



Draft Letter of Offer
August 27, 2009
For Equity Shareholders of our Bank Only

CUB CITY UNION BANK LIMITED

Our Bank was incorporated on October 31, 1904 as a public limited company under the provisions of the Indian Companies Act, 1882 under the name of The Kumbakonam Bank Limited. Thereafter, the name was changed to The Kumbakonam City Union Bank Limited in April 1965. Subsequently, name of our Bank was changed to 'City Union Bank Limited' with effect from November 2, 1987, as evidenced by the fresh incorporation certificate consequent to change of name (For further details please refer to the chapter titled "History of our Bank and Other Corporate Matters" on page 26 of this Draft Letter of Offer.)

Registered Office: No.149, TSR Big Street, Kumbakonam 612001, Tamilnadu
Tel: + 91 435 2432322/ 2431622 **Fax:** +91 435 2431746
Contact Person: Mr. V. Ramesh, Company Secretary and Compliance Officer
E-mail: shares@cityunionbank.com **Website:** www.cityunionbank.com

FOR PRIVATE CIRCULATION TO THE EQUITY SHAREHOLDERS OF OUR BANK ONLY

DRAFT LETTER OF OFFER

ISSUE OF 8,00,00,000 EQUITY SHARES WITH A FACE VALUE OF RE. 1/- EACH ("RIGHTS EQUITY SHARES") FOR CASH AT A PRICE OF RS. [●] INCLUDING A PREMIUM OF RS. [●] AGGREGATING UPTO RS. [●] CRORES TO THE EXISTING EQUITY SHAREHOLDERS OF OUR BANK ON RIGHTS BASIS IN THE RATIO OF 1 RIGHTS EQUITY SHARE FOR EVERY 4 EQUITY SHARES HELD ON THE RECORD DATE I.E. [●] ("RIGHTS ISSUE/ ISSUE").

THE ISSUE PRICE FOR THE RIGHTS EQUITY SHARE IS [●] TIMES THE FACE VALUE OF THE RIGHTS EQUITY SHARE.

PAYMENT METHODS						
Amount payable per Rights Equity Share (Rs.)	Payment Method 1*			Payment Method 2		
	Applicable to all categories of Investors except NRIs, FIIs and Non-Residents			Applicable to all categories of Investors		
	Face Value	Premium	Total	Face Value	Premium	Total
On Application	0.50	[●]	[●]	1.00	[●]	[●]
First and Final Call	0.50	[●]	[●]	-	-	-
Total	1.00	[●]	[●]	1.00	[●]	[●]

* Please refer to the chapter titled "Risk Factors" beginning on page vii of this Draft Letter of Offer for risks associated with Payment Method 1. For details on the payments methods please refer to the chapter titled "Terms and Procedure of the Issue" beginning on page 61 of this Draft Letter of Offer.

GENERAL RISKS

Investments in equity and equity related securities involve a degree of risk and Investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the Risk Factors carefully before taking an investment decision in this Issue. For taking an investment decision, Investors must rely on their own examination of the Issuer and the Issue including the risks involved. The securities have not been recommended or approved by the Securities and Exchange Board of India (SEBI) nor does SEBI guarantee the accuracy or adequacy of this document. **Investors are advised to refer to the chapter titled "Risk Factors" beginning on page vii 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 this Issue, that the information contained in this Draft Letter of Offer is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Draft Letter of Offer 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 our Bank are listed on the Bombay Stock Exchange Limited ("BSE"), the National Stock Exchange of India Limited ("NSE") and Madras Stock Exchange Limited ("MSE") Our Bank has received "in-principle" approval from BSE, NSE and MSE for listing the Rights Equity Shares arising from this Issue vide letters dated [●],[●] and [●] respectively. BSE is the Designated Stock Exchange for this Issue.

LEAD MANAGER TO THE ISSUE



Edelweiss Capital Limited
14th Floor, Express Towers
Nariman Point, Mumbai – 400 021
Maharashtra, India
Tel: +91 22 4086 3535
Fax: +91 22 4086 3610
E-mail: cub.rights@edelcap.com
Investor Grievance I.D.: customerservice.mb@edelcap.com
Website: www.edelcap.com
Contact Person: Ms. Sujaya Moghepadhye/ Mr. Jibi Jacob
SEBI Registration No.: INM000010650

REGISTRAR TO THE ISSUE



Karvy Computershare Private Limited
Karvy House, 46, Avenue 4, Street no. 1
Banjara Hills,
Hyderabad – 500 034
India
Tel: +91 40 23420818
Fax: +91 40 23420814
Email: einward.ris@karvy.com
Website: http://karisma.karvy.com
Contact Person: Mr M. Murali Krishna
SEBI Registration No.: INR000000221

ISSUE PROGRAMME

ISSUE OPENS ON	LAST DATE FOR REQUEST FOR SPLIT APPLICATION FORMS	ISSUE CLOSSES ON
[●]	[●]	[●]

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PRESENTATION OF FINANCIAL INFORMATION

Unless stated otherwise, the financial information used in this Draft Letter of Offer is derived from our Bank's financial statements as of fiscal 2009 and Reviewed financial statements for the three months ended on June 30, 2009 prepared in accordance with Indian GAAP and the Companies Act and in accordance with the SEBI DIP Guidelines, as stated in the report of our Statutory Auditors, M/s. Abarna & Ananthan, Chartered Accountants, included in this Draft Letter of Offer.

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

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

Unless otherwise stated, throughout this Draft Letter of Offer all figures have been expressed in INR

ABBREVIATIONS AND TECHNICAL TERMS

In this Draft Letter of Offer, all references to “Rupees”, “Rs.”, ‘Re’ or “INR” refer to Indian Rupees, the official currency of India; references to the singular also refer to the plural and reference to a gender also refers to any other gender, wherever applicable, and the words “Lakh” or “Lac” mean “100 thousand” and the word “million” means “10 lakh” and the word “crores” means “10 million” or “100 lakhs” and the word “billion” means “1,000 million” or “100 crores”.

CONVENTIONAL/ GENERAL TERMS

Act	The Companies Act, 1956, as amended
Articles or AOA	Articles of Association of our Bank
Board	The Board of Directors of our Bank or the Committee authorized to act on its behalf
Equity Shares	The Issued, Subscribed and Paid Up Equity Share Capital of our Bank and the additional equity shares of our Bank offered pursuant to the Rights Issue
Depository	A depository registered with SEBI under the SEBI (Depository and Participant) Regulations, 1996, as amended from time to time.
Guidelines / SEBI Guidelines	SEBI (Disclosure and Investor Protection) Guidelines, 2000 and subsequent amendments thereto
ISIN	International Securities Identification Number allotted by the depository
Memorandum Or MOA	Memorandum of Association of our Bank

ISSUE RELATED TERMS

Abridged Letter of Offer	The abridged letter of offer to be sent to Eligible Equity Shareholders of our Bank with respect to this Issue in accordance with SEBI DIP Guidelines
Allotment	Unless the context otherwise requires, the allotment of Rights Equity Shares pursuant to the Issue.
Application	Unless the context otherwise requires, refers to an application for allotment of the Rights Equity Shares in the Issue.
Allottee	Unless the context otherwise requires, an Investor to whom Rights Equity Shares are allotted.
Bankers To The Issue	[●]
CAF	Composite Application Form
DLOF / Draft Letter Of Offer	Draft Letter of Offer of our Bank for the rights issue of 8,00,00,000 equity shares of Re. 1 each at a premium of Rs. [●] per share
Equity Shares	The Issued, Subscribed and Paid Up Equity Share Capital of our Bank and the additional equity shares of our Bank offered pursuant to the Rights Issue
Equity Shareholders/Eligible Equity Shareholders	Means a holder/beneficial owner of equity shares of the City Union Bank Limited as on the record date i.e. [●].
First and Final Call	Call notice as shall be sent by our Bank to each of the Investors for making the payment towards the balance amount payable under Payment Method 1.
Investors	The Eligible Equity Shareholders of our Bank as on the Record Date and the Renouncees.
Issue/Rights Issue	Issue of 8,00,00,000 equity shares with a face value of Re. 1/- each (“rights equity shares”) for cash at a price of Rs. [●] including a premium of Rs. [●] aggregating upto Rs. [●] crores

	to the existing equity shareholders of our Bank on rights basis in the ratio of 1 Rights Equity Shares for every 4 Equity Shares held on the record date <i>i.e.</i> [●]
Issue Price	Rs. [●]/- per Rights Equity Share
Issue Closing Date	[●]
Issue Opening Date	[●]
Issue Proceeds	The proceeds of this Issue that is available to our Bank.
Lead Manager/ Edelweiss	Edelweiss Capital Limited 14 th floor, Express Towers, Nariman Point, Mumbai- 400021
Letter of Offer	The letter of offer filed with the Stock Exchanges after incorporating SEBI comments on the Draft Letter of Offer dated [●]
Record Date	[●]
Renounee(s)	Any person(s) who has / have acquired Rights Entitlements from the Eligible Equity Shareholders.
Rights Entitlement	The number of Equity Shares that an Eligible Equity Shareholder is entitled to in proportion to his / her shareholding in our Bank as on the Record Date.
Registrar To The Issue	Karvy Computershare Private Limited
Registrar to the Bank/ Registrar And Share Transfer Agent / R&T Agent	Intergrated Enterprises (India) Limited

BANK/INDUSTRY RELATED TERMS

“We”, “us”, “our”, “the Issuer”, “the Bank”, “our Bank”, “City Union Bank Limited”, “City Union Bank” or “CUB”	Unless the context otherwise indicates or implies, refers to “City Union Bank Limited”
Auditors	The statutory auditors of our Bank – M/s Abarna & Ananthan, Chartered Accountants
Bank Acquisition Act	Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, as amended from time to time
Chairman	The Chairman of our Bank
Fitch	Fitch Ratings Limited, being a credit rating agency
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/Designated Stock Exchange	Bombay Stock Exchange Limited
CDSL	Central Depository Services (India) Limited
DEMAT	Dematerialized (Electronic/Depository as the context may be)
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
IIFCL	India Infrastructure Finance Company Limited
IT	Income-Tax Act 1961
ITAT	Income Tax Appellate Tribunal
DLOF	Draft Letter of Offer
MIS	Management Information System
MSE	Madras Stock Exchange
NABARD	National Bank for Agriculture and Rural Development
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	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
ST	Service Tax
South India/ Southern India	The states and union territories comprising south India, namely Tamil Nadu, Kerala, Andhra Pradesh, Karnataka and Pondicherry.
TAN	Tax Deduction Account Number

TECHNICAL AND INDUSTRY TERMS AND ABBREVIATIONS

AFS	Available for sale
ALCO	Asset Liability Management Committee
ATMs	Automated Teller Machines
Bps	Basis points
CAIIB	Certified Associate of Indian Institute of Bankers
CAR	Capital Adequacy Ratio
CBS	Core Banking Solutions
CDR	Corporate Debt Restructuring
CRAR	Capital to Risk Weighted Assets Ratio
CRR	Cash Reserve Ratio
DBOD	Department of Banking Operations and Development
DRS	Disaster Recovery Site
DRT	Debts Recovery Tribunal
ECGC	Export Credit and Guarantee Corporation of India Ltd
ECS	Electronic Clearing Services
EPS	Earnings Per Share
FBT	Fringe Benefit Tax
GAAP	Generally Accepted Accounting Principles
HFT	Held for trading
HTM	Held to Maturity
IRDA	Insurance Regulatory and Development Authority

IT	Income Tax
KYC	Know Your Customer Norms as stipulated by the Reserve Bank of India
LIC	Life Insurance Corporation of India
FCNR (Account)	Foreign Currency Non Resident (Account)
FCNR (Banks)	Foreign Currency Non Resident (Banks)
NAV	Net Asset Value
NPA	Non-Performing Asset
NEFT	National Electronic Fund Transfer
NSLR	Non- Statutory Liquidity Ratio
MSME	Micro Small and Medium Enterprises. Micro Enterprise shall mean where the investment in plant and machinery does not exceed twenty-five lakh rupees. Small Enterprise shall mean where the investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees, and Medium Enterprise shall mean where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees
PAT	Profit after Tax
PBIT	Profit before Interest and Tax
RIDF	Rural Infrastructure Development Fund
RTGS	Real Time Gross Settlement
SARFAESI Act 2002/Securitisation Act	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act, 2002, as amended
SGL	Subsidiary General Ledger
SLR	Statutory Liquidity Ratio
Tier I Capital	The core capital of a bank, which provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital and reserves consisting of any statutory reserves, free reserves and capital reserves as reduced by equity investments in subsidiaries, intangible assets, and losses in the current period and those brought forward from the previous period
Tier II Capital	The undisclosed reserves and cumulative perpetual preference shares, revaluation reserves, general provisions and loss reserves, hybrid debt capital instruments, investment fluctuation reserves and subordinated debt.
WDV	Written down value
YTM	Yield to Maturity

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 Rights Equity Shares. If any of the following risks actually occur, our business, results of operations and financial condition could suffer, the price of our Equity Shares could decline, and you may lose all or part of your investment. The financial and other implications of material impact of risks concerned, wherever quantifiable, have been disclosed in the risk factors mentioned below. However there are a few risk factors where the impact is not quantifiable and hence the same has not been disclosed in such risk factors.

The occurrence of any of the following events could have a material adverse effect on our business, results of operations, financial condition and prospects and cause the market price of our Banks Equity Shares to fall significantly, and you may lose all or part of your investment. Additionally, our business operations could also be affected by additional factors that are not presently known to us or that we currently consider as immaterial to our operations. The following factors have been considered for determining the materiality:

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

A. INTERNAL RISK FACTORS

Risk related to the Issue and Objects of the issue

1. A proportion of the Rights Equity Shares will be partly paid-up until the First and Final Call

The Issue Price of our Rights Equity Shares is Rs. [●]/- per Rights Equity Share. The investors excluding NRIs, FIIs and Non-Residents will have the option to pay Rs. [●]/- *i.e.* the entire Issue Price on Application or pay Rs. [●]/- of the Issue Price towards the Application and the balance Rs. [●]/- of the Issue Price on the First and Final Call. The price movements of the partly paid-up Rights Equity Shares (for investors who opt for Payment Method 1) may be greater in percentage terms than the price movements if the Equity Shares were fully paid-up. Investors in this Issue will be required to pay the money due on First and final call, even if, at that time, the market price of our Equity Shares is less than the Issue Price. If the Investor fails to pay the balance amount due with any interest that may have accrued thereon after notice has been delivered by our Bank, then any of our Rights Equity 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 a resolution of our Board to that effect.

2. Our partly paid Rights Equity Shares will be suspended from trading as per the rules and regulations of the Stock Exchanges prior to the record date fixed for the determination of the Investors liable to pay the First and Final Call.

The issue of Rights Equity Shares is being made at a price of Rs. [●]/- per Rights Equity Shares. The Investors (except NRIs / FIIs / non-residents) will have an option either to pay Rs. [●]/- *i.e.* the entire Issue Price on Application or pay Rs. [●]/- of the Issue Price towards the Application and the balance Rs. [●]/- of the Issue Price on the First and Final Call. Till such time as the total Issue Price is paid, the Rights Equity Shares shall be considered to be partly paid up. The partly paid-up Rights Equity Shares offered under the Issue will be traded under a separate ISIN for the period as may be applicable under the rules and regulations prior to the record date for the First and Final Call. The ISIN representing partly paid-up Rights Equity Shares will be terminated after the record date for the First and Final Call. On payment of the call money in respect of the partly paid-up Rights Equity Shares, such partly paid-up Equity Shares would be converted into fully paid-up Equity Shares and merged with the existing ISIN for our Equity Shares. Our Bank would fix a record date for the purpose of determining the list of Allottees to whom the notice for call money would be sent. Once the record date has been fixed, trading in the partly paid Rights Equity Shares for which First and Final Calls have been made would be suspended for the period as may be applicable under the rules and regulations.

3. Risk related to our Bank and our business activities

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

Our Bank is party to various legal proceedings including writ petition proceedings, suits, consumer matters, labour related proceedings, and taxation disputes etc. A summary of the litigations involving our Bank is as under:

Sl. No.	Brief Description	No. of Cases	Amount Involved (Rs. in crores)
1.	Suits filed by our Bank against defaulting borrowers.	2285	66.17
2.	Proceedings filed by our Bank on disputed tax claims.	26	117.17
3.	Proceedings filed against our Bank on disputed tax claims	6	Not quantifiable
4.	Suits involving our Bank which are not acknowledged as debts.	10	0.11
5.	Criminal proceedings against our Bank	1	Not quantifiable

There are 2285 cases filed by our Bank against various parties for recovery of amounts and the same are pending at various stages and the aggregate of the dues are approximately Rs. 66.17 crores. The proceedings are pending at various forums and are at different stages of adjudication. The brief particulars of the matters having a balance of Rs. 1 crore and above are as detailed on page 40 of this Draft Letter of Offer.

In the event that an unfavourable order(s) is/are passed, the same may have an adverse effect on our operations and financial condition. The other litigations pending against and/or filed by our Bank are as provided under “Legal and Other Information” at page 40 of this Draft Letter of Offer.

4. A determination against our Bank in respect of disputed tax assessments may adversely impact our financial performance.

There are 32 disputes relating to income tax and interest tax assessments in which the aggregate amount involved in 26 of such disputes is approximately Rs. 117.17 crores. Save and except for 2 matters involving a sum of Rs. 41.16 crores, in all cases where our Bank has filed an appeal, our Bank has paid the entire amount claimed by the Income Tax Department under protest. Further, the income tax authorities have filed 6 appeals wherein we are unable to quantify our liability. Our Bank will have to provide for the liability if orders are passed against us in the said cases. Any ruling being passed against our Bank may adversely impact the financial condition of our Bank. For details please refer to the section titled “Legal and Other Information” at page 40 of this Draft Letter of Offer.

5. The SEBI has issued notices against our Bank in the past

Our Bank has received the following notices from the SEBI in the past

Date of Notice	Particulars
March 24, 1998	Notice calling upon our Bank to show cause as to why our merchant banking license should not be suspended for a period of 6 months on account of an alleged non-fulfilment of underwriting obligations in respect of the public issue.
November 16, 2004	The notice alleged that our Bank was in violation of regulation 8(3) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and called upon our Bank to make payment of penalty under section 15A of the SEBI Act, 1992.

Except as disclosed in this Draft Letter of Offer, no action or penalty has been imposed on our Bank by the SEBI. For further details, please refer to the section “Legal and Other Information” on page 40 of this Draft Letter of Offer.

6. There are operational risks associated with our Bank which, when realised, may have an adverse impact on the results of our Bank.

Our 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 our Bank, certain errors may be repeated or compounded before they are discovered and successfully rectified. We cannot guarantee you that such events will not occur in the future. Any such event could disrupt our reputation, operations, or otherwise have a material adverse effect on our business, financial condition or results of operation.

Our Bank outsources certain functions to other agencies and is exposed to the risk that external vendors or service providers may be unable to fulfill their contractual obligations to our Bank (or will be subject to the same risk of fraud or operational errors by their respective employees) and to the risk that its (or its vendors') business continuity and data security systems prove to be inadequate. Our Bank also faces the risk that the design of controls of the Bank and procedures prove inadequate, or may be circumvented, thereby causing delays in detection or errors in information. Although our Bank maintains a system of controls designed to keep operational risk at appropriate levels, there can be no assurance that our Bank will not suffer losses from operational risks in the future.

7. Net interest income comprises a substantial portion of our Bank's total income and our Bank is vulnerable to interest rate risk.

In the year ended March 31, 2009, net interest income represented 26.14% of our total income. Volatility and changes in market interest rates could affect the interest we earn on our assets differently from the interest we pay on our liabilities. The difference could result in an increase in interest expense relative to interest income leading to a reduction in our net interest income. Accordingly, volatility in interest rates could materially and adversely affect our business and financial performance. An increase in interest rates may also adversely affect the rate of growth of important sectors of the Indian economy, such as the corporate, retail and agricultural sectors, which may adversely impact our business.

Interest rates are sensitive to many factors beyond our control, including the RBI's monetary policy, deregulation of the financial sector in India and domestic and international economic and political conditions. Presently, the CRR prescribed by the RBI stands at 5.00% and the repo/ reverse repo rate at which banks borrow/ lend money from / to the RBI under liquidity adjustment facility is at 4.75%/ 3.25% and are subject to modifications.

Under the RBI regulations, we are required to maintain a minimum specified Statutory Liquidity Ratio, which is presently 24% of our net demand and time liabilities in cash and government or other approved securities. As at March 31, 2009, 27.18% of our demand and time liabilities were in cash, government and other approved securities as SLR. As at March 31, 2009, 81.70% of our total investments were in government and other approved securities. Our Bank has also made investments in unrated bonds as part of its non-SLR portfolio. Returns on these investments are dependent to a large extent on interest rates. In a rising interest rate environment, especially if the increase was sudden or sharp, we could be materially and adversely affected by the decline in the market value of our government securities portfolio and other fixed income securities and may be required to further provide for depreciation in the "Available for Sale" and "Held for Trading" categories. As at March 31, 2009, 0.41% of our gross investments were in the "Held for Trading" category, 11.86% in the "Available for Sale" category and 87.73% in the "Held to Maturity" category. We are required to mark to market securities in the "Available for Sale" and "Held for Trading" categories which are subject to market risk. In respect of securities under the Held to Maturity category, we are not required to mark the same to market but are required to amortise the difference between acquisition cost and face value of the security over the residual maturity period of the security wherever the acquisition cost is greater than the face value.

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

Approximately 2.47% and 5.17% of our total income in Fiscal 2008 and Fiscal 2009, respectively, was derived from our treasury operations. Our Bank has thus experienced increased volatility in its income from treasury operations. Any significant or sustained decline in income generated from treasury operations would adversely impact our Bank's financial performance and could adversely impact the market price of our Bank's equity shares.

9. Our Bank is exposed to high concentrations of loans to a few borrowers and default by any one of them would adversely affect our Bank's business.

As of March 31, 2009, aggregate loans to our Bank's ten largest borrowers amounted to Rs. 732.88 Crores which (representing approximately 102.89% of our Bank's aggregate Tier I and Tier II capital) which increased from Rs.471.67 Crores (representing approximately 75.89 % of our Bank's total Tier I and Tier II capital) as on March 31, 2008. Our Bank's single largest borrower on March 31, 2008 had an outstanding balance of Rs.63.46 Crores, representing 10.21% of our Bank's aggregate Tier I and Tier II capital whereas the same as on March 31, 2009, Rs.92.25 crores, representing 12.95% of our Bank's total Tier I and Tier II capital. Any deterioration in the credit quality of these assets would have a significant adverse effect on our Bank's financial condition and results of operations, as well as on the market price of our Bank's Equity Shares.

10. Our Bank's funding is primarily through short-term and medium-term deposits, whereas significant portion of Bank's loan assets are Cash credits and Overdrafts renewed periodically. If depositors do not roll over deposited funds on maturity or if our Bank is unable to continue to increase its deposits, our Bank's liquidity could be adversely affected.

Most of our Bank's funding requirements are met through short-term and medium-term funding sources, primarily in the form of term deposits. As of March 31, 2009, 88.71% of our Bank's total funding consisted of deposits and 16.77% of such total funding consisted of demand deposits and savings deposits. A significant portion of our Bank's loan assets are cash credits and overdrafts which are to be renewed periodically creating a potential for funding mismatches. In the event that a substantial number of our depositors do not roll over deposited funds upon maturity, our Bank's liquidity position and business would be adversely affected. As on March 31, 2009, our Bank's total deposits increased to Rs.8206.62 Crores registering an increase of 27.73% vis-à-vis our Bank's total deposits on March 31, 2008, Rs. 6424.96 crores. Further, as on March 31, 2009, the top ten depositors constitute 7.54% of our total deposits. Any failure by our Bank to increase its deposit base or any failure of customers to roll over their deposits could give rise to funding mismatches and could have a material adverse effect on our Bank's liquidity, business and results of operations.

11. Our Bank is exposed to various industry sectors. A deterioration in the performance of any of the industry sectors where our Bank has significant exposure may adversely impact our business.

Our Bank's credit exposure is to various sectors as of March 31, 2009, and the most significant were to the cotton textiles, construction, iron and steel and other textile sectors, which represented 10.73%, 6.55%, 4.15% and 2.01% respectively, of our Bank's outstanding loans and advances. Any significant deterioration in the performance of a particular sector, including due to regulatory action or policy announcements by Central or State government authorities, would adversely impact the ability of borrowers in that industry to service their debt obligations to our Bank. As a result, our Bank would experience increased delinquency risk which may adversely impact our Bank's financial performance and the market price of our Bank's Equity Shares.

12. Our Bank has a regional concentration in Southern India, particularly the State of Tamil Nadu, and is dependent on the economies of Southern India and Tamil Nadu.

Our Bank has a regional concentration in South India, particularly in the State of Tamil Nadu. As of March 31, 2009, approximately 64.25% of our Bank's branches were located in the State of Tamil Nadu and 71.23% of our Bank's loans and advances were to customers from the State of Tamil Nadu. Its concentration in Tamil Nadu exposes our Bank more acutely to any adverse economic and/or political circumstances in the southern region of India as compared to other public and private sector banks that have a more diversified national presence. If there is a sustained downturn in the economies of South India and Tamil Nadu, our Bank's financial performance is likely to suffer.

13. Regulations in India require our Bank to extend a minimum level of loans to certain sectors in India which may subject our 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 Adjusted Net Bank Credit (ANBC) 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 our Bank's ANBC must be extended to the agricultural sector. Although such priority sector loans are extended to borrowers who have met our Bank's internal credit rating guidelines and against what our 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 classifying 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. As on the last reporting Friday of the year ending March 31, 2009, total credit extended to priority sectors constituted 40.26% of our Bank's adjusted net bank credit, and credit extended to the agriculture sector constituted 8.89%, of our ANBC. Like other Indian commercial banks, if our Bank fails to achieve the prescribed lending target to the priority sectors and/or the agricultural sector, it is required to contribute to the Rural Infrastructure Development Fund ("RIDF") of NABARD or other financial institutions as specified by the RBI, being investments which offer lower rates of return. For example, during the year ended on March 31, 2009, our Bank contributed Rs. 233.64 Crores to the RIDF at interest rates ranging from 3% to 6%. Continued shortfalls in our Bank's lending to the priority and/or agricultural sector would result in increased contributions to the RIDF, which in turn may adversely affect Bank's future financial performance.

14. Any increase in our Bank's portfolio of NPAs may adversely affect our business.

As of March 31, 2009, our Bank's gross NPAs represented 1.80% of gross loans and advances and our Bank's NPAs, net of provisions represented 1.08% of net loans and advances. As of March 31, 2009, our Bank provided for 37.00% of its total NPAs based on applicable regulatory guidelines, the quality of the security on these NPAs available to our Bank and additional provisions consistent with our Bank's floating provision policy. If there is any deterioration in the quality of our Bank's security or further aging of the assets after being classified as non-performing or additional assets become non-performing, an increase in provisions will be required. This increase in provisions would adversely impact our Bank's financial performance and the market price of our Bank's equity shares.

Although our Bank is increasing its efforts to improve collections and to foreclose on existing impaired loans, there cannot be any assurance that it will be successful in its efforts or that the overall quality of our Bank's loan portfolio will not deteriorate in the future. If our Bank is unsuccessful in controlling or reducing its impaired loans, or if there is a significant increase in its impaired loans, our Bank's future financial performance could be adversely affected.

15. Our Bank's restructured loans may become non-performing due to the way our Bank has structured loan interest payments.

Our Bank's gross restructured loans, as a proportion of gross loans and advances outstanding was 5.51% as of March 31, 2009. Our Bank restructures loans and advances based upon a borrower's potential to restore its financial health. There can be no assurance that the debt restructuring criteria approved by our Bank will be adequate or successful and that borrowers will be able to meet their obligations under restructured loans. If a significant number of our Bank's customers are unable to pay as per the restructured terms, a large number of restructured loans may become non-performing, thereby requiring additional provisions, additional capital and having a material adverse effect on our Bank's financial condition, liquidity and results of operations.

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

Our Bank's loans to customers for working capital credit facilities are typically secured by charges on inventories, receivables and other current assets. In many cases, our Bank obtains collateral 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 Act, 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 our Bank's efforts to recover NPAs. Any failure to recover the expected value of the collateral would adversely impact our Bank's financial condition and results of operations.

17. *The value of the collateral held by our Bank may be overstated and may decline in the future.*

There can be no assurance that our Bank's loans are collateralized at adequate levels. The collateral may be over-valued and not accurately reflect its liquidation value, which is the expected amount our Bank is likely to recover from a sale of collateral less the expenses of such sale. In addition, some of the valuations in respect of collateral held by our 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 our Bank may be overstated. Any increase in our Bank's provisions would adversely affect our Bank's financial condition and results of operation, as well as its capital adequacy ratio, and could require it to raise additional capital.

18. *In order to grow its business, our Bank is required to maintain its capital adequacy ratio at the minimum level required by the RBI for domestic banks. There is no guarantee that our Bank will be able to access capital as and when it needs it for growth.*

The RBI requires Indian banks to maintain a minimum risk weighted capital adequacy ratio of 9%, subject to a minimum Tier I capital adequacy ratio of 6%. Our Bank's capital adequacy ratio was 12.48% as of March 31, 2008, 12.49% as on March 31, 2009 under Basel I and 12.69% under Basel II, and 13.39% as on June 30, 2009 under Basel I and 13.83% under Basel II. Our Bank is exposed to the risk of RBI increasing the applicable risk weight for different asset classes from time to time. 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.

19. *Our Bank is required to maintain cash reserve ratio and increases in the ratio could adversely affect our business.*

As a result of the statutory reserve requirements stipulated by the RBI, our Bank may be structurally exposed to liquidity risk. From April 2008 to August 2008, RBI had increased CRR rates several times. Thereafter, the CRR was revised downwards to its present percentage of 5.00%.

20. *The mismatch between Assets and Liabilities could affect our net profit*

Our Bank has an asset liability mismatch for the position as on March 31, 2009. The material negative mismatches within the time bands are observed in certain time buckets as also cumulative mis-matches in the time bands of 3 months to 6 months, 6 months to 1 year, 1 to 3 years and 3 to 5 years of the total outflow respectively. The cumulative mismatches are however within the tolerance level prescribed in our Asset-Liability Management Policy. Positions of mismatch creates liquidity surplus or liquidity crunch situations and depending upon the interest rate movement, such situations may adversely affect our net interest income. Our Bank has implemented Asset-Liability Management (ALM) system. The Asset Liability Management Committee (ALCO) regularly reviews the mismatch which takes appropriate steps to reduce the same.

21. *Loans and advance to MSMEs amount to 35.14% of our Bank's loan portfolio.*

Our Bank's portfolio of loans and advances to MSMEs has grown in recent years and the percentage of loans and advances to MSMEs on total advances for the years ended March 31, 2008 and March 31, 2009 was 35.14% and 29.33% respectively. As part of our Bank's business and growth strategy, we will continue to focus on further growth in the MSME sector. Comprehensive third-party credit history reports for the majority of MSME borrowers are currently not available in India. As a result, our Bank is exposed to higher credit risk in the MSME segments. This may impact our Bank's future financial performance and the market price of our Bank's equity shares.

22. Any downgrade in the ratings by credit rating agencies of our Bank's subordinated bonds could affect our Bank's ability to raise funds on a competitive basis.

While our Bank is not rated, our Tier II subordinated bonds are rated by rating agencies Fitch as "A (ind)" (Stable) and by Credit Analysis & Research Limited ("CARE") as "CARE A [Single A]" (upper median grade instrument). A downgrade in our credit ratings in future may affect our ability to raise capital, mobilize deposits and cost of raising capital which may materially and adversely affect our business, financial condition and results of operations.

23. Our Bank's business is highly dependent on the continuation of our management team, skilled personnel and our Bank's ability to attract and retain talented personnel.

Our Bank is highly dependent on the services of its key management personnel. Our Bank's ability to meet future business challenges depends, among other things, on their continued employment and our Bank's ability to attract and recruit talented and skilled personnel. There can be no assurance that our Bank will be able to retain such key personnel. Competition for skilled and professional personnel in our Banking industry is intense. The loss of key personnel or an inability to manage attrition levels across our Bank may have a material adverse impact on our Bank's business, its ability to grow and its control over various business functions. Our Bank's employees are represented by employees' unions and officers' associations and any employee unrest could adversely affect its operations and profitability. As on June 30, 2009, our Bank had 2457 employees, including 35 executives, 713 officers, 1338 clerks and 371 sub-staff. Any employee unrest in the future could adversely affect our Bank's business and financial performance.

24. Our Bank's failure to manage growth effectively may adversely impact our business.

In the past, our Bank has witnessed growth in both its office infrastructure and its business. The number of branches of our Bank, excluding the central office, international banking division and service branch, has grown from 134 as of March 31, 2005 to 207 as of March 31, 2009. Over the same period, our Bank's total assets have grown from Rs 3,495.41 Crores to Rs.9,251.01 Crores. Our Bank's ability to sustain growth depends primarily upon its ability to manage key issues such as selecting and retaining skilled manpower, maintaining an effective technology platform that can be continually upgraded, developing a knowledge base to face emerging challenges, and ensuring a high standard of customer service. Efforts of sustained growth also puts pressure on our Bank's ability to effectively manage and control historical and emerging risks. The inability of our Bank to effectively manage any of these issues may adversely affect our Bank's business growth and as a result, impact future financial performance and the market price of our Bank's equity shares.

25. Our business has negative cash flows for the past three years.

We had negative cash flows from Investing and Financing activities as follows:

(Rs. In Crores)

As at March 31	2007	2008	2009
Net cash used in Investing Activities	(13.71)	(19.04)	(13.73)
Net cash flow from Financing Activities	8.73	112.05	(10.15)

Having negative cash flows for a prolonged period may adversely affect our business, financial condition and results of operations

26. Most of our business premises are on lease basis.

As on August 26, 2009, we have 222 branches, of which 208 are located on leased premises. In addition, 130 out of 139 ATMs are located on leased premises. Any failure to renew lease agreements for these premises on terms and conditions favourable to us may require us to shift the concerned branch offices, regional offices or the ATMs to new premises. This might affect our business operations.

27. Contingent liabilities could adversely affect the financial condition and results of operations of our Bank

The contingent liabilities not provided for as on 31st March 2009 are as follows:

Contingent Liability	Amount (in Rs. crs.)
Claims against our Bank not acknowledged as debts	0.29
Liability on account of outstanding	
- Forward Exchange Contracts	3503.17
Guarantees given on behalf of Constitution of India	345.35
Acceptances, Endorsements and other Obligations	175.39
TOTAL	4024.20

Contingent Liabilities on Forward Contracts includes Forward Contract with other Banks of Rs.3, 367.69 Crores and with customers of Rs. 135.47 Crores. The contingent liabilities have arisen in the normal course of business of our Bank and are subject to the prudential norms as prescribed by RBI.

28. We are exposed to risks related to lending

Some or all of our 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 our Bank's operations and may require our Bank to engage in protracted litigation and recovery proceedings which may not adequately compensate our Bank for losses suffered by it.

29. Write off of loans by our Bank may adversely impact our business, financial condition and results of operations

In Fiscal 2009, our Bank has written off (including technical write off) 943 accounts falling under the categories of Agriculture, SSI, Other Priority and Non Priority sectors, amounting to Rs.29.80 Crores. Of the above written off accounts, our Bank has initiated litigation in relation to only 257 accounts of suit filed cases for the recovery of an amount of Rs 9.13 Crores and has also initiated action against 77 accounts under the SARFAESI Act, 2002 for the recovery of an amount of Rs.18.54 Crores. The remaining accounts, being mostly accounts with balances less than Rs.1.00 lakh our Bank conducts recovery drives in each of its branches. Having to write off bad debt and having to engage in litigation for recovery may adversely affect our Business and results of Operations. For further details in relation to the same please refer to "Legal and other Information" on page 40 of this Draft Letter of Offer.

30. Significant security breaches in our Bank's computer systems and network infrastructure, fraud, systems failures and calamities would adversely impact its business.

Our Bank seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by our Bank's increased use of networking. Computer break-ins and power disruptions could affect the security of information stored in and transmitted through these computer systems and networks. These concerns will intensify with our Bank's increased dependence on technology. Our Bank employs security systems, firewalls and password encryption, designed to minimize the risk of security breaches. However, these may not be sufficient to prevent fraud, break-ins, damage and failures. Further, our Bank does not maintain insurance to protect against such information security breaches. A significant failure in security measures would have an adverse effect on our Bank's business.

Given the increasing share of retail products and services and online transaction banking services to our Bank's business, the importance of systems technology to its business has increased significantly. Our Bank's principal delivery channels include its branches and ATMs. With the implementation of CBS and other technology initiatives, the importance of systems technology to its business has increased significantly. Although our Bank currently has the technology and facilities in place to back up its systems and our Bank has established a data centre in Chennai and a disaster recovery site at Bangalore, any failure in its systems, particularly those utilized for its retail products and services and transaction banking, or the occurrence of natural calamities that affect areas in which our Bank has a significant presence, could have a significant adverse effect on its operations.

31. *If we are unable to renew or maintain our statutory and regulatory permits and approvals required to operate our business, it may have a material and adverse effect on our business, financial condition and results of operations.*

We require certain statutory and regulatory permits and approvals to operate our business. Applications for renewal of the following licenses have been made and are pending approval:

- (a) Application dated June 22, 2009 addressed to the Insurance Regulatory and Development Authority for renewal of license to act as a corporate agent for the purpose of procuring or soliciting life insurance business.
- (b) Application dated May 28, 2009 addressed to the Insurance Regulatory and Development Authority for renewal of license to act as a corporate agent for the purpose of procuring or soliciting general insurance business.
- (c) The appointment of Mr. N. Kamakodi, a relative of our Part-time Chairman, as an executive director (non-board) of our Bank has been approved by our shareholders and is subject to the approval of the central government in accordance with Section 314(1B) of the Companies Act, 1956. In this regard, our Bank has, on August 27, 2009 submitted an application to the central government in the prescribed form 24B for obtaining its approval. Failure to receive such approval would result in the variation of the terms of compensation payable to Mr. N. Kamakodi.

Further, in future, we will be required to renew such permits and approvals and obtain new permits and approvals for our proposed operations including obtaining licenses to establish branches. While we believe that we will be able to renew or obtain such permits and approvals as and when required, there can be no assurance that the relevant authorities will issue any of such permits or approvals in the time-frame anticipated by us or at all. Failure by us to renew, maintain or obtain the required permits or approvals, including those set forth above, may result in the interruption of our operations or delay or prevent our expansion plans and may have a material and adverse effect on our business, financial condition and results of operations.

32. *We have not registered our logo or any other marks.*

We have not registered our logo and other trade names with the Trade Marks Registry. 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 protect or enforce our trade mark rights with respect to our logo, we may be required to need to change our logo. Any such change could require us to incur additional costs and may impact our brand recognition among customers.

33. *We depend on the accuracy and completeness of information about customers and counterparties (Know Your Customer norms).*

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We may also rely on certain representations as to the accuracy and completeness of that information. Our financial condition and results of operations could be negatively affected by relying on financial statements that do not comply with generally accepted accounting principles or other information that is materially misleading.

EXTERNAL RISK FACTORS

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

The Indian economy which was on a robust growth path up to 2007-08 witnessed moderation in 2008-09. The growth deceleration was primarily driven by knock on effects of the global economic crisis. Industrial growth experienced a significant downturn and the loss of growth momentum was evident in all categories. i.e. basic, capital, intermediate and consumer goods. The services sector witnessed some moderation and the agriculture recorded a deceleration in growth.

Monetary growth witnessed moderation during 2008-09 reflecting deceleration in bank credit on the back of the slow down in economic activity emanating from the deepening of the international financial turmoil.

Inflationary pressure in the economy strongly reflects on the domestic interest rates. Hikes in the CRR and the repo rates will necessitate banks (to increase their BPLR. Call money rates would also move up mainly on account of higher pre-emption and credit off-take. Our Bank's business is likely to suffer on account of the above factors.

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

Our Bank can carry on business/activities as specified in the Act. There is no flexibility to pursue profitable avenues if they arise, in contrast with other companies, where shareholders can amend the Object Clause by a Special Resolution.

There are restrictions in the Banking Regulation Act regarding:

- a) Setting up of subsidiaries by a Bank
- b) Management of the Bank including appointment of Directors
- c) Borrowings and creation of floating charge thereby hampering leverage. Banks may have to resort to unsecured debt instruments for borrowings
- d) Expansion of business as branches need to be licensed
- e) Disclosures in the Profit and Loss Account and Balance Sheet
- f) Production of documents and availability of records for inspection by shareholders
- g) Reconstruction of banks through amalgamation etc.
- h) Voluntary winding up.
- i) Ownership restrictions

The financial disclosures in the Draft Letter of Offer may not be available to investors to the extent after listing, on continuous basis, though adequate provisions exist under the Companies Act and the Listing Agreement for disclosing material financial information in the prescribed manner.

The individual and corporate rights of shareholders under the Companies Act are subject to the provisions of Banking Regulation Act, 1949.

Declaration of dividend on share capital is also subject to the norms introduced by the RBI in that regard. No banking company would be able pay dividend on its shares until all its capitalised expenses (including preliminary, organisational expenses, share selling commission, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off.

Directorships in banking companies is subject to certain additional norms introduced by RBI known as 'fit and proper criteria'.

3. *Foreign investment in our 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 our Bank, is limited to an aggregate of 74% of the paid up capital. Further, the foreign exchange regulations stipulate that the aggregate foreign institutional investor's/ FII's holding cannot exceed 24% of the total issued capital. However, with the approval of the Board of Directors and the shareholders by way of a special resolution, the aggregate FII holding in a company can be increased up to sectoral limits. Presently, the FII shareholding limit of our Bank is 26% of our paid up capital as approved by the shareholders at its meeting held on December 29, 2006. As of August 21, 2009, the level of aggregate foreign investment (including NRI investment) in our Bank was 21.97%.

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

India has been charting a course of economic liberalisation and our Bank's business could be significantly influenced by the economic policies of the Government. However, there can be no assurance that these liberalisation policies 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 our 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 our Bank's business in particular. If the Government introduces significant changes, the competitive position of our Bank's borrowers may be adversely affected and this may impact the quality of our Bank's loan portfolio.

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

The Indian banking industry is very competitive. Our 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 banks such as our Bank. Our Bank also competes with other private sector banks in India, some of which also have larger customer bases and greater financial resources than our Bank. In particular, other private sector banks may have operational advantages in implementing new technologies, rationalizing branches and recruiting employees through incentive-based compensation. Our Bank also faces competition from foreign banks that have established branches in India and have aggressively pursued a share of business in the market.

Mergers among public sector banks may result in enhanced competitive strengths in pricing and delivery channels for merged entities. The Government has also indicated that it may further liberalize the rules for foreign investment in private sector banks, which could result in consolidation in the banking sector. Our Bank may face greater competition from larger banks as a result of such consolidation, which may adversely affect our Bank's future financial performance.

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

Any adverse revision to India's credit rating for domestic and international debt by international rating agencies may adversely impact our 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 our Bank's financial performance and our Bank's ability to obtain financing to fund its growth on favourable terms or at all.

7. *A decline in India's foreign exchange reserves may affect liquidity and interest rates in the Indian economy, which could adversely impact our 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 our Bank's business and future financial performance and the market price of our Bank's Equity Shares.

8. *Financial instability in other countries, particularly emerging market countries, could disrupt our Bank's business and affect the price of our 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 our Bank's business, future financial performance, financial condition and results of operations, and affect the price of our Bank's equity shares.

9. *We are exposed to fluctuations in rates of exchange of foreign currencies*

As a financial intermediary, our Bank is exposed to exchange rate risk in its foreign exchange transactions. Although our Bank complies with regulatory limits on its unhedged foreign currency exposure, our 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 our Bank's borrowers negatively which may in turn adversely impact the quality of our Bank's exposure

to these borrowers. Volatility in foreign exchange rates could adversely affect our Bank's financial performance and consequently the market price of our Bank's equity shares.

10. Seasonal trends in the Indian economy affect our Bank's business

Our Bank's business is affected by seasonal trends in the Indian economy that affect the overall banking industry. The period from October to March is the busy period in India for economic activity and, accordingly, we generally experience higher volumes of business during this period. From April to September, when economic activity typically decreases, our business volumes experience a corresponding decrease. As a result of this, the quarter to quarter comparison of historical results may not be accurate or a meaningful indicator of our future performance.

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

Terrorist attacks and other acts of violence or war may adversely affect the Indian markets and the worldwide financial markets. 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 our 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 our 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 our 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 our Bank's business and the market price of our Bank's Equity Shares.

12. Natural calamities could have a negative impact on the Indian economy and harm our 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. Prolonged spells of abnormal rainfall and other natural calamities could have an adverse impact on the Indian economy which could adversely affect our Bank's business and the price of our Bank's equity shares.

13. Share price of our Bank may fall below the historical price levels.

The share price data of our Bank incorporated herein pertains to Equity Shares prior to the Rights Issue. The price of Equity Shares of our Bank may potentially vary significantly following the Issue and may potentially fall to levels which are below the historical price levels of the Equity Shares.

14. The market value of an investment in our Equity Shares may fluctuate due to the volatility of the Indian securities markets

The Indian Stock Exchanges have, in the past, experienced substantial fluctuations in the prices of listed securities. Such fluctuations and volatility could affect the market price and liquidity of the securities of Indian companies, including our Equity Shares. Moreover, there have been occasions when secondary market operations have been interrupted and/or affected due to temporary exchange closures, broker defaults, settlement delays and strikes by brokerage firm employees. In addition, the governing bodies of the Indian Stock Exchanges have from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements.

15. Any future equity offerings by our Bank could lead to dilution of your shareholding or adversely affect the market price of the Equity Shares.

As a shareholder of our Bank's Equity Shares, you could experience dilution to your shareholding in the event that we conduct future equity offerings. Such dilution can adversely affect the market price of the Equity Shares and could impact our ability to raise capital through an offering of our equity securities. The board of our Bank, has vide a resolution passed on June 30, 2009 proposed the issuance of shares by way of a qualified institutional placement, subject to the approval of the our shareholders. For further details on the proposed issuance of shares by way of a qualified institutional placement, please refer to the section "Notes" appearing in the section titled

“Capital Structure” at page 12 of this Draft Letter of Offer. In addition, any perception by investors that such issuance or sales will occur could also affect the trading price of the Equity Shares.

16. You will not be able to sell immediately on an Indian stock exchange any of the Rights Equity Shares you purchase in the Issue

The Equity Shares will be listed on the BSE, NSE and MSE. Pursuant to Indian regulations, certain actions must be completed before the Equity Shares can be listed and trading may commence. The investors’ book entry or “demat” accounts with depository participants in India are expected to be credited within two working days of the date of allotment. Thereafter, upon receipt of final approval from the Stock Exchanges trading in the Equity Shares is expected to commence within seven working days of the date on which the basis of allotment is approved by the Designated Stock Exchange.

Prominent Notes:

1. The RBI conducts regular inspections of banking companies under the provisions of the Banking Regulation Act. The reports of the RBI are strictly confidential. The RBI does not permit disclosure of its inspection report.
2. This Issue is of 8,00,00,000 Rights Equity Shares for cash at a premium of Rs.[●]/- per Rights Equity Share on rights basis to the existing Equity Shareholders of our Bank in the ratio of 1 Rights Equity Share for every 4 Equity Share held on the Record Date i.e. [●] in terms of this Draft Letter of Offer.
3. Net worth of our Bank as on March 31, 2009 is Rs.660.92 Crores. The Issue is of an amount aggregating Rs. [●] Crores.
4. The book value per Equity Share as of March 31, 2009 was Rs.20.65 per Equity Share.
5. Our Bank has entered into certain related party transactions as disclosed in the section titled “Related Party Transaction” on page F-21.
6. None of our directors and their relatives have financed the purchase by any other person of securities of our Bank other than in the normal course of the business of the financing entity during the period of six months immediately preceding the date of filing this Draft Letter of Offer with SEBI.
7. No loans and advances have been granted to our Directors
8. For transactions in Equity Shares by Directors of our Bank in the last six months, please refer to the section entitled ‘Capital Structure’ on page 12.
9. Our Bank has no identifiable promoters. Hence no disclosure of details in relation to the cost of acquisition of shares by the promoter and promoter group, and details of transactions by them in our securities need be made.
10. Trading in equity shares for all investors shall be in dematerialised form only.
11. Other than as stated in this Draft Letter of Offer under section titled “Our Management” on page 29 of this Draft Letter of Offer, the Directors/ Key Management Personnel have no interest other than to the extent of Equity Shares of our Bank held or reimbursement of expenses incurred or normal remuneration or benefits.
12. The Lead Manager and our Bank shall make any information relating to the Issue available to the investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever.
13. The Lead Manager and our Bank shall update this Draft Letter of Offer and keep the shareholders/public informed of any material changes till the listing and trading commencement and our Bank shall continue to make all material disclosures as per the terms of the listing agreement.

14. An investor may contact Lead Manager or Compliance Officer of our Bank for any queries/ complaints pertaining to the Issue.

SUMMARY

THE ISSUE

Pursuant to the resolution passed by the Board of Directors of our Bank under Section 81(1) of the Companies Act, 1956 at the meeting held on June 30, 2009 it has been decided to make the following offer to the Eligible Equity Shareholders of our Bank, with a right to renounce.

The following is a summary of the Issue. This summary should be read in conjunction with, and is qualified in its entirety by, more detailed information in the chapter titled “Terms and Procedure of the Issue” beginning on page 61 of this Draft Letter of Offer.

Rights Equity Shares proposed to be issued	8,00,00,000 Rights Equity Shares
Rights Entitlement for Equity Shares	1 Rights Equity Shares for every 4 Equity Shares held on the Record Date
Record Date	[●]
Issue Price per Rights Equity Share	Rs. [●]
Face Value per Rights Equity Share	Re. 1.00
Equity Shares outstanding prior the Issue	32,00,00,000 Equity Shares
Equity Shares outstanding after the Issue	40,00,00,000 Equity Shares
Use of Issue Proceeds	For further information, please refer to the chapter titled “Objects of the Issue” beginning on page 17 of this Draft Letter of Offer.

Payment terms

The payment terms available to the Investors are as follows:

Amount payable per Rights Equity Share (Rs.)	Payment Method 1*			Payment Method 2		
	Applicable to all categories of Investors except NRIs, FIIs and Non-Residents			Applicable to all categories of Investors		
	Face Value	Premium	Total	Face Value	Premium	Total
On Application	Re. 0.50	[●]	[●]	Re. 1.00	[●]	[●]
First and Final Call	Re. 0.50	[●]	[●]	-	-	-
Total	Re. 1.00	[●]	[●]	Re. 1.00	[●]	[●]

* The Investors shall be required to make the balance payment towards the First and Final Call by the due date which shall be separately notified by our Bank.

The Investors should indicate the manner of payment i.e. Payment Method 1 or Payment Method 2 as applicable) in the Composite Application Form, subject to the Investors’ eligibility for the same. No Investor can select both payment methods in a Composite Application Form. In case no payment method is selected, then the default payment method shall be Payment Method 2.

Payment Method 1

1. All categories of Investors except NRIs, FIIs and Non-Residents are eligible for this payment method.
2. While making an Application, the Investor shall make a payment of Rs. [●] per Rights Equity Share.
3. Out of the amount of Rs. [●]/- paid on application, Re. 0.50/- would be adjusted towards the face value of the Rights Equity Shares and Rs. [●] shall be adjusted towards the share premium of the Rights Equity Shares.
4. Our Bank reserves the right to adjust the amount received over and above the Application money

towards the call money if such adjustment makes the total Rights Equity Shares allotted by our Bank into fully paid-up Rights Equity Shares.

5. First and Final Call shall be sent by our Bank for making the payment towards the balance amount due.
6. Rights Equity Shares in respect of which the balance amount payable remains unpaid may be forfeited, at any time after the due date for payment of the balance amount due.

Payment Method 2

1. Investors under all categories, including NRIs, FIIs and Non-Residents, can opt for this method.
2. Investors shall have to make the full payment of the Issue Price of Rs. [●] per Rights Equity Share at the time of making an Application.

For further information please refer to the chapter titled “Terms and Procedure of the Issue” beginning on page 61 of this Draft Letter of Offer.

SELECTED FINANCIAL STATEMENTS

The following tables set forth the summary financial information derived from our financial statement as of Fiscal 2009 and Reviewed Financial Statements for the three months ended on June 30, 2009. Our financial statements have been prepared in accordance with Indian GAAP and the SEBI DIP Guidelines and are presented in the section titled "Financial Statements" beginning on page 37 of this Draft Letter of Offer. The summary financial information presented below should be read in conjunction with our financial statements, notes thereto beginning from page 37 of this Draft Letter of Offer.

BALANCE SHEET AS ON 31.03.2009			
		(Rs in Crores)	
	Sch.No	As on 31.03.2009	As on 31.03.2008
CAPITAL AND LIABILITIES			
Share Capital	1	32.00	32.00
Reserves and Surplus	2	628.92	534.86
Deposits	3	8206.62	6424.96
Borrowings	4	0.15	2.64
Other Liabilities & Provisions	5	383.32	354.51
Total		9251.01	7348.97
ASSETS			
Cash and Balances with Reserve Bank of India	6	595.33	695.87
Balances with Banks & Money at Call and Short Notice	7	289.76	121.05
Investments	8	2397.47	1717.96
Advances	9	5645.25	4537.06
Fixed Assets	10	41.29	43.47
Other Assets	11	281.91	233.56
Total		9251.01	7348.97
Contingent Liabilities	12	4024.20	4159.12
Bills for Collection		401.03	207.29

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2009			
		(Rs in Crores)	
	Sch.No	Year ended 31.03.2009	Year ended 31.03.2008
INCOME			
Interest Earned	13	804.40	595.96
Other Income	14	123.68	90.28
Total		928.08	686.24
EXPENDITURE			
Interest Expended	15	561.83	396.18
Operating Expenses	16	139.53	109.91
Provisions and Contingencies		104.59	78.42
Total		805.95	584.51
PROFIT / LOSS			
Net Profit		122.13	101.73
Profit brought forward		4.87	0.06
Total		127.00	101.79
APPROPRIATIONS			
- Statutory Reserves		31.25	26.01
- Capital Reserve		21.36	2.71
- General Reserve		37.00	49.48
- Investment Reserve Account		1.31	0.00
- Special Reserve under IT Act, 1961		3.00	0.00
- Interim Dividend		0.00	9.60
- Interim Dividend Tax		0.00	1.63
- Proposed / Final Dividend		24.00	6.40
- Final Dividend Tax		4.08	1.09
- Balance carried over to Balance Sheet		5.00	4.87
Total		127.00	101.79

CASH FLOW STATEMENT FOR THE YEAR ENDED 31.03.2009

(Rs In Crores)

As at March 31	2009	2008
Net Profit as per P&L account	122.13	101.73
Adjustments for		
Depreciation	15.94	14.79
Provisions & Contingencies - Tax	62.95	37.39
Provisions & Contingencies - Others	41.64	42.18
Profit on sale of Investments	(38.12)	(12.35)
Profit on sale of Assets	(0.04)	(0.02)
Foreign exchange fluctuations	(9.84)	(4.59)
Operating Profit before working capital changes	194.66	179.13
Adjustments for		
Funds advanced to Customers	(1148.30)	(1235.83)
Other Operating Assets	0.08	(4.20)
Deposit from Customers	1781.67	1725.62
Borrowing from Banks	(2.49)	(17.25)
Other operating liabilities	(49.27)	12.44
Purchase and sale of investments (Net)	(648.38)	(404.91)
Cash Generated from Operations	127.97	255.00
Taxation - Income Tax and FBT	(35.93)	(14.97)
Net cash flow from Operating activities - A	92.04	240.03
Cash flow from Investing activities		
Purchase of Fixed Assets	(14.33)	(19.10)
Sale of Fixed Assets	0.60	0.06
Net cash used in Investing Activities - B	(13.73)	(19.04)
Cash flow from Financing activities:		
Proceeds from issue of Share Capital	-	6.80
Proceeds from share premium	-	116.93
Dividend Paid	(7.43)	(9.97)
Tax on distributed profits	(2.72)	(1.71)
Net cash flow from Financing Activities - C	(10.15)	112.05
Net increase in Cash and Cash equivalents A+B+C	68.16	333.04
Cash & Cash equivalents as at March 31 of the Previous Fiscal	816.92	483.88
Cash & Cash equivalents as at March 31 of the Reporting Fiscal	885.08	816.92

BALANCE SHEET AS ON 30.06.2009			
		(Rs in Crores)	
	Sch.No	As on 30.06.2009	As on 31.03.2009
CAPITAL AND LIABILITIES			
Share Capital	1	32.00	32.00
Reserves and Surplus	2	660.46	628.92
Deposits	3	8376.72	8206.62
Borrowings	4	0.09	0.15
Other Liabilities & Provisions	5	394.26	383.32
Total		9463.53	9251.01
ASSETS			
Cash and Balances with Reserve Bank of India	6	710.34	595.33
Balances with Banks & Money at Call and Short Notice	7	84.97	289.76
Investments	8	2809.13	2397.47
Advances	9	5507.78	5645.25
Fixed Assets	10	45.77	41.29
Other Assets	11	305.54	281.91
Total		9463.53	9251.01
Contingent Liabilities	12	3278.77	4024.20
Bills for Collection		424.31	401.03

PROFIT & LOSS ACCOUNT FOR THE PERIOD ENDED 30th June, 2009			
		(Rs in Crores)	
	Sch.No	Period ended 30.06.2009	Period ended 30.06.2008
INCOME			
Interest Earned	13	228.28	184.66
Other Income	14	25.95	22.86
Total		254.23	207.52
EXPENDITURE			
Interest Expended	15	172.01	127.98
Operating Expenses	16	34.96	32.73
Provisions and Contingencies		15.71	20.57
Total		222.68	181.28
PROFIT / LOSS			
Net Profit		31.55	26.24
Profit brought forward		5.00	4.87
Total		36.55	31.11
APPROPRIATIONS			
- Statutory Reserves		0.00	0.00
- Capital Reserve		0.00	0.00
- General Reserve		0.00	0.00
- Investment Reserve Account		0.00	0.00
- Special Reserve under IT Act, 1961		0.00	0.00
- Proposed Dividend		0.00	0.00
- Dividend Tax		0.00	0.00
- Balance carried over to Balance Sheet		36.55	31.11
Total		36.55	31.11

GENERAL INFORMATION

Dear Equity Shareholder(s),

Pursuant to the resolution passed by our Board at its meeting held on June 30, 2009 under Section 81 of the Companies Act, our Bank has been authorized to make the following Rights Issue to the Equity Shareholders of our Bank:

Issue of 8,00,00,000 Equity Shares of Re.1each for cash at a premium of Rs. [●]/- per Equity Share aggregating to Rs. [●] crores on rights basis to the existing Equity Shareholders of our Bank, in the ratio of One Equity Share for every Four Equity Shares (i.e. 1:4) held as on the record date i.e. [●], 2009.

REGISTERED OFFICE

City Union Bank Limited

No.149, TSR Big Street
Kumbakonam – 612001
Tamil Nadu.

Registration Number: 18-001287

Company Identification Number: L65110TN1904PLC001287

ADDRESS OF THE REGISTRAR OF COMPANIES

The Registrar of Companies, Tamil Nadu and Andaman and Nicobar Islands,
5th Floor, Shastri Bhawan
26 Haddows Road
Chennai - 600006

Company Secretary and Compliance Officer

Mr. V. Ramesh

City Union Bank Limited,
No.149, TSR Big Street,
Kumbakonam – 612001
Tamil Nadu

Tel: +91 435-2432322, +91 435 2431622

Fax: + 91 435-2431746

Email: shares@cityunionbank.com

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 our Bank

M/s. Abarna & Ananthan

Chartered Accountants,
643, Sriniketan, II Floor, I Main,
II Block, II Phase, BSK III stage,
Bangalore 560 085

Tel No: +91 80 32987322

Fax: +91 80 26727430

Email: audit@abarna-ananthan.com, anand@abarna-ananthan.com

Contact Person: Ms. Abarna Bhaskar

Registrar and Share Transfer Agent for the Bank

Integrated Enterprises (India) Limited

2nd Floor, Kences Tower, Street No.1
Ramakrishna Street

North Usman road, T. Nagar
Chennai 600 017, Tamilnadu, India
Tel: + 91 44 2814 0801-03
Fax: +91 44 2814 3378
E-mail: corpserv@iepindia.com
Contact Person: Mr. K. Balasubramanian
Website: www.iepindia.com
SEBI Registration No. INR000000544

ISSUE MANAGEMENT TEAM

Lead Manager to the Issue

Edelweiss Capital Limited

14th Floor, Express Towers,
Nariman Point,
Mumbai 400 021
Board: +91 (22) 4086 3535
Fax: +91 (22) 4086 3610
E-mail: cub.rights@edelcap.com
Investor Grievance I.D.: customerservice.mb@edelcap.com
Website: www.edelcap.com
Contact Person: Ms. Sujaya Moghepadhye/ Mr. Jibi Jacob
SEBI Registration No. INM000010650

Legal Advisor to the Issue

ALMT Legal

Advocates and Solicitors
#2 Lavelle Road,
Bangalore 560 001
Tel : 080-40160000
Fax : 080- 40160001
E mail : bangalore@almtlegal.com
Contact Person: Mr. S R Arun

Registrar to the Issue

Karvy Computershare Private Limited

Karvy House, 46, Avenue 4, Street no. 1
Banjara Hills, Hyderabad – 500 034
India
Tel: +91 40 23420818
Fax: +91 40 23420814
Email: einward.ris@karvy.com
Contact Person: Mr M. Murali Krishna
SEBI Registration No. INR000000221

The certificate of registration granted to the Registrar to the Issue to act as Category I – Registrars to an Issue and Share Transfer Agent under the SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 has expired on July 31, 2009. The Registrar to the Issue has filed for renewal of its registration by a letter dated April 30, 2009 on May 4, 2009.

Bankers to the Issue

[•]

Credit Rating

As this is an issue of equity shares, credit rating is not required for this Issue. The details of the ratings received by our Bank for Tier II subordinated bonds which are outstanding as on date are as follows:

Our Bank's Tier II subordinated bonds are rated by rating agencies Fitch as "A (ind)" (Stable) and by Credit Analysis & Research Limited (CARE) as "CARE A [Single A]" (upper median grade instrument) vide letters dated March 17, 2006 and March 16, 2006 respectively.

Statement of Responsibilities

Since Edelweiss is the sole Lead Manager for this Issue, the entire Issue related activities are being handled by Edelweiss. The responsibilities handled by Edelweiss are *inter alia*:

- a) Capital structuring with the relative components and formalities such as composition of equity.
- b) 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.
- c) Ensuring compliance with the Guidelines for Disclosure and Investor Protection and other stipulated requirements and completion of prescribed formalities with Stock Exchanges and SEBI.
- d) 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. (iii) bankers to issue, (iv) collection centres (v) brokers to issue and (vi), distribution of publicity and issue material including application forms, the letter of offer, deciding on the quantum of issue material, etc.
- e) Selection of various agencies connected with issue, namely Registrars to Issue, bankers to issue, printers and advertising agencies.
- f) 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.
- g) Post-issue activities will involve essential follow-up steps, including finalisation of basis of allotment / weeding out of multiple applications, listing of Rights Equity Shares and despatch of certificates and refunds, with the various agencies connected with the work such as registrars to the issue, bankers to the issue, and the bank handling refunds.

Trustees

As this is an issue of equity shares, the appointment of trustees is not required.

IPO Grading

This being a Rights Issue of Equity Shares, no IPO Grading is required.

Monitoring Agency

A monitoring agency is not required to be appointed in terms of Clause 8.17 of the SEBI DIP Guidelines. Our Board will monitor the use of the proceeds of this Issue as per clause 49 of the Listing Agreement.

Underwriting

This Issue is not underwritten and our Bank has not entered into any underwriting arrangement.

Principal Terms of Loan and Assets charged as security as on March 31, 2009

Name	Outstanding Amount (Rs in Crores)	Rate of Interest	Duration (No. of Years)	Date of Borrowing	Repayment Terms
Unsecured					
- Subordinated Debt	30.00	8.90%	10 Years	31/03/2006	31/03/2016
- Subordinated Debt	10.00	10.00%	10 Years	30/03/2007	30/03/2017
- SIDBI Refinance	0.14	5% - 12%	various period	various dates	quarterly instalments
- Overdraft	0.01	10% - 15%	1 day	31/03/2009	01/04/2009

CAPITAL STRUCTURE

The share capital of our Bank is as under:

	Aggregate nominal value (Rs. in crores)	Aggregate Value at Issue Price (Rs. In crores)
Authorized share capital		
100,00,00,000 Equity Shares of Re. 1 each	100.00	
Issued capital		
32,00,00,000 Equity Shares of Re. 1 each	32.00	
Subscribed And Paid up Capital		
32,00,00,000 Equity Shares of Re. 1 each	32.00	
Present Issue being offered to the Equity Shareholders through the Draft Letter of Offer		
8,00,00,000 Equity Shares of Re. 1 each at a premium of Rs. [●], i.e. at a price of Rs. [●] per share	8.00	[●]
Paid up capital after the Issue		
40,00,00,000 Equity Shares of Re. 1 each	40.00	
Share premium Account		
Before the Issue	155.46	
After the Issue	[●]	

Outstanding Instruments

Our Bank's Employees Stock Option Scheme, 2008

The shareholders of our Bank vide its Special Resolution dated April 26, 2008 have provided their approval to create, offer, issue and allot at any time to or for the benefit of such person(s) who are in the permanent employment of our Bank, including Directors (Executive and Non-Executive) of our Bank, whether working in India or out of India, under the “**CUB Employees Stock Option Scheme, 2008 or CUBESOS- 2008**” such number of equity shares not exceeding 5,00,00,000 Stock Options (“**Securities**”) in the aggregate to eligible employees/ directors of our Bank, in one or more tranches, at such price and on such terms and conditions as may be fixed or determined by the Board in accordance with the Guidelines or other provisions of law as may be prevailing at that time and each such Stock Option shall be exercisable for one fully paid-up equity share.

Our Bank has constituted a compensation committee for the purpose of administration of the CUBESOS 2008. Our Bank has, on December 6, 2008, granted a total of 2,02,50,000 stock options to 1,275 of our eligible employees.

The key terms of the CUBESOS, 2008

There shall be minimum lock-in period of one year between the grant of options and vesting of options and the options shall vest as follows:

Vesting Period	Vesting Details in %
At end of one year from the date of grant	15% of the option
At end of 2 nd year from the date of grant	15% of the option
At end of 3 rd year from the date of grant	15% of the option
At end of 4 th year from the date of grant	25% of the option
At end of 5 th year from the date of grant	30% of the option

The exercise price will be decided by the Board on the date of grant of option. The exercise period will commence from the vesting date and shall expire at the end of 3 years from the date of vesting.

Options granted	2,02,50,000
Exercise price	Rs.13/-
Options vested	Nil
Options exercised	Nil
Options forfeited/ lapsed	Nil
Money realised by exercise of options	Nil
Fully Diluted EPS (For Fiscal 2009 on a pre-Issue basis)	3.81
Lock-in	In accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999

* Fair Value of the options as per independent valuer is Rs 10.50.

Person-wise details of options granted to Directors and key managerial persons

Except as stated below, none of our key managerial persons or directors in our Bank have been granted stock options as on the date of the filing of the Draft Letter of Offer:

Sr. No	Name of the Director/Key Managerial Personnel	Designation	No. of options granted
1	Mr. S. Balasubramanian	Managing Director and CEO	7,50,000
2	Mr. N Kamakodi	Executive Director (Non-Board)	5,00,000
3	S. Sekar	General Manager	2,00,000
4	S. Sundar	General Manager	2,00,000
5	R. Mohan	General Manager	2,00,000
6	S.Sridharan	General Manager	1,00,000

Promoters and Promoter Group related information

Our Bank has no identifiable promoters. Hence no disclosure of details in relation to their holding, pledge of shares held, acquisition of shares by the promoter and promoter group in the last one year immediately prior to the date of filing of the Draft Letter of Offer, participation in the issue and lock-in are not applicable.

Shareholding Pattern

Shareholding pattern as on June 30,2009 as filed with the Stock Exchanges

Category (i)	Category of shareholder (ii)	Total no. of shares (iii)	No. Of shares held in demat (iv)	Total shareholding as a % of total no. Of shares	
				As a % Of (A+B) (v)	As a % of (A+B+C) (vi)
A	Shareholding Of Promoter And Promoter Group				
(I)	Indian				
a	Individual/Hindu Undivided Family	0	0	0.00	0.00
b	Central Government/State Government	0	0	0.00	0.00
c	Bodies Corporate	0	0	0.00	0.00

Category (i)	Category of shareholder (ii)	Total no. of shares (iii)	No. Of shares held in demat (iv)	Total shareholding as a % of total no. Of shares	
				As a % Of (A+B) (v)	As a % of (A+B+C) (vi)
d	Financial Institutions/Banks	0	0	0.00	0.00
e	Any other(specify)	0	0	0.00	0.00
	SUB TOTAL A(1)	0	0	0.00	0.00
(2)	Foreign				
a	Individual(Non resident/foreign)	0	0	0.00	0.00
b	Bodies corporate	0	0	0.00	0.00
c	Institutions	0	0	0.00	0.00
d	Any other(specify)	0	0	0.00	0.00
	SUB TOTAL A(2)	0	0	0.00	0.00
	Total Shareholding of promoter and Promoter Group(A)=A(1)+A(2)	0	0	0.00	0.00
B	Public Shareholding				
(1)	Institutions				
a	Mutual funds/UTI	1,872,430	1,872,430	0.59	0.59
b	Financial Institutions/Banks	4,273,163	4,268,163	1.34	1.34
c	Central Government/State Government	0	0	0.00	0.00
d	Venture Capital Funds	0	0	0.00	0.00
e	Insurance Companies	19,394,328	19,394,328	6.06	6.06
f	Foreign Institutional Investors	40,364,786	40,364,786	12.61	12.61
g	Foreign Venture Capital Investors	0	0	0.00	0.00
h	Any other(specify)	0	0	0.00	0.00
	SUB TOTAL B(1)	65,904,707	65,899,707	20.60	20.60
(2)	Non-Institutions				
a	Bodies Corporate	83,143,470	79,737,870	25.98	25.98
b	Individuals				
(i)	Individual shareholders holding Nominal share Capital upto Rs.1 Lakh	117,998,585	76,044,703	36.88	36.88
(ii)	Individual shareholders holding Nominal share Capital above Rs.1 Lakh	51,661,971	44,640,841	16.14	16.14
c	Any other				
	Clearing member	1,211,487	1,211,487	0.38	0.38
	Trust	79,780	28,750	0.02	0.02
	SUB TOTAL B(2)	254,095,293	201,663,651	79.40	79.40

Category (i)	Category of shareholder (ii)	Total no. of shares (iii)	No. Of shares held in demat (iv)	Total shareholding as a % of total no. Of shares	
				As a % Of (A+B) (v)	As a % of (A+B+C) (vi)
	Total Public Share Holding (B)=B(1)+B(2)	320,000,000	267,563,358	100.00	100.00
	TOTAL (A)+(B)	320,000,000	267,563,358	100.00	100.00
C	Shares held by Custodians and against which Depository Receipts have been issued	0	0	0.00	0.00
	GRAND TOTAL (A)+(B)+(C)	320,000,000	267,563,358	100.00	100.00

Details of our Shareholders holding more than one per cent of the share capital of our Bank as on June 30,2009 is as follows:

Sr. No.	Name of the Shareholder	No. of	% of Paid up Share Capital
		Shares	
1	Life Insurance Corporation Of India	15,000,000	4.688
2	Larsen And Toubro Limited	15,000,000	4.688
3	Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	15,000,000	4.688
4	Argonaut Ventures	14,744,360	4.608
5	Ares Investments	12,500,000	3.906
6	Integrated Ent. (I) Ltd	12,000,000	3.75
7	Acacia Partners, LP	9,736,930	3.043
8	Alpha Systems Private Limited	8,111,870	2.535
9	The GMO Emerging Illiquid (Mauritius) Fund	6,598,420	2.062
10	United India Insurance Company Limited	3,818,093	1.193
11	Canara Bank-Mumbai	3,672,773	1.148
12	Yatish Trading Co. Pvt Ltd	3,587,433	1.121
13	Shriram Chits (P) Ltd	3,217,030	1.005
	TOTAL	122,986,909	38.435

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.

RBI 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.

Notes:

1. The Board of our Bank had, at its meeting held on June 30, 2009, accorded approval for the issuance of securities by way of a qualified institutional placement under Chapter XIII A of the SEBI DIP Guidelines for an amount not exceeding Rs.300 crores. The said issuance of securities has been proposed for the consideration of our shareholders at the ensuing AGM to be held on August 31, 2009.
2. 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 our Bank, shall be made during the period commencing from the filing of the 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.
3. Further, except for (i) the proposed issuance of shares by way of a qualified institutional placement, if approved by the shareholders of our Bank; and (ii) the allotment of Equity Shares pursuant to exercise of stock options issued pursuant to our Bank's Employee Stock Option Scheme, 2008, at present our Bank has no intention to alter the equity capital structure by way of split/consolidation of the denomination of the shares, or issue of shares on a preferential basis or issue of bonus or rights or public issue of shares or any other securities for a period of six months from the date of opening of the Issue.
4. 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.BC.79/ 16.13.100 /2001-2005 dated March 20, 2002, listed as well as unlisted private sector banks are not required to obtain approval of RBI for Rights Issue.
5. The Equity Shares issued under this Issue shall be fully paid up within 12 months from date of allotment.
6. 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.

OBJECTS OF THE ISSUE

We are a banking company regulated by RBI. The RBI guidelines require us to maintain a minimum Capital Adequacy Ratio of 9% subject to a minimum Tier I capital adequacy ratio of 6%. As per our financial statements, as of March 31, 2009, our total capital adequacy ratio was 12.49% including Tier-I capital adequacy ratio of 11.30% and Tier-II capital adequacy ratio of 1.19%. As per the Annual Report for financial year 2006-07 released by RBI on August 30, 2007, in order to further strengthen the domestic banking sector and to enable the banking sector to conform to international best practices, commercial banks which have presence overseas will migrate to Basel II norms in a phased manner from the year ending March 2008 and all other commercial banks are encouraged to migrate not later than March 31, 2009. The requirements for Tier I capital and total capital adequacy ratios are expected to increase with the implementation of the Basel II standards.

The objects of the Issue are to augment our capital base to meet the capital requirements and growth in our assets, primarily our loan and investment portfolio, compliance with regulatory requirements including meeting the expenses of the Issue.

The main objects clause and the objects incidental or ancillary to the main objects clause of our Memorandum of Association enable us to undertake our existing activities. Further, the main objects of our Bank enable us to carry on the activities for which the funds are being raised by us in the Issue.

Requirement and Sources of Funds

Particulars	Amount (Rs. in Crores)
Augment our capital base to meet our capital adequacy requirements arising out of growth in our business	[●]
Estimated Issue expenses	[●]
Net Proceeds	[●]

The stated Objects of the Issue are proposed to be financed entirely from the Proceeds of the Issue. Therefore, excluding the amount to be raised through proposed Rights issue, there is no requirement of firm arrangements of finance.

(a) Augment our capital base to meet our capital adequacy requirements arising out of growth in our businesses

As we are engaged in the business of banking, we are seeking to strengthen our capital base to support the future growth in our assets and comply with the capital adequacy requirements applicable to us.

(b) Estimated Issue Expenses

The total expenses of the Issue are estimated to be approximately Rs. [●] crores. 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 crores)	% of the Issue Expenses	% of total Issue Size
Fees to the Lead Manager	[●]	[●]	[●]
Fees to the Registrar to the Issue	[●]	[●]	[●]
Fees to the Legal advisors	[●]	[●]	[●]
Fees to the Auditors	[●]	[●]	[●]
Advertising and Publicity Expenses	[●]	[●]	[●]
Printing, Postage, Stationery Expenses	[●]	[●]	[●]
Contingency, Stamp duty, Listing Fees, etc	[●]	[●]	[●]
Total	[●]	[●]	[●]

Monitoring of Utilisation of Funds

Our Board shall monitor the utilisation of the net proceeds of the Issue. We will disclose the details of the utilisation of the net proceeds, including interim use, under a separate head in our financial statements specifying the purpose for which such proceeds have been utilized or otherwise disclosed as per the disclosure requirements of our listing agreements with the Stock Exchanges.

Our 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, our 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 our Bank. The Audit Committee shall make appropriate recommendations to the Board to take up steps in this matter.

Interest of Directors or Key Management Personnel in the Objects of the Issue

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.

STATEMENT OF TAX BENEFITS

To,
The Board of Directors,
City Union Bank Limited.
Regd & Corp.Office - T.S.R. Big Street,
Kumbakonam 612 001
Tamil Nadu

Dear Sir,

We hereby report that the attached Annexure states the possible tax benefits available to City Union Bank Limited ("the Bank") and to the shareholders of the Bank under the Income Tax Act, 1961, Wealth Tax Act, 1957 presently in force in India, subject to the fact that several of these benefits are dependent on the Bank or its shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence the ability of the Bank or its shareholders to derive the tax benefits is dependent upon fulfilling such conditions, which based on the business imperatives, the Bank may or may not choose to fulfill.

The benefits discussed in the Annexure are not exhaustive. This statement is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for the professional tax advice. In view of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the issue.

We do not express any opinion or provide any assurance as to whether:

- The Bank or its shareholders will continue to obtain these benefits in future; or
- The conditions prescribed for availing of these benefits have been / would be met with.

The contents of this Annexure are based on the information, explanations and representations obtained from the Bank and on the basis of our understanding of the business activities and operations of the Bank and interpretations of the current tax laws.

**For ABARNA & ANANTHAN
CHARTERED ACCOUNTANTS**

(Abarna Bhaskar)

PARTNER

M No: 25145

Date: 26 August, 2009

Place: Bangalore

The following key tax benefits are available to the Bank and the prospective shareholders under the current direct tax laws in India.

This statement is only intended to provide the tax benefits to the Bank and its shareholders in a general and summary manner and does not purport to be a complete analysis or listing of all the provisions or possible tax consequences of the subscription, purchase, ownership or disposal etc. of shares. In view of the individual nature of tax consequence and the changing tax laws, each investor is advised to consult his/her own tax adviser with respect to specific tax implications arising out of their participation in the issue.

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. Some or all of the tax consequences of described herein may be amended or modified by future amendments to the Income-tax Act.

I. SPECIAL TAX BENEFITS

SPECIAL TAX BENEFITS AVAILABLE TO THE BANK

1. INCOME TAX

1. As per the provisions of section 36(1)(iiia), the Bank is entitled to deduction in respect of pro rata amount of discount on a zero coupon bond, having regard to the period of life of such bond, calculated in the manner as may be prescribed by rules in this behalf. Zero coupon bond is defined under section 2(48) of the Act to mean a bond issued by any infrastructure capital company or infrastructure capital fund or public sector company on or after 1.6.2005 in respect of which no payment and benefit is received or receivable before maturity or redemption from infrastructure capital company/fund or public sector company and which is notified by the Central Government in this behalf.
2. In terms of Section 36(1)(viiia) 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.
3. 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.
4. 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.

II. GENERAL TAX BENEFITS

A. INCOME-TAX

I. To the Bank

1. As per provisions of Section 10(15)(i) of the Income Tax Act, 1961 (hereinafter called "the Act"), income by way of interest, premium on redemption or other payment on securities, bonds, deposits etc. notified by the Central Government is exempt from tax, subject to such conditions and limits as may be specified by Central Government in this behalf.
2. 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. 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.
3. 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.
4. 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.

5. 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.
6. 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
7. 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.
8. 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.

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 fulfillment of conditions prescribed there under.

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.

Notes:

- a. All the above benefits are as per the current tax law and will be available only to the sole/first names holder in case the shares are held by joint holders.

REGULATIONS AND POLICIES

The main legislation governing commercial banks in India is the Banking Regulation Act, 1949. Other important laws include RBI Act, 1932, the Negotiable Instruments Act, 1881 and the Banker's Books Evidence Act, 1891. Additionally, RBI, from time to time, issues guidelines to be followed by the 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.

No new regulations are applicable for the proposed objects of the issue since the objects is to augment our capital base to meet our capital adequacy requirements arising out of growth in our business,

HISTORY OF OUR BANK AND OTHER CORPORATE MATTERS

Our Bank was incorporated on October 31, 1904 as a public limited company under the provisions of the Indian Companies Act, 1882 under the name of The Kumbakonam Bank Limited. Our Bank was formed by a group of local residents of Kumbakonam with an initial capital of Rs. 24,692. Since incorporation our Bank has expanded its branch network. As on July 31, 2009 our Bank has 209 branches covering various parts of the country, apart from a strong presence in Tamil Nadu.

In 1957, Our Bank took over the Common Wealth Bank Limited. Subsequently, in 1965, two other local banks viz., 'The City Forward Bank Limited' and 'The Union Bank Limited' were amalgamated with our Bank pursuant to Section 44A of the Banking Regulation Act, 1949. The amalgamation increased the number of branches for our Bank. The name of our Bank was also changed to The Kumbakonam City Union Bank Limited in April 1965. Subsequently, the name of our Bank was changed to City Union Bank Limited with effect from November 2, 1987.

Key Milestones of our Bank

Year	Milestone
1904	Incorporation of our Bank
1957	Our Bank took over the Common Wealth Bank Limited.
1965	Amalgamation of 'The City Forward Bank Limited' and 'The Union Bank Limited' with our Bank
1989	Our Bank's staff training college was established
1991	Our Bank's international banking division was established
1998	Initial Public Offering of 60,00,000 shares aggregating to Rs.21 crores listing our Bank's shares on the BSE, NSE and MSE.
2002	Our Bank entered into an agreement with Tata Consultancy Services Limited for the implementation of a centralized banking solution operation called Quartz.
2003	Obtained licenses to act as a corporate agent for the purpose of procuring or soliciting life insurance business and general insurance business.
2007	Entered in arrangements with UAE Exchange and Financial Services P Ltd, Doha Bank QSC for the effective and speedy receipt of inward remittances.
2007	Preferential Allotment of 12,00,000 Equity Shares of Rs. 10 each to L&T Capital Holdings Limited
2007	Preferential Allotment of 6,80,00,000 Equity Shares of Re. 1 each to Life Insurance Corporation Of India and Nederlandse Financierings – Maatschappij Voor Ontwikkelingslanden N.V.

Our Main Objects

The main objects of our Bank as per our Memorandum of Association, as amended, are as under:

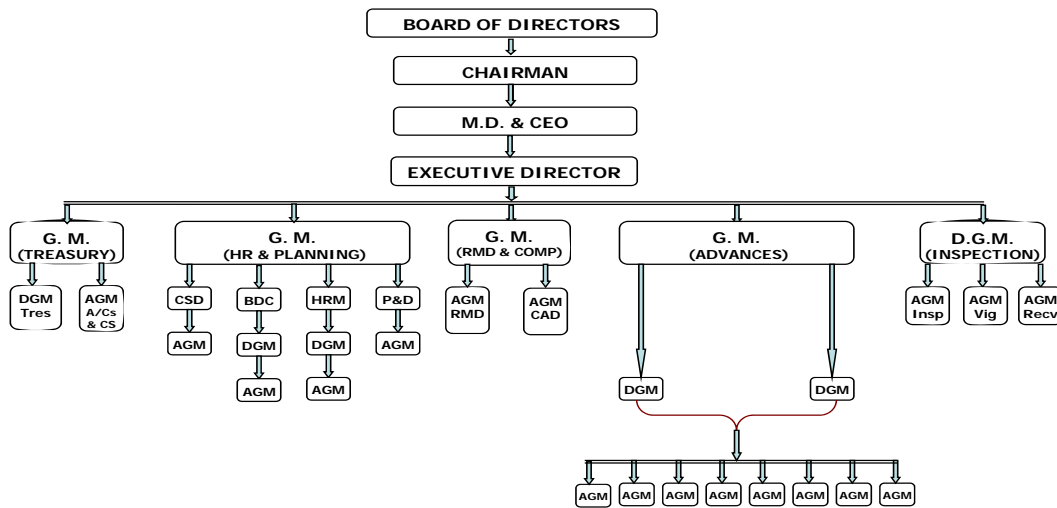
- a) the borrowing, raising, or taking up of money, the lending or advancing of money either upon or without security, the drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundies, promissory notes, coupons, drafts, bill of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments, and securities whether transferable or negotiable or not, the granting and issuing of letters of credit, traveller's cheques and circular notes, the buying, selling and dealing in bullion and specie, the buying, and selling of foreign exchange including foreign bank notes, the acquiring, holding, issuing on commission, underwriting and dealing in stocks, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds, the purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or others the negotiating of loans and advances, the receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise, the providing of safe deposit vaults, the collecting and transmitting of money and securities:
- b) acting as agents for any Government or local authority or any other person or persons: the carrying on of agency business of any description including the clearing and forwarding of goods, giving of

- receipts and discharges and otherwise acting as an attorney on behalf of customers, but excluding the business of a managing agent or secretary and treasurer of a company;
- c) contracting for public and private loans and negotiating and issuing the same;
 - d) the effecting, insuring, guaranteeing, underwriting participating in managing and carrying out of any issue, public or private, of State, Municipal or other loans or of shares, stocks, debentures or debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue;
 - e) carrying on and transacting every kind of guarantee and indemnity business;
 - f) managing, selling and realising any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims;
 - g) acquiring and holding generally dealing with any property or any right, title or interest in any such property which may form the security or part of the security for any loans or advances or which may be connected with any such security;
 - h) undertaking and executing trusts;
 - i) undertaking the administration of estates as executor, trustee or otherwise;
 - j) establishing and supporting or aiding in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the company or the dependents or connections of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing money for charitable or benevolent objects or for any exhibition or for any public, general or useful object;
 - k) the acquisition, construction, maintenance and alteration of any building or works necessary or convenient for the purposes of the company;
 - l) selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with all or any part of the property and rights of the company
 - m) acquiring and undertaking the whole or any part of the business of any person or company, when such business of a nature enumerated or described in this sub-section;
 - n) to form, constitute, promote, act as Managers, brokers, sub-brokers, prepare projects and feasibility reports for and on behalf of any company, association, society, firm, individual and Body Corporate;
 - o) to act as Registrar and Transfer Agents and Registrar to the Issue, Issue Agents and Paying Agents;
 - p) to provide custodial and depository services and to do all such things as may be advised, permitted or required for this purpose;
 - q) to issue debit or credit cards to customers or any other person;
 - r) to provide or assist in obtaining, directly or indirectly, advice or services in various fields such as management, finance, investment, technology, administration, commerce, law, economics, labour, human resources development, industry, public relations, statistics, science, computers, accountancy, taxation, fund management, foreign exchange dealings, quality control, processing, strategic planning and valuation;
 - s) to carry on Insurance business and to act as an Insurance Agent and to do all such things as may be advised, permitted or required for this purpose;
 - t) doing all such other things as are incidental and conducive to the promotion or advancement of the business of the company;

- u) any other form of business which the Central Government may, by notification in the Official Gazette, specify as a form of business in which it is lawful for a Banking Company to engage
- v) 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 Act, 1934 and enter into all administrative or other arrangements for undertaking such functions with Reserve Bank of India.

The main object clause of our Memorandum of Association and objects incidental to the main objects enables our Bank to undertake our existing activities.

Corporate Structure



OUR MANAGEMENT

As per the Articles of Association of our Bank, our Bank must have a minimum of 9 and a maximum of 15 Directors. At present, our Bank has 11 Directors. Our Bank has complied with the listing agreements entered into with stock exchanges in respect of Corporate Governance, particularly those relating to composition of Board of Directors, constitution of committees such as Audit Committee, Shareholder/ Investor Grievance Committee, etc. Apart from the Part-time Chairman and MD & CEO, the Board consists of 9 Directors as on date. Out of the eleven directors, eight directors are independent.

Name, Address, Designation and Occupation	Nationality	Age	Date of Appointment and term	DIN	Other Directorships
<p>Mr P Vaidyanathan S/o. N Panchapakesan 7AB Block III, “Kences Enclave” Chari Street, Chennai – 600 017</p> <p>Part-time non-Executive Chairman Non-Independent Director</p> <p>Financial Consultant</p>	Indian	61	<p>Appointed as an additional director on October 29, 2003.</p> <p>Appointed as a director liable to retire by rotation at the AGM held on July 29, 2004.</p> <p>Re-appointed at AGM held on August 18, 2006.</p> <p>Re-appointed at AGM held on September 24, 2008</p>	00029503	<ul style="list-style-type: none"> • Hatsun Agro Product Ltd • Economist Communications Ltd • Suja Shoei Industries Ltd
<p>Mr S Balasubramanian S/o. K Samu Iyer No.28, Pachayappa Street, Kumbakonam-612001.</p> <p>Managing Director and Chief Executive Officer Non-Independent Director</p> <p>Service</p>	Indian	63	<p>Appointed as an additional director on January 31, 2005</p> <p>Re-appointed as a director not liable to retire by rotation at AGM held on August 1, 2005.</p>	01719374	NIL
<p>Mr. T S Venkatasubban S/o. T.S. Srinivas Iyer 13.3/1 New No. 13.3/2 Krishnan Street Kumbakonam-612001</p> <p>Non-Executive Director Independent Director</p> <p>Chartered Accountant</p>	Indian	70	<p>Appointed as an additional director on May 27, 2002.</p> <p>Re-appointed as a director liable to retire by rotation at the AGM held on September 5, 2002.</p> <p>Re-appointed as a director liable to retire by rotation at AGM held on July 29, 2004</p> <p>Re-appointed as a</p>	01719390	NIL

Name, Address, Designation and Occupation	Nationality	Age	Date of Appointment and term	DIN	Other Directorships
			director liable to retire by rotation at AGM held on July 25, 2007		
Mr V Jayaraman S/o. R. Vanchinathan Flat No. 5, Old no.96 Luz church Road Mylapore Chennai – 600 004 Non-Executive Director Independent Director Retired, Chief Commissioner of Income Tax	Indian	70	Appointed as an additional director on November 30, 2002. Re- appointed as a director liable to retire by rotation at the AGM held on August 29, 2003 Re-appointed as a director liable to retire by rotation at AGM held on August 01, 2005 Re-appointed as a director liable to retire by rotation at AGM held on July 25, 2007	00215134	NIL
Mr K S Raman S/o. K.R. Subramaniya Iyer North Street Konerirajapuram-612201 Non-Executive Director Independent Director Agriculturist	Indian	67	Appointed as an additional director on December 8, 2004. Re- appointed as a director liable to retire by rotation at the AGM held on August 1, 2005 Re-appointed as a director liable to retire by rotation at AGM held on July 25, 2007	00215005	NIL
Mr S Bernard S/o. X. Stephen 64, Gandhiji Road Koranad Mayiladuthurai-609002 Non-Executive Director Independent Director Chartered Accountant	Indian	58	Appointed on July 1, 2006 as an additional director. Re- appointed as a director liable to retire by rotation at the AGM held on August 18, 2006 Re-appointed as a director liable to	01719441	NIL

Name, Address, Designation and Occupation	Nationality	Age	Date of Appointment and term	DIN	Other Directorships
			retire by rotation at AGM held on September 24, 2008		
Mr N Kantha Kumar S/o. Nagendra Shenoy “Ashadeep” Cherupillay Road Off Azad Road Kaloot Kochi – 682017 Non-Executive Director Independent Director Professional, Retired Banker	Indian	63	Appointed on September 30, 2006 as an additional director. Re- appointed as a director liable to retire by rotation at the AGM held on July 25, 2007	00890532	<ul style="list-style-type: none"> • Tebma Shipyards Ltd
Mr N Sankaran S/o. R. Narayanaswamy, “Sri Krupa” New No.7/1, Old ¼ Kalyanaraman Street Kumbakonam-612001 Non-Executive Director Independent Director Agriculturist	Indian	68	Appointed as an additional director on February 22, 2008 Re- appointed as a director liable to retire by rotation at the AGM held on September 24, 2008	02077862	NIL
Mr M Naganathan S/o. Muthuswamy, Old No. 10, New No.17 1st Cross Street, Karpagam Avenue Mandaveli, Chennai – 600 028 Non-Executive Director Independent Director Chartered Accountant	Indian	69	Appointed as an additional director on February 22, 2008 Re- appointed as a director liable to retire by rotation at the AGM held on September 24, 2008	02076379	NIL
Mr R G Chandramogan S/o. Raja KSP Ganesan 5A, IInd Floor Vijayaraghava Road T Nagar, Chennai- 600017 Non-Executive Director Independent Director Industrialist	Indian	60	Appointed as an additional director on July 30, 2008 Re- appointed as a director liable to retire by rotation at the AGM held on September 24, 2008	00012389	<ul style="list-style-type: none"> • Hatsun Agro Product Ltd • Tonokya Food Pvt. Ltd
Mr T K Ramkumar	Indian	53	Appointed as an	02688194	NIL

Name, Address, Designation and Occupation	Nationality	Age	Date of Appointment and term	DIN	Other Directorships
S/o. T.K. Krishnamurthy 12B Vedantha Desikar Swamy Street Pelathope, Mylapore Chennai Non-Executive Director Non-Independent Director Advocate			additional director on June 11, 2009.		

Brief Biography of Our Directors

Mr. P.Vaidyanathan, aged 61 years, is graduate in Commerce, a Fellow Member of the Institute of Chartered Accountants of India, Associate Member of the Institute of Cost & Works Accountants of India and Associate Member of the Institute of Company Secretaries of India. He has more than 35 years of experience in financial services industry and has also promoted Integrated Enterprises (India) Limited, a financial service provider. He has been on the board of our Bank since 2003. The Reserve Bank of India has accorded approval for the appointment of Mr. P Vaidyanathan as the part-time non-executive Chairman of our Bank for a period of two years with effect from 27.04.2009. The terms of appointment is subject to the approval of the shareholders of our Bank at the ensuing annual general meeting to be held on August 31, 2009

Mr. S. Balasubramanian, aged 63 years, holds a Master of sciences degree, CAIIB and PGDFM. He has 38 years of banking experience. He had joined our Bank in the year 1971 as a probationary officer and has since then been associated with our Bank in various capacities. In 2005 he was appointed as the Chairman & CEO of our Bank and thereafter, in 2009 the Reserve Bank of India has accorded approval for his appointment as the Managing Director and CEO of our Bank with effect from January 31, 2009. The terms of appointment is subject to the approval of the shareholders of our Bank at the ensuing annual general meeting to be held on August 31, 2009

Mr. T.S. Venkatasubban, aged 70 years, is a graduate in Commerce and Fellow Member of the Institute of Chartered Accountants of India. He is a practicing Chartered Accountant since 1966. He has served as a director on the board of Kumbakonam Mutual Benefit Fund.

Mr. V.Jayaraman, aged 70 years, is a Post Graduate in Statistics. He is an agriculturist and has been on the board since 2002. He joined the Indian Revenue Service in July 1963 and held various posts in the Income Tax Department. He was on deputation to the Ministry of Home Affairs, New Delhi. He has retired as Chief Commissioner of Income Tax, Tamil Nadu. He was the Chairman of Banking Service Recruitment Board, Southern Region as well as an Insurance Ombudsman, Southern Region.

Mr. K.S. Raman, aged 67 years, is post graduate in Science. He is an agriculturist and has been on the board during 1984 to 1992 and 1994 to 2002 and presently from 2004 onwards. He has worked with Statistics Department, Annamalai University, Automobile Products of India Limited and in Larsen & Toubro Ltd.

Mr. S. Bernard aged 58 years, is a graduate in Commerce and a Fellow Member of the Institute of Chartered Accountants of India. He is a practicing Chartered Accountant of 31 years standing with expertise in the field of Accountancy and Taxation.

Mr. N Kantha Kumar aged 63 years, is a graduate in Commerce and Law. He has been in the Banking Industry for around 38 years. He has held key positions such as Executive Director in Canara Bank and Chairman & Managing Director in Syndicate Bank.

Mr. N.Sankaran, aged 68 years, is a Bachelor of Engineering (Civil) and is a Member of Institute of Engineers, India and has been on the board since 2008. He is a retired General Manager from M/s. Voltas International, Chennai.

Mr. M Naganathan, aged 69 years, is a graduate in Commerce and a Fellow Member of Institute of Chartered Accountants of India. He has been on the board since 2008 and is a senior partner in M/s. Price Patt & Co., Chartered Accountants, Chennai.

Mr. R G Chandramogan aged 60 years. He has completed his secondary school education (SSLC). He is the Chairman & Managing Director of Hatsun Agro Product Limited and a Director in Tonokya Food Private Limited. He has been in the dairy processing and Ice cream business for around 30 years. He visits the Indian Institute of Management, Ahmedabad as a guest faculty.

Mr. T.K. Ramkumar, aged 53 years, is a graduate in Commerce and an advocate. He is a partner in M/s. Ram & Rajan & Associates, and possesses knowledge and experience in banking law, company law, intellectual property rights, civil laws etc.

Compensation to Non-Executive Chairman

Reserve Bank of India, vide its letter DBOD No.17706/08.42.001/2008-09 dated April 21, 2009, accorded its approval for the appointment of Mr P Vaidyanathan as Part-time Non-Executive Chairman for a period of 2 years w.e.f. 27.04.2009. The terms of appointment is subject to the approval of the shareholders of our Bank at the ensuing annual general meeting to be held on August 31, 2009.

TERMS OF APPOINTMENT		
1.	Salary	Rs. 50,000/- per month
2.	Conveyance Allowance	Office car with driver will be provided for official purposes.
3.	Phone	Provision of Residential phone and mobile phone
4.	Travelling & Halting Allowances	As applicable to other directors of our Bank
5.	Other benefits	Entitled to sitting fees for attending Board and Committee meetings as applicable to other directors.
6.	Insurance Cover	Insurance cover up to Rs.10,00,000/- for journey by Air/Road/Rail for official purposes

Compensation to Managing Director & CEO

RBI vide their letter DBOD No.11433/08.42.001/2008-09 dated 15th January, 2009, accorded its approval for the appointment of Mr. S Balasubramanian to the then Chairman and Chief Executive Officer of our Bank as Managing Director and Chief Executive Officer (MD & CEO) of our Bank for a period of 2 years with effect from 31.01.2009. The terms of appointment is subject to the approval of the shareholders of our Bank at the ensuing annual general meeting to be held on August 31, 2009. The abstract of remuneration payable to the MD & CEO is given below.

Sr No.	Remuneration	
1.	Salary	Rs.2,00,000/- per month
	Perquisites	
2.	House Rent Allowance	Rs.5,000 p.m.
3.	Entertainment allowance	Reimbursement of actual personal entertainment expenses on production of bills. Entertainment expenses will be inclusive of entrance fees/subscription to clubs and should be restricted to two clubs/professional institutions.
4.	Provident Fund	Bank's contribution to Provident Fund at 10 % of the Basic Pay
5.	Medical Benefits	
	(i) Medical Aid	Reimbursement of actual medical expenses for self and his spouse.
	(ii) Hospitalisation	Reimbursement of actual hospitalisation charges to the MD & CEO and his spouse.
	(iii) Superannuation medical benefit	Upon the MD & CEO laying down his office, the bank will reimburse hospitalisation and other medical expenses or pay the full premium under a suitable medical insurance plan for him and his spouse.
6.	Leave	As per rules applicable to other officers of the Bank. Encashment of privilege leave at credit will be at the time of demitting office.

Sr No.	Remuneration	
7.	Leave Fare Concession	Once in a year anywhere in India by eligible class.
8.	Gratuity	As applicable to other officers of the Bank. However, as and when actual payment is proposed to be made, prior approval of Reserve Bank of India should be obtained.
9.	Traveling and Halting Allowances	Reimbursement of actual traveling expenses i.e., single fare each way by train by highest class or by air (executive class) plus any further transport and other incidental expenses incurred in traveling to and fro the places of meeting/business. Halting Allowance (a) Lodging Reimbursement of actual lodging expenses (including taxes) against production of bills and vouchers (b) Boarding charges Reimbursement of actual expenses towards boarding (inclusive of Taxes)
10.	Conveyance	Free use of bank's car with driver for official purposes. If the car is used for private purposes, the MD & CEO should reimburse the bank Rs.250/- per month for journeys not exceeding 750 kms in a month (journeys from residence to office and vice versa to be treated as duty runs). Charges for private use of bank's car in excess of 750 kms limit will be recoverable from the MD & CEO at 60 % of the rate fixed by the Regional Transport Authority.
11.	Insurance Cover	For journeys by air, rail or road on official purposes, the MD & CEO will be provided with insurance cover of Rs.10,00,000 by the bank.
12.	Telephone	Free use of bank's telephone at the residence of MD & CEO.

Except as stated above, there are no other termination benefits available to our Managing Director & CEO or to any other Directors.

Compensation of Directors

Our Bank has not constituted a Remuneration Committee as the remuneration and other perquisites paid to the Part-time Chairman and Managing Director & CEO are as approved by the Reserve Bank of India. All non-executive directors other than the Part-time Chairman do not receive any remuneration except for the sitting fees as determined by the Board at its meeting on October 30, 2006, for attending the meetings of the Board / Committee of Directors. Our Bank presently pays sitting fees of Rs.10,000 and Rs.5,000 for every board and committee meeting respectively to the non-executive directors and part-time Chairman.

Family Relationship between our Directors

None of the directors are related to each other

Interest of Directors

Except as stated in Related Party Transactions appearing in the "Financial Statements" beginning on page 37 of this Draft Letter of Offer, and to the extent of shareholding in our Bank, our Directors do not have any other interest in our business.

All our Directors 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, Managing Director and CEO will be interested to the extent of remuneration paid to them for services rendered by them. 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 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 their Rights Entitlements, 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.

Save and except as disclosed in this Draft Letter of Offer, our Bank has 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 payments have been made to them in respect of these contracts, agreements or arrangements or are proposed to be made to them.

Further, our Directors may be deemed to be interested in contracts, agreements / arrangements entered into or to be entered into by us with any company in which they hold directorships or any partnership firm in which they are partners. Additionally, Mr. P. Vaidyanathan, being a member of M/s. Integrated Enterprises (India) Limited, is interested to the extent of benefits arising out of the fees payable by our Bank to M/s. Integrated Enterprises (India) Limited for acting as our Bank's registrar and share transfer agent.

OUR PROMOTER AND PROMOTER GROUP

Our Bank does not have any identifiable promoter.

FINANCIAL STATEMENTS

Sr. No	Contents	Page Number
1	Audited Financial Statements for the year ended March 31,2009 of our Bank with the report issued by M/s. Abarna & Ananthan– Chartered Accountants	F-1 to F-28
2	Reviewed Financial Statements for the three months ended June 30,2009 of our Bank with the report issued by M/s. Abarna & Ananthan– Chartered Accountants	F-29 to F-40

AUDITORS' REPORT

To,
The Board of Directors
City Union Bank Limited
TSR Big Street,
Kumbakonam
Tamil Nadu – 612 001

Dear Sirs,

1. We are engaged to report on the financial statements ('Financial Statements') of City Union Bank Limited ('the 'Bank'), for the year ended 31 March 2009 annexed to this report in Annexure I to IV for the purpose of inclusion in the Draft Letter of Offer and Letter of Offer (the 'Offering Documents') prepared by the Bank in connection with the Rights Issue ('Rights Issue') of its equity shares, in accordance with the provisions of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 ('the Guidelines') as amended to date. Our responsibility is to report on such statements based on our procedures.
2. We have examined such statements taking into consideration:
 - (i) the terms of reference dated 15 July, 2009 received from the Bank, requesting us to carry out the assignment, in connection with the Offering Documents being issued by the Bank for its proposed Rights Issue of 8,00,00,000 equity shares having a face value of Rs. 1 each, under the Guidelines ('Issue'); and
 - (ii) The Guidance Note on Reports in Company Prospectuses (Revised) issued by the Institute of Chartered Accountants of India.
3. We report that the figures disclosed in the 'Financial Statements' have been extracted by the management from the audited financial statements for the year ended 31 March 2009. The financial statements for the year ended 31 March 2009 have been audited by us and in respect of which we have issued unqualified audit opinion dated 11 June 2009.
4. For the purpose of this report we have not performed any additional audit procedures on the above referred audited financial statements of the Bank for the year ended 31 March 2009, including evaluating the possible impact, if any, of subsequent events on the earlier audited financial statements of the Bank.
5. The 'Financial Statements' annexed to this report are extracted from the audited financial statements for the year ended 31 March 2009. These 'Financial Statements' have been prepared using the same set of accounting policies used for preparing the audited financial statements as at 31 March 2009. The accounting policies and notes to accounts have been reproduced as they were disclosed in the relevant year.
6. We have not audited any financial statement of the Bank as of any date or for any period subsequent to 31 March 2009. Accordingly, we express no opinion on the financial position, results of operations or cash flows of the Bank as of any date or for any period subsequent to 31 March 2009. However, we have conducted a limited review of the Balance Sheet of the Bank as at 30 June, 2009 and the Profit and Loss for the period ended on that date and the accompanying schedules.
7. At the Bank's request, we have also examined the following information proposed to be included in the Offering Documents prepared by the management and annexed to this report:

- (i) Accounting Ratios enclosed as Annexure VII and
- (ii) Capitalisation Statement enclosed as Annexure VIII

8. In our opinion, the financial information contained in Annexure I to IV of this report read along with the Notes to Accounts & Significant Accounting Policies (Refer Annexure V & VI) as considered appropriate have been prepared in accordance with the provisions of Section 29 of the BR Act, 1949 read with Section 211 of the Companies Act 1956 and requirements of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 as amended till date.
9. This report should not be in any way construed as a re-issuance or re-dating of any of the previous audit report issued by us nor should this report be construed as a new opinion on any of the financial statement referred to herein.
10. This report is intended solely for your information and for inclusion in the Offering Documents in connection with the proposed Issue by the Bank and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For **Abarna & Ananthan**
Chartered Accountants

(Abarna Bhaskar)

Partner

Membership No. – 25145

Date : 26 August 2009

Place : Bangalore

CITY UNION BANK LIMITED

Annexure I

BALANCE SHEET AS ON 31.03.2009			
		(Rs in Crores)	
	Sch.No	As on 31.03.2009	As on 31.03.2008
CAPITAL AND LIABILITIES			
Share Capital	1	32.00	32.00
Reserves and Surplus	2	628.92	534.86
Deposits	3	8206.62	6424.96
Borrowings	4	0.15	2.64
Other Liabilities & Provisions	5	383.32	354.51
Total		9251.01	7348.97
ASSETS			
Cash and Balances with Reserve Bank of India	6	595.33	695.87
Balances with Banks & Money at Call and Short Notice	7	289.76	121.05
Investments	8	2397.47	1717.96
Advances	9	5645.25	4537.06
Fixed Assets	10	41.29	43.47
Other Assets	11	281.91	233.56
Total		9251.01	7348.97
Contingent Liabilities	12	4024.20	4159.12
Bills for Collection		401.03	207.29

Annexure II

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2009			
		(Rs in Crores)	
	Sch.No	Year ended 31.03.2009	Year ended 31.03.2008
INCOME			
Interest Earned	13	804.40	595.96
Other Income	14	123.68	90.28
Total		928.08	686.24
EXPENDITURE			
Interest Expended	15	561.83	396.18
Operating Expenses	16	139.53	109.91
Provisions and Contingencies		104.59	78.42
Total		805.95	584.51
PROFIT / LOSS			
Net Profit		122.13	101.73
Profit brought forward		4.87	0.06
Total		127.00	101.79
APPROPRIATIONS			
- Statutory Reserves		31.25	26.01
- Capital Reserve		21.36	2.71
- General Reserve		37.00	49.48
- Investment Reserve Account		1.31	0.00
- Special Reserve under IT Act, 1961		3.00	0.00
- Interim Dividend		0.00	9.60
- Interim Dividend Tax		0.00	1.63
- Proposed / Final Dividend		24.00	6.40
- Final Dividend Tax		4.08	1.09
- Balance carried over to Balance Sheet		5.00	4.87
Total		127.00	101.79

Annexure III

CASH FLOW STATEMENT FOR THE YEAR ENDED 31.03.2009

(Rs in crores)

As at March 31	2009	2008
Net Profit as per P&L account	122.13	101.73
Adjustments for		
Depreciation	15.94	14.79
Provisions & Contingencies - Tax	62.95	37.39
Provisions & Contingencies - Others	41.64	42.18
Profit on sale of Investments	(38.12)	(12.35)
Profit on sale of Assets	(0.04)	(0.02)
Foreign exchange fluctuations	(9.84)	(4.59)
Operating Profit before working capital changes	194.66	179.13
Adjustments for		
Funds advanced to Customers	(1148.30)	(1235.83)
Other Operating Assets	0.08	(4.20)
Deposit from Customers	1781.67	1725.62
Borrowing from Banks	(2.49)	(17.25)
Other operating liabilities	(49.27)	12.44
Purchase and sale of investments (Net)	(648.38)	(404.91)
Cash Generated from Operations	127.97	255.00
Taxation - Income Tax and FBT	(35.93)	(14.97)
Net cash flow from Operating activities - A	92.04	240.03
Cash flow from Investing activities		
Purchase of Fixed Assets	(14.33)	(19.10)
Sale of Fixed Assets	0.60	0.06
Net cash used in Investing Activities - B	(13.73)	(19.04)
Cash flow from Financing activities:		
Proceeds from issue of Share Capital	-	6.80
Proceeds from share premium	-	116.93
Dividend Paid	(7.43)	(9.97)
Tax on distributed profits	(2.72)	(1.71)
Net cash flow from Financing Activities - C	(10.15)	112.05
Net increase in Cash and Cash equivalents A+B+C	68.16	333.04
Cash & Cash equivalents as at March 31 of the Previous Fiscal	816.92	483.88
Cash & Cash equivalents as at March 31 of the Reporting Fiscal	885.08	816.92

Annexure IV

SCHEDULES FORMING PART OF ACCOUNTS – YEAR ENDED 31.03.2009

SCHEDULE - 1 CAPITAL

(Rs in Crores)

As at 31 st March	2009	2008
Authorised Capital		
(100,00,00,000 Equity Shares of Re.1/- each)	100.00	100.00
Issued Capital		
(32,00,00,000 equity shares Re.1/- each)	32.00	32.00
Subscribed and Paid-up Capital	32.00	32.00
(32,00,00,000 equity shares Re.1/- each)		
TOTAL	32.00	32.00

SCHEDULE - 2 RESERVES AND SURPLUS

(Rs in Crores)

As at 31 st March	2009	2008
I Statutory Reserves		
Opening Balance	220.75	194.74
Additions during the year	31.25	26.01
	252.00	220.75
II Capital Reserves		
Opening Balance	16.78	14.07
Additions during the year	21.36	2.71
	38.14	16.78
III Share Premium		
Opening Balance	155.46	38.52
Additions during the year	0.00	116.94
	155.46	155.46
IV Revenue and Other Reserves		
i) General Reserve		
Opening Balance	137.00	93.11
Deductions during the year	0.00	5.59
Additions during the year	37.00	49.48
	174.00	137.00
ii) Investment Reserve Account		
Opening Balance	0.00	0.00
Additions during the year	1.31	0.00
	1.31	0.00
iii) Special Reserve u/s 36(1)(viii) of Income Tax Act, 1961		
Opening Balance	0.00	0.00
Additions during the year	3.00	0.00
	3.00	0.00
V Balance in Profit and Loss Account	5.01	4.87
TOTAL	628.92	534.86

SCHEDULE - 3 DEPOSITS

(Rs in Crores)

As at 31 st March		2009	2008
A	I. Demand Deposits		
	i) From Banks	1.93	0.58
	ii) From Others	693.18	620.22
		695.11	620.80
	II. Savings Deposits	856.05	723.39
	III. Term Deposits		
	i) From banks	32.81	164.95
	ii) From Others	6622.65	4915.82
		6655.46	5080.77
	TOTAL	8206.62	6424.96
B	i) Deposits of Branches in India	8206.62	6424.96
	ii) Deposits of Branches outside India	0.00	0.00
	TOTAL	8206.62	6424.96

SCHEDULE - 4 BORROWINGS

(Rs in Crores)

As at 31 st March		2009	2008
I.	Borrowings in India		
	i) Reserve Bank of India	0.00	0.00
	ii) Other Banks	0.01	0.20
	iii) Other institutions and agencies	0.14	2.44
II	Borrowings from outside India	0.00	0.00
	TOTAL	0.15	2.64
III	Secured borrowings included in I	0.00	0.00

SCHEDULE - 5 OTHER LIABILITIES & PROVISIONS

(Rs in Crores)

As at 31 st March		2009	2008
I.	Bills Payable	94.67	128.14
II.	Inter-Office Adjustments (net)	Nil	Nil
III.	Interest Accrued	44.50	45.84
IV.	Others (including Provisions)	244.15	180.53
	TOTAL	383.32	354.51

SCHEDULE - 6 CASH AND BALANCES WITH RESERVE BANK OF INDIA

(Rs in Crores)

As at 31 st March		2009	2008
I	Cash in Hand	163.66	113.83
	(including foreign currency notes)		
II	Balances with Reserve Bank of India		
	i) In Current Accounts	431.67	582.04
	ii) In Other Accounts	0.00	0.00
	TOTAL	595.33	695.87

SCHEDULE - 7 BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE

(Rs in Crores)

As at 31 st March		2009	2008
I	In India		
	i) Balances with Banks		
	a) In Current Accounts	85.95	69.32
	b) In Other Deposit Accounts	166.53	49.60
		252.48	118.92
	ii) Money at Call and Short notice		
	a) With Banks	0.00	0.00
	b) With Other Institutions	0.00	0.00
	TOTAL	252.48	118.92
II	Outside India		
	In Current Accounts	11.92	2.13
	In Deposit Accounts	25.36	0.00
		37.28	2.13
	GRAND TOTAL	289.76	121.05

SCHEDULE - 8 INVESTMENTS

(Rs in Crores)

As at 31 st March		2009	2008
I	In India		
	i) Government Securities	1957.24	1493.48
	ii) Other Approved Securities	2.73	3.92
	iii) Shares	22.08	12.98
	iv) Debentures and Bonds	71.54	55.69
	v) Subsidiaries / Joint Ventures	0.00	4.70
	vi) Others	343.88	147.19
	TOTAL	2397.47	1717.96
	Gross Investments in India	2404.70	1728.11
	LESS : Provision for Invt. Depn	7.23	10.15
	Net Investments in India	2397.47	1717.96
II	Outside India	0.00	0.00
	GRAND TOTAL	2397.47	1717.96

SCHEDULE - 9 ADVANCES

(Rs in Crores)

As at 31 st March		2009	2008
A	i) Bills Purchased and Discounted	163.17	125.80
	ii) Cash Credits, Overdrafts and Loans repayable on Demand	2815.09	2035.64
	iii) Term Loans	2666.99	2375.62
	TOTAL	5645.25	4537.06
B	i) Secured by tangible assets (includes advances against book debts)	5383.38	4340.08
	ii) Covered by Bank/Govt. Guarantees	72.75	66.75
	iii) Unsecured	189.12	130.23
	TOTAL	5645.25	4537.06
C	D) Advances in India		
	i) Priority Sector	1824.93	1547.92
	ii) Public Sector	72.75	66.75
	iii) Others	3747.57	2922.39
	TOTAL	5645.25	4537.06
	II) Advances outside India	0.00	0.00
	GRAND TOTAL	5645.25	4537.06

SCHEDULE - 10 FIXED ASSETS

(Rs in Crores)

As at 31 st March		2009	2008
I	Premises		
	i) At Cost as at 31st March of the preceding year	16.60	13.83
	ii) Additions during the year	0.89	2.77
	iii) Sales/adjustments during the year	0.43	0.00
	TOTAL	17.06	16.60
	iv) Depreciation to date	6.14	5.67
	TOTAL	10.92	10.93
II	Other Fixed Assets (including Furniture and Fixtures)		
	i) At Cost as at 31st March of the Preceding year	80.87	64.57
	ii) Additions during the year	13.44	16.34
	TOTAL	94.31	80.91
	iii) Deductions/adjustments during the year	0.14	0.04
	TOTAL	94.17	80.87
	iv) Depreciation to date	63.80	48.33
	TOTAL	30.37	32.54
	GRAND TOTAL	41.29	43.47

SCHEDULE - 11 OTHER ASSETS

(Rs in Crores)

As at 31 st March		2009	2008
I	Inter office Adjustments	1.35	15.53
II	Interest accrued	48.00	39.66
III	Tax paid in Advance / Tax deducted at Source	188.48	152.55
IV	Stationery and stamps	0.44	0.48
V	Others	43.64	25.34
TOTAL		281.91	233.56

SCHEDULE - 12 CONTINGENT LIABILITIES

(Rs in Crores)

As at 31 st March		2009	2008
I	Claims against Bank not acknowledged as debts	0.29	0.19
II	Liability for partly paid Investments	0.00	0.00
III	Liability on account of outstanding Forward Exchange Contracts	3503.17	3522.38
IV	Guarantees given on behalf of constituents		
	- In India	345.35	293.47
	- Outside India	0.00	0.00
V	Acceptances, endorsements and other obligations	175.39	342.79
VI	Other items for which the Bank is contingently liable	0.00	0.29
TOTAL		4024.20	4159.12

SCHEDULE - 13 INTEREST EARNED

(Rs in Crores)

Year ended		31.03.2009	31.03.2008
I	Interest / discount on Advances / Bills	655.33	479.48
II	Income on Investments	142.42	109.71
III	Interest on balances with Reserve Bank of India and other Inter-Bank funds	6.65	6.77
IV	Others	0.00	0.00
TOTAL		804.40	595.96

SCHEDULE - 14 OTHER INCOME

(Rs in Crores)

Year ended		31.03.2009	31.03.2008
I	Commission, Exchange and Brokerage	21.13	17.47
II	Profit/Loss on sale of Investments (net)	38.13	12.35
III	Profit/loss on revaluation (Amortization)	0.00	0.00
IV	Profit on sale of Land,Bldgs and other assets	0.04	0.02
V	Profit on Exchange transactions (net)	9.84	4.59
VI	Miscellaneous Income	54.54	55.85
TOTAL		123.68	90.28

SCHEDULE - 15 INTEREST EXPENDED

(Rs in Crores)

Year ended		31.03.2009	31.03.2008
I	Interest on Deposits	556.22	389.53
II	Interest on RBI/Inter-Bank Borrowings	1.82	2.63
III	Others	3.79	4.02
TOTAL		561.83	396.18

SCHEDULE - 16 OPERATING EXPENSES

(Rs in Crores)

Year ended		31.03.2009	31.03.2008
I	Payments to and provision for employees	64.97	49.06
II	Rent,taxes and lighting	15.46	13.73
III	Printing and Stationery	2.96	2.09
IV	Advertisement and publicity	3.39	3.20
V	Depreciation on Banks property	15.94	14.80
VI	Directors' fees,allowances and expenses	0.22	0.30
VII	Auditors' fees and expenses	0.49	0.38
VIII	Law charges	0.09	0.06
IX	Postage, Telegrams, telephone etc	3.81	3.09
X	Repairs and maintenance	7.10	4.47
XI	Insurance	7.10	5.50
XII	Other expenditure	18.00	13.23
TOTAL		139.53	109.91

1. CAPITAL ADEQUACY RATIO

	31 March 2009		31 March 2008
	Basel I	Basel II	Basel I
Capital Adequacy Ratio	12.49%	12.69%	12.48%
Capital (Tier I) to Risk Weighted Assets	11.30%	11.48%	11.15%
Capital (Tier II) to Risk Weighted Assets	1.19%	1.21%	1.33%
Subordinated Debt raised as Tier II Capital	Nil	Nil	Nil

2. INVESTMENTS

2.1 Movement in Investments

(Rs in Crores)

Particulars	Year ended 31 March 2009	Year ended 31 March 2008
(1) Value of Investments		
(i) Gross value of investments		
(a) in India	2404.70	1728.11
(b) Outside India	Nil	Nil
(ii) Provisions for Depreciation		
(a) in India	7.23	10.15
(b) Outside India	Nil	Nil
(iii) Net Value of Investments		
(a) in India	2397.47	1717.96
(b) Outside India	Nil	Nil
(2) Movement of provisions held towards depreciation on Investments		
(i) Opening Balance	8.98	4.18
(ii) Add: Provisions made during the year	Nil	4.80
(iii) Less: Write-off/write-back of excess provisions during the year	1.75	Nil
(iv) Closing Balance	7.23	8.98

2.2 Repo Transactions during the Year 2008-09

(Rs. in Crores)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As at 31 March 2009
Securities sold under Repos	0	180.00	8.32	Nil
Securities purchased under reverse repos	0	250.00	12.74	Nil

2.3 Non SLR Investment Portfolio

2.3.1 Issuer-wise composition of Non-SLR Investments

(Rs in Crores)

Sl. 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)
1	PSUs	40.72	Nil	Nil	Nil	2.00
2	Financial Institutions	27.37	Nil	Nil	Nil	0.25
3	Banks	7.88	6.50	Nil	Nil	Nil
4	Private Corporates	16.70	Nil	Nil	Nil	4.70
5	Subsidiaries / Joint Ventures	Nil	Nil	Nil	Nil	Nil
6	Others	347.32	Nil	Nil	Nil	0.15
	Total (1 - 6)	439.99	6.50	Nil	Nil	7.10
7	Provision held towards depreciation	2.48				
	TOTAL	437.51				

2.3.2 Non Performing non SLR Investments

(Rs in Crores)

Particulars	Year ended 31 March 2009	Year ended 31 March 2008
Opening Balance	1.17	1.87
Additions during the year	Nil	Nil
Reductions during the year	1.17	0.70
Closing Balance	Nil	1.17

3. DERIVATIVES

3.1 The bank has not entered into any Forward Rate Agreements/ Interest Rate Swaps and hence no disclosure is given. (Previous year – Nil)

3.2 The bank has not entered into any Exchange Traded Interest Rate Derivatives and hence no disclosure is given. (Previous year – Nil)

3.3 Disclosures on risk exposure in derivatives:

3.3.1 – Qualitative Disclosure:

The Bank's treasury department operates under three functional areas namely Front Office, Mid Office and Back Office. The operations are conducted in terms of the policy guidelines issued by Reserve Bank of India from time to time and as approved by the Board of the Bank. The policy, inter alia, stipulates various risk parameters like open position, VAR and AGL, Stop Loss etc., While the front office confines to dealing activities, the mid office reports to Risk Management Department as to the adherence of risk limits set in the policy. The Back Office is involved in settlement, reconciliation and accounting. The accounting of derivatives is done in strict conformity with RBI Guidelines. The Bank undertakes foreign exchange forward contracts for its customers and hedges them with other banks. The bank also deals with other banks in proprietary trading duly adhering to risk limits set in the policy and is monitored by mid office. The contracts entered into on behalf of customers are backed by collateral securities and cash margins. The

Mark to Market values are monitored on monthly basis for foreign exchange forward contracts. The credit equivalent is computed under current exposure method.

3.3.2 – Quantitative Disclosure:

(Rs in Crores)

SI No.	Particulars	Currency Derivatives	Interest Rate Derivatives
(i)	Derivatives (Notional Principal Amount)		
	a) for hedging	139.17	-
	b) for trading	3363.99	-
(ii)	Marked to Market Positions		
	a) Assets (+)	1880.58	-
	b) Liability (-)	1823.55	-
(iii)	Credit Exposure	43.28	-
(iv)	Likely impact of one percentage change in interest rate (100 * PV01)		
	a) on hedging derivatives	-	-
	b) on trading derivatives	-	-
(v)	Maximum and Minimum of 100 * PV01 observed during the year		
	a) on hedging	-	-
	b) on trading	-	-

4. ASSET QUALITY

4.1 Non-Performing Assets

i) Movement in NPAs

(Rs in Crores)

Items	As at 31 Mar 2009	As at 31 Mar 2008
(i) Net NPAs to Net Advances (%)	1.08%	0.98%
(ii) Movement of NPAs (Gross)		
Opening balance	82.93	87.07
Additions during the year	86.42	58.68
Reductions during the year	67.27	62.82
Closing balance	102.08	82.93
(iii) Movement of Net NPAs		
Opening balance	44.46	36.25
Additions during the year	71.08	50.23
Reductions during the year	54.43	42.02
Closing balance	61.11	44.46
(iv) Movement of provisions for NPAs (excluding provisions on Standard assets)		
Opening balance	35.74	48.16
Provisions made during the year	33.50	28.00
Write-off of provisions	31.48	40.42
Closing balance	37.76	35.74

ii) **Movement in Floating Provisions for NPA**

(Rs in Crores)

SI No.	Particulars	31 March 2009
a)	Opening Balance	19.30
b)	Additions during the year	Nil
c)	Reduction during the year	Nil
d)	Closing Balance	19.30

4.2 **Details of Loan Assets subjected to Restructuring**

(Rs in Crores)

	MSME Debt Restructuring	Others	Total
Standard Advances Restructured			
No. of Borrowers	71	137	208
Amount Outstanding	242.81	60.43	303.24
Sacrifice (diminution in the fair value)	6.01	0.48	6.49
Substandard Advances Restructured			
No. of Borrowers	5	0	5
Amount Outstanding	10.07	0	10.07
Sacrifice (diminution in the fair value)	0.10	0	0.10
Doubtful Advances Restructured			
No. of Borrowers	0	0	0
Amount Outstanding	0	0	0
Sacrifice (diminution in the fair value)	0	0	0
Total			
No. of Borrowers	76	137	213
Amount Outstanding	252.88	60.43	313.31
Sacrifice (diminution in the fair value)	6.11	0.48	6.59

The number of accounts restructured under CDR Mechanism in the current year is “NIL” (Previous year – “NIL”).

Additional Disclosures:

(Rs in Crores)

S. No.	Disclosures	Number	Amount
01.	Application received upto March 31, 2009 for restructuring, in respect of accounts which were standard as on September 1, 2008	218	383.91
02.	Of (1), proposal 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	161	231.55
03.	Of (1), proposals approved and implemented as on March 31, 2009 but could not be upgraded to the standard category	1	3.93
04.	Of (1), proposals under process/implementation which were standard as on March 31, 2009	56	148.43
05.	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 package.	0	0.00

The above disclosure including sacrifice/provision are as compiled and certified by the bank Management as per the guidelines issued by the Reserve Bank of India from time to time upto 31.05.2009 on the subject.

4.3. The bank has not sold any financial assets to Securitisation / Reconstruction Company for Asset Reconstruction and hence no disclosure is given. (Previous year – Nil).

4.4 **Provision on Standard Assets**

(Rs in Crores)

Item	Year ended 31 March 2009	Year ended 31 March 2008
Provision towards Standard Assets	26.54	26.54

5. **BUSINESS RATIOS**

Items	31 March 2009	31 March 2008
Interest Income as percentage to Average Working Funds	9.88%	9.43%
Non-Interest Income as percentage to Average Working Funds	1.52%	1.34%
Operating Profit as percentage to Average Working Funds	2.79%	2.85%
Return on Average Assets	1.50%	1.60%
Business per employee (Rs in Crores)	5.65	4.99
Profit per employee (Rs in Crores)	0.05	0.05

6. **ASSET LIABILITY MANAGEMENT**

Maturity Pattern of certain items of assets and liabilities

(Rs in Crores)

	Deposits	Advances	Investments	Borrowings	Foreign Currency Assets	Foreign Currency Liabilities
1 day	17.84	34.13	4.25	0.00	25.62	24.31
2-7 days	43.57	30.76	81.02	0.00	97.85	107.33
8-14 days	88.36	38.99	0.00	0.00	14.83	10.24
15 to 28 days	82.25	44.29	19.86	0.00	26.89	13.74
29 days to 3 months	408.75	104.96	36.39	0.06	555.79	584.28
Over 3 months & upto 6 months	342.70	11.29	15.31	0.06	757.26	742.09
Over 6 months & upto 1 year	997.72	14.71	20.39	0.01	353.29	356.08
Over 1 year & upto 3 years	5902.85	3586.33	116.40	0.02	2.29	2.01
Over 3 years & upto 5 years	299.24	627.65	261.82	0.00	0.00	0.02
Over 5 years	23.34	1091.03	1830.98	0.00	0.00	0.00
Total	8206.62	5584.14	2386.42	0.15	1833.82	1840.10

The above classification has been made on the basis of the guidelines of RBI and certain assumptions made by management and have been relied upon by auditors.

7. **LENDING TO SENSITIVE SECTOR**

7.1 **Exposure to Real Estate Sector**

(Rs in Crores)

Category	31 March 2009	31 March 2008
a) Direct exposure		
(i) Residential Mortgages – Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented; (individual housing loans eligible or inclusion in priority	161.41	118.15

Category	31 March 2009	31 March 2008
sector advances may be shown separately)		
(ii) Commercial Real Estate – Lending secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits;	724.78	699.96
(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
a. Residential	10.12	10.12
b. Commercial Real Estate	-	-
b) Indirect Exposure		
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs)	80.00	5.00

7.2 Exposure to Capital Market

CATEGORY	(Rs in Crores)	
	31.03.2009	31.03.2008
ADVANCES TO CAPITAL MARKET SECTOR		
1. Direct Investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt	24.09	20.60
2. Advances against shares / bonds / debentures or other securities or on clean basis to individuals for investments in shares (including IPOs/ESOPs), convertible bonds, convertible debentures and units of equity-oriented mutual funds	-	-
3. Advances for any other purposes where shares or convertible bonds or convertible debentures or units or equity oriented mutual funds are taken as primary security.	1.23	1.44
4. Advances for any other purposes to the extent secured by the collateral security of the 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.	-	-
5. Secured and Unsecured Advances to stock brokers and guarantees issued on behalf of stock brokers and market makers (both funded & non funded)	12.07	14.42
6. Loans sanctioned to corporates against 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	-	-

CATEGORY	31.03.2009	31.03.2008
ADVANCES TO CAPITAL MARKET SECTOR		
7. Bridge loans to companies against expected equity flows / issues.	-	-
8. Underwriting commitment 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	-	-
9. Financing to stock brokers for margin trading	-	-
10. All exposures to venture capital funds (both registered and unregistered) will be deemed	9.83	10.25
Total Exposure to Capital Market	47.22	46.71

7.3 Risk Category wise Country Exposure

(Rs in Crores)

Risk Category	Exposure (net) as at March 2009	Provision held as at March 2009	Exposure (net) as at March 2008	Provision held as at March 2008
Insignificant	78.39	-	38.83	-
Low	119.61	-	77.25	-
Moderate	2.23	-	30.99	-
High	-	-	-	-
Very High	0.04	-	-	-
Restricted	-	-	-	-
Off-credit	-	-	-	-
Total	200.27	-	147.07	-

The net funded exposure of the bank in respect of foreign exchange transactions with each country is within 1% of the total assets of the Bank and hence no provision is required in terms of RBI guidelines.

7.4 Details of Single Borrower Limit (SBL), Group Borrower (GBL) exceeded by the Bank

(Rs in Crores)

Sl. No.	Name of the Borrower	Exposure Ceiling	Limit Sanctioned	Position as on 31 st March 2009
N I L				

8. MISCELLANEOUS

8.1 Provision made for Income-Tax and FBT during the year

(Rs in Crores)

	Year ended 31 March 2009	Year ended 31 March 2008
Provision for Income Tax	62.45	37.39
Fringe Benefit Tax	0.50	0.30

8.2 Penalties imposed by RBI

No penalty was imposed on the bank by the Reserve Bank of India during the year.

8.3 Drawdown from Reserves

The Bank has not drawn any amount from Reserves during the year.

8.4 Letters of Comfort issued during financial year 2008-09

(Rs in Crores)	
Opening Balance as on 01.04.2008	33.90
Add : Issued during the year	249.08
Less : Expired during the year	166.15
Outstanding as on 31.03.2009	116.83

9. DISCLOSURES AS PER ACCOUNTING STANDARDS

The bank has complied with the Accounting Standards (AS) issued by the Institute of Chartered Accountants of India and the following disclosures are made in accordance with RBI's guidelines.

i) **Prior Period Items – AS 5**

There are no material prior period items of income / expenditure during the year requiring disclosure.

ii) **Revenue Recognition – AS 9**

Income / Expenditure of certain items recognised on cash basis (AS 9) are not considered to be material.

iii) **Retirement benefits - AS 15**

The liability towards Leave encashment and Gratuity is provided on actuarial basis. The contributory Pension liability is provided on accrual basis.

a) The summarized position of the employee benefits recognized in the Profit & Loss Account and Balance Sheet as required in accordance with Accounting Standard-15 (Revised) are as under:

i) Changes in the present value of the obligations:

(Rs in Crores)		
Particulars	Gratuity	Leave Encashment
Present value of Obligation as at the beginning of the year	25.13	6.72
Service Cost	1.55	0.70
Interest on Defined benefit obligation	1.92	0.44
Benefits settled	(2.32)	(2.37)
Actuarial (gain)/loss	1.71	2.47
Present value of obligation at year end	27.99	7.96

ii) Change in Fair value of Plan Asset:

(Rs in Crores)		
Particulars	Gratuity	Leave Encashment
Fair value of Plan Assets at the beginning of the year	25.11	0.00
Expected return on plan assets	2.03	0.00
Actuarial gain/(loss)	0.23	0.00
Contributions	2.92	2.37
Benefits settled	(2.32)	(2.37)
Fair value of Plan Asset at the end of the year	27.97	0.00

iii) Amount recognized in Balance Sheet:

(Rs in Crores)

Particulars	Gratuity	Leave Encashment
Closing Present Value Obligation	27.99	7.96
Closing Fair value of plan assets	27.97	0.00
Unfunded net asset/(Liability) recognized in the balance sheet	(0.02)	(7.96)

iv) Expenses recognized in Profit & Loss account:

(Rs in crores)

Particulars	Gratuity	Leave Encashment
Current Service cost	1.55	0.70
Interest cost	1.92	0.44
Expected return on plan assets	(2.03)	0.00
Net Actuarial (gain)/loss recognised in the year	1.47	2.46
Total expenses recognized in the Profit & Loss Account	2.91	3.60

v) Principal actuarial assumption at the Balance Sheet Date:

Particulars	Gratuity	Leave Encashment
	(Funded)	(Unfunded)
Discount factor	7.50%	7.50%
Estimated rate of return on plan assets	9.40%	0.00%
Salary increase	6.00%	6.00%
Attrition rate	6.00%	6.00%
Retirement age	58	58

iv) Segmental reporting - AS 17

Summary of the operating segments of the bank as follows:

(Rs in Crores)

Particulars	Year ended	
	31.03.2009	31.03.2008
	Audited	Audited
1. Segment Revenue		
a) Treasury	197.03	133.42
b) Corporate / wholesale banking	239.85	177.85
c) Retail Banking	488.14	372.52
d) Other Banking Operations	3.06	2.46
Total	928.08	686.25
2. Segment Results		
a) Treasury	52.47	41.86
b) Corporate / wholesale banking	79.65	56.32
c) Retail Banking	92.37	80.13
d) Other Banking Operations	2.23	1.84
Total	226.72	180.15

	Year ended	
Operating Profit	226.72	180.15
Other Provisions & Contingencies	48.44	44.56
Profit Before Tax	178.28	135.59
Taxes including Deferred Tax	56.15	33.86
Net Profit	122.13	101.73
3. Capital Employed:		
Segment Assets - Segment Liabilities		
a) Treasury	215.06	158.79
b) Corporate / wholesale banking	122.06	98.16
c) Retail Banking	268.57	218.37
d) Unallocated	55.23	91.54
Total	660.92	566.86
There are no significant residual operations carried on by the bank.		
PART B : GEOGRAPHIC SEGMENTS:		
The bank operates only in India		

v) **Related Party disclosures – AS 18**

Key Management Personnel

Sri S. Balasubramanian, MD & CEO - Remuneration paid - Rs.17,62,258/-

vi) **Earning Per share – AS 20**

The details of EPS computation is set out below:

Particulars	As at 31 March 2009	As at 31 March 2008
Earnings for the year (Rs thousands)	122.13	101.73
Basic weighted average number of shares (Nos)	320,000,000	285,479,452
Basic EPS (Rs)	3.82	3.56
Dilutive effect of stock options (Nos)	539,704	539,704
Diluted weighted average number of shares (Nos)	320,539,704	286,019,156
Diluted EPS (Rs)	3.81	3.56
Nominal value of shares (Rs)	1	1

vii) **Accounting for Taxes on Income – AS 22**

The Bank has complied with the provisions of Accounting Standard 22 on accounting for taxes on income issued by the Institute of Chartered Accountants of India.

The major components of the Deferred Tax Asset and Liabilities as at 31 March 2009 are as follows:

(Rs. in Crores)

Components	As at 31 March 2009	As at 31 March 2008
Deferred Tax Liability:		
Depreciation on Fixed Assets	1.03	2.71
Accrued Interest on Investments	1.36	3.81
Total Deferred Tax Liability (A)	2.39	6.52
Deferred Tax Asset:		
Provision for Standard Assets	9.02	9.02
Leave encashment	3.25	2.83
Provision on Restructured Accounts	2.24	0.00
Total Deferred Tax Asset (B)	14.51	11.85
Net Deferred Tax Liability / (Asset) - (A-B)	(12.12)	(5.33)

viii) **Intangible Assets – AS 26**

The Bank has followed the AS 26 – Intangible asset issued by ICAI and the guidelines issued by RBI and has been consistent with the compliance.

ix) **Impairment of Assets – AS 28**

In the opinion of the management there is no impairment to the assets to which AS 28 – “ Impairment of Assets” applies.

x) **Provisions & Contingencies – AS 29**

The details of the provisions and contingencies, contingent liabilities, the movement of provisions on NPA’s and on depreciation investments which are considered material are disclosed elsewhere under the appropriate headings as per RBI guidelines.

10. **INTER BRANCH RECONCILIATION**

Reconciliation of Central Office accounts maintained by branches has been completed upto 31.03.2009. Adjustment of outstanding entries in Inter Branch Reimbursement account, Clearing Difference Receivable, Funds in Transit and other similar accounts is in progress. In the opinion of the management, consequential impact on the above is not material.

11. **OTHER DISCLOSURES**

11.1 **Income Tax**

Provision for income tax in the current year has been arrived at in consistence with earlier years after considering various judicial decisions on certain disputed issues.

With regard to taxes on issues under dispute for the earlier years aggregating to Rs.118.13 crores which are pending before the Tax authorities, no provision is considered necessary based on the decisions of the appellate authorities in favour of the bank.

11.2 **Agricultural Debt Waiver Scheme**

In terms of Agricultural Debt Waiver and Debt Relief Scheme 2008, framed by the Government of India,

the Bank has received Rs.4.17 crs from the Reserve Bank of India on account out of the eligible debt waiver amount of Rs.10.19 crs. The claims made under the scheme will be verified by the Statutory Auditors.

11.3 Break up of Provisions and Contingencies

(Rs.in Crores)

Particulars	31 March 2009	31 March 2008
Provision for		
- Income Tax, FBT & Deferred Tax		
a) Current	62.95	37.69
b) Deferred	(6.80)	(3.83)
- Bad & Doubtful Debts	33.50	28.00
- Standard Assets	0.00	9.70
- Depreciation on Investments (net)	7.00	6.31
- Others	1.33	0.55
- Restructured Accounts	6.60	0.00
Total	104.58	78.42

11.4 CUSTOMER COMPLAINTS

SI No.	Particulars	
a)	No. of complaints pending at the beginning of the year	Nil
b)	No. of complaints received during the year	53
c)	No. of complaints redressed during the year	53
d)	No. of complaints pending at the end of the year	Nil

11.5 AWARDS PASSED BY THE BANKING OMBUDSMAN

SI No.	Particulars	
a)	No. of unimplemented Awards at the beginning of the year	Nil
b)	No. of Awards passed by Banking Ombudsman during the Year	Nil
c)	No. of Awards implemented during the year	Nil
d)	No. of unimplemented Awards pending at the end of the year	Nil

11.6 Employees Stock Option

As per the CUB ESOS 2008 of the Bank, issue of 5,00,00,000 equity stock options of Re.1/- each was approved by the Board of Directors at their meeting held on 28.03.2008 and by the shareholders at the Extra-ordinary General meeting held on 26.04.2008. A total of 2,25,00,000 equity stock options of Re.1/- each was earmarked under the scheme to be allotted during the period (extended or otherwise) by the Compensation committee on 06.12.2008. The options will vest in a graded manner over a period of 5 years from the date of grant, at an exercise price of Rs.13/- per option. As on 31.03.2009, the options in force are 2,02,50,000.

11.7 Previous years figures have been regrouped wherever necessary to conform to the current year classification.

Significant Accounting Policies – Year ended 31st March 2009.

1. General

The financial statements have been prepared on historical cost basis and on accrual basis of accounting except where stated otherwise and conform to the statutory provisions and practices prevailing within the banking industry in India. There has been no changes in the accounting policies during the year as compared to the financial year 2007-08.

2. Foreign Exchange Transactions

- 2.1 Assets and Liabilities denominated in Foreign Currencies are translated at the rates notified by FEDAI at the close of the year. Profit or Loss accruing from such transactions is recognised in the profit and loss account.
- 2.2 Income and Expenditure items have been translated at the Exchange rates ruling on the date of the transactions.
- 2.3 The Bank does not have a branch in a Foreign Country.
- 2.4 Outstanding Forward Exchange contracts are revalued at the exchange rates notified by FEDAI and the resultant net gain or loss is recognised in the Profit and Loss account.
- 2.5 Foreign Currency Guarantees, Acceptances, Endorsements and other obligations are accounted at the exchange rates prevailing on the date of the transactions.

3. Investments

3.1 As per RBI guidelines, the investments of the bank are categorised and valued as under:

- Held to Maturity
- Available for Sale
- Held for Trading

a) Securities classified under "Held to Maturity" category are valued at acquisition cost. Where the acquisition cost is higher than the face value, such excess of acquisition cost over the face value is amortised over the remaining period to maturity.

b) Securities held in "Available for Sale" Category are valued scrip wise as under:

- i) Government of India Securities are valued at market price as per quotation put out by Primary Dealers' Association of India/ Fixed Income Money Market and Derivatives Association of India.
- ii) State Government loans, Trustee Securities, Securities guaranteed by Central/State Governments and PSU Bonds are valued on appropriate Yield to Maturity (YTM) basis as per Primary Dealers' Association of India/ Fixed Income Money Market and Derivatives Association of India guidelines.
- iii) Treasury Bills/ Certificate of Deposits/ Commercial Papers are valued at carrying cost.
- iv) Equity Shares are valued at market rate if quoted, otherwise at Break up Value as per the latest Balance Sheet if available or Re.1/- per Company.

- v) Preference shares are valued at market price if quoted or at appropriate YTM basis as per Primary Dealers' Association of India/ Fixed Income Money Market and Derivatives Association of India guidelines.
 - vi) Debentures are valued at market price, if quoted, otherwise on an appropriate YTM basis.
 - vii) Mutual Funds are valued at market price or at NAV or Market Price/ Repurchase Price.
 - viii) Security Receipts are valued at NAV as declared by Securitisation companies.
- c)
- (i) Securities held in "Held for Trading" category are valued at Market Price based on quotations of Government Securities put out by Fixed Income Money Market and Derivatives Association of India.
 - (ii) Inter bank Repo/ Reverse Repo transactions are accounted for in accordance with extant RBI guidelines
- 3.2 Investments in Available for Sale / Held for Trading are valued category wise and scrip wise and net depreciation if any in each category is charged to Profit & Loss A/c, while net appreciation if any, is ignored.
 - 3.3 Shifting of securities from one category to another category is carried out lower of acquisition cost/ book value/ market value on the date of transfer. The depreciation, if any on such transfer is fully provided for
 - 3.4 The non-performing investments are identified and depreciation/ provision is made as per the RBI guidelines
 - 3.5 Profit/ loss on sale of investments in any category is taken to the Profit & Loss account. However, in case of profit on sale of investment in "Held to Maturity" category, an equivalent amount is appropriated to the Capital Reserve account.
 - 3.6 Commission, brokerage, broken period interest etc. on securities are debited/ credited to P & L account
 - 3.7 The bank follows value date method for accounting of its investments
 - 3.8 The investments shown in the Balance Sheet are net of Depreciation, if any.
 - 3.9 Cost of Investments is determined on the basis of the Weighted Average Cost Method consistently.
 - 3.10 The non performing investments are identified and provided for as per RBI guidelines.
- 4. Advances**
- 4.1 Advances have been classified in accordance with the prudential norms laid down by RBI for asset classification and provisioning requirements.
 - 4.2 Advances shown in the Balance Sheet are net of provisions and interest reserve as mentioned above.
- 5. Fixed Assets**
- 5.1 Premises and other Fixed Assets are accounted at acquisition cost less depreciation.

- 5.2 Depreciation has been provided on the composite value for premises acquired with land and building, where cost of the land is not separately identifiable.
- 5.3 Depreciation in respect of fixed assets is charged on the written down value of the assets from the date of purchase on pro-rata basis at the rates specified under Schedule XIV of the Companies Act, 1956; except in the case of computers, which are depreciated @ 33.33 % on straight line method as per RBI guidelines.

6. Staff Benefits

- 6.1 Provision for Gratuity & other defined employee benefits are made on accrual basis as per actuarial valuation at the year end in accordance with the guidelines contained in Accounting Standard 15 (revised 2005) issued by ICAI.
- 6.2 Liability of Gratuity to staff is contributed to the Group Gratuity Life Assurance Scheme of the Life Insurance Corporation of India.
- 6.3 Provident Fund and Pension are accounted on Contributory basis.

7. Employees Stock Option Scheme

The Employee Stock Option Scheme provides for grant of equity stock options to employees that vest in a graded manner. The Bank follows the intrinsic value method to account for its employee compensation costs arising from grant of such options. The excess of fair market price over the exercise price shall be accounted as employee compensation cost in the year of vesting. The fair market price is the latest closing price of the shares on the stock exchanges in which shares of the Bank are largely traded immediately prior to the date of meeting of the compensation committee in which the options are granted.

8. Earning Per share

Basic earning per share is calculated by dividing the net profit of the year by the weighted average number of equity shares outstanding during the year.

Diluted earning per share is computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the year.

9. Income Recognition

Interest Income on all advances/ performing assets is recognised on accrual basis. In respect of Non-Performing Assets / Non-Performing Investments, interest income is recognised on receipt basis. Commission earned, Locker rent, Dividends on equity shares & Mutual Funds are recognised on receipt basis.

10. Income Tax

Income Tax comprises current tax, Deferred Tax & Fringe Benefit Tax for the year. The deferred tax assets/liability is recognised in accordance with Accounting Standard-22 issued by the Institute of Chartered Accountants of India.

11. Net Profit

The Net Profit disclosed in the Profit and Loss Account is after considering

- 11.1 Provision for taxes on income in accordance with statutory requirements.
- 11.2 Provision for bad and doubtful advances and investments to the satisfaction of auditors.
- 11.3 Contingent Provision for Standard Assets.
- 11.4 Other usual and necessary provisions.

Annexure VII

Accounting Ratios

(Rs in Crores, except otherwise indicated)

Year ended 31st March	2009
a. Basic Earnings Per Share (in Rs.)	3.82
b. Return on Net Worth (in %)	19.89%
c. Net Asset Value per equity share (in Rs)	20.65

Definition of Key Terms

Earnings per share	Net Profit Divided by weighted average number of equity shares outstanding at the end of each fiscal year
Net Asset Value	Net Worth (excluding revaluation reserves and deferred tax asset) divided by number of equity shares outstanding at the end of each fiscal year.
Return on Net worth	Net Profit / Average Net worth

Annexure VIII**Capitalisation Statement*****(Rs in Crores)**

Particulars	Pre-issue as at March 31, 2009	Post-issue #
Loan Funds		
Long Term @	40.00	
Short Term @@	0.15	
Total Debt	40.15	
Share Holders Funds		
Share Capital	32.00	
Reserves & Surplus (Net of Revaluation Reserve)	628.92	
Total Equity	660.92	
Long Term Debt / Equity Ratio	0.06 : 1	

* The above has been computed on the basis of the audited financial statements.

@ Long term debt represents subordinate debt

@@ Short term debts are debts maturing within next one year from the date of above statement and interest accrued thereon.

Information pertaining to Share Capital and Reserves post issue can be ascertained only after finalization of size and price of rights issue.

AUDITORS' REPORT

To ,
The Board of Directors
City Union Bank Limited
TSR Big Street,
Kumbakonam
Tamil Nadu – 612 001

1. We have reviewed the accompanying Balance Sheet (Annexure I) of City Union Bank Limited (“the Bank”) as at 30 June, 2009 and the Profit and Loss (Annexure II) for the period ended on that date and the accompanying Schedules (Annexure III) (together comprising “Reviewed Financial Statements”). These statements are the responsibility of the Bank’s Management and have been approved by the Board of Directors. Our responsibility is to issue a report on these financial statements based on our review.
2. We conducted our review in accordance with the Standard on Review Engagements (SRE) 2400 “Engagements to Review Financial Statements”, issued by the Institute of Chartered Accountants of India. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and accordingly we do not express an audit opinion.
3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying Balance Sheet and Profit and Loss prepared in accordance with the Accounting Policies stated in the Annexure IV and other recognised accounting practices and policies contains any material misstatement.

For **Abarna & Ananthan**
Chartered Accountants

(Abarna Bhaskar)
Partner
Membership No. – 25145
Date : 26 August 2009
Place : Bangalore

CITY UNION BANK LIMITED

Annexure I

BALANCE SHEET AS ON 30.06.2009			
		(Rs in Crores)	
	Sch.No	As on 30.06.2009	As on 31.03.2009
CAPITAL AND LIABILITIES			
Share Capital	1	32.00	32.00
Reserves and Surplus	2	660.46	628.92
Deposits	3	8376.72	8206.62
Borrowings	4	0.09	0.15
Other Liabilities & Provisions	5	394.26	383.32
Total		9463.53	9251.01
ASSETS			
Cash and Balances with Reserve Bank of India	6	710.34	595.33
Balances with Banks & Money at Call and Short Notice	7	84.97	289.76
Investments	8	2809.13	2397.47
Advances	9	5507.78	5645.25
Fixed Assets	10	45.77	41.29
Other Assets	11	305.54	281.91
Total		9463.53	9251.01
Contingent Liabilities	12	3278.77	4024.20
Bills for Collection		424.31	401.03

Annexure II

PROFIT & LOSS ACCOUNT FOR THE PERIOD ENDED 30th June, 2009			
		(Rs in Crores)	
	Sch.No	Period ended 30.06.2009	Period ended 30.06.2008
INCOME			
Interest Earned	13	228.28	184.66
Other Income	14	25.95	22.86
Total		254.23	207.52
EXPENDITURE			
Interest Expended	15	172.01	127.98
Operating Expenses	16	34.96	32.73
Provisions and Contingencies		15.71	20.57
Total		222.68	181.28
PROFIT / LOSS			
Net Profit		31.55	26.24
Profit brought forward		5.00	4.87
Total		36.55	31.11
APPROPRIATIONS			
- Statutory Reserves		0.00	0.00
- Capital Reserve		0.00	0.00
- General Reserve		0.00	0.00
- Investment Reserve Account		0.00	0.00
- Special Reserve under IT Act, 1961		0.00	0.00
- Proposed Dividend		0.00	0.00
- Dividend Tax		0.00	0.00
- Balance carried over to Balance Sheet		36.55	31.11
Total		36.55	31.11

Annexure III

SCHEDULES FORMING PART OF BALANCE SHEET & PROFIT & LOSS ACCOUNT

SCHEDULE - 1 CAPITAL

(Rs in Crores)

	As at 30.06.2009	As at 31.03.2009
Authorised Capital	100.00	100.00
(100,00,00,000 Equity Shares of Re.1/- each)		
Issued Capital	32.00	32.00
(32,00,00,000 equity shares Re.1/- each)		
Subscribed and Paid-up Capital	32.00	32.00
(32,00,00,000 equity shares Re.1/- each)		
TOTAL	32.00	32.00

SCHEDULE - 2 RESERVES AND SURPLUS

(Rs in Crores)

		As at 30.06.2009	As at 31.03.2009
I	Statutory Reserves		
	Opening Balance	252.00	220.75
	Additions during the period / year	0.00	31.25
		252.00	252.00
II	Capital Reserves		
	Opening Balance	38.14	16.78
	Additions during the period / year	0.00	21.36
		38.14	38.14
III	Share Premium		
	Opening Balance	155.46	155.46
	Additions during the period / year	0.00	0.00
		155.46	155.46
IV	Revenue and Other Reserves		
	i) General Reserve		
	Opening Balance	174.00	137.00
	Deductions during the period / year	0.00	0.00
	Additions during the period / year	0.00	37.00
		174.00	174.00
	ii) Investment Reserve Account		
	Opening Balance	1.31	0.00
	Additions during the period / year	0.00	1.31
		1.31	1.31
	iii) Special Reserve u/s 36(1)(viii) of Income Tax Act, 1961		
	Opening Balance	3.00	0.00
	Additions during the period / year	0.00	3.00
		3.00	3.00
V	Balance in Profit and Loss Account	36.55	5.01
	TOTAL	660.46	628.92

SCHEDULE - 3 DEPOSITS

(Rs in Crores)

		As on 30.06.2009	As on 31.03.2009
A	I. Demand Deposits		
	i) From Banks	1.46	1.93
	ii) From Others	659.58	693.18
		661.04	695.11
	II. Savings Deposits	862.36	856.05
	III. Term Deposits		
	i) From banks	28.55	32.81
	ii) From Others	6824.77	6622.65
		6853.32	6655.46
	TOTAL	8376.72	8206.62
B	i) Deposits of Branches in India	8376.72	8206.62
	ii) Deposits of Branches outside India	0.00	0.00
	TOTAL	8376.72	8206.62

SCHEDULE - 4 BORROWINGS

(Rs in Crores)

		As on 30.06.2009	As on 31.03.2009
I.	Borrowings in India		
	i) Reserve Bank of India	0.00	0.00
	ii) Other Banks	0.00	0.01
	iii) Other institutions and agencies	0.09	0.14
II	Borrowings from outside India	0.00	0.00
	TOTAL	0.09	0.15
III	Secured borrowings included in I	0.00	0.00

SCHEDULE - 5 OTHER LIABILITIES & PROVISIONS

(Rs in Crores)

		As on 30.06.2009	As on 31.03.2009
I.	Bills Payable	84.95	94.67
II.	Inter-Office Adjustments (net)	0.00	0.00
III.	Interest Accrued	44.63	44.50
IV.	Others (including Provisions)	264.68	244.15
	TOTAL	394.26	383.32

SCHEDULE - 6 CASH AND BALANCES WITH RESERVE BANK OF INDIA (Rs in Crores)

		As at 30.06.2009	As at 31.03.2009
I	Cash in Hand (including foreign currency notes)	201.13	163.66
II	Balances with Reserve Bank of India		
	i) In Current Accounts	509.21	431.67
	ii) In Other Accounts	0.00	0.00
	TOTAL	710.34	595.33

SCHEDULE - 7 BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE

(Rs in Crores)

		As at 30.06.2009	As at 31.03.2009
I	In India		
	i) Balances with Banks		
	a) In Current Accounts	50.75	85.95
	b) In Other Deposit Accounts	30.90	166.53
		81.65	252.48
	ii) Money at Call and Short notice		
	a) With Banks	0.00	0.00
	b) With Other Institutions	0.00	0.00
	TOTAL	81.65	252.48
II	Outside India		
	In Current Accounts	3.32	11.92
	In Deposit Accounts	0.00	25.36
		3.32	37.28
	GRAND TOTAL	84.97	289.76

SCHEDULE - 8 INVESTMENTS

(Rs in Crores)

		As at 30.06.2009	As at 31.03.2009
I	In India		
	i) Government Securities	2375.18	1957.24
	ii) Other Approved Securities	2.23	2.73
	iii) Shares	21.84	22.08
	iv) Debentures and Bonds	71.55	71.54
	v) Subsidiaries / Joint Ventures	0.00	0.00
	vi) Others	338.33	343.88
	TOTAL	2809.13	2397.47
	Gross Investments in India	2810.86	2404.70
	Less : Provision for Invt. Depn	1.73	7.23
	Net Investments in India	2809.13	2397.47
II	Outside India	0.00	0.00
	GRAND TOTAL	2809.13	2397.47

SCHEDULE - 9 ADVANCES

(Rs in Crores)

		As at 30.06.2009	As at 31.03.2009
A	i) Bills Purchased and Discounted	137.07	163.17
	ii) Cash Credits, Overdrafts and Loans repayable on Demand	2705.72	2815.09
	iii) Term Loans	2664.99	2666.99
	TOTAL	5507.78	5645.25
B	i) Secured by tangible assets (includes advances against book debts)	5282.43	5383.38
	ii) Covered by Bank/Govt. Guarantees	72.41	72.75
	iii) Unsecured	152.94	189.12
	TOTAL	5507.78	5645.25
C	I) Advances in India		
	i) Priority Sector	1699.37	1824.93
	ii) Public Sector	72.41	72.75
	iii) Others	3736.00	3747.57
	TOTAL	5507.78	5645.25
	II) Advances outside India	0.00	0.00
	GRAND TOTAL	5507.78	5645.25

SCHEDULE - 10 FIXED ASSETS

(Rs in Crores)

		As at 30.06.2009	As at 31.03.2009
I	Premises		
	i) At Cost as at 31st March of the preceding period / year	17.06	16.60
	ii) Additions during the period / year	0.00	0.89
	iii) Sales/adjustments during the period / year	0.00	0.43
	TOTAL	17.06	17.06
	iv) Depreciation to date	6.26	6.14
	TOTAL	10.80	10.92
II	Other Fixed Assets (including Furniture and Fixtures)		
	i) At Cost as at 31st March of the Preceding period / year	* 94.17	80.87
	ii) Additions during the period/ year	** 7.69	13.44
	TOTAL	101.86	94.31
	iii) Deductions/adjustments during the period / year	0.00	0.14
	TOTAL	101.86	94.17
	iv) Depreciation to date	66.89	63.80
	TOTAL	*** 34.97	30.37
	GRAND TOTAL	45.77	41.29

* → includes capital work in progress of Rs.1.32 crs

** → includes capital work in progress of Rs.0.91 crs

*** → includes capital work in progress of Rs.2.23 crs

SCHEDULE - 11 OTHER ASSETS

(Rs in Crores)

		As at 30.06.2009	As at 31.03.2009
I	Inter office Adjustments	13.31	1.35
II	Interest accrued	52.32	48.00
III	Tax paid in Advance / Tax deducted at Source	199.07	188.48
IV	Stationery and stamps	0.48	0.44
V	Others	40.36	43.64
	TOTAL	305.54	281.91

SCHEDULE - 12 CONTINGENT LIABILITIES

(Rs in Crores)

		As at 30.06.2009	As at 31.03.2009
I	Claims against Bank not acknowledged as debts	0.29	0.29
II	Liability for partly paid Investments	0.00	0.00
III	Liability on account of outstanding Forward Exchange Contracts	2750.09	3503.17
IV	Guarantees given on behalf of constituents		
	- In India	351.61	345.35
	- Outside India	0.00	0.00
V	Acceptances, endorsements and other obligations	176.78	175.39
VI	Other items for which the Bank is contingently liable	0.00	0.00
	TOTAL	3278.77	4024.20

SCHEDULE - 13 INTEREST EARNED

(Rs in Crores)

		Period ended 30.06.2009	Period ended 30.06.2008
I	Interest / discount on Advances / Bills	184.08	150.49
II	Income on Investments	42.19	32.55
III	Interest on balances with Reserve Bank of India and other Inter-Bank funds	2.01	1.62
IV	Others	0.00	0.00
	TOTAL	228.28	184.66

SCHEDULE - 14 OTHER INCOME

(Rs in Crores)

		Period ended 30.06.2009	Period ended 30.06.2008
I	Commission, Exchange and Brokerage	3.72	6.66
II	Profit/Loss on sale of Investments (net)	6.33	3.36
III	Profit/loss on revaluation (Amortization)	0.00	0.00
IV	Profit on sale of Land,Bldgs and other assets	0.02	0.00
V	Profit on Exchange transactions (net)	1.92	2.43
VI	Miscellaneous Income	13.96	10.41
	TOTAL	25.95	22.86

SCHEDULE - 15 INTEREST EXPENDED

(Rs in Crores)

		Period ended 30.06.2009	Period ended 30.06.2008
I	Interest on Deposits	171.08	126.93
II	Interest on RBI/Inter-Bank Borrowings	0.01	0.07
III	Others	0.92	0.98
	TOTAL	172.01	127.98

SCHEDULE - 16 OPERATING EXPENSES

(Rs in Crores)

		Period ended 30.06.2009	Period ended 30.06.2008
I	Payments to and provision for employees	18.13	16.06
II	Rent,taxes and lighting	3.85	3.51
III	Printing and Stationery	0.71	0.41
IV	Advertisement and publicity	0.53	0.47
V	Depreciation on Banks property	3.21	4.05
VI	Directors' fees,allowances and expenses	0.07	0.07
VII	Auditors' fees and expenses	0.09	0.04
VIII	Law charges	0.02	0.02
IX	Postage, Telegrams, telephone etc	0.91	1.07
X	Repairs and maintenance	1.12	1.64
XI	Insurance	2.21	1.74
XII	Other expenditure	4.11	3.65
	TOTAL	34.96	32.73

Significant Accounting Policies – for the period ended 30th June 2009.**1. General**

The financial statements have been prepared on historical cost basis and on accrual basis of accounting except where stated otherwise and conform to the statutory provisions and practices prevailing within the banking industry in India. There has been no changes in the accounting policies during the period as compared to the financial year 2008-09.

2. Foreign Exchange Transactions

- 2.1 Assets and Liabilities denominated in Foreign Currencies are translated at the rates notified by FEDAI at the close of the year. Profit or Loss accruing from such transactions is recognised in the profit and loss account.
- 2.2 Income and Expenditure items have been translated at the Exchange rates ruling on the date of the transactions.
- 2.3 The Bank does not have a branch in a Foreign Country.
- 2.4 Outstanding Forward Exchange contracts are revalued at the exchange rates notified by FEDAI and the resultant net gain or loss is recognised in the Profit and Loss account.
- 2.5 Foreign Currency Guarantees, Acceptances, Endorsements and other obligations are accounted at the exchange rates prevailing on the date of the transactions.

3. Investments

3.1 As per RBI guidelines, the investments of the bank are categorised and valued as under:

- Held to Maturity
- Available for Sale
- Held for Trading

a) Securities classified under "Held to Maturity" category are valued at acquisition cost. Where the acquisition cost is higher than the face value, such excess of acquisition cost over the face value is amortised over the remaining period to maturity.

b) Securities held in "Available for Sale" Category are valued scrip wise as under:

- i) Government of India Securities are valued at market price as per quotation put out by Primary Dealers' Association of India/ Fixed Income Money Market and Derivatives Association of India.
- ii) State Government loans, Trustee Securities, Securities guaranteed by Central/State Governments and PSU Bonds are valued on appropriate Yield to Maturity (YTM) basis as per Primary Dealers' Association of India/ Fixed Income Money Market and Derivatives Association of India guidelines.
- iii) Treasury Bills/ Certificate of Deposits/ Commercial Papers are valued at carrying cost.
- iv) Equity Shares are valued at market rate if quoted, otherwise at Break up Value as per the latest Balance Sheet if available or Re.1/- per Company.

- v) Preference shares are valued at market price if quoted or at appropriate YTM basis as per Primary Dealers' Association of India/ Fixed Income Money Market and Derivatives Association of India guidelines.
 - vi) Debentures are valued at market price, if quoted, otherwise on an appropriate YTM basis.
 - vii) Mutual Funds are valued at market price or at NAV or Market Price/ Repurchase Price.
 - viii) Security Receipts are valued at NAV as declared by Securitisation companies.
- c) (i) Securities held in "Held for Trading" category are valued at Market Price based on quotations of Government Securities put out by Fixed Income Money Market and Derivatives Association of India.
- (ii) Inter bank Repo/ Reverse Repo transactions are accounted for in accordance with extant RBI guidelines
- 3.2 Investments in Available for Sale / Held for Trading are valued category wise and scrip wise and net depreciation if any in each category is charged to Profit & Loss A/c, while net appreciation if any, is ignored.
- 3.3 Shifting of securities from one category to another category is carried out lower of acquisition cost/ book value/ market value on the date of transfer. The depreciation, if any on such transfer is fully provided for
- 3.4 The non-performing investments are identified and depreciation/ provision is made as per the RBI guidelines
- 3.5 Profit/ loss on sale of investments in any category is taken to the Profit & Loss account. However, in case of profit on sale of investment in "Held to Maturity" category, an equivalent amount is appropriated to the Capital Reserve account.
- 3.6 Commission, brokerage, broken period interest etc. on securities are debited/ credited to P & L account
- 3.7 The bank follows value date method for accounting of its investments
- 3.8 The investments shown in the Balance Sheet are net of Depreciation, if any.
- 3.9 Cost of Investments is determined on the basis of the Weighted Average Cost Method consistently.
- 3.10 The non performing investments are identified and provided for as per RBI guidelines.

4. Advances

- 4.1 Advances have been classified in accordance with the prudential norms laid down by RBI for asset classification and provisioning requirements.
- 4.2 Advances shown in the Balance Sheet are net of provisions and interest reserve as mentioned above.

5. Fixed Assets

- 5.1 Premises and other Fixed Assets are accounted at acquisition cost less depreciation.

5.2 Depreciation has been provided on the composite value for premises acquired with land and building, where cost of the land is not separately identifiable.

5.3 Depreciation in respect of fixed assets is charged on the written down value of the assets from the date of purchase on pro-rata basis at the rates specified under Schedule XIV of the Companies Act, 1956; except in the case of computers, which are depreciated @ 33.33 % on straight line method as per RBI guidelines.

6. Staff Benefits

6.1 Provision for Gratuity & other defined employee benefits are made on accrual basis as per actuarial valuation at the year end in accordance with the guidelines contained in Accounting Standard 15 (revised 2005) issued by ICAI.

6.2 Liability of Gratuity to staff is contributed to the Group Gratuity Life Assurance Scheme of the Life Insurance Corporation of India.

6.3 Provident Fund and Pension are accounted on Contributory basis.

7. Employees Stock Option Scheme

The Employee Stock Option Scheme provides for grant of equity stock options to employees that vest in a graded manner. The Bank follows the intrinsic value method to account for its employee compensation costs arising from grant of such options. The excess of fair market price over the exercise price shall be accounted as employee compensation cost in the year of vesting. The fair market price is the latest closing price of the shares on the stock exchanges in which shares of the Bank are largely traded immediately prior to the date of meeting of the compensation committee in which the options are granted.

8. Earning Per share

Basic earning per share is calculated by dividing the net profit of the year by the weighted average number of equity shares outstanding during the year.

Diluted earning per share is computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the year.

9. Income Recognition

Interest Income on all advances/ performing assets is recognised on accrual basis. In respect of Non-Performing Assets / Non-Performing Investments, interest income is recognised on receipt basis. Commission earned, Locker rent, Dividends on equity shares & Mutual Funds are recognised on receipt basis.

10. Income Tax

Income Tax comprises current tax, Deferred Tax & Fringe Benefit Tax for the year. The deferred tax assets/liability is recognised in accordance with Accounting Standard-22 issued by the Institute of Chartered Accountants of India.

11. Net Profit

The Net Profit disclosed in the Profit and Loss Account is after considering

11.1 Provision for taxes on income in accordance with statutory requirements.

11.2 Provision for bad and doubtful advances and investments to the satisfaction of auditors.

11.3 Contingent Provision for Standard Assets.

11.4 Other usual and necessary provisions.

STOCK MARKET DATA FOR EQUITY SHARES OF OUR BANK

Our Bank's Equity Shares are listed on the BSE, NSE and MSE. As our Bank's Equity Shares are actively traded on the BSE and NSE, stock market data has been given separately for BSE and NSE only.

The monthly high and low price and the volume of shares of our Bank traded at the BSE and NSE during the past six months were recorded are stated below:

BSE

Month	High (Rs.)	Date of High	Low (Rs.)	Date of Low
February, 2009	14.12	13-Feb-09	12.31	26-Feb-09
March, 2009	12.63	27-Mar-09	11.44	9-Mar-09
April, 2009	16.86	15-Apr-09	12.46	1-Apr-09
May, 2009	27.00	25-May-09	15.50	11-May-09/14-May-09
June, 2009	26.45	4-Jun-09	22.20	18-Jun-09/19-Jun-09
July, 2009	23.90	28-Jul-09	19.20	13-Jul-09

(Source: www.bseindia.com)

NSE

Month	High (Rs.)	Date of High	Low (Rs.)	Date of Low
February, 2009	14.05	13-Feb-09	12.25	27-Feb-09
March, 2009	12.65	27-Mar-09	11.45	09-Mar-09
April, 2009	16.85	15-Apr-09	12.55	01-Apr-09
May, 2009	26.90	25-May-09	15.55	14-May-09
June, 2009	26.40	04-Jun-09	22.15	19-Jun-09
July, 2009	23.95	28-Jul-09	19.20	13-Jul-09

(Source: www.nseindia.com)

The high and low closing prices recorded on the BSE and NSE for the preceding three years and the number of Equity Shares traded on the days the high and low prices were recorded are stated below.

BSE

Fiscal Year	High (Rs.)	Date of High	Low (Rs.)	Date of Low
2007	174.25	8 February 2007	85.05	14 June 2006
2008 (2.4.07- 22.1.08) [#]	495.85	3 January 2008	153.35	3 April 2007
2008 (23.1.08 – 31.3.08) [#]	45.85	28 January 2008	23.80	24 March 2008
2009	34.25	24 April 2008	11.44	9 March 2009

[#] Equity Shares of Rs. 10 was sub-divided into 10 Equity Shares of Re. 1 each

(Source: www.bseindia.com)

NSE

Fiscal Year	High (Rs.)	Date of High	Low (Rs.)	Date of Low
2007	175.2	16-Jan-07	85.05	14-Jun-06
2008 (2.4.07- 22.1.08) [#]	493.65	03-Jan-08	154.95	02-Apr-07
2008 (23.1.08 – 31.3.08) [#]	45.95	28-Jan-08	23.35	24-Mar-08
2009	34.25	23-Apr-08	11.45	09-Mar-09

[#] Equity Shares of Rs. 10 was sub-divided into 10 Equity Shares of Re. 1 each

(Source: www.nseindia.com)

The closing price of our Equity Shares as on July 1, 2009 (the trading day immediately following the day on which the Board resolution was passed approving the Rights Issue) was Rs. 22.95 on the BSE and Rs. 22.90 on the NSE.

Week end prices of Equity Shares of our Company for the last four weeks on BSE and NSE along with the highest and lowest price are as below:

Week ended on	BSE			NSE		
	Closing Price	Highest Price	Lowest Price	Closing Price	Highest Price	Lowest Price
July 31, 2009	22.95	23.90	22.95	23.00	23.95	23.00
August 7, 2009	23.05	23.70	22.30	23.15	23.80	22.15
August 14, 2009	23.60	23.60	22.10	23.55	23.55	22.30
August 21, 2009	23.05	23.05	22.30	23.00	23.00	22.25

Note: High/Low prices based on closing quotations of BSE & NSE (Source: www.bseindia.com and www.nseindia.com)

The market capitalization of our Equity Shares as on August 26, 2009 was Rs. 772.80 crores on the BSE based on a market price of Rs. 24.15/- and the market capitalization of our Equity Shares on the NSE was Rs. 774.40 crores based on a market price of Rs. 24.20/-

The Issue price of Rs. [•]/- has been arrived at in consultation between our Bank and the Lead Manager.

LEGAL AND OTHER INFORMATION

Except as described below, there are no outstanding litigations, suits, civil or criminal prosecutions, proceedings before any judicial, quasi-judicial, arbitral or administrative tribunals, including pending proceedings for violation of statutory regulations or, alleging criminal or economic offences or tax liabilities or any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of Part 1 of Schedule XIII of the Companies Act) against our Bank and our Directors that would have a material adverse effect on our business. Further there are no defaults, non-payments or overdue of statutory dues, institutional/bank dues and dues payable to holders of debentures, bonds and arrears of cumulative preference shares that would have a material adverse effect on our business. Further, none of our directors are on the RBI's list of willful defaulters.

In view of our Bank, all outstanding civil, labour, consumer and tax related litigations and disputes of value more than Rs. 1 crore are material to our Bank. As of 21.08.2009, our Bank had the following litigation, suits, and cases pending before various courts, fora and authorities involving monetary claims. The claims under the same amount to Rs.183.45 Crores.

Sl. No.	Brief Description	No. of Cases	Amount Involved (Rs. in crores)
1.	Suits filed by our Bank against defaulting borrowers.	2285	66.17
2.	Proceedings filed by our Bank on disputed tax claims.	26	117.17
3.	Proceedings filed against our Bank on disputed tax claims	6	Not quantifiable
4.	Suits involving our Bank which are not acknowledged as debts.	10	0.11
5.	Criminal proceedings against our Bank	1	Not quantifiable

I. Litigation involving our Bank

A. Outstanding litigation proceedings initiated against our Bank

Criminal Cases:

Sl. No	Court/Forum	Case No.	Name of the party who has filed the case against our Bank	Brief particulars
1	Judicial Magistrate, Madurai	CC 241/2004	Mr. S. Krishnan (Complainant)	Mr. S. Krishnan, a customer, deposited a cheque for Rs. 63,160/- and the same was credited to his account. The Complainant has alleged that while only Rs. 20,000 was withdrawn from the account, upon the Complainant enquiring with our Bank at a later date, it was informed by our Bank that there was only Rs. 2000/- (Rupees Two Thousand only) remaining in the account as the Complainant had withdrawn Rs. 41,300/-. This was disputed by Mr. S. Krishnan, the Complainant. Subsequently the Complainant has filed a criminal complainant with the police authorities against our Bank, alleging fraud and cheating. The case is pending before the Judicial Magistrate, Madurai. Further, our Bank has filed a petition to quash the proceedings before the Judicial Magistrate under petition number CrI. O.P. 9724/2005 and a petition to stay the proceedings before the Judicial Magistrate was also filed under petition number CrI. M.P. No. 6353/2005 and a stay has been granted.

Consumer Cases

Sl. No	Court/ Forum	Case No.	Name of the party who filed suit/claim against our Bank	Brief Particulars
1.	District Consumer Disputes Redressal Forum, Madurai	C.C. No. 67/2007	Mr. S. Dinakaran	Mr. S. Dinakaran, the complainant, had issued cheques to certain people and same were not honoured by our Bank for want of funds. The complainant has filed this complaint for not honouring the cheques issued by him alleging that there were sufficient funds. The matter is pending adjudication.
2.	District Consumer Disputes Redressal Forum at Cuddalore	C.O.P. No. 22 / 2008	Mr. Sarangapani	Mr. Sarangapani, the complainant, had applied for a loan of Rs. 10 lakhs with our Bank's Cuddalore Branch. As the purpose of the loan was not found viable, credit facility was not sanctioned. Against this refusal, he filed this complaint alleging delay in considering his credit application. The matter is pending adjudication
3.	Consumer Disputes Redressal Forum, Perambalur	C.C. No. 14/2009	Mr. R. Nagarajan	Mr. R. Nagarajan, a customer of our Bank has filed a complaint against the Bank alleging that a cheque lodged with our Bank has not been credited in his account till date, he has filed this complaint, claiming the cheque amount of Rs. 21,600 together with interest and damages to the client of Rs. 1 lakh. The matter is pending adjudication

Labour Cases

Sl. No	Court/ Forum	Case No.	Name of the party who filed suit/claim against our Bank	Brief Particulars.
1.	High Court of Madras	W.P. No. 25852 / 2008.	Mr. R. Krishnamoorthy	Mr. R. Krishnamoorthy, the petitioner, was an apprentice for one and half months at the Erode Branch of our Bank during July-August, 1981. After one and half months he abruptly left the training. Thereafter, in 1987 he applied again for the job of a clerk at our Bank but was not considered as he was above the maximum age prescribed. Aggrieved, he initiated legal proceedings against our Bank demanding the post of clerk or a payment of damages. His claims were dismissed by various forums including the Labour Court. Thus, he has filed a writ petition.
2.	Labour Court.	ID No. 31/2007	Mr. S. Rajagopalan (Ex-Employee)	Mr. S. Rajagopalan, a clerk of the Erode branch of our Bank was discharged by our Bank on the charges of cheque book stealing and misuse. The matter was thereafter referred to the Central Government Industrial Tribunal-cum-Labour Court for adjudication. The matter is pending adjudication

Disputed Tax Claims

In the following matters the income tax department has appealed against orders of various authorities, we are unable to quantify the liability.

The following are the brief particulars of the tax disputed claims filed against our Bank:

Cases filed before the Supreme Court of India:

Sl. No	Case No.	Brief particulars
1.	SLP (Civil) No. 1116 / 2007.	The Income Tax Department has filed a Special Leave Petition in the Supreme Court of India against the order of the High Court of Judicature at Madras, in respect of our Bank's returns for the assessment year 1992 – 1993. The issue pertains to the deduction of bad debts relating to rural and non-rural advances, on the issue of taxability of interest on the securities and on the issue of diminution in the value of investments. The matter is pending admission.
2.	SLP (Civil) No. 24001 / 2007.	The Income Tax Department has filed a Special Leave Petition in the Supreme Court of India against the order of the High Court of Judicature at Madras, in respect of our Bank's returns for the assessment year 1991 – 1992. The issue pertains to the deduction of bad debts relating to rural and non-rural advances. The matter is pending admission.

Cases filed before the High Court of Judicature at Madras:

Sl. No	Case No.	Brief particulars
1.	ITA No. 687 / 2004	The Income Tax Department has preferred an appeal before the High Court of Madras for the Assessment Year 1993 – 1994. The appeal is under Interest Tax Act, 1974. The issue pertains to the issue of taxability of interest from securities, debentures, bonds, etc.
2.	ITA No. 1100 / 2004	The Income Tax Department has preferred an appeal before the High Court of Madras for the Assessment Year 1994 – 1995. The issue pertains to the issue of taxability of interest from securities, debentures, bonds, etc. and on the issue of the deduction of bad debts relating to rural and non-rural advances.

Cases filed before the Income Tax Appellate Tribunal (ITAT):

Sl. No	Case No.	Brief particulars
1.	ITA 908 / 09	The Income Tax Department has filed an appeal before the ITAT against the order of the CIT (A) with respect to the Assessment Year 2004 – 2005. The issue pertains to the taxability of the interest on government securities.
2.	ITA 1485 / 07	The Income Tax Department has filed an appeal before the ITAT against the order of the CIT (A) with respect to the Assessment Year 2003 – 2004. The issue pertains to disallowance of deduction on bad debts claimed for rural and non-rural advances.

B. Outstanding litigation proceedings initiated by our Bank

Civil cases

Sl. No.	Court/ Forum	Case No.	Name of the party against whom the suit/claim/appeal is filed by our Bank	Brief Particulars
1.	Principal Subordinate Judge, Mayiladthurai	A.S. No 94/2007. and O.S. No. 13 / 2008	Mr. K. Ramalinga, Mr. K. Samidurai Raja, and others (Respondents)	<p>Mr. K. Samidurai and others, represented by their Power of Attorney holder Mr. Kuppusamy, had availed of a loan of Rs. 2 lakhs which was sanctioned by our Bank on 02-02-2005. Mr. K. Samidurai through his then Power of Attorney holder Mr. Kuppusamy, had mortgaged certain immovable properties in favour of our Bank. The borrowers defaulted in the repayment of the loan. Mr. Samidurai represented by his now Power of Attorney holder, Mr. R. Balakrishnan filed a suit in OS 122/06 before the Additional District Munsif Court Mayiladthurai to cancel the mortgage executed by his then Power of Attorney Mr. Kuppusamy. The suit was decreed in favour of Mr. Samidurai. Aggrieved by the order passed by the Additional District Munsif Court Mayiladthurai, our Bank has preferred this appeal.</p> <p>The matter is presently pending adjudication.</p> <p>Additionally, our Bank has also filed an original suit bearing no. O.S. No. 13/2008 before the Principal Subordinate Judge, Mayiladthurai to enforce its claims on the mortgaged properties.</p> <p>The matter is presently pending adjudication.</p>

Consumer Cases

Sl. No	Court/ Forum	Case No.	Name of the party against whom the suit/appeal /claim by our Bank	Brief Particulars
1.	Special Leave Petition, Supreme Court of India.	SLP No. 4318/2007	D-Cube Constructions Pvt. Limited (Respondent)	<p>A consumer complaint was filed by D-Cube Constructions Pvt. Limited (Original Complainant), with the State Consumer Dispute Redressal Commission alleging deficiency of service on account of the fact that certain demand drafts were credited to the complainant's directors' sole proprietorship concern's account instead of the complainant's account. The State Consumer Redressal Commission directed our Bank to pay Rs. 9,01,000/- to the Original Complainant. On appeal, to National Consumer Disputes Redressal Commission, it was ordered that our Bank to pay an amount of Rs. 9,00,000/- and an additional amount of Rs. 10,000/- towards costs to the complainant. Thereafter, our Bank has filed this Special Leave Petition bearing No. 4318/2007 before the Hon'ble Supreme Court of India. The Hon'ble Supreme Court of India has passed an order dated October 12, 2007 granting a stay order against the order passed by the National Commission for realization of the aforesaid amount, until further orders.</p> <p>The matter is presently pending adjudication.</p>

2.	State Consumer Disputes Redressal Committee	F.A. No. 634/2008	Bank (Appellant) Vs S. Meena (Respondent/ Original Complainant)	S. Meena, the complainant, a customer, lodged a cheque dated 26-10-1999 drawn on Indian Bank, for Rs. 2,68,750/- with our Bank on 15.4.2000. Thereafter the cheque was sent for collection to Corporation Bank, Varanasi which in turn presented the cheque to Indian Bank. Indian Bank returned the cheque stating that the said cheque was a stale cheque. The complainant filed a complaint with the Salem District Consumers Disputes Redressal Forum against our Bank, Corporation Bank and Indian Bank alleging deficiency of service on account of delay in processing the matter. The complainant sought for a declaration that all the three banks pay an amount of 2,68,750 alongwith 12% interest and Rs.2,00,000 for mental agony caused. The District Forum in its order directed the three banks to pay Rs. 15,000/- (Rupees Fifteen Thousand only) individually or jointly to the complainant and Rs. 3000/- (Rupees Three Thousand only) towards costs. Aggrieved, our Bank preferred this appeal
3.	State Consumer Dispute Redressal Forum	F.A. 514/2008	Bank (Appellant) Vs. Mr. S. Krishnan (Respondent/ Original Complainant)	Mr. S. Krishnan, a customer, deposited a cheque for Rs. 63,160/- and the same was credited to his account. The complainant has alleged that while only Rs. 20,000 was withdrawn from the account, upon the complainant enquiring with our Bank at a later date, it was informed by our Bank that there was only Rs. 2000/- (Rupees Two Thousand only) remaining in the account as the complainant had withdrawn Rs. 41,300/-. Thereafter, the complainant filed a complaint in the District Consumer Disputes Redressal forum Madurai bearing The District Consumer Disputes Redressal forum passed an order against our Bank ordering the Bank to pay a sum of Rs. 41,300/- along with interest at the rate of 12% per annum and Rs. 2,500/- towards cost. Aggrieved by the order, our Bank has preferred this appeal. The execution of the petition has been stayed by the State Commission. The matter is presently pending adjudication.

Recovery proceedings initiated by our Bank

Our Bank has filed numerous suits for recovery of monies. The proceedings are pending before the debt recovery tribunals at various regions and are at different stages of adjudication. The brief particulars of the matter having a balance of Rs. 1 crore and above are as under:

Sr. No	PARTY	DATE OF FILING	SUIT No.	PLAINT AMT (CRORES)
1	M/s. Quetic Impex Pvt. Ltd.	26.03.1997	O.A. 189/1997	3.03*
2	M/s. Arunachalam Sugar Mills Ltd.	20.09.2004	O.A. 302/2004	7.34
3	M/s. Kamalaganapathy Steel Rolling Mills Ltd.	09.12.2002	O.A. 520/2002	3.05
4	M/s. C.S.T. Hotels (P) Ltd.	24.02.2005	O.A. 44/2005	1.77
5	M/s. Veerappan Steels.	19.11.2003	O.A. 387/2003	2.34
6	M/s. Associated Business Credits.	04.08.2004	O.A. 259/2004	1.84
7	M/s A. Palaniappan & Others.	29.03.2007	O.A. 68/2007	3.09
8	M/s. Ayees Construction & Others.	29.03.2007	O.A. 88/2007	1.68
9	M/S Hari Vignesh Motors (P) Limited.	02.05.2008	O.A. 54/2008	1.04
10	M/s Raji Thangam Textiles & Others.	26.02.2001	O.A. 185/2001	1.41
11	M/s. T.O. Abraham & Co.	06.02.2004	O.A. 80/2004	1.11

Sr. No	PARTY	DATE OF FILING	SUIT No.	PLAINT AMT (CRORES)
12.	M/s. Kessel Engineering Co. & Ors.	21.06.2004	O.A. 206/2004	2.19

* Our Bank had, under the provisions, Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act, 2002, taken possession of a portion of the borrower's mortgaged property and sold the same on 19-11-2007 for Rs. 30.25 lakhs.

Cumulative position of cases pending before various debt recovery tribunals as on August 21, 2009 is as given below:-

S, No.	Debt Recovery Tribunal	No. of Matters	Amount Claimed (in Rs. Crores)
1.	Chennai Region	25	19.89
2.	Madurai	23	20.44
3.	Coimbatore	3	0.87
4.	Ernakulam	1	1.11
5.	New Delhi	3	0.95
6.	Visakhapatnam	4	1.30
7.	Hyderabad	5	1.19
8.	Mumbai	8	4.68
		72	50.43

Disputed tax claims

Tax claims pending before Madras High Court

Sl. No	Case No.	Brief particulars	Disputed Amount
1.	1100/2004	Our Bank has preferred an appeal against the order of the ITAT (B Bench Chennai) in respect of our Bank's returns for the assessment year 1994 – 1995. The issue pertains to allowance of broken period interest.	The disputed tax liability is approximately Rs. 0.05 crores.

Tax claims pending before Income Tax Appellate Tribunal (ITAT)

Sl. No	Case No.	Brief particulars	Disputed Amount
1.	ITA No. 1507/07	Our Bank has filed an appeal against the order of the Commissioner of Income Tax (Appeals), in respect of our Bank's returns for Assessment Year 2003 – 2004. The issues pertain to inter alia, reducing the refund due to our Bank due to disallowance of broken period interest in full as revenue expenditure, income from interest on the securities and disallowance of amortization expenses The appeal was filed on 29.05.2007 and the same is pending.	The disputed tax liability amounts to approximately Rs. 3.89 Crores.
2.	ITA No. 741/09	Our Bank has preferred an appeal against the order of the Commissioner of Income Tax (Appeals), in respect of our Bank's returns for Assessment Year 2004 – 2005 on the issue that the interest on refund granted for assessment years 2002-2003 and 2003-2004, does not form part of total income as the same was withdrawn.	The disputed tax liability amounts to approximately Rs. 0.12 crores
3.	ITA No.740/09	Our Bank has preferred an appeal against the order of the Commissioner of Income Tax (Appeals), in respect of our Bank's returns for Assessment Year 2002 – 2003. The issues therein pertain to inter alia reopening of the assessment, interest on refund granted does not form part of total income	The disputed tax liability amounts to approximately Rs. 0.20 crores
4.	ITA No.739/09	Our Bank has preferred an appeal against the order of the Commissioner of Income Tax (Appeals), in respect of our Bank's returns for 2001 – 2002 on the issue of taxability of amounts	The disputed tax liability amounts to approximately Rs. 0.23 crores

Sl. No	Case No.	Brief particulars	Disputed Amount
		outstanding for more than 3 years in the stale drafts account and branch suspense account`	

Tax claims pending before the jurisdictional Commissioner of Tax (Appeals)

Sl. No	Case No.	Brief particulars	Disputed Amount
1.	ITA No. 267/08-09	Our Bank has preferred an appeal against the order of the Joint Commissioner of Income Tax, Kumbakonam for the returns for assessment year 2006-2007, raising a demand of Rs.20,85,85,160/- . The issues pertain to taxability of interest on the securities, disallowance of bad debts, allowance of broken period interest, disallowance of amortization expenses, taxability of the interest on Export Credit Guarantee Corporation (ECGC). The appeal is pending before the CIT (Appeals), Trichy.	The disputed tax liability amounts to approximately Rs. 20.86 crores
2.	ITA 394/07-08	Our Bank has preferred an appeal against the order passed by the Additional Commissioner of Income Tax, Kumbakonam Range, Kumbakonam for the returns for the assessment year 2005-2006, raising a demand of Rs.10,58,48,026/-. The issues pertain to disallowance of broken period interest, disallowance of depreciation in value of investments on securities, etc The appeal is pending before the CIT (Appeals), Trichy.	The disputed tax liability amounts to approximately Rs. 10.58 crores.
3.	ITA 560/06-07	Our Bank has preferred an appeal against the order passed by the Additional Commissioner of Income Tax, Kumbakonam Range, Kumbakonam for the returns for assessment year 2004-2005, raising a demand of Rs.15,67,17,397/ . The issues pertain to disallowance of broken period interest, disallowance of depreciation in value of investments on securities, etc The appeal is pending before the CIT (Appeals), Trichy.	The disputed tax liability amounts to approximately Rs. 15.67 crores
4.	ITA 427/07-08	Our Bank has preferred an appeal against the order of the Deputy Commissioner of Income Tax, Circle –I, Kumbakonam for the returns for assessment year 2003 – 2004, reducing the refund due to our Bank. The appeal is filed on the issue of the disallowance of the non rural debts claimed as a deduction. The appeal is pending with the CIT (A).	The disputed tax liability amounts to approximately Rs. 1.39 crores
5.	ITA 349/04-05	Our Bank has preferred an appeal against the order passed by the Deputy Commissioner of Income Tax, Circle –I, Kumbakonam for the financial year relevant to the assessment year 2002-2003, raising a demand of Rs.28,57,15,017/-. The issues pertain to disallowance of broken period interest, disallowance of depreciation in value of investments on securities, allowability of deduction of share listing fee, issue of addition of provision of bonus, issue on allowance of deduction of car depreciation and car maintenance, disallowance of amortization expenses, issue on exclusion of interest on securities, disallowance of non rural bad debts, etc The appeal is pending before the CIT (Appeals), Trichy..	The disputed tax liability amounts to approximately Rs. 28.57 crores
6.	ITA 266 / 08-09	Our Bank has preferred an appeal against the order of the Joint Commissioner of Income Tax, Kumbakonam for the financial year relevant to the assessment year 2001-2002, raising a demand of Rs.3,74,696/-. The issues pertain to jurisdiction, limitation of time reopening of the assessments, taxability of the interest on ECGC, etc. The appeal is pending before the CIT (Appeals), Income Tax Office, Trichy.	The disputed tax liability amounts to approximately Rs. 0.04 crores.
7.	ITA 323/03-04	Our Bank has preferred an appeal against the order of the Assistant Commissioner of Income Tax, Circle-1, Kumbakonam for the financial year relevant to the assessment year 2001-2002, raising a demand of Rs.3,56,08,253/-. The issues pertain to disallowance of non rural debts,	The disputed tax liability amounts to approximately Rs. 3.56 crores

Sl. No	Case No.	Brief particulars	Disputed Amount
		disallowance of the amortization charges, issue of interest on the securities, etc. The appeal is pending before the CIT (Appeals).	
8.	ITA 558/06-07	Our Bank has preferred an appeal against the order passed by the Additional Commissioner of Income Tax, Kumbakonam Range, Kumbakonam for the financial year relevant to the assessment year 2000-2001, raising a demand of Rs.7,07,17,596/- . The issues pertain to jurisdiction, limitation of time reopening of the assessments, taxability of the interest on ECGC, etc. The appeal is pending before the CIT (Appeals), Trichy.	The disputed tax liability amounts to approximately Rs. 7.07 crores.
9.	ITA 159/03-04	Our Bank has preferred an appeal against the order passed by the Assistant Commissioner of Income Tax, Circle -1, Kumbakonam for the financial year relevant to the assessment year 2000-2001, raising a demand of Rs.3,00,37,075/-. The issues pertain to disallowance of non rural debts, disallowance of the amortization charges, issue of interest on the securities, etc. The appeal is pending before the CIT (Appeals)	The disputed tax liability amounts to approximately Rs. 3.00 crores.
10.	ITA 109/02-03	Our Bank has preferred an appeal against the order passed by the Assistant Commissioner of Income Tax, Circle-I, Kumbakonam for the financial year relevant to the assessment year 1999 - 2000, raising a demand of Rs.7,18,33,153/- . The issues pertain to disallowance of non rural debts, disallowance of the amortization charges, issue of interest on the securities, etc. The appeal is pending before the CIT (Appeals)	The disputed tax liability amounts to approximately Rs. 7.18 crores.
11.	ITA 158/03-04	Our Bank has preferred an appeal against the order passed by the Assistant Commissioner of Income Tax, Circle -I, Kumbakonam for the financial year relevant to the assessment year 1998- 1999, raising a demand Rs.2,48,88,203/-. The issues pertain to disallowance of non rural debts, disallowance of the amortization charges, issue of interest on the securities, etc. The appeal is pending before the CIT (Appeals)	The disputed tax liability amounts to approximately Rs. 2.49 crores
12.	ITA 44/01-02	Our Bank has preferred an appeal against the order passed by the Additional Commissioner of Income Tax, Special Range, Tiruchirappalli for the financial year relevant to the assessment year 1998 - 1999, raising a demand Rs.1,64,17,214/-. The issues pertain to disallowance of non rural debts, disallowance of the amortization charges, issue of interest on the securities, disallowance of the payment of the registration fee to be paid to SEBI etc. The appeal is pending before the CIT (Appeals), Chennai.	The disputed tax liability amounts to approximately Rs. 1.64 crores
13.	ITA 157/03-04	Our Bank has preferred an appeal against the order of the Assistant Commissioner of Income Tax, Circle 1, Kumbakonam, for the financial year relevant to the assessment year 1997 – 1998. The issues pertain to inter alia interest on the securities. The appeal is filed before the CIT (Appeals) XI, Trichy.	The disputed tax liability amounts to approximately Rs. 3.63 crores
14.	ITA 36/00-01	Our Bank has preferred an appeal against the order passed by the Joint Commissioner of Income Tax, Special Range, Tiruchirappalli for the financial year relevant to the assessment year 1997- 1998, raising a demand of Rs.1,49,80,838/-. The issues pertain to disallowance of payment of the registration fee to be paid to SEBI, disallowance of claim of bad debts relating to non rural debts, disallowance of the interest paid on purchase of securities, disallowance of the depreciation written off on investments, etc . The appeal is pending before the CIT (Appeals)-XI, Chennai.	The disputed tax liability amounts to approximately Rs. 1.50 crores.
15.	ITA 156/03-04	Our Bank has preferred an appeal against the order passed by the Assistant Commissioner of Income Tax, Circle 1, Kumbakonam for the financial year relevant to the assessment year 1996 - 1997, raising a demand of Rs.1,28,43,922/-. The issues pertain to jurisdiction, limitation of time reopening of the assessments etc. The appeal is pending before the CIT (Appeals), Trichy..	The disputed tax liability amounts to approximately Rs. 1.28 crores.
16.	ITA 155/03-04	Our Bank has preferred an appeal against the order passed against the Assistant Commissioner of Income Tax, Circle 1, Kumbakonam for the	The disputed tax liability amounts to approximately

Sl. No	Case No.	Brief particulars	Disputed Amount
		financial year relevant to the assessment year 1995- 1996, raising a demand of Rs.61,18,169/-. The issues pertain to jurisdiction, limitation of time reopening of the assessments, taxability of the interest on ECGC, etc. The appeal is pending before the CIT (Appeals), Trichy.	Rs. 0.61 crores
17.	ITA 37/ 00 - 01	Our Bank has preferred an appeal against the order passed by the Joint Commissioner of Income Tax, Special Range, Trichy, for the financial year relevant to the assessment year 1993 – 1994, raising a demand of Rs. 30,29,683. The issue pertains to disallowance of interest paid on the purchase of securities, allowance of the expenditure on issue of right shares, loss on sale of securities, deduction on inter corporate dividends. The appeal is pending before the CIT (A), Chennai.	The disputed tax liability amounts to approximately Rs. 0.30crores.
18.	ITA 110/02- 03	Our Bank has preferred an appeal against the order passed by the Assistant Commissioner of Income Tax, Circle 1, Kumbakonam for the financial year relevant to the assessment year 1992- 1993, raising of is Rs.23,80,492/-. The issues pertain to jurisdiction, limitation of time reopening of the assessments, taxability of the interest on ECGC, etc. The appeal is pending before the CIT (Appeals), Trichy.	The disputed tax liability amounts to approximately Rs. 0.24 crores
19.	ITA 111 / 02-03	Our Bank has preferred an appeal against the order of the Assistant Commissioner of Income Tax, Circle 1, Kumbakonam for the financial year relevant to the assessment year 1991 – 1992, raising a demand of Rs.1,23,22,650/-. The issues pertain to jurisdiction, limitation of time reopening of the assessments. The appeal is pending before the CIT (Appeals), Trichy.	The disputed tax liability amounts to approximately Rs. 1.23 crores
20.	ITA 43 / 01- 02	Our Bank has preferred an appeal against the order of the Additional Commissioner of Income Tax, Special Range, Trichy, for the financial year relevant to the assessment year 1990 – 1991, raising a demand of 48,08,614/-. The issues pertain to jurisdiction, limitation of time reopening of the assessments, etc. The appeal is pending before the CIT (Appeals), Trichy.	The disputed tax liability amounts to approximately Rs. 0.48 crores
21.	ITA 42/01- 02	Our Bank has preferred an appeal against the order of the Additional Commissioner of Income Tax, Special Range, Trichy, for the financial year relevant to the assessment year 1988 – 1989, raising a demand of 1,23,06,988/-. The issues pertain to jurisdiction, limitation of time reopening of the assessments, etc. The appeal is pending before the CIT (Appeals), Chennai.	The disputed tax liability amounts to approximately Rs.1.23 crores

C. Notices from Regulatory authorities

- The SEBI had issued a notice dated March 24, 1998 calling upon our Bank to show cause as to why our merchant banking license should not be suspended for a period of 6 months on account of an alleged non-fulfilment of underwriting obligation/ devolvement liabilities in respect of the public issue of BSM Knit Fab India Limited. Our Bank had, vide a letter dated April 16, 1998 responded to the above show cause notice contending, inter alia that our Bank's obligations as an underwriter to the issue were discharged on account of the promoters of the issuer company tendering applications so as to achieve the minimum subscription prior to the last date for fulfilling underwriting obligations.
- The SEBI had vide a letter dated November 16, 2004 alleging that our Bank was in violation of regulation 8(3) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 for 1999 and 2000 and calling upon our Bank to make payment of penalty under section 15A of the SEBI Act, 1992. The said letter also stated that SEBI has decided to consider a request for consent order under Section 15T (2) upon payment of Rs.1,00,000. Accordingly, our Bank, vide its letter dated December 15, 2004 consented to pay Rs.1,00,000 as a penalty.

III. Securities Related Cases

NIL

IV. Contingent liabilities

As of March 31, 2009, our Bank had contingent liabilities amounting to Rs. 4,024.20 crores as disclosed in our financial statements. In the event that our Bank is unable to meet these contingent liabilities, as and when they become due, our Bank's business and financial condition may be adversely affected.

Contingent Liability	Amount (in Rs. crores.)
Claims against our Bank not acknowledged as debts	0.29
Liability on account of outstanding	
- Forward Exchange Contracts	3,503.17
Guarantees given on behalf of Constitution of India	345.35
Acceptances, Endorsements and other Obligations	175.39
TOTAL	4,024.20

Contingent Liabilities on Forward Contracts includes Forward Contract with other Banks of Rs. 3,367.69 Crores and with customers of Rs. 135.47 Crores. For further details of our contingent liabilities, please refer to the section titled "Financial Statements" beginning on page 37 of this Draft Letter of Offer.

Material Developments after March 31, 2009

RBI's annual credit policy released in April 2009 contained inter-alia the following:

- Reduction of repo rate under the LAF by 25 basis points from 5.0% to 4.75%.
- Reduction of reverse repo rate under the LAF by 25 basis points from 3.5% to 3.25%.
- Keeping the CRR unchanged at 5.0% of net demand and time liabilities (NDTL).
- Projection of GDP growth of 6.70%.
- introduction of STRIPS to aid the development of a sovereign zero-coupon yield curve
- revision in the issuance structure of floating rate bonds
- Opening of offsite ATMs by banks without prior approval of RBI.

Net interest income comprises a substantial portion of our Bank's total income and our Bank is vulnerable to interest rate risk. Other than as stated above there has been no material development after March 31, 2009 which will have a material impact our performance.

LICENSES AND APPROVALS

On the basis of the existing approvals, our Bank may undertake this Issue and our Bank's current business activities and no further major approvals from any government authority/RBI are required to continue these activities. Further, there are no new line of activity/project. It must be distinctly understood that, in granting these licences, the Government and/or the RBI does not take any responsibility for our Bank's financial soundness or for the correctness of any of the statements made or opinions expressed in this behalf.

Licenses applied for renewal and pending approval for existing business of our Bank

1. Our Bank had obtained license No. 1301527 dated July 3, 2006 issued by the Insurance Regulatory & Development Authority (IRDA) under the IRDA (Licensing of Corporate Agents) Regulations, 2002. The license permits our Bank to act as a corporate agent for the purpose of procuring or soliciting life insurance business. The licence was valid for a period of three years till July 16, 2009. Our Bank has submitted an application dated June 22, 2009 for renewal of the said license.
2. Our Bank had obtained license No. 1294911 dated June 5, 2006 issued by the Insurance Regulatory & Development Authority (IRDA) under the IRDA (Licensing of Corporate Agents) Regulations, 2002. The license permits our Bank to act as a corporate agent for the purpose of procuring or soliciting general insurance business. The licence was valid for a period of three years till July 16, 2009. Our Bank has submitted an application dated May 28, 2009 for renewal of the said license.
3. The appointment of Mr. N. Kamakodi, a relative of our Part-time Chairman, as an executive director (non-board) of our Bank has been approved by our shareholders and is subject to the approval of the central government in accordance with Section 314(1B) of the Companies Act, 1956. In this regard, our Bank has, on August 27, 2009 submitted an application to the central government in the prescribed form 24B for obtaining its approval. Failure to receive such approval would result in the variation of the terms of compensation payable to Mr. N. Kamakodi.

STATUTORY AND OTHER INFORMATION

Authority for the Issue

Pursuant to the resolution passed by the Board of Directors of our Bank under Section 81(1) of the Companies Act at the meeting held on June 30, 2009, it has been decided to make the following offer to the Eligible Equity Shareholders of our Bank, with a right to renounce.

Prohibition by SEBI

Neither our Bank, nor its Directors or companies with which our Bank's Directors are associated with as directors or promoters, have been prohibited from accessing or operating in the capital markets or restrained from buying, selling or dealing in securities under any order or direction passed by SEBI.

Further neither our Bank, nor its 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.

Securities Related Business

Given below are the details regarding our Directors/ Group/ Associate company/ entity of our Bank, and/ or any company/ entity with which any of the above is associated as promoter/ director/ partner/ proprietor that is/ was associated with securities related business and registered with SEBI:

1.	Name of our Director	P Vaidyanathan
2.	Name of the Entity	Integrated Enterprises (India) Ltd
3.	a. Previously associated as	Promoter/Director
	b. Currently Associated as	Shareholder
4.	Registration No. of companies which are / were registered with SEBI	Registrar And Transfer Agent (INR000000544) Depository Participant (IN-DP-NSDL 83-99) Dealer With OTCEI (INB201041838) Merchant Banking (INM000002640)
5.	If registration has expired, reasons for non renewal	Valid as on date
6.	Details of any enquiry/ investigation conducted by SEBI at any time	Nil
7.	Penalty imposed by SEBI (Penalty includes deficiency / warning letter, adjudication proceedings, suspension / cancellation / prohibition orders)	Nil
8.	Outstanding fees payable by SEBI by these persons/ entities, if any	Nil

Integrated Enterprises (India) Limited has a 100% subsidiary engaged in securities related business, the details of which are as under:

1.	Name of our Director	P Vaidyanathan
2.	Name of the Entity	Integrated Securities Limited
3.	a. Previously associated as	Promoter/Director
	b. Currently Associated as	Shareholder of the Holding

		Company
4.	Registration No. of companies which are / were registered with SEBI	Stock Broker With NSE (INB231271835)
5.	If registration has expired, reasons for non renewal	Valid as on date
6.	Details of any enquiry/ investigation conducted by SEBI at any time	Nil
7.	Penalty imposed by SEBI (Penalty includes deficiency / warning letter, adjudication proceedings, suspension / cancellation / prohibition orders)	Nil
8.	Outstanding fees payable by SEBI by these persons/ entities, if any	Nil

Except as indicated above, there are no other entities related to Directors or Group/ Associate company/ entity of City Union Bank Limited, and/ or any company/ entity with which any of the above is associated as promoter/ director/ partner/ proprietor that is/ was associated with securities related business and registered with SEBI.

Compliance with clause 6.42 of SEBI DIP Guidelines

We confirm that the provisions of clause 6.42 and clause 6.39 of the SEBI DIP Guidelines have been complied with.

Eligibility for the Issue

City Union Bank Limited is an existing company registered under the provisions of the Companies Act and the Equity Shares of our Bank are listed on BSE, NSE and MSE. Our Bank is eligible for this Issue in terms of Clause 2.4.1(iv) of the SEBI DIP Guidelines.

Disclaimer Clause of SEBI

AS REQUIRED, A COPY OF THIS DRAFT LETTER OF OFFER HAS BEEN SUBMITTED TO 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, EDELWEISS CAPITAL LIMITED HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH THE SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE.

IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE DRAFT LETTER OF OFFER, THE LEAD MANAGER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE BANK DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE THE LEAD MANAGER, EDELWEISS CAPITAL LIMITED HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED AUGUST 27, 2009 WHICH READS AS FOLLOWS:

- 1. WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS, ETC. AND OTHER MATERIALS MORE PARTICULARLY REFERRED TO IN THE ANNEXURE HERETO IN CONNECTION WITH THE FINALISATION OF THE DRAFT LETTER OF OFFER PERTAINING TO THE SAID RIGHTS ISSUE;**
- 2. ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE BANK, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION**

OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE BANK; WE CONFIRM THAT:

- (a) THE DRAFT LETTER OF OFFER FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE RIGHTS ISSUE;
 - (b) ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE AS ALSO THE GUIDELINES, INSTRUCTIONS ETC., ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH; AND
 - (c) THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE 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 THIS DRAFT LETTER OF OFFER ARE REGISTERED WITH THE SEBI AND THAT TILL DATE SUCH REGISTRATION IS VALID – EXCEPT THAT REGISTRATION OF KARVY COMPUTERSHARE PRIVATE LIMITED HAS EXPIRED AND THEY HAVE FILED RENEWAL APPLICATION
 4. WE HAVE SATISFIED OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFIL 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 LETTER OF OFFER WITH THE BOARD TILL THE DATE OF COMMENCEMENT OF LOCK-IN PERIOD AS STATED IN THE 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 BANK 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 DRAFT LETTER OF OFFER. WE FURTHER CONFIRM THAT THE AGREEMENT ENTERED INTO BETWEEN THE BANKERS TO THE ISSUE AND THE ISSUER SPECIFICALLY CONTAINS THIS CONDITION. – NOTED FOR COMPLIANCE
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 – NOT APPLICABLE.
12. WE CERTIFY THAT A DISCLOSURE HAS BEEN MADE IN THE DRAFT LETTER OF OFFER 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 BANK AND
 - (B) AN UNDERTAKING FROM THE ISSUER THAT IT SHALL COMPLY WITH SUCH DISCLOSURE AND ACCOUNTING NORMS SPECIFIED BY SEBI FROM TIME TO TIME.
14. WE CERTIFY THAT THE BANK IS COMPLYING WITH CONDITIONS (A), (B) AND (C) LAID DOWN IN CLAUSE 6.39 OF THE SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES, 2000.

The filing of this Draft Letter of Offer does not, however, absolve our Bank from any liabilities under Section 63 or Section 68 of the Companies Act or from the requirement of obtaining such statutory or other clearances as may be required for the purpose of the proposed Issue. SEBI further reserves the right to take up, at any point of time, with the Lead Manager any irregularities or lapses in this Draft Letter of Offer.

Disclaimer from our Bank and Lead Manager

Our 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 our Bank or by any other persons at the instance of our Bank and anyone placing reliance on any other source of information would be doing so at his own risk.

The Lead Manager and our Bank shall make all information available to the Eligible Equity Shareholders and no selective or additional information would be available for a section of the Eligible Equity Shareholders in any manner whatsoever including at presentations, in research or sales reports *etc.* after filing of the Draft Letter of Offer with SEBI.

Investors who invest in the issue will be deemed to have been represented by our Bank and Lead Manager and our respective directors, officers, agents, affiliates and representatives that they are eligible under all applicable laws, rules, regulations, guidelines and approvals to acquire equity shares of our Bank, and are relying on independent advice / evaluation as to their ability and quantum of investment in this issue.

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 there under. Any disputes arising out of this Issue will be subject to the jurisdiction of the appropriate court(s) in Kumbakonam, India only.

Designated Stock Exchange

The Designated Stock Exchange for the purpose of the Issue will be the BSE.

Disclaimer Clause of the BSE

As required, a copy of the Draft Letter of Offer has been submitted to the BSE. The Disclaimer Clause as intimated by BSE to us, post scrutiny of this Draft Letter of Offer, shall be included in the Letter of Offer prior to the Stock Exchange filing.

Disclaimer Clause of the NSE

As required, a copy of the Draft Letter of Offer has been submitted to the BSE. The Disclaimer Clause as intimated by BSE to us, post scrutiny of this Draft Letter of Offer, shall be included in the Letter of Offer prior to the Stock Exchange filing.

Disclaimer clause of the MSE

As required, a copy of the Draft Letter of Offer has been submitted to the BSE. The Disclaimer Clause as intimated by BSE to us, post scrutiny of this Draft Letter of Offer, shall be included in the Letter of Offer prior to the Stock Exchange filing.

Disclaimer Clause of the RBI

A license authorising our Bank to carry on banking business has been obtained from the Reserve Bank of India in terms of Section 22 of our 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 our Bank or for the correctness of any of the statements made or opinion expressed in this connection

Filing

The Draft Letter of Offer has been filed with SEBI, *Southern Regional Office*, D'Monte Building, 3rd Floor, 32 D'Monte Colony, TTK Road, Alwarpet, Chennai 600 018, for its observations. All the legal requirements applicable till the date of filing the Draft Letter of Offer with the Stock Exchanges shall be complied with

Selling restrictions

The distribution of this Draft Letter of Offer and the Issue of Rights Equity Shares to persons in certain jurisdictions outside India may be restricted by the legal requirements prevailing in those jurisdictions. Persons into whose possession the Draft Letter of Offer may come are required to inform themselves about and observe such restrictions. Our Bank is making this Issue of Rights Equity Shares to the Eligible Equity Shareholders of our Bank and will dispatch the Draft Letter of Offer / Abridged Letter of Offer and CAFs to the Eligible Equity Shareholders who have provided an Indian address.

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 the Draft Letter of Offer has been filed with SEBI for observations. Accordingly, the Rights Equity Shares represented thereby may not be offered or sold, directly or indirectly, and the Draft Letter of Offer may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction.

Receipt of the Draft Letter of Offer will not constitute an offer in those jurisdictions in which it would be illegal to make such an offer and, under those circumstances, the Draft Letter of Offer must be treated as sent for information only and should not be copied or redistributed. Accordingly, persons receiving a copy of the Draft

Letter of Offer should not, in connection with the Issue of the Rights 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 the 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 Rights Equity Shares or the Rights Entitlements referred to in the Draft Letter of Offer.

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 Bank's affairs from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

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 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 OUR BANK NOR ANY PERSON ACTING ON BEHALF OF OUR BANK WILL ACCEPT SUBSCRIPTIONS FROM ANY PERSON, OR THE AGENT OF ANY PERSON, WHO APPEARS TO BE, OR WHO OUR BANK OR ANY PERSON ACTING ON BEHALF OF OUR 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.

Impersonation

Attention of the Investors is specifically drawn to the provisions of subsection (1) of Section 68A of the Companies Act which is reproduced below:

"Any person who makes in a fictitious name an application to a Bank for acquiring, or subscribing for, any shares therein, or otherwise induces a Bank to allot, or register any transfer of shares therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years"

Dematerialised Dealing

Our Bank has entered into agreements dated July 10, 2000 and December 27, 1999 with CDSL and NSDL respectively and its Equity Shares bearing the ISIN No. INE 491A01013. In addition to the present ISIN for the Equity Shares, our Bank would obtain a separate ISIN for its partly paid-up Rights Equity Shares. The partly paid-up Rights Equity Shares offered under the Issue will be traded under a separate ISIN for the period from the date of listing of the Rights Equity Shares and for the period as may be applicable under the rules and regulations prior to the record date for the First and Final Call. The ISIN representing partly paid-up Rights Equity Shares will be terminated after the record date for the First and Final Call.

Listing

The Equity Shares of our Bank are listed on the BSE, NSE and MSE. Our Bank has made applications to the Stock Exchanges for permission to deal in and for an official quotation in respect of the Rights Equity Shares being offered in terms of the Draft Letter of Offer. Our Bank has received in-principle approvals from the BSE by its letter dated [●] , 2009, NSE by its letter dated [●] , 2009 and from the MSE by its letter dated [●] , 2009.

Our Bank will apply to the BSE, NSE and MSE for listing of the Rights Equity Shares to be issued pursuant to this Issue.

If the permission to deal in and for an official quotation of the Rights Equity Shares is not granted by any of the Stock Exchanges mentioned above, our Bank shall forthwith repay, without interest, all monies received from Investors in pursuance of the Draft Letter of Offer. If such money is not paid within 8 days after our Bank becomes liable to repay it, then our Bank and every Director of our Bank who is an officer in default shall, on and from expiry of 8 (eight) days, be jointly and severally liable to repay the money with interest as prescribed under the Section 73 of the Companies Act.

Consents

Consents in writing of the Auditors, Lead Manager, Legal Advisor, Registrar to the Issue, Registrar and Share Transfer Agent and Bankers to the Issue 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 the Draft Letter of Offer for registration with the Stock Exchanges.

The Auditors of our Bank have given their written consent for the inclusion of their Report 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 with the Stock Exchanges.

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

Expert Opinion, if any

Except for the Auditors' Report and the Statement of Tax Benefits on page 37 and 19 of this Draft Letter of Offer, no expert opinion has been obtained by our Bank in relation to this Draft Letter of Offer.

Fees Payable to the Lead Manager to the Issue

The fee payable to the Lead Manager to the Issue is set out in the Memorandum of Understanding entered into by our Bank with Edelweiss Capital Limited, copy of which is available for inspection at the Registered Office of our Bank.

Fees Payable to the Registrars to the Issue

The fee payable to the Registrars to the Issue is as set out in the relevant documents, copies of which are kept open for inspection at the Registered Office of our Bank.

Expenses of the Issue

The other expenses of the Issue payable by our Bank including printing and distribution expenses, publicity, listing fees, stamp duty and other expenses are estimated at Rs. [●] crores (around [●] % of the total Issue size) and will be met out of the proceeds of the Issue. The following table provides a break up of estimated issue expenses:

Category	Estimated expenses (Rs. In crores)	% of the Issue Expenses	% of total Issue Size
Fees to the Lead Manager	[●]	[●]	[●]
Fees to the Registrar to the Issue	[●]	[●]	[●]
Fees to the Legal advisors	[●]	[●]	[●]
Fees to the Auditors	[●]	[●]	[●]
Advertising and Publicity Expenses	[●]	[●]	[●]
Printing, Postage, Stationery Expenses	[●]	[●]	[●]
Contingency, Stamp duty, Listing Fees, etc	[●]	[●]	[●]
Total	[●]	[●]	[●]

Minimum Subscription

If our Bank does not receive the minimum subscription of 90% of the Issue, the entire subscription amount shall be refunded to the Investors within fifteen days from the date of closure of the Issue. If there is delay in the refund of subscription by more than 8 days after our Bank becomes liable to pay the subscription amount (i.e. fifteen days after closure of the issue), our Bank will pay interest for the delayed period, at rates prescribed under sub-sections (2) and (2A) of Section 73 of the Companies Act.

Issue Schedule

Issue Opening Date:	[●], 2009
Last date for receiving requests for split forms:	[●], 2009
Issue Closing Date:	[●], 2009

The Board may however decide to extend the Issue period as it may determine from time to time but not exceeding 30 days from the Issue Opening Date.

Allotment Advices / Refund Orders

Our Bank will issue and dispatch allotment advice / 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 date of closure of the Issue. If such money is not repaid within eight days from the day our Bank becomes liable to pay it, our Bank shall pay that money with interest as stipulated under section 73 of the Companies Act.

Investors residing in the 68 cities specified by SEBI pursuant to its circular dated February 1, 2008, will get refunds through ECS only except where Investors are otherwise disclosed as applicable / eligible to get refunds through direct credit and RTGS provided the MICR details are recorded with the Depositories or the Bank.

In case of those Investors who have opted to receive their Rights Equity Share in dematerialized form using electronic credit under the depository system, and advice regarding their credit of the Rights Equity Shares shall be given separately. Investors to whom refunds are made through electronic transfer of funds will be sent a letter through certificate of posting intimating them about the mode of credit of refund within 15 working days of closure of the Issue.

In case of those Investors who have opted to receive their Rights Equity Share in physical form, our Bank will issue the corresponding share certificates under Section 113 of the Companies Act or other applicable provisions.

Refund orders exceeding Rs.1,500 would be sent by registered post / speed post to the sole / first Investors' registered address. Refund orders up to the value of Rs.1,500 would be sent under certificate of posting. Such refund orders would be payable at par at all places where the applications were originally accepted. The same would be marked 'Account Payee only' and would be drawn in favour of the sole / first Investor. Adequate funds would be made available to the Registrar to the Issue for this purpose.

Disputed Shares

Equity Shares which are the subject matter of a dispute or sub-judice will not be allotted to the claimant's account pending resolution of the dispute in accordance with our 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 our Bank.

Investor Grievances and Redressal System

Our Bank has adequate arrangements for redressal of Investor complaints as well as a well-arranged correspondence system developed for letters of routine nature. The share transfer and dematerialization for our Bank is being handled by our Registrar and Share Transfer Agent, Integrated Enterprises (India) Limited. Letters are filed category wise after being attended to. The Redressal norm for response time for all correspondence including shareholders complaints is 10-15 days.

The Shareholders/Investors Grievances Committee consists of three directors comprising of Mr. T S Venkatasubban as Chairman of the committee, Non-Executive and Independent Director, Mr. N Sankaran, Non-Executive and Independent Director and Mr. K S Raman , Non-Executive and Independent Director as members of the said committee. All investor grievances received by our Bank has been handled by the Registrar and Share Transfer agent in consultation with the Company Secretary

The contact details of our Registrar and Share Transfer agent are as follows

Integrated Enterprises (India) Limited

2nd Floor, Kences Tower, Street No.1
Ramakrishna Street
North Usman road, T. Nagar
Chennai 600 017, Tamilnadu, India
Tel: + 91 44 2814 0801-03
Fax: +91 44 2814 3378
E-mail: corpseiv@iepindia.com
Contact Person: Mr. K. Balasubramanian
Website: www.iepindia.com
SEBI Registration No.: INR000000544

Status of Complaints

- (a) No. of shareholders complaints outstanding as of March 31, 2009: Nil
- (b) Total number of complaints received during last financial year (Fiscal 2008): Nil
- (c) Total number of complaints received during Fiscal 2009: 4
- (d) Status of the complaints: Out of the 4 complaints received our Bank in fiscal 2009, we have resolved all 4 complaints.
- (e) Time normally taken for disposal of various types of investor grievances: 10-15 days

Investor Grievances arising out of this Issue

The investor grievances arising out of the Issue will be handled by Mr. V Ramesh, Compliance Officer and Company Secretary, and Karvy Computershare Private Limited, Registrars to the Issue. The Registrar to the Issue will have a separate team of personnel handling only our post-Issue correspondence.

The agreement between us and the Registrar to the Issue will provide for retention of records with the Registrars for a period of at least one year from the last date of dispatch of letter of allotment/ share certificates / warrant/ refund order to enable the Registrars 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, contact telephone / cell numbers, email id of the first Investors, 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 details of the Renouncees should be furnished.

The average time taken by the Registrar to the Issue for redressal of to routine grievances will be 7 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 the Issue to attend to them as expeditiously as possible. We undertake to resolve the Investor grievances in a time bound manner.

Investors may contact the Compliance Officer / Company Secretary 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. His address is as follows:

Mr. V Ramesh
City Union Bank Limited,
No.149, TSR Big Street,
Kumbakonam – 612001
Tamil Nadu

Tel: +91 435-2432322, +91 435 2431622
Fax: +91 435-2431746
Email: shares@cityunionbank.com

The contact particulars of the Registrar to the Issue are as under:

Karvy Computershare Private Limited
Karvy House, 46, Avenue 4, Street no. 1
Banjara Hills, Hyderabad – 500 034
India
Tel: +91 40 23420818
Fax: +91 40 23420814
Email: einward.ris@karvy.com
Contact Person: Mr M. Murali Krishna

TERMS AND PROCEDURE OF THE ISSUE

The Rights Equity Shares, now being issued, are subject to the terms and conditions contained in the Draft Letter of Offer, Letter of Offer, the Abridged Letter of Offer, the CAF, the Memorandum and Articles of Association of our Bank, the provisions of the Companies Act, guidelines issued by SEBI, guidelines, notifications and regulations for issue of capital and for listing of securities issued by Government of India 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

Pursuant to the resolution passed by the Board of Directors of our Bank under Section 81(1) of the Companies Act at the meeting held on June 30, 2009, it has been decided to make the following offer to the Eligible Equity Shareholders of our Bank, with a right to renounce.

Ranking of Equity Shares

The Rights Equity Shares being issued shall be subject to the provisions of our Memorandum and Articles of Association. The dividend payable on the partly paid-up Rights Equity Shares, until fully paid-up, shall rank for dividend in proportion to the amount paid-up. The Rights Equity Shares shall rank *pari passu*, in all respects including dividend, with our existing Equity Shares once fully paid-up. The voting rights in a call, whether present in person or by representative or by proxy shall be in proportion to the paid-up value of the Rights Equity Shares held, and no voting rights shall be exercisable in respect of moneys paid in advance until the moneys have become payable.

Mode of Payment of Dividend

We shall pay dividend to our Equity Shareholders as per the provisions of the Companies Act.

Basis for the Issue

The Rights Equity Shares are being offered for subscription for cash to the 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 our Bank in respect of the Equity Shares held in the physical form at the close of business hours on the Record Date i.e. [●] , 2009 fixed in consultation with the Designated Stock Exchange.

The Equity Shares are being offered for subscription in the ratio of 1 Rights Share for every 4 Equity share held by the Equity Shareholders.

Rights Entitlement

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

The Eligible Equity Shareholders are entitled to 1 Rights Equity Shares for every 4 Equity Shares held on the Record Date.

Principal Terms of the Rights Equity Shares

Face value

Each Rights Equity Share shall have a face value of Re. 1.

Issue Price

Each Rights Equity Share is being offered at a price of Rs. [●] /- (including a premium of Re. [●] /- per Rights Equity Share).

Payment terms

The payment terms available to the Investors are as follows:

Amount payable per Rights Equity Share (Rs.)	Payment Method 1*			Payment Method 2		
	Applicable to all categories of Investors except NRIs, FIIs and Non-Residents			Applicable to all categories of Investors		
	Face Value	Premium	Total	Face Value	Premium	Total
On Application	Re. 0.50	[●]	[●]	Re.1.00	[●]	[●]
First and Final Call	Re. 0.50	[●]	[●]	-	-	-
Total	Re. 1.00	[●]	[●]	Re. 1.00	[●]	[●]

* The Investors shall be required to make the balance payment towards the First and Final Call by the due date which shall be separately notified by our Bank.

The Investors should indicate the manner of payment i.e. Payment Method 1 or Payment Method 2 as applicable) in the Composite Application Form, subject to the Investors' eligibility for the same. No Investor can select both payment methods in a Composite Application Form. In case no payment method is selected, then the default payment method shall be Payment Method 2.

Payment Method 1

1. All categories of Investors except NRIs, FIIs and Non-Residents are eligible for this payment method.
2. While making an Application, the Investor shall make a payment of Rs. [●] /- per Rights Equity Share.
3. Out of the amount of Rs. [●] /- paid on application, Re. 0.50 /- would be adjusted towards the face value of the Rights Equity Shares and Rs. [●] /- shall be adjusted towards the share premium of the Rights Equity Shares.
4. Our Bank reserves the right to adjust the amount received over and above the Application money towards the call money if such adjustment makes the total Rights Equity Shares allotted by our Bank into fully paid-up Rights Equity Shares.
5. First and Final Call shall be sent by our Bank for making the payment towards the balance amount due.
6. Rights Equity Shares in respect of which the balance amount payable remains unpaid may be forfeited, at any time after the due date for payment of the balance amount due.

Payment Method 2

1. Investors under all categories, including NRIs, FIIs and Non-Residents, can opt for this method.
2. Investors shall have to make the full payment of the Issue Price of Rs. [●] /- per Rights Equity Share at the time of making an Application.

Procedure for First and Final Call

The listing and trading of the partly paid-up and fully paid-up Rights Equity Shares shall be based on the current regulatory framework applicable thereto. Accordingly, any change in the regulatory regime would accordingly affect the schedule.

First and Final Call

Our Bank would convene a meeting of the Board to pass the required resolution for making the First and Final Call and suitable intimation would be given by our Bank to the Stock Exchanges. Further, advertisements for the same will be published in one English national daily with wide circulation, one Hindi national daily with wide circulation and one Tamil daily newspaper. The First and Final Call shall be deemed to have been made at the time when the resolution authorizing such First and Final Call was passed at the meeting of the Board. The First and Final 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 the First and Final Call.

Record date for First and Final Call and suspension of trading

Our Bank would fix a record date giving at least fifteen (15) days prior notice to the Stock Exchanges for the purpose of determining the list of Allottees to whom the notice for call money would be sent. Once the record date has been fixed, trading in the partly paid Rights Equity Shares for which First and Final Calls have been made would be suspended for the period as may be applicable under the rules and regulations prior to such record date that has been fixed for the First and Final Call.

Separate ISIN on Application and First and Final Call

In addition to the present ISIN for the existing Equity Shares, our Bank would obtain a separate ISIN for its partly paid-up Rights Equity Shares. The partly paid-up Rights Equity Shares offered under the Issue will be traded under a separate ISIN for the period as may be applicable under the rules and regulations prior to the record date for the First and Final Call. The ISIN representing partly paid-up Rights Equity Shares will be terminated after the record date for the First and Final Call. On payment of the call money in respect of the partly paid-up Rights Equity Shares, such partly paid-up Rights Equity Shares would be converted into fully paid-up Equity Shares and merged with the existing ISIN for our Equity Shares.

Listing of partly paid-up Rights Equity Shares

The partly paid-up Rights Equity Shares would be listed on the Stock Exchanges. For an applicable period, under the rules and regulations, prior to the record date for the First and Final Call, the trading of then existing partly paid-up Rights Equity Shares would be terminated. The process of corporate action for crediting the fully paid-up Rights Equity Shares in lieu of partly paid-up Rights Equity Shares to the Investors' demat accounts 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 and our AOA, the Investors would be given not less than 14 days time for the payment of the call money.

Entitlement Ratio

The Rights Equity Shares are being offered on a rights basis to the Eligible Equity Shareholders of our Bank in the ratio of 1 Rights Equity Shares for every 4 Equity Shares held on the Record Date.

Fractional entitlements

For Rights Equity Shares being offered under this Issue, if the shareholding of any of the Eligible Equity Shareholders is less than 4 Equity Shares or not in the multiple of 4 as on the Record Date, the fractional entitlement of such Eligible Equity Shareholders shall be ignored. Eligible Equity Shareholders whose fractional entitlements are being ignored would be given preference in allotment of one additional share each if they apply for additional shares.

An illustration stating the Rights Entitlement for number of Equity Shares is set out below:

Number of Equity Shares	Rights Entitlement
1	0
5	1
10	2
15	3

Those Eligible Equity Shareholders holding less than 4 Equity Shares and therefore entitled to zero Rights Equity Shares under this Issue shall be dispatched a CAF with zero entitlement. Such Eligible Equity Shareholders are entitled to apply for additional Rights Equity Shares and they would be given preference in allotment for one additional Rights Equity Share if they apply for the same. However, they cannot renounce the same in favour of third parties. A CAF with zero entitlement will be non-negotiable / non-renounceable.

Rights of our Equity Shareholders

- Right to receive dividend, if declared;

- Right to attend general meetings and exercise voting powers, unless prohibited by law;
- Right to vote on a poll in person or by proxy;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;
- Right to free transferability of shares; and
- Such other rights as may be available to a shareholder of a listed public company under the Companies Act and Memorandum and Articles of Association.

For a detailed description of the main provisions of our Articles of Association dealing with voting rights, dividends, forfeiture, lien, transfer and transmission, and / or consolidating / splitting.

Arrangements for Disposal of Odd Lots

Our Bank's shares will be traded in dematerialized form only and therefore 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.

General terms of the Issue

Market Lot

The Equity Shares of our Bank are tradable only in dematerialized form. The market lot for Equity Shares in dematerialised mode is 1 (one) Equity Share. In case of holding of Equity Shares in physical form, our Bank would issue to the allottees 1 (one) certificate for the Rights Equity Shares allotted to each folio ("Consolidated Certificate"). In respect of consolidated certificates, our Bank will upon receipt of a request from the respective holder of Equity Shares, split such consolidated certificates into smaller denominations within three weeks time from the receipt of the request in respect thereof.

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 the benefit of survivorship subject to the provisions contained in the Articles.

Nomination

In terms of Section 109A of the Companies Act, the nomination facility is available in case of the Rights Equity Shares. The Investors can nominate any person by filling the relevant details in the CAF in the space provided for this purpose.

In case of Eligible Equity Shareholders who are individuals, a sole Eligible Equity Shareholder or the first named Eligible Equity Shareholder, along with other joint Eligible Equity Shareholders, if any, 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 Rights Equity Shares. A person, being a nominee, becoming entitled to the Rights Equity Shares by reason of the death of the original Eligible 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 Rights Equity Share(s), in the event of death of the said Eligible Equity Shareholder(s), during the minority of the nominee. A nomination shall stand rescinded upon the sale of the Equity Shares by the person nominating. A transferee will be entitled to make a fresh nomination in the manner prescribed.

When the Equity Share(s) 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 our Bank or such other person at such addresses as may be notified by our Bank. The Investors 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 already registered the nomination with our Bank, no further nomination needs to be made for Rights Equity Shares that may be allotted in this Issue under the same folio.

In case the allotment of Rights Equity Shares is in dematerialised form, there is no need to make a separate nomination for the Rights Equity Shares to be allotted in this Issue. Nominations registered with the respective Depository Participant (“DP”) of the Investor would prevail. Any Investor desirous of changing the existing nomination is requested to inform its respective DP.

Notices

All notices to the Eligible Equity Shareholders required to be given by our Bank shall be published in one English national daily with wide circulation, one Hindi national daily with wide circulation and one Tamil daily newspaper in Kumbakonam with wide circulation and / or, will be sent by ordinary post / registered post / speed post to the registered holders of the Equity Shares from time to time.

Listing and trading of the Rights Equity Shares proposed to be issued

Our Bank’s existing Equity Shares are currently listed on the BSE, NSE and MSE under the ISIN INE 491A01013. The fully paid up Rights Equity Shares proposed to be issued shall be listed and admitted for trading on the BSE, NSE and the MSE under the existing ISIN for fully paid up Equity Shares of our Bank.

In addition to the present ISIN for the Equity Shares, our Bank would obtain a separate ISIN for its partly paid-up Rights Equity Shares. The partly paid-up Rights Equity Shares offered under the Issue will be traded under a separate ISIN for the period from the date of listing of the Rights Equity Shares and for the period as may be applicable under the rules and regulations prior to the record date for the First and Final Call. The ISIN representing partly paid-up Rights Equity Shares will be terminated after the record date for the First and Final Call. On payment of the call money in respect of the partly paid-up Rights Equity Shares, such partly paid-up Rights Equity Shares would be converted into fully paid-up Equity Shares and merged with the existing ISIN for our Equity Shares. The Rights Equity Shares in respect of which the balance amount payable remains unpaid may be forfeited, at any time after the due date for payment of the balance amount due.

The Rights Equity Shares allotted pursuant to this Issue will be listed as soon as practicable but in no case later than 7 working days from the date of finalization of basis of allotment. Our Bank has made an application for “in-principle” approval for listing of the Rights Equity Shares in accordance with clause 24(a) of the Listing Agreement to the BSE, NSE and MSE through letters dated [●], 2009, [●], 2009 and [●], 2009 respectively and has received such approval from the BSE through letter no. [●], dated [●], 2009, NSE through letter no. [●], dated [●], 2009 and from MSE through letter no. [●], dated [●] 2009.

The distribution of the Draft Letter of Offer and the Issue of Rights Equity Shares on a rights basis to persons in certain jurisdictions outside India may be restricted by legal requirements prevailing in those jurisdictions.

Our Bank is making this Issue of Rights Equity Shares on a rights basis to the Eligible Equity Shareholders of our Bank and will dispatch the Letter of Offer / Abridged Letter of Offer and the CAF to the Eligible Equity Shareholders who have provided an Indian address.

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.

The RBI 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 the 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 71 of this Draft Letter of Offer.

Utilisation of Issue Proceeds

The funds received against this Issue will be kept in a separate bank account and our Bank shall utilize the funds collected in the Rights Issue only after the basis of allotment is finalized.

Undertakings by our Bank

Our Bank undertakes:

1. that the complaints received in respect of the Issue shall be attended to 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 making dispatch of refunds to unsuccessful applicants as per the mode(s) disclosed 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 to the non-resident Indians shall be dispatched within the specified time.

6. that no further issue of securities affecting equity capital of our 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.

Our 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 Draft Letter of Offer misleading and further confirms that it has made all reasonable enquiries to ascertain such facts.

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

Procedure for Application

The CAF for the Rights Equity Shares would be printed in [●] ink for all the Eligible Equity Shareholders. In case the original CAF is not received by the Investor or is misplaced by the Investor, the Investor may request the Registrar to the Issue, for issue of a duplicate CAF, by furnishing the registered folio number, DP ID Number, Client ID Number and their full name and address.

The CAF consists of four parts:

- Part A: Form for accepting the Rights Equity Shares and for applying for additional Rights Equity Shares;
- Part B: Form for renunciation;
- Part C: Form for application for renunciation;
- Part D: Form for request for split Application forms.

Application by Mutual Funds

In case of a mutual fund, a separate application can be made in respect of each scheme of the mutual fund registered with SEBI and such application in respect of more than one scheme of the mutual fund will not be treated as multiple applications provided that the applications clearly indicate the scheme concerned for which the application has been made. Applications made by AMCs or custodians of a mutual fund shall clearly indicate the name of the concerned scheme for which the application is being made.

Acceptance of the Issue

You may accept the Issue and apply for the Rights Equity Shares offered, either in full or in part, by filling 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 collection 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 of our Bank in this regard. Investors at centers not covered by the branches of collecting banks can send their CAF together with the cheque drawn at par on a local bank at [●]/ demand draft payable at [●] 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.

Options available to the Eligible Equity Shareholders

The CAF will clearly indicate the number of Rights Equity Shares that the Eligible Equity Shareholder is entitled to. If the Eligible Equity Shareholder applies for an investment in Rights Equity Shares, then he can:

- Apply for his Rights Entitlement of Rights Equity Shares in part;
- Apply for his Rights Entitlement of Rights Equity Shares in part and renounce the other part of the Rights Equity Shares;
- Apply for his Rights Entitlement of Rights Equity Shares in full;
- Apply for his Rights Entitlement in full and apply for additional Rights Equity Shares;
- Renounce his Rights Entitlement in full.

Renunciation

This Issue includes a right exercisable by you to renounce the Rights Equity Shares offered to you either in full or in part in favour of any other person or persons. Your attention is drawn to the fact that our Bank shall not allot and / or register the Rights Equity Shares in favour of more than 3 persons (including joint holders),

partnership firm(s) or their nominee(s), minors, HUF, any trust or society (unless the same is registered under the Societies Registration Act, 1860 or the Indian Trust Act or any other applicable law relating to societies or trusts and is authorized under its constitution or bye-laws to hold Equity Shares).

Any renunciation from Resident Indian Shareholder(s) to Non-resident Indian(s) or from Non-resident Indian Shareholder(s) to Resident Indian(s) or from Non-resident Indian shareholder(s) to other Nonresident Indian(s) is subject to the Renouncer(s) / Renounee(s) obtaining the necessary approvals including the permission of the RBI under the FEMA and such permissions should be attached to the CAF. Applications not accompanied by the aforesaid approvals are liable to be rejected.

By virtue of the Circular No. 14 dated September 16, 2003 issued by the RBI, Overseas Corporate Bodies (“OCBs”) have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies (OCBs) Regulations, 2003. Accordingly, the Eligible Equity Shareholders of our Bank who do not wish to subscribe to the Rights Equity Shares being offered but wish to renounce the same in favour of renounee shall not renounce the same (whether for consideration or otherwise) in favour of OCB(s).

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, this will render the application invalid. Submission of the enclosed CAF to the Bankers to the Issue at its collecting branches specified on the reverse of the CAF with the form of renunciation (Part ‘B’ of the CAF) duly filled in shall be conclusive evidence for our Bank of the person(s) applying for Rights Equity Shares of the CAF to receive allotment of such Rights Equity Shares. The Renounees applying for all the Rights Equity Shares renounced in their favour may also apply for additional Rights Equity Shares. Part ‘A’ of the CAF must not be used by the Renounee(s) as this will render the application invalid. Renounee(s) will have no further right to renounce any Rights Equity Shares in favour of any other person.

The right of renunciation is subject to the express condition that our Board shall be entitled in its absolute discretion to reject the request for Allotment to Renounee(s) without assigning any reason thereof.

Procedure of renunciation

To renounce all the Rights Equity Shares offered to an Eligible Equity Shareholder 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 under this Issue in favour of two or more Renounees, the CAF must be first split into the requisite number of forms.

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 the paragraph above shall have to be followed.

In case the signature of the Eligible Equity Shareholder(s), who has renounced the Rights Equity Shares, does not agree with the specimen registered with our Bank, the application is liable to be rejected.

Renounee(s)

The person(s) in whose favour the Rights Equity Shares are renounced should fill in and sign Part ‘C’ of the CAF and submit the entire CAF to the Bankers to the Issue on or before the Issue Closing Date along with the application money in full. The Renounee cannot further renounce.

Change and/ or introduction of additional holders

If you wish to apply for Rights 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 our Board shall be entitled in its absolute discretion to reject the request for allotment from the Renouncee(s) without assigning any reason thereof.

Instructions for options

Please note that:

- Part ‘A’ of the CAF must not be used by any person(s) other than the Eligible Equity Shareholders to whom the Letter of Offer has been addressed. If used, this will render the application invalid.
- A request for split forms should be made for a minimum of [●] Rights Equity Shares or, in multiples thereof and one split form for the balance Rights Equity Shares, if any.
- A request by the Investor for the split Application form should reach our Bank on or before [●], 2009.
- Only the Eligible Equity Shareholders to whom the Letter of Offer has been addressed shall be entitled to renounce and to apply for split application forms. Forms once split cannot be split further.
- Split form(s) will be sent to the Investor(s) by post at the Investors’ risk.

Additional Rights Equity Shares

You are eligible to apply for additional Rights Equity Shares over and above the number of Rights Equity Shares you are entitled to, provided that you have applied for all the Rights Equity Shares offered without renouncing them in whole or in part in favour of any other person(s). Applications for additional Rights Equity Shares shall be considered and allotment shall be made at the sole discretion of the Board, in consultation, if necessary, with the Designated Stock Exchange and in the manner prescribed in the paragraph titled “Basis of Allotment” beginning on page 71 of this Draft Letter of Offer.

If you desire to apply for additional Rights Equity Shares, please indicate your requirement in the place provided for additional Rights Equity Shares in Part A of the CAF. The Renouncee applying for all the Rights Equity Shares renounced in their favour may also apply for additional Rights Equity Shares.

Where the number of additional Rights Equity Shares applied for exceeds the number available for allotment, the allotment would be made on a fair and equitable basis in consultation with the Designated Stock Exchange.

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

Sr. No.	Options Available	Action Required
1.	Accept the whole or part of your Rights Entitlement without renouncing the balance.	Fill in and sign Part A (<i>All joint holders must sign</i>).
2.	Accept your Rights Entitlement in full and apply for additional Rights Equity Shares.	Fill in and sign Part A including Block III relating to the acceptance of Rights Entitlement and Block IV relating to additional Rights Equity Shares (<i>All joint holders must sign</i>).
3.	Renounce your Rights Entitlement in full to one person (<i>Joint Renouncees are considered as one</i>).	Fill in and sign Part B (<i>all joint holders must sign</i>) indicating the number of Rights Equity Shares renounced and hand it over to the Renouncee. The Renouncee must fill in and sign Part C (<i>All joint Renouncees must sign</i>).
4.	Accept a part of your Rights Entitlement and renounce the balance to one or more Renouncee(s). OR	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 Application Forms. Splitting will be permitted only once.

Sr. No.	Options Available	Action Required
	Renounce your Rights Entitlement to all the Rights Equity Shares offered to you to more than one Renouncee.	<p>On receipt of the Split Application Form take action as indicated below.</p> <p>For the Rights Equity Shares you wish to accept, if any, fill in and sign Part A.</p> <p>For the Rights Equity Shares you wish to renounce, fill in and sign Part B indicating the number of Rights Equity Shares renounced and hand it over to the Renouncee. Each of the Renouncees should fill in and sign Part C for the Equity Shares accepted by them.</p>
5.	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 Renouncee must fill in and sign Part C.

Investors 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 Equity Shares held in electronic form.

Investors must write their CAF Number at the back of the cheque/demand draft.

Availability of duplicate CAF

In case the original CAF is not received, or is misplaced by the Investor, the Registrar to the Issue will issue a duplicate CAF on the request of the Investor 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 a duplicate CAF should reach the Registrar to the Issue within 7 (seven) days from the Issue Opening Date. Please note that those who are making the application in the duplicate CAF should not utilize the original CAF for any purpose including renunciation, even if it is received / found subsequently. If the Investor violates any of these requirements, he / she shall face the risk of rejection of both the CAFs.

Application on Plain Paper

An Eligible 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 a demand draft, net of bank and postal charges payable at [●] which should be drawn in favor of 'City Union Bank Limited – Rights Issue' or 'City Union Bank Limited – Rights Issue – NR' and the Eligible Equity Shareholders should send the same by registered post directly to the Registrar to the Issue.

The envelope should be superscribed 'City Union Bank Limited – Rights Issue' and should be postmarked in India. The application on plain paper, duly signed by the Investors including joint holders, in the same order as per specimen recorded with our Bank, must reach the office of the Registrar to the Issue before the Issue Closing Date and should contain the following particulars:

- Name of the Issuer, being City Union Bank Limited;
- Name and address of the Eligible Equity Shareholder including joint holders;
- Registered Folio Number / DP and Client ID no.;
- Number of Equity Shares held as on Record Date;
- Number of Rights Equity Shares entitled;
- Number of Rights Equity Shares applied for;
- Number of additional Rights Equity Shares applied for, if any;
- Total number of Rights Equity Shares applied for;

- Total amount paid at the rate of Rs. [●] /- for payment method I and Rs. [●] /- for payment method II per Rights Equity Share ;
- Separate cheques / DDs are to be attached for amounts to be paid for Rights Equity Shares;
- Particulars of cheque / demand draft / Savings / Current Account Number and name and address of the bank where the Eligible Equity Shareholder will be depositing the refund order;
- PAN of the Investor, and for each Investor in case of joint names, irrespective of the total value of the Rights Equity Shares applied for pursuant to the Issue;
- Signature of the Rights Equity Shareholders to appear in the same sequence and order as they appear in the records of our Bank.

Please note that those who are making an application otherwise than on an original CAF 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 Investor violates any of these requirements, he / she shall face the risk of rejection of both the applications. Separate cheque / DDs are to be attached for amounts to be paid for Rights Equity Shares. Our Bank shall refund such application amount to the Investor without any interest thereon.

Last date of Application

The last date for submission of the duly filled in CAF is [●], 2009. The Issue will be kept open for 15 days and our Board will have the right to extend the said date for such period as it may determine from time to time but not exceeding 30 days from the Issue Opening Date.

If the CAF together with the amount payable is not received by the Bankers to the Issue / Registrar to the Issue on or before the closure of banking hours on the aforesaid last date or such date as may be extended by our Board, the offer contained in the Draft Letter of Offer shall be deemed to have been declined and our Board shall be at liberty to dispose off the Rights Equity Shares hereby offered, as provided in the paragraph titled “Basis of Allotment” on page 71 of this Draft Letter of Offer.

INVESTORS MAY PLEASE NOTE THAT THE RIGHTS EQUITY SHARES CAN BE TRADED ON THE STOCK EXCHANGES ONLY IN DEMATERIALIZED FORM.

Basis of Allotment

Subject to the provisions contained in the Letter of Offer, the Articles of Association of our Bank and the approval of the Designated Stock Exchange, our Board will proceed to allot the Rights Equity Shares in the following order of priority:

- (a) Full allotment to those Rights 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 Rights Equity Shares renounced in their favour, in full or in part.
- (b) For the Rights Equity Shares being offered under this Issue, if the shareholding of any of the Eligible Equity Shareholders is less than 4 Equity Shares or is not in the multiple of 4 the fractional entitlement of such Eligible Equity Shareholders shall be ignored. Eligible Equity Shareholders whose fractional entitlements are being ignored would be given preference in allotment of one additional Rights Equity Share each if they apply for additional Rights Equity Shares. Allotment under this head shall be considered if there are any unsubscribed Rights Equity Shares after allotment under (a) above. If the number of Rights Equity Shares required for allotment under this head are more than the number of Rights Equity Shares available after allotment under (a) above, the allotment would be made on a fair and equitable basis in consultation with the Designated Stock Exchange.
- (c) Allotment to the Eligible Equity Shareholders who having applied for all the Rights Equity Shares offered to them as part of the Issue and have also applied for additional Rights Equity Shares. The allotment of such additional Rights 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) and (b) above. The allotment of such additional Rights Equity Shares will be at the sole discretion of the Board in consultation with the Designated Stock Exchange, as a part of the Issue and not preferential allotment.
- (d) Allotment to Renouncees who having applied for all the Rights Equity Shares renounced in their favour,

have applied for additional Rights Equity Shares provided there is surplus available after making full allotment under (a), (b) and (c) above. The allotment of such Rights Equity Shares will be on a proportionate basis at the sole discretion of the Board in consultation with the Designated Stock Exchange, as a part of the Issue and not preferential allotment.

- (e) Allotment to any other person as the Board may in its absolute discretion deem fit provided there is surplus available after making full allotment under (a), (b), (c) and (d) above.

After taking into account allotment to be made under (a) and (b) above, if there is any unsubscribed portion, the same shall be deemed to be 'unsubscribed' for the purpose of regulation 3(1)(b) of the Takeover Code which would be available for allocation under (c), (d) and (e) above.

After considering the above Allotment, any additional Rights Equity Shares shall be disposed off by the Board, in such manner as they think most beneficial to our Bank and the decision of the Board in this regard shall be final and binding. In the event of oversubscription, Allotment will be made within the overall size of the Issue.

Our 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 BSE, NSE and MSE. In case of delay in allotment our 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 p.a.

Allotment / Refund

Our Bank will issue and dispatch letter of allotment / share certificates / demat credit and / or letters of regret along with refund orders or credit the allotted Rights Equity Shares to the respective beneficiary accounts, if any, within a period of fifteen (15) days from the Issue Closing Date. If such money is not repaid within eight days from the day our Bank becomes liable to pay it, our Bank shall pay that money with interest as stipulated under Section 73 of the Companies Act.

Investors residing in the 68 cities specified by SEBI pursuant to its circular dated February 1, 2008, will get refunds through ECS (Electronic Clearing Service) only except where Investors are otherwise disclosed as applicable / eligible to get refunds through direct credit and RTGS provided the MICR details are recorded with the Depositories or our Bank.

In case of those Investors who have opted to receive the Rights Equity Shares in dematerialized form using electronic credit under the depository system, an advice regarding their credit of the Rights Equity Shares shall be given separately. Investors to whom refunds are made through electronic transfer of funds will be sent a letter through certificate of posting intimating them about the mode of credit of refund within a period of fifteen (15) days from the Issue Closing Date.

In case of those Investors who have opted to receive the Rights Equity Shares in physical form, our Bank will issue the corresponding share certificates under Section 113 of the Companies Act or other applicable provisions, if any.

Any refund order exceeding Rs. 1,500 would be sent by registered post / speed post to the sole / first Investor's registered address. Refund orders up to the value of Rs. 1,500 would be sent under certificate of posting. Such refund orders would be payable at par at all places where the applications were originally accepted. The same would be marked 'Account Payee only' and would be drawn in favour of the sole / first Investor. Adequate funds would be made available to the Registrar to the Issue for this purpose.

Payment of Refund

Mode of making refunds

The payment of refund, if any, would be done through various modes in the following order of preference:

1. *ECS (Electronic Clearing Service)* – Payment of refund would be done through ECS for Investors having an account at any centre where such facility has been made available. 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 Investors having a bank

account at the centers where ECS facility has been made available by the RBI (subject to availability of all information for crediting the refund through ECS), except where the Investor, being eligible, opts to receive refund through NEFT, direct credit or RTGS.

2. *NEFT (National Electronic Fund Transfer)* – Payment of refund shall be undertaken through NEFT wherever the Investors' 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 Investors 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 Investors through this method. Our Bank in consultation with the Lead Manager may decide to use NEFT as a mode of making refunds. The process flow in respect of refunds by way of NEFT is at an evolving stage and hence use of NEFT is subject to operational feasibility, cost and process efficiency. In the event that NEFT is not operationally feasible, the payment of refunds would be made through any one of the other modes as discussed herein.
3. *Direct Credit* – Investors having bank accounts with the Bankers to the Issue shall be eligible to receive refunds through direct credit. Charges, if any, levied by the relevant bank(s) for the same would be borne by our Bank.
4. *RTGS (Real Time Gross Settlement)* – Investors having a bank account at any of the centres where such facility has been made available and whose refund amount exceeds Rs. 1 lakh, have the option to receive refund through RTGS. Such eligible Investors who indicate their preference to receive refund through RTGS are required to provide the IFSC code in the CAF. In the event the same is not provided, refund shall be made through ECS. Charges, if any, levied by the Refund Bank(s) for the same would be borne by our Bank. Charges, if any, levied by the Investors' bank receiving the credit would be borne by the Investor.
5. For all other Investors, including those who have not updated their bank particulars with the MICR code, the refund orders will be dispatched under certificate of posting for value up to Rs. 1,500 and through speed post / registered post for refund orders of Rs. 1,500 and above. Such refunds will be made by cheques, pay orders or demand drafts drawn in favour of the sole / first Investor and payable at par.

Printing of Bank Particulars on Refund Orders

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

Allotment advice / Share Certificates / Demat Credit

Allotment advice / share certificates / demat credit will be dispatched to the registered address of the first named Investor or respective beneficiary accounts will be credited within 15 (fifteen) days, from the Issue Closing Date.

Option to receive the Rights Equity Shares in Dematerialized Form

The Investors have an option to get the Rights Equity Shares in physical or demat form.

Our Bank has signed a tripartite agreement dated December 27, 1999 with NSDL and the Registrar to the Bank and a tripartite agreement dated July 10, 2000 with CDSL and the Registrar to the Bank, which enables our Equity Shareholders to hold and trade in Equity Shares in a dematerialised form, instead of holding the Equity Shares in the form of physical certificates

In this Issue, the allottees who have opted for the Rights Equity Shares in dematerialised form will receive the Rights Equity Shares in the form of an electronic credit to their beneficiary account with a Depository Participant. The CAF shall contain a space for indicating the number of Rights Equity Shares applied for in demat and physical form or both. Investors will have to give the relevant particulars for this purpose

appropriately in the CAF. Applications, which do not accurately contain this information, will be given the Rights Equity Shares in physical form. No separate applications for Rights Equity Shares in physical and / or dematerialized form should be made. If such applications are made, the application for physical Rights Equity Shares will be liable to be rejected.

The Rights Equity Shares will be listed on the BSE, NSE and on the MSE.

The procedure for availing of the facility for allotment of the Rights Equity Shares in this Issue in the electronic form is as under:

- 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 our Bank. In the case of joint holding, the beneficiary account should be opened carrying the names of the holders in the same order as with our Bank). In case of Investors having various folios in our Bank with different joint holders, the Investors will have to open separate accounts for such holdings. *Those Investors who have already opened such beneficiary account (s) need not adhere to this step.*
- For the Eligible Equity Shareholders already holding Equity Shares of our Bank in dematerialized 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 pursuant to this Issue 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 Rights Equity Shares arising out of this Issue may be made in dematerialized form even if the original Equity Shares of our Bank are not dematerialized. Nonetheless, it should be ensured that the Depository Account is in the name(s) of the Equity Shareholders and the names are in the same order as in the records of our Bank.
- Responsibility for correctness of information (including Investor's age and other details) filled in the CAF *vis-à-vis* such information with the Investor's depository participant, would rest with the Investor. Investors should ensure that the names of the Investors and the order in which they appear in the CAF should be the same as registered with the Investor's Depository Participant.
- Equity Share allotted to an Applicant in the electronic account form will be credited directly to the Applicant's respective beneficiary account(s) with depository participant.
- Applicants should ensure that the names of the Applicants and the order in which they appear in the CAF should be the same as registered with the Applicant's depository participant.
- Non-transferable allotment advice/refund orders will be directly sent to the Applicant by the Registrar to this Issue.
- If incomplete / incorrect beneficiary account details are given in the CAF the Investor will get the Rights Equity Shares in physical form.
- The Rights Equity Shares pursuant to this Issue allotted to Investors opting for dematerialized form, would be directly credited to the beneficiary account as given in the CAF after verification. Allotment advice, refund order (if any) would be sent directly to the Investor by the Registrar to the Issue but the Investor's depository participant will provide to him the confirmation of the credit of such Securities to the Investor's depository account.
- Renouncees will also have to provide the necessary details about their beneficiary account for allotment of Rights Equity Shares in this Issue. In case these details are incomplete or incorrect, the application is liable to be rejected.
- It may be noted that Equity Shares in electronic form can be traded only on the Stock Exchanges having electronic connectivity with NSDL or CDSL.
- Dividend or other benefits with respect to the Equity Shares held in dematerialised form would be paid to those Equity Shareholders whose names appear in the list of beneficial owners given by the Depository Participant to our Bank as on the date of the book closure.

General instructions for Investors

- (a) Please read the instructions printed on the enclosed CAF carefully.
- (b) Applications should be made on the printed CAF, provided by our Bank and should be completed in all respects. 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 the 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. The CAF must be filled in English and the names of all the Investors, details of occupation, address, father's / husband's name must be filled in block letters.
- (c) The CAF together with the cheque / demand draft should be sent to the Bankers to the Issue / Collecting Banks or to the Registrar to the Issue and not to our Bank or the Lead Manager to the Issue. Investors residing at places other than cities where the branches of the Bankers to the Issue have been authorised by our Bank for collecting applications, will have to make payment by Demand Draft payable at [●] of an amount net of bank and postal charges and send their application forms to the Registrar to the Issue by Registered Post. If any portion of the CAF is / are detached or separated, such application is liable to be rejected.
- (d) Applications for any value made by the Investor, or in the case of joint names, each of the joint Investors, should mention his / her Permanent Account Number allotted under the Income-Tax Act, 1961, irrespective of the amount of the application. **CAFs without PAN will be considered incomplete and are liable to be rejected.**
- (e) Investors are advised that it is mandatory 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. Applications not containing such details are liable to be rejected. For Eligible Equity Shareholders holding Equity Shares in dematerialised form, such bank details will be drawn from the demographic details of the Eligible Equity Shareholder in the records of the Depository.
- (f) All payments should be made by cheque / DD only. Cash payment is not acceptable. In case payment is affected in contravention of this, the application may be deemed invalid and the application money will be refunded and no interest will be paid thereon.
- (g) Signatures should be either in English or Hindi or in any other language specified in the Eighth Schedule to the Constitution of India. Signatures other than in English or Hindi and thumb impression must be attested by a Notary Public or a Special Executive Magistrate under his/her official seal. The Eligible Equity Shareholders must sign the CAF as per the specimen signature recorded with our Bank or the Depositories.
- (h) 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 Issue 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 to the serial number of the CAF and folio numbers / DP ID and Client ID Number. In case the above referred documents are already registered with our Bank, the same need not be furnished again. 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. In no case should these papers be attached to the application submitted to the Bankers to the Issue.
- (i) 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 our Bank. Further, in case of joint Investors who are Renounees, the number of Investors should not exceed three. In case of joint applicants, reference, if any, will be made in the first Investor's name and all communication will be addressed to the first Investor.
- (j) Application(s) received from Non-Resident / NRIs, or persons of Indian origin residing abroad for allotment of Rights 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.

- (k) All communications in connection with applications for the Rights Equity Shares, including any change in addresses of the Eligible Equity Shareholders should be addressed to the Registrar to the Issue prior to the date of allotment in this Issue quoting the name of the first / sole Investor, folio numbers and CAF number. Please note that any intimation for change of address of the Eligible Equity Shareholders, after the date of allotment, should be sent to the Registrar to the Issue, 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.
- (l) Split forms cannot be re-split.
- (m) Only the person or persons to whom the Rights Equity Shares have been offered and not Renouncee(s) shall be entitled to obtain split forms.
- (n) Investors must write their CAF number at the back of the cheque / demand draft.
- (o) Only one mode of payment per application should be used. The payment must be 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.
- (p) A separate cheque / demand draft must accompany each CAF. Outstation cheques / demand drafts or postdated 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 (f) above)
- (q) 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

Investors 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 and the same are not available with the DP (in the case of dematerialised holdings) or the Registrar (in the case of physical holdings);
- Age of first Investor not given while completing Part C of the CAFs;
- PAN not mentioned for application of any value;
- 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 on the CAF does not match with the records available with our Bank and/or the Depositories and in case of application by Renounees, if the signature of the Renounees do not match with the records available with their Depositories;
- If the Investor desires to have Rights Equity Shares in electronic form, but the CAF does not have the Investor's depository account details;
- Application forms are not submitted by the Investors within the time prescribed as per the application form and the Letter of Offer;
- Applications not duly signed by the sole / joint Investors;
- Applications by OCBs unless accompanied by specific approval from RBI permitting the OCBs to participate in the Issue.
- Applications accompanied by stockinvest;
- In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Investors (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity;
- Applications that do not include the certification set out in the CAFs to the effect that the subscriber is not a US person, and does not have a registered address (and is not otherwise located) in the United States and is

- authorized to acquire the rights and the Securities in compliance with all applicable laws and regulations;
- Applications which have evidence of being dispatched from the US;
- Applications by ineligible Non-residents (including on account of restriction or prohibition under applicable local laws) and where a registered address in India has not been provided;
- Applications where our Bank believes that the CAF is incomplete or acceptance of such CAFs may infringe applicable legal or regulatory requirements;
- Multiple applications
- Applications by renounees who are persons not competent to contract under the Indian Contract Act, 1872, including minors; and
- Duplicate Applications, including cases where an Investor submits CAFs along with a plain paper application.

Mode of payment for Resident Eligible Equity Shareholders / Investors

- All cheques / demand drafts accompanying the CAFs should be crossed 'A/c Payee only' and drawn in favour of 'City Union Bank Limited-Rights Issue'.
- Investors residing at places other than places where the bank collection centres have been opened by our Bank for collecting applications, are requested to send their applications together with Demand Draft for the full application amount, net of bank and postal charges crossed 'A/c Payee only' and drawn in favour of 'City Union Bank Limited-Rights Issue' payable at [●] directly to the Registrar to the Issue by registered post so as to reach them on or before the Issue Closing Date. Our Bank or the Registrar to the Issue will not be responsible for postal delays or loss of applications in transit, if any.

Mode of payment for Non-Resident Eligible Equity Shareholders / Investors

Our Bank is making this Issue of Rights Equity Shares on a rights basis to the Eligible Equity Shareholders of our Bank and will dispatch the Letter of Offer / Abridged Letter of Offer and the CAF to the Eligible Equity Shareholders who have provided an Indian address. Further, please refer to the paragraphs titled 'Availability of duplicate CAF' and 'Application on Plain Paper'.

As regards the application by non-resident Eligible Equity Shareholders / Investors, the following conditions shall apply:

Application with repatriation benefits

Payment by NRIs/ FIIs/ foreign investors must be made by demand draft / cheque payable at [●] or funds remitted from abroad in any of the following ways:

- By Indian Rupee drafts purchased from abroad and payable at [●] or funds remitted from abroad (submitted along with Foreign Inward Remittance Certificate); or
- By cheque / demand draft on a Non-Resident External Account (NRE) or FCNR Account maintained in Mumbai; or
- By Rupee draft purchased by debit to NRE / FCNR Account maintained elsewhere in India and payable in Mumbai; or
- FIIs registered with SEBI must remit funds from special non-resident rupee deposit account.
- All cheques / demand drafts submitted by non-residents applying on repatriable basis should be drawn in favour of 'City Union Bank Limited-Rights Issue - NR' payable at [●] and crossed 'A/c Payee only' for the amount payable.

A separate cheque or bank draft must accompany each application form. Investors 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 the case of non-residents 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. Our 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 Investor's Bankers.

Application without repatriation benefits

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 Mumbai or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at [●]. In such cases, the allotment of Rights Equity Shares will be on non-repatriation basis.

All cheques / demand drafts submitted by non-residents applying on non-repatriation basis should be drawn in favour of 'City Union Bank Limited-Rights Issue' payable at [●] 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.

If the payment is made by a draft purchased from an NRO account, an Account Debit Certificate from the bank issuing the draft, confirming that the draft has been issued by debiting the NRO account, should be enclosed with the CAF. In the absence of the above, the application shall be considered incomplete and is liable to be rejected.

New demat accounts shall be opened for Eligible Equity Shareholders who have had a change in status from resident Indian to NRI.

Note:

- In cases where repatriation benefit is available, interest, dividend, sales proceeds derived from the investment in Rights Equity Shares can be remitted outside India, subject to tax, as applicable according to Income Tax Act, 1961.
- In case Rights 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.

Our Bank is not responsible for any postal delay / loss in transit on this account and applications received through mail after closure of the Issue are liable to be rejected. Applications through mail should not be sent in any other manner except as mentioned above. The CAF along with the application money must not be sent to our Bank or the Lead Manager or the Registrar except stated otherwise. The Investors are requested to strictly adhere to these instructions.

Renounees who are NRIs / FIIs / Non Residents should submit their respective applications either by hand delivery or by registered post with acknowledgement due to the Registrar to the Issue only at the below mentioned address alongwith the cheque / demand draft payable at [●] so that the same are received on or before the closure of the Issue.

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.

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

Restriction on foreign ownership of Banks

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. In other words, 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. Presently, the FII shareholding limit of our Bank is 26% of our paid up capital as approved by the shareholders at its meeting held on December 29, 2006.

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. Hence, payment through Stockinvest would not be accepted in this Issue.

Disposal of application and application money

No acknowledgment will be issued for the application moneys received by our Bank. However, the Bankers to the Issue / Registrar to the Issue receiving the CAF will acknowledge its receipt by stamping and returning the acknowledgment slip at the bottom of each CAF.

Our Board reserves its full, unqualified and absolute right to accept or reject any application, in whole or in part, 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. Wherever an application is rejected in part, the balance of application money, if any, after adjusting any money due on the Rights Equity Shares allotted, will be refunded to the Investor within 15 days from the close of the Issue.

For further instructions, please read the CAF carefully.

Important

- Please read this Draft Letter of Offer, 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, 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 'City Union Bank Limited - Rights Issue' on the envelope) to the Registrar to the Issue at the following address:

Karvy Computershare Private Limited

Karvy House, 46, Avenue 4, Street no. 1
Banjara Hills, Hyderabad – 500 034
India
Tel: +91 40 23420818

Fax: +91 40 23420814
Email: einward.ris@karvy.com
Contact Person: Mr M. Murali Krishna

- It is to be specifically noted that this Issue of Equity Shares is subject to the section titled 'Risk Factors' beginning on page vii of this Draft Letter of Offer.

The Issue will remain open for at least 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.

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 our Bank or entered into more than two years prior to the date of this Draft Letter of Offer) which are or may be deemed material have been entered into by our Bank or are to be entered into by our 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 our Bank between 10.00 A.M. and 3.00 P.M. on any working day of our Bank from the date of the Draft Letter of Offer until the date of closing of the subscription list.

A) Material contracts

1. Engagement Letter dated July 6, 2009 between our Bank in favour of Edelweiss Capital Limited appointing them as the Lead Manager to the Issue.
2. Memorandum of Understanding between our Bank and Edelweiss Capital Limited dated August 22, 2009.
3. Memorandum of Understanding between our Bank and Karvy Computershare Private Limited dated August 21, 2009 to act as Registrar to the Issue.

B) Documents

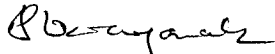
1. Our Memorandum and Articles of Association as amended from time to time.
2. Board resolution in relation to the Issue passed on June 30, 2009.
3. Prospectus of the Initial Public Offering (being the last public issue) dated May 26, 1998.
4. RBI letter no. DBOD No.11433/08.42.001/2008-09 dated 15th January, 2009 granting approval for appointment of Mr S. Balasubramanian as Managing Director of our Bank.
5. RBI letter No. DBOD No.17706/08.42.001/2008-09 dated April 21, 2009, granting approval for the appointment of Mr. P Vaidyanathan as Part-time Non-Executive Chairman of our Bank.
6. Consents of Lead Manager, Registrar to the Issue, Legal Advisor to the Issue, Auditors, Directors of our Bank, Compliance Officer, as referred to, in their respective capacities.
7. Annual reports of our Bank for last five years.
8. Report of the Auditors dated August 26, 2009 in relation to the Financial Statements of our Bank for the year ended March 31, 2009.
9. Report of the Auditors dated August 26, 2009 in relation to the Limited Review of Financial Statements of our Bank for the quarter ended June 30, 2009.
10. Statement of Tax Benefits dated August 26, 2009.
11. Initial listing applications for this Rights Issue dated [●], [●] and [●] filed with BSE, NSE and MSE respectively.
12. In-principle listing approval dated [●], [●] and [●] received from BSE, NSE and MSE respectively.
13. Tripartite Agreement between NSDL, our Bank and the Registrar and Share Transfer Agent for the Bank dated December 27, 1999.
14. Tripartite Agreement between CDSL, our Bank and the the Registrar and Share Transfer Agent for dated July 10, 2000.
15. Due diligence certificate dated August 27, 2009 to SEBI from the Lead Manager.

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 our Bank or if required by the other parties, without reference to the shareholders subject to compliance of the applicable laws.

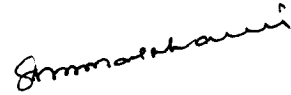
DECLARATION

No statement made in this Draft Letter of Offer contravenes any of the provisions of the Companies Act, 1956 and the rules made thereunder. All the legal requirements connected with the said Issue as also the guidelines, instructions etc. issued by SEBI, Government and any other competent authority in this behalf have been duly complied with. We further certify that all disclosures made in this Draft Letter of Offer are true and correct.

Signed by the Directors of our Bank and our Chief Financial Officer



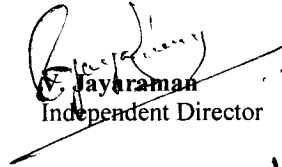
P. Vaidyanathan
Part-time Chairman



S. Balasubramanian
Managing Director and CEO



T.S. Venkatasubban
Independent Director



V. Jayaraman
Independent Director



K.S. Raman
Independent Director



S. Bernard
Independent Director



N. Kantha Kumar
Independent Director



N. Sankaran
Independent Director



M. Naganathan
Independent Director



R.G. Chandramogan
Independent Director



T.K. Ramkumar
Non-Independent Director



S. Sundar
Chief Financial Officer
General Manager, Treasury & Accounts



V. Ramesh
Company Secretary and Compliance
Officer

Date: AUGUST 27, 2009
Place: Kumbakonam