Mr. K.P. Ganesan, Proprietor, M/s. Kavya Traders, who had altered all the above 12 WHRs, subsequent to the issuance of Warehousing Authority, in such a way to avail higher quantum of loan amount from the bank.

Actual storage of turmeric in the WHC was 125 bags valued at Rs.2.13 Lacs. After the fraudulent alteration in the WHRs, the figures had increased to 6225 bags and value boosted at Rs.108.13 lacs. Hence, in all the receipts, total value of stocks held at Ware Housing Corporation was not correct.

Mr.K.P. Ganesan had given guarantees for 10 out of the above 12 accounts. Mr.K. Ponnusamy and Mr.P. Nagarajan are his father and brother respectively.

Total amount of loan extended: Rs.47,16,000/-

Present outstanding: Rs.48,16,962/-

We have filed police complaint against all the borrowers, guarantors and the then Manager of the branch Sri.S.B.Ajjan (FIR No.9/2003 dt.10.08.2003). The Manager was dismissed from the services. The provision is held for Rs.44.45 lacs. No further developments.

Mr. Prashanto Roy

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
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15	Police case	Mr. Prashanto Roy	Hyderabad Main	2.47
Brief History				
<p>Prashanto Roy had opened a SB account with the branch by getting an attestation of his signature from Andhra Bank, Jubilee Hills, Hyderabad on 20-06-2001. The branch had extended NSC loan for Rs.2,47,000/- against security of 33 NSCs of Rs.10,000/- each with total value of Rs.3,30,000/-. It was also reported by the branch that in the NSCs transfer endorsement in favour of the Bank was available and the borrower himself got the same. The certificates were sent to the post office, Calcutta for obtaining confirmation on 10-07-2001. However, the certificates were returned by the post office stating that no such certificates were issued by them and they are bogus. The branch has lodged police complaint on 17-01-2002 which was registered under FIR No.12. The provision is held for Rs.1.46 lacs. The insurance claim had been lodged.</p>				
Mr. Periasamy & Others				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
16	Police case	Mr. Periasamy & Others	Kandili	1.28
Brief History				
<p>Jewel Loans were extended to the following persons:-</p> <ol style="list-style-type: none"> 1) K.Periasamy - Rs.59,000 on 17-09-97 2) V.Kannan -Rs.22,500 on 23-10-97 3) K.Mani -Rs.14,000 on 05-11-97 4) S.Anandan -Rs.32,500 on 17-11-97 <p>The above four loans amounting to Rs.1,28,000/- were extended against spurious jewels appraised by commission basis appraiser. Police complaint was registered under No.1/98 dt.12.01.1998 It appears that the loanees were fictitious persons. Case was filed in the Judicial Magistrate Court, Tirupattur under reference No.CC 58/2001. Judgment copy received and the accused found not guilty. Full provision of Rs.1.28 is held.</p>				
Mr. S. Manickam & Others				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
17	Police case	Mr. S. Manickam & Others	Tiruvannamalai	1.47
Brief History				
<p>The branch had extended 5 jewel loans to 5 persons who were supposed to be residing at Tiruvannamalai. One of the borrowers, who had availed a loan of Rs.43,000, who promised to bring the introducer failed to do so and hence the branch verified the purity of the jewels. It was found that the jewels were spurious. The amount was recovered from the commission basis appraiser. Subsequently during JDL inspection, pledging of spurious jewels were detected in four more loans. On enquiry, it came to light that the borrowers were not available in the given address and they were also not traceable.</p> <p>Final investigation report to be received in the police complaint under FIR No.395/2002 dt.16.07.2002.. The provision is held for Rs.1.11 lacs. The insurance claim is already lodged.</p>				
M/s. Apoorva Traders				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
18	Police case	M/s. Apoorva Traders	Triplicane	10.36
Brief History				
<p>The borrower had availed Lakshmi Business Credit (LBC) loan for Rs.10.00 Lac and the outstanding as on the date was Rs.10.36 Lac. For this, the party had lodged the title deeds of the property situated at Flat No.16, Guji Main Road, Ayanavaram Village, Anna Nagar East, Chennai belonging to Mr. A. Selvam and his wife Ms. S. Rajathi as collateral security. The branch had received a letter from the Inspector of Police, Crime Branch V, Egmore, Chennai that the documents were forged and only then the branch came to know that the borrower had cheated. Based on this, the branch obtained a certified copy of the sale deed 2269/97 and on verification it was noticed that the sale deed</p>				



lodged with the branch is not genuine. The genuineness of the sale deed 2269/97 lodged with us cannot be suspected on perusing the said original. The genuineness can be confirmed only when compared with the certified copy of the sale deed and other related papers. The provision had been made for Rs.10.11 lacs. The insurance claim is rejected as there was no staff involvement in the fraud. A complaint is registered under FIR dated 04.06.2004.

Mr. Bagavathi Purushoth

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
19	Police case	Mr. Bagavathi Purushoth	Kodambakkam	1.04

Brief History

Bagavathi Purushoth, a temporary data entry operator engaged during the month of July and August' 1999, had fraudulently removed cheque leaves from the cheque books earmarked for issue to customers, forged their signatures and withdrawn amount Rs. 28,000 on 21/07/1999, Rs.40,000/- on 10/08/1999 and Rs.36,000/- on 27/08/1999. Frauds were detected in September and October' 1999 and the branch had filed a complaint with the police. As the account holders claimed the amount from the bank, the branch debited the suspense account and paid to them.

The culprit collected the cheques through his SB a/c maintained with Indian Bank, Rangarajapuram, Chennai. The balance in his a/c is Rs.30,000/-. Indian Bank had assured to co-operate in recovering the balance kept in that a/c. So far, no amount was recovered by the Branch. The branch had written letters to Indian Bank on 21.05.2001 to transfer the amount Rs.30,000/- to the branch. Fully provided for. Punishment already awarded to the then Manager.

Further Development: Indian Bank vide their letter dt 27.11.2001 informed our branch about their inability to transfer the funds to our bank. Again our branch requested the Indian Bank to transfer the amount to our branch and the matter is being followed up.

Mr. Venkata Rao

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
20	Police case	Mr. Venkata Rao	Vishakapattanam	1.44

Brief History

Mr. Venkata Rao, a customer of the branch had filed a suit against the Bank for recovery of Rs.1,43,700/- which was alleged to have been fraudulently withdrawn by his salesman, one Mr.Jagadeesh (Rs.57,700/- in his current account of M/s.Vital Agencies and Rs.86,000/- in his personal SB a/c). There was no difference in signature found between the one in the cheque and with the specimen signature card. The account holder had also confirmed the balance outstanding in his above two accounts for last two quarters. So we are contesting the case. Though the amount is debited to the SB account of the customer, until the case is settled it is to be provided for. The police complaint was lodged and investigation is under way (FIR No.167/1999 dt. 08.02.2000). A case is also pending in the court of III Additional Senior Civil Judge, Vishakapatnam under reference No.OS 924/99.

Mr. Gurusaminathan

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
21	Police case	Mr. Gurusaminathan	Papanasam	1.02

Brief History

On 31.07.2003, the branch has reported discrepancies in RD accounts and complained about the clerk Mr. Gurusaminathan who has made the adjustment entries in some of the RD pass books. Immediately we had deputed our Inspector of Branches to verify the books of accounts. After verifying the RD accounts, he had reported misappropriation by the staff concerned to the tune of Rs.0.57 Lac. The branch had reported again about further incidents of misappropriation in RD accounts, TL account and in-operative accounts by the same staff. The total amount aggregates to Rs.1,02,877/-. The branch had lodged the police complaint on 16-09-2003. We have reported about this fraud case to RBI on 19-09-2003. The wife of the staff concerned had remitted Rs.0.48 lac. Mr.P.Gurusaminathan was terminated from the service. Claim lodged with the insurance company. Not provided for. Police complaint under FIR No.5/2004 dt. 24.05.2004 was registered.

Mr. M. Ravi				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
22	Police case CC1064/03.	Mr. M. Ravi	Ganapathy	4.25
<p>Sri M. Ravi, Clerk of Ganapathy branch who was attending cash section on 31.12.2002, informed the branch manager around 4.30 p.m. that he was not well and went out informing that he would return back within a few minutes. As he did not return, around 6.30 p.m. he was searched at his residence and other places. But he was not traceable. Hence, the cash at the cashier counter and at the safe was counted in the presence of our other local branch managers and D.O. Manager. A shortage of Rs.4,25,286/- was found in the cashier's hand cash. The cash balance at the vault was found correct. On 31.12.2002 night a complaint was lodged by the branch with police authorities. FIR was registered on 03.01.2003. After enquiry with the father in law of the clerk at Ambur an amount of Rs.3,49,500/- kept at his house by the clerk was recovered from him. The clerk was suspended on 09.01.2003 and subsequently dismissed from service. The amount Rs.3,49,500/- recovered was lodged with our Ganapathy branch by police authorities for safe custody and further police investigation is going on. The shortage of Rs.75,786/- is kept in suspense a/c. In view of the recovery of amount Rs.3,49,500/-, the net likely loss will be Rs.75,786/-. Case filed by Saravanapatti police (FIR No.2/2003 dt.03.01.2003) in Judicial Magistrate Court (II). The insurance claim had been lodged.</p>				
Mr. P.R.Prasad				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
23	Police case	Mr. P.R.Prasad	Hyderabad Main	13.54
<p>Brief History</p> <p>Mr. P.R. Prasad, clerk opened four accounts in different names. He fraudulently credited into the accounts a portion of matured term deposits, interest payable to term deposits, long pending pay orders issued towards interest payment on term deposits, ODFDs standing in the name of individuals, firms, etc. Long pending ODFDs were renewed by allowing interest for entire overdue period and on maturity of such term deposits the proceeds were credited to the four accounts. Pay orders payable to other banks towards clearing differences were credited to these accounts. Certain DDs, pay orders presented for collection in clearing by customers were also fraudulently credited to these accounts opened by him. The concerned staff had been dismissed from the service. Police complaint was lodged under FIR No.172/02 dt. 15.07.2002. The insurance claim is already lodged. The concerned staff was found not guilty as per the judgment in the Honorable court of the II Additional Chief Metropolitan Magistrate – Hyderabad (Reference No. CC 902/2004).</p>				
Mr. Sethuraman				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
24	Police case	Mr. Sethuraman	Madurai Main	5.40
<p>Brief History</p> <p>The daily collection agent, Mr.Sethuraman appointed on contract basis to collect the daily deposit from customers had forged the signature of the account holders in the loan documents and fraudulently raised loans in their names and misappropriated the amount. No further developments in respect of police case (FIR No.18 dt.25.02.2000). This is a technical write off case for Rs.4.98 lacs.</p>				
Mr. B.Gurunathan				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
25	Police case	Mr. B.Gurunathan	Ariyalur	3.00
<p>Brief History</p> <p>On 27-05-1999, a staff member B.Gurunathan of our Ariyalur branch fraudulently removed SBI cheque leaf from the cheque book kept in the branch and forged the signature of the officer. He himself presented the cheque in SBI and collected cash on 31-05-1999. When our branch sent a cheque for transfer of funds to Chennai, the fraud came to light. It is suspected another staff is also involved in this fraud. Recovery effected by the police authorities is</p>				



Rs.2,92,700/- Provision had made for remaining amount of Rs.7,300/-

Staff members involved were dismissed from service. Police complaint was lodged under FIR No.19/1999 dt. 06.06.1999.

The matter is being pursued by the branch to get back the amount from the court where the amount was deposited.

Mr.S.Ramakrishnan

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
26	Police case	Mr.S.Ramakrishnan	Neyveli	1.43

Brief History

During the period from June-Sept 1994, the then NLD agent of our Neyveli branch had misappropriated certain amount collected from some NLD account holders. There were 90 accounts at the branch and we have settled amount for the 80 accounts and refunded the deposit after obtaining confirmation of balance from the concerned depositors. From the remaining 10 accounts, two account-holders viz.G.Vaidyanathan and G.Gurumoorthy are not willing to receive the amount (Rs.700 and Rs.700/-) of our ledger balance. They have claimed amounts of Rs.7,450/- and 6,850/- respectively which was the balance according to them in the NLD accounts. NLD scheme was discontinued at the branch and the balance of 10 accounts was transferred to in-operative accounts to the tune of Rs.14,300/- and after deducting Rs.1,400/- (balance in the accounts) our liability was Rs.12,900/-. Provision made for Rs.16,750/-. No further developments in respect of police case which was registered under FIR 188/95 dt. 21.04.1995. A court case is pending under CC 293/1998. Insurance claim rejected as there was some discrepancy in the appointment of the NLD agent.

Mr. Hari Sharma

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
27	Police case	Mr. Hari Sharma	Hyderabad Main	0.83

Brief History

The Cashier, while handling the Cash Department, decamped with an amount of Rs.83,000/- during office hours. Complaint was lodged with police (FIR No.227/2004 dt.24.07.2004) and he was arrested on 31-08-2004 and subsequently released on bail on 08-10-2004. The final investigation report received and found him guilty. The insurance claim had been lodged. The concerned staff is dismissed from the services of the bank.

Mr. M.Rajavelu

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
28	Police case	Mr. M.Rajavelu	Peravurani	0.77

Brief History

Shri. M. Rajavelu, the then manager of the branch has committed serious irregularities which included violation of system and procedures, misuse of his official capacity to his personal gains, violation of bank circular instructions/income tax act provisions, suppression of fact, etc. The total amount involved is Rs.76,960/-. As subsequent fraud surfaced the loss has gone upto Rs.1.28 lacs. The police complaint had been lodged under FIR 1/2006. The concerned staff was dismissed. The provision is held for the loss amount.

Mr. Seetha Raman

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
29	Police Case CC 244/02	Mr. Seetha Raman	Vashi-Mumbai	657.33

Brief History

<p>The branch manager opened current accounts in the names of certain parties without observing formalities and purchased cheques beyond discretionary powers. He has committed irregularities as under: Certain purchased cheques were not sent for collection. Some unpaid returned cheques were not reversed and not recovered in some cases. Cheques of sister concern and office of the same firm having offices at difference locations issued on each other were purchased. The total amount of cheques purchased was for Rs.657.33 lacs from 167 parties. The police complaint was registered under FIR No.06/2002 dt.10.01.2002. The court case is still continued. The present outstanding is Rs.356.31 and Rs.245.91 was recovered. Fully provided for.</p>				
M/s. St. Mary's Group				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
30	Police case	M/s. St. Mary's Group	Thrissoor	54.32
<p>Brief History The branch manager in collusion with a group of borrowers viz.St.Mary's Group of accounts and Manumohan group of accounts credited their current account with Rs.30.24 lakhs by creating BPCs, which are accommodation in nature. He reversed accommodation bills advance by creating deposit loan for Rs.30.24 lacs without any deposits. Further he purchased cheques under BPC for Rs.13.58 lacs from the above two group of borrowers which were returned unpaid and kept unadjusted. The total BPC head comes to Rs.43.82 Lakh. He had committed irregularities in extending personal loans, TODs and other loans to the tune of Rs.10.50 lakhs. By the above fraudulent methods, the bank has been exposed to the probable loss of around Rs.54.32 lakhs. The case against accused stands posted for framing charges against them. The provision had made for Rs.8.86 lacs. The Insurance claim had been lodged. Police complaint is registered under FIR 31/19.01.2002. A DRT case is also pending under reference No..OA/165/2002.</p>				
Mr. T.Venkata Ramana				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
31	Police case	Mr. T.Venkata Ramana	West Tambaram	39.39
<p>Brief History The Branch Manager had purchased Cheques and documentary bills to the tune of Rs.30.45 lacs but in excess of the individual limit fixed per borrower. He had allowed withdrawal against uncleared cheques for Rs.8.19 lacs. There was over indulgence on the part of the branch manager involving serious irregularities in the use of discretionary powers and general conduct of bills advance and clearing transactions. Staff action initiated and then manager was dismissed from services of the bank. Police complaint was lodged under FIR No.75/2002 dt. 09.12.2002. On the basis of a complaint made by a SB A/c holder against the Branch Manager for fraudulent withdrawal of Rs.4.00 lacs in his SB account, it was found that a withdrawal of Rs.0.75 lac in the said account without authority of the account holder. The insurance claim is rejected.</p>				
Mr. V.K.Panneerselvam				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
32	Police case	Mr. V.K.Panneerselvam	Mount Road	80.50
<p>Brief History V.K.Panneerselvam, the then branch manager of Mount Road branch and R.Srinivasan, Sub Manager had extended several unauthorized loans to fictitious persons while extending group loan to Airport Authority of India Employees Co-operative Thrift and Credit Society, Chennai to the tune of Rs.53.50 lakhs on 11-08-99,05-11-99 and 25-11-99 in collusion with Sri.V.Samuel Raj the then vice-president of the society and S.T.Sriram of M/s.Blue Star Electronics, the supplier of the goods and others. Sri.V.K.Panneerselvam, had also purchased local cheques to the tune of Rs.27.00 lacs on 04-10-99 by way of accommodation which were returned subsequently and the amount is still to be recovered. The manager was dismissed from the service. The provision had been made for Rs.47.80 lacs. The insurance claim is lodged. Police compliant was registered under FIR No.602/2000 dt.18.07.2000.</p>				
M/s. Kalpa Oil & other accounts				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh



33	--	M/s. Kalpa Oil & other accounts	Calicut	58.68
Brief History				
<p>The manager allowed withdrawal against uncleared cheques presented in clearing which were returned unpaid subsequently. To accommodate the parties he manipulated CH adjustment account. Local cheques were purchased and credited to the parties' accounts without making entries in the bills purchased or bills liability registers. The account of M/s. Kalpa Oil & M/s. Inder Spices closed during 1996 and there is still outstanding in the other accounts. The provision is held for Rs. 11.26 lacs. The insurance claim settled for Rs.4.92 lacs. Police complaint was registered under FIR No.140/97 dt.12.06.1997.</p>				
TAHDCO				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
34	Police case	TAHDCO	Melur	3.60
Brief History				
<p>Our Melur Branch had opened 8 accounts of certain persons who had applied for loans under TAHDCO Scheme. On 13.5.98, the branch received Rs.3,60,000/- from Canara Bank, Nodal Office, Madurai towards subsidy and margin money for the loans to be extended. But the branch did not extend the loans but credited Rs.45,000/- in each accounts and allowed them to withdraw Rs.25,000/- (Subsidy amount). The remaining amount of Rs.20,000/- was converted into Fixed Deposits. Subsequently, TAHDCO authorities found out that Canara Bank had acted upon a forged letter and released Rs.3,60,000/- to our branch. Canara Bank claimed the refund of the entire amount. Our branch had closed 8 FD accounts and paid Rs.1,60,000/- to Canara Bank and Rs.2,00,000/- is pending. The above details of payment were informed to Canara Bank. Subsequent to that we have not received any claim or information from Canara Bank. The provision is held for Rs.2.00 lacs. Police complaint was lodged but there is no further developments in respect of this case.</p>				
M/s. Jain Trading Corp.				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
35	Police case	M/s. Jain Trading Corp.	Janpath	2.24
Brief History				
<p>A DD drawn by our Hyderabad branch for Rs.2, 23,600/- on 1.6.95 was paid twice by our New Delhi branch. A DD sent by a customer of our Hyderabad branch was duly received by the payee at New Delhi. While sending the same for collection through their banker, it was lost. Then the payee got a duplicate DD from our Hyderabad branch and encashed it on 20.07.95. The original DD was also presented for payment on 16.08.95 by a fraudulent person through Oriental Bank of Commerce through clearing and that DD was also paid by the branch on 16.08.95. When the Ex Advice account was verified by the branch, it was found that the DD was paid twice. Immediately, our branch filed a suit in the Court and froze the available amount of Rs.1,64,500/- in the current account and FD account of the culprit with OBC through court. For the recovery of the balance of Rs.59,100/-, The branch had filed a suit against OBC, its customer who fraudulently withdrew the DD amount.</p> <p>On enquiry by the branch on 23.04.2001, the Oriental Bank of Commerce has stated that the amount in Current account Rs.64,500/- and Fixed Deposit Rs.1,00,000/- frozen by the Court is still lying with them. Hence for the remaining amount of Rs.59,100/- provision had made. The case is being continued. The case reference is Civil suit 157/1995 at Tis Hazari Court. FIR is registered under No.303/95 dt. 06.01.1995.</p>				
Mr. K.Satyanarayana				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
36	Police case	Mr. K.Satyanarayana	Vijayawada	0.65
Brief History				
<p>It has been reported by Vijayawada branch that a cheque for Rs.64500/- favouring Mr.K.Satyanarayana drawn by LIC of India on IOB, Ring Road Branch tendered in clearing on 20.06.2006 was found missing. This incident came to light when the customer called on the branch to enquire about the realization of the cheque. The branch had immediately</p>				

contacted IOB and ascertained that the cheque was presented by Post office, Vijayawada through SBI in clearing. The branch has immediately requested the Post office and got frozen the amount lying to the credit of the Savings bank account no.432993. It is also informed by the branch that Post office is not agreeable to refund the amount against indemnity bond, but agreeable to court directions. In the meanwhile the customer was given credit of the amount Rs.64500/-duly debiting the branch suspense head on 04.11.2006. Branch has filed a case on 11.06.2007 with Vijayawada court. Final investigation report was received and police had informed that it is undetectable. The insurance claim has been lodged. FIR was registered under No.374 dt.05.07.2006.

Mr. K.Velliangiri

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
37	Police case	Mr. K.Velliangiri	Vellakoil	0.03

Brief History

A bearer cash cheque for Rs.2,800/- was presented over the counter for payment to the debit of SB account no.8271 of Sri. K.Velliangiri on 22.05.2007. The cheque was debited to the SB account and also included in the officer's cash scroll. However, the cheque was returned to the bearer with an advice to bring back the same with the signature on the reverse of the cheque.

The bearer, did not turn up that day. The Officer had forgotten about the cheque debited to the account but handed over to the bearer. At the end of the day, the cashier had found the difference of Rs.2,800/- and having found that there was no person to whom the payment was made and physically the cheque was also not available with him to effect the payment, he had, stealthily, manipulated the transactions in the cash chitta maintained by him as though the cash payment of Rs.2,800/- was made. The cash scroll of the Officer and the cash chitta of the cashier were tallied to each other in terms of the closing cash. The cashier had misappropriated Rs.2,800/- and the cash particulars book was also cast accordingly.

The account holder had presented the same cheque on 16.06.2007 and the branch could not make the payment for want of sufficient balance in the account. However, the SB account holder had informed the branch manager that no payment was made to him or to the bearer on 22.05.2007 and when the branch manager went into the details, it came to light that the cashier had misappropriated the money. Therefore, the cashier had paid the amount of Rs.2,800/- to the SB account holder and sorted out the issue with the customer. The concerned staff was suspended and police complaint had been lodged.

Mr. M.Thangavel

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
38	Police case	Mr. M.Thangavel	Thokkavadi	0.60

Brief History

Prof. M. Thangavel, the customer of our Tiruchengode branch had forwarded a complaint dated 30.04.07 to our Chairman stating that 3 cheques from his office table drawer were stolen by someone and had encashed a sum of Rs.60000/- by withdrawing Rs.20000/- per cheque. Prof. M.Thangavel further stated that the bank personnel have paid the cheques without verifying his signature. He had requested for repayment of Rs.60000/- to him within a month.

S.No	Cheque NO	Date	Rupees	Remarks
1	408846	13.12.06	20,000	All are self-cheques signed by the drawer on the face of the instrument as also on the reverse and also signed by one Mr. T.Kannan who received the cash drawn.
2	408847	14.12.06	20,000	----DO----
3	408848	16.12.06	20,000	----DO----

Details of Withdrawals:



In terms of the records available, the payment has been effected to one Mr. T. Kannan in respect of all the 3 cheques.

The signature of the drawer, i.e., Prof. M.Thangavel as available on the face of the cheque as also on the reverse apparently had some differences with the signature lodged with the branch.

Prof. M.Thangavel had requested the branch manager / officer / cashier to identify the person to whom the cheque payments of the 3 cheques were made. To this effect, he had made available certain photographs of colleagues and subordinates who generally frequent the extension counter for withdrawal of cash. Out of the photographs seen by the branch manager the photograph of one Mr.Dhandapani was identified as the person who had come on all 3 days for withdrawal. It is gathered from branch officials/staff that Mr.Dhandapani had come to the branch to draw cash in respect of the cheques under reference on all days of payment and signed on the reverse of the cheque in the name of Mr. T.Kannan with evil designs to mislead identities at a later stage, in case of investigation, interrogation, enquiries, police case etc. Further it is also revealed that there is no person working in the college in the name of Sri. T.Kannan.

Mr.Dhandapani who was interrogated by the police consequent upon complaint filed by Prof. M.Thangavel has denied withdrawal through the above 3 cheques and he has firmly informed that he has nothing to do with the whole episode. The investigation by the police department is in progress which was registered under FIR 216A/2007 dt. 13.04.2007. The insurance claim had been lodged. Fully provided for.

Present Position:

On perusal of the FIR lodged by the customer Mr.M.Thangavel, it is obvious that the suspicion is purely on his colleague Mr.Dhandapani. Since professor Mr.M.Thangavel contends that he had not signed the aforesaid cheques and that they appear to be forged, the DO – Salem had sent all the necessary papers such as cheques, pay-in slips, etc of Mr.M.Thangavel to handwriting experts of the forensic department of the Government of Tamilnadu. They have furnished their findings, in terms of which, the signature found on the cheques under reference are not that of Mr.M.Thangavel. In order to find out the person who has forged the cheques, the handwriting materials of Mr.Dhandapani supplied by the college on our request, has since been forwarded to forensic department for their findings to ascertain whether Mr.Dhandapani had forged the cheques. We have since received an amount of Rs.0.48 lacs from insurance company on 07.07.2009.

M/s. Bhagyalakshmi Chillies Agencies

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
39	Police case	M/s. Bhagyalakshmi Chillies Agencies	Guntur	3.00

Brief History

On 13.02.2008, on opening of the branch, M/s. Bhagyalakshmi Chillies Agencies, a current account holder had tendered a cheque for Rs. 3 lakhs bearing number 039912 for withdrawing cash from the account and was given a token bearing number 6175. As the network connectivity was not available since morning the system was not working and the client was requested to come in the afternoon to collect the cash. Therefore the cheque was kept on the table along with the other cheques including a cheque bearing number 042522 tendered by another current account holder M/s. Mallikharjuna Enterprises for Rs. 5 lakhs for withdrawal of cash who was given a token bearing number 6179.

As there was no one available in the working area of the branch except the cashier during lunch time, it appears, that a stranger had managed to pick up two cheques from the table for Rs 5 lakhs and Rs. 3 lakhs bearing cheque numbers 042522 and 039912 respectively referred to above. The stranger probably knew well that the cheques kept on the table had not been passed for payment and therefore plotted to use these two cheques to obtain token and then possibly receive payment against the tokens. Out of these two cheques he had first tendered Rs. 5 lakhs cheques after cutting off the token number already written over the cheque. The cashier who is otherwise not the regular person giving the tokens to customers, not knowing about the token that was already given for this cheque and not noticing the token written and struck off, had given a fresh token bearing number 6182 to the stranger.

The stranger, however, for reasons best known to him, did not encash the token for the cheque of Rs. 5 lakhs. It appears that he had once again altered the token number on Rs. 5 lakhs cheque thereby rewriting the original token number 6179. The stranger had now changed the token number as 6182 on the Rs. 3 lakhs cheque he had with him thereby cutting the original token number 6175 found written over there. Around 4 PM or so the stranger was found waiting in the customers lobby. The temporary peon of the branch had enquired with him as to why he was waiting. In

reply, the stranger had given him the cheque of Rs. 3 lakhs for passing the same thereby informing that he had to go urgently and therefore wanted the cash. The peon, while collecting the cheque from him, had noticed a token in his hand but it appears that it did not strike him as to how the stranger had both the cheque and the token in hand together. The peon had informed the urgency of the customer (stranger) to the passing officer who had passed the cheque after ascertaining the balance from our Tirupathi branch, as the connectivity was not restored even by the evening. When the cheque of Rs. 3 lakhs was passed for payment the stranger had tendered the token number 6182, obtained cash payment of Rs. 3 lakhs and had fled away.

The modus operandi adopted by the fraudster for taking the cheques, replacing it, etc. is only our presumption based on circumstantial evidence and it is not clear as to whether there is the involvement of more number of persons.

A police complaint has been lodged and FIR has been obtained (under reference No.54/2008 dt.18.12.2008). The investigation by the police is in progress. The insurance claim has been lodged. The provision had been made for full amount.

Mr. G.Kumerasan

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
40	Police case	Mr. G.Kumerasan	Trichy Main	1.05

Brief History

The branch came to know of the non availability of a jewel packet relating to jewel loan account in the name of C.Radhakrishnan when he came to branch to redeem the jewels. On searching all the jewel packets the branch found that two other jewel packets were also missing. The customer was advised to collect the jewels next day thereby informing him that the jewel packets got mixed up with others.

After a thorough search the branch got the suspicion confirmed that the three jewel packets had been stolen by somebody. The officials in charge of the dual control keys had suspected the temporary sub staff, who had, on intensive enquiry admitted having stolen all the three jewel packets and obtained finance against the pledge of the jewels with pawnbrokers.

The amount involved in respect of the three jewel loans in terms of its valuation was Rs 2.45 Lacs and the amount of loan extended was Rs 1.05 Lacs. These jewel loans were disbursed during Dec 2007. We understand that the temporary peon by name Sri. G.Kumerasan had borrowed a sum of Rs. 1.50 Lacs against these jewels, from the pawn brokers.

Though the dual keys were supposed to be with the joint custodians independently one key with each official, in practice, the dual keys were kept in one key bunch and the joint operation of the safe was not strictly followed. The reason given for such lack of compliance of the set procedures is that of heavy volume of business in the branch and they have found it difficult for the two officials to go to the safe room at any point of time.

Based on the investigation conducted it unfolds that the joint custodians of jewel safe had, by oversight, left the key in the safe room itself.

The temporary peon of the branch who had noticed the availability of both the keys in one bunch and had been left behind in the safe room had managed to steal the jewel packets. Subsequently he had handed over the keys to the official stating that he had found the keys in the safe room.

There was no financial loss as the officials had made good the loss. Police complaint had been given and was registered under No.163/2008 dt.27.06.2008..

Mr. D. Sridhar

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
41	--	Mr. D. Sridhar	Srirangam	19.10

Brief History

We had received a lawyer notice from the advocate Sri. A.Senthamarai Kannan, Trichy on behalf of one Mr. V.Krishnakumar. In terms of the lawyer notice, it is informed that Mr. V.Krishnakumar of Trichy /Tamilnadu commenced depositing money in Lakshmi Vilas Bank (LVB), Thillainagar branch, Trichy and in the process



Mr.V.Krishnakumar became friendly with one of the branch staff members by name Mr.D.Sridhar. On the advice of Mr.D.Sridhar it is alleged that Mr.V.Krishnakumar had redeposited the matured deposit proceeds through D.Sridhar in rural branches with an intention to avoid taxes. The claimant accordingly made deposits with Rajendram, Anbil and Tirukattupalli branches in Tamilnadu. It is claimed that Sri V.Krishnakumar used to handover matured deposit receipts to Mr.D.Sridhar and renewal of deposits was carried out accordingly. During the year 2005, it is alleged, the claimant deposited a sum of Rs.15.00 lakhs under 8 deposit receipts at Muthur branch in various names (reportedly of family members). It is informed that for the past 10 years Mr.D.Sridhar was reportedly receiving the original matured deposit receipts and handing over the fresh renewed deposit receipts back to the applicant. During November 2007, original deposit receipts were reportedly handed over to Mr.D.Sridhar for renewal but he did not give back the renewed deposit receipts in spite of the applicant requesting Mr.D.Sridhar repeatedly. It is further reported that on 13.05.2005 the applicant had deposited a sum of Rs.4.10 lacs, which was deposited in the name of Mr.Mahesh son of the applicant and Mrs.Padmavathi (Wife) for Rs.2.05 lacs each. These deposits were reportedly given to Mr.D.Sridhar who was working in Srirangam branch for renewal without taking Xerox copies of the original deposits. Since Mr.D.Sridhar had passed away on 04.03.2008, the claimant could not get back the renewed deposit receipts so far. The claimant through the lawyer notice has requested to disburse the maturity value of deposit receipts mentioned above in addition to the Rs.2.05 lacs each deposited in the name of his son Mahesh and wife Padmavathi. An investigation was conducted in the above matter. It is reported that on verification of the fixed deposit receipt, concerned deposit books, cash vouchers, clearing registers etc., there were no records available for any of the deposits shown above as having been issued by the Muthur branch. On the said date of issue of deposits no consideration of any kind in any mode was received by the branch from anyone including that of the claimant. The printed number of the deposit receipts as seen from the Xerox copies enclosed with the lawyer notice, when checked up with the branch records, did not tally with the stocks received/inventories maintained. Therefore, the deposit receipts shown above, though reportedly issued by our Muthur branch, in fact were not issued by the branch nor the deposit receipts really belonged to the stock of the security items of the branch. On verifying the records at our Srirangam branch where Mr.Sridhar was working a few years before his death, it was found that the deposit receipts with the numbers found on them belonged to the Stock/inventory of security items of term deposit receipts of the branch. These deposit receipts had not been issued by the branch to any applicant towards consideration of any money received. The branch had no records as to how these deposit receipts are not available in records in the branch. On further probing into the matter, it came to light that these deposit receipts from three books were torn off/stolen from the deposit receipt books which had not been checked and found out by the branch officials till such time the lawyer notice came. It is concluded, based on the observations narrated above, that the deposit receipts were not issued by our Muthur Branch.

Mr.J.Pavan Kasi Babu

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
42	Police case	Mr.J.Pavan Kasi Babu	Suryapet	0.48

Brief History

Mr.J.Pavan Kasi Babu, a probationary officer, who had joined the bank during August 2008 had transferred funds from the existing savings bank accounts of customers and from income heads by misusing the passwords of the authorized officers as also misusing the teller ids of other clerical staff. Mr.J.Pavan Kasi Babu had got such amounts credited to his SB account and another account opened in the name of Kumar Raja, an associate of him, but not a staff member. The incident came to light when, by oversight, Sri.J.Pavan Kasi Babu had transferred funds to the SB account of another staff member of the branch, who had noticed a credit of Rs.1500/- to his account. On further looking into the matter and making enquires it was found that Sri.J.Pavan Kasi Babu had admitted having carried out this transfer of fund as also a few others totaling to Rs.0.48 lakh.

Sri.J.Pavan Kasi Babu had made arrangements through his father and uncle and paid the entire amount immediately. Meanwhile, the branch had investigated the matter in respect of all the transactions of his account and his associate as also transactions emanated through his user id, in order to arrive at the exact amount of misappropriation. The amount found out was, as aforesaid Rs.0.48 lakh. The amount was recovered. The concerned staff was discharged from the service.

Police complaint is lodged under FIR No.44/2009 dt. 18.02.2009.

Mr. K.Senthil Kannan

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
43	Police case	Mr. K.Senthil Kannan	Bangalore Main	2.83

Brief History

An official by name Mr. K.Senthil Kannan who had resigned and relieved from the bank had carried out the following transactions under his password/misusing others passwords while in service.

Zero balance SB account was opened in the name of Mr.N.S.Kumar on 22.12.2007 by misusing the passwords of teller and officer. A cheque book was issued by the official for this account.

On 29.12.2007 one dummy outstation cheque for collection (OBC) was booked to the credit of this account for Rs 2.85 lacs. Since it was only a bogus OBC transaction, the official had debited OBC parking GL (intermediary account) and credited the SB account of Sri N.S.Kumar as if the realization was through. The money was withdrawn by using one of the cheque leaves out of the cheque book issued. This OBC parking G/L was squared off by debiting sundries ICC clearing account. The sundries ICC clearing account has transactions on a day today basis for booking clearing cheques and generally reflects balance on a continuous basis. While balancing this book of account for purposes of tallying the fraud came to light.

The vouchers used for the transactions, opening form of the SB account, the cheque by which the cash was paid etc are missing in the branch.

On investigation, it was found out that Sri.Senthil Kannan had perpetrated the malafide transaction with the sole intention of pecuniary gains.

A police complaint is being lodged. The insurance claim is already lodged.

Mr. D.Ganesh Sankar

S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
44	Police case	Mr. D.Ganesh Sankar	Shevapet, Salem	25.98

Brief History

Sri.D.Ganesh Sankar, Clerk, has been working in our Shevapet branch from 02.05.2006. He was handling the deposits department and also worked as cashier, on rotation. As the staff of the branch, he used to deal with customers, their deposit withdrawals and also used to receive and make payments to the customers.

On 11.11.2008 branch has received a cheque for payment in clearing in the SB account of a customer and the ledger balance was found short. Therefore the branch has contacted the customer to remit funds so that the cheque could be honoured. Subsequently on verifying the passbook of the customer, it was seen that there was sufficient balance in the account and apparently the balance in the passbook and the account in the system did not match. It was noticed that the entries after 27.12.2007 in the passbook were made in handwriting by the above staff, though the practice in the branch was to print the transaction in the Passbook. On comparison of the Passbook with the account in the system, it was found that the certain withdrawals/debits carried out in the account had not been entered in the Passbook. It was noticed that the actual balance in the account was only Rs 70,655.25 as there were various funds transfer made from the account.

On investigation it was found that the funds transfers were made from this account to the account of Sri.Ganesh Sankar and his joint account with Mrs.Lakshmi Priya, his wife and his account with other branches. All these transactions were posted in the account by Sri.Ganesh Shankar himself.

Sri.D.Ganesh Shankar was questioned about the transactions made by him in the customers accounts and he had admitted having fraudulently transferred the amounts to his joint account with his wife. He had also admitted having utilized the amounts so defrauded to purchase shares, futures etc through various share brokers with whom he was having accounts in his name as well as that of his family members. He has also admitted having fraudulently transferred amounts from two other accounts.

Based on the investigation carried out, it is found out that an amount of Rs 25,97,797.73 was defrauded by the staff concerned.

It is obvious that the fraud has been committed because of negligence of the supervisory staff/Manager. The bogus transactions have been authorized in the password of the officers/s either inadvertently by them or because password secrecy was not taken care of. Passbooks were allowed to be updated manually though the provision was available for machine printing. The police complaint was lodged and was registered under FIR 59/2008 dt.14.11.2008 and investigation is not yet over. The insurance claim has been lodged.



Mr. Britto Xavier				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
45	Police case	Mr. Britto Xavier	Mettur Dam	0.23
Brief History				
<p>A cash cheque for Rs.20,000/- was by, oversight, debited for Rs.40,000/- by the officer concerned in the SB account of a customer. The cashier had aid only paid Rs.20,000/- for this cheque since the cheque amount was only Rs.20,000/-. However at the end of the day while closing the cash, the cashier had found out that the officer had debited the cheque for Rs.40,000/- instead of Rs.20,000/- and therefore he had manipulated his cash transaction book total as if he had paid cash of Rs.40,000/-. In the process, he had pocketed Rs.20,000/-. The branch came to know this fraudulent incident subsequently and when the cashier was interrogated, he had admitted having taken away Rs.20,000/- cash. He had paid back the amount immediately. On further examining the cash transactions carried out by the cashier on various days, it was found out that he had committed certain small frauds amounting to Rs.3,140/- which he had repaid. A police complaint is being lodged.</p>				
Ms. P.Indumathi				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
46	Police case	Ms. P.Indumathi	Pugalur	0.25
Brief History				
<p>The cash was found short by Rs.25,000/- on account of the cashier having paid cash for a cheque of Rs.25,000/- which was meant for repayment towards redemption of a jewel loan account in the process, the beneficiary of the jewel loan had managed to redeem the jewels as also collected cash of Rs.25,000/- . The cashier could not collect the money back from the customer in spite of explaining the cash payment made by her. Therefore the cashier had made the loss good. The branch had given a police complaint.</p>				
Shri.Sanjay Kumar & 8 others				
S.No.	Suit details, Date of filing	Name of the party	Branch	Amount claimed Rs.in Lakh
47	Police case	Shri.Sanjay Kumar & 8 others	Selaiyur	350.80
Brief History				
<p>This a case of loans disbursed against jewels. The gist of the case is furnished against S.No.9A. It was observed by the bank, that the manner in which the loans were availed was improper; but does not indicate illegal gratification or intention to default payment. Hence, the bank held that this transaction does not attract provisions of the circular of RBI on fraudulent transactions. However, in view of the procedural lapses, the bank had chosen to treat the loan as NPA as sub standard asset. On 19.01.2009, our DGM , Zonal Office, Chennai has visited Selaiyur branch. He has noticed considerable increase in JDL advance in the branch. On his random checkup of the jewels pledged, the loans were extended against the pledge of one kind of jewel only and the jewels weight were found to be overstated resulting in inadequate margin to cover the loans. The parties involved are Shri.Sanjay Kumar, Mrs.Anitha Sanjay, Mrs.Baveribai, Mrs.Manju, Sri.Sampath Raj, Sri.Govardhan, Sri. Sivaraj, Sri. Jayapal and Sri.Varadaman Jain. It is informed that the proceeds were partly used for working capital requirements and balance was utilized for investments in real estate. The borrowers instead of approaching the bank for purchasing the landed properties had raised the requisite amount through jewel loan. The manager being the first time manager, was under the impression that the entire jewel loan transactions were within the delegated powers, which in fact was not. Having come to know of loans sanctioned in excess to the delegated powers of the manger, the divisional head visited the branch to ascertain the details of the loan. It was found that though the quality of jewels was good, the margin obtained was inadequate. The borrowers were informed of the need to improve the security base or close the loan. The borrowers accepted that the manner of raising the loan was not proper when the same was explained to them. They requested to sanction the loan in accordance with the utilization of the loan proceeds. Even without waiting for the bank's acceptance of the request, they submitted the documents related to the properties purchased. On the advice of the bank, they also agreed to close the entire jewel loan by the sale of the jewels and also remitting cash over and above the sales proceeds. On an observation of their remittances in the jewel loan, the bank had considered to sanction a secured overdraft, against the property purchased from the jewel loan proceeds so that the end use of the loan was for the purpose for which it was lent. Against the property value of Rs.2.50 crores the bank had sanctioned an amount of Rs.1.05 crores. The proceeds of the loan were credited to the jewel loan account. Balance under other JDL are fully recovered. The present outstanding amount is Rs.105.50 lacs under the OD account.</p>				

LITIGATION INVOLVING STATUTORY OFFENCES**Contingent Liability in case of Income Tax as on 31/3/2009**

SL No	Asst. Year	Nature of Disputes	Amount (Rs. in lacs)	Tax effect	Appeal before
1	1987-88	Bad Debt W/off	5.10	2.81	CIT(A)
2	1988-89	Right issue expenses	0.92	0.51	CIT(A)
		Int. on securities	0.59	0.32	CIT(A)
		Loss AY 87-88	15.87	8.73	CIT(A)
		Bad debts	104.44	57.44	CIT(A)
		Int. on above bad debts	49.97	27.48	CIT(A)
3	1991-92	Prop Expenses relating to tax free bonds,dividend	2.65	1.22	ITAT
		Broken Period Interest on purchase of securities	43.16	19.85	ITAT
		Loss on sale of Govt Securities	10.91	5.02	ITAT
		Deduction u/s 80M	0.30	0.14	ITAT
4	1992-93	Prop Expenses relating to tax free bonds,dividend	3.26	1.69	ITAT
		Broken period interest	53.73	27.81	ITAT
		Bad debts	47.13	24.39	ITAT
		Software	3.52	1.82	ITAT
5	1993-94	Broken period interest	30.14	15.60	High Court
6	1994-95	Interest u/s 234A(3)		14.10	CIT(A)
		14A	75.78	39.22	CIT(A)
		Bad debts	234.8	121.51	CIT(A)
		234(A) interest	4.43	2.29	CIT(A)
7	1995-96	Dividends	636.25	292.68	ITAT
		Bad Debt W/off	64.68	29.75	ITAT
		LeaseCharges	6.01	2.76	ITAT
		Deposit Mobilisation Expenses	0.53	0.24	ITAT
8	1996-97	Prop Expenses relating to tax free bonds,dividend	497.50	228.85	ITAT
		Broken period interest	74.28	34.17	ITAT
		Depreciation on investment	1,443.58	664.05	ITAT
		Amortisation	200.11	92.05	ITAT
		Provision u/s 36(1)(viiia)	75.26	34.62	ITAT
		LeaseCharges	6.01	2.76	ITAT
9	1997-98	Bad Debt W/off	10.34	4.45	CIT(A)
		Appreciation in value of govt securities	487.13	209.47	ITAT

		Deposit Mobilisation Expenses	1.19	0.51	CIT(A)
		14A	19.76	8.50	CIT(A)
		Software expenses	15.46	6.65	CIT(A)
		Interest to SIDBI & NABARD	223.55	96.13	CIT(A)
		Depreciaion on lorries	34.60	14.88	CIT(A)
		Depreciation on Land	2.51	1.08	CIT(A)
		Deduction u/s 36(1)(viiia)	99.98	42.99	CIT(A)
10	1998-99	Software	5.63	1.97	CIT(A)
		Int to SIDBI, NABARD	209.12	73.19	CIT(A)
		Bad Debts	39.40	13.79	CIT(A)
		Dep on undivided share of land	1.61	0.56	CIT(A)
		14A	20.92	7.32	CIT(A)
11	1999-00	Prop Expenses relating to tax free bonds,dividend	691.19	241.92	CIT(A)
		Depreciation on Buildings	7.85	2.75	CIT(A)
		provisions for pension	121.28	42.45	CIT(A)
		Interest Tax Liability	1.16	0.41	CIT(A)
12	2000-01	Lease Equalisation charges	20.40	7.85	CIT(A)
		Int to SIDBI, NABARD	41.38	15.93	CIT(A)
		14A	16.09	6.19	CIT(A)
		Software Expenses	21.03	8.10	CIT(A)
		Interest u/s 234D		1.26	CIT(A)
13	2001-02	Prop Expenses relating to tax free bonds,dividend	5.37	2.12	ITAT
		Depreciation on Buildings	6.15	2.43	CIT(A)
		Software Expenses	75.06	29.69	ITAT
		Interest u/s 244A-IT refunds	87.14	34.46	ITAT
		Donation	0.17	0.07	ITAT
		Lease Equalisation charges	32.86	13.00	CIT(A)
		Provision for leave encashment	146.85	58.08	CIT(A)
		Interest u/s 234B		30.39	CIT(A)
		Interest u/s 220(2)		4.01	CIT(A)
14	2002-03	Prop Expenses relating to tax free bonds,dividend	8.67	3.10	ITAT
		Software Expenses	76.76	27.40	ITAT
		Lease Equalisation	71.60	25.56	CIT(A)
		Pooja Exp	2.77	0.99	CIT(A)
		EAPBX	0.16	0.06	CIT(A)
		234B		10.10	CIT(A)
		220(2)		4.99	CIT(A)
15	2003-04	Depreciation on investments	290.34	106.70	CIT(A)
		Broken period interest on purchase of investments	1,704.60	626.44	CIT(A)
		Loss on sale of investments	601.12	220.91	CIT(A)
		Disallowance o prov for doubtful debts	2,320.00	852.60	CIT(A)
		others	473.29	173.93	CIT(A)

16	2004-05	Interest paid at the time of purchase of security	2,158.64	774.41	CIT(A)
		Appreciation on value of investments	670.20	240.43	CIT(A)
		Deduction u/s 36(1)(viiia)	2,220.00	796.43	CIT(A)
		Prop Expenses relating to tax free bonds,dividend	31.32	11.24	CIT(A)
		Deduction u/s 80M	245.17	87.95	CIT(A)
		Interest to SIDBI & NABARD	8.08	2.90	CIT(A)
		Depreciation on Buildings	2.39	0.86	CIT(A)
		Other Expenses	85.03	30.50	CIT(A)
17	2005-06	Fall in the value of Govt.Securities	7,581.45	2,551.91	CIT(A)
		Interest paid at the time of purchase of Govt. Securities	1,834.64	617.54	CIT(A)
		Brokerage	7.06	2.38	CIT(A)
		Bad debts written off	2,058.00	692.72	CIT(A)
		Exp. On right issue of shares	8.82	2.97	CIT(A)
		Exp. Incurred on earning income from tax free bonds	19.97	6.72	CIT(A)
		exp. Incurred on earning income from dividends	34.36	11.57	CIT(A)
		pooja expenses	3.75	1.26	CIT(A)
		Interest u/s 234D		136.03	CIT(A)
18	2006-07	Fall in the value of Govt.Securities	3,485.99	1,173.38	CIT(A)
		Interest paid at the time of purchase of Govt. Securities	994.89	334.88	CIT(A)
		Brokerage	1.53	0.51	CIT(A)
		Bad debts written off	1,982.69	667.37	CIT(A)
		Exp. Incurred on earning income from tax free bonds	1.09	0.37	CIT(A)
		exp. Incurred on earning income from dividends	7.11	2.39	CIT(A)
		Interest u/s 234B		241.71	CIT(A)
		Interest u/s 234D		41.86	CIT(A)
		Total	35,127.57	13,219.55	

LABOUR LAWS

Following are the cases filed against Bank relating to Labour Laws as on 30.06.2009:

Filed before	No. of cases
High Court	12
CGIT / DLC / ALC (Appellate Authority)	12
Civil	1
Total	25

The said cases are relating to services matters,including Industrial Disputes raised by our Employees/Ex Employees.Out if the said cases,one case was filed by Shri.Fraser Mario Alexander,Ex Law officer against the Bank claiming compensation of Rs.5,00,000/- and repay a sum of Rs.50,000/- among others.

In another case, one Shri K.Anjaneya, Ex-Temporary Sub-Staff,filed a civil suit for declaration declaring his termination of service is illegal and pay compensation is Rs. 2.50 lakhs with interest. Bank is contesting the said cases and the same are pending before the court for adjudication.As per our records, no order has been passed in favour of the respective employees as on date.

In view of the above, the said cases do not have any financial implications as on date.



DEFAULTS

The Bank has not defaulted in payment of interest and repayment of principal to other Banks, Financial Institutions, Deposit Holders, etc. The Bank has not defaulted in meeting statutory dues, institutional dues and dues towards Instrument Holders like Debentures, Fixed Deposits and other arrears.

OTHER LITIGATIONS

The Bank has the following six legal proceedings against by various parties for fair rent claimed by them against the branches of the Bank amounting to Rs.746.31 Lacs

1. **Janpath Branch, New Delhi:**

The suit pending with the High Court was made for claiming the mense profit relating to the bank's old premises involving an amount of Rs.6.23 crore.

2. **Matunga Branch, Mumbai:**

The suit pending in small causes court involving a claim amount of Rs.93.75 lakhs, was filed for the revised rent payments in the bank's old premises.

3. **Arni Branch; Tamil Nadu:**

The suit involves a claim of Rs.1.32 lakhs for the fair rent fixation in the old premises in the court of the rent controller – District Munsif, Arni.

4. **Adoni Branch, Andhra Pradesh:**

The suit involving an amount of Rs.82174/- was made for the fair rent fixation in the old premises – Junior Civil Judge Court, Adoni.

5. **R.S.Puram Branch, Coimbatore, Tamil Nadu:**

The suit involves a claim of Rs.8.25 lakhs for the fair rent fixation in the old premises – District Munsif Court, Coimbatore.

6. **Shevapet, Salem, Tamil Nadu:**

The suit involves a claim of Rs.19.17 lakhs for the fair rent fixation in the old premises in the court of the rent controller – District Munsif, Salem.

The Bank has 15 cases as on date involving title suits relating to shares between various parties wherein the Bank is a proforma party and awaiting decision of the said courts. Noteworthy is a case filed in the Sub Court under Special Court (TORTS) Act, 1992 by the Custodian in 1996 for shares held by Harshad Mehta Group totalling 2700 shares held by various parties and the matter is still pending.

CASES FILED BY THE BANK

Other than the above, there are no disputes / litigations towards tax liabilities or any criminal or civil prosecutions against the Bank for any offence, economic or otherwise.

In the normal course of business, the Bank has filed 2082 cases before Courts for recovery of balance outstanding of Rs.119.46 crores as on 31.03.2009. This is inclusive of all cases filed by the bank for recovery of its dues arising out of bad debts.

OTHER PROCEEDINGS

The Bank has received a letter from SEBI vide letter no CFD/DCR/RC/TO/23040/04 dated 16/11/2004 alleging violation of Regulation 6 and 8 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 1997 calling for consent order to pay penalty of Rs 2,75,000 for non filing of returns under Reg 6(2), 6(4) and 8(3), if the bank is willing to make request for consent order. However, a reply has been given by the Bank on 12/01/2005 justifying that the same are not applicable to the Bank and requesting for dropping of further proceedings. Decision of SEBI is awaited.

Against the Promoters/Directors

There are no outstanding litigations/proceedings, disputes or penalties against the Promoters/Ventures promoted by the Promoters/Directors including tax liabilities, economic offences or civil prosecution for any offence, irrespective of whether specified under any enactment in Paragraph 1 of Part I of Schedule XIII of the Companies Act, 1956 or any other liability in their personal capacity.

There is no litigation against the directors involving violation of statutory regulations or criminal offences. No proceedings have been initiated against the Directors for economic offence. No investigation has been taken up by the Securities and Exchange Board of India or Stock Exchange against any of the Directors.

Cases Involving Related Party Transactions

The outcome of the litigation involving Vaishnavi Enterprises will not have any impact on the Bank as the amount has been fully secured by the Bank

Against any other company or Bank

The Bank confirms that there are no litigations against any other company or bank whose outcome could have material adverse impact on the financial and operational aspects of the Bank.

STATUTORY AND OTHER INFORMATION

Authority for the Issue

This offer of equity shares on rights basis is being made pursuant to the resolution passed by the Board of Directors on May 14, 2009, in the ratio of [•] equity share of Rs. [•] each for every [•] equity share of Rs. [•] each held on the Record Date [•] at a premium of Rs. [•] per share.

Prohibition by SEBI

Neither we nor our Directors, or companies with which our Directors are associated with as directors or promoters, have been prohibited from accessing or operating in the capital markets under any order or direction passed by SEBI.

Neither we, our Directors have been declared as wilful defaulters by RBI or any other governmental authority and there have been no violations of securities laws committed by them in the past or no such proceedings are pending against them for violation of securities laws.

The listing of any securities of the Issuer has never been refused at anytime by any of the Stock Exchange in India.

Eligibility for the Issue

LVB is an existing listed Bank whose equity shares are listed on NSE. Bank is eligible to offer this Rights Issue in terms of clause 2.4.1 (iv) of the SEBI guidelines and RBI circular dated March 20, 2002 allowing banks to issue rights shares without seeking approval from RBI.

Disclaimer Clause

AS REQUIRED, A COPY OF THIS DRAFT LETTER OF OFFER HAS BEEN SUBMITTED TO THE SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI). IT IS TO BE DISTINCTLY UNDERSTOOD THAT THE SUBMISSION OF THIS DRAFT LETTER OF OFFER TO SEBI SHOULD NOT, IN ANY WAY BE DEEMED/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 THIS DRAFT LETTER OF OFFER. THE LEAD MANAGER STANDARD CHARTERED – STCI CAPITAL MARKETS LIMITED HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI GUIDELINES FOR DISCLOSURE AND INVESTOR PROTECTION 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 ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE BANK DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE THE LEAD MANAGER STANDARD CHARTERED – STCI CAPITAL MARKETS LIMITED HAVE FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED {•} WHICH READS AS FOLLOWS:

- 1. WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, DISPUTES WITH COLLABORATORS, ETC. AND OTHER MATERIALS MORE PARTICULARLY REFERRED TO IN THE ANNEXURE HERETO 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, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION**

OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY, WE CONFIRM THAT:

(A) THE DRAFT PROSPECTUS/LETTER OF OFFER FORWARDED TO THE BOARD 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 THE BOARD, 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 (AND SUCH DISCLOSURES ARE IN ACCORDANCE WITH THE REQUIREMENTS OF THE COMPANIES ACT, 1956, THE SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES, 2000 AND OTHER APPLICABLE LEGAL REQUIREMENTS).

3. WE CONFIRM THAT BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE PROSPECTUS/LETTER OF OFFER ARE REGISTERED WITH THE BOARD AND THAT TILL DATE SUCH REGISTRATION IS VALID.

4. WE HAVE SATISFIED OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFILL THEIR UNDERWRITING COMMITMENTS.- NOT APPLICABLE

5. WE CERTIFY THAT WRITTEN CONSENT FROM SHAREHOLDERS HAS BEEN OBTAINED FOR INCLUSION OF THEIR SECURITIES AS PART OF PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN AND THE SECURITIES PROPOSED TO FORM PART OF PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN, WILL NOT BE DISPOSED / SOLD / TRANSFERRED BY THE PROMOTERS DURING THE PERIOD STARTING FROM THE DATE OF FILING THE DRAFT PROSPECTUS WITH THE BOARD TILL THE DATE OF COMMENCEMENT OF LOCK-IN PERIOD AS STATED IN THE DRAFT LETTER OF OFFER.- NOT APPLICABLE

6. WE CERTIFY THAT CLAUSE 4.6 OF THE SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES, 2000, WHICH RELATES TO SECURITIES INELIGIBLE FOR COMPUTATION OF PROMOTERS CONTRIBUTION, HAS BEEN DULY COMPLIED WITH AND APPROPRIATE DISCLOSURES AS TO COMPLIANCE WITH THE CLAUSE HAVE BEEN MADE IN THE DRAFT LETTER OF OFFER. – NOT APPLICABLE

7. WE UNDERTAKE THAT CLAUSES 4.9.1, 4.9.2, 4.9.3 AND 4.9.4 OF THE SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES, 2000 SHALL BE COMPLIED WITH. WE CONFIRM THAT ARRANGEMENTS HAVE BEEN MADE TO ENSURE THAT PROMOTERS' CONTRIBUTION AND SUBSCRIPTION FROM ALL FIRM ALLOTTEES WOULD BE RECEIVED AT LEAST ONE DAY BEFORE THE OPENING OF THE ISSUE .WE UNDERTAKE THAT AUDITORS' CERTIFICATE TO THIS EFFECT SHALL BE DULY SUBMITTED TO THE BOARD. WE FURTHER CONFIRM THAT ARRANGEMENTS HAVE BEEN MADE TO ENSURE THAT PROMOTERS' CONTRIBUTION SHALL BE KEPT IN AN ESCROW ACCOUNT WITH A SCHEDULED COMMERCIAL BANK AND SHALL BE RELEASED TO THE COMPANY ALONG WITH THE PROCEEDS OF THE PUBLIC ISSUE.- NOT APPLICABLE

8. WHERE THE REQUIREMENTS OF PROMOTERS' CONTRIBUTION IS NOT APPLICABLE TO THE ISSUER, WE CERTIFY THE REQUIREMENTS OF PROMOTERS' CONTRIBUTION UNDER CLAUSE 4.10 {SUB-CLAUSE (A), (B) OR (C), AS MAY BE APPLICABLE} ARE NOT APPLICABLE TO THE ISSUER.

9. WE CERTIFY THAT THE PROPOSED ACTIVITIES OF THE ISSUER FOR WHICH THE FUNDS ARE BEING RAISED IN THE PRESENT ISSUE FALL WITHIN THE 'MAIN OBJECTS' LISTED IN

THE OBJECT CLAUSE OF THE MEMORANDUM OF ASSOCIATION OR OTHER CHARTER OF THE ISSUER AND THAT THE ACTIVITIES WHICH HAVE BEEN CARRIED OUT UNTIL NOW ARE VALID IN TERMS OF THE OBJECT CLAUSE OF ITS MEMORANDUM OF ASSOCIATION.

10. WE CONFIRM THAT NECESSARY ARRANGEMENTS HAVE BEEN MADE TO ENSURE THAT THE MONEYS RECEIVED PURSUANT TO THE ISSUE ARE KEPT IN A SEPARATE BANK ACCOUNT AS PER THE PROVISIONS OF SECTION 73(3) OF THE COMPANIES ACT, 1956 AND THAT SUCH MONEYS SHALL BE RELEASED BY THE SAID BANK ONLY AFTER PERMISSION IS OBTAINED FROM ALL THE STOCK EXCHANGES MENTIONED IN THE PROSPECTUS/LETTER OF OFFER. WE FURTHER CONFIRM THAT THE AGREEMENT ENTERED INTO BETWEEN THE BANKERS TO THE ISSUE AND THE ISSUER SPECIFICALLY CONTAINS THIS CONDITION.

11. WE CERTIFY THAT NO PAYMENT IN THE NATURE OF DISCOUNT, COMMISSION, ALLOWANCE OR OTHERWISE SHALL BE MADE BY THE ISSUER OR THE PROMOTERS, DIRECTLY OR INDIRECTLY, TO ANY PERSON WHO RECEIVES SECURITIES BY WAY OF FIRM ALLOTMENT IN THE ISSUE.

12. WE CERTIFY THAT A DISCLOSURE HAS BEEN MADE IN THE PROSPECTUS THAT THE INVESTORS SHALL BE GIVEN AN OPTION TO GET THE SHARES IN DEMAT OR PHYSICAL MODE.

13. WE CERTIFY THAT THE FOLLOWING DISCLOSURES HAVE BEEN MADE IN THE DRAFT /LETTER OF OFFER:

(A) AN UNDERTAKING FROM THE ISSUER THAT AT ANY GIVEN TIME THERE SHALL BE ONLY ONE DENOMINATION FOR THE SHARES OF THE COMPANY AND

(B) AN UNDERTAKING FROM THE ISSUER THAT IT SHALL COMPLY WITH SUCH DISCLOSURE AND ACCOUNTING NORMS SPECIFIED BY THE BOARD FROM TIME TO TIME.

The filing of this Draft Letter of Offer does not, however, absolve the Bank from any liabilities under Section 63 or Section 68 of the Companies Act or from the requirement of obtaining such statutory or other clearance 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 this Draft Letter of Offer.

Caution

The Bank and the Lead Manager accept no responsibility for statements made otherwise than in this Draft Letter of Offer or in any advertisement or other material issued by the Bank or by any other persons at the instance of the Bank including website of the Bank, www.lvbank.com and anyone placing reliance on any other source of information would be doing so at his/her/their own risk.

The Lead Manager and the Bank shall make all information available to the Equity Shareholders and no selective or additional information would be available for a section of the Equity Shareholders in any manner whatsoever including at presentations, in research or sales reports etc. after filing of this Draft Letter of Offer with SEBI.

Disclaimer with respect to jurisdiction

This Draft Letter of Offer has been prepared under the provisions of Indian Laws and the applicable rules and regulations thereunder. Any disputes arising out of this Issue will be subject to the jurisdiction of the appropriate court(s) in Karur, India only.

This Letter of Offer has been prepared under the provisions of Indian Laws and the applicable rules and regulations thereunder. The distribution of the Letter of Offer and the Issue of Equity Shares on a Rights basis to persons in certain jurisdictions outside India may be restricted by legal requirements prevailing in those jurisdictions. Persons in 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 the jurisdiction of the appropriate court(s) in Karur, India only.

No action has been or will be taken to permit this Issue in any jurisdiction where action would be required for that purpose, except that this Draft Letter of Offer has been filed with SEBI for observations and SEBI has given its observations. Accordingly, the Equity Shares represented thereby may not be offered or sold, directly or indirectly, and this Draft Letter of Offer may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Draft Letter of Offer nor any sale hereunder, shall under any circumstances create any implication that there has been no change in our affairs from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

The Draft Letter of Offer has been filed with SEBI at Corporation Finance Department, Plot No. C4-A, "G" Block, Bandra Kurla Complex, Bandra (East), Mumbai 400 051, for its observations and SEBI has given its observations vide its letter dated [•]. No. [•] and the final Draft Letter of Offer has been filed with the Stock Exchanges as per the provisions of the Companies Act.

United States Restrictions

NEITHER THE RIGHTS ENTITLEMENTS NOR THE EQUITY SHARES THAT MAY BE PURCHASED PURSUANT THERETO HAVE BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY U.S. STATE SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OF AMERICA OR THE TERRITORIES OR POSSESSIONS THEREOF (THE "UNITED STATES" OR THE "U.S.") OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, "US PERSONS" (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT ("REGULATIONS")), EXCEPT IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE RIGHTS ENTITLEMENT REFERRED TO IN THIS DRAFT LETTER OF OFFER ARE BEING OFFERED IN INDIA, BUT NOT IN THE UNITED STATES. THE OFFERING TO WHICH THIS DRAFT LETTER OF OFFER RELATES IS NOT, AND UNDER NO CIRCUMSTANCES IS TO BE CONSTRUED AS, AN OFFERING OF ANY SHARES OR RIGHTS FOR SALE IN THE UNITED STATES OR AS A SOLICITATION THEREIN OF AN OFFER TO BUY ANY OF THE SAID SHARES OR RIGHTS. ACCORDINGLY, THIS DRAFT LETTER OF OFFER SHOULD NOT BE FORWARDED TO OR TRANSMITTED IN OR INTO THE UNITED STATES AT ANY TIME, EXCEPT IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. NEITHER THE BANK NOR ANY PERSON ACTING ON BEHALF OF THE BANK WILL ACCEPT SUBSCRIPTIONS FROM ANY PERSON, OR THE AGENT OF ANY PERSON, WHO APPEARS TO BE, OR WHO THE BANK OR ANY PERSON ACTING ON BEHALF OF THE BANK HAS REASON TO BELIEVE IS, A RESIDENT OF THE UNITED STATES AND TO WHOM AN OFFER, IF MADE, WOULD RESULT IN REQUIRING REGISTRATION OF THIS DRAFT LETTER OF OFFER WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION. THE BANK IS INFORMED THAT THERE IS NO OBJECTION TO A UNITED STATES SHAREHOLDER SELLING ITS RIGHTS IN INDIA. RIGHTS MAY NOT BE TRANSFERRED OR SOLD TO ANY U.S. PERSON.

European Economic Area Restrictions

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive at any relevant time (each, a "Relevant Member State"), no offer of the Rights Entitlement or the Equity Shares is or will be made by the Company (or any person on its behalf) to the public within a Relevant Member State at any time and it is a condition of the offer of the Rights Entitlement and the Equity Shares that investors certify that:

2. they did not receive the Letter of Offer from the Company while they were within a Relevant Member State;
3. they acknowledge that the Company has not authorised the making of any offer of the Rights Entitlement and the Equity Shares in a Relevant Member State; and
4. if notwithstanding the forgoing they are situated in a Relevant Member State, they:
 - a) are a legal entity which is authorised or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
 - b) are a legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than Euros 43,000,000 and (3) an annual net turnover of more than Euros 50,000,000, as shown in its last annual or consolidated accounts; or

- c) are an investor in the existing equity shares and are applying to acquire new Equity Shares for a total consideration of at least Euros 50,000; or
- d) in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of the Rights Entitlement or the Equity Shares shall require the Company to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer” of the Rights Entitlements or the Equity Shares in relation to any Rights Entitlement or Equity Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Rights Entitlement and the Equity Shares so as to enable an investor to decide to purchase or subscribe for the Rights Entitlement and the Equity Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom (Additional)

Each investor has represented and agreed that:

- a. (i) it is a person who is a qualified investor within the meaning of Section 86(7) of the Financial Services and Markets Act 2000 (the “FSMA”), being an investor whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principle or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell the Rights Entitlement or Equity Shares other than to persons who are qualified investors within the meaning of Section 86(7) of the FSMA or who it reasonably expects will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Rights Entitlement or Equity Shares would otherwise constitute a contravention of Section 19 of the FSMA by the Company;
- b. it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue of the Rights Entitlement or Equity Shares in circumstances in which Section 21(1) of the FSMA does not apply to it; and
- c. it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Rights Entitlement or Equity Shares in, from or otherwise involving the United Kingdom.

This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. In particular, in the United Kingdom this document is intended for persons with professional experience in matters relating to investments within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Order”) or persons who are within Article 49(2) of the Order. Securities referred to in this document will only be available to such persons, and other persons should not act on or rely upon this document.

Designated Stock Exchange

The Designated Stock Exchange for the purposes of this Issue will be the NSE.

Disclaimer Clause of NSE

As required, a copy of this Draft Letter of Offer has been submitted to National Stock Exchange of India Limited. NSE has given vide its letter Ref. No. [•] dated [•] permission to the Issuer to use the Exchange’s name in this Draft Letter of Offer as one of the Stock Exchanges on which this Issuer’s securities are proposed to be listed. The Exchange has scrutinized this Draft Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the 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 Draft 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 Draft Letter of Offer; nor does it warrant that the Issuer’s 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 Promoters, its management or any scheme or project of this Issuer.

Every person who desires to apply for or otherwise acquire any securities of the 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 RBI

A license authorising the Bank to carry on banking business has been obtained from the Reserve Bank of India in terms of Section 22 of the Banking Regulation Act, 1949. It must be distinctly understood, however, that in issuing the license the Reserve Bank of India does not undertake any responsibility for the financial soundness of the Bank or for the correctness of any of the statements made or opinion expressed in this connection

Filing

This Draft Letter of Offer is filed with SEBI, Plot No. C4-A, "G" Block, Bandra Kurla Complex, Bandra (East), Mumbai 400 051. All the legal requirements applicable till the date of filing the Draft Letter of Offer with the Stock Exchanges shall be complied with.

A copy of the Draft Letter of Offer is filed with The National Stock Exchange of India Limited (Designated Stock Exchange)..

Listing

The existing Equity Shares are listed on NSE. The Bank has made applications to the NSE for permission to deal in and for an official quotation in respect of the Equity Shares being offered in terms of this Draft Letter of Offer. The Bank has received in-principle approvals NSE by letters dated [•] and [•] respectively. The Bank will apply to the NSE for listing of the Equity Shares to be issued pursuant to this Issue.

If the permission to deal in and for an official quotation of the securities is not granted by the Stock Exchanges mentioned above, within 15 days from the Issue Closing Date, the Bank shall forthwith repay, without interest, all monies received from applicants in pursuance of this Draft Letter of Offer. If such money is not paid within eight days after the Bank becomes liable to repay it, then the Bank and every Director of the Bank 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 the Section 73(2) and Sec 73(2A) of the Act.

The existing Equity Shares are permitted for dealing on BSE under 'Permitted Securities Category'.

Impersonation

Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Companies Act, which is reproduced below:

“Any person who:

- (a) Makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or**
- (b) Otherwise induces a company to allot, or register any transfer of shares, therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years.”**

Consents

Consents in writing of the Lead Manager, Registrar to the Issue, the Directors, the Compliance Officer, the Auditors, Bankers to the Issue and the Legal Advisors to act in their respective capacities have been obtained and filed with Stock Exchanges, along with a copy of the Draft Letter of Offer and such consents have not been withdrawn up to the time of delivery of this Draft Letter of Offer for registration with the stock exchanges.

The Auditors of the Bank have given their written consent for the inclusion of their Reports in the form and content as appearing in this Draft Letter of Offer and such consents and reports have not been withdrawn up to the time of delivery of this Draft Letter of Offer for registration to the Stock Exchanges.

The Auditors of the Bank have given their written consent for inclusion of tax benefits in the form and content as appearing in this Letter of Offer, accruing to the Company and its members.

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

Expert Opinion, if any

Except in the sections titled “Financial Statements” and “Statement of Tax Benefits” on page 125 and 32 of this Letter of Offer, no expert opinion has been obtained by the Company in relation to this Letter of Offer.

Expenses of the Issue

The expenses of the Issue payable by the Company including brokerage, fees and reimbursement to the Lead Managers, Auditors, Legal Advisors, Registrar to the Issue, printing and distribution expenses, publicity, listing fees, stamp duty and other expenses are estimated at Rs. [•] (around [•] of the total Issue size) and will be met out of the proceeds of the Issue.

Particulars	Rs. In	% of net proceeds of the
	Crores	Issue
Fee to Intermediaries		
Fees paid to the Lead Managers, legal advisors, and auditors	[•]	[•]
Fees paid to the Registrar to the Issue	[•]	[•]
Statutory Fee	[•]	[•]
Advertising and marketing fees	[•]	[•]
Printing, Stationery and Despatch	[•]	[•]
Others	[•]	[•]
Listing Fees	[•]	[•]
Total	[•]	[•]

Fees payable to the Lead Manager to the Issue

The fees payable to the Lead Managers to the Issue are set out in the engagement letters issued by the Bank to the Lead Managers and the Memorandum of Understanding entered into by the Bank with the Lead Managers, copies of which are available for inspection at the registered office of the Bank.

Fees payable to the Registrar to the Issue

The fee payable to the Registrar to the Issue is as set out in the relevant documents, copies of which are kept open for inspection at the Registered Office of the Bank.

Previous Issues by the Company – for last five years

The Equity Shares of the Bank are listed on the NSE. Details of the dates of listing are as follows.

Various Issue	Date of Allotment	Date of refund	Date of listing	Amount of premium (Rs per share)
Rights Issue 2007	10.02.2007	10.02.2007	19.02.2007	40
Bonus Issue 2006	25.11.2006	25.11.2006	07.12.2006	Not Applicable
Rights Issue 2005	16.07.2005	16.07.2005	02.08.2005	45

Delisting of equity shares from Madras Stock Exchange Limited

Pursuant to the application made under SEBI (Delisting of Securities) Guidelines, 2003, the Equity Shares of the Bank stands delisted from Madras Stock Exchange Limited with effect from December 02, 2004 vide their letter MSE/LD/PSK/731/1156/04 dated December 02, 2004.

Promise vs. performance – Last three Issues**2007 Rights Issue**

The Bank had made a Rights Issue of shares aggregating Rs. 98.36 crores. The main objects of the Issue were to improve capital adequacy ratio by augmenting Tier I capital and to augment long term financial resources. No promise was made about the future projection / performance in the Letter of Offer.

2005 Rights Issue

The Bank had made a Rights Issue of shares aggregating Rs. 44.57 crores. The main objects of the Issue were to improve capital adequacy ratio by augmenting Tier I capital and to augment long term financial resources. No promise was made about the future projection / performance in the Letter of Offer.

1995 Rights Issue**The Bank had made a Rights issue of shares aggregating Rs. 20.26 crores during the year 1994-95.**

The main objects of the Issue were to strengthen the bank's owned funds to meet the capital adequacy norms laid down by RBI and to have sustained growth in the Bank and also to enable the Bank to compete globally.

The promises made in the above rights issue and the actual performances are given hereunder:

(Rs. in crores)

Particulars	1994-95		1995-96		1996-97	
	Projections	Actuals	Projections	Actuals	Projections	Actuals
Deposits	825.00	1036.44	1000.00	913.13	1200.00	1132.51
Advances	375.00	451.20	450.00	492.82	540.00	608.38
Share Capital	11.56	9.64	11.56	11.35	11.56	11.48
Reserves	42.75	41.33	61.90	51.12	83.10	66.00
Income						
Interest Income	86.58	98.56	127.80	121.10	153.60	146.03
Other Income	27.89	30.54	28.00	25.94	33.00	27.54
Gross Income	114.47	129.09	155.80	146.96	186.60	173.57
Expenditure						
Interest Expenses	51.81	63.96	85.20	83.91	102.40	104.72
Salaries & Wages	17.34	17.05	19.50	22.82	22.75	25.53
Other Operating Expenses	8.87	9.45	9.10	11.62	10.50	13.57
Depreciation	1.20	1.19	1.40	4.78	1.75	7.07
Gross Expenditure	79.22	91.65	115.20	123.13	137.40	150.89
Provisions & Contingencies	19.41	19.13	18.45	13.83	22.00	4.02
Net Profit	15.84	18.32	22.15	10.00	27.20	18.66



Reasons for variation between actual figures and projections for the aforesaid 3 years period are given below:

1994-1995

Despite an increase in Interest Expenditure, the Bank could achieve the profitability target on account of achievement of business volumes.

1995-1996

Unexpected yield movement and incremental depreciation on account of Low Key Capital market trend led to non-achievement of profit target.

1996-1997

Unexpected yield movement and incremental depreciation on account of Low Key Capital market trend led to non-achievement of profit target.

Capital Structure

Issues for consideration other than cash

Except as stated in the Capital Structure on 15 of this Draft Letter of Offer, the Bank has not issued Equity Shares for consideration other than cash or out of revaluation reserves within the two years preceding the date of this Draft Letter of Offer.

Underwriting

This Issue is not underwritten and the Bank has not entered into any underwriting arrangements.

Option to Subscribe

Other than the present rights Issue, the Bank has not given any person any option to subscribe to the shares of the Bank.

Outstanding Debentures or Bonds and Preference Shares

Please refer to page 175 "Description of Certain Indebtedness" of the Draft Letter of Offer for further information pertaining to Outstanding Debentures or Bonds.

Stock market data for Equity Shares of the Bank

Please refer to page 176 of the Draft Letter of Offer for further information pertaining to stock market data for the Equity Shares of the Bank.

Government Approvals

Our Bank was incorporated on November 03, 1926 under the Indian Companies Act, 1913. We have obtained all necessary approvals to undertake our activities and we do not propose to enter into any new activities through this Issue, for which further approvals may be required to be obtained, except as may be required to be obtained in the normal course of our business and for intended use of Objects of the Issue. For further details, please refer to the section on "Licenses and Approvals" on page 178 of this Draft Letter of Offer.

Important

- This Issue is pursuant to the resolution passed by the Board of Directors at its meeting held on May 14, 2009.

- This Issue is applicable 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 Bank at the close of business hours on the Record Date i.e. [•].
- Your attention is drawn to the section titled 'Risk Factors' appearing on Page viii of this Draft Letter of Offer.
- Please ensure that you have received the Composite Application Form ("CAF") with this Draft Letter of Offer.
- Please read the Draft Letter of Offer and the instructions contained herein and in the CAF carefully before filling in the CAF. The instructions contained in the CAF are an integral part of this Draft Letter of Offer and must be carefully followed. An application is liable to be rejected for any non-compliance of the provisions contained in the Draft Letter of Offer or the CAF.
- All enquiries in connection with this Draft Letter of Offer or CAF should be addressed to the Registrar to the Issue, quoting the Registered Folio number/ DP and Client ID number and the CAF numbers as mentioned in the CAF.
- All information shall be made available to the Investors by the Lead Manager and the Issuer, and no selective or additional information would be available by them for any section of the Investors in any manner whatsoever including at road shows, presentations, in research or sales reports, etc.
- The Lead Manager and the Bank shall update this Draft Letter of Offer and keep the public informed of any material changes till the listing and trading commences.

Issue Schedule

Issue Opening Date:	[•]
Last date for receiving requests for split forms:	[•]
Issue Closing Date:	[•]

Disputed Shares

Equity Shares which are the subject matter of a dispute or sub-judice will not be allotted pending resolution of the dispute in accordance with the Bank's policy or receipt of an order from the relevant court or authority removing the restriction thereon. Such shares will be held in abeyance and retained separately by the Bank.

Investor grievances and redressal system

The Bank has adequate arrangements for redressal of Investor complaints. Well-arranged correspondence system developed for letters of routine nature. The share transfer and dematerialization for the Bank is being handled by Integrated Enterprises (India) Limited, Registrar to the Bank. Letters are filed category wise after having attended to. Redressal norm for response time for all correspondence including shareholders complaints is ten days.

A Share Transfer and Investors Grievances Committee was constituted on 21.08.1997. The Committee presently consists of four directors. Mr. M P Shyam, a non Executive Director is the Chairman of the Committee. Mr. S Venkateswaran, Company Secretary is the compliance officer of the Bank. All investor grievances received by the Bank have been handled by the Registrar to the Bank in consultation with the Company Secretary.

Status of Complaints

Total number of complaints received during the Financial Year 2009: 1

Status of the complaints pending as at the end of the Financial Year 2009: Nil

No. of Complaints received and attended during April 01, 2009 to June 30, 2009: Nil

No. of shareholders complaints pending redressal as of June 30, 2009: Nil

Time normally taken for disposal of various types of investor grievances: by the Registrar and Transfer Agent: 10 days

Investor grievances arising out of this Issue

The Bank's investor grievances arising out of the Issue will be handled by Mr. S. Venkateswaran, Company Secretary & DGM and Integrated Enterprises (India) Limited, Registrar to the Issue. The Registrar 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 Registrar will provide for retention of records with the Registrar 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 Registrar to redress grievances of Investors.

All grievances relating to the Issue may be addressed to the Registrar 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 name of the bank and the branch where the application was deposited, along with a photocopy of the acknowledgement slip. In case of renunciation, the same details of the renounee should be furnished.

The average time taken by the Registrar 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 Registrar to attend to them as expeditiously as possible. We undertake to resolve the Investor grievances in a time bound manner.

Investors may contact the Company Secretary and Compliance Officer in case of any pre-Issue/ post -Issue related problems such as non-receipt of letters of allotment/share certificates/demat credit/refund orders etc.

Complaint letters should be either type written or legibly hand written quoting Folio number/beneficiary account number, application number, number of shares applied for, name and address of the first applicant, name and address of the Bank, Branch where application was submitted with date thereof, and the date of receipt by the Registrars to the Issue in case application was sent by Post. Envelopes containing the complaints should be addressed to:

Mr. S. Venkateswaran – DGM & Company Secretary
 The Lakshmi Vilas Bank Ltd.
 Registered & Head Office,
 Salem Road, Kathapara,
 Karur – 639006
 Tel.: (04324) 223993
 Fax: (04324) 223607
 E-mail: venkateswaransam@lvbank.in

Changes in Auditors during the last three years

The Auditors Report in the Draft Letter of Offer filed with SEBI as on [•], depicted financial statements for the five fiscal years ended on 31st March,2009 and was certified by statutory auditors namely M/s Sundaram & Srinivasan and M/s Abarna and Ananthan.

Following are the changes in our Statutory Auditors in the last four years:

Sr. No.	Name of the Auditor	Date of Change	Appointed/ Retired
1	M/s Abarna & Ananthan	September 29, 2005	Retired
2	M/s N. B. Shetty	September 29, 2005	Appointed
3	M/s S. Vishwanathan	September 26, 2007	Retired

4	Sundaram & Srinivasan	September 26, 2007	Appointed
5	M/s N. B. S. & Co	August 14, 2008	Retired
6	M/s Abarna & Ananthan	August 14, 2008	Appointed

Capitalisation of reserves or profits

The Company has not capitalized any of its reserves or profits for the last five years other than those mentioned in the section “Capital Structure” on page 15 of the Letter of Offer.

Revaluation of Fixed Assets

There has been no revaluation of the Company’s fixed assets for the last five years.

Minimum Subscription

If our Bank does not receive the minimum subscription of 90% of this Issue, (including additional shares applied to by existing shareholders and renounees and excluding the amounts on the rights entitlement on the Equity Shares held in abeyance) on the date of closure of the issue, the entire subscription shall be refunded to the applicants within 15 days from the date of closure of this Issue. If there is a delay in the refund of subscription by more than 8 days after our Bank becomes liable to pay the subscription amount (i.e. 15 days after closure of this Issue), our Bank shall pay interest for the delayed period, at rates prescribed under sub-sections (2) and (2A) of Section 73 of the Companies Act 1956.



TERMS OF THE ISSUE

The Bank is offering on a rights basis through this Draft Letter of Offer [●] Equity Shares of Rs. [●] each at a premium of [●] per share aggregating Rs. [●]. The Equity Shares, now being offered, are subject to the terms and conditions contained in this Draft Letter of Offer, the Abridged Letter of Offer, the enclosed Composite Application Form (“CAF”), the Memorandum and Articles of Association of the Bank, approvals, if any, from the RBI, the provisions of the Companies Act, 1956, Banking Regulation Act, 1949, guidelines issued by SEBI, guidelines, notifications and regulations for issue of capital and for listing of securities issued by Government of India, the RBI and/or other statutory authorities and bodies from time to time, terms and conditions as stipulated in the allotment advice or letter of allotment or security certificate and rules as may be applicable and introduced from time to time.

Authority for the Issue

This offer of equity shares on a rights issue under Section 81(1) of the Companies Act is being made pursuant to the resolution passed by the Board of Directors on May 14 2009, in the ratio of [●] equity share of Rs. [●] each for every [●] equity share of Rs. [●] each held on the Record Date [●] at a premium of [●] per share.

As per circular No. DBOD.No.PSBS.BC.79/16.13.100 /2001-2002 dated March 20, 2002,, issued by the Department of Banking Operations and Development, RBI, RBI approval would not be required for Rights Issues by both listed and unlisted Banks. However, the Bank has written to the RBI vide its letter dated [●] to inform it of the proposed issue.

Ranking of Equity Shares

The Equity Shares shall be subject to the Memorandum and Articles of Association of the Bank. The dividend payable on the partly paid-up Equity Shares, until fully paid-up, shall rank for dividend in proportion to the amount paid-up. The Equity Shares allotted in this Issue, once fully paid up shall rank *pari passu* with the existing Equity Shares in all respects including dividend. The voting rights in a poll, whether present in person or by representative or by proxy shall be in proportion to the paid-up value of the Equity Shares held, and no voting rights shall be exercisable in respect of moneys paid in advance until the moneys have become payable. Further no person shall be entitled to exercise any voting rights either personally or by proxy at any meeting of the Bank in respect of partly paid-up Equity Shares on which any calls or other sums payable by him/her have not been paid.

For more details see “Main Provisions of Our Articles of Association” on page 250.

Mode of Payment of Dividend

We shall pay dividend to our shareholders as per the provisions of the Companies Act, 1956.

Basis of the Issue

In accordance with the Board resolution referred to above, Equity Shares are being offered for subscription in the ratio of [●] Rights Share for every [●] Equity share held by the Eligible Equity Shareholders. The Equity Shares are being offered for subscription for cash to those existing Eligible Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the Equity Shares held in electronic form and on the Register of Members of the Bank in respect of shares held in physical form at the close of business hours on the Record Date, i.e. [●] fixed in consultation with the Designated Stock Exchange.

Rights Entitlement

As your name appears as beneficial owner as per the list furnished by depositories in respect of the shares held in electronic form and on the Register of Members of the Bank in respect of the shares held in physical form as an equity shareholder on the Record Date i.e. [●], you are offered Equity Shares as shown in Block I of Part A of the enclosed Composite Application Form (CAF).

Rights Entitlement on Equity 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 Registrar.

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

Rights of the Equity Shareholders

The rights available to the shareholders of the Bank are as under the provisions of the BR Act, Companies Act. The same are as under:

1. Right to receive dividend, if declared
2. Right to attend general meeting and vote thereat, unless prohibited by law
3. Right to vote personally or by proxy, unless prohibited by law
4. Right to receive offers for rights shares and be allotted bonus shares, if issued
5. Right to receive surplus on liquidation;
6. Right to free transferability; and
7. Any other rights available under the BR Act, Companies Act, Memorandum and Articles of Association subject to RBI directives.

Note: Only the registered equity shareholders or in case of joint holders, whose name appears first on the Register of Members / list of beneficial owners in the record of the depository, shall be entitled to these rights.

For a detailed description of the main provisions of our Articles of Association dealing with voting rights, dividend, forfeiture and lien, transfer and transmission and/or consolidation/splitting, see section titled “Main Provisions of Articles of Association” on page 250.

Nomination facility

In terms of Section 109A of the Companies Act, 1956, nomination facility is available in case of Equity Shares. The applicant can nominate any person who is not an excluded U. S. Person as defined in the CAF by filling the relevant details in the CAF in the space provided for this purpose.

A sole Eligible Equity Shareholder or first Eligible Equity Shareholder, along with other joint Eligible 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 Eligible 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 Eligible Equity Shareholders, the nominee shall become entitled to receive the amount only on the demise of all the Eligible Equity Shareholders. Fresh nominations can be made only in the prescribed form available on request at the registered office of the Bank or such other person at such addresses as may be notified by the Bank. 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 Eligible Equity Shareholder(s) has(have) already registered the nomination with the Bank, no further nomination needs to be made for Equity Shares to be allotted in this Issue under the same folio. However, new nominations, if any, by the Eligible Equity Shareholder(s) shall operate in supersession of the previous nomination, if any.

In case the allotment of Equity Shares is in dematerialised 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 (DP) of the applicant would prevail. If the applicant requires change in the nomination, they are requested to inform their respective DP.

**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-holders with benefits of survivorship subject to provisions contained in the Articles of Association of the Bank.

Market Lot

The Equity Shares of the Bank are tradable only in dematerialized form. The market lot for Equity Shares held in demat mode is 1 (one) Equity Share. In case of physical certificates, the Bank would issue one consolidated certificate for the Equity Shares allotted to one folio ("Consolidated Certificate"). In respect of the Consolidated Certificate, the Bank will, upon receipt of a request from the respective Equity Shareholder, split such Consolidated Certificate into smaller denomination. No fee would be charged by the Bank for splitting the Consolidated Certificate.

Offer to Non-Resident Equity Shareholders/Applicants

As per notification No. FEMA 20/2000-RB dated May 3, 2000; RBI has given general permission to Indian companies to issue Rights/Bonus shares to Non-Resident Indians. Hence the Bank does not need permission from RBI for issue of shares to Non - Resident Indians, up to their entitlement and additional equity shares provided it does not exceed the sectoral cap.

Applications received from NRIs and non-residents 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, payment of interest, dividends, etc. 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 reparability as are applicable to the original shares against which rights shares are issued.

By virtue of 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. The circular stipulates that an OCB shall not be eligible to purchase equity or preference shares or convertible debentures offered on right basis by an Indian company, and no Indian company shall offer equity or preference shares or convertible debentures on right basis to an OCB. Accordingly, OCBs shall not be eligible to subscribe to the Equity Shares. The RBI has however clarified in its circular, A.P. (DIR Series) Circular No. 44, dated December 8, 2003 that OCBs which are incorporated and are not under the adverse notice of the RBI are permitted to undertake fresh investments as incorporated non-resident entities in terms of Regulation 5(1) of RBI Notification No.20/2000-RB dated May 3, 2000 under FDI Scheme with the prior approval of Government if the investment is through Government Route and with the prior approval of RBI if the investment is through Automatic Route on case by case basis. Thus, OCBs desiring to participate in this Issue must obtain prior approval from the RBI. On providing such approval to the Bank at its registered office, the OCB shall receive the Draft Letter of Offer and the CAF.

Applications received from the non-resident Equity Shareholders for the allotment of Equity Shares shall, among other things, be subject to conditions as may be imposed, from time to time, by the RBI, in the matter of refund of application moneys, allotment of Equity Shares, issue of letters of allotment/ certificates/ payment of dividends etc.

In case of change of status of holders i.e. from resident to non-resident, a new demat account shall be opened for the purpose.

Principal Terms and Conditions of the Issue**Face value**

Each Equity Share shall have the face value of Rs. 10 each.

Issue Price

Each Equity Share is being offered at a price of Rs. [●] for cash (including a premium of Rs. [●] per equity share).

Rights Entitlement Ratio

The Equity Shares are being offered on rights basis to the existing Eligible Equity Shareholders of the Bank in the ratio of [●] Equity Shares each for every [●] Equity Shares each held as on the Record Date.

Minimum Subscription

- i. If our Bank does not receive the minimum subscription of 90% of this Issue, (including additional shares applied to by existing shareholders and renounees and excluding the amounts on the rights entitlement on the Equity Shares held in abeyance) on the date of closure of the issue, the entire subscription shall be refunded to the applicants within 15 days from the date of closure of this Issue.
- ii. If there is a delay in the refund of subscription by more than 8 days after our Bank becomes liable to pay the subscription amount (i.e. 15 days after closure of this Issue), our Bank shall pay interest for the delayed period, at rates prescribed under sub-sections (2) and (2A) of Section 73 of the Companies Act 1956.

Procedure for Call

The listing and trading of the partly paid and fully paid shares shall be based on the current regulatory framework applicable thereto. Accordingly, any change in the regulatory regime would accordingly affect the schedule.

Call

The Bank would convene a meeting of the Board to pass the required resolution for making the Call and suitable intimation would be given by the Bank to the Stock Exchange. A call shall be deemed to have been made at the time when the resolution authorizing such call was passed at the meeting of the Board. A call may be revoked or postponed at the discretion of the Board. The Board may, from time to time at its discretion, extend the time fixed for the payment of any call.

Record Date for Call and Suspension of Trading

The Bank would fix a record date giving atleast 7 days prior notice to the Stock Exchange for the purpose of determining the list of shareholders to whom the notice for call money ("Call Money Notice") would be sent.

Separate ISIN for partly paid up shares

In addition to the present ISIN for the existing fully paid up Equity Shares, the Bank would obtain separate ISIN Nos. for its partly paid up Equity Shares. The partly paid up Equity Shares offered under the Issue will be traded under a separate ISIN for the period from the date of listing of these Equity Shares. The ISIN representing partly paid up Equity Shares will be terminated on payment of the first and final call. Such shares on which final call has been duly paid would be converted into fully paid up Equity Shares and merged with the existing ISIN for fully paid up Equity Shares.

Listing of Partly Paid Shares

The partly paid up shares would be listed on the NSE and traded under a separate ISIN. The process of corporate action for crediting partly paid up and fully paid up shares to the Demat Account may take about two weeks' time from the last date of payment of the account under the call money notice.

Payment Period for First and Final Call

As per Regulation 13 (2) of Table A Schedule I of the Companies Act, 1956, AOA, shareholders would be given not less than 14 days time for the payment of the call money.

**Fractional entitlements**

For Equity Shares being offered on rights basis under this Issue, if the shareholding of any of the Equity Shareholders is less than [●] or is not in the multiples of [●], the fractional entitlement of such holders shall be ignored. Shareholders whose fractional entitlements are being ignored would be given preferential allotment of ONE additional Equity Share each, if they apply for additional Equity Shares.

Those Equity shareholders having holding less than [●] Equity shares and therefore entitled to zero Equity Shares under this Issue shall be despatched a CAF with zero entitlement. Such equity shareholders are entitled to apply for one additional Equity Share. However, they cannot renunciate the same to third parties. CAF with zero entitlement will be non-negotiable /non-renunciable

Arrangements for Disposal of Odd Lots

The Bank's shares will be traded in dematerialized form only and the marketable lot is 1 (ONE) share. Therefore, there is no possibility of any odd lots.

Restriction on Transfer of Equity Shares

As per RBI Circular No. DBOD. PSBS.BC.64/16.13.100/2003-04 dated February 3, 2004 any acquisition of shares by a person or group which would take his or its holding to a level of 5 percent or more of the total paid up capital of the Bank (or such percentage as may be prescribed by the RBI from time to time) should be with the prior approval of RBI.

Further Articles of 5A of AOA reads as follows "Notwithstanding anything contained in any other Articles of Association of the Bank to the contrary, no single person/ group shall acquire equity shares of the Bank which would take his / its holding to a level of 5% or more of the total paid-up capital of the Bank (or such other percentage as may be prescribed by the RBI from time to time) without prior approval of the Reserve Bank of India."

RELEVANT RBI PROVISIONS**Rights issues by private sector banks – Acknowledgement of transfer / allotment of shares**

- 1) In terms of RBI Circular DBOD.No.PSBS.BC.79/16.13.100 /2001-2002 dated March 20, 2002, listed as well as unlisted private sector banks are not required to obtain approval of RBI for Rights Issue.
- 2) While reviewing the following issues have emerged with reference to percentage of holding at the time of rights issue:-
 - a) When some shareholders (individuals/ entities / groups) pick up unsubscribed shares which would result in his / its holding going up as a percentage of total paid up capital of the bank.
 - b) When Some shareholders not picking up their entitlements, holdings of the other shareholders would go up in percentage even if they pick up their own entitlements.

The above matter has been examined from the point of view of applicability of RBI Circular DBOD. NO.PSBS. BC. 64/ 16.13.100/ 2003-04 dated February 3, 2004 on acknowledgement of transfer/ allotment of shares in private sector banks and DBOD. NO. BP.BC.71/ 21.01.01/ 2004-05 dated February 28, 2005 on ownership and governance and also the regulatory limits such as the cap for the aggregate FDI/FII/NRI holdings and the 5% limit for a bank's investment in equity of another bank.

In view of the above RBI vide Circular DBOD. NO. PSBD. BC. 99/16.13.100 /2004-05 dated June 25, 2005 has advised banks going for rights issue to make complete disclosure of the regulatory requirements in the offer documents, including the following that:

- i. Subscription to rights other than own entitlement will not be permitted if such subscription would result in breach of any statutory / regulatory ceilings
- ii. any acquisition of shares that will take the shareholding of any entity/ group of entities to 5% or more of the paid up capital of the bank would require acknowledgement of RBI in terms of the criteria laid down in the RBI guidelines contained in the Circular DBOD. NO.PSBS. BC. 64/ 16.13.100/ 2003-04 dated February 3,

2004. Further, in terms of the guidelines on ownership and governance issued on February 28, 2005 any acquisition that will take the shareholding of any entity/ group, directly or indirectly, to 10% or more of the paid-up capital of the bank will require the prior approval of RBI

- iii. If the holding of any shareholder breaches any statutory / regulatory ceilings as a result of non-subscription of rights by other shareholders, the shareholder concerned will not be able to acquire any further shares till his/ its shareholding is brought within the stipulated ceilings.

In case the permission to deal in and for an official quotation of the Equity Shares is not granted by the Stock Exchanges, our Bank shall forthwith repay without interest, all monies received from the applicants in pursuance of this Draft Letter of Offer and if such money is not repaid within eight days after the day from which our Bank is liable to repay it, i.e. fifteen days after closure of the Issue, we shall pay interest as prescribed under Section 73 (2) / 73 (2A) of the Companies Act 1956.

The above is subject to the terms mentioned under the section titled “Basis of Allotment” on page 239 of this Draft Letter of Offer.

Terms of payment

The Payment Methods available to the shareholders for applying in this Rights Issue are as follows:

Amount payable per equity share	Payment Method –I *			Payment Method –II		
	Applicable to all categories of shareholders except NRIs/FIIs			Applicable to all categories of shareholders including NRIs/FIIs		
Fig in Rs.	Face Value	Premium	Total	Face Value	Premium	Total
On Application	[•]	[•]	[•]	10	[•]	[•]
By Due Date for payment of balance amount payable	[•]	[•]	[•]	NA	NA	NA
Total	10	[•]	[•]	10	[•]	[•]

**First and final call shall be made anytime within 12 months from the date of allotment at the option of the Bank*

When an applicant has applied for additional shares and is allotted lesser number of shares than applied for, the excess application money shall be refunded. The monies would be refunded within the stipulated time from the closure of the Issue, and if there is a delay beyond 8 days from the stipulated period, the Bank will pay interest on the monies in terms of sub section (2) and (2A) of section 73 of the Companies Act, 1956.

Option available to the Equity Shareholders

The Composite Application Form clearly indicates the number of Equity Shares that the Equity Shareholder is entitled to.

If the Eligible 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.
- Renounce his entire entitlement

As per the notification issued by RBI under FEMA, existing non-resident shareholders may apply for issue of additional equity shares over and above the rights entitlements and the Bank may allot the same subject to condition that overall issue of shares to non-resident in the total paid up capital of the Bank does not exceed the sectoral cap.

The Board of Directors shall 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 reparability 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 of shares would be made in consultation with the Designated Stock Exchange.

Renounees for Equity Shares can apply for the Equity Shares renounced to them and also apply for additional Equity Shares.

Option to Subscribe

Other than the present Rights Issue, the Bank has not given any option to subscribe for any equity shares of the Bank. The investor shall have the option either to receive the security certificates in physical form or to hold the securities with a depository in an electronic form.

Applicants to the Equity Shares of the Company issued through this Rights Issue shall be allotted the securities in dematerialised (electronic) form at the option of the applicant. The Bank has signed a tripartite agreement with National Securities Depository Limited (NSDL) and the Registrar on [•] and with Central Depository Services (India) Limited (CDSL) and the Registrar on [•], which enables the Investors to hold and trade in securities in a dematerialised form, instead of holding the securities in the form of physical certificates.

Utilisation of Issue Proceeds

The Board of Directors declares that:

- (i) All monies received out of issue of shares to public shall be transferred to separate bank account other than the bank account referred to in sub-section (3) of section 73 of the Companies Act, 1956;
- (ii) Details of all monies utilised out of the Issue referred to in sub-item(i) shall be disclosed under an appropriate separate head in the balance sheet of the Bank indicating the purpose for which such monies had been utilised; and
- (iii) Details of all such unutilised monies out of the Issue of shares, if any, referred to in sub-item (i) shall be disclosed under an appropriate separate head in the balance sheet of the Bank indicating the form in which such unutilised funds 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.

Undertakings by the Bank

The Bank undertakes:

1. That the complaints received in respect of the Issue shall be attended to by the Bank expeditiously and satisfactorily.
2. That 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 will be taken within seven working days of finalization of basis of allotment.
3. That the funds required for dispatch of refund orders/allotment letters/certificates by registered post shall be made available to the Registrar to the Issue;
4. That where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicant within 15 days of closure of the issue, as the case may be, giving details of the bank where refunds shall be credited along with amount and expected date of electronic credit of refund.

5. That the certificates of the securities/ refund orders shall be dispatched within the specified time.
6. Certificates of securities/refund orders of the Non-Resident/Non Resident Indians shall be dispatched within the specified time subject to receipt of approval from RBI/FIPB, if required;
7. The Bank accepts full responsibility for the accuracy of information given in this Draft Letter of Offer and confirms that to best of its knowledge and belief, there are no other facts the omission of which makes any statement made in this Letter of Offer misleading and further confirms that it has made all reasonable inquiries to ascertain such facts;
8. That no further issue of securities affecting equity capital of the Bank shall be made till the securities issued/offered through the Draft Letter of Offer Issue are listed or till the application money are refunded on account of non-listing, under-subscription etc.
9. All information shall be made available by the Lead Manager and the Issuer to the Investors at large and no selective or additional information would be available for a section of the Investors in any manner whatsoever including at road shows, presentations, in research or sales reports etc.
10. Adequate arrangements shall be made to collect all Applications Supported by Blocked Amount (ASBA) and to consider them similar to non-ASBA applications while finalizing the basis of allotment

Notices

All notices to the Eligible Equity Shareholder(s) required to be given by the Bank shall be published in one English national daily with wide circulation, one Hindi national daily with wide circulation and one regional language daily in Karur, being the place where the registered/administrative office of the Bank is situated.

How to Apply

Resident Equity Shareholders

Applications should be made only on the enclosed CAF provided by the Bank. The enclosed CAF should be completed in all respects, as explained in the instructions indicated in the CAF. Applications will not be accepted by the Lead Manager or by the Registrar to the Issue or by the Bank at any offices except in the case of postal applications as per instructions given in this Draft Letter of Offer.

The CAF consists of four parts:

- Part A: Form for accepting the Equity Shares offered and for applying for additional Equity Shares
- Part B: Form for renunciation
- Part C: Form for application for renounees
- Part D: Form for request for split application forms

Non-resident Equity Shareholders

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 the matter of refund of application moneys, allotment of Equity Shares, issue of letters of allotment/ certificates/ payment of dividends etc. The Letter of offer and CAF shall be dispatched to non-resident Equity Shareholders at their Indian address only.”

Application by ASBA investors:

PROCEDURE FOR APPLICATION THROUGH THE APPLICATIONS SUPPORTED BY BLOCKED AMOUNT ("ASBA") PROCESS

This section is for the information of Equity Shareholders proposing to subscribe to the Issue through the ASBA Process. The Company and the Lead Manager are not liable for any amendments or modifications or changes in applicable laws or regulations, which may occur after the date of this Letter of Offer. Equity Shareholders who are eligible to apply under the ASBA Process are advised to make their



independent investigations and ensure that the number of Equity Shares applied for by such Equity Shareholders do not exceed the applicable limits under laws or regulations. Equity Shareholders applying under the ASBA Process are also advised to ensure that the CAF is correctly filled up, stating therein the bank account number maintained with the SCSB in which an amount equivalent to the amount payable on application as stated in the CAF will be blocked by the SCSB.

The list of banks who have been notified by SEBI to act as SCSB for the ASBA Process are provided on <http://www.sebi.gov.in/pmd/scsb.html>. For details on designated branches of SCSB collecting the CAF, please refer the above mentioned SEBI link.

Equity Shareholders who are eligible to apply under the ASBA Process

The option of applying for Equity Shares in the Issue through the ASBA Process is only available to Equity Shareholders of the Company on the Record Date. Equity Shareholders who:

- is holding Equity Shares in dematerialised form and has applied towards his/her/ their rights entitlements or additional securities in the Issue in dematerialised form;
- has not renounced his /her/ their entitlements in full or in part;
- has not split the CAF;
- is not making an application on plain paper;
- is not a Renouncee;
- applies through a bank account with one of the SCSBs,
- is a resident shareholder.

Acceptance of the Issue

You may accept the Offer and apply for the Equity Shares offered, either in full or in part by filling Block III of Part A of the enclosed CAF and submit the same along with the application money payable to the Bankers to the Issue or any of the branches as mentioned on the reverse of the CAF before the close of the banking hours on or before the Issue Closing Date or such extended time as may be specified by the Board thereof in this regard. Applicants at centers not covered by the branches of collecting banks can send their CAF together with the cheque drawn on a local bank at Chennai /demand draft payable at Chennai to the Registrar to the Issue by registered post. Such applications sent to anyone other than the Registrar to the Issue are liable to be rejected.

Renunciation

As an Equity Shareholder, you have the right to renounce your entitlement for the Equity Shares in full or in part in favour of one or more person(s). Your attention is drawn to the fact that the Bank 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
- Hindu Undivided Family
- Any Trust or Society (unless the same is registered under the Societies Registration Act, 1860 or any other applicable Trust laws and is authorized under its constitution to hold Equity Shares in a Bank)

Any renunciation from Resident Indian Shareholder(s) to Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to another Non-Resident Indian or from Non-Resident Indian Shareholder(s) to Resident Indian(s) is subject to the renouncer(s)/renouncee(s) obtaining the approval of the FIPB and/or necessary permissions of the RBI under the Foreign Exchange Management Act, 1999 (FEMA) and other applicable laws and such permissions to be attached with the CAF. Applications not accompanied by the aforesaid approvals are liable to be rejected.

The right of renunciation is subject to the express condition that the Board/duly authorized committee of Board shall be entitled in its absolute discretion to reject the request for allotment to renouncee(s) without assigning any reason thereof.

Renouncee(s) have the right to apply for additional shares provided they have accepted the shares renounced in their favour in full. The renouncee cannot further renounce his/her entitlement.

Procedure for renunciation

To renounce the whole offer in favour of one renounee

If you wish to renounce the offer indicated in Part A, in whole, please complete Part B of the CAF. In case of joint holding, all joint holders must sign Part B 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 renounees, all joint renounees must sign this part of the CAF.

To renounce in part/or renounce the whole to more than one person(s)

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 renounees, the CAF must be first split into requisite number of forms. For this purpose you will have to apply to the Registrars to the Issue. Please indicate your requirement of 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 the 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 paragraph 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.

Renounee(s)

The person(s) in whose favour the Equity Shares are renounced should fill in and sign Part C of the Application Form and submit the entire Application Form to the Bankers to the Issue or to the collection centres to the Issue on or before the Issue Closing Date along with the application money/full money.

Change and/ or introduction of additional holders

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

However, this right of renunciation is subject to the express condition that the Board of Directors of the Bank shall be entitled in its absolute discretion to reject the request for allotment from the renounee(s) without assigning any reason thereof.

Splitting of Application Forms

Request for split forms should be received by the Registrar to the Issue, Integrated Enterprises (India) Ltd., before the closure of business hours on or before [●] by filling in part D of the CAF along with entire CAF. Split forms cannot be re-split. The renounee(s) shall not be entitled to split form(s). The split form shall be sent to the applicant by post at the applicant's risk.

Please note that:

- Part A of the CAF must not be used by any person(s) other than those in whose favour this Offer has been made. If used otherwise, this will render the application invalid.
- Request for split form should be made for a minimum of [●] Equity Shares or in multiples thereof and one Split Application Form for the balance Equity Shares, if any.
- Only the person to whom this Draft Letter of Offer has been addressed to and not the renounee(s) shall be entitled to renounce and to apply for split forms. Forms once split cannot be split again.
- Split form(s) will be sent to the applicant(s) by post at the applicant's risk.

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 that you have applied for all the Equity Shares offered 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. As per the notification issued by RBI under FEMA, existing

non-resident shareholders may apply for issue of additional equity shares over and above the rights entitlements and the Bank may allot the same subject to condition that overall issue of shares to non -resident in the total paid up capital of the Bank does not exceed the sectoral cap. 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 repatriability 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 of shares would be made in consultation with the Designated Stock Exchange.

Applications for additional Equity Shares shall be considered and allotment shall be in the manner prescribed under the section titled “Basis of Allotment” on page 239 of this Draft Letter of Offer. The renounees applying for all the Equity Shares renounced in their favour may also apply for additional Equity Shares.

The summary of options available to the equity shareholder is presented below. You may exercise any of the following options with regard to the Equity Shares offered, using the enclosed CAF:

Option Available	Action Required
Accept whole or part of your entitlement without renouncing the balance.	Fill in and sign Part A (<i>All joint holders must sign</i>)
Accept your entitlement in full and apply for additional Equity Shares	Fill in and sign Part A including Block III relating to the acceptance of entitlement and Block IV relating to additional Equity Shares (<i>All joint holders must sign</i>)
Renounce your entitlement in full to one person (Joint renounees are considered as one)	Fill in and sign Part B (<i>all joint holders must sign</i>) indicating the number of Equity Shares renounced and hand it over to the renounee. The renounees must fill in and sign Part C (<i>All joint renounees must sign</i>)
Accept a part of your entitlement and renounce the balance to one or more renounee(s) OR Renounce your entitlement to all the Equity Shares offered to you to more than one renounee	Fill in and sign Part D (<i>all joint holders must sign</i>) requesting for Split Application Forms. Send the CAF to the Registrar to the Issue so as to reach them on or before the last date for receiving requests for Split Forms. Splitting will be permitted only once. Request for split forms must be in multiples of [•] Equity shares only and one split form for the balance shares, if any. On receipt of the Split Form take action as indicated below. For the Equity Shares you wish to accept, if any, fill in and sign Part A. For the Equity Shares you wish to renounce, fill in and sign Part B indicating the number of Equity Shares renounced and hand it over to the renounees. Each of the renounees should fill in and sign Part C for the Equity Shares accepted by them.
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 renounees must fill in and sign Part C.

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 payee(s). Failure to comply with this may lead to rejection of the application. Bank account details furnished by the depositories will be printed on the refund warrant in case of shares held in electronic form.

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

Please note that:

Part A of the CAF must not be used by any person(s) other than the Equity Shareholder to whom this Draft Letter of Offer has been addressed. If used, this will render the application invalid. Request for SAF should be made for a minimum of [●] Equity Shares or, in either case, in multiples thereof and one SAF for the balance Equity Shares, if any. Request by the applicant for the SAF should reach the Company on or before [●]. Only the Equity Shareholders to whom this Draft Letter of Offer has been addressed shall be entitled to renounce and to apply for SAFs. Forms once split cannot be split further. SAFs will be sent to the applicant(s) by post at the applicant's risk.

Availability of duplicate CAF

In case the original CAF is not received, or is misplaced by the applicant, the Registrar to the Issue will issue a duplicate CAF on the request of the applicant who should furnish the registered folio number/ DP and Client ID number and his/ her full name and address to the Registrar to the Issue. Please note that the request for duplicate CAF should reach the Registrar to the Issue within 7 days from the Issue Opening Date. Please note that those who are making the application in the duplicate form should not utilize the original CAF for any purpose including renunciation, even if it is received/ found subsequently. If the applicant violates any of these requirements, he / she shall face the risk of rejection of both the applications as well as forfeiture of amounts remitted along with the applications.

Application on plain paper

An Equity Shareholder who has neither received the original CAF nor is in a position to obtain the duplicate CAF may make an application to subscribe to the Issue on plain paper, along with an Account payee cheque drawn on a local bank at Chennai / Demand Draft payable at Chennai (net of bank and postal charges) and send the same by registered post directly to the Registrars to the Issue.

The application on plain paper, duly signed by the applicants including joint holders, in the same order as per specimen recorded with the Bank, must reach the office of the Registrar to the Issue before the Issue Closing Date and should contain the following particulars:

- Name of Issuer, being The Lakshmi Vilas Bank Limited;
- Name and address of the Equity Shareholder including joint holders;
- Registered Folio Number/ DP ID number and Client ID no.;
- Certificate numbers and distinctive numbers, if held in physical form;
- Number of shares held as on Record Date;
- Number of Rights Equity Shares entitled;
- Number of Rights Equity Shares applied for;
- Number of additional Equity Shares applied for, if any;
- Total number of Equity Shares applied for;
- Total amount paid at the rate of Rs. [●] per Equity Share on application;
- Particulars of cheque/draft enclosed;
- Savings/Current Account Number and name and address of the bank where the Equity Shareholder will be depositing the refund order.
- PAN for the applicant and for each applicant in case of joint names, and
- In case of Non-resident shareholders, NRE/FCNR/NRO account no., Name and address of the Bank and branch;and
- Signature of Equity Shareholders to appear in the same sequence and order as they appear in the records of the Bank

Payments in such cases should be through a cheque/ demand draft payable at Chennai to be drawn in favour of the “**Lakshmi Vilas Bank Ltd. – A/c LVB - Rights Issue**” and marked ‘A/c payee only’ in case of resident shareholders and non-resident shareholders applying without repatriation basis. Payment in case of non-resident shareholders holding on repatriable basis shall be drawn in favour of the “**Lakshmi Vilas Bank Ltd. – A/c LVB - Rights Issue - NR**” and marked “**A/c payee only**”. The envelope should be superscribed “**Lakshmi Vilas Bank Ltd. - Rights Issue**”



Please note that those who are making the application on plain paper shall not be entitled to renounce their rights and should not utilize the original 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 Bank shall refund such application amount to the applicant without any interest thereon.

Last date of Application

The last date for submission of the duly filled in CAF is [•]. The Board or duly authorised committee of Directors thereof will have the right to extend the said date for such period as it may determine from time to time but not exceeding 30 (thirty) days from the Issue Opening Date.

If the CAF together with the amount payable is not received by the Banker to the Issue/ Registrar to the Issue on or before the close of banking hours on the aforesaid last date or such date as may be extended by the Board/ duly authorised committee of Directors, the offer contained in this Draft Letter of Offer shall be deemed to have been declined and the Board/ duly authorised committee of Directors shall be at liberty to dispose off the Equity Shares hereby offered, as provided under the section titled “Basis of Allotment” on page 239.

INVESTORS MAY PLEASE NOTE THAT THE EQUITY SHARES OF THE BANK CAN BE TRADED ON THE STOCK EXCHANGES ONLY IN DEMATERIALIZED FORM.

Basis of Allotment

Subject to the provisions contained in this Draft Letter of Offer, the Articles of Association of the Bank and the approval of the Designated Stock Exchange, the Board will proceed to allot the Equity Shares in the following order of priority:

- (a) Full allotment to the Equity Shareholders who have applied for their rights entitlement either in full or in part and also to the renouncee(s) who has/ have applied for Equity Shares renounced in their favour, either in full or in part.
- (b) Allotment to the Equity Shareholders who having applied for all the Equity Shares offered to them as part of the Issue as their rights entitlement and have also applied for additional Equity Shares, the allotment of such additional Equity Shares will be made as far as possible on an equitable basis having due regard to the number of Equity Shares held by them on the Record Date, provided there is an under-subscribed portion after making full allotment in (a) above. The allotment of such additional shares will be made with reference to the number of equity shares held by those shareholders on the Record Date within the overall size of the Rights Issue at the sole discretion of the Board of Directors in consultation with the Designated Stock Exchange, as a part of the Rights Issue and not as a preferential allotment
- (c) Allotment to the renounees who having applied for the Equity Shares renounced in their favour have also applied for additional Equity Shares, provided there is an under-subscribed portion after making full allotment in (a) and (b) above. The allotment of such additional Equity Shares will be made on a proportionate basis at the sole discretion of the Board/ duly authorised Committee of Directors but in consultation with the Designated Stock Exchange, as a part of the Issue and not as a preferential allotment.
- (d) Additional shares shall not be allotted if such allotment results in breach of any statutory/regulatory ceilings.

After taking into account allotment to be made under (a), (b) and (c) above, if there is still any under subscription, the unsubscribed portion, shall be disposed off by the Board/Committee of Directors upon such terms and conditions and to such person/persons and in such manner as the Board/Committee of Directors may in its absolute discretion deem fit.

Acquisition of additional Equity Shares, if allotted shall be in terms of proviso to regulation 3(1)(b)(ii) of the Takeover Code and will be exempt from the applicability of Regulation 11 and 12 of Takeover Code. This disclosure is made in terms of the requirement of Regulation 3(1) (b) (ii) of the Takeover Code. Further this acquisition will not result in change of control of management of the Bank. This acquisition will however be

subject to the terms and conditions as laid down in the RBI Circular stated in the Capital Structure on page 15 of this Draft Letter of Offer.

The basis of allotment shall be finalized by the Board in consultation with the Designated Stock Exchange, within a period of 15 days from the date of closure of the Issue. In case of delay in allotment the Bank shall, as stipulated under Section 73(2A) of the Companies Act, 1956, be required to pay interest on the same at a rate of 15 per cent per annum.

Underwriting

The present Issue is not underwritten.

Allotment/Refund

The Bank expects to complete the allotment of Equity Shares within a period of 15 days from the date of closure of the Issue in accordance with the listing agreement with the NSE. In case of delay in allotment the Bank shall, as stipulated under Section 73(2A) of the Act, be required to pay interest on the same at a rate of 15 per cent per annum.

The Bank shall give credit to the beneficiary account with Depository Participants within two working days from the date of the allotment of Equity Shares. Applicants having bank accounts at any of the 68 centers where clearing houses are managed by the Reserve Bank of India (RBI) and others, will get refunds through Electronic Credit Service (ECS) only, except where applicant is otherwise disclosed as eligible to get refunds through direct credit or Real Time Gross Settlement (RTGS). In case of other applicants, the Bank shall ensure dispatch of refund orders, if any, of value up to Rs.1,500/- by "Under Certificate of Posting", and shall dispatch refund orders of Rs.1,500/- and above, if any, by registered post or speed post. Applicants to whom refunds are made through electronic transfer of funds will be sent a letter (refund advice) through "Under Certificate of Posting" intimating them about the mode of credit of refund within 15 days of closure of Issue.

The Bank shall ensure dispatch of refund orders/refund advice, if any, by "Under Certificate of Posting" or registered post or speed post or ECS or Direct Credit or RTGS, as applicable, only at the sole or First shareholder's sole risk within 15 days of the Issue Closing Date, and adequate funds for making refunds to unsuccessful applicants as per the mode(s) disclosed shall be made available to the Registrar by the Issuer.

Save and except refunds effected through the electronic mode i.e. ECS, direct credit or RTGS, refunds will be made by cheques, pay orders or demand drafts drawn on the Refund Bank and payable at par at places where applications are received. The bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centers will be borne by the shareholders.

For Equity Shares allotted in physical form, the share certificates will be kept ready within three months from the date of allotment or such extended time as may be approved by the Company Law Board under Section 113 of the Companies Act, 1956 or other applicable provisions, if any. Allottees are requested to preserve such Letter of Allotment, which would be exchanged later for the security certificates.

Payment of Refund

Applicants should note that on the basis of name of the applicants, Depository Participant's name, Depository Participant- Identification (DP ID) number and Beneficiary Account Number provided by them in the Composite Application Form, the Registrar to the Issue will obtain from the Depository, the shareholder's bank account details including the nine digit Magnetic Ink Character Recognition (MICR) code as appearing on a cheque leaf. Hence, applicants are advised to immediately update their bank account details as appearing on the records of the depository participant. Please note that failure to do so could result in delays in credit of refunds to shareholders at the shareholders sole risk and neither the Lead Manager nor the Bank nor the Refund Banker nor the Registrar shall have any responsibility and undertake any liability for the same.

In case of applicants applying for physical shares, refunds will be made on the basis of the bank account details provided by them in the Composite Application Form.



Mode of making refunds

The payment of refund, if any, would be done through various modes in the following order of preference.

- I. ECS – The payment of refund through ECS is mandatory for Applicants having a bank account at any of the 68 centres as mentioned in SEBI circular no **SEBI/CFD/DILDIP/29/2008/01/02** dated **February 1, 2008** named herein below, except where the applicant is otherwise disclosed as eligible to get refunds through NEFT or Direct Credit or _
 - a. **Managed by Reserve Bank of India:** Ahmedabad, Bangalore, Bhubaneswar, Kolkata, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna, Thiruvananthapuram
 - b. **Managed by State Bank of India:** Baroda, Dehradun, Nashik, Panaji, Surat, Trichy, Trichur, Jodhpur, Gwalior, Jabalpur, Raipur, Calicut, Siliguri (non-MICR), Pondicherry, Hubli, Shimla (non-MICR), Tirupur, Burdwan(non-MICR), Durgapur (non-MICR), Sholapur, Ranchi, Tirupati(non-MICR), Dhanbad(non-MICR), Nellore (non-MICR), Kakinada (non-MICR)
 - c. **Managed by Punjab National Bank:** Agra, Allahabad, Jalandhar, Lucknow, Ludhiana, Varanasi, Kolhapur, Aurangabad, Mysore, Erode, Udaipur, Gorakhpur, Jammu
 - d. **Managed by State Bank of Indore:** Indore
 - e. **Managed by Union Bank of India:** Pune, Salem, Jamshedpur
 - f. **Managed by Andhra Bank:** Visakhapatnam
 - g. **Managed by Corporation Bank:** Mangalore
 - h. **Managed by Bank of Baroda:** Coimbatore, Rajkot
 - i. **Managed by State Bank of Travancore:** Kochi/Ernakulam
 - j. **Managed by Central Bank of India:** Bhopal
 - k. **Managed by Canara Bank:** Madurai
 - l. **Managed by Oriental Bank of Commerce:** Amritsar
 - m. **Managed by United Bank of India:** Haldia (non- MICR)

This mode of payment of refunds would be subject to availability of complete bank account details including the MICR code as appearing on a cheque leaf, from the Depositories. The payment of refunds is mandatory for applicants having a bank account at any of the abovementioned fifteen centres, except where the applicant, being eligible, opts to receive refund through NEFT, direct credit or RTGS.

- II. Direct Credit – Applicants having their bank account with the Refund Banker, shall be eligible to receive refunds, if any, through direct credit. The refund amount, if any, would be credited directly to the eligible applicant's bank account with the Refund Banker.
- III. NEFT (National Electronic Fund Transfer) – Payment of refund shall be undertaken through NEFT wherever the applicants' bank has been assigned the Indian Financial System Code (IFSC), which can be linked to a Magnetic Ink Character Recognition (MICR), if any, available to that particular bank branch. IFSC Code will be obtained from the website of RBI as on a date immediately prior to the date of payment of refund, duly mapped with MICR numbers. Wherever the applicants have registered their nine digit MICR number and their bank account number while opening and operating the demat account, the same will be duly mapped with the IFSC Code of that particular bank branch and the payment of refund will be made to the applicants through this method.
- IV. RTGS – Applicants having a bank account at any of the abovementioned 68 centres and whose refund amount exceeds Rs. 10 lakhs, have the option to receive refund through RTGS. Such eligible applicants who indicate their preference to receive refund through RTGS are required to provide the IFSC code in the Bid-cum-application Form. In the event the same is not provided, refund shall be made through ECS or direct credit, if eligibility disclosed. Charges, if any, levied by the Refund Bank(s) for the same would be borne by the Bank. Charges, if any, levied by the applicant's bank receiving the credit would be borne by the applicant.

Please note that only applicants having a bank account at any of the 68 centres where clearing houses for ECS exist are eligible to receive refunds through the modes detailed in I, II and III hereinabove. For all the other applicants, including applicants who have not updated their bank particulars alongwith the nine digit MICR Code, the refund orders would be despatched "Under Certificate of Posting" for refund orders of value up to Rs.1,500/- and through Speed Post/Registered Post for refund orders of Rs. 1,500/- and above.

Interest in case of delay on Allotment/Dispatch

The Bank will issue and dispatch letters of allotment/ share certificates/ demat credit and/ or letters of regret along with refund order or credit the allotted securities to the respective beneficiary accounts, if any, within a period of 15 days from the Issue Closing Date. Such refund orders, in the form of MICR warrants/cheque/pay order, marked "A/c payee only" would be drawn in the name of a sole/first applicant and will be payable at par at all the centers where the applications were originally accepted, risk, except for those who have opted to receive refunds through the ECS, NEFT facility or RTGS or Direct Credit. If such money is not repaid within eight days from the day the Bank becomes liable to pay it, the Bank shall pay that money with interest at the rate of 15% p.a. as stipulated under Section 73(2)/73 (2A) of the Act. Letter(s) of Allotment/Refund Order(s) above the value of will be dispatched by Registered Post to the sole/first applicant's address. However, Refund Orders for values not exceeding Rs.1,500 shall be sent to the applicants under Certificate of Posting at the applicant's sole risk at his address. The Bank would make adequate funds available to the Registrar to the Issue for this purpose.

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.

In case the Bank issues letters of allotment, the corresponding share certificates will be kept ready within three months from the date of allotment thereof or such extended time as may be approved by the Company Law Board under Section 113 of the Companies Act or other applicable provisions, if any. Allottees are requested to preserve such letters of allotment, which would be exchanged later for the share certificates.

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

In case of non-residents, who remit their application monies from funds held in NRE/ FCNR accounts, refunds and/ or payment of interest/ dividend and other disbursement, if any, shall be credited to such accounts, details of which should be furnished in the CAF and as furnished by the depository in case shares are held in electronic form. Subject to the approval of the RBI, in case of non-residents, who remit their application monies through Indian Rupee draft purchased from abroad, refund and/ or payment of dividend/ interest and any other disbursement, shall be credited to such accounts and will be made net of bank charges/ commission in US Dollars, at the rate of exchange prevailing at such time and shall be credited to such accounts, details of which should be furnished in the CAF and as furnished by the depository in case shares are held in electronic form. The Bank will not be responsible for any loss on account of exchange fluctuations for converting the Indian Rupee amount into US Dollars. The share certificate(s) will be sent by registered post at only the Indian address of the non-resident applicant.

Letters Of Allotment / Equity Share Certificates /Regret Letters Along With Refund Orders /Demat Credit

Letter(s) of allotment/ share certificates/ demat credit or letters of regret will be dispatched to the registered address of the first named applicant or respective beneficiary accounts will be credited within 15 days, from the date of closure of the subscription list. In case the Bank issues letters of allotment, the relative 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 share certificates. Export of letters of allotment (if any)/ share certificates/demat credit to non-resident allottees will be subject to the approval of RBI.

Shareholder's Depository Account and Bank details

Shareholder's applying for shares in demat mode should note that on the basis of the name of the shareholder(s), Depository Participant's Name, Depository Participant's Identification Number and Beneficiary Account Number provided by them in the CAF, the Registrar to the Issue will obtain from the Depository the demographic details including the address, Shareholders bank account details, MICR code and occupation (hereinafter referred to as 'Demographic Details'). These bank account details would be used for giving refunds to the shareholder(s). Hence, the shareholder(s) are requested to immediately update their bank account details as appearing in the records of the Depository Participant. Please note that failure to do so could result in delays in dispatch / credit of refunds to the shareholder(s) at the shareholder(s) sole risk and neither the Lead Manager or the Registrar or the Bankers to the issue nor the Bank shall have any responsibility and undertake any liability for the same.



These demographic details would be used for all correspondences with the shareholder(s) including mailing of allotment advice and printing of bank particulars on the refund order or for refunds through electronic transfer of funds, as applicable. By signing the Composite Application Form, the shareholder(s) would be deemed to have authorized the depositories to provide, upon request, to the Registrar to the Issue, the required Demographic Details as available in its records. In case of shareholder(s) receiving refunds through electronic transfer of funds, delivery of refund orders/allocation advice gets delayed if the same once sent to the address obtained from the depositories are returned undelivered.

Option to receive Equity Shares in Dematerialized Form

Applicants have the option to hold the equity shares in electronic form under the depository system. The Bank has signed an agreement with National Securities Depository Limited (NSDL) on December 14, 2000 and with Central Depository Services (India) Ltd. (CDSL) on December 20, 2000 which enables an investor to hold and trade in securities in a dematerialized (electronic/demat) form (bearing ISIN number INE694001018), instead of holding equity shares in the form of physical certificates. Equity shares being offered through this Rights Issue will be admitted to NSDL and CDSL, when allotted. Applicants may note that they have the option to subscribe to the Rights Equity Shares in demat or physical form, or partly in demat and physical form, in the same application, in the space provided. No separate applications for demat and physical shares are to be made. If such application is made, the applications for physical shares will be treated as multiple applications and rejected accordingly. In case of partial allotment, allotment will be first done in demat form, and the balance, if any, will be allotted in physical form. The equity shares of the Bank have been included in the Compulsory Demat list with effect from 29/01/2001 as per SEBI directives for all classes of investors. Hence, investors may note that the equity shares of the Bank can be traded on the stock exchanges only in demat form.

The procedure for opting for this facility for allotment of equity shares arising out of this Issue in electronic form is as under:

1. Open a Beneficiary Account with any Depository Participant (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 Bank. In case of joint holding, the Beneficiary Account should be opened carrying the names of the holders in the same order and style as are appearing in the records of the Bank). In case of Investors having various folios in the Bank with different joint holders, the investors will have to open separate beneficiary accounts for such holdings. This step need not be adhered to by those shareholders who have already opened such Beneficiary Account(s).
2. For shareholders holding shares in dematerialised form as on the 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 the space provided in the CAF. It may be noted that the allotment of equity shares arising out of this Issue can be received in demat form even if the original equity shares of the Bank are not dematerialised. Nonetheless, it should be ensured that the Depository Account is in the name(s) of the shareholders and the names are in the same order and style as are appearing in the records of the Bank.
3. Responsibility for correctness of applicant's age and other details given in the CAF vis-a-vis those with the applicant's Depository Participant would rest with the applicant. Applicants should ensure that the names of the applicants and the order in which they appear in CAF should be same as registered with the applicant's Depository Participant.
4. If incomplete/incorrect Beneficiary Account details are given in the CAF or where the investor does not opt to receive the Rights equity shares in demat form, the Bank will issue equity shares in the form of physical certificate(s).
5. The Rights equity shares allotted to investors opting for demat 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 Registrars to the Issue but the confirmation of the credit of the Rights equity shares to the applicant's Depository Account will be provided to the applicant by the applicant's Depository Participant.
6. Renounees can also exercise this option to receive equity shares in the demat form by indicating in the relevant block and providing the necessary details about their Beneficiary Account.

NOTE: Shareholders/applicants are advised to apply for receiving the new equity shares that may be allotted to them in the demat form only, since trading in the equity shares of the Bank is permissible only in the demat form.

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.

Issue Period

Issue opens on	[•]
Last date for receiving split application forms	[•]
Issue closes on	[•]

General instructions for applicants

- a) Please read the instructions printed on the enclosed CAF carefully.
- b) The CAF would be printed in black ink for all shareholders.
- c) Application should be made on the printed CAF, provided by the Bank except as under the head "Application on Plain Paper" in this Draft Letter of Offer and should be completed in all respects.
- d) The CAF found incomplete with regard to any of the particulars required to be given therein, and/ or which are not completed in conformity with the terms of this Draft Letter of Offer are 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.
- e) The CAF must be filled in English and the names of all the applicants, details of occupation, address, and father's / husband's name must be filled in block letters.
- f) 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.
- g) The CAF together with cheque / demand draft should be sent to the Bankers to the Issue/collection centres or to the Registrar to the Issue and not to the Bank or Lead Manager to the Issue. Applicants residing at places other than cities where the branches of the Bankers to the Issue have been authorised by the Bank for collecting applications, will have to make payment by Demand Draft (net of bank charges/ commission and postal charges) payable at Chennai and send their application forms to the Registrar to the Issue by REGISTERED POST after deducting DD and postal charges. If any portion of the CAF is / are detached or separated, such application is liable to be rejected.
- h) All applications regardless of value, should mention his/her PAN number allotted under the Income-Tax Act, 1961 and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating allotment of PAN ("PAN Communication") along with the application for the purpose of verification of the number. Applicants who do not have PAN are required to provide a declaration in Form 60/Form 61 prescribed under the I. T. Act along with the application. **Composite Application Forms without this photocopy/PAN Communication/declaration will be considered incomplete and are liable to be rejected.**
- i) 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 the signatory to make the relevant investment under this Offer and to sign the application and a copy of the Memorandum and Articles of Association and/or bye laws of such body corporate or society must be lodged with the Registrar to the Issue giving reference of the serial number of the CAF. In case these papers are sent to any other entity besides the Registrar to the Issue or are sent after the Issue Closing Date, then the application is liable to be rejected.
- j) The shareholders must sign the CAF as per the specimen signature recorded with the Bank.



- k) Applicants are advised to provide information as to their savings/current account number and the name of the Bank with whom such account is held in the CAF to enable the Registrar to the Issue to print the said details in the refund orders, if any, after the names of the payees. Application not containing such details is liable to be rejected.
- l) 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 the Bank. Further, in case of joint applicants who are renounees, the number of applicants should not exceed three.
- m) In case of joint applicants, reference, if any, will be made in the first applicant's name and all communication will be addressed to the first applicant.
- n) Application(s) received from Non-Resident/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, interest, export of share certificates, etc. In case a Non-Resident or NRI Equity Shareholder has specific approval from the RBI, in connection with his shareholding, he should enclose a copy of such approval with the CAF.
- o) All communication in connection with application for the Equity Shares, including any change in address of the Equity Shareholders should be addressed to the Registrars to the Issue prior to the date of allotment in this Issue quoting the name of the first / sole applicant Equity Shareholder, folio numbers 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 Registrar and Transfer Agents of the Bank in the case of Equity Shares held in physical form and to the respective depository participant, in case of Equity Shares held in dematerialized form.
- p) Split forms cannot be re-split.
- q) Only the person or persons to whom Equity Shares have been offered and not renounee(s) shall be entitled to obtain split forms.
- r) Applicants must write their CAF number at the back of the cheque / demand draft.
- s) Only one mode of payment per application should be used. The payment must be either in cash or by cheque / 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.
- t) 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. (For payment against application in cash please refer point (u) below)
- u) The payment against the 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 may 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.
- v) No receipt will be issued for application money received. The Bankers to the Issue / Collecting Bank/ Registrar will acknowledge receipt of the same by stamping and returning the acknowledgment slip at the bottom of the CAF.

Grounds for technical rejections

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

- Amount paid does not tally with the amount payable for;
- Bank account details (for refund) are not given;
- Age of First Applicant not given;
- Application by minors
- PAN not given;
- In case of Application under power of attorney or by limited companies, corporate, trust, etc., relevant documents are not submitted;
- If the signature of the existing shareholder does not match with the one given on the CAF and for renounees if the signature does not match with the records available with their depositories;
- If the Applicant desires to have shares in electronic form, but the application form (CAF) does not have the Applicant's depository account details;
- CAF are not submitted by the Applicants within the time prescribed as per the instructions in the CAF and the Draft Letter of Offer;
- Applications not duly signed by the sole/joint Applicants;
- Applications by OCBs unless accompanied by specific approval from the RBI permitting the OCBs to invest in the Issue;
- 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 Depository Participant's identity (DP ID) and the beneficiary's identity;
- Applications by US persons;
- Applications by ineligible Non-residents (including on account of restriction or prohibition under applicable local laws) and where last available address in India has not been provided.

Mode of payment for Resident Equity Shareholders/ Applicants

- Only one mode of payment per application should be used. The payment must be either in cash (not more than Rs.20,000/-) or by cheque/ 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. The payment against the share application should not be effected in cash if the amount to be paid is Rs. 20,000/- or more, as per Section 269 SS of the Income-Tax Act, 1961. In case payment is effected in contravention of this, the application may be deemed invalid and the application money will be refunded and no interest will be paid thereon.

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.

- All cheques / drafts accompanying the CAF should be drawn in favour of "**Lakshmi Vilas Bank Ltd. – A/c. LVB – Rights Issue**", crossed '**A/c payee only**'. No receipt will be issued for application money received. The Bankers to the Issue/Collecting Bank/Collection centres will acknowledge receipt of the same by stamping and returning the acknowledgement slip at the bottom of the CAF.

- Applicants residing at places other than places where the bank collection centres have been opened by the Bank for collecting applications, are requested to send their applications together with Demand Draft (Net of DD charges/bank charges/ commission and postal charges) favouring “**Lakshmi Vilas Bank Ltd. - A/c - Rights Issue**”, crossed ‘**A/c payee only**’ payable at Chennai, directly to the Registrars to the Issue by registered post so as to reach them on or before the Issue Closing Date. The Bank, Lead Manager or the Registrar to the Issue will not be responsible for postal delays or loss of applications in transit, if any.

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

Mode of payment for Non-Resident Shareholders/ Applicants

As regards the application by non-resident equity shareholders, the following further conditions shall apply:

Payment by NRIs/FIIs must be made by demand draft / cheque payable net of bank and postal charges at Chennai or funds remitted from abroad in any of the following ways:

Application on repatriation basis (only by exiting shareholders and renounces having the requisite permission of RBI)

- a) By Indian Rupee drafts purchased from abroad and payable at Chennai or funds remitted from abroad (submitted along with Foreign Inward Remittance Certificate); or
- b) By cheque/draft on a Non-Resident External Account (NRE) or FCNR Account maintained in Chennai; or
- c) By Rupee draft purchased by debit to NRE/ FCNR Account maintained elsewhere in India and payable in Chennai; or
- d) FIIs registered with SEBI must remit funds from special non-resident rupee deposit account.
- e) All cheques/Drafts submitted by NRIs/FIIs should be drawn in favour of “**Lakshmi Vilas Bank Ltd. – A/c. LVB - Rights Issue - NR**” payable at Chennai and must be crossed “A/c Payee only” for the amount Payable.

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 Bank 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.

The Letter of offer and CAF shall be dispatched to non-resident Equity Shareholders at their Indian address only. Applications received from NRs (Non -Residents), 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.

Application on non-repatriation basis

As far as non-residents holding shares on non-repatriation basis is concerned, in addition to the modes specified above, payment may also be made by way of cheque drawn on Non-Resident (Ordinary) Account maintained in Chennai or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at Chennai. In such cases, the allotment of Equity Shares will be on non-repatriation basis.

All cheques/drafts submitted by non-residents (NRIs/FIIs) should be drawn in favour of “**Lakshmi Vilas Bank Ltd. – A/c. LVB - Rights Issue – NR**” and marked payable at Chennai and must be crossed ‘**A/c payee only**’ for the amount payable. The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on or before the Issue Closing Date. A separate cheque or bank draft must accompany each CAF.

Applicants may note that where payment is made by drafts purchased from NRE/ FCNR/ NRO 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/ NRO account should be enclosed with the CAF. Otherwise the application shall be considered incomplete and is liable to be rejected.

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

Note:

- In case where repatriation benefit is available, interest, dividend, sales proceeds derived from the investment in Equity Shares can be remitted outside India, subject to tax, as applicable according to Income Tax Act, 1961.
- In case Equity Shares are allotted on non-repatriation basis, the dividend and sale proceeds of the Equity Shares cannot be remitted outside India.
- The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on or before the Issue Closing Date. A separate cheque or bank draft must accompany each CAF.
- In case of an application received from non-residents, allotment, refunds and other distribution, if any, will be made in accordance with the guidelines/ rules prescribed by RBI as applicable at the time of making such allotment, remittance and subject to necessary approvals.

Disposal of application and application money

The Board reserves its full, unqualified and absolute right to accept or reject any application, in whole or in part, in consultation with the Designated Stock Exchange, and in either case without assigning any reason thereto.

In case an application is rejected in full, the whole of the application money received will be refunded to the first named applicant. Wherever an application is rejected in part, the balance of application money, if any, after adjusting any money due on shares allotted, will be refunded to the first named applicant within fifteen days from the date of closure of the subscription list in accordance with Section 73 of the Companies Act, 1956. If there is delay in refund of application money by more than 8 days after the Bank becomes liable to pay (i.e. fifteen days after the closure of Issue), the Bank will pay interest for the delayed period at the rate prescribed under subsection (2) and (2A) of Section 73 of the Companies Act, 1956.

The subscription monies received in respect of this Issue will be kept in a separate bank account and the Bank will not have access to nor appropriate the funds until it has satisfied the Designated Stock Exchange with suitable documentary evidence that minimum subscription of 90 percent 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 “**GROUND FOR TECHNICAL REJECTIONS**” in this Draft Letter of Offer and subject to valid application,



acknowledgement of receipt of application money given by the Bankers to the issue shall be valid and binding on issuer and other persons connected with the Issue.

For further instruction, please read the Composite Application Form (CAF) carefully.

Important

- Please read this Draft Letter of Offer carefully before taking any action. The instructions contained in the accompanying Composite Application Form (CAF) are an integral part of the conditions of this Draft Letter of Offer and must be carefully followed; otherwise the application is liable to be rejected.
- All enquiries in connection with this Draft Letter of Offer or accompanying CAF and requests for Split Application Forms must be addressed (quoting the Registered Folio Number/ DP and Client ID number, the CAF number and the name of the first Equity Shareholder as mentioned on the CAF and super scribed “**Lakshmi Vilas Bank Ltd. - Rights Issue**” on the envelope) to the Registrar to the Issue at the following address:

Integrated Enterprises (India) Limited,
SEBI Reg. No.: INR000000644
II floor, “Kences Towers” No.1 Ramakrishna Street,
North Usman Road, T. Nagar , Chennai - 600 017
Ph:(044) 28140801, Fax: (044) 28142479
Email: corpserv@iebindia.com,
Website: www.iebindia.com
Contact Person: S Sriram

- It is to be specifically noted that this Issue of Equity Shares is subject to the section titled ‘Risk Factors’ beginning on page viii of this Draft Letter of Offer.

The Issue will not be kept open for more than 15 days unless extended, in which case it will be kept open for a maximum of 30 days.

The Equity Shares, now being issued, are subject to the terms and conditions contained in this Draft Letter of Offer

Investors are advised to contact the Compliance Officer in case of any pre-issue/ post-issue related problems.

Restriction on Foreign Ownership of Indian Securities

The Government of India regulates foreign ownership in private sector banks. Under guidelines issued by the Government, total foreign ownership in a private sector Bank from all sources (FDI, FII, NRI) cannot exceed 74 per cent of the paid-up capital. The limit of 74 per cent will be reckoned by taking the direct and indirect holding. At all times, at least 26 per cent 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 24 per cent of the paid up capital. However this limit can be raised to 49 per cent with the approval of Board / General Body. Individual NRI portfolio investment is restricted to 5 per cent with the aggregate limit for all NRIs restricted to 10 per cent but can be raised to 24 per cent with the approval of Board/General Body.

MAIN PROVISIONS OF OUR ARTICLES OF ASSOCIATION

Application of Table “A”

The regulation contained in Table “A” of Schedule I to the Companies Act, 1956, shall apply to the Bank except where and to the extent they are expressly or by implication excluded or varied by these Articles.

Share Capital:

3. The Authorised Share Capital of the Bank is Rs. 150,00,00,000 (Rupees one hundred and fifty Crores only) divided into 15,00,00,000 (Fifteen Crores) equity Shares of Rs.10/- each.

4. The Shares shall be under the control of the Board, who may allot or otherwise dispose of them to such persons on such terms and conditions and at such times as the Board may think fit, provided, however, the Board shall comply with the provisions of sections 42, 75 and 81 of the Act, and also that an option or right to call of shares shall not be given to any person or persons except with the sanction of the Company in General Meeting.

Transfer of Shares:

5. The Board may, subject to the right of appeal conferred by Section 111 A of the Act, decline to register the transfer of a share, not being a fully paid share, to a person of whom they do not approve.

5A. Notwithstanding anything contained in any other Articles of Association of the Bank to the Contrary, No single person / group shall acquire equity shares of the Bank which would take his /its holding to a level of 5% or more of the total paid-up capital of the Bank (or such other percentage as may be prescribed by the RBI from time to time) without the prior approval of the Reserve Bank of India”.

5B. “In case of physical shares, the Bank will obtain acknowledgement from Reserve Bank of India before effecting transfer of shares when the transfer makes the shareholding of individual / group equivalent to 5% or more of the total paid up capital of the of the bank. In case of demat shares as the Bank will come to know only post facto by way of downloads from the depositories at frequent intervals, the onus of obtaining prior permission / acknowledgement from Reserve Bank of India rests with the applicant / acquirer before such acquisition and he / they shall duly report to the Bank for conducting ‘Fit & Proper criteria’ to determine the desirability of such applicant / acquirer or group of to hold equity shares of the Bank by a process of due diligence as per RBI Guidelines”.

6. (1) The Board may also decline to recognize any instrument of transfer unless:

a) the instrument of transfer is accompanied by the certificate of the shares to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer, and

b) the instrument of transfer is in respect of only one class of shares.

6.(2) The Board shall not accept applications for subdivision or consolidation of share certificates in to denominations of less than the market unit of trading except when such a sub-division or consolidation is required to be made to comply with a Statutory Order or an Order of a Competent Court of Law or a request from a member to convert his holding of odd lots of shares into transferable / marketable lots, or into a single lot, subject, however, to verification by the Bank.

6.(4) No fee shall be charged for issue of new certificate in replacement of those which are old, decrepit or where the cages on the reverse for recording transfers have been fully utilized.

6.(5) Share Certificates shall be issued in marketable lots and where share certificates have been issued for either more or less share than marketable lots, subdivision or consolidation into marketable lots shall be done free of charges.

6.(6) The Board may, at their absolute discretion and without assigning any reason, decline to register:

i) The transfer of any share whether fully paid or not to a person of whom they do not approve; or



ii) Any transfer or transmission of shares on which the Bank has a lien.

Provided that the registration of a transfer shall not be refused on the ground of the transferor being either alone or jointly with any other person/s indebted to the bank on any account whatsoever.

6.(7) The transfer form should be as per the provisions of Section 108(1A) of the Companies Act, 1956.

6.(8) No fee shall be charged for transfer of shares or for effecting transmission or for registering any letters of probate, letters of administration and similar other documents.

6.(9) Transfers, Transmission, Sub-division or Consolidation shall be effected within one month from the date of lodgement therefor.

6(10) The amount of allotment money or call money or such part thereof remaining unpaid within the date fixed therefore shall carry liability to pay interest at 12% p.a.

Dematerialisation of Securities

Definitions

6A. (1) For the purpose of this Article:

‘Beneficial owner’ means a person whose name is recorded as such with a depository.

‘SEBI’ means the Securities Exchange Board of India, Depository means a company formed under the Companies Act, 1956 and which has been granted certificate of registration as a depository under the Securities Exchange Board of India Act, 1992; and ‘Security’ means such security as may be specified by SEBI from time to time.

6A. (2) Notwithstanding anything contained in these Articles, the Bank shall be entitled to dematerialize its securities and to offer securities in a dematerialized form pursuant to the Depositories Act, 1996.

Options for Investors

6A. (3) Every persons subscribing to securities offered by the Bank shall have the option to receive security certificates or to hold the securities with a depository. Such a person who is the beneficial owner of the securities can at any time opt out a depository, if permitted by law, in respect of any security in the manner provided by the Depositories Act 1996 and the Bank shall, in the manner and within the time prescribed, issue to the beneficial owner the required certificates of securities.

If a person opts to hold his security with a depository, the Bank shall intimate such depository the details of allotment of the security and, on receipt of the information, the depository shall enter in its record the name of the allottee as the beneficial owner of the security.

Securities in Depositories to be in fungible form

6A. (4) All securities held by a depository shall be dematerialized and be in fungible form. Nothing contained in Sections 153, 153A, 153B, 187B, 187C and 372A of the Act shall apply to depository in respect of the securities held by it on behalf of the beneficial owners.

Rights of Depositories and Beneficial owners

6A. (5) (a) Notwithstanding anything to the contrary contained in the Act or these articles, a depository shall be deemed to be the registered owner for the purpose of effecting transfer of ownership of security on behalf of the beneficial owners.

6A. (5) (b) Save as otherwise provided in (a) above, the depository as the registered owner of the securities shall not have any voting rights or any other rights in respect of the securities held by it.

6A. (5) (c) Every person holding securities of the Bank and whose name is entered as the beneficial owner in the records of the depository shall be deemed to be a member of the Bank. The beneficial owner of the securities shall be entitled to all the rights and benefits and be subject to all the liabilities in respect of his securities which are held by a depository.

Service of Documents

6A. (6) Notwithstanding anything in the Act or these Articles of the contrary, where securities are held in a depository, the record of the beneficial ownership may be served by such depository on the Bank by means of electronic mode or by delivery of floppies or discs.

Transfer of Securities

6A. (7) Nothing contained in section 108 of the Act shall apply to a transfer of securities effected by a transferor and transferee both of whom are entered as beneficial owners in the records of a depository.

Allotment of Securities dealt with by a depository

6A. (8) Notwithstanding anything in the Act or these Articles, where securities are dealt with by a depository, the bank shall intimate the details thereof to the depository immediately on allotment of such securities.

Distinctive Numbers of Securities held in a Depository

6A. (9) Nothing contained in the Act or these Articles regarding the necessity of having distinctive numbers for securities issued by the Bank shall apply to securities held in a depository.

Register and Index of Beneficial Owners

6A. (10) The Registrar and Index of Beneficial Owners, maintained by a depository under the Depositories Act, 1996, shall be deemed to be the Registrar and Index of Members and Security holders for the purpose of these Articles.

Forefeiture of Shares

7 If a member becomes indebted to the Bank or fails to pay any call or installment of a call on the day appointed for payment thereof, the board may at anytime thereafter during such times as any part of the amount call or installment remains unpaid, serve a notice on him requiring payment of so much of the amount, call or installment as is unpaid together with any interest which may have accrued.

Lien

8.(2) LIEN: The Bank shall have a first and paramount lien upon all the shares (other than fully paid up shares) registered in the name of each member, (whether solely or jointly with others) and upon the proceeds of sale thereof for all money (whether presently payable or not) called or payable at fixed time in respect of such shares and no equitable interest in any shares shall be created except upon the footing and condition that this Article will have full effect. And such lien shall extend to all dividends and bonus from time to time declared in respect of such shares. Unless otherwise agreed, the registration of a transfer of shares shall operate as a waiver of the Bank's lien if any, on such shares. The Directors may at any time declare any shares wholly or in part to be exempt from the provisions of this clause.

Calls In Advance:

9. (1) The Bank may pay interest on any amount paid as calls in advance but the member shall not be entitled to dividend or participate in the profits in respect of such amount paid as calls in advance.

9.(2) Unclaimed dividends shall not be forfeited by the Board and the Bank shall comply with the provisions of section 205A of the Companies Act, 1956, in respect of such dividend.



General Meeting:

10. (a) Five members present in person shall be the quorum for any general meeting.

(b) Where within thirty minutes of the time fixed for the commencement of any general meeting the above quorum is not present, the meeting shall stand adjourned to the same day during the next week at the same place and time or to such other day and at such other time and place as the Board may determine.

(c) If at the adjourned meeting also a quorum is not present within thirty minutes from the time appointed for holding the meeting, the members present shall be the quorum and business transacted during such adjourned meeting shall be binding on the Bank and on all the members.

(d) All questions in General Meeting shall be decided by show of hands unless a poll is demanded before the decision arrived at on the show of hands is recorded by any member or members present in person or by proxy and holding shares in the Bank.

(i) Which confers a power to vote on the resolution not being less than one tenth of the total voting power in respect of the resolution or (ii) on which an aggregate sum of not less than fifty thousand rupees has been paid-up.

(e) The Executive or Non Executive Chairman, if any, of the board shall preside as Chairman at every general meeting of the company. If there is no such Executive or Non Executive Chairman or if he is not present within fifteen minutes after the time appointed for holding the meeting or is unwilling to act as Chairman of the meeting, the Director present, shall elect any one of them to the Chairman of the meeting.

Vote of Members:

11. Subject to any rights or restrictions for the time being attached to any class or classes of shares:

(a) On a show of hands, every member present in person shall have one vote; and

(b) On a poll, the voting rights shall be as laid down in Section 87 of the Act subject to the restrictions placed by Section 12(2) of the Banking Regulation Act.

Board of Directors:

12. The number of Directors of the Bank shall not be less than nine and more than twelve.

13. Not less than fifty-one per cent of the total number of Directors shall be persons who satisfy the requirements of Section 10A of the Banking Regulation Act.

14. Subject to the provisions of the Companies Act, 1956 and the Banking Regulation Act, 1949 the Board of Directors of the Bank shall elect or appoint a whole time chairman and Chief Executive Officer of its Board. The whole time Chairman and Chief Executive Officer shall be entrusted with the Management of the whole of the affairs of the Bank subject to the superintendence, control and direction of the Board of Directors.

Alternatively, the Board of directors may subject to the prior approval of RBI, appoint or re-appoint one of them to be the Non Executive Chairman of the Bank for such a period and subject to such conditions as the RBI may specify, while giving such approval, and that in such event the management of the whole of the affairs of the Bank shall be entrusted to a Managing Director who will be the Chief Executive Officer of the Bank who shall exercise his powers subject to the superintendence, control and direction of the Board of Directors.

The Chairman (whether Executive or Non Executive Chairman) shall preside over the meeting of the Board of Directors / Committee thereof and the General Meeting of the Bank and he shall have the second or casting vote.

15. Every whole time Chairman and Chief Executive Officer or alternatively Non - Executive Chairman or Managing Director / CEO of the Bank shall hold office for such period, not exceeding five years, as the Board of Directors may fix and on such remuneration as may be determined by General Body and shall subject to the

provisions of the Act or the Banking Regulation Act, be eligible for re-election or re-appointment but shall not be liable to retirement by rotation.

16. The qualification of a Director shall be the holding in his own name of not less than one hundred fully paid shares of the Bank. Provided that the Board may waive this condition in the case of any Director but the Board shall exercise such a discretion within two months from the date of appointment of such Director.

Provided that nothing in this Article shall apply to the Directors appointed by the Reserve Bank of India.

Provided further that the Executive or Non-Executive Chairman or Managing Director/ CEO shall not be required to hold any qualification shares.

17 (a) The Board may co-opt any person as a Director to fill up any casual vacancy.

(b) The Board shall have power at any time and from time to time, to appoint a person as an Additional Director, provided that the number of Directors and Additional Directors together shall not at any time exceed the maximum strength fixed in this regard by these articles.

(c) A person co-opted or appointed under the above clauses shall hold office only upto the date of the next Annual General Meeting of the Bank, but shall be eligible for appointment by the Bank as a Director at that meeting subject to the provisions of the Act and the Banking Regulation Act.

(d) The process of due diligence shall be undertaken by the Bank in compliance of Directives/Guidelines/Circulars issued by RBI from time to time in the matter of appointment/ re-appointment of Director.

18. Subject to the Provisions of the Banking Regulations Act, the General Body shall elect as its Annual General Meeting, Directors in place of those retiring by rotation and also appoint the Auditors.

19. At every Annual General Meeting, one third of such of the Directors for the time being as are liable to retire by rotation or if their number is not a multiple of three, then the number nearest to one-third shall retire from office.

20. The Directors to retire every year shall be those who have been longest in office since their last election but as between persons who become Directors on the same day, those to retire (unless otherwise agreed among themselves), be determined by lot.

21. A retiring Director shall be eligible for re-election.

22. The office of a Director shall become vacant on the happening of one or more of the contingencies provided in Section 283 of the Act.

Proceedings of the Board:

23. (a) The Board of Directors may meet as often as may be necessary.

(b) The Executive or Non Executive Chairman or Managing Director/ CEO may, and on the requisition of a Director shall, at any time, summon a meeting of the Board.

(c) Notice of 72 hours shall be given of any meeting of the Board.

24. The quorum for a meeting of the Board shall be one-third of its total strength or two Directors, whichever is higher.

25. The sitting fees payable to a Director for attending a meeting of the Board or Committee thereof shall be determined by the Board of Directors from time to time within the limits as may be permissible under the provisions of the Companies Act, 1956 and the rules framed thereunder and also subject to such fees as may be allowed by the Reserve Bank of India from time to time.

26. The Board may pay such remuneration, as it considers proper to a Director other than Executive or Non Executive Chairman or Managing Director/ CEO who is called upon to render any special or extra work to the Bank, subject to the provisions of the Banking Regulation Act.

(a) Each Director of the Bank (other than Executive or Non Executive Chairman or Managing Director/ CEO) be paid a remuneration of Rs.75/- (Rupees Seventy-five only) per day when called upon by the Board of Directors to render any special work at places other than his place of permanent residence subject to the provisions of the Banking Regulations Act, 1949.

Powers of the Board:

27. (a) The Board of Directors shall be entitled to exercise all such powers and to do all such acts and things as the Bank is authorised to exercise and do.

Provided that the Board shall not exercise any power or do any act or thing, which is directed or required by the Act or any other provisions of law or by these Articles to be exercised or done by the Bank in General Meeting.

Provided further that in exercising any such power or doing any such act or thing, the Board shall be subject to the provisions contained in that behalf in the Act or any other provisions of law or the Memorandum of Association of the Bank of these Articles or in any regulation not inconsistent therewith and duly made hereunder including regulation made by the Bank in General Meeting.

(b) No regulation made by the Bank in General Meeting shall invalidate any prior act of the Board which would have been valid, if that regulation had not been made.

28. Without prejudice to the generality of the foregoing powers, the Board shall have among others the following specific powers:

(a) To carry out the object and exercise the powers contained in the Memorandum of Association of the Bank.

(b) To have the superintendence, control and direction over the Executive or Non Executive Chairman or Managing Director/ CEO, Secretary, Managers, Officers and all other employees of the Bank.

(c) To delegate, subject to the provisions of Section 292 of the Act, by a resolution passed at a meeting to any committee of Directors or Executive or Non Executive Chairman or Managing Director/ CEO of the Bank or other Officers of the Bank :

- (i) the power to borrow money otherwise than on debentures.
- (ii) the power to invest the funds of the Bank.
- (iii) the power to make loans.

(d) To appoint at any time and from time to time by a resolution of the Board or by a power of attorney under seal, signed by any two Directors, any person to be attorney of the Bank for such purposes and with such powers, authorities and Directions and for such period and subject to such conditions as the Board may from time to time think fit with powers for such attorneys to sub-delegate all or any of the powers, authorities and discretion vested in the attorney for the time being.

(e) To buy, sell and deal in drafts, hundies and bills of exchange, bills of lading, railway receipts, Government bonds, cash credit or overdrafts on pledge of Government and other Trustee Securities or otherwise.

(f) To make, sign, draw, accept, endorse, otherwise, execute all cheques, promissory notes, drafts, hundis, orders, bills of exchange, bills of lading and other negotiable instruments, to make and give receipts, releases and other discharges for moneys payable to the Bank, to make contracts and to execute deeds, provided, however, the provisions of Section 46, 47 and 48 of the Act shall be complied with.

(g) To undertake on behalf of the Bank, collection of all rents and the performance of all covenants, conditions and agreements contained in or reserved by any lease that may be granted or assigned to or otherwise acquired by the Bank.

(h) To appoint officers, clerks and servants for permanent, temporary or special service as the Board may from time to time think fit and to determine their powers and duties and to fix their salaries and emoluments and to require security in such instances and to such amount as the Board may think fit, and to remove or suspend any such officers, clerks and servants. Provided however that in making such appointments, the provisions of Section 314 of the Act and section 10 of the Banking Regulation Act shall be complied with.

(i) To invest and deal with any of the moneys of the Bank, to vary or release such investments, subject to the provisions of the Act.

(j) To refer claims or demands by or against the Bank of arbitration and above observe and perform any awards made thereon.

(k) To institute, conduct, defend, compound or abandon any legal proceedings by or against the Bank or its Officers or otherwise concerning the affairs of the Bank and also to compound and allow time for payment or satisfaction of any debts due and of claims or demands by or against the Bank and to appoint solicitors, advocates, counsels and other legal advisers for such purposes or for any other purposes and settle and pay their remuneration.

(l) To pay and give gratuity and bonus to the employees of the Bank that may appear to the Directors just and proper and to make necessary provisions for the same.

(m) To establish, maintain, support and subscribe to any charitable or public object or any institution, society, club which may be for the benefit of the Bank or its employees or to the general public.

(n) To make, vary, repeal bye-laws or the regulations of the business of the Bank, its Officers and servants from time to time not inconsistent with the provisions of the Act or Memorandum or Articles of the Bank.

(o) To exercise all other powers not specifically mentioned in this regulation but referred to in other regulation in these Articles.

(p) To determine by Resolution from time to time the name of person or persons who shall be entitled to do all or any of the acts mentioned in these Articles on behalf of the Bank.

(q) To exercise the powers conferred by Section 50 of the Act with regard to having an official seal for use abroad.

(r) To exercise the power conferred on the Bank by Section 157 and 158 of the Act with regard to the keeping of foreign registers.

(s) To constitute Advisory Committees for Branches, to appoint members, for such Committees and to fix their remuneration

29. Every Manager, Auditor, Trustee, Member of a Committee, Officer, Servant, Agent, Accountant, or other person employed in business of the Bank shall, if so required by the Board of Directors, before entering upon his duties, sign a declaration pledging himself to observe strict secrecy respecting all transactions of the Bank with its customers and the state of account with individuals and in matters relating there to and shall by such declaration pledge himself not to reveal any of the matters which may come to his knowledge in the discharge of his duties except when required so to do by the Directors by any meeting or by a Court of Law or by any duly constituted Authority properly exercising its powers under any law for the time being in force and except so far as may be necessary in order to comply with any of the provisions contained in these articles.

30. Except to the extent enabled or provided under the provisions of the Act or the Banking Regulation Act or any other law in force specifically in this behalf, no member or other person (unless he is a Director or other person in management of the affairs of the Bank or an official authorised by the Reserve Bank) shall without the permission of the Executive or Non Executive Chairman or Managing Director/CEO or of the Directors of the Bank be entitled to inspect the books and records of the Bank or to require discovery of or any information respecting any details of the Bank's business or any matter which is or may be secret or confidential or which relate to conduct of the business of the Bank and which in the opinion of the Board can be inexpedient in the interest of the Bank to communicate with the public.

31. No suit or other proceeding by or at the instance of any Member of the Bank relating to any General Meeting of the Bank, whether Annual General Meeting or Extraordinary Meeting or meetings of Board or Committee of Directors, seeking any direction with reference to such meeting or to restrain any proceedings thereat or the passing of any resolution or the transaction of any business shall be instituted in any Court other than the Courts in Karur which is the place of residence of the Bank for this purpose by reason of location of its Registered Office.

MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The contracts referred to below (not being contracts entered into in the ordinary course of business carried on by the Bank or entered into more than two years prior to the date of the Draft Letter of Offer) which are or may be deemed material have been entered into by the Bank or to be entered into by the Bank. Copies of these contracts, together with the copies of the documents referred to below, may be inspected at the Registered and Head Office of the Bank between {•} and {•} on any working day of the Bank from the date of the Draft Letter of Offer until the date of closing of the subscription list.

Material contracts

1. Engagement Letter from our Bank to the Standard Chartared – STCI Capital Markets Limited appointing them as the Lead Manager.
2. Memorandum of Understanding between the Bank and Standard Chartared – STCI Capital Markets Limited dated {•}.
3. Memorandum of Understanding between the Bank and Integrated Enterprises (India) Limited dated {•}.

A) Documents

1. Our Memorandum and Articles of Association as amended from time to time, Certificate of Incorporation dated November 03, 1926, and Certificate of Commencement of Business dated November 10, 1926.
2. Board resolutions in relation to the Issue.
3. RBI notification dated August 11, 1958 for including our Bank in the second schedule to the RBI Act 1934
4. RBI License No. mad/15 dated June 19, 1958 to carry on banking business
5. RBI letter no. DBOD No 3085/08.94.004/2007-08 dated September 20, 2007 granting approval for appointment of Mr. V. S. Reddy as Managing Director / Chief Executive Officer of the Bank.
6. RBI letter no. DBOD No 11129/08.44.001/2008-09 dated January 9, 2009 granting approval for appointment of Dr. S. Narayan as Part Time Chairman and Non Executive Chairman of the Bank.
7. Consents of Lead Manager, Registrar to the Issue, Legal Advisor to the Issue, Auditors, Directors of the Bank, Compliance Officer, as referred to, in their respective capacities.
8. Annual reports of the Bank for last five years
9. Reports of the Auditors dated July 21st,2009 in relation to the restated financials of the Bank for the last five Financial Years
10. Statement of Tax Benefits dated July 21st ,2009.
11. Initial listing applications for this Rights Issue dated [•] filed with NSE
12. In-principle listing approval dated [•] from NSE
13. Tripartite Agreement between NSDL, our Bank and the Registrar to the Issue dated [•]
14. Tripartite Agreement between CDSL, our Bank and the Registrar to the Issue dated [•]
15. Due diligence certificate dated 14th August, 2009 to SEBI from the Lead Manager
16. Copy of the Board Resolution dated 21st July,2009 approving the Draft Letter of Offer
17. Copy of the Board Resolution dated [•] fixing the record date and issue price
18. SEBI observation letter bearing no, [•] dated [•]

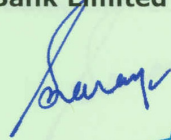
Any of the contracts or documents mentioned in this Draft Letter of Offer may be amended or modified at any time if so required in the interest of the Bank or if required by the other parties, without reference to the shareholders subject to compliance of the applicable laws.

DECLARATION

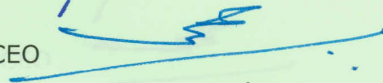
We, the Directors of the Bank hereby declare that all the relevant provisions of the Act and the guidelines, instructions issued by the Government of India and any other competent authority and guidelines issued by Securities & Exchange Board of India established under Section 3 of the SEBI Act, as the case may be, have been complied with and all the legal requirements connected with the issue has been complied with and no statement made in this Letter of Offer is contrary to the provisions of the Act, SEBI Act or the rules made or guidelines issued thereunder, as the case may be. We further certify that all disclosures in the Letter of Offer are true and correct.

For The Lakshmi Vilas Bank Limited

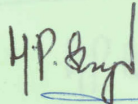
Dr. S Narayan
Part time Chairman



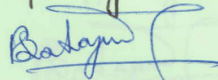
Mr. V.S.Reddy
Managing Director & CEO



Mr. M.P.Shyam
Director



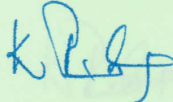
Mr. K.Balaji
Director



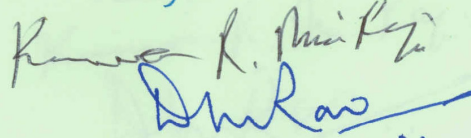
Mr. N. Saiprasad
Director



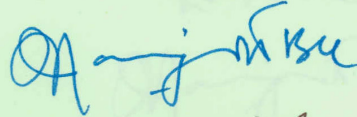
Mr. K. Ravindrakumar
Director



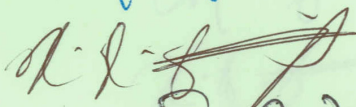
Mr.Kusuma R Muniraju
Director




Mr.D.L.N.Rao
Director



Mr.B K Manjunath
Director



Mr.K.R.Pradeep
Director



Mr.S G Prabhakaran
Director

Date : 14th August 2009

Place : Chennai, Tamilnadu