



Union Bank of India

(Union Bank of India was originally incorporated on November 11, 1919 in Mumbai as the "The Union Bank of India Limited" under the Companies Act, 1913 with its registered office at 7, Marzban Road, Fort, Mumbai 400 001. The registered office was then shifted to Mumbai Samachar Marg, Fort, Mumbai 400 001 in 1921. After nationalization, the name of the Bank was changed to "Union Bank of India". The Head Office of the Bank is situated at 239, Vidhan Bhavan Marg, Nariman Point, Mumbai 400 021, Maharashtra, India)

(Constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 on July 19, 1969)
Head Office and Corporate Office: 239, Vidhan Bhavan Marg, Nariman Point, Mumbai 400 021, Maharashtra, India
Tel: (91 22) 2289 2000; Fax: (91 22) 2288 1979

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PUBLIC ISSUE OF UP TO 45,000,000 EQUITY SHARES OF RS. 10 EACH FOR CASH AT A PRICE OF RS. [●] PER EQUITY SHARE (THE "ISSUE"). AGGREGATING RS. [●] MILLION BY UNION BANK OF INDIA (THE "BANK" OR "ISSUER") THE ISSUE COMPRISES A NET ISSUE TO THE PUBLIC OF UP TO 40,500,000 EQUITY SHARES OF RS. 10 EACH (THE "NET ISSUE") AND A RESERVATION FOR ELIGIBLE EMPLOYEES OF UP TO 4,500,000 EQUITY SHARES OF RS. 10 EACH, AT THE ISSUE PRICE. THE ISSUE WILL CONSTITUTE 8.91% OF THE TOTAL POST ISSUE PAID-UP EQUITY CAPITAL OF THE BANK.

THE PRICE BAND WILL BE DECIDED BY THE BANK IN CONSULTATION WITH THE BOOK RUNNING LEAD MANAGERS AND ANNOUNCED AND ADVERTISED AT LEAST ONE DAY PRIOR TO THE ISSUE OPENING DATE/ BID OPENING DATE

THE FACE VALUE OF THE SHARES IS RS. 10 AND THE FLOOR PRICE IS [●] TIMES OF THE FACE VALUE AND THE CAP PRICE IS [●] TIMES OF THE FACE VALUE.

The Issue is being made through the 100% book building process where up to 50% of the Net Issue shall be allocated on a proportionate basis to Qualified Institutional Buyers ("QIBs") (including 5% of the QIB portion that would be specifically reserved for Mutual Funds). Further, not less than 15% of the Net Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Net Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. Up to 4,500,000 shares shall be allotted on a proportionate basis to Eligible Employees.

RISK IN RELATION TO THE ISSUE

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

GENERAL RISKS

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

ISSUER'S RESPONSIBILITY

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

LISTING

The Equity Shares offered through this Red Herring Prospectus are proposed to be listed on the the Bombay Stock Exchange Limited and National Stock Exchange of India Limited. We have received in-principle approval from the the Bombay Stock Exchange Limited and National Stock Exchange of India Limited, for the listing of the Equity Shares pursuant to letters dated December 26, 2005 and December 28, 2005, respectively. The Designated Stock Exchange is the Bombay Stock Exchange Limited.

BOOK RUNNING LEAD MANAGERS					REGISTRAR TO THE ISSUE
					
SBI CAPITAL MARKETS LIMITED 202, Maker Tower - E Cuffe Parade Mumbai 400 005, India Tel: (91 22) 2218 9166 Fax: (91 22) 2218 8332 Email: ubi_fpo@sbicaps.com Website: www.sbicaps.com Contact Person: Amit Ramchandani	CITIGROUP GLOBAL MARKETS INDIA PRIVATE LIMITED Bakhtawar, 4th Floor Nariman Point Mumbai - 400 021 India Toll Free: (91) 1800 2299 96 Fax: (91 22) 5631 9803 Email: ubi.fpo@citigroup.com Website: www.citibank.co.in Contact Person: Amulya Goyal	DSP MERRILL LYNCH LIMITED Mafatlal Centre, 10th Floor, Nariman Point, Mumbai - 400 021, India Tel: (91 22) 2262 1071 Fax: (91 22) 2262 1187 Email: ubi_fpo@ml.com Website: www.dspml.com Contact Person: N. S. Shekhar	ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED 801/802, Dalamal Towers Nariman Point Mumbai 400 021, India Tel: (91 22) 5638 1800 Fax: (91 22) 2284 6824 Email: unionbank_fpo@enam.com Website: www.enam.com Contact Person: Prabhat Rai	KOTAK MAHINDRA CAPITAL COMPANY LIMITED 3rd Floor, Bakhtawar, 229 Nariman Point Mumbai-400 021, India Tel: (91 22) 5634 1100 Fax: (91 22) 2284 0492 Email: unionbank.fpo@kotak.com Website: www.kotak.com Contact Person: Sunil Amin	MCS Limited Sri Venkatesh Bhavan Plot No. 27, Road No. 11 MIDC Area Andheri East Mumbai - 400 093, India Tel: (91 22) 2280 1785 Fax: (91 22) 2820 1783 Email: ubifpo@mcsind.com Website: www.mcsind.com Contact Person: Shashikant Kadam

ISSUE PROGRAMME

BID / ISSUE OPENS ON: FEBRUARY 15, 2006

BID / ISSUE CLOSES ON: FEBRUARY 21, 2006

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DEFINITIONS AND ABBREVIATIONS

Term	Description
The “Bank” or “our Bank” or “Union Bank of India” or “we” or “our” or “us”	Unless the context otherwise requires, refers to Union Bank of India, a corresponding new bank constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, having its Head Office at 239, Vidhan Bhavan Marg, Nariman Point, Mumbai 400 021, Maharashtra, India

Bank / Industry Related Terms

Term	Description
Associates	Collectively, the RRBs sponsored by our Bank i.e. Kashi Gomti Samyut Gramin Bank and Rewa Sidhi Gramin Bank
Auditors	The statutory auditors of the Bank being Price Patt & Co., Dass Maulik Mahendra K. Agrawala & Co, Chandiook & Guliani, Raj K. Aggarwal & Associates, Batliboi & Purohit and Lodha & Co.
Bank Acquisition Act	Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, as amended from time to time
Bank Regulations	Union Bank of India (Shares and Meetings) Regulations, 1998, as amended from time to time, which have been made by the Board of Directors in the exercise of powers conferred by Section 19 of the Bank Acquisition Act after consultation with the RBI and with previous sanction of the GoI
Banking Regulation Act	The Banking Regulation Act, 1949, as amended from time to time
Board of Directors/Board	The Board of Directors of our Bank or a committee constituted thereof
CMD or Chairman and Managing Director	The Chairman and Managing Director of our Bank
Constitutional Documents	The Bank Acquisition Act read with the Bank Regulations and the Nationalised Bank Scheme
Director(s)	Director(s) of Union Bank of India, unless otherwise specified
Head Office/ Corporate Office	The head office and corporate office of the Bank being 239, Vidhan Bhavan Marg, Nariman Point, Mumbai 400 021, Maharashtra, India
Promoter	The President of India acting through the MoF, GoI

Issue Related Terms

Term	Description
Allotment	Unless the context otherwise requires, the issue of Equity Shares pursuant to this Issue
Banker to the Issue	Union Bank of India
Bid	An indication to make an offer during the Bidding Period by a prospective investor to subscribe to our Equity Shares at a price within the Price Band, including all revisions and modifications thereto
Bid Amount	The highest value of the optional Bids indicated in the Bid cum Application Form
Bid Closing Date/Issue Closing Date	The date after which the Syndicate will not accept any Bids for the Issue, which shall be notified at least one day prior to the Bid Opening Date/Issue Opening Date, in Financial Express, an English language newspaper with wide circulation, Janasatta, a Hindi language newspaper with wide circulation and Navashakti, a Marathi language newspaper with wide circulation
Bid Opening Date/Issue Opening Date	The date on which the Syndicate shall start accepting Bids for the Issue, which shall be the date notified in Financial Express, an English language newspaper with wide circulation, Janasatta, a Hindi language newspaper with wide circulation and Navashakti, a Marathi language newspaper with wide circulation



Term	Description
Bid cum Application Form	The form in terms of which the Bidder shall make an offer to subscribe to the Equity Shares of our Bank and which will be considered as the application for issue of the Equity Shares pursuant to the terms of this Red Herring Prospectus
Bidder	Any prospective investor who makes a Bid pursuant to the terms of this Red Herring Prospectus and the Bid cum Application Form
Bidding Period/Issue Period	The period between the Bid Opening Date/Issue Opening Date and the Bid Closing Date/ Issue Closing Date inclusive of both days and during which prospective Bidders can submit their Bids
Book Building Process	Book building route as provided under Chapter XI of the SEBI Guidelines, in terms of which the Issue is made
BRLMs/Book Running Lead Managers	Book Running Lead Managers to the Issue, in this case being SBI Capital Markets Limited, Citigroup Global Markets India Private Limited, DSP Merrill Lynch Limited, Enam Financial Consultants Private Limited and Kotak Mahindra Capital Company Limited
CAN/Confirmation of Allocation Note	The note or advice or intimation of allocation of Equity Shares sent to the Bidders who have been allocated Equity Shares after discovery of the Issue Price in accordance with the Book Building Process
Cap Price	The higher end of the Price Band, above which the Issue Price will not be finalised and above which no Bids will be accepted
Citigroup	Citigroup Global Markets India Private Limited, a company incorporated under the Companies Act and having its registered office at Bakhtawar, 4 th Floor, Nariman Point, Mumbai - 400 021, India
Cut-off Price	Any price within the Price Band finalised by us in consultation with the BRLMs, which will be notified in Financial Express, an English language newspaper with wide circulation, Janasatta, a Hindi language newspaper with wide circulation and Navashakti, a Marathi language newspaper with wide circulation. A Bid submitted at Cut-off Price is a valid Bid at all price levels within the Price Band
Designated Date	The date on which funds are transferred from the Escrow Account(s) to the Issue Account after the Prospectus is filed with the Designated Stock Exchange, following which the Board shall allot Equity Shares to successful Bidders
Designated Stock Exchange	The Bombay Stock Exchange Limited
Draft Red Herring Prospectus	The Draft Red Herring Prospectus filed with SEBI, which does not have complete particulars of the price at which the Equity Shares are offered and size of the Issue
DSPML	DSP Merrill Lynch Limited, a company incorporated under the Companies Act and having its registered office at Mafatlal Centre, 10 th Floor, Nariman Point, Mumbai 400 021, India
Eligible Employee	Means a permanent employee or Director of the Bank as on September 30, 2005, who is an Indian national based in India.
Employee Reservation Portion	The portion of the Issue being a maximum of 4,500,000 Equity Shares available for allocation to Eligible Employees
Enam	Enam Financial Consultants Private Limited, a company incorporated under the Companies Act and having its registered office at 113, Stock Exchange Towers, Dalal Street, Fort, Mumbai 400 001, India
Equity Shares	Equity shares of the Bank of Rs. 10 each, unless otherwise specified in the context thereof
Escrow Account	Account opened with an Escrow Collection Bank and in whose favour the Bidder will issue cheques or drafts in respect of the Bid Amount



Term	Description
Escrow Agreement	Agreement entered into among the Bank, the Registrar, the Escrow Collection Bank and the BRLMs for collection of the Bid Amounts and for remitting refunds, if any, of the amounts collected, to the Bidders
Escrow Collection Bank	Union Bank of India
First Bidder	The Bidder whose name appears first in the Bid cum Application Form or Revision Form
Floor Price	The lower end of the Price Band, below which the Issue Price will not be finalised and below which no Bids will be accepted
IPO	Initial Public Offering
Issue	Public issue of 45,000,000 Equity Shares for cash at a price of Rs. [•] per Equity Share aggregating Rs. [•] million by the Bank, comprising a Net Issue to the public of at least 40,500,000 Equity Shares and a reservation for Eligible Employees of up to 4,500,000 Equity Shares at the Issue Price pursuant to the Red Herring Prospectus and the Prospectus
Issue Account	Account opened with the Banker to the Issue to receive monies from the Escrow Accounts for the Issue on the Designated Date
Issue Price	The final price at which Equity Shares will be allotted in terms of the Prospectus, as determined by the Bank in consultation with the BRLMs, on the Pricing Date
KMCC	Kotak Mahindra Capital Company Limited, a company incorporated under the Companies Act and having its registered office at 3rd Floor, Bakhtawar, 229, Nariman Point, Mumbai 400 021, India
Margin Amount	The amount paid by the Bidder at the time of submission of his/her Bid, which may be 10% or 100% of the Bid Amount, as applicable
Mutual Fund(s)	Mutual funds registered with SEBI under the SEBI (Mutual Funds) Regulations, 1996
Net Issue/Net Issue to the public	The Issue less the Employee Reservation Portion
Non-Institutional Bidders	All Bidders that are not QIBs or Retail Individual Bidders and whose Bid Amount is more than Rs. 100,000
Non-Institutional Portion	The portion of the Issue being at least 6,075,000 Equity Shares available for allocation to Non-Institutional Bidders
Pay-in-Date	The date which shall be a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs
Pay-in-Period	(i) With respect to Bidders whose Margin Amount is 100% of the Bid Amount, the period commencing on the Bid Opening Date and extending until the Bid Closing Date, and (ii) with respect to QIBs, the period commencing on the Bid Opening Date and extending up to the date specified in the CAN
Price Band	The price band with a minimum price (Floor Price) of Rs. [•] and the maximum price (Cap Price) of Rs. [•], which shall be advertised at least one day prior to the Bid Opening Date/ Issue Opening Date, in Financial Express, an English language newspaper with wide circulation, Janasatta, a Hindi language newspaper with wide circulation and Navashakti, a Marathi language newspaper with wide circulation, and including any revisions thereof
Pricing Date	The date on which the Bank in consultation with the BRLMs finalises the Issue Price
Prospectus	The Prospectus, filed with the Designated Stock Exchange containing, inter alia, the Issue Price that is determined at the end of the Book Building Process, the size of the Issue and certain other information



Term	Description
Qualified Institutional Buyers or QIBs	Public financial institutions as defined in Section 4A of the Companies Act, FIIs, scheduled commercial banks, mutual funds registered with SEBI, venture capital funds registered with SEBI, foreign venture capital investors registered with SEBI, state industrial development corporations, insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with a minimum corpus of Rs. 250 million (subject to applicable law), pension funds with a minimum corpus of Rs. 250 million, and multilateral and bilateral development financial institutions
QIB Margin Amount	An amount representing 10% of the Bid Amount submitted by a QIB in its Bid
QIB Portion	The portion of the Net Issue to the public of up to 20,250,000 Equity Shares available for allocation to QIBs of which 1,012,500 Equity Shares shall be available for allocation to Mutual Funds
Registrar/Registrar to the Issue	MCS Limited
Retail Individual Bidders	Individual Bidders (including HUFs) who have Bid for Equity Shares and whose Bid Amount is less than or equal to Rs. 100,000, in any of the bidding options in the Issue, including revisions if any
Retail Portion	The portion of the Net Issue to the public and being a minimum of 14,175,000 Equity Shares available for allocation to Retail Individual Bidder(s)
Revision Form	The form used by the Bidders to modify the quantity of Equity Shares or the Bid Price in any of their Bid cum Application Forms or any previous Revision Form(s)
RHP or Red Herring Prospectus	The document issued in accordance with the SEBI Guidelines, which does not have complete particulars of the price at which the Equity Shares are offered and the size of the Issue. The Red Herring Prospectus will be filed with the Designated Stock Exchange at least three days before the Bid Opening Date and will become a Prospectus upon filing with the Designated Stock Exchange after pricing and allocation
SARFAESI or Securitisation Act	The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, as amended from time to time
SBI Caps	SBI Capital Markets Limited, a company incorporated under the Companies Act and having its registered office at 202, Maker Tower – E, Cuffe Parade, Mumbai 400 005, India
Securities Act	U.S. Securities Act of 1933, as amended
Stock Exchanges	BSE and NSE
Syndicate	The BRLMs, Co-Manager and the Syndicate Members
Syndicate Agreement	The agreement to be entered into among the Bank and the Syndicate, in relation to the collection of Bids in this Issue
Syndicate Members	Enam Securities Private Limited, Kotak Securities Limited
TRS or Transaction Registration Slip	The slip or document issued by the Syndicate Members to the Bidder as proof of registration of the Bid
UIN	Unique Identification Number
Underwriters	The BRLMs and the Syndicate Members
Underwriting Agreement	The agreement among the members of the Syndicate and the Bank to be entered into on or after the Pricing Date



Technical and Industry Terms

Term	Description
ALCO	Asset Liability Management Committee
ATMs	Automated Teller Machines
CAIIB	Certified Associate of Indian Institute of Bankers
CAR	Capital Adequacy Ratio
CBS	Core Banking Solutions
CDR	Corporate Debt Restructuring
CISA	Certified Information Systems Auditor
CRAR	Capital to Risk weighted Assets Ratio
CRR	Cash Reserve Ratio
ECS	Electronic Clearing Services
EFT	Electronic Funds Transfer
HR	Human Resources
IBA	Indian Banks Association
ISDA	International Swaps and Derivatives Association
IRDA	Insurance Regulatory and Development Authority
IT	Information Technology
KYC Norms	Know Your Customer norms as stipulated by the Reserve Bank of India
FCNR(B)	Foreign Currency Non Resident (Banks)
NPA	Non-performing Asset
NDS-OM	Negotiated Dealing Screen-Order Matching
OTS	One Time Settlement
PIN	Personal Identification Number
RTGS	Real Time Gross Settlement
SDV	Safe Deposit Vault
SGL	Subsidiary General Ledger
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprises
SSI	Small Scale Industries
Spread	The difference between the yield on the fortnightly average of interest earning assets and the cost of the fortnightly average of interest bearing liabilities
Tier II Bonds	Unsecured, redeemable, non-convertible, subordinated bonds in the nature of promissory notes issued by the Bank for augmenting Tier II capital for capital adequacy purposes
Tier 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 (at a discount of 55.0%), general provisions and loss reserves (allowed up to a maximum of 1.25% of risk weighted assets), hybrid debt capital instruments (which combine certain features of both equity and debt securities), investment fluctuation reserves and subordinated debt



Conventional/General Terms

Term	Description
AS	Accounting Standards as issued by the Institute of Chartered Accountants of India
AY	Assessment Year
BIFR	Board for Industrial and Financial Reconstruction
BSE	The Bombay Stock Exchange Limited
CAGR	Compounded Annual Growth Rate
CDSL	Central Depository Services (India) Limited
Companies Act	The Companies Act, 1956, as amended from time to time
Depositories Act	The Depositories Act, 1996, as amended from time to time
Depository	A body corporate registered under the SEBI (Depositories and Participant) Regulations, 1996, as amended from time to time
Depository Participant	A depository participant as defined under the Depositories Act
DRT	Debt Recovery Tribunal(s)
ECGC	Export Credit Guarantee Corporation of India Limited
Exim Bank	Export Import Bank of India
FEMA	Foreign Exchange Management Act, 1999, as amended from time to time, and the regulations framed thereunder
FII	Foreign Institutional Investor (as defined under Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000) registered with SEBI under applicable laws in India
Financial Year /fiscal year/ FY/ fiscal	Period of twelve months ended March 31 of that particular year, unless otherwise stated
GIR Number	General Index Registry Number
Government/ Gol	The Government of India
HUF	Hindu Undivided Family
I.T. Act	The Income Tax Act, 1961, as amended from time to time
Indian GAAP	Generally accepted accounting principles in India
IPC	The Indian Penal Code, 1860
MoF	Ministry of Finance, Government of India
NABARD	National Bank for Agricultural and Rural Development
Nationalised Bank Scheme	The Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 notified under Section 9 of the Bank Acquisition Act
NBFCs	Non-Banking Finance Companies
Non Resident	Non Resident is a Person resident outside India, as defined under FEMA and includes a Non Resident Indian
NRE Account	Non Resident External Account
NRI/Non Resident Indian	A Person resident outside India, and who is a citizen of India or a Person of Indian Origin, as defined under FEMA
NRO Account	Non Resident Ordinary Account



Term	Description
NSDL	National Securities Depository Limited
NSE	The National Stock Exchange of India Limited
OCB/ Overseas Corporate Body	A company, partnership, society or other corporate body owned directly or indirectly to the extent of at least 60% by NRIs, including overseas trusts in which not less than 60% of beneficial interest is irrevocably held by NRIs directly or indirectly as defined under Foreign Exchange Management (Deposit) Regulations, 2000. OCBs are not permitted to invest in this Issue
P/E Ratio	Price/Earnings Ratio
PAN	Permanent Account Number
Person/Persons	Any individual, sole proprietorship, unincorporated association, unincorporated organization, body corporate, corporation, company, partnership, limited liability company, joint venture, or trust or any other entity or organization validly constituted and/or incorporated in the jurisdiction in which it exists and operates, as the context requires
PIO/ Person of Indian Origin	As defined under the Foreign Exchange Management (Investment in Firm or Proprietary Concern in India) Regulations, 2000
PSU	Public Sector Undertaking
RBI	The Reserve Bank of India
Reserve Bank of India Act/ RBI Act	The Reserve Bank of India Act, 1934, as amended from time to time
RRB	Regional Rural Bank
SEBI	The Securities and Exchange Board of India constituted under The Securities and Exchange Board of India Act, 1992
SEBI Guidelines	SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 27, 2000, as amended, including instructions and clarifications issued by SEBI from time to time
SEBI Takeover Regulations	Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 1997, as amended from time to time
SIDBI	Small Industries Development Bank of India
U.S. GAAP	Generally accepted accounting principles in the United States of America



CERTAIN CONVENTIONS; USE OF MARKET DATA

Unless stated otherwise, the financial data in this Red Herring Prospectus is derived from our financial statements prepared in accordance with Indian GAAP and included in this Red Herring Prospectus. The statistical and operational data in this Red Herring Prospectus is presented on an unconsolidated basis. Our fiscal year commences on April 1 and ends on March 31 of each year, so all references to a particular fiscal year are to the twelve-month period ended March 31 of that year. In this Red Herring Prospectus, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding-off.

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

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

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

Unless stated otherwise, industry data used throughout this Red Herring Prospectus has been obtained from RBI publications. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although the Bank believes that industry data used in this Red Herring Prospectus is reliable, it has not been independently verified.



FORWARD-LOOKING STATEMENTS

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

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

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

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



RISK FACTORS

An investment in the Equity Shares involves a degree of risk. You should carefully consider all the information in this Red Herring Prospectus, including the risks and uncertainties described below, before making an investment in our Equity Shares. To obtain a complete understanding of our Bank, you should read this section in conjunction with the sections entitled “Business” beginning on page 40 of this Red Herring Prospectus and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” beginning on page 171 of this Red Herring Prospectus as well as the other financial and statistical information contained in this Red Herring Prospectus. If the following risks occur, our business, results of operations and financial condition could suffer, and the price of our Equity Shares and the value of your investment in our Equity Shares could decline.

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

Internal Risk Factors and Risks Relating to our Business

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

In the first six months of fiscal 2006, net interest income represented 40.93% of our interest income and 37.26% 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 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, domestic and international economic and political conditions and other factors. On October 25, 2005, the reverse repo rate (which is the overnight rate at which commercial banks place funds with the RBI) was raised from 5.00% to 5.25%.

Under the regulations of the RBI, we are required to maintain a minimum specified percentage, currently 25.0% (Statutory Liquidity Ratio), of our demand and time liabilities in cash and government or other approved securities with the RBI. As of September 30, 2005, 27.43% of our demand and time liabilities were in government and other approved securities. As of September 30, 2005, 72.09% of our total investments were in government and other approved securities. Yields on these investments, as well as yields on our other interest earning assets, are dependent to a large extent on interest rates. In a rising interest rate environment, especially if increase was sudden or sharp, we could be adversely affected by the decline in the market value of our government securities portfolio and other fixed income securities and may be required to further provide for depreciation in the Available for Sale and Held for Trading categories. As at September 30, 2005, we have 0.20% of our investments in “Held for Trading” category, 27.46% in the “Available for Sale” category and 72.34% in the “Held to Maturity” category.

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

Our gross non-performing assets were Rs. 20,581.5 million as at March 31, 2005, representing 5.01% of our gross advances, and Rs. 20,040.5 million as at September 30, 2005, representing 4.22% of our gross advances. Our net non-performing assets were Rs. 10,603.7 million as at March 31, 2005, representing 2.64% of our net advances, and Rs.6,300.3 million as at September 30, 2005, representing 1.37% of our net advances.

We have been able to reduce our net non-performing assets through recoveries, upgrading of non-performing assets to “performing” categories and additional provisioning. However, our ability to continue to reduce or contain the level of our gross and net non-performing assets may be affected by a number of factors that are beyond our control, such as increased competition, a recession in the economy, including in respect of specific industries to which we are exposed, decreases in agricultural production, decline in commodity and food grain prices, adverse fluctuations in interest and exchange rates or adverse changes in Government policies, laws or regulations. In



addition, the expansion of our business may also cause the level of our non-performing assets to increase. As at September 30, 2005, approximately 68.34% of our gross industrial sector non-performing asset portfolio was concentrated in the following industries: petroleum, paper and paper products, cement, chemical dyes, textiles, engineering, construction, iron & steel and food processing. These industries together constituted 18.30% of our total funded credit exposure as at September 30, 2005. Although our loan portfolio contains loans to a wide variety of businesses, financial difficulties in these industries could increase our level of non-performing assets and adversely affect our business and financial condition. For further details, refer to the section titled Selected Statistical Information beginning on page 151 of this Red Herring Prospectus.

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

We have substantial exposure to loans and advances to agriculture and small-scale industries, categorised as “priority sectors”. In addition, the RBI requires that every bank extend at least 40% of its net bank credit to priority sectors, with at least 18% of our net bank credit extended to the agricultural sector. When we are unable to meet these requirements, we are required to place the difference between the required lending level and our actual agriculture sector lending in an account with the National Bank for Agriculture and Rural Development under Rural Infrastructure Development Fund scheme, from which we will not be able to earn as much interest as we would from making loans to the priority sector. As at the last reporting Friday of September 2005, priority sector credit constituted 42.57% of our net bank credit, and loans to agricultural and small-scale industry borrowers constituted 15.98% and 8.70%, respectively, of our net bank credit. As at September 30, 2005, the percentage of our priority sector gross non-performing assets to total priority sector advances was 6.21%. As at September 30, 2005, the percentage of our agricultural gross non-performing assets to total agricultural advances was 4.45% and the ratio of our small-scale industry gross non-performing assets to total small-scale industry advances was 8.31%, compared with our overall ratio of non-performing assets to total domestic advances of 4.22%. Although we believe that our loans are adequately collateralised, with 84% coverage of our agricultural loans, economic difficulties owing to various factors, such as monsoons or other weather conditions, natural calamities, reductions in price supports, changes in government policy or other events and conditions may adversely impact these priority sectors and our business and the level of our non-performing assets.

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

Approximately 37.74% of our total income in fiscal 2005 and 33.32% of our total income in the six months ended on September 30, 2005 was derived from our treasury operations. Our treasury operations are vulnerable to changes in interest rates, exchange rates, equity prices and other factors. In particular, if interest rates rise, we may not be able to realise the same level of income from treasury operations as we have in the past. Any decrease in our income from our treasury operations could adversely affect our business if we cannot offset the same by increasing returns on our loan assets.

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

We have achieved significant growth in our net advances in India in recent years. Between March 31, 2001 and March 31, 2005, our net advances grew at a CAGR of 23.03% from Rs. 175,053.5 million to Rs. 401,050.8 million in the same period. As at September 30, 2005, retail loans represented 20.15% of our total outstanding credit. This compares with 21.55%, 21.46% and 20.70% of our net bank credit as at March 31, 2005, March 31, 2004 and March 31, 2003, respectively. Our present business strategy reflects continued focus on further growth in this sector. We intend to grow our income from this sector by offering new products and services and by cross-selling to our customers by aggressive marketing. While we anticipate continued demand in this area, we cannot assure you that our retail portfolio will continue to grow at the rates we have recently experienced between fiscal 2003 and fiscal 2005.

We face significant challenges in our new businesses.

We are diversifying our products and services, particularly in retail banking. For example, we have extended our offerings to dematerialisation, online trading in securities, wealth management, clearing bank services in respect of commodity exchanges and facilitation of commodities trading. As part of our strategy, we intend to focus on the



distribution and sale of such products to enhance our fee-based revenues. However the distribution and sale of such new products may not be profitable in the initial years of operation and are subject to start-up risks as well as general risks and costs associated with the respective businesses, which may limit the growth of this revenue stream.

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

As at September 30, 2005, our total funded exposure was Rs. 474,975.40 million, while the non-funded exposure as at September 30, 2005 was Rs. 75,140.90 million. Our exposure to our ten largest borrowers to whom we have made advances in the aggregate accounted for approximately 15.95% of our total gross credit exposure as at September 30, 2005. Our exposure to our largest single borrower (excluding food credit) as at September 30, 2005, accounted for approximately 2.06% of our total gross credit exposure and 19.19% of our capital funds (comprising Tier I and Tier II capital as defined in Indian banking regulations). Our exposure to our largest borrower group (excluding food credit) as at September 30, 2005 accounted for approximately 4.25% of our total gross credit exposure and 39.48% of our capital funds. Credit losses on these large borrowers and group exposures could adversely affect our business and financial condition.

Our internal policies limit our credit exposure to any particular industry to 10% of our gross credit exposure of the previous quarter except in case of infrastructure and financial intermediaries where the exposure limit has been set at 15% and 20%, respectively. Furthermore the exposure limit to real estate, capital markets and NBFCs is restricted to 5%, 5% and 2.50%, respectively. The single largest industry exposure as at September 30, 2005 is to the power sector, which is 5.11% of the gross bank credit. The top five industries other than food credit in the aggregate accounted for 14.74% and 15.52% of our gross credit exposure as at March 31, 2005 and September 30, 2005, respectively. Based on fund-based outstanding exposures as at September 30, 2005, our five largest industry exposures were to power (generation, transmission and distribution), telecommunications, chemicals and dyes, textiles and iron and steel. In the aggregate, these exposures constituted 22.97% of our total fund-based domestic exposures in respect of accounts larger than Rs. 10 million. Our aggregate funded domestic exposure to the top five borrowers in these industries together represented 26.88% of our aggregate funded credit exposure to these industries. Financial difficulties in these industries could adversely affect our business and financial condition.

The Bank has eight rating grades for standard loan assets. As at September 30, 2005, 39.30 % of our rated advances were to borrowers in grade “CR1” and “CR2”, which is considered to be the lowest and minimal risk grade. As at September 30, 2005, 58.94 % of our rated advances were to borrowers in the moderate to acceptable risk grade i.e., “CR3” to “CR6”, 1.40% of our rated advances were to borrowers in the watch list grade i.e., “CR7”, and 0.36% of our rated advances to borrowers are in the high-risk grade i.e., “CR8”. Our “CR7” and “CR8” grade borrowers, in particular, could be especially vulnerable if economic conditions worsen or economic growth rates were to slow, which could adversely affect our business and financial condition.

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

We take collateral for a large proportion of our loans, including mortgages, pledge or hypothecation of inventories, receivables and other current assets and, in some cases, charges on fixed assets and financial assets, such as marketable securities. As at September 30, 2005, 74.88% of our net advances were secured by tangible assets, such as properties, plant and machinery, inventory, receivables and other current assets. Foreclosure of such securities may require court or tribunal intervention that may cause delay leading to deterioration in quality and value of such securities. Therefore, we may not be able to realise the full value of securities in all cases.

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



During the six months ended September 30, 2005, the amount of assets restructured under CDR was Rs. 1,777.90 million. As at September 30, 2005, the total amount of loan assets under CDR was Rs. 8,146.20 million (funded exposure of Rs. 5,699.90 million and non-funded exposure of Rs. 2,446.30 million) out of which standard assets were Rs. 7,811.00 million (funded exposure of Rs. 5,391.30 million and non-funded exposure of Rs. 2,419.70 million); doubtful assets were Rs. 297.60 million (funded exposure of Rs. 271.00 million and non-funded exposure of Rs. 26.60 million); and loss assets were Rs. 37.60 million (funded exposure of Rs. 37.60 million).

Our funding is primarily through fixed term deposits, and if depositors do not roll over deposited funds on maturity or if we are unable to continue to increase our deposits, our business could be adversely affected.

A high portion of our funding requirements is met through term deposits. As at September 30 2005, 58.74% of our funding consisted of term deposits representing 68.04% of our total deposits. Savings deposits and current deposits constituted 24.21% and 7.75% respectively, of our total deposits as at September 30, 2005.

A portion of our assets have long-term maturity profiles, creating a potential for funding mismatches. In our experience, a substantial portion of our customer deposits have been rolled over on maturity and have been, over time, a stable source of funding. However, in the event that a substantial number of our depositors do not roll over deposited funds on maturity, our liquidity position and business could be adversely affected. If we are unable to maintain or increase our base of low-cost deposits, our overall cost of funds could increase, which could have an adverse effect on our business, profitability and our ability to grow.

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

In order to further develop our abilities to assist NRIs and facilitate our customers in international trade, we have sought and obtained approvals from the RBI to open representative offices in Dubai, Doha and Shanghai, China. Subsequently, we have applied to the Central Banks in Dubai and Doha for their approval to open representative offices. We have also applied to the RBI to open branch offices in Doha, Singapore, Hong Kong and San Jose. We have no experience with respect to such international expansion and the skills required for our international business could be different from those required for our domestic operations.

International expansion is subject to inherent risks, including:

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

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

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

We are in the process of implementing our Core Banking Solution ("CBS") and as at December 31, 2005, 745 out of a total of 2,064 of our branches and 146 extension counters were networked under this system. This information technology initiative will allow us to increase interconnectivity among our branches and is required to provide many of the products and services we have introduced. CBS will also be necessary to comply with regulatory requirements in the future. We may experience problems in the installation and implementation of our CBS across our branch and ATM networks, including problems relating to migration of information, data protection and upgrading existing hardware and software. We have substantially invested in software, hardware, network architecture and asset management services. We have already rolled out CBS branches, which covered approximately 75% of our business as at December 31, 2005. If we are unable to roll out further CBS branches without upgrading the existing infrastructure it will be difficult for us to expand our products and services across our branch network.



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

We seek to protect our computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems. Computer break-ins and power disruptions could affect the security of information stored in and transmitted through these computer systems and networks. We have implemented the Internet banking platform and we believe that that these concerns will intensify with our increased use of technology and Internet-based resources. To address these issues and to minimise the risk of security breaches, we employ security systems, including firewalls and intrusion detection systems, conduct periodic penetration testing for identification and assessment of potential vulnerabilities and use encryption technology for transmitting and storing critical data such as passwords. However, these systems may not guarantee prevention of frauds, break-ins, damage or failure. A significant failure in security measures could have an adverse effect on our business.

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

We are exposed to many types of operational 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 our high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, our dependence upon automated systems to record and process transactions may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We may also be subject to disruptions of our operating systems, arising from events that are wholly or partially beyond our control (including, for example, computer viruses or electrical or telecommunication outages), which may give rise to deterioration in customer service and to loss or liability to us.

Furthermore, some of our branches are designated as 'high risk' branches based on the parameters evolved by us. As of September 30, 2005, these branches contributed approximately 10% to our total revenues and any liability or loss incurred by these branches may adversely affect our revenues and our goodwill in the market.

We outsource some functions to other agencies and are exposed to the risk that external vendors may be unable to fulfil their contractual obligations to us (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that its (or its vendors') business continuity and data security systems prove to be inadequate. We also face the risk that the design of our controls and procedures prove inadequate, or may be circumvented, thereby causing delays in detection or errors in information. Although we maintain a system of controls designed to keep operational risk at appropriate levels, we have, in the past, suffered some losses from operational risk and there can be no assurance that we will not suffer losses from operational risks in the future. The Bank plans to foray into advanced approaches in Basel II norms. For a discussion of how operational risk is managed see the section "Business - Risk Management - Operational Risk" on page 65 of this Red Herring Prospectus.

System failures and calamities could adversely impact our business.

With the implementation of our CBS and other technology initiatives, the importance of systems technology to our business has increased significantly. Our principal delivery channels include our branches and ATMs. Each of these delivery channels is vulnerable to systems failures or other calamities. Although we currently have the technology and facilities in place to back up our systems and we have established a disaster recovery centre in Bangalore, any failure in our systems, particularly those utilised for our retail products and services and transaction banking, or the occurrence of calamities, accidents and other unexpected events that affect areas in which we have a significant presence, could affect our operations and the quality of our customer service.

Our contingent liabilities could adversely affect our financial condition and results of operations.

As at September 30, 2005, we had contingent liabilities not provided for amounting to Rs. 350,002.5 million. Contingent liabilities arising out of the ordinary course of business include liability on account of outstanding forward exchange contracts of Rs. 227,938.8 million, guarantees given on behalf of constituents in and outside India of Rs. 40,343.1 million, and acceptances, endorsements and other obligations of Rs. 80,187.6 million. In addition, we have contingent liabilities on account of claims against us not acknowledged as debts of Rs. 1,533 million. If these contingent liabilities materialise, fully or partly, our financial condition and results of operations could be adversely affected.



For further details, refer to the section titled “Outstanding Litigation and Material Developments” beginning on page 194 of this Red Herring Prospectus.

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

We are required by the RBI to maintain a minimum Capital Adequacy Ratio of 9.0% in relation to our total risk-weighted assets. We must maintain this minimum capital adequacy level to support our continuous growth. Our Capital Adequacy Ratio was 10.51% on September 30, 2005. In its mid-term review of credit policy, the RBI has increased the requirements for provisioning on standard advances from the present level of 0.25% to 0.40%. This will lead to a further decline in the Capital Adequacy Ratio. The implementation of the Basel II capital adequacy standards could result in a decline in our Capital Adequacy Ratio. Our ability to support and grow our business could be limited by a declining Capital Adequacy Ratio if we are unable to access or have difficulty accessing the capital markets or have difficulty obtaining capital in any other manner.

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

Basel II is the international capital adequacy framework for banks that prescribes minimum capital requirements for market risk and operational risk in addition to the requirement of minimum capital for credit risk. Our capital requirements are expected to increase when Basel II standards are implemented by the RBI. We may need to augment our capital base to meet these norms. In preparation for the adoption of the Basel II accord, we have already commenced active measures in terms of risk management systems, and evaluation of capital charges, including for operational risk and increase in transparency in financial reporting as part of market discipline, as required by the RBI. Standardised method for market risk as per Basel II norms will be implemented as directed by the RBI by March 31, 2006. Standardised approach for credit risk and basic indicator approach for operational risk, as per RBI draft guidelines on Capital Adequacy, will be implemented, by March 31, 2007.

We are required to maintain cash reserve and Statutory Liquidity Ratios and increases in these requirements could adversely affect our business.

As a result of the statutory reserve requirements stipulated by the RBI, we may be more exposed structurally to interest rate risk than banks in many other countries. Under RBI regulations, we are subject to a Cash Reserve Ratio requirement under which we are currently required to keep 5.00% of our net demand and time liabilities in a current account with the RBI. The RBI may increase the Cash Reserve Ratio requirement as a monetary policy measure. We do not earn interest on the first 3.00% of the reserve while the remaining 2% attracts an interest rate of 3.5%. In addition, under RBI regulations, our liabilities are subject to a Statutory Liquidity Ratio requirement, according to which 25.00% of our demand and time liabilities needs to be invested in Govt securities, state government securities and other approved securities. Increases in Cash Reserve Ratio and Statutory Liquidity Ratio requirements could adversely affect our business and financial performance.

We may, or we may be required to, undertake mergers or acquisitions in the future which may pose management and integration challenges.

We may make acquisitions and investments to expand our customer base, acquire new service or product offerings or enhance our technical capabilities. In addition, the Govt may require us to undertake a merger with another bank, as it has required of us and other public sector banks in the past. Any such acquisition or merger may not necessarily contribute to our profitability and may require us to assume high levels of debt, NPAs or contingent liabilities as part of such transactions. We also could experience difficulty in combining operations and cultures and may not realise the anticipated synergies or efficiencies from such transactions.

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

As at January 13, 2006, there are 1,341 cases involving an amount of Rs. 3,195.29 million (the total number of cases include 19 tax litigations, however the aggregate amount excludes the amounts of claims in tax litigations vis Rs 7,603.42 million) outstanding against our Bank.



There are 130 civil cases filed against us for disputes relating to interest imposed, negligence, recovery of money, guarantees, letters of credit, etc., in which the aggregate amount claimed is Rs. 2,978.31 million or more.

There are 388 cases filed against us relating to consumer disputes in relation to, inter alia, issuing money against forged cheques, alleged wrongful refusal to sanction certain facilities, and refusal to release fixed deposit receipts/ title deeds pledged as security. The total amount claimed against us in these cases is Rs. 132.09 million.

There are 162 cases filed against us in relation to property disputes, suits by lessees, by statutory authorities, wherein the Bank has been impleaded. The total amount claimed against us in these cases is Rs. 84.89 million.

There are 642 suits/writ petitions filed by employees/ex-employees pending against us. However, the amount claimed against us in these cases is not quantifiable.

Apart from the aforesaid 1,341 cases, there are also 355 cases filed against us, which involve no specific monetary claim. Apart from the cases filed against us, we file cases from time to time against persons who are in default or are in breach of their obligations to us or attempt to adversely affect our interests.

The information on the above cases is given as of January 13, 2006. We may incur substantial liability if the courts rule against us in these cases. For details of these cases, refer to the section titled "Outstanding Litigation and Material Developments" beginning on page 194 of this Red Herring Prospectus.

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

There were 19 disputes relating to income tax and interest tax assessments in which the aggregate amount (excluding interest thereon) claimed against us was Rs. 7,603.42 million as of January 13, 2006. In cases where the Bank has filed an appeal, the Bank has paid the entire amount claimed by the Income Tax Department under protest. We may incur liability if orders against us are passed in the said cases. For details please refer to the section titled "Outstanding Litigation and Material Developments - Tax Cases" on page 194 of this Red Herring Prospectus.

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

Under Section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, the Central Government has the power to appoint Directors on our Board. We have received approval of the GoI to issue Equity Shares in this Issue, subject to the condition that the GoI's shareholding will not decrease below 51% of our post-issue share capital. After the completion of the Issue, the Government will own at least 51.0% of our outstanding Equity Shares and will be able to appoint 9 Directors out of a total of 15 Directors. Consequently, the Government will continue to have a controlling interest in our Bank and will also be able to determine a majority of our Board of Directors. Furthermore, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 provides that no shareholder of the corresponding new bank other than the Central Government shall be entitled to exercise voting rights in respect of any shares held by such Person in excess of 1% of the total voting rights of all the shareholders of the corresponding new bank. Moreover, under the terms of certain credit facilities that we have obtained from overseas lenders, the Bank is required to maintain the GoI's majority shareholding. Therefore, the outcome of most proposals for corporate action requiring the approval of our shareholders will be largely controlled by the Government.

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

We may undertake additional equity offerings to finance future growth or to meet future capital requirements, as arising out of implementation of compliance with the Basel II requirements, subject to the changes in the Government regulations with respect to the minimum holding of Government equity in the Bank. Such future issuance of Equity Shares could dilute your percentage holding in our Bank and could adversely affect the market price of our Equity Shares.



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

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

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

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

- We do not possess the title deeds;
- The conveyance deeds for transfer of property have not been executed and/or adequately stamped under relevant law;
- The agreements to sell or conveyance deeds have not been registered in the land records maintained by the concerned Sub Registrar of Assurances; or
- Lease deeds have not been executed or have expired and have not been renewed.

The related party disclosures in this document do not include transactions with regional rural banks (iRRBs) in which we have an interest.

Pursuant to the RBI circular number DBOD.No.BP. BC. 89 /21.04.018/2002-03 dated March 29, 2003 on Guidelines on the Compliance of Accounting Standards by Banks, all nationalised banks are exempt from disclosing the transactions with the RRBs sponsored by them. Hence, no such disclosure has been made in this Red Herring Prospectus with respect to the RRBs in which we have an interest. Furthermore, we are not disclosing transactions with the RRBs in the audited accounts.

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

We are currently rated AA+ for subordinated debt by CRISIL and AA+CARE by CARE and A1+ by ICRA for Certificate of Deposits Programme of Rs 10,000 million. A downgrade in our credit rating may negatively affect our ability to obtain funds and increase our financing costs by increasing the interest rates of our outstanding debt or the interest rates at which we are able to refinance existing debt or incur new debt, which may adversely affect our business, financial condition and results of operations.

Any inability to attract and retain talented professionals may adversely impact our business.

We are dependent on our key personnel. Attracting and retaining talented professionals is a key element of our strategy and we believe it to be a significant source of competitive advantage. Our Chairman and Managing Director and our Executive Director have been appointed until March 31, 2006 and April 30, 2006, respectively, or until further instruction of the Gol, whichever is earlier. See 'Business – Strategy' on page 41 and 'Business – Employees' on page 66 of this Red Herring Prospectus. Our inability to attract and retain talented professionals or the loss of key management personnel could have an impact on our business, our future financial performance and the price of our Equity Shares.

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

We have entered into certain agreements in respect of our borrowings, which require us to obtain approval from the lenders for declaring dividends in certain circumstances, making substantial change to the general nature or scope of our business, incurring or assuming any debt in certain circumstances or reducing the Gol shareholding in our



Bank below 51%. No assurance can be given that such consent will be granted by lenders for these desired actions in the future.

If we are not able to renew or maintain our statutory and regulatory permits and approvals required to operate our business, it may have a material adverse effect on our business, financial condition and results of operations.

- We require certain statutory and regulatory permits and approvals to operate our business. We are yet to receive the following statutory approvals or approvals have expired and renewal applications have been made:
- Application dated August 16, 2005 to the RBI for permission to establish a branch in Singapore;
- Application dated August 22, 2005 to the RBI for permission to establish a branch in Hong Kong;
- Application dated August 27, 2005 to the RBI for permission to establish a branch in San Jose, United States of America;
- Application to SEBI dated October 4, 2005 for renewal of certificate of registration as underwriters under the SEBI (Underwriters) Regulation, 1992;
- Application dated October 5, 2003 to the Banking Supervision and Examination Department, Central Bank of U.A.E for permission to establish a representative office in Dubai;
- Licensing application form dated September 10, 2003 to the Central Bank of Qatar for the establishment of a representative office in Doha; and
- Application dated December 8, 2005 for registration of our new logo as a trademark under the provisions of the Trade Marks Act, 1999.

In the future, we will be required to renew such permits and approvals and obtain new permits and approvals for our proposed operations. 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 adverse effect on our business, financial condition and results of operations. For further information, refer to the section titled “Licenses and Approvals” on page 204 of this Red Herring Prospectus.

Risk relating to the non-registration of our new logo as a trademark

We have applied for registration of our new logo as a trademark under the provisions of the Trade Marks Act, 1999 and the said application has been accepted under class 36, as classified under the Trade Mark Act, 1999 and Trade Mark Rules and has been allotted application number 1404746. We are taking steps to expedite the filing and processing of TM-1 to obtain the No Objection Certificate from the Registrar to file the application for obtaining the registration under the Copyright Act, 1957. Until such registration is granted, we may not be able to prohibit other persons from using the trademark, which may adversely affect our goodwill and business.

Our financial statements for the period ended September 30, 2004, September 30, 2005 and December 31, 2005 have not been audited.

Our financial statements for the six month ended September 30, 2004 and September 30, 2005 and nine months ended December 31, 2005 have not been audited and are based on a limited review of our accounts for the aforementioned periods conducted by our Auditors in compliance with extant RBI guidelines on limited review in conjunction with other relevant applicable norms.

External Risk Factors

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

In India, we compete with public and private sector Indian commercial banks as well as foreign commercial banks. Many of our competitors in India and internationally are large institutions, which may have much larger customer and deposit bases, larger branch networks and more capital than we do. Some of the banks with which we compete



may be more flexible and better positioned to take advantage of market opportunities than us. In particular, private banks in India and many of our competitors outside of India may have operational advantages in implementing new technologies, rationalising branches and recruiting employees through incentive-based compensation.

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

The Government is also encouraging banks and other financial institutions to significantly increase their lending to the agriculture sector, which will make this segment more competitive.

These competitive pressures affect the Indian and international banking industry as a whole, including our Bank, and our future success will depend in large part on our ability to respond in an effective and timely manner to these competitive pressures.

Banking, compared to other industries, is subject to greater regulation and changes in the regulations that govern us could adversely affect our business.

Banks in India are subject to detailed supervision and regulation by the RBI. In addition, banks are subject generally to changes in Indian law, as well as to changes in regulation and government policies and accounting principles. Any change in the laws and regulations governing the banking sector could adversely affect the banking sector as a whole, our business, our future financial performance, our shareholders' funds and the price of our Equity Shares, by requiring a restructuring of our activities, increasing costs or others.

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

- We can increase our paid-up capital only with the consent of the Government and in consultation with the RBI and the shareholding of the Government cannot go below 51% of the paid-up capital.
- The Government has control over policy matters and has the power to caution or prohibit us from entering into any particular transaction or class of transactions.
- Foreign investment is subject to an overall statutory limit of 20% of our paid-up capital. The RBI has fixed a cut-off point at 18% for the purpose of effective monitoring. Once the aggregate net purchases of equity shares of the respective bank by FIIs/NRIs/PIOs reaches the cut-off point, which is 2% below the overall limit of 20%, the RBI cautions all designated bank branches so as not to purchase any more equity shares in the respective bank on behalf of NRIs/PIOs without prior approval of the RBI.
- No shareholder, other than the Government, is entitled to exercise voting rights in respect of any shares held by him in excess of one per cent of the total voting rights of all of our shareholders.
- There are restrictions on payment of dividends and on rights relating to unclaimed dividends.
- Certain restrictions on opening a new place of business and transferring an existing place of business require the approval of the RBI, which may hamper the operational flexibility of the Bank.
- We have to maintain assets in India equivalent to not less than 75% of our net demand and time liabilities in India, which in turn may restrict us from building overseas asset portfolios and exploiting overseas business opportunities.



- There are no provisions requiring us to send compulsory statutory reports to our shareholders prior to a general meeting of the shareholders and our shareholders do not have the right to approve our accounts, the report of our Board of Directors on our activities for the period covered by the accounts and the auditors' report on our accounts. However, we are required by our listing agreements with the Stock Exchanges to send annual reports to our shareholders prior to our annual general meeting.
- Rights of minority shareholders statutorily available in the case of a company incorporated under the Companies Act are not available to our shareholders.

Any change in the laws and regulations governing the banking sector in India may adversely affect our customer-base, our revenues and our profitability.

We are exposed to certain risks of the Indian financial system and could be impacted by the financial difficulties of other financial institutions in India.

Along with other banks in India, we are exposed to the risks of the Indian financial system, which in turn may be affected by financial difficulties, and other problems faced by Indian financial institutions. As an emerging market system, the Indian financial system faces risks of a nature and extent not typically faced in developed countries. Additionally, the credit risk of borrowers in India is higher than in more developed countries. India's nationwide credit bureau is still developing, which may affect the quality of information available to us about the credit history of our borrowers, especially individuals and small businesses.

Certain Indian financial institutions have experienced difficulties during recent years. Some co-operative banks have also faced serious financial and liquidity crises. The problems faced by individual Indian financial institutions and any instability in or difficulties faced by the Indian financial system generally could create adverse market perception about Indian financial institutions and banks. This in turn could adversely affect our business and our future financial performance.

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

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

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

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

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

Our assets and customers are predominantly located in India. The GoI has traditionally exercised and continues to exercise a dominant influence over many aspects of the economy. Its economic policies have had and could continue to have a significant effect on private sector entities, public sector entities including us, and on market conditions and prices of Indian securities including our Equity Shares. Any significant change in the Government's policies or any political instability in India could adversely affect business and economic conditions in India and could also adversely affect our business, our future financial performance and the price of our Equity Shares.



Natural calamities could have a negative impact on the Indian economy and cause our business to suffer.

India has experienced natural calamities such as earthquakes, a tsunami, floods and drought in the past few years. The extent and severity of these natural disasters determines their impact on the Indian economy. For example, as a result of drought conditions in the country during fiscal 2003, the agricultural sector recorded a negative growth of 5.2%. The monsoon in 2005 resulted in floods in a number of rural and urban areas and had an adverse impact on agriculture in certain parts of the country. Furthermore, prolonged spells of abnormal rainfall or other natural calamities could have a negative impact on the Indian economy, adversely affecting our business and the price of our Equity Shares.

Civil unrest, acts of violence including terrorism or war involving India and other countries could adversely affect the financial markets and our business.

Civil unrest, acts of violence including terrorism or war, may negatively affect the Indian markets where our Equity Shares trade and also adversely affect the worldwide financial markets. These acts may also result in a loss of business confidence, make travel and other services more difficult and ultimately adversely affect our business. Although the governments of India and neighbouring countries have recently been engaged in conciliatory efforts, any deterioration in relations between India and neighbouring countries might result in investor concern about stability in the region, which could adversely affect the price of our Equity Shares.

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

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

Any adverse revisions to India's credit ratings for domestic and international debt by international rating agencies may adversely impact our ability to raise additional financing, and the interest rates and other commercial terms at which such additional financing is available. This could have a material adverse effect on our business and future financial performance our ability to obtain financing for capital expenditures, and the price of our Equity Shares.

Banks are subject to restrictions on payments of dividends

Under Section 15 of the Banking Regulation Act, no banking company may pay any dividend on its shares until all its capitalised expenses (including preliminary expenses, organisational expenses, share selling commission, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off.

Notes to Risk Factors:

- The RBI conducts regular inspections of banking companies under the provisions of the Banking Regulation Act. The reports of the RBI are strictly confidential. We are in discussions with the RBI in respect of observations made by the RBI in their reports for prior periods. The RBI does not permit disclosure of its inspection report.
- Public issue of up to 45 million Equity Shares for cash at a price of Rs. [•] per Equity Share aggregating Rs. [•] million. The Issue comprises Net Issue to the public of 40.5 million Equity Shares and a reservation for Eligible Employees of up to 4.5 million Equity Shares.
- Net worth of our Bank as at September 30, 2005 was Rs. 34,409.2 million.
- The book value per Equity Share as of September 30, 2005 was Rs. 74.08 per Equity Share.
- The average cost of acquisition of Equity Shares by the President of India, our Promoter, acting through the Ministry of Finance is Rs. 10 per Equity Share.
- Refer to the notes to our financial statements relating to related party transactions in the section titled "Related Party Transactions" on page 114 of this Red Herring Prospectus.



- Investors may contact the BRLMs for any complaints, information or clarifications pertaining to the Issue.
- Investors are advised to refer to the section titled “Basis for Issue Price” on page 22 of this Red Herring Prospectus, before making an investment.
- Investors should note that in case of oversubscription in the Issue, allotment would be made on a proportionate basis to Qualified Institutional Bidders, Retail Individual Bidders, Eligible Employees and Non-Institutional Bidders. The overall Allotment would be subject to ensuring that the Non Resident shareholding in the post-Issue paid-up share capital of our Bank would not exceed 20%. Refer to the section titled “Issue Information – Other Instructions – Basis of Allotment” on page 239 of this Red Herring Prospectus.
- All information shall be made available by the BRLMs and us to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever.
- None of our Directors are interested in any advances/facilities that have been provided by us, to their relatives/ Persons in which such relatives are interested. For details of the same, refer to the section titled “Our Management – Interests of Directors” on page 106 of this Red Herring Prospectus.



SUMMARY

Unless otherwise stated, the financial figures used in this section have been derived from our restated financial statements, the audit reports on such financial statements and our reporting to the RBI, in each case for the relevant periods.

Business Overview

We are a public sector banking institution in India. As at December 31, 2005, we had 2,064 branches and 146 extension counters in India, spread over 25 states and three union territories. As at September 30, 2005, we served over 15 million customers.

In fiscal 2005, we made a net profit of Rs. 7,190.6 million. In the six months ended September 30, 2005, we made a net profit of Rs. 3,014.9 million. As at March 31, 2005, we had assets of Rs. 719,382.5 million and net worth of Rs. 31,394.4 million. As at September 30, 2005, our Bank had assets of Rs. 790,774.9 million and our net worth was Rs. 34,409.2 million. We have a record of consistent growth in deposits and advances, with deposits growing at a compound annual rate of 15.8% during the last three fiscal years and net advances growing at a compound annual growth rate of 23.3% during the same period.

Union Bank of India was founded and registered on November 11, 1919. The inauguration of our new Mumbai premises in 1921 by Mahatma Gandhi, the father of the Indian nation, is a memorable moment in the history of the Bank, inspiring and guiding the institution and its people to uphold the values of good banking and customer care.

In 2002, we made our initial public offering of 180 million Shares and were listed on the BSE and NSE. In 2005, we were one of seven new Indian entrants to the Forbes 2000 list of the world's biggest and most powerful companies. In 2005, a study by ASSOCHAM Eco Pulse identified us as "number one in terms of return to investors" among banking stocks during fiscal 2005.

Our business is principally divided into three main areas: corporate financial services, retail financial services and agricultural financial services, along with other allied services. In addition we also provide fee-based services including distribution of third party products.

Our banking operations for corporate and commercial customers include a range of products and services for large corporate customers as well as for small and medium-sized businesses. Our loan products include term loans for project funding, including the creation or improvement of assets, as well as short-term loans, cash credit, export credit and other working capital financing and industry and trade related products. We also provide credit substitutes such as letters of credit and guarantees. In addition, we provide fee-based products and services such as cash management services.

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

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

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

We have a wide network of branches across India, and we are well positioned to offer customers convenient and accessible banking services. We deliver our products and services through our branches, extension counters and ATMs. As at December 31, 2005, our Indian branch network comprised 795 rural, 472 semi-urban, 446 urban and 351 metropolitan branches. This network includes 61 specialised branches devoted to servicing certain customer segments. As at December 31, 2005, we had 32 specialised SSI branches, four specialised NRI branches, eight specialised industrial finance branches, nine specialised overseas business branches, seven specialised personal banking branches and one specialised trade finance branch.

All our 2,064 branches are computerised, and as of December 31, 2005, 692 of these branches and 53 of our 146 extension counters are CBS branches, providing our customers with "Anytime, Anywhere Banking". Approximately 75% of our business is conducted through our CBS branches.



The following table gives a regional breakdown of domestic deposits, advances and branch network as at the end of fiscal 2004 and fiscal 2005 and as at September 30, 2005:

Geographic Distribution	As at March 31, 2004			As at March 31, 2005			As at September 30, 2005		
	No. of Branches	Aggregate Deposits (Rs. million)	Gross Bank Credit (Rs. million)	No. of Branches	Aggregate Deposits (Rs. million)	Gross Bank Credit (Rs. million)	No. of Branches	Aggregate Deposits (Rs. million)	Gross Bank Credit (Rs. million)
I Northern region	237	82,050.5	48,604.1	241	112,203.5	61,168.4	242	132,594.3	92,849.0
II Eastern region	260	52,907.0	25,551.7	269	57,790.9	28,986.0	274	61,291.8	29,965.5
III Central region	616	130,516.2	39,667.0	626	145,512.7	49,976.3	627	163,500.1	52,098.0
IV Western region	457	162,439.0	1,14,180.8	461	212,297.1	171,083.5	461	237,285.7	186,286.8
V Southern region	450	77,676.6	76,230.5	454	90,501.6	99,814.4	454	92,055.5	113,776.1
All India	2,020	505,589.3	304,234.1	2,051	618,305.8	411,028.6	2,058	686,727.4	474,975.4

Business Strategy

We strive to become the bank of first choice in certain core strength areas. We plan to achieve this vision through building lasting relationships with customers and by continually striving to enhance our offerings and operations. We intend to grow by expanding geographically in India by increasing our volume of retail business and by cross-selling various fee-based financial products and services to our customers. The main elements of our strategy are set forth below:

Enhance our customer base

We seek to enhance our customer base, in size, in quality and across all our products. We therefore aim to create products that will attract a diverse range of business from each customer and that will meet the needs of the customers in our chosen markets. We strive to attract new, and retain existing, customers through our marketing efforts.

We have focused our efforts to attract and retain customers in several sectors that we have identified as having strong growth potential, including infrastructure, service sectors such as tourism, health, transportation, information technology, information technology enabled service, communications, recreation and entertainment, agriculture, export credit, retail advances, selected areas within the industrial sector such as food processing, gems and jewelry, textiles, cement, capital goods, machinery and equipment, leather and leather products, consumer durables and automotive and auto-associated products, and SMEs.

Enhance our credit quality

Maintaining a high quality asset base is vital to our performance and growth. Strategies that we believe will help us in broad-based enhancement of our credit quality include effectively managing our NPAs through the improvement of NPA ratings and the enhancement of NPA recovery, diversifying our loan portfolio and implementing credit risk management initiatives.

We have a relatively diverse corporate credit portfolio, which we believe creates a wider risk spread among the industries to which we have extended advances. None of the top ten industries to which we have extended advances comprises more than 5.11% of our total exposure. We intend to maintain prudent internal policy guidelines concerning exposure to individual industries and concentration of loans.

Effective Management of NPAs

We are working to improve continuously our NPA management by implementing strategies to recover and upgrade NPAs. We have implemented comprehensive monitoring systems to identify problem loans, programmes to provide continual scrutiny of our borrowers and a rigorous set of recovery techniques, including settlements and legal measures. As a result of our efforts, we have experienced a decrease in our net NPAs from 2.64% at March 31, 2005 to 1.37% as at September 30, 2005.

Increase non-interest income through both traditional and new initiatives

We seek to increase high-margin fee-based income by expanding our third party product offerings and increasing the fee-based services we provide. We have recently introduced various securities trading services, including dematerialised settlement accounts and the facilitation of on-line securities trading. We also market third-party insurance and mutual funds. We intend to grow our income from fee-based services by offering new products and services and by cross-selling our offerings to our customers.

***Control our costs***

We have made a concerted effort to achieve a low overall cost of funds. We seek to do so by controlling controllable costs where it is possible to do so without harming our business development plans. We strive to do this by seeking operating efficiencies, creating deposit products with lower costs and regularly reviewing our costs for areas where we can achieve cost controls while continuing to develop our business.

Maintain our commitment to technological innovation and marketing

The development of efficient means of reaching customers and processing transactions is a key element of our goal to expand our profitability and to capitalise on opportunities for organic growth. We have sought to strengthen our information technology through development of our CBS and other initiatives. We have made progress towards networking, computerising and interconnecting our branches, ATMs and other delivery channels. As at December 31, 2005, 692 of our 2,064 branches and 53 of our 146 extension counters were connected through our CBS network, which accounts for 75% of our business (which means the aggregate of advances and deposits). Our network of 454 ATMs as at December 31, 2005 is well utilised by our customer base. In addition, we have introduced Internet banking for customers at our CBS branches.

Among other methods, we use technology-based delivery channels for the sale of our products and services. We believe that technology offers unparalleled opportunities to reach our customers in a cost-efficient manner. We are continuing to roll out technology initiatives that we believe will increase our reach throughout India.

The Bank seeks to penetrate its markets in an effort to tap the next generation clientele by leveraging technology. To achieve this, the Bank has sought to direct its marketing efforts and has appointed a specialised team to capture a wider market for its products and services.



THE ISSUE

Equity Shares issued by the Bank	45,000,000 Equity Shares
of which:	
Employee Reservation Portion*	Up to 4,500,000 Equity Shares
Net Issue	At least 40,500,000 Equity Shares
of which	
QIB Portion	Up to 20,250,000 Equity Shares (allocation on proportionate basis)
of which:	
Reservation for Mutual Funds	Up to 1,012,500 Equity Shares (allocation on proportionate basis)
Balance for all QIBs including Mutual Funds.....	Up to 19,237,500 Equity Shares (allocation on proportionate basis)
Non-Institutional Portion	At least 6,075,000 Equity Shares (allocation on proportionate basis)
Retail Portion	At least 14,175,000 Equity Shares (allocation on proportionate basis)
Equity Shares outstanding prior to the Issue	460,117,900 Equity Shares
Equity Shares outstanding after the Issue	505,117,900 Equity Shares
Use of proceeds by the Bank	See the section titled “Objects of the Issue” on page 21 of this Red Herring Prospectus.

* For Eligible Employees.

The Issue structure specified above is subject to the condition that Non Resident shareholding in the post Issue paid up share capital of our Bank shall not exceed 20%.



SELECTED FINANCIAL INFORMATION

SUMMARY STATEMENT OF PROFIT AND LOSS RESTATED

(Rs. million)

SR. NO.	PARTICULAR	AUDITED					LIMITED REVIEW	
		FINANCIAL YEAR ENDED 31 ST MARCH					HALF YEAR ENDED	
		2001	2002	2003	2004	2005	SEPT.04	SEPT.05
A	INCOME							
1	INTEREST EARNED	37329.5	40156.8	43061.8	45163.1	49697.9	23589.2	27779.5
1.1	INT.& DISC ON ADV./BILLS	19550.6	21686.4	23461.9	24146.7	28685.7	13319.6	17449.8
1.2	INCOME ON INVESTMENT	15244.4	16745.1	18134.5	19375.3	19050.8	9726.7	9621.3
1.3	INT. ON BAL WITH RBI & OTHER INTER-BANK LENDING	2022.2	1537.1	1296.5	1174.3	785.7	484.1	431.9
1.4	INT. ON INCOME TAX	11.2	101.5	—	275.6	1070.0	—	240.5
1.5	OTHERS	501.1	86.7	168.9	191.2	105.7	58.8	36.0
2	OTHER INCOME	3192.8	4863.4	8245.6	8314.6	7661.0	3959.4	2739.5
2.1	COMM.EXCHANGE & BROKERAGE	1212.9	1291.8	1425.3	1555.4	1769.2	802.4	1031.1
2.2	PROFIT ON SALE OF INVESTMENT(NET)	343.5	1598.3	4751.4	4353.7	2603.2	1678.9	545.7
2.3	PROFIT ON SALE OF LAND/BLDG & OTHER ASSETS	-01.2	-03.6	-03.3	-04.2	-06.1	-03.9	-03.4
2.4	PROFIT ON EXCH TRANSACTIONS (NET)	895.4	1143.7	997.3	1184.8	1665.9	717.9	656.7
2.5	INCOME EARNED BY WAY OF DIVIDEND FROM SUBSIDIARIES /JVs IN INDIA	—	—	—	—	—	—	—
2.6	MISC. INCOME	742.2	833.2	1074.9	1224.9	1628.8	764.1	509.4
	TOTAL INCOME	40522.3	45020.2	51307.4	53477.7	57358.9	27548.6	30519.0
B	EXPENDITURE							
3	INTEREST EXPENDED	25139.5	26790.4	28085.0	27800.7	29052.3	14354.5	16409.2
3.1	INT. ON DEPOSIT	24270.7	25730.4	26924.4	26309.9	27103.2	13509.2	15078.7
3.2	INT. ON RBI/INT-BANK BORROWING	219.3	190.4	76.0	30.7	208.5	14.6	415.3
3.3	OTHERS	649.5	869.6	1084.6	1460.1	1740.6	830.7	915.2
4	OPERATING EXPENSES	10193.4	9665.4	10183.2	10846.2	12574.9	6178.7	7008.3
4.1	PAYMENT & PROV.FOR EMPLOYEES &WAGES	7561.9	6866.5	6892.3	7304.2	8064.2	4142.4	4432.7
4.2	RENT, TAXES &LIGHTING	553.1	575.7	653.1	724.7	847.9	371.3	441.9
4.3	INSURANCE	192.4	224.8	272.1	332.3	548.3	257.1	376.3



(Rs. million)

SR. NO.	PARTICULAR	AUDITED					LIMITED REVIEW	
		FINANCIAL YEAR ENDED 31 ST MARCH					HALF YEAR ENDED	
		2001	2002	2003	2004	2005	SEPT.04	SEPT.05
4.4	PRINT. & STATIONERY	130.5	141.3	158.9	180.3	199.4	96.0	87.6
4.5	ADVERTISEMENT	60.5	89.2	102.6	146.4	252.1	46.4	90.2
4.6	POST. TELEGRM. TELE. ETC	95.0	95.0	103.9	136.6	160.0	80.4	90.3
4.7	REPAIRS & MAINTENANCE	103.8	114.3	144.1	159.5	219.2	101.2	135.9
4.8	LAW CHGS	45.9	38.7	57.8	48.9	57.8	27.5	23.0
4.9	DIRECTOR'S FEES, ALLOW&EXP	00.7	01.5	03.3	04.1	03.9	02.0	01.6
4.10	AUDITOR'S FEES & EXP	63.9	72.3	83.8	102.2	107.1	50.0	57.1
4.11	OTHER EXP	939.2	1004.5	1192.7	1204.1	1382.1	693.9	845.6
4.12	DEPRECIATION ON BNK'S PROPERTIES	446.5	441.6	518.6	502.9	732.9	310.5	426.1
5.0	TOTAL EXPEND.	35332.9	36455.8	38268.2	38646.9	41627.2	20533.2	23417.5
6.0	GROSS PROFIT BEFORE PROVISION FOR INCOME TAX & EXTRAORDINARY ITEMS	5189.4	8564.4	13039.2	14830.8	15731.7	7015.4	7101.5
6.1	LESS: EXTRA ORDINARY ITEMS							
6.2	PROVISIONS & CONTINGENCIES	3386.5	5551.1	7512.3	7710.3	8541.1	2804.7	4086.6
7.0	NET PROFITS /(LOSS) FOR THE YEAR	1802.9	3013.3	5526.9	7120.5	7190.6	4210.7	3014.9
7.1	ADD: DIV.RECD. BACK FROM GOVT.	-	-	-	-	-	-	-
7.2	AMT RECD FROM INV FLUCT. RESERVES.	-	-	-	-	-	-	-
7.3	PROFIT&LOSS BROUGHT FORWARD	-	-	-	406.6	774.4	406.6	774.4
7.4	PROFIT AVAILABLE FOR APPROPRIATION	1802.9	3013.3	5526.9	7527.1	7965.0	4617.3	3789.3
8.0	APPROPRIATION							
8.1	TRANSFER TO STATUTORY RESERVE	466.4	950.0	1658.1	2144.5	2160.0	-	-
8.2	TRANSFER TO REVENUE & OTHER RESERVE	868.6	613.3	730.0	0.00	2240.2	-	-
8.3	TRF TO CAP. RES.-EXCESS DEP. ON INV.W.B.	86.7	0.0	02.0	31.5	783.9	-	-
8.4	TRF TO INV. FLUCT. RES. (Net)	00.0	1000.0	1640.2	2260.0	150.0	-	-
8.5	SPL. RESERVE (SEC.36 (1)(VIII) OF IT ACT	0.00	0.00	0.00	500.0	400.0	-	-
8.6	DIVIDEND	310.9	450.0	966.2	1610.4	1610.4	-	-
8.7	DIVIDEND TAX	70.3	0.0	123.8	206.3	210.5	-	-
8.8	BAL. CARRIED OVER TO BAL SHEET	0.0	0.0	406.6	774.4	409.9	-	-
8.9	FOREIGN CURRENCY TRANSLATION RESERVE	0.0	0.0	0.0	0.0.	00.1	-	-
9	TOTAL	1802.9	3013.3	5526.9	7527.1	7965.0	4617.3	3789.3



(Rs. million)

SR. NO.	PARTICULAR	AUDITED					LIMITED REVIEW	
		FINANCIAL YEAR ENDED 31 ST MARCH					HALF YEAR ENDED	
		2001	2002	2003	2004	2005	SEPT.04	SEPT.05
10	BREAK- UP OF PROVISION & CONTINGENCIES							
10.1	PROV.FOR INC.TAX, INT.TAX & WEALTH TAX	608.7	1420.0	2763.0	1079.8	-1074.7	1140.0	750.0
10.2	DEPRECIATION ON INV.	175.5	164.6	-90.4	-254.5	225.9	280.7	-182.3
10.3	BAD DEBTS W/OFF (NET)	-	-	-	-	-	-	-
10.4	INT WAIVER / CONCESSION GRANTED	-	-	-	-	-	-	-
10.5	PROV FOR BAD & DOUBTFUL DEBTS	2308.0	3216.0	4174.8	6436.1	2164.6	1170.0	436.5
10.6	PROV FOR DICGC CLAIMS LODGED A/C.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10.7	PROV FOR STANDARD ADV.	72.5	112.5	100.0	100.0	257.5	115.0	160.0
10.8	OTHERS	221.8	638.0	564.9	348.9	6967.8	99.0	2922.4
10.9	TOTAL	3386.5	5551.1	7512.3	7710.3	8541.1	2804.7	4086.6

A-II

Statement of Assets and Liabilities - Restated

(Rs. million)

	As at March 31 st	2001	2002	2003	2004	2005	Sept.04	Sept.05
A)	ASSETS							
1	Cash in Hand	1487.4	1633.1	1628.3	1525.5	1697.6	1483.6	1700.0
2	Balance with RBI	25947.6	22293.7	20844.1	22474.8	34774.1	27600.3	31535.5
3	Balance with Banks							
	In India	7172.4	10389.0	13377.1	8953.3	11246.0	2448.3	8652.4
	Outside India	15813.4	13742.2	3146.8	2075.6	8102.2	405.0	1088.4
4	Money at call & short notice	2750.0	1000.0	0.0	3450.0	9899.7	200.0	8124.7
5	Investments							
	In India	136714.9	154095.8	193706.8	229461.4	227926.8	238252.4	253062.8
	Outside India	1.1	1.1	1.1	1.1	1.1	1.1	2.0
6	Advances							
	In India	175053.5	213833.1	255148.5	289217.0	401050.8	341263.9	461235.3
	Outside India							
7	Fixed Assets #	2467.9	2322.1	2385.4	2860.6	3487.9	3043.4	3363.7
8	Other Assets	17376.2	19214.1	15419.3	18300.7	21196.3	16715.3	22010.2
	TOTAL (A)	384784.4	438524.2	505657.4	578320.0	719382.5	631413.3	790775.0



(Rs. million)

	As at March 31 st	2001	2002	2003	2004	2005	Sept.04	Sept.05
B	LIABILITIES							
1	Demand deposits from banks	1434.5	1525.3	1364.4	1490.4	2367.1	1128.9	5147.0
	Demand deposits from others	59227.2	65019.7	48998.0	48548.6	47734.2	41493.1	51006.9
2	Saving Deposits	84241.5	97010.2	111716.7	130842.9	151971.2	141250.6	166251.2
3	Term deposit from banks	7799.2	7828.7	7644.7	7805.4	11151.0	7547.8	13244.2
	Term deposit from others	196178.2	226554.8	277762.4	316902.1	405082.3	365107.3	451078.1
4	Borrowings							
	In India	3133.4	533.0	3981.4	338.6	7876.4	162.7	5046.1
	Outside India	-	-	439.3	9003.8	12333.2	9302.3	12506.0
5	Other liabilities & provisions	19198.0	24165.1	33029.7	37363.6	49472.7	35185.3	52086.2
	TOTAL (B)	371212.0	422636.8	484936.6	552295.4	687988.1	601178.0	756365.7
C	Net Assets (C=A-B)	13572.4	15887.4	20720.8	26024.6	31394.4	30235.3	34409.3
	Represented by:							
D	SHARE CAPITAL	3380.0	3380.0	4601.2	4601.2	4601.2	4601.2	4601.2
E	RESERVES & SURPLUS #							
	I Statutory reserve	5637.4	6587.4	8245.5	10390.0	12550.0	10390.0	12550.0
	II Capital Reserves-others	86.7	86.7	88.7	120.2	904.1	120.2	904.1
	III Investment Fluctuation Reserve	499.8	1499.8	3140.0	5400.0	5550.0	5400.0	5550.0
	IV Share Prem Special Reserve	0.4	0.4	979.0 -	979.0 500.0	979.0 900.0	979.0 500.0	979.0 900.0
	V Revenue & other reserves	3968.1	4333.1	3259.8	3259.8	5500.1	3259.8	5500.2
	VI Balance of Profit & Loss account	-	-	406.6	774.4	409.9	4985.1	3424.8
	TOTAL (E)	10192.4	12507.4	16119.6	21423.4	26793.2	25634.1	29808.1
F	TOTAL	13572.4	15887.4	20720.8	26024.6	31394.4	30235.3	34409.3
G	CONTINGENT LIABILITIES							
i)	Claims against the Bank not ack. as debt	1352.6	1503.1	1598.8	1645.7	1533.0	1645.7	1533.0
ii)	Disputed IT demand under appeal/refer, etc.	3885.8	4269.4	5162.4	3784.8	5283.3	2439.2	5300.6
iii)	Liability for partly paid investments	36.0	11.4	5.9	5.9	5.9	5.9	5.9
iv)	Liability on account of o/s. for. exch. Contract	40928.8	48947.5	91530.5	189172.2	259261.6	257869.6	227938.8
v)	G/tees. Given on behalf of constituents	12906.4	15709.2	19084.3	24054.2	30295.8	26785.0	40343.1
vi)	Acceptances, endorsements & other oblig.	9278.1	14040.3	28659.1	58793.2	97214.9	82277.9	80187.6
Vii	1) Other items for which bank is cont.liable	-	-	-	-	-	-	-
	2) Liability on a/c. of rounding of interest tax	-	-	-	-	-	-	-
Viii	Others	352.1	229.4	127.6	202.4	199.6	137.7	162.8
	TOTAL (G)	68739.8	84710.3	146168.6	277658.4	393794.1	371161.0	355471.8
	Bills for Collection.	16476.6	26726.1	27205.0	33331.0	95191.2	31770.0	8515.0
	# Excluding Revaluation Reserve	5164.3	5054.7	4947.5	4846.8	4750.0	4798.4	4703.4



GENERAL INFORMATION

Head Office of our Bank

Union Bank of India

239, Vidhan Bhavan Marg,
Nariman Point,
Mumbai 400 021,
Maharashtra, India

Board of Directors

Our Board comprises:

1. K. Cherian Varghese, Chairman and Managing Director;
2. K. Rathnakar Hegde, Executive Director;
3. B. S. Bhalla, GoI Nominee Director;
4. A. N. Rao, RBI Nominee Director;
5. Ashutosh Tandon, Shareholder Director;
6. Dr. N. Balasubramanian, Shareholder Director;
7. R. R. Nair, Shareholder Director;
8. N. L. Sarda, Shareholder Director;
9. S. V. Dange, Workmen Employee Director; and
10. Debasis Ghosh, Officer Employee Director.

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

Compliance Officer

R. B. Menon

Assistant General Manager
239, Vidhan Bhavan Marg
Nariman Point
Mumbai 400 021
Maharashtra, India
Tel: (91 22) 2289 6602
Fax: (91 22) 2202 5238
Email: rbmenon@unionbankofindia.com

Company Secretary

Ankur Kumar

239, Vidhan Bhavan Marg
Nariman Point, Mumbai 400 021
Maharashtra, India
Tel: (91 22) 2289 6643
Fax: (91 22) 2202 5238
Email: ankurkumar@unionbankofindia.com

Investors can contact the Compliance Officer in case of any pre-Issue or post-Issue related problems such as non-receipt of letters of allotment, credit of allotted shares in the respective beneficiary account, refund orders, etc.

Legal Advisors to the Issue

Domestic Legal Counsel to the Bank

Amarchand & Mangaldas & Suresh A. Shroff & Co.

5th Floor, Peninsula Chambers
Peninsula Corporate Park
Ganpatrao Kadam Marg, Lower Parel
Mumbai 400 013, India
Tel: (91 22) 2496 4455
Fax: (91 22) 2496 3666

International Legal Counsel to the Underwriters

Dorsey and Whitney LLP

21 Wilson Street,
London, England EC2M 2TD
Tel: +44 (20) 7588 0800
Fax: +44 (20) 7588 0555

Domestic Legal Counsel to the Underwriters

S&R Associates

K 40, Connaught Circus
New Delhi 1100 001, India
Tel: (91 11) 4289 8000
Fax: (91 11) 4289 8001



Book Running Lead Managers

SBI Capital Markets Limited

202, Maker Tower - E
Cuffe Parade
Mumbai 400 005, India
Tel: (91 22) 2218 9166
Fax: (91 22) 2218 8332
Contact Person: Amit Ramchandani
Email: ubi_fpo@sbicaps.com
Website: www.sbicaps.com

DSP Merrill Lynch Limited

Mafatlal Centre, 10th Floor,
Nariman Point,
Mumbai 400 021, India
Tel: (91 22) 2262 1071
Fax: (91 22) 2262 1187
Contact Person: N. S. Shekhar
Email: ubi_fpo@ml.com
Website: www.dspml.com

Kotak Mahindra Capital Company Limited

3rd Floor, Bakhtawar, 229
Nariman Point
Mumbai 400 021, India
Tel: (91 22) 5634 1100
Fax: (91 22) 2284 0492
Contact Person: Sunil Amin
Email: unionbank.fpo@kotak.com
Website: www.kotak.com

Co Manager to the Issue

A K Capital Services Ltd.

13th Floor 135, Free Press House
Free Press Journal Marg
Nariman Point, Mumbai - 400021
Tel: (91 22) 5634 9300
Fax: (91 22) 5636 0977

Syndicate Members

Enam Securities Private Limited

D. Rajabhadar Compound
Ambalal Dashi Marg, Fort
Mumbai 400 001
Tel: (91 22) 5638 1800 Fax: (91 22) 2284 6824
Contact Person: M. Natarajan
Email: unionbank_fpo@enam.com

Registrar to the Issue

MCS Limited

Sri Venkatesh Bhavan
Plot No. 27, Road No. 11
MIDC Area, Andheri East
Mumbai 400 093, India
Tel: (91 22) 2280 1785
Fax: (91 22) 2820 1783
Email: ubifpo@mcsind.com
Website: www.mcsind.com
Contact Person: Shashikant Kadam

Citigroup Global Markets India Private Limited

Bakhtawar, 4th Floor
Nariman Point
Mumbai 400 021, India
Toll Free: (91) 1800 2299 96
Fax: (91 22) 5631 9803
Contact Person: Amulya Goyal
Email: ubi.fpo@citigroup.com
Website: www.citibank.co.in

Enam Financial Consultants Private Limited

801, Dalamal Towers
Nariman Point
Mumbai 400 021, India
Tel: (91 22) 5638 1800
Fax: (91 22) 2284 6824
Contact Person: Prabhat Rai
Email: unionbank_fpo@enam.com
Website: www.enam.com

Kotak Securities Limited

7th Floor, Bakhtawar, 229 Nariman Point,
Mumbai 400 021
Tel: (91 22) 5634 1100
Fax: (91 22) 5630 3927
Contact Person: Ulhas Sawant
Email: ulhas.sawant@kotak.com

**Auditors****Chandiok & Guliani**

C-44, Nizamuddin East
New Delhi 110 013
Tel.: (91 11) 2435 0860
Fax: (91 11) 2435 0457
Email: candg@vsnl.net.in

Batliboi & Purohit

National Insurance Building
204, D N Road
Mumbai 400 001
Tel.: (91 22) 2207 7941
Fax: (91 22) 2207 4260
Email: bpca@bom7.vsnl.net.in

Price Patt & Co.

New No. 44, Sir P S Sivaswamy Salai
II Street, Mylapore
Chennai 600 004
Tel.: (91 44) 2499 6708
Fax: (91 44) 2466 1485
Email: pricepatt@hathway.com

Raj K Aggarwal & Associates

3072/41, Gola Market
Darya Ganj, Near Golcha Cinema
New Delhi 110 002
Tel.: (91 11) 2327 6694
Fax: (91 11) 2326 7547

Lodha & Co.

14, Government Place East
Kolkata 700 069
Tel.: (91 33) 2248 1507
Fax: (91 33) 2248 6960
Email: cal@bdlodha.com

Dass Maulik Mahendra K. Agrawala & Co.,

Ground Floor, Block - B, Monalika Apartments
Lal Bahadur Shastri Road, Old Station Square
Cuttack Road, Bhubaneswar 751006
Tel.: (91 674) 2312 791
Fax: (91 674) 2313 487
Email: magrawala@yahoo.com

Banker to the Issue and Escrow Collection Bank**Union Bank of India**

239, Vidhan Bhavan Marg,
Nariman Point,
Mumbai 400 021
Tel.: (91 22) 22892000
Fax: (91 22) 22881979



Statement of Inter Se Allocation of Responsibilities for the Issue

The following table sets forth the distribution of responsibility and coordination for various activities amongst the BRLMs:

Activities	Responsibility	Co-ordinator
Capital structuring with the relative components and formalities such as type of instruments etc.	SBI Caps, Citigroup, DSPML, Enam and KMCC	SBI Caps
Due diligence of the Bank's operations/management/ business plans/legal, etc. Drafting and design of offer document and of statutory advertisement including memorandum containing salient features of the Prospectus. The Lead Managers shall ensure compliance with stipulated requirements and completion of prescribed formalities with the Stock Exchanges and SEBI including finalisation of the Prospectus and filing with the Stock Exchanges.	SBI Caps, Citigroup, DSPML, Enam and KMCC	SBI Caps
Drafting and approval of all publicity material other than statutory advertisement as mentioned above including corporate advertisement, brochure etc.	SBI Caps, Citigroup, DSPML, Enam and KMCC	SBI Caps
Appointment of other Intermediaries (a) Printers; (b) Registrar; (c) Advertising Agency; and (d) Banker to the Issue	SBI Caps, Citigroup, DSPML, Enam and KMCC	KMCC DSPML Enam Citigroup
Domestic institutions/banks/ mutual funds marketing strategy: ● Finalise the list and division of investors for one on one meetings, institutional allocation	SBI Caps, Citigroup, DSPML, Enam and KMCC	KMCC
International institutional marketing strategy, road show marketing presentation ● Finalise the list and division of investors for one on one meetings, institutional allocation	SBI Caps, Citigroup, DSPML, Enam and KMCC	DSPML
Retail/Non-institutional marketing strategy which will cover, inter alia, ● Finalise media, marketing and public relations strategy; ● Finalise centres for holding conferences for brokers, etc.; ● Finalise collection centers; and ● Follow-up on distribution of publicity and issue material including form, Prospectus and deciding on the quantum of the Issue material	SBI Caps, Citigroup, DSPML, Enam and KMCC	Enam
Managing the Book, coordination with stock Exchanges, pricing and allocation to QIB Bidders.	SBI Caps, Citigroup, DSPML, Enam and KMCC	DSPML
Post bidding activities including management of Escrow Accounts, co-ordinate non-institutional allocation, intimation of allocation and dispatch of refunds to Bidders. Etc.	SBI Caps, Citigroup, DSPML, Enam and KMCC	Citigroup



Activities	Responsibility	Co-ordinator
The post issue activities of the issue will involve essential follow up steps, which include finalization of trading and dealing instruments and dispatch of certificates and demat delivery of shares, with the various agencies connected with the work such as Registrars to the issue, Banker to the issue and the bank handling refund business. The Lead Managers shall be responsible for ensuring that these agencies fulfil their functions and enable them to discharge the responsibility through suitable agreements with the issuer Bank.	SBI Caps, Citigroup, DSPML, Enam and KMCC	Citigroup

Credit Rating

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

Trustees

As the Issue is of equity shares, the appointment of trustees is not required.

Book Building Process

Book building refers to the process of collection of Bids on the basis of the Red Herring Prospectus within the Price Band. The Issue Price is fixed after the Bid Closing Date/Issue Closing Date.

The principal parties involved in the Book Building Process are:

- The Bank;
- Book Running Lead Managers;
- Syndicate Members who are intermediaries registered with SEBI or registered as brokers with BSE/NSE and eligible to act as Underwriters. Syndicate Members are appointed by the BRLMs;
- Escrow Collection Bank; and
- Registrar to the Issue.

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

Pursuant to amendments to the SEBI Guidelines, QIB Bidders are not allowed to withdraw their Bid(s) after the Bid Closing Date/Issue Closing Date and for further details see the section titled "Terms of the Issue" beginning on page 220 of this Red Herring Prospectus.

The process of Book Building under SEBI Guidelines though not new, investors are advised to make their own judgement about investment through this process prior to making a Bid or Application in the Issue.

Illustration of Book Building and Price Discovery Process *(Investors should note that this example is solely for illustrative purposes and is not specific to the Issue)*

Bidders can bid at any price within the Price Band. For instance, assume a Price Band of Rs. 20 to Rs. 24 per share, issue size of 3,000 equity shares and receipt of five bids from bidders, details of which are shown in the table below. A graphical representation of the consolidated demand and price would be made available at the bidding centres during the bidding period. The illustrative book as shown below shows the demand for the shares of the company at various prices and is collated from bids from various investors.



Bid Quantity	Bid Price (Rs.)	Cumulative Quantity	Subscription
500	24	500	16.67%
1,000	23	1,500	50.00%
1,500	22	3,000	100.00%
2,000	21	5,000	166.67%
2,500	20	7,500	250.00%

The price discovery is a function of demand at various prices. The highest price at which the issuer is able to issue the desired number of shares is the price at which the book cuts off i.e. Rs. 22 in the above example. The issuer, in consultation with the Book Running Lead Managers, will finalise the Issue Price at or below such Cut-off Price, i.e., at or below Rs. 22. All bids at or above this Issue Price and Cut-off bids are valid bids and are considered for allocation in the respective categories.

Steps to be taken for bidding:

- Check eligibility for bidding, see the section titled "Issue Procedure-Who Can Bid?" on page 225 of this Red Herring Prospectus;
- Ensure that the Bidder has a demat account; and
- Ensure that the Bid cum Application Form is duly completed as per instructions given in this Red Herring Prospectus and in the Bid cum Application Form.

Underwriting Agreement

After the determination of the Issue Price and allocation of Equity Shares, but prior to filing of the Prospectus with the Designated Stock Exchange, our Bank will enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be offered through this Issue. The obligations of the Underwriters would be subject to relevant law and terms and conditions contained in the said Underwriting Agreement. Pursuant to the terms and conditions of the proposed Underwriting Agreement, the obligation of the Underwriters will be several and will be subject to certain conditions, as specified therein.

The Underwriters have indicated their intention to underwrite the following number of Equity Shares: (This portion has been intentionally left blank and will be filled in before filing of the Prospectus with the Designated Stock Exchange)

Name and Address of the Underwriters	Indicative Number of Equity Shares to be Underwritten	Indicative Amount Underwritten (Rs. Million)
SBI Capital Markets Limited, 202, Maker Tower - E Cuffe Parade Mumbai 400 005, India Tel: (91 22) 2218 9166 Fax: (91 22) 2218 8332 Email: ubi_fpo@sbicaps.com	●	●
Citigroup Global Markets India Private Limited Bakhtawar, 4th Floor Nariman Point Mumbai - 400 021 India Toll Free: (91) 1800 2299 96 Fax: (91 22) 5631 9803 Email : ubi.fpo@citigroup.com	●	●
DSP Merrill Lynch Limited Mafatlal Centre, 10th Floor, Nariman Point, Mumbai 400 021, India Tel: (91 22) 2262 1071 Fax: (91 22) 2262 1187 Email: ubi_fpo@ml.com	●	●



Name and Address of the Underwriters	Indicative Number of Equity Shares to be Underwritten	Indicative Amount Underwritten (Rs. Million)
Enam Financial Consultants Private Limited 801, Dalamal Towers Nariman Point Mumbai 400 021, India Tel: (91 22) 5638 1800 Fax: (91 22) 2284 6824 Email: unionbank_fpo@enam.com	[●]	[●]
Kotak Mahindra Capital Company Limited 3rd Floor, Bakhtawar, 229 Nariman Point Mumbai 400 021, India Tel: (91 22) 5634 1100 Fax: (91 22) 2284 0492 Email: unionbank.fpo@kotak.com	[●]	[●]

The above-mentioned amount is indicative underwriting and this would be finalised after pricing and actual allocation. The above Underwriting Agreement is dated [●] 2006.

In the opinion of our Board of Directors (based on a certificate given by the Underwriters), the resources of all the above mentioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. All the above-mentioned Underwriters are registered with SEBI under Section 12(1) of the Securities and Exchange Board of India Act, 1992 or registered as brokers with one or more of the Stock Exchanges.

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

Allocation to QIB Bidders is proportionate as per the terms of this Red Herring Prospectus. Further, out of the QIB Portion, 5% would be available for allocation to Mutual Funds. In case of inadequate demand from the Mutual Funds, the Equity Shares would be made available to QIBs other than Mutual Funds. Valid bids from Mutual Funds would be eligible for allotment from the 5% of the QIB Portion as well as from the balance QIB Portion. The subscription for proportionate allotment to QIBs shall be identified after reducing 5% of the total allocation to QIBs or any lesser amount allotted to Mutual Funds. Overall Allotment is subject to the condition that Non Resident shareholding in the post Issue paid up share capital of our Bank shall not exceed 20%. In absence of specific approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid-up capital of the Bank.



CAPITAL STRUCTURE

(Rs. million)

	Aggregate Nominal Value	Aggregate Value at Issue Price
A) AUTHORISED EQUITY SHARE CAPITAL 1,500,000,000 Equity Shares of Rs. 10 each ⁽¹⁾	15,000	
B) ISSUED AND SUBSCRIBED EQUITY SHARE CAPITAL 460,117,900 Equity Shares of Rs. 10 each	4,601.18	
C) PAID UP CAPITAL 460,117,900 Equity Shares of Rs. 10 each	4,601.18	
D) PRESENT ISSUE IN TERMS OF THIS RED HERRING PROSPECTUS⁽²⁾ 45,000,000 Equity Shares of Rs. 10 each fully paid-up Of which	450.00	[●]
(i) Employee Reservation Portion - 4,500,000 Equity Shares	45.00	[●]
(ii) Net Issue to the Public - 40,500,000 Equity Shares	405.00	[●]
E) EQUITY CAPITAL AFTER THE ISSUE 505,117,900 Equity Shares ⁽¹⁾ of Rs. 10 each fully paid-up	5,051.18	[●]
F) SHARE PREMIUM ACCOUNT Before the Issue	979.01	
After the Issue	[●]	

(1) The authorised share capital of the Bank is Rs. 15,000.00 million as per sub-section 2A of Section 3 of the Bank Acquisition Act, as amended from time to time. There have been no changes to our authorised share capital since nationalisation on July 19, 1969.

(2) Our Board of Directors authorised a fresh issue of up to 45,000,000 Equity Shares pursuant to a resolution passed at its meeting held on August 23, 2005. Our shareholders subsequently authorised the fresh issue of up to 45,000,000 Equity Shares, by a resolution passed unanimously at the EGM of our Bank held on December 21, 2005, subject to the approval of the GoI, the RBI, SEBI and other applicable authorities. The GoI, Ministry of Finance, Department of Economic Affairs (Banking Division) has granted its approval for the present Issue of 45,000,000 Equity Shares through its letter no. F.No.11/21/2005-BOA dated November 16, 2005, inter alia, on the conditions that the holding of GoI shall not fall below 51% at any point of time and allotment to Non-Residents, if any, will be subject to the prior approval of the Exchange Control Department of RBI and should be within the ceiling of 20% of the paid-up capital or any lower ceiling that may be notified by the Government of India under sub-section (2D) of the Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

For further details, see the sections titled "Capital Structure-Notes to Capital Structure" on page 17 of this Red Herring Prospectus, "Other Regulatory and Statutory Disclosures - Authority for the Issue" on 265 of the Red Herring Prospectus and "Licenses and Approvals -Approvals for the Issue" beginning on page 204 of the Red Herring Prospectus.



Notes to Capital Structure

1. Share capital history of the Bank since nationalisation on July 19, 1969:

Period ended	Increase/(Decrease) in Capital (Rs. million)	Source	Mode	Paid-up Capital (Rs. million)
Paid up capital at the time of Nationalisation				12.50
December 31, 1982	27.50	Capitalisation of Reserves	-	40.00
December 31, 1983	20.00	Capitalisation of Reserves	-	60.00
December 9, 1985	90.00	Gol	Recapitalisation Bonds	150.00
December 30, 1985	150.00	Gol	Recapitalisation Bonds	300.00
December 30, 1986	140.00	Gol	Recapitalisation Bonds	440.00
March 30, 1988	110.00	Gol	Recapitalisation Bonds	550.00
March 31, 1989	30.00	Gol	Recapitalisation Bonds	580.00
March 31, 1992	500.00	Gol	Recapitalisation Bonds	1,080.00
March 31, 1993	300.00	Gol	Recapitalisation Bonds	1,380.00
January 1, 1994	2,000.00	Gol	Recapitalisation Bonds	3,380.00
August 1, 2002	(580.00)	Return of capital to Gol	Simultaneous redemption of equal amount of Recapi- talisation Bonds	2,800.00
August 28, 2002	1,801.18	Initial Public Offer		4,601.18

Except for the initial public offer of 180,000,000 Equity Shares of the Bank of face value Rs. 10 each at a premium of Rs. 6 per Equity Share, we do not have details regarding the face value, issue price and the number of Equity Shares issued by the Bank in the past.

2. Promoters Contributions and Lock-In

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

3. Equity Shares held by top 10 shareholders

Our top 10 shareholders and the Equity Shares held by them as on January 20, 2006 are as follows:

S. No.	Name	No. of Equity Shares	Percentage
1.	Government of India	280,000,000	60.85
2.	Merrill Lynch Capital Markets Espana S.V.	16,710,325	3.63
3.	Goldman Sachs Investments (Mauritius) I Limited	15,609,960	3.39
4.	Life Insurance Corporation of India	5,628,203	1.22
5.	Platinum Asset Management Limited A/c Platinum International Fund	5,302,729	1.15
6.	ABN Amro Bank N.V. London Branch	4,558,692	0.99
7.	BMF-Bank Bees-Investment A/c	4,534,634	0.99



S. No.	Name	No. of Equity Shares	Percentage
8.	Platinum Asset Management Limited A/c Platinum Asia Fund	4,077,632	0.89
9.	Copthall Mauritius Investment Limited	3,535,215	0.77
10.	Platinum Asset Management Limited A/c MLC-Platinum Global Fund	3,411,515	0.74

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

S. No.	Name	No. of Equity Shares	Percentage
1.	Government of India	280,000,000	60.85
2.	Merrill Lynch Capital Markets Espana S.V.	16,664,575	3.62
3.	Goldman Sachs Investment (Mauritius) I Limited	15,609,960	3.39
4.	Life Insurance Corporation of India	5,628,203	1.22
5.	BMF-Bank Bees-Investment A/c	5,481,146	1.19
6.	Platinum Asset Management Limited A/c Platinum International Fund	5,302,729	1.15
7.	ABN Amro Bank N.V. London Branch	4,558,692	0.99
8.	Platinum Asset Management Limited A/c Platinum Asia Fund	3,777,632	0.82
9.	Commonwealth Equity Fund Limited	3,545,600	0.77
10.	Platinum Asset Management Limited A/c MLC-Platinum Global Fund	3,411,515	0.74

Our top 10 shareholders and the Equity Shares held by them two years prior to the date of filing the Red Herring Prospectus are as follows:

S. No.	Name	No. of Equity Shares	Percentage
1.	Government of India	280,000,000	60.85
2.	Templeton Asset Management Limited A/C Templeton Developing Markets Fund	6,083,166	1.32
3.	Platinum Asset Management Limited A/C Platinum International Fund	5,988,125	1.30
4.	Abu Dhabi Investment Authority	5,848,400	1.27
5.	Copthall Mauritius Investment Limited	5,847,300	1.27
6.	Platinum Asset Management Limited A/C MLC Platinum Global Fund	5,029,315	1.09
7.	Templeton Asset Management Limited A/C Templeton Merging Markets Series (A Series of Templeton Institutional Funds Inc.)	4,573,000	0.99
8.	Kuwait Investment Authority - Fund	3,054,200	0.66
9.	Morgan Stanley Investment Management A/C Morgan Stanley India Investment Fund Inc.	2,405,000	0.52
10.	Birla Sun Life Trustee Company Private Limited A/C Birla Dividend Yield Plus	2,374,555	0.52



4. As of the date of the Red Herring Prospectus there are no outstanding warrants, options or rights to convert debentures, loans or other financial instruments into our Equity Shares.
5. Shareholding pattern as of December 31, 2005

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

Shareholder Category	Equity Shares owned prior to the Issue		Equity Shares owned after the Issue ⁽¹⁾	
	Number	Percentage (%)	Number	Percentage (%)
Promoter ⁽²⁾	280,000,000	60.85	280,000,000	55.43
Sub Total (A)	280,000,000	60.85	280,000,000	55.43
Non-Promoter holding (Institutional Investors) Mutual Funds (including Unit Trust of India) Banks, Financial Institutions, Insurance Companies (Central/ State Government Institutions/ Non Government Institutions) Foreign Institutional Investors/erst while OCBs/ NRIs	13,003,360	2.83	13,003,360	2.57
	10,324,301	2.24	10,324,301	2.04
	84,816,214	18.44	84,816,214	16.79
Sub Total (B)	108,143,875	23.51	108,143,875	21.40
Others Private Body Corporate Bodies Indian Public	8,968,459	1.95	8,968,459	1.78
	63,005,566	13.69	63,005,566	12.48
Sub Total (C)	71,974,025	15.64	71,974,025	14.26
Total pre-Issue share capital (D=A+B+C)	460,117,900	100.00	–	–
Public Issue (E)			45,000,000	8.91
Total post-Issue share capital (F=D+E)	–	–	505,117,900	100.00

- (1) The break down of the Equity Shares allotted pursuant to the Issue is not included.
- (2) Our Promoter is the President of India, acting through the MoF, GoI, which holds 60.85% of the pre-Issue paid-up equity share capital of our Bank and will hold at least 55.43% of the fully diluted post-Issue paid up equity share capital of our Bank.
6. Our Bank applied to the GoI for its consent to a fresh issue of up to 45,000,000 Equity Shares by its letter dated August 27, 2005. The GoI, Ministry of Finance, Department of Economic Affairs (Banking Division) has granted its approval for the present Issue of 45,000,000 Equity Shares through its letter no. F.No.11/21/2005-BOA dated November 16, 2005, inter alia, subject to the conditions that the shareholding of GoI shall not fall below 51% at any point of time and allotment to Non Residents, if any, will be subject to the prior approval of the Exchange Control Department of RBI and should be within the ceiling of 20% of the paid-up capital or any lower ceiling that may be notified by the GoI under sub-section (2D) of the Section 3 of the Bank Acquisition Act. The RBI has through its letter FE.CO.FID/14975/10.78.016/2005-06 dated January 9, 2006, permitted the Bank to issue shares to Non Residents, including Non Resident Indians and FIIs, with repatriation benefits, in the Issue. The permission is subject to ensuring that the post Issue Non Resident equity holding in the Bank shall not exceed 20% of the post Issue paid up capital or any lower ceiling that may be notified by the GoI under Section 3 (2D) of the Bank Acquisition Act. The permission is further subject to conditions laid down by the GoI in their approval F.No.11/21/2005-BOA dated November 16, 2005, conditions prescribed by SEBI and terms and conditions for issue of shares as stipulated in Schedule 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 3, 2000, as amended from time to time. However, in the absence of specific approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid up capital of the Bank.
7. Neither the Promoter nor our Directors have purchased or sold any Equity Shares, directly or indirectly, during a period of six months preceding the date on which this Red Herring Prospectus was filed with SEBI. None of our Directors, the Promoter and the BRLMs have entered into any buyback and/or standby arrangements for the purchase of our Equity Shares from any person.



8. The Bank has not raised any bridge loan against the proceeds of this Issue. For details on use of proceeds, see the section titled "Objects of the Issue" on page 21 of this Red Herring Prospectus.
9. In the Net Issue to the public, in case of over-subscription in all categories, up to 50% of the Issue to the Public shall be available for allocation on a proportionate basis to Qualified Institutional Buyers (including the reservation of 5% of the QIB portion for Mutual Funds), not less than 15% of the Issue to the Public shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Issue to the Public shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. In case of undersubscription in any category, the same shall be allowed to be met through oversubscription in any other category, including the Employee Reservation Portion. The overall Allotment shall be subject to the condition that the Non Resident shareholding in the Bank shall not exceed 20% of our post-Issue paid-up capital.
10. The Issue includes an Employee Reservation Portion of 4,500,000 Equity Shares, which are available for allocation to Eligible Employees on a proportionate basis. Under-subscription, if any, in the Employee Reservation Portion, would be allowed to be met first with spill over from the Retail Portion and then from any other category.
11. A Bidder in the Issue cannot make a Bid for more than the number of Equity Shares offered in the Net Issue. This is further subject to the maximum limit of investment prescribed under relevant laws applicable to each category of investor.
12. There would be no further issue of capital whether by way of issue of bonus shares, preferential allotment, rights issue or in any other manner during the period commencing from submission of the Red Herring Prospectus with SEBI until the equity shares offered hereby have been listed.
13. The Bank presently does not have any intention or proposal to alter its capital structure for a period of six months commencing from the date of opening of this Issue, by way of split/ consolidation of the denomination of Equity Shares or further issue of Equity Shares or securities convertible into Equity Shares, whether on a preferential basis or otherwise. However, during such period or at a later date, we may undertake an issue of shares or securities linked to equity shares to finance an acquisition, merger or joint venture by us or as consideration for such acquisition, merger or joint venture, or for regulatory compliance or such other scheme of arrangement if an opportunity of such nature is determined by our Board to be in the interest of the Bank.
14. There will be only one denomination of the Equity Shares of the Bank unless otherwise permitted by law and the Bank shall comply with such disclosure and accounting norms as may be specified by SEBI from time to time.
15. Under Section 3A of the Bank Acquisition Act, no notice of any trust, express, implied or constructive, shall be entered in the register or be receivable by the Bank. In terms of this Section, while trusts could make investments in Equity Shares of the Bank, this could be only in the name of the trustees and no details of the trust would be taken cognisance of by the Bank in its Register of Shareholders.
16. Section 3(2E) of the Bank Acquisition Act provides that no shareholder other than GoI shall be entitled to exercise voting rights in respect of any equity shares held by him/her in excess of one per cent of the total voting rights of all the shareholders of the Bank.
17. The Bank has not issued any Equity Shares out of revaluation reserves or any Equity Shares for consideration other than cash, within a period of two years preceding the date of this Red Herring Prospectus.
18. We have 198,256 members as of January 20, 2006.



OBJECTS OF THE ISSUE

The objects of the Issue are as follows:

RBI, which regulates us, requires us to maintain a minimum capital to risk weighted assets ratio of 9.0%, at least half of which should consist of Tier I capital. As of September 30, 2005, our total Capital Adequacy Ratio was 10.51% and our Tier I capital adequacy ratio was 5.82%. As per our audited financial statements, our total Capital Adequacy Ratio was 12.09% and our Tier I capital adequacy ratio was 6.07% as of March 31, 2005 compared with 12.32% and 6.47% as of March 31, 2004, respectively.

RBI has adopted a phased approach to the implementation of the Basel II norms. New capital norms for market risk will be implemented over two years from the year ended March 31, 2005 and norms for credit risk and operational risk are proposed to be implemented with effect from the year ended March 31, 2007. In order to maintain consistency and harmony with international standards, banks have been advised to adopt the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk with effect from March 31, 2007. The requirements for Tier I capital and total capital adequacy ratios are expected to increase with the proposed implementation of the Basel II standards.

The objects of the Issue are to augment our capital base to meet the future capital requirements arising out of the implementation of the Basel II standards and the growth in our assets, primarily our loan and investment portfolio due to the growth of the Indian economy, and for other general corporate purposes including meeting the expenses of the Issue. As we are engaged in the banking business, we are seeking to strengthen our capital base to support the future growth in our assets and comply with the capital adequacy requirements applicable to us. Other general corporate purposes would include development of infrastructure to support our business growth and service our customers.

The net proceeds of the Issue after deducting underwriting and management fees, underwriting commissions and all other Issue related expenses are estimated at Rs. [●] million.

Our Constitutional Documents enable us to undertake our existing activities and the activities for which the funds are being raised by us in the Issue.

Issue Expenses

The expenses of this Issue include, among others, underwriting and management fees, printing and distribution expenses, legal fees, statutory advertisement expenses and listing fees. The estimated Issue expenses are as follows:

Activity	Expense (Rs. million)
Lead management, underwriting commission*	[●]
Advertising and Marketing expenses	[●]
Printing and stationery	[●]
Registrars fee, legal fee, etc.	[●]
Others	[●]
Total estimated Issue expenses	[●]

*To be incorporated after finalisation of Issue Price

In addition to the above, listing fees will be paid by the Bank.



BASIS FOR ISSUE PRICE

Qualitative Factors

1. We are a public sector banking institution in India and service over 15 million customers across India.
2. As of December 31, 2005, we had 2,064 branches and 146 extension counters in India spread over 25 states and three union territories. We have two Regional Rural Banks, for whom we are the sponsoring bank.
3. Our advances increased by 33.46% to Rs. 474,975.4 million as of September 30, 2005 from Rs. 355,909.5 million as of September 30, 2004; and our retail portfolio increased by 36.6% to Rs. 85,279.1 million as of March 31, 2005 from Rs. 62,440.2 million as of March 31, 2004. As at September 30, 2005, our retail loan portfolio stood at Rs. 95,712.9 million.
4. Our deposits increased by 23.39% to Rs. 686,727.3 million at September 30, 2005 from Rs. 556,527.6 million at September 30, 2004. As at September 30, 2005, our interest-free demand deposits and low-interest savings bank deposits constituted 32.38% of our total deposits. The average cost of deposits is 4.78% and the average cost of funds is 4.48% in the six months ended September 30, 2005.
5. Our ratio of net NPAs to net advances declined to 2.64% as at March 31, 2005 from 2.87% as at March 31, 2004. The ratio of net NPAs to net advances as at September 30, 2005 is 1.37%.
6. We have a track record of continuous profitability.

Quantitative Factors

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

1. Weighted average earnings per share (EPS)*

Period	EPS (Rs.)	Weight
Year ended March 31, 2003	13.95	1
Year ended March 31, 2004	15.48	2
Year ended March 31, 2005	15.63	3
Weighted Average	15.3	

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

2. Price/Earning (P/E) ratio in relation to Issue Price of Rs. [●]

a. Based on twelve months ended March 31, 2005 is [●]

b. Industry P/E⁽¹⁾

i) Highest: 15.3

ii) Lowest: 7.1

iii) Average (composite): 10.5

(1) Source: "Capital Market" Volume XX/23 dated January 16-29, 2006 for the Category titled 'Banks - Public Sector'.

3. Weighted average return on average net worth⁽²⁾

Period	Return on Average Net Worth (%)	Weight
Year ended March 31, 2003	21.53	1
Year ended March 31, 2004	27.36	2
Year ended March 31, 2005	22.90	3
Weighted Average	24.16	



(2) Net worth has been computed by aggregating share capital, reserves and surplus and adjusting for revaluation reserves, intangible assets and deferred tax assets as per our audited restated financial statements.

4. Minimum Return on Increased Net Worth Required to maintain pre-Issue EPS.

The minimum return on increased net worth required to maintain pre-Issue EPS is [●] % to [●] %.

5. Book Value per Equity Share at September 30, 2005 is Rs. 74.08

6. Net Asset Value per Equity Share after Issue

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

Issue Price per Equity Share: Rs. [●]

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

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

	EPS (Rs.)*	P/E*	Return On Average Net Worth (%)	Book Value Per Share (Rs.)
Union Bank of India⁽¹⁾	13.1	10.1	25.1	68.2
Peer Group⁽²⁾				
Punjab National Bank	46.1	10.5	22.5	248.9
Bank of India	8.8	15.3	8.4	88.0
Canara Bank	21.2	11.3	20.0	146.1
Bank of Baroda	19.8	13.0	12.60	190.20
Peer Group (Simple) Average		12.53	15.88	168.30

* EPS and P/E are twelve months trailing for the period ended September 30, 2005

Source:

(1) Our EPS, Return on Average Net Worth and Book Value per Shares have been calculated from our audited restated financial statements.

(2) Source of other information is "Capital Market" VolumeXX/23 dated January 16-29, 2006 for the Category titled 'Banks-Public Sector'.

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

The BRLMs believe that the Issue Price of Rs. [●] is justified in view of the above qualitative and quantitative parameters. See the section titled "Risk Factors" on page x of this Red Herring Prospectus and the financials of the Bank including important profitability and return ratios, as set out in the Auditors' report on page 116 of this Red Herring Prospectus to have a more informed view.



STATEMENT OF TAX BENEFITS

The information provided below sets out the possible tax benefits available to the Bank and its shareholders under the current tax laws presently in force in India, as provided by the Auditors by their 'statement of tax benefits, dated January 24, 2006. Several of these benefits are dependent on the Bank or its shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence, the ability of the Bank or its shareholders to derive the tax benefits is dependent upon fulfilling conditions, as may be necessary, and is based on business imperatives the Bank faces in the future. It may be also kept in mind that the Bank may or may not choose to fully utilise the benefits. It may be also noted that the benefits discussed below are not exhaustive and this statement is only intended to provide general information to the investors and is neither designed nor intended to be substitute for professional tax advice.

Under the Income Tax Act, 1961

1. TO THE BANK:

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

The following incomes earned are exempt from Income Tax:

1. Under Section 10 (15) of the Act, income earned by way of interest, premium on redemption or any other payment on certain notified securities issued by the Central Government and interest earned on notified bonds issued by a local authority.
2. Under Section 10 (23G), income by way of dividends (other than dividends referred to in section 115-O), interest or long-term capital gains of an infrastructure capital fund/company or a co-operative bank, from investments made on or after the 1st day of June, 1998, by way of shares or long-term finance in any enterprise or undertaking wholly engaged in the business referred to in section 80IA(4) or a project referred to in 80IB(10);
3. Under Section 10(34), income by way of dividends referred to in section 115 O of the Income Tax Act, 1961;
4. Under Section 10(35), income received in respect of the units of Mutual Fund specified under Section 10(23D) or income received in respect of units from the Administrator ("Administrator" means the Administrator as referred to in clause (a) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002) of the specified undertaking; or income received in respect of units from the specified company ("specified company" means a company as referred to in clause (h) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002);
5. In case the shares or units on which securities transaction tax has been paid are treated as stock in trade liable to tax as business profits, rebate can be claimed from the income tax payable by the bank in accordance with provision of section 88 E of the Income Tax Act towards such securities transaction tax

The following are the special deductions available to the Bank in computing the Gross Total Income of the Bank:

Under section 36 (1) (vii a) of the Act, the Bank is eligible to claim a deduction in respect of any provision for bad and doubtful debts made by it of an amount not exceeding seven and one half percent of the total income (computed before making any deduction under this clause and under Chapter VIA) and an amount not exceeding ten percent of the aggregate average advances made by the rural branches ('rural branch" means a branch of a scheduled bank or a non-scheduled bank situated in a place which has a population of not more than ten thousand according to the last preceding census of which the relevant figures have been published before the first day of the previous year) of the Bank. Apart from the above, the Bank, at its option, can claim a further deduction for an amount not exceeding the income derived from the redemption of securities in accordance with a scheme framed by the Central Government, subject to the condition that such income has been disclosed in the return of income under the head "profits and gains from Business".

Under Section 36(1) (vii) of the Act, the amount of any bad debt or part thereof which is written off as irrecoverable in the accounts of the Bank for the previous year.

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

As per Section 43D of the Act, interest on non-performing assets is chargeable on realised basis instead of accrual basis.



2. TO THE SHAREHOLDERS OF THE BANK:

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

1. To all shareholders:

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

- (i) Under Section 10 (34), income by way of dividends referred to in section 115-O of the Income Tax Act, 1961;
- (ii) Under Section 10 (38), income arising from the transfer of an Equity Share of the Bank, which by virtue of holding by the Investor is a Long Term Capital Asset ("Long Term Capital Asset" is an asset held by the investor for more than twelve months) and where the transaction is chargeable to Securities Transaction Tax under Chapter VII of the Finance (no.2) Act, 2004.

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

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

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

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

(B) Where the cost of the long-term specified asset is less than the capital gain arising from the transfer of the original asset, so much of the capital gain as bears to the whole of the capital gain the same proportion as the cost of acquisition of the long-term specified asset bears to the whole of the capital gain, shall not be charged under section 45.

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

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

(B) Where the cost of the specified equity shares is less than the capital gain arising from the transfer of the original asset, so much of the capital gain as bears to the whole of the capital gain the same proportion as the cost of the specified equity shares acquired bears to the whole of the capital gain shall not be charged under section 45.

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



- (A) Where the cost of the new asset is not less than the net consideration in respect of the original asset, the whole of such capital gain shall not be charged under section 45;
- (B) Where the cost of the new asset is less than the net consideration in respect of the original asset, so much of the capital gain as bears to the whole of the capital gain the same proportion as the cost of the new asset bears to the net consideration, shall not be charged under section 45.

2. To non- residential shareholders in particular:

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

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

Under Section 115F of the Act, where the Investor having Long Term Capital Gains (not exempt under section 10 (38) of the Act) arising from the transfer of shares of the Bank has invested within a period of six months after the date of transfer, the whole or any part of the net consideration in specified asset or in any savings certificates referred to in clause (4B) of section 10 then, such capital gains shall be as under:

- (i) where the cost of the new asset is not less than the net consideration in respect of the original asset, the whole of such capital gain shall not be charged under section 45;
 - (ii) where the cost of the new asset is less than the net consideration in respect of the original asset, so much of the capital gain as bears to the whole of the capital gain the same proportion as the cost of acquisition of the new asset bears to the net consideration shall not be charged under section 45.
 - (iii) Under Section 115H of the Act, where the Non Resident Indian investor, subsequently becomes assessable as the resident in India in respect of the total income of any subsequent year, he may, at his option, furnish to the Assessing Officer a declaration in writing along with his return of income under section 139 for the assessment year for which he is so assessable, to the effect that the provisions of this Chapter XII A shall continue to apply to him in relation to the income derived from the shares of the Bank (in this case would also be a foreign exchange asset) and if he does so, the provisions of the Chapter XII A shall continue to apply to him in relation to such income for that assessment year and for every subsequent assessment year until the transfer or conversion (otherwise than by transfer) into money of such assets.
2. Under Section 115AD of the Act, where the total income of a Foreign Institutional Investor ("Foreign Institutional Investor" means such investor as the Central Government may, by notification in the Official Gazette, specify in this behalf) includes income (other than income by way of dividends referred to in section 115-0) received in respect of security (other than units referred to in section 115 AB), or income by way of Short Term or Long-Term Capital Gains arising from the transfer of such securities, the income-tax payable shall be the aggregate of:

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

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

the amount of income-tax calculated on the income (calculated in the specified manner) by way of Long Term Capital Gains included in the total income, at the rate of ten per cent.

Further, as per section 196D of the Act, where any income (other than dividends referred to in section 115-O) is payable to a Foreign Institutional Investor, the person responsible for making the payment shall, at the time of credit of such income to the account of the payee or at the time of payment thereof deduct income-tax thereon at the rate of twenty per cent. However, no deduction of tax shall be made from any income, by way of capital gains arising from the transfer of securities referred to in section 115AD, payable to a Foreign Institutional Investor.

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

**Under the Wealth Tax Act, 1957:**

Shares are not treated as assets within the meaning of Section 2(ea) of the Wealth Tax Act, 1957. Accordingly, shares purchased in the issue are not liable to wealth-tax in the hands of the shareholders.

Under the Gift Tax Act, 1958:

Gifts of the shares made on or after October 1, 1998 are not liable to Gift Tax.

Notes:

- o All the above benefits are as per current tax law and will be available only to the sole/first named holder in case the shares are held by Joint holder.
- o In view of the individual nature of tax consequence, each investor is advised to consult his/her own tax adviser with respect to specific consequences of his/her participation in the scheme.



INDIAN BANKING SECTOR

The information in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Gol and its various ministries and RBI, and has not been prepared or independently verified by us or any of our advisors. Wherever we have relied on figures published by RBI, unless stated otherwise, we have relied on RBI Annual Report, 2004-2005, Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks as of March 2005, RBI's Annual Policy Statements for 2004-2005 and 2005-2006 and the Mid-Term Review of the RBI's Annual Policy Statement for 2005-06.

History

The evolution of the modern commercial banking industry in India can be traced to 1786 with the establishment of the Bank of Bengal in Calcutta. Three presidency banks were set up in Calcutta, Bombay and Madras. In 1860, the limited liability concept was introduced in banking, resulting in the establishment of joint stock banks. In 1921, the three presidency banks were amalgamated to form the Imperial Bank of India, which took on the role of a commercial bank, a bankers' bank and a banker to the Government. The establishment of RBI as the central bank of the country in 1935 ended the quasi-central banking role of the Imperial Bank of India. In order to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state sponsored bank taking over the Imperial Bank of India and integrating with it, the former state-owned and state-associate banks. Accordingly, the State Bank of India ("SBI") was constituted in 1955. Subsequently in 1959, the State Bank of India (Subsidiary Bank) Act was passed, enabling the SBI to take over eight former state-associate banks as its subsidiaries. In 1969, 14 private banks were nationalised followed by six private banks in 1980. Since 1991, many financial reforms have been introduced substantially transforming the banking industry in India.

Overview

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

- Commercial banks;
- Public sector banks;
- Private sector banks;
- Foreign banks;
- Cooperative banks;
- Long-term lending institutions;
- Non-bank finance companies, including housing finance companies;
- Other specialised financial institutions, and state-level financial institutions;
- Insurance companies; and
- Mutual funds.

Until the early 1990s, the Indian financial system was strictly controlled. Interest rates were administered, formal and informal parameters governed asset allocation, and strict controls limited entry into and expansion within the financial sector. The Gol's economic reform program, which began in 1991, encompassed the financial sector. The first phase of the reform process began with the implementation of the recommendations of the Committee on the Financial System, the Narasimham Committee I. The second phase of the reform process began in 1999.

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

Reserve Bank of India

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



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

Commercial Banks

Commercial banks in India have traditionally focused on meeting the short-term financial needs of industry, trade and agriculture. At the end of March 2005 there were 284 scheduled commercial banks and four non-scheduled commercial banks in the country, with a total network of 68,116 branches. Scheduled commercial banks are banks that are listed in the second schedule to the RBI Act, and may further be classified as public sector banks, private sector banks and foreign banks. Scheduled commercial banks have a presence throughout India, with nearly 69.49% of bank branches located in rural or semi-urban areas of the country. A large number of these branches belong to the public sector banks.

Public Sector Banks

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

The Bank was constituted as a corresponding new bank in relation to the then Union Bank of India Limited under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

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

Regional Rural Banks

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

Private Sector Banks

After bank nationalisation was completed in 1969 and 1980, the majority of Indian banks were public sector banks. Some of the existing private sector banks, which showed signs of an eventual default, were merged with state-owned banks. In July 1993, as part of the banking reform process and as a measure to induce competition in the banking sector, RBI permitted entry by the private sector into the banking system. This resulted in the introduction of nine private sector banks. These banks are collectively known as the new private sector banks. There are nine "new" private sector banks operating at present. In addition, 20 private sector banks existing prior to July 1993 were operating as at March 31, 2005.

Foreign Banks

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

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



Cooperative Banks

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

Term Lending Institutions

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

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

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

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

Non-Banking Finance Companies

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

Housing Finance Companies

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



Other Financial Institutions

Specialised Financial Institutions

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

State Level Financial Institutions

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

Insurance Companies

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

Mutual Funds

As of September 30, 2005, there were 28 mutual funds in India with total net assets of Rs. 2016.69 billion. From 1963 to 1987, Unit Trust of India was the only mutual fund operating in India. It was set up in 1963 at the initiative of the Government and RBI. From 1987 onwards, several other public sector mutual funds entered this sector. These mutual funds were established by public sector banks, the Life Insurance Corporation of India and General Insurance Corporation of India. The mutual funds industry was opened up to the private sector in 1993. The industry is regulated by the SEBI (Mutual Fund) Regulation 1996.

Liberalisation and the Reform Process

Impact of Liberalisation on the Banking Sector

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

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

However, since 1991, there have been comprehensive changes in the Indian financial system. Various financial sector reforms, implemented since 1991, have transformed the operating environment of the banks and long-term lending institutions. In particular, the deregulation of interest rates, the emergence of a liberalised domestic capital market, and entry of new private sector banks, along with the broadening of term lending institutions' product portfolios, have progressively



intensified the competition among banks and term lending institutions. RBI has permitted the transformation of term lending institutions into banks subject to compliance with the applicable law.

Banking Sector Reforms

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

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

Committee on the Financial System (Narasimham Committee I)

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

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

Committee on Banking Sector Reform (Narasimham Committee II)

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

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

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

Committee on Capital Account Convertibility (Tarapore Committee)

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

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



Proposed Structural Reforms

Amendments to the Banking Regulation Act

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

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

Amendments to the Reserve Bank of India Act

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

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

Legislative Framework for Recovery of Debts Due to Banks

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

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

Corporate Debt Restructuring (CDR)

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

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



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

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

- extension of the scheme to entities with outstanding exposure of Rs.100 million or more;
- requirement of support of 60% of creditors by number in addition to the support of 75% of creditors by value with a view to make the decision making more equitable;
- discretion to the core group in dealing with wilful defaulters in certain cases other than cases involving frauds or diversion of funds with malafide intentions;
- linking the restoration of asset classification prevailing on the date of reference to the CDR Cell to implementation of the CDR package within four months from the date of approval of the package;
- restricting the regulatory concession in asset classification and provisioning to the first restructuring where the package also has to meet norms relating to turn-around period and minimum sacrifice and funds infusion by promoters;
- convergence in the methodology for computation of economic sacrifice among banks and FIs ;
- limiting RBI's role to providing broad guidelines for CDR mechanism;
- enhancing disclosures in the balance sheet for providing greater transparency;
- pro-rata sharing of additional finance requirement by both term lenders and working capital lenders;
- allowing OTS as a part of the CDR mechanism to make the exit option more flexible; and
- regulatory treatment of non-SLR instruments acquired while funding interest or in lieu of outstanding principal and valuation of such instruments.

Recent Development

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

Universal Banking Guidelines

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

Annual Policy Statement

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

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

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

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

In the Annual Policy for the year 2005-06, RBI introduced the following measures, among others:



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

Mid-Term Review of Annual Policy Statement

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

Monetary Measures

- Bank rate remained unchanged at 6.00%.
- Reverse repo rate increased by 25 basis points to 5.25%, effective October 26, 2005. The spread between reverse repo rate and the repo rate under LAF was maintained at 100 basis points.
- The cash reserve ratio was kept unchanged at 5.0%.

Interest Rate Policy

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

Financial Markets

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

External Commercial Borrowings (ECBs)

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



Credit Delivery Mechanisms

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

Financial Inclusion

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

Prudential Measures

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

Institutional Developments

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

The RBI anticipates that:

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



Reforms of the Non-Banking Finance Companies

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

New Initiatives in the Banking Sector

Risk Management and Basel II

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

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

RTGS Implementation in India

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

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

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

Cheque Truncation

The pilot project for Cheque Truncation System, which aims at enhancing efficiency in the retail cheque clearing sector, is expected to be implemented in National Capital Region by end-March 2006. RBI proposes to extend this service to three additional metropolitan centres (Mumbai, Kolkata and Chennai) during the next two years.

Exchange Controls

Restrictions on Conversion of Rupees

There are restrictions on the conversion of Rupees into foreign currency. Before February 29, 1992, RBI determined the official value of the Rupee in relation to a weighted basket of currencies of India's major trading partners. In the February 1992 budget, a new dual exchange rate mechanism was introduced, allowing conversion of 60.0% of the foreign exchange received on trade or current account at a market-determined rate and the remaining 40.0% at the official rate. All importers were,



however, required to buy foreign exchange at the market rate except for certain specified priority imports. In March 1993, the exchange rate was unified and allowed to float. In February 1994 and again in August 1994, RBI announced relaxations in payment restrictions in the case of a number of transactions. Since August 1994, the Government of India has substantially complied with its obligations owed to the International Monetary Fund, under which India is committed to refrain from using exchange restrictions on current international transactions as an instrument in managing the balance of payments. Effective July 1995, the process of current account convertibility was advanced by relaxing restrictions on foreign exchange for various purposes, such as foreign travel and medical treatment.

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

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

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

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

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

Technology

Technology is emerging as a key-driver of business in the banking and financial services industry. Banks are developing alternative channels of delivery such as ATMs, telebanking, remote access and Internet banking. Indian banks have been making significant investments in technology. In addition to computerisation of front-office operations, the banks have moved towards back-office centralisation. Banks are also implementing "Core Banking" or "Centralised Banking", which provides connectivity between branches and helps offer a large number of value-added products, benefiting a larger number of customers. The RBI Annual Report for the year 2004-05 states that the use of ATMs has been growing rapidly and this has helped to optimise the investments made by banks in infrastructure. Banks have joined together in small clusters to share their ATM networks during the year. There are five such ATM network clusters functioning in India. The total number of ATMs installed by the public sector banks stood at 8,219 at March 31, 2004, compared with 5,963 ATMs at March 31, 2003.

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

Corporate Governance

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



Consolidation

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



BUSINESS

Unless otherwise stated, the financial figures used in this section have been derived from our restated financial statements, the audit reports on such financial statements and our reporting to the RBI, in each case for the relevant periods.

Business Overview

We are a public sector banking institution in India. As at December 31, 2005, we had 2,064 branches and 146 extension counters in India, spread over 25 states and three union territories. As at September 30, 2005, we served over 15 million customers.

In fiscal 2005, we made a net profit of Rs. 7,190.6 million. In the six months ended September 30, 2005, we made a net profit of Rs. 3,014.9 million. As at March 31, 2005, we had assets of Rs. 719,382.5 million and net worth of Rs. 31,394.4 million. As at September 30, 2005, our Bank had assets of Rs. 790,774.9 million and our net worth was Rs. 34,409.2 million. We have a record of consistent growth in deposits and advances, with deposits growing at a compound annual rate of 15.8% during the last three fiscal years and net advances growing at a compound annual rate of 23.3% during the same period.

Union Bank of India was founded and registered on November 11, 1919. The inauguration of our new Mumbai premises in 1921 by Mahatma Gandhi, the father of the Indian nation, is a memorable moment in the history of the Bank, inspiring and guiding the institution and its people to uphold the values of good banking and customer care.

In 2002, we made our initial public offering of 180 million Shares and were listed on the BSE and NSE. In 2004, we were one of seven new Indian entrants to the Forbes 2000 list of the world's biggest and most powerful companies. In 2005, a study by ASSOCHAM Eco Pulse identified us as "number one in terms of return to investors" among banking stocks during fiscal 2005.

Our business is principally divided into three main areas: corporate financial services, retail financial services and agricultural financial services, along with other allied services. In addition we also provide fee-based services including distribution of third party products.

Our banking operations for corporate and commercial customers include a range of products and services for large corporate customers as well as for small and medium-sized businesses. Our loan products include term loans for project funding, including the creation or improvement of assets, as well as short-term loans, cash credit, export credit and other working capital financing and industry and trade related products. We also provide credit substitutes such as letters of credit and guarantees. In addition, we provide fee-based products and services such as cash management services.

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

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

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

We have a wide network of branches across India, and we are well positioned to offer customers convenient and accessible banking services. We deliver our products and services through our branches, extension counters and ATMs. As at December 31, 2005, our Indian branch network comprised 795 rural, 472 semi-urban, 446 urban and 351 metropolitan branches. This network includes 61 specialised branches devoted to servicing certain customer segments. As at September 30, 2005, we had 32 specialised SSI branches, four specialised NRI branches, eight specialised industrial finance branches, nine specialised overseas business branches, seven specialised personal banking branches and one specialised trade finance branch.

All our 2,064 branches are computerised, and as of December 31, 2005, 692 of those branches and 53 of our 146 extension counters are core banking solution (CBS) branches, providing our customers with "Anytime, Anywhere Banking". Approximately 75% of our business is conducted through our CBS branches.

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



	Geographic Distribution	As at March 31, 2004			As at March 31, 2005			As at September 30, 2005		
		No. of Branches (Rs. millions)	Aggregate Deposits (Rs. millions)	Gross Bank Credit (Rs. millions)	No. of Branches	Aggregate Deposits (Rs. millions)	Gross Bank Credit (Rs. millions)	No. of Branches (Rs. millions)	Aggregate Deposits (Rs. millions)	Gross Bank Credit (Rs. millions)
I	Northern region	237	82,050.5	48,604.1	241	112,203.5	61,168.4	242	132,594.3	92,849.0
II	Eastern region	260	52,907.0	25,551.7	269	57,790.9	28,986.0	274	61,291.8	29,965.5
III	Central region	616	130,516.2	39,667.0	626	145,512.7	49,976.3	627	163,500.1	52,098.0
IV	Western region	457	162,439.0	1,14,180.8	461	212,297.1	171,083.5	461	237,285.7	186,286.8
V	Southern region	450	77,676.6	76,230.5	454	90,501.6	99,814.4	454	92,055.5	113,776.1
	All India	2,020	505,589.3	304,234.1	2,051	618,305.8	411,028.6	2,058	686,727.4	474,975.4

Business Strategy

We strive to become the bank of first choice in certain core strength areas. We plan to achieve this vision through building lasting relationships with customers and by continually striving to enhance our offerings and operations. We intend to grow by expanding geographically in India by increasing our volume of retail business and by cross-selling various fee-based financial products and services to our customers. The main elements of our strategy are set forth below:

Enhance our customer base

We seek to enhance our customer base, in size, in quality and across all our products. We therefore aim to create products that will attract a diverse range of business from each customer and that will meet the needs of the customers in our chosen markets. We strive to attract new, and retain existing, customers through our marketing efforts.

We have focused our efforts to attract and retain customers in several sectors that we have identified as having strong growth potential, including infrastructure, service sectors such as tourism, health, transportation, information technology, information technology enabled service, communications, recreation and entertainment, agriculture, export credit, retail advances, selected areas within the industrial sector such as food processing, gems and jewelry, textiles, cement, capital goods, machinery and equipment, leather and leather products, consumer durables and automotive and auto-associated products, and SMEs.

Enhance our credit quality

Maintaining a high quality asset base is vital to our performance and growth. Strategies that we believe will help us in broad-based enhancement of our credit quality include effectively managing our NPAs through the improvement of NPA ratings and the enhancement of NPA recovery, diversifying our loan portfolio and implementing credit risk management initiatives.

We have a relatively diverse corporate credit portfolio, which we believe creates a wider risk spread among the industries to which we have extended advances. None of the top ten industries to which we have extended advances comprise more than 5.11% of our total exposure. We intend to maintain prudent internal policy guidelines concerning exposure to individual industries and concentration of loans.

Effective Management of NPAs

We are working to improve continuously our NPA management by implementing strategies to recover and upgrade NPAs. We have implemented comprehensive monitoring systems to identify problem loans, programmes to provide continual scrutiny of our borrowers and a rigorous set of recovery techniques, including settlements and legal measures. As a result of our efforts, we have experienced a decrease in our net NPAs from 2.64% at March 31, 2005 to 1.37% as at September 30, 2005.

Increase non-interest income through both traditional and new initiatives

We seek to increase high-margin fee-based income by expanding our third party product offerings and increasing the fee-based services we provide. We have recently introduced various securities trading services, including dematerialised settlement accounts and the facilitation of on-line securities trading. We also market third-party insurance and mutual funds. We intend to grow our income from fee-based services by offering new products and services and by cross-selling our offerings to our customers.

Control our costs

We have made a concerted effort to achieve a low overall cost of funds. We seek to do so by controlling controllable costs where it is possible to do so without harming our business development plans. We strive to do this by seeking operating efficiencies, creating deposit products with lower costs and regularly reviewing our costs for areas where we can achieve cost controls while continuing to develop our business.



Maintain our commitment to technological innovation and marketing

The development of efficient means of reaching customers and processing transactions is a key element of our goal to expand our profitability and to capitalize on opportunities for organic growth. We have sought to strengthen our information technology through development of our CBS and other initiatives. We have made progress towards networking, computerising and interconnecting our branches, ATMs and other delivery channels. As at December 31, 2005, 692 of our 2,064 branches were connected through our CBS network, which accounts for approximately 75% of our business (which means the aggregate of advances and deposits). Our network of 454 ATMs as at December 31, 2005 is utilised by our customer base. In addition, we have introduced Internet banking for customers at our CBS branches.

Among other methods, we use technology-based delivery channels for the sale of our products and services. We believe that technology offers unparalleled opportunities to reach our customers in a cost-efficient manner. We are continuing to roll out technology initiatives that we believe will increase our reach throughout India.

The Bank seeks to penetrate its markets in an effort to tap the next generation clientele by leveraging technology. To achieve this, the Bank has sought to direct its marketing efforts and has appointed a specialised team to capture a wider market for its products.

Overview of our Lending Operations

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

DOMESTIC	As at March 31, 2003		As at March 31, 2004		As at March 31, 2005		As at September 30, 2005	
Sector	Loans	% of Total	Loans	% of Total	Loans	% of Total	Loans	% of Total
(Rs. million, except for percentages)								
Corporate and Commercial (including SMEs)	132,040.0	49.54	155,533.8	51.12	225,260.5	54.80	275,581.0	58.02
(of which Small Scale Industries (SSIs))	27,725.0	10.40	31,962.8	10.51	37,657.6	9.16	39,841.5	8.38
Retail	50,851.3	19.09	62,440.2	20.52	85,279.1	20.74	95,712.9	20.15
(of which Housing)	12,326.6	4.63	19,938.5	6.55	30,801.5	7.49	35,076.7	7.38
Agriculture	37,943.6	14.23	45,866.6	15.08	62,615.5	15.23	73,167.6	15.40
Other outstanding loans	45,658.1	17.14	40,393.5	13.28	37,869.0	9.21	30,513.9	6.43
Total outstanding loans	266,493.0	100.00	304,234.1	100.00	411,028.6	100.00	474,975.4	100.00

(1) Corporate and commercial include SMEs. SMEs are defined as manufacturing, processing and servicing businesses with between Rs. 10 million and Rs. 100 million invested in plant and machinery. From September 30, 2005, the RBI has required us to report SME figures separately.

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

Corporate Banking

General

We provide corporate banking products and services to our corporate customers. Our products for corporate customers include term loans and advances for the creation or improvement of assets and also working capital funding. We also offer fee-based services, such as cash management and remittance services. As at September 30, 2005, advances to corporate and commercial customers constituted 58.02% of our total outstanding domestic loans. Advances to SSIs constituted 8.38% of our total outstanding domestic loans.

RBI requires us to provide details of our advances to SMEs in our financial statements from September 30, 2005 onwards. Prior to this, our SME advances were accounted for as part of our "large and medium" corporate and commercial advances. Our strategies for promoting our SME and SSI business are similar and we have a strategic focus on growing the advances from both of these segments.



Our corporate customers are from a diverse range of industries; however none of the top ten industries to which we are exposed comprised, as at March 31, 2005, more than 5.11% of our loan portfolio. For a further discussion on our commercial loan portfolio, see "Selected Statistical Information" on page 151.

We have eight specialised industrial finance branches, located in Mumbai, New Delhi, Chennai, Kolkata, Bangalore, Ahmedabad, Pune and Baroda, which cater to the needs of our corporate customers.

Loans and advances

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

Term Loans

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

Cash Credit and Other Working Capital Facilities

Cash credit facilities are the most common form of working capital financing in India. We offer revolving credit facilities secured by working capital assets, such as inventory and receivables. We may take additional security in the form of liens on fixed assets including mortgage of immoveable property, pledges or hypothecation of marketable securities and personal guarantees. Facilities are typically provided for 12 months. We also provide overdrafts, working capital demand loans, working capital term loans and bills discounting facilities to our corporate and commercial borrowers.

Letters of Credit

We provide letter of credit facilities, with our fees based on the term of the facility and the amount drawn down. Letter of credit facilities are often partially or fully secured by assets including cash deposits, documents of title to goods, stocks and receivables. These facilities generally are provided as part of a package of working capital financing products or term loans.

Guarantees

We issue guarantees on behalf of our customers to guarantee their payment and performance obligations. These are generally secured by account indemnities, a counter guarantee or a fixed or floating charge on the assets of the borrower, including cash deposits.

Loans against Future Rent Receivables

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

Loans against Shares and Securities

We extend loans and advances against shares, debentures, Public Sector Undertaking bonds and Units of UTI to individuals, brokers and market makers, subject to RBI and SEBI regulations and in accordance with our own lending policy. We also provide advances to corporate borrowers to finance promoters' contributions in the infrastructure sector.

Other Corporate Products and Services

Foreign Currency Loans

We provide loan facilities in foreign currencies to our customers. Foreign currency denominated loans in India are granted out of the Bank's FCNR (B) funds, pursuant to RBI guidelines. Currently, corporate customers can raise funds in foreign currencies as set forth in the external commercial borrowing policy of the GoI and the RBI. Foreign currency loans, including export credit in foreign currency, amounted to 6.31% of our advances as at September 30, 2005.

Export Credits

We offer both pre and post-shipment credit to Indian exporters through Rupee denominated loans as well as foreign currency loans in India. Foreign currency loans are extended out of our FCNR (B) funds and funds borrowed from abroad pursuant to RBI guidelines. We have access to US dollar denominated funds through our syndicated loan and other foreign currency loans. As at September 30, 2005, we had an outstanding loan facility of US\$ 300 million.



Import Finance

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

Nostro Accounts

Our bank maintains 36 nostro accounts in various foreign currencies with different correspondent banks to facilitate the foreign exchange business.

Exchange Houses

We have also entered into arrangements with 11 exchange houses based in UAE, Qatar, Oman and Kuwait for handling the inward remittances of NRIs from these countries.

Union Transport Scheme

The Bank has launched this scheme to attract potential business from the Commercial Vehicle sector and fleet owners of both passenger transport as well as commercial goods segment. The scheme offers flexible repayment options, competitive interest rates compared to leaders in the industry, easy finance for second hand vehicles, faster sanctions, among other things.

Union Channel Finance

Bank has devised two schemes under Channel Financing, "Union Procure" for financing vendors / suppliers i.e. ancillaries of large Corporates and "Union Supply" for financing dealers of large Corporates. Both the schemes offer very competitive interest rates and easy eligibility norms through bills financing.

Small Scale Industry (SSIs) Initiatives

SSIs are defined as manufacturing, processing and servicing businesses with up to Rs. 10 million invested in plant and machinery (calculated based on original cost). In certain, specified industries, including the manufacture of hosiery, hand tools, drugs and pharmaceuticals, stationery items and sporting goods, an SSI may have up to Rs. 50 million invested in plant and machinery. A Tiny Unit is an SSI whose investment in fixed assets in plant and machinery does not exceed Rs. 2.5 million and a Small Scale Service and Business (Industry) Related Enterprise (SSSBE) is an enterprise with investment up to Rs. 1.0 million in fixed assets (excluding land and building).

SSIs are considered a priority sector for directed lending purposes. See the section titled "Priority Sector Financial Services" below. As at the last reporting Friday of September 2005, SSI loans constituted 8.70% of our net bank credit. As at the last reporting Friday of September 2005, we had an outstanding loan portfolio of Rs. 39,841.5 million in this segment, compared with Rs. 32,499.5 million as at the last reporting Friday of September 2004, representing growth of 22.50%.

As at September 30, 2005, we had 32 specialised SSI branches, as well as four SSI cells that cater exclusively to the credit requirements of the SSI Sector. We believe the introduction of specialised SSI branches is an integral part of our strategy to enhance credit flow to this sector.

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

Union Laghu Udhya Credit Card (ULUCC)

We launched the Union Laghu Udhya Credit Card in fiscal 2002. This credit card was developed for SSIs and other small borrowers. In connection with the ULUCC, a borrower can obtain advances up to the credit limit of the credit card, which is determined based on the entity's prior dealings with the Bank over the three prior years, with a maximum credit limit of Rs. 1 million. The card is valid for three years. As at September 30, 2005, we have issued 19,169 cards and disbursed Rs. 2,050.3 million pursuant to this credit card scheme.

Union Artisan Credit Card Scheme (UACC)

We launched the Union Artisan Credit Card in fiscal 2003 to assist artisans in meeting their credit requirements up to a limit of up to Rs. 200,000 per borrower. As at September 30, 2005, the Bank has issued 1,114 Artisan Credit Cards, with total sanctioned limits of Rs. 56.6 million.

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

The Credit Linked Capital Subsidy Scheme for Small Scale Industries to Upgrade Technology aims to allow SSIs to obtain a 15% capital subsidy to upgrade technology in certain sectors. New and existing SSI units registered with the relevant State Directorate of Industries are eligible for loans up to Rs.10 million.



Credit Guarantee Fund Scheme for Small Industries (CGFSI)

We are a member lending institution under the CGFSI scheme established by the GoI and Small Industries Development Bank of India (SIDBI), which guarantees collateral free loans of up to Rs. 2.5 million to SSI units. New and existing SSI units engaged in manufacturing activity and IT software-related activities, including SSSBEs, as well as certain Agri Clinics and Agri Business Centres, are eligible under this scheme. As at September 30, 2005 we had covered 2,599 accounts with aggregate outstanding loans of Rs. 87.1 million under the CGFSI scheme.

New initiatives under SSI

Our Bank has proposed to enter into a memorandum of understanding with SIDBI to co-finance SSIs undertaking projects in sectors such as the service sector and the infrastructure development sector. Our initial focus has been on SSIs in industrial areas, including Hyderabad, Delhi, Mumbai, Baroda, Jamshedpur and Gurgaon, which operate in industries, such as the manufacture of electronic goods, pharmaceuticals, packaging material, diamond processing, auto components, engineering and fabrication.

Small and Medium Sized Enterprise (SMEs)

We provide financing to SMEs. SMEs are defined as manufacturing, processing and servicing businesses with between Rs. 10 million and Rs. 100 million invested in plant and machinery. Our products for the SME sector are intended to facilitate the establishment, expansion and modernisation of businesses, including acquisition of fixed assets, plant and machinery and meeting working capital needs. We also offer non-fund based financing, such as guarantees and letters of credit. We provide flexible security requirements to make credit more accessible to SME borrowers.

We have recently launched a scheme targeted to SMEs under the name "Union High Pride". The scheme provides flexible eligibility requirements and quicker turnaround time for approval and also offers value-added products such as our Multi-City chequebook facility and cash management services to clients that borrow under the scheme.

Developments

The Bank has recently been nominated by the GoI as one of the nodal banks for assessing the eligibility requirements for proposals by, and for settling interest subsidy claims to, eligible borrowers under Technology Upgradation Fund (TUF) sponsored by the Ministry of Textiles of the Government of India. Under the TUF scheme, the Bank provides loans to borrowers pursuant to standards set by the Ministry of Textiles. Under the scheme, eligible borrowers can receive an interest subsidy of up to 5%.

Retail Banking

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

- Retail advances such as mortgage, education and consumer lending,
- Electronic banking such as Union e-Banking (internet banking) and Union Dial (tele-banking),
- ATM card, with international debit card features; and
- International credit card.

In order to cater to the financial needs of retail customers in a single location, we have opened 30 "Retail Marts", which are dedicated retail outlets within existing branches across the country.

Loans

Our total outstanding retail loans and advances were Rs. 95,712.90 million as at September 30, 2005, representing 20.15% of our total outstanding gross advances. The following table classifies our outstanding retail advances by category loan as at March 31, 2004, March 31, 2005 and September 30, 2005.



(Rs. million)

Scheme	As at March 31, 2004		As at March 31, 2005		As at September 30, 2005	
	Amt. outstanding	% of total outstanding to retail	Amt. outstanding	% of total outstanding to retail	Amt. outstanding	% of total outstanding to retail
Union Home	19,939.50	31.93%	30,809.10	36.13%	35,076.70	36.64%
Union Education	1,447.30	2.32%	2,309.50	2.71%	3,058.30	3.20%
Union Miles	2,414.60	3.87%	3,242.00	3.80%	3,307.50	3.46%
Union Comfort:						
- Secured	218.20	0.35%	1,236.10	1.45%	1,369.10	1.43%
- Unsecured	2,151.00	3.44%	1,841.70	2.16%	1,946.20	2.03%
Union Trade	34,931.50	55.94%	43,183.40	50.64%	47,456.30	49.58%
Other Loans	1,338.10	2.14%	2,657.30	3.12%	3,498.80	3.66%
Total outstanding retail advances	62,440.20	100%	85,279.10	100%	95,712.90	100%

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

Union Home Loan Scheme

Our Housing Finance business involves advancing long-term loans to customers to finance the purchase, construction, repair and renovation of homes. We extend loans under this scheme up to a maximum of Rs. 5 million for purchase or construction of a home, although there is no maximum ceiling for construction or purchase of properties in Major "A" class cities: Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Bangalore, Ahmedabad, and a maximum of Rs.1 million for repairs, in each case, subject to the borrowers' ability to repay the loan, as assessed by the Bank. We offer flexible repayment options with a maximum repayment period of 240 months for construction or purchase and up to 120 months for repairs.

We also provide housing loans for the purchase of a second home of up to 85% of the total cost, subject to a maximum of four times the gross annual income or five times the net annual income, whichever is higher, and further subject to the borrower's ability to repay the loan as assessed by the Bank with similar repayment and security terms to our first-home loans. The rate of interest on a housing loan depends on the repayment period and interest option - fixed or floating - as selected by the borrower.

Under our "Union Paradise" scheme, we also provide housing loans to Non Resident Indians for acquisition of residential accommodation in India on similar terms.

Union Education Loan Scheme

Through the Union Education Loan Scheme, we offer retail customers support for studies both in India and abroad. The scheme aims to provide financial assistance on reasonable terms to poor and needy students for basic education and to meritorious students for higher professional or technical education subject to qualification and admission to the relevant course. Indian nationals are eligible for education loans for studies in India, including school and graduate and post-graduate, professional and management education, up to a maximum of Rs. 750,000. Finance is also available for studies abroad including job oriented graduate, post graduate and certain professional and vocational courses up to a maximum amount of Rs. 1,500,000. Loans are subject to margin of 5% for studies in India and 15% for studies abroad. The rate of interest on educational loans is the BPLR, 10.75% at present, up to Rs. 400,000 and BPLR + 1%, 11.75% at present, for loans greater than Rs. 400,000. Repayment is subject to a moratorium after which the loan is to be repaid within a maximum period of seven years. Collateral security is required for the loans greater than Rs. 750,000.

Union Miles (Vehicle Loans)

We provide loans to finance the purchase of both two wheelers and four wheelers. In the case of finance for four wheelers, we can provide financing for both new vehicles and second-hand vehicles that are not more than three years old. We provide financing for up to 80% of the purchase price of the vehicle in the case of a new vehicle or 50% of the purchase price in the case of a second-hand (four wheeler) vehicle or three times the net income or salary of the applicant, whichever is less. Such loans are secured by a charge on the purchased vehicle and also by a personal guarantee of a party other than the borrower. In connection with Union Miles, we have entered into tie-up arrangements with certain automobile and two wheeler companies, including TVS Motor Company Ltd., Bajaj Auto Ltd. and Ford India.



Union Comfort Loans

Under our Union Comfort loan scheme, which is designed particularly for the salaried class, eligible individuals can borrow an amount equal to a maximum of six months of their net salary, or for non-salaried persons, 50% of annual income as reported in recent tax returns, up to a maximum of Rs. 100,000. The rate of interest on Union Comfort Loans is generally 12.50%, subject to a concession for the purchase of PCs pursuant to our tie-up arrangement with M/s HCL Infosystems Limited and to other negotiated concessions under certain circumstances. Loans for the purchase of consumer durables are secured by way of hypothecation of assets while other Union Comfort Loans are considered to be unsecured. The maximum repayment period is 36 EMIs.

Union Trade

Under the Union Trade scheme, retail and wholesale traders such as supermarkets, shopping malls, department stores, grocers, dealers in consumer durables and co-operative stores, and services traders, such as restaurants and entertainment providers, that maintain stock or book debts adequate to provide the required security are able to obtain working capital facilities from Rs. 200,000 to Rs. 50 million or term loan facilities from Rs. 200,000 to Rs. 10 million. The rate of interest varies with the value of collateral and the customer's credit rating. For purposes of determining the ability for a customer to draw on the facility, the margin is nil for loans up to Rs. 100,000 and 20% for loans greater than Rs. 100,000.

Union Mortgage

Under the Union Mortgage scheme, we provide financing against immovable property up to a maximum extent of the lesser of 50% of the value of property or Rs. 5 million. The loan is available in the form of a term loan or a secured overdraft. The term loan is repayable over a period of up to 60 EMIs. Customers may select a fixed or floating interest rate. Term loan and secured overdraft facilities are subject to review and renewal every year.

Union Top-up Scheme

The Union Top-up loan scheme seeks to provide supplementary finance to existing loyal Home Loan borrowers who are timely in their monthly repayment instalments for at least 24 months. Finance under the scheme is available up to the extent of 50% of the amount already repaid under the Home Loan account, subject to a minimum of Rs. 50,000 and a maximum of Rs. 500,000 in the case of a term loan or Rs. 300,000 in the case of a secured overdraft facility. The term loan is repayable over a period of up to 60 EMIs. The secured overdraft facility is required to be liquidated by reducing the limit by one-fifth each year commencing with the year that is five years prior to year in which the borrower reaching retirement age or 60 years of age, whichever is earlier.

Other Loan Schemes

In addition to the principal loan schemes described above, we also offer loans secured by shares, debentures, bonds, loan secured against rent receivables and other loans such as Union Cash and Union Smiles designed to cater to our customers' needs.

Agricultural Financial Services

Approximately 23.0% of India's GDP is derived from agriculture. The sector supports approximately two-thirds of India's population and accounts for 14.7% of export earnings. As at the last reporting Friday of March 2004, the last reporting Friday of March 2005 and the last reporting Friday of September 2005, agricultural loans constituted 15.80%, 16.27% and 15.98% of our net bank credit, respectively.

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



Geographic Distribution	As at March 31, 2004			As at March 31, 2005			As at September 30, 2005		
	Number of accounts	Amount outstanding (Rs. million)	% of total outstanding agricultural loans	Number of accounts	Amount outstanding (Rs. million)	% of total outstanding agricultural loans	Number of accounts	Amount of accounts	% of total outstanding agricultural loans
Southern India	235,322	14,357.5	31.30	291,076	18,580.8	29.67	313,223	20,353.0	27.82
Northern India	25,190	4,009.6	8.74	29,963	8,663.6	13.84	32,264	17,373.8	23.74
North-Eastern India	3,804	125.4	0.27	4,806	168.4	0.27	4,823	188.1	0.26
Eastern India	51,620	2,264.8	4.94	59,585	3,390.5	5.41	60,922	3,762.6	5.14
Central India	202,898	10,675.6	23.28	246,863	14,969.7	23.91	264,452	16,167.9	22.10
Western India	82,875	14,433.8	31.47	92,009	16,842.5	26.90	95,866	15,322.2	20.94
Total	601,709	45,866.7	100.00	724,302	62,615.5	100.00	771,550	73,167.6	100.00

We provide short- to medium-term finance for agricultural activities, including crop loans, Union Green Card, which provides farmers credit for crop loans, investment credit and consumption needs, plantation, horticulture, fisheries, animal husbandry, beekeeping, sericulture and for allied activities such as dairy and poultry, as well as providing personal accident insurance up to Rs. 50,000. Agricultural finance is also available for irrigation and the purchase of agricultural equipment. We have also entered into tie-up arrangements with several tractor dealers in respect of the finance of tractors and various arrangements with agricultural concerns for the financing of contract farming of various crops in identified regions.

We set forth below details of certain of our other products aimed at our agricultural customers.

Land Purchase Loans

Our loans purchase scheme is designed to finance the purchase of land for agricultural purposes by small and marginal farmers with less than five acres of non-irrigated land or less than 2.5 acres of irrigated land, as well as share croppers and tenant farmers. To be eligible, a farmer must have adequate surplus income from his production activities on the land to be acquired and other income to repay the loan. The size of the loan is subject to the area of the land to be purchased and its market value, and may cover cost of purchasing the land, development costs and cultivation expenses, subject to a margin of 20% for the land purchase and its development purposes. Interest rates depend on the amount borrowed. Loans are generally repayable over a period from five to seven years, in semi-annual or annual instalments.

Agriclinics and Agribusiness Loans

Our Agriclinic and Agribusiness loan scheme has been developed as a way for graduates in agricultural or allied studies animal husbandry, forestry, dairy, veterinary, poultry farming and pisciculture to establish income-producing facilities in rural areas. Graduates or small groups of graduates may apply for loans to finance the expenses associated with such a development including the purchase of equipment for soil testing and input testing, the purchase of farm machinery, the purchase of two wheelers and repairs to farm equipment. Project costs are subject to a ceiling of Rs. 1,000,000 for an individual or Rs. 5,000,000 for a group. The interest rate is determined based on the size of the loan. The loans will generally require security or a guarantee and the term will vary, depending on the project.

Union White Card

Our Union White Card is a loan scheme for dairy units, designed to provide them the opportunity to manage and utilize funds according to their needs. The facility provides support to dairy units for purchase of milch cattle, cattle sheds, utensils, machines, fodder and veterinary needs and bills receivables. Tie-ups are envisaged to sell the milk produced to processing units or procurement agencies that will pay the proceeds to the Bank. As at December 31, 2005, we had financed 29,129 dairy units with an aggregate credit limit of Rs. 950.30 million under this scheme.

Community Support for Agriculture

As part of our agricultural programs, we are committed to providing support and assistance to rural communities. As part of this commitment, we have introduced several programs in rural areas to provide support to local communities.

Self Help Groups (SHG) - The SHGs are homogenous groups of micro entrepreneurs, voluntarily formed to save whatever amount they can conveniently save out of their earnings. The members of each SHG mutually agree to contribute to a common fund of the group from which small loans are given to the members to meet their productive and emergent credit needs at rates of interest, loan periods, and other terms as the group may decide. We have introduced SHGs as a supplementary credit strategy to reach rural people. We believe that our relationship with SHGs inculcates mutual trust and confidence between the



Bank and the rural population it serves. We also believe SHGs encourage banking activities such as thrift and bank credit. The group functions in a democratic way allowing free exchange of views and participation by members. Through the end of December 2005, our Bank has formed 56,123 SHGs out of which 36,124 SHGs are credit-linked for a total credit limit of Rs. 1,858.10 million. SHG's formed by women as at December 31, 2005 were 39,943 of which 28,735 were credit linked with the amount financed being Rs. 1,379.90 million. We have also introduced micro credit in metropolitan areas. In Mumbai, our Bank has formed 104 self-help groups with about 1500 members.

Rural Development Training - We have introduced a Rural Development Self-Employment Training Institute at Enakulam, Kerala, and one at Varanasi, Uttar Pradesh, and a Union Bank Rural Development Foundation at Alibaug, Maharashtra to train youth in rural and semi-urban areas to set up self-employment ventures.

The agriculturists and farmers are trained in this foundation for various agricultural activities. They are given training in modern methods of farming and new technologies to help increase the yield and quality of agricultural produce. The Bank is developing model farms at this foundation to give on-site practical training and demonstrations to farmers.

Village Knowledge Centres - In May 2005, we introduced the innovative concept of Village Knowledge Centres to rural areas in order to cater to the needs of the rural population in general and farmers in particular. Village Knowledge Centres aim to inform farmers about new developments in improved methods of cultivation and technologies, proper use of fertilisers, pesticides and other methods intended to create better yield and higher income. Weather data and agro-climatic conditions and the latest information on price of inputs and agriculture produce are also made available to the farmers. At these centres, farmers, landless labourers and other artisans can also learn about skills development, micro enterprises, forming of Self Help Groups and new developments coming up in the field of agriculture. Through the end of December 2005, our Bank had opened across the country 101 such Village Knowledge Centres equipped with modern technologies and manned by a Senior Officer having expertise in the field of agriculture.

The Bank also tries to inculcate banking habits amongst the farmers to encourage them to atleast have one bank account for each family, thereby developing a banking culture in villages. Such villages numbered 133 as at December 31, 2005.

Priority Sector Financial Services

RBI guidelines require banks to lend at least 40.0% of their net bank credit to certain specified sectors called priority sectors. Priority sectors include the agricultural sector, SSIs, food and agri-based industries (with investments in plant and machinery up to Rs. 50 million), retail trade and small business, self-employed and professional individuals, housing finance up to certain limits and certain other sectors. This 40% includes loans to be given to the agricultural sector, which amounts to a minimum of 18.0% of the net bank credit.

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

We report our priority sector loans to RBI on a quarterly basis, as at the last reporting Friday of the quarter. As at September 30, 2005, which was the last reporting Friday for the quarter ended September 30, 2005, our priority sector loans totalled Rs. 194,910.5 million, constituting 42.57% of our net bank credit, compared to the RBI requirement of 40%. The agriculture sector constituted 15.98% of our adjusted net bank credit and SSIs constituted 8.70% of our adjusted net bank credit as at September 30, 2005.

We have established a Priority Sector Lending Division within the Bank to formulate schemes and monitor lending to the priority sector. The Priority Sector Lending Division advises branches and offices of our Bank and takes steps to achieve the various benchmarks set by the RBI for making priority sector advances.



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

Sector	March 2004		March 2005		September 2005	
	Amount	% of adjusted net bank credit ⁽¹⁾	Amount	% of adjusted net bank credit ⁽¹⁾	Amount	% of adjusted net bank credit ⁽¹⁾
(Rs. million, except for percentages)						
Agriculture credit	45,587.8	15.80	61,612.1	16.27	73,167.6	15.98
SSI credit	31,301.6	10.85	36,579.1	9.66	39,841.5	8.70
Other priority sector credit ⁽²⁾	60,380.7	20.92	87,695.5	23.15	81,901.4	17.89
Priority sector credit total	137,270.1	47.57	185,886.7	49.08	194,910.5	42.57
Adjusted net bank credit	288,548.0		378,770.7		457,808.2	

(1) Adjusted net bank credit is net bank credit less FCNR (B) deposits and Non-Resident non-Repatriable deposits.

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

Non-Resident Indian Financial Services

We actively seek banking business from Non-Resident Indians (NRIs). We offer foreign currency accounts to NRIs under our foreign currency non-resident scheme and Rupee accounts for NRIs under our non-resident external and non-resident ordinary schemes. We also offer various products for facilitating remittances from NRIs to India. We have an arrangement facilitating money transfers through The Bank of New York and Deutsche Bank. We also have Rupee drawing arrangements with 11 exchange houses to facilitate private remittances to India on behalf of Non Resident Indians.

In order to further develop our abilities to assist NRIs and to assist our customers in international trade, we have sought and obtained approvals from the RBI to open representative offices in Dubai, Doha and Shanghai, China. Subsequently, we also applied to the Central Banks in Dubai and Doha for their approval to open representative offices in these locations. We also applied to the RBI for permission to open branch offices in Doha, Singapore, Hong Kong and San Jose.

General Banking Services

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

Credit and Debit Cards

Pursuant to an arrangement with VISA International, our Bank offers an international credit card. The Union Card is available in Classic, Silver and Gold varieties, with varying levels of credit limit and benefits. The Union Card is accepted worldwide at merchant establishments where the VISA logo is displayed.

We earn revenues from our credit card operations through:

- Admission fees and annual subscription fees;
- Interchange fees;
- Service charges on credit card balance and advances;
- Handling charges on cash advances through ATMs; and
- Interest on advances to cover future payments owed to merchant establishments that accept VISA credit and debit cards.

Savings and current account customers can also obtain an international debit card. Using the international debit card, our customers can access their savings and current accounts at any VISA-accredited merchant establishment or ATM machine, allowing them to purchase goods at retail outlets and withdraw cash from ATMs in India and abroad.

Cash Management and Remittances

We provide Cash Management Services (CMS) to help optimise the liquidity of our clients through improved flow of funds. The CMS software is capable of rendering CMS facilities not only to our corporate clients, but also to other banks pursuant to tie-up arrangements. As at September 30, 2005, 265 clients are utilizing our CMS services, including ten banks. CMS facilities are available at 53 exclusive centers spread across major cities and towns, as well as over 1,200 branches, from which we facilitate outstation collections.



We also have a multi-city cheque facility available at select centres that allows customers to encash cheques at par in locations other than where the customer holds his or her account.

We have also introduced Union Bullet, a Real Time Gross Settlement (RTGS) service that allows customers of our CBS branches to make rapid remittances using the RTGS platform to the beneficiary's account. Payments may be made to any bank that is registered with the RBI for the RTGS system.

Collection Services

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

Bill Payments and Other On-Line Products

The Bank offers utility bill payment services in conjunction with "indiaideas.com", enabling the Bank's customers to pay their utility bills through standing payment instructions. This facility is available at metro and mini-metro centers, such as Mumbai, Delhi, Chennai, Kolkata, Bangalore, Hyderabad, Ahmedabad and Pune. In addition, Internet banking customers are also offered various on-line products such as railway reservations and the facility for payment of MTNL telephone bills, LIC premium, Hutch telephone bills and Reliance Energy bills.

Depository Services

We have implemented a depository services platform for our individual retail customers in connection with the holding of debt and equity securities. We earn fees for maintaining the accounts as a depository participant of Central Depository Securities Limited (CDSL), as well as for related services. We are registered as a "participant" with the CDSL.

Through our depository service scheme, our customers at any of our networked CBS branches are able to hold securities in dematerialised (or "demat") form.

On-Line Trading

Our Bank has launched Union On-line Trading service, facilitating funds and securities settlement through an e-payment gateway and e-depository gateway, in conjunction with M/s Sharekhan Ltd. In order to use the online trading service, the customers are required to open savings or current accounts for funds settlement and a dematerialised securities account for securities settlement.

In addition to the on-line trading platform, the customer can also receive other value-added services such as on-line applications for IPO securities, viewing status of dematerialized accounts, market information and research on selected stocks through the M/s Sharekhan Ltd. website.

On-Line booking of Railway Tickets through Internet Banking

We launched our on-line railway reservation service in January 2005 in conjunction with M/s Indian Railway Catering and Tourism Corporation (IRCTC). Using this service Internet banking customers can purchase railway tickets by online debits to their accounts. Our Bank has established an e-payment gateway with IRCTC for this purpose. Under our arrangements with IRCTC, the IRCTC remains the key service provider, responsible for delivery and correctness of tickets. The Bank facilitates on-line payment for these tickets.

Clearing Bank Services

The Capital Market Cell of the Bank is a Clearing Bank Member of BSE and NSE. Brokers are able to conduct their funds and securities settlement through our Bank as a Clearing Member. Through these services, we hope to generate business from brokers for capital market activity as well for their fund and non-fund based line-of-credit requirements. We expect that brokers' accounts will also result in referrals for our depository and on-line trading services. Our Bank is also acting as a clearing bank for the bullion trading activities of the Mumbai Commodities Exchange (MCX).

Government Business

Collection of Taxes

609 branches of our Bank are authorised to collect direct taxes, including income tax, corporation tax, interest tax, expenditure tax, estate duty, wealth tax, gift tax, hotel receipt tax and fringe benefit tax. All of these 609 branches participate in the RBI's On-Line Tax Accounting System, which facilitates electronic transmission of information to extend the credit to the assessee's account under the Tax Information Network. For our Internet banking customers, the Bank also offers on-line payment of direct taxes.

In addition, 277 branches of the Bank are authorised to collect central excise and service tax in various states, including Maharashtra, Gujarat, Delhi, Chandigarh, Uttar Pradesh, Kerala and Karnataka. We were one of the first public sector banks



to launch e-payment for central excise and service tax in May 2005. The Bank is also authorised to collect the state sales tax, or VAT, in the states of Maharashtra, Delhi, West Bengal and Uttar Pradesh and is seeking to obtain accreditation from all the state governments.

Distribution of deposit products of the Government of India

Our Bank is also authorised to distribute RBI Bonds, handle public provident fund accounts, Senior Citizens Savings Scheme Accounts and other deposit products of the GoI through our authorised branches across the country.

Ministerial Accounts

Our Bank is accredited to handle the accounts of the Ministry of Labour, the Ministry of Environment and Forest, the Ministry of Science and Technology and the Ministry of Planning. The various establishments under these Ministries at different centres route their banking operations through our branches. In addition, the Bank also undertakes the sub-treasury business of the state governments in the states of Maharashtra, Andhra Pradesh, Madhya Pradesh, Karnataka and Assam through selected branches.

Payment of Pension

Our Bank is authorised to make pension payments to Central Civil Pensioners, Railway, Defence and Telecom pensioners and pensioners of various state governments. 1,800 branches of the Bank make pension payments to over 100,000 pensioners across the country.

All the activities under Government business earn commission income for the Bank, as well as offer value-added services to the Bank's customers.

Stamp Vending and Franking

We have obtained a license for the franking of stamps at selected branches in Maharashtra and Gujarat. The franking services are offered to all our customers, corporate as well as retail, and also to the outside customers at these branches. We are in the process of seeking approval to offer similar services at various branches from the state governments of other states in India.

Insurance

The Bank is a corporate agent for marketing of life insurance product of HDFC Standard Life Insurance Co. (HDFC SLIC). The Bank has marketed over 50,000 policies to its clients and collected premiums in excess of Rs. 500 million. The HDFC SLIC life insurance products are marketed through all our branches with the help of trained marketing officers. In addition, HDFC SLIC has developed a customised product for our Bank's customers, not requiring any financial or medical underwriting, through which we can reach to the rural masses.

We also market non-life insurance products of New India Assurance Co. Ltd. (NIAC), including insurance against fire, burglary and other risks to assets, such as plant and machinery, stock-in-trade and fixed assets, motor vehicle insurance, household insurance and personal accident insurance. The non-life insurance products are marketed to all our deposit and loan account customers, as well as, employees of the Bank, as well as corporate and other firms that are our customers.

The Bank has also obtained a Group Insurance Policy through SBI Life Insurance Co. Ltd. for Union Home Loan borrowers and has covered more than 20% of the borrowers. The Bank earns commission income for the distribution and sale of its third-party insurance products without incurring the risk of underwriting. The Bank has also entered into a tie-up with New India Assurance Company Limited on December 30, 2005 for offering a customised Mediclaim Policy for our clientele. The policy gives a floating coverage for a family of four persons i.e. husband, wife and two dependent children. The maximum coverage available under the policy is Rs. 0.3 million.

Mutual Funds

As part of our strategy to increase our fee-based revenue and leverage our branch network, we have secured Association of Mutual Funds of India (AMFI) approval to distribute mutual fund products in accordance with SEBI guidelines. We have been marketing mutual fund products since 2003.

We have entered into agreements with DSP Merrill Lynch Asset Management, HDFC Mutual Fund, UTI Mutual Fund, Principal Mutual Fund, Reliance Mutual Fund (Western India only) and Cholamandalam Mutual Fund (Southern India only) for the distribution and sale of mutual fund products issued and underwritten by these providers. In addition, we are also authorised to market the mutual fund products of several asset management companies. We earn fees for the distribution and sale of these funds.

Deposits

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



Demand deposits, which are non-interest bearing and upon which cheques can be drawn;

Savings deposits, are deposits on which interest accrues at a fixed rate set by the RBI (currently 3.5%) and upon which cheques can be drawn; and

Term deposits, which are deposits on which interest is paid, either on maturity or at stipulated intervals depending upon the deposit scheme under which the money is placed. Term deposits include:

- Fixed deposits on which a fixed rate of interest is paid at fixed, regular intervals;
- Re-investment deposits, under which the interest is compounded quarterly and paid on maturity, along with the principal amount of the deposit.
- Recurring deposits, under which a fixed amount is deposited at regular intervals for a fixed term and the repayment of principal and interest is made at the end of the term.

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

(Rs. million)

	March 31, 2003		March 31, 2004		March 31, 2005		September 30, 2005	
Type of Deposits	Balance outstanding	% of Total	Balance outstanding	% of Total	Balance outstanding	% of Total	Balance outstanding	% of Total
Demand Deposits								
From Banks	1,364.4	0.30	1,490.4	0.29	2,367.1	0.38	5,147.0	0.75
From Others	48,998.0	10.95	48,548.5	9.60	47,734.2	7.72	51,006.9	7.43
Savings Deposits	111,716.7	24.97	130,842.9	25.88	151,971.2	24.58	166,251.2	24.21
Term Deposits								
From Banks	7,644.7	1.71	7,805.4	1.54	11,151.0	1.80	13,244.2	1.93
From Others	277,762.3	62.07	316,902.1	62.69	405,082.3	65.52	451,078.1	65.68
Total Deposits	447,486.1	100.0	505,589.3	100.0	618,305.8	100.0	686,727.4	100.0

We take corporate deposits from public sector corporations, government organisations, other banks and private sector companies. We accept Rupee and foreign currency denominated deposits.

The top 25 depositors of the Bank constitute 13.48% of the total deposits, as on September 30, 2005. The following table sets forth the top 25 depositors of the Bank, as at September 30, 2005:

S. No.	Name of depositor	Rs. million
1	Central Board of Trustees Employees Provident Fund Organisation	23,333.62
2	Power Grid Corporation	5,317.77
3	Gail India Limited	4,886.70
4	Employees State Insurance Corporation	4,278.58
5	Brihan Mumbai Maha Nagar Palika	4,065.39
6	MSTC Ltd.	4,006.62
7	The Administrator of the Specified Undertaking of Unit 64 Unit Trust of India	3,867.40
8	Oil Industry Development	3,716.50
9	Sahara India Finance Company	3,102.25
10	Indian Railway Finance Company	3,004.05
11	Delhi Metropolitan Railway Corporation	2,778.00
12	Mumbai Metropolitan Development Authority	2,677.73



S. No.	Name of depositor	Rs. million
13	Shipping Corporation Limited	2,530.00
14	Board of Trustees of the Port of Mumbai	2,520.88
15	NABARD	2,507.32
16	Reliance Info Investment	2,502.58
17	New Delhi Municipal Corporation	2,230.37
18	JM Financial Mutual Fund	2,150.00
19	HDFC Bank Limited	2,059.76
20	Reliance Industries Limited	2,000.00
21	EXIM Bank	1,963.79
22	LIC	1,883.94
23	Hindustan Aeronautics Limited	1,801.70
24	Uttar Pradesh State Power Sector	1,707.06
25	Bombay Stock Exchange Limited	1,661.75

Deposit Products

Fixed Deposit Accounts

Fixed deposits are interest-bearing deposits available for both short and long maturity periods. The rate of interest on the deposits is dependent upon the maturity period and the principal amount of the deposit. The deposits under the scheme are liquid and the facility of a loan against these deposits is also available. Deposit products which fall under this category include:

- Short deposits,
- Fixed deposits,
- Deposit Re-investment Certificate,
- Cumulative deposit,
- Money Multiplier Scheme and
- Monthly Income Scheme

Senior citizens over the age of 60 years (excluding our former staff members) are offered additional interest over the usual rate under all our deposit schemes.

Current Deposits

Our current deposit products are designed to cater to the banking requirements of businessmen, traders, companies and other entities, as well as individuals involved in commercial or business activities. In addition to conventional current deposit accounts, we offer variations of the current deposit with value-added services for eligible current account customers.

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

Union Flexi-Deposit Scheme

This product is a hybrid of a savings account and a term deposit. Under the scheme, customer funds in excess of a preset limit of Rs. 5,000 are automatically transferred from their savings account to their fixed deposit account in multiples of Rs. 1,000 with a minimum of Rs. 5,000. Consequently, the depositor earns interest on the savings component of the scheme as well as a higher interest on the surplus funds transferred to the fixed deposit. Interest is paid under the scheme on a quarterly basis.



Honey Bee Deposit Scheme

The Union Honey Bee deposit scheme is a hybrid of a savings account and a cumulative term deposit account. Under the scheme, customers in rural and semi-urban branches may make variable deposits in their savings account. Each month, funds in excess of Rs. 100 are transferred to a cumulative account for a fixed period.

Multi Gains Schemes

Under the Multi Gains Current Account and Savings Account Schemes, customers are offered value-added services subject to their maintaining an average quarterly balance of Rs. 100,000 in respect of current accounts, and a minimum balance of Rs. 25,000 in respect of savings accounts.

Union Insured Recurring Deposit Scheme

The Union Insured Recurring Deposit Scheme is a term deposit facility with life insurance cover to the extent of the maturity value of the deposit, subject to a maximum of Rs. 1 million. Premiums in respect of the insurance facility are paid from interest payable on the deposit.

Capital Gains Exemption Deposit Scheme

Customers at our metropolitan, urban and semi-urban branches may take advantage of the Capital Gains Exemption Deposit Scheme. Under the scheme, customers may deposit capital gains earnings in a term deposit or a savings deposit. The scheme provides a place to deposit capital gains until such gains are invested in the appropriate channel under income tax rules.

Money Multiplier Deposit Scheme

This is an insurance linked deposit scheme for the benefit of both individuals and minors in which the principal sum grows 1.5 times for individuals and double in the case of minors over the planned period. Insurance cover is available to the depositor/guardian (in case of a minor) aged between 18 to 55 years on payment of a nominal premium.

Treasury and International Banking Division

Through our treasury operations, we manage our funds, invest in debt and equity products and maintain required regulatory reserves. We also run a proprietary trading book in debt and foreign exchange within the framework of the Bank's treasury policy. Our treasury operations also include a range of products and services for corporate and commercial customers, such as forward contracts, interest rate and currency swaps and foreign exchange products and services.

Under the RBI's Statutory Liquidity Ratio ("SLR") requirement, we are required to maintain an amount equal to at least 25.0% of our demand and time liabilities in approved securities, such as GOI securities, state government securities and other approved securities. As at September 30, 2005, 27.43% of our demand and time liabilities consisted of Government and other approved securities. India has an active and mature bond market, which offers trading opportunities in these securities. Under the RBI's cash reserve ratio requirements, we are required to maintain a minimum of 5% of our demand and time liabilities in a current account with the RBI. As at September 30 2005, 5.54% of our net demand and time liabilities were maintained in current accounts with the RBI. The RBI pays no interest on these cash reserves up to 3.0% of the net demand and time liabilities and pays interest at 3.5% per annum on the remaining eligible balance. Our Treasury department is responsible for maintaining these ratios for the Bank. For further discussion of these regulatory requirements, see the section titled "Regulations and Policies-Legal Reserve Requirements" on page 91 of this Red Herring Prospectus.

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

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

	March 31, 2003		March 31, 2004		March 31, 2005		September 30, 2005	
Securities	Rs. million	%	Rs. million	%	Rs. million	%	Rs. million	%
SLR	136,684	70.43	153,608	68.42	151,631	66.45	176,660	69.79
Government Securities	7,447	3.84	7,013	3.12	5,801	2.54	5,640	2.23
Approved Securities	192	0.10	192	0.09	192	0.08	192	0.08
Sub total	144,323	74.37	160,813	71.63	157,624	69.07	182,492	72.10



	March 31, 2003		March 31, 2004		March 31, 2005		September 30, 2005	
Securities	Rs. million	%	Rs. million	%	Rs. million	%	Rs. million	%
Non-SLR								
Recap Bonds	1,420	0.73	1,420	0.63	1,420	0.62	1,420	0.56
Special Govt & GOI Oil Bonds	1,725	0.89	4,157	1.85	5,305	2.32	5,305	2.10
Bonds and debentures	40,937	21.09	51,222	22.81	54,485	23.89	52,902	20.89
Shares	1,352	0.70	1,531	0.68	1,454	0.64	1,254	0.50
Subsidiaries & Joint Venture	-	-	-	-	-	-	-	-
Commercial Paper, Mutual Funds and Others	4,307	2.22	5,379	2.40	7,888	3.46	9,758	3.85
Sub total	49,741	25.63	63,709	28.37	70,552	30.93	70,639	27.90
Total	194,064	100.00	224,522	100.00	228,176	100.00	253,131	100.00

Foreign Exchange Operations

We undertake foreign exchange transactions for our customers. We also undertake derivative transactions for our customers on a back-to-back basis with the counter party banks. The foreign exchange contracts arise out of spot and forward foreign exchange transactions entered into with corporate and non-corporate customers and counter-party banks for the purpose of hedging and trading. The Bank derives exchange income from the spread between buying and selling rates.

We have 65 branches that are authorised to conduct foreign exchange operations across India which report to our International Banking Division at our Central Office in Mumbai. We maintain 36 nostro accounts in various foreign currencies with different correspondent banks to facilitate the foreign exchange business.

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

	Year Ended				Six Months Ended	
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2004	September 30, 2005
	(Rs. million)					
Interbank Turnover	1,386,375	1,492,515	2,589,863	3,249,368	1,727,307	1,574,822
Merchant Turnover	196,035	239,004	384,889	505,987	256,334	245,329
Total	1,582,410	1,731,519	2,974,752	3,755,355	1,983,641	1,820,151

Delivery Channels and Accessibility

Our customers, whether they are located in metropolitan, urban, semi-urban or rural areas, can access a range of delivery methods to take advantage of our products and services. These include access to physical branches and ATMs, and, to our customers at our CBS branches, internet banking and telephone banking. These channels allow customers to access information about their accounts and use banking services 24 hours a day, seven days a week. With a view to providing convenience banking to our clientele across the country, we have launched 8a.m. to 8p.m. banking on December 8, 2005. This service has been extended to 104 branches by December 31, 2005.

Branches and Interconnectivity of Branches

As at December 31, 2005, we had 2,064 branches, and 146 extension counters in India spread over 25 states and three union territories. Our extension counters are small offices primarily within office buildings or on factory premises that provide limited banking services.

All our branches are computerised. We are currently implementing our CBS platform on a cluster-based model, to interconnect all our branches electronically. Currently our CBS network covers approximately 75% of our business. This allows customers to access their accounts and obtain services from any CBS branch as if they were in their primary branch,



providing greater convenience for our customers, which we believe enhances customer loyalty. As at December 31, 2005, 745 branches and extension counters across the country were connected to the "anywhere, anytime banking" CBS network.

As part of our efforts to continue to enhance our technology, we have implemented the On-Line Tax Accounting System (OLTAS), which facilitates electronic transmission of information to extend the credit to Assessee's account under Tax Information Network in 609 branches. We have also implemented the Excise Payment Module at 163 branches. We have in place the Public Debt Office Negotiated Dealing System (PDO-NDS), which is an electronic format for facilitating dealing in government securities and money market instruments. We are also in the process of implementing Centralised Funds Management System (CFMS), which allows monitoring of funds parked at our accounts with RBI at various centres.

We have implemented or are in the process of implementing several other RBI-led technology projects designed to facilitate greater inter-bank connectivity and to speed clearing and other times. We have implemented RTGS, through our Union Bullet scheme, which allows remittances to be made at any CBS branch and paid to a beneficiary quickly at any participating bank branch anywhere in India. In addition, we have implemented. Special Electronic Funds Transfer (SEFT) and Structured Financial Messaging System (SFMS).

ATMs

As at December 31, 2005, we had 454 ATMs in 161 centres, an increase from 400 ATMs in 136 centres as at March 31, 2005. As at September 30, 2005, 466,357 of our customers held ATM or debit cards, allowing them to access funds through ATMs.

We participate in "Cash Tree", a shared ATM network, with Bank of India, Syndicate Bank, Indian Bank, Dena Bank, Indian Overseas Bank, United Bank of India, Bank of Maharashtra and Bank of Rajasthan. This network offers our customers access to over 1,700 common ATMs throughout India.

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

Internet Banking

We established our Internet banking platform in order to provide our customers with a convenient means of banking and to take advantage of the relatively low cost of this service delivery channel. Our web site, www.unionbankofindia.com, provides information and application forms to the general public. We offer our Internet banking customers: account balance inquiry; cheque status inquiry; request for a cheque book, request for electronic statement of account, stop payment instructions, transfer of funds, utility bill payment, railway reservations, tax payments, securities trading; letter-of-credit opening; and payment of insurance premiums facilities.

Data Centre and Network Security

Our data centre is located at our Central Office in Mumbai, which provides the required infrastructure for the security and management of our computer data. All of our critical servers are housed in our data centre along with our information technology staff.

Our disaster recovery server is currently located at Bangalore.

Customer Care and Relationship Management

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

Customer Complaints Management - We have a customer complaint management system in place that allows us to log complaints and to address them promptly and efficiently. During fiscal 2005 we received 529 complaints, with no complaint pertaining to this period remaining outstanding as at September 30, 2005.

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

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

Grievance Redressal - The Bank has a transparent and effective procedure for redressal of customer grievances within a short span of time. We attempt to redress customer grievances at the point at which they arise, primarily at the branch level. However, in the event that a customer is not satisfied with the Branch Manager's response, the customer may raise the matter with the Regional Office, the Zonal Head or the Corporate Office. We endeavour to acknowledge complaints immediately and seek to redress the grievance to the satisfaction of the customer quickly.



Fair Practice Code - We have adopted the comprehensive Fair Practice Code drafted by the IBA and intended to be followed by the entire banking system in dealing with individual customers. Important characteristics of the code include the following:

- The code sets standards for fair banking practices while dealing with customers. It provides valuable guidance to customers for their day-to-day operations and it applies to all products offered by the Bank. The code encourages to achieve higher operating standards for the benefit of customers.
- The code also applies to products provided to customers across the counter, over the phone, by post, through interactive electronics devices, through the Internet or through any other method unless it says otherwise.
- The code promises customers that the Bank will act fairly and reasonably in all its dealings with customers and helps the customer to understand how our financial products and services work.
- The code also emphasises the importance of addressing difficulties quickly and sympathetically.
- The code provides guidance to customers in respect of the banking facilities normally available and what the customer can expect from the Bank.
- The code provides information about the process for grievance redressal machinery, other avenues for redressal of grievances and where the customer can obtain more information about the code.

Standing Committee - As directed by the RBI, our Bank has constituted the Standing Committee consisting of senior executives of the Bank and two ex-officio members who are intended to represent the public. The objective of the Committee is to explore avenues for simplifying procedures in order to improve the Bank's customer service.

Marketing Initiatives

We emphasise marketing of our retail and new initiative products. As at September 30, 2005, we had 296 marketing officers for retail products and 120 marketing officers for new initiative products, covering all regions of the country. These officers are trained for basic marketing skills, strategies and product knowledge. The marketing officers for new initiative products are given mandatory training in life insurance, non-life insurance products and certification of AMFI. In addition, because our branches are the "point of sale" for marketing of third-party products, we provide training to branch managers and branch staff who act as lead-generators and support cross-selling for various new products. The Bank has deployed additional marketing officers for canvassing of deposit products as also for Government business.

In order to help expand business at various centers, we conduct launches for various products. By introducing contests and campaigns for our employees on a regular basis across the country, we seek to develop a competitive spirit amongst our field functionaries, which we believe helps to mobilise additional business, and motivates the marketing officers and the field staff.

The Bank also participates in various exhibitions which we believe helps to create good public visibility. In order to recognise and reward our marketing officers, CMD's and EDs' Club membership has been introduced for achievement above a required threshold. To further enhance visibility amongst the customers, regular mailing is done and customers' meets are held. All field functionaries, including marketing officers, are allotted performance targets, which are monitored through monthly monitoring reports and quarterly review of performances.

Risk Management

Aligning risk management to our organisational structure and business strategy is an integral part of our business. We have implemented various initiatives to strengthen our risk management practices and have a comprehensive risk management program in place. We have an integrated approach to risk and our risk management policy documents have evolved and are reviewed in accordance with our business requirements and as per RBI guidelines.

Our Board of Directors has the overall responsibility of ensuring that adequate structures, policies and procedures are in place for risk management and that they are properly implemented. The Board approves our risk management policies and sets limits by assessing our risk appetite, skills available for managing risk and our risk-bearing capacity. The Board has delegated this responsibility to a sub-committee of the Board: the Supervisory Committee of Directors on Risk Management and Asset Liability Management. This committee is also responsible for supervising the activities of other committees entrusted with risk management functions within the Bank.

The three main risk exposures we face are credit risk, market risk and operational risk. We have constituted the following committees comprising of senior management to oversee the risk management functions relating to these risks in a focused manner:

- Credit Risk Management Committee - this committee deals with issues relating to credit policy and procedures and measures and manages and controls credit risk on a Bank-wide basis.



- Asset Liability Management Committee (ALCO) - this committee is the decision making unit responsible for balance sheet planning from a risk-return perspective, including the strategic management of market risk.
- Operational Risk Management Committee - this committee is responsible for overseeing our operational risk management process.

Our Risk Management Department provides support functions to the risk management committees mentioned above through analysis of risks and reporting of risk positions and making recommendations as to the level and degree of risks to be assumed. The department has the responsibility of identifying, measuring and monitoring the various risks faced by us, assisting in developing policies and verifying the models that are used for risk measurement and reviewing developments in risk management techniques from time to time. The department is assisted by various cells, which support the management of specific risks.

In addition to the risk management committees stated above, we have constituted various other committees relating to the management of risk such as the Investment Committee, the Audit Committee of the Board and the Premises Committee.

Credit Risk

Credit risk is the possibility of loss due to the inability or unwillingness of a customer or counter party to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions. Credit risk related to lending is addressed by our Loan Policy and Recovery Policy while credit risk related to trading, hedging and settlement are addressed through our Treasury Policy.

Credit Risk in Lending

Credit risk is generally made up of a transaction risk, or default risk, and a portfolio risk. The credit risk of our loan portfolio depends on both external and internal factors. External factors are those over which we do not have much, or any, control and include fluctuations in commodity/equity prices, foreign exchange rates and interest rates, trade restrictions, economic sanctions and changes in government policies. Internal factors are those over which we have control and include deficiencies in loan policies/administration, absence of prudential concentration limits, inadequately defined lending limits, deficiencies in loan application appraisal, inadequate risk pricing, and deficiencies in loan review mechanisms and post loan-sanction surveillance.

Our philosophy on credit risk in lending is articulated in our Loan Policy, which details the guidelines for all instruments of credit risk management. Our Loan Policy is reviewed on a yearly basis. We have a separate Recovery Policy, which is focused on the required procedures and processes for managing problem loans. Our Recovery Policy is reviewed from time to time.

Based on the Basel Committee document encouraging banking supervisors to provide sound practices for managing credit risk, the RBI has issued guidelines on Integrated Risk Management and the Guidance Note on Credit Risk and advised banks to put in place an effective credit risk management system. We have carried out a self-assessment exercise identifying the gaps and developing a road map for strengthening our existing systems, procedures and structures in relation to the following main instruments of credit risk management:

- Credit approval process;
- Credit rating;
- Risk pricing;
- Prudential limits;
- Portfolio management; and
- Loan review mechanism.

Credit Approval Process

We have documented the entire risk assessment process for the approval of loans in our Advances Manual, which covers risk measurement, structuring facilities, documentation, loan administration and ongoing monitoring.

We have put in place a scheme of delegation of loan approval powers based on the amount of the loan in question. The delegation of loan approval powers for sensitive sectors such as NBFCs, the capital markets sector, the film industry and the real estate industry are restricted to our central office. We have also constituted a New Business Group for the preliminary clearance of new credit proposals above certain threshold limits.

We subscribe to Crisinfac and Capitaline 2000, both of which provide information of industry on an ongoing basis. The information from these services is available on our Intranet for use by controlling offices as part of credit analysis.



Loan appraisal memorandums are required to state whether or not a loan proposal has been appraised based on our Loan Policy guidelines. In case of any deviation, the exact nature of the deviations from the policy guidelines, the justifications for recommending the proposal despite deviations and the approval powers of the sanctioning authority in such cases are required to be clearly spelt out.

Risk Rating

Our credit risk rating framework serves as a single-point indicator of diverse risk factors of a counter-party and for making credit decisions in a scientific manner.

In fiscal 2005, we revised our rating models and made them more comprehensive in accordance with a guidance note of the RBI. Our rating systems have been drawn in a structured manner, incorporating, among other things, financial analysis, projections and industrial and management risks. We have four rating models for commercial advances for different ranges of exposures covering both fund-based and non-fund-based facilities above Rs. 200,000. We also have a rating model for retail loan applicants. We have also developed rating models for non-SLR investments, inter-bank exposure and NBFCs.

Variations in the rating of borrowers over time indicate changes in credit quality. We have put in place a process for capturing migration in the rating of borrowing accounts and for measuring the probability of default. In addition, we intend to introduce a process for capturing the recovery rate and loss given default in due course.

Risk Pricing

Risk return pricing is a fundamental tenet of risk management. In accordance with an RBI directive, in fiscal 2005 we introduced the concept of a single Benchmark Prime Lending Rate ("BPLR"). All advances, except certain specified categories, are now linked to BPLR. In respect of loans repayable in instalments beyond one year, a term premia is added. The pricing for an advance, other than for a fixed interest-bearing loan, is done on the basis of the credit rating given to the borrower using our credit rating system.

In accordance with the RBI's guidelines, we are required to migrate to a scientific system of pricing credit, with a bearing on the expected probability of default. However, the probability of default can be derived only from the past behaviour of the loan portfolio for at least five to seven years. We currently have approximately four years of data on our loan portfolio quality and provisioning.

Prudential Limits

Credit exposure ceilings are a prudential measure mandated by the RBI aimed at improving risk management and avoiding concentration of credit risks. We have set our own credit exposure ceilings based on the guidelines for substantial exposure limits set by the RBI. As per the RBI's guidelines, the credit exposure ceiling is fixed in relation to our capital funds under capital adequacy standards (Tier I and Tier II capital).

Single and Group Borrowers

The credit exposure-ceiling limit is 15% of capital funds in the case of a single borrower and 40% in the case of a group borrower. Exposure to a single borrower may exceed the exposure limit of 15% of our capital funds by an additional 5% (or up to 20%), provided that the additional credit exposure is on account of infrastructure projects. Similarly, exposure to borrowers belonging to a group may exceed the exposure limit of 40% of our capital funds by an additional 10% (or up to 50%), provided that the additional exposure is on account of the extension of credit to infrastructure projects.

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

The exposure limits described above are not applicable to existing or additional facilities granted to sick or weakened industrial units under a rehabilitation package nor are they applicable to borrowers to whom limits are sanctioned by RBI directly with respect to food credit.

Proprietary and Partnership Concerns

The cap for exposure to individual proprietary or partnership concerns is Rs. 100 million and Rs. 250 million, respectively.

Infrastructure Term Loans

In respect of term loans for infrastructure facilities, our policy is to limit our share to not more than 40% of the loan component of a project, subject to a ceiling of Rs. 5,000 million, with consideration for our overall exposure norms and asset-liability mismatches.



Exposure to Individual Industries and Sectors

Our policy is to limit our maximum exposure to an industry or sector to 10% of our total bank credit, except as noted in the table below:

Industry/Sector	Cap (in Rs. or as a percentage of total bank credit)
Infrastructure	15%
Financial Intermediaries	20%
NBFCs	2.5%
Film	Rs. 500 million
Real Estate Development	5% (and subject to a cap of Rs. 500 million per single borrower and Rs. 1,000 million per group borrower)
Capital Markets ⁽¹⁾	5%
With sub-limits for:	
- Advances to individuals	Rs. 1,000 million
- Advances to stockbrokers	Rs. 5,000 million
- Advances to market makers	Rs. 500 million

- (1) Exposure to capital markets comprises: (a) direct investment in equity shares, convertible bonds and debentures and units of equity oriented mutual funds; (b) advances against shares to individuals for investment in securities, including equity shares, bonds, debentures and units of equity oriented mutual funds; and (c) secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers.

Substantial Exposure Cap

In its guidelines on risk management systems, the RBI advised banks to lay down "substantial exposure limits", that is, the sum total of exposures assumed in respect of those single borrowers enjoying credit facilities in excess of the laid down threshold limit, which is either 10% or 15% of capital funds. The substantial exposure limit may be fixed at 600% to 800% of capital funds depending upon the degree of concentration risk to which the Bank is exposed. We have set the following substantial exposure limits:

- The aggregate substantial exposure limit is set at 600% of our capital funds as set forth in the previous year's balance sheet. For the purposes of calculating our substantial exposure limits, we include all single borrowers with an exposure of 10% or more of capital funds.
- The single borrower substantial exposure limit is 15% of our capital funds, provided that the overall substantial exposure limit does not exceed 600%.

Unsecured Guarantees and Unsecured Advances

Our policy is to limit our total unsecured advances plus 20% of unsecured guarantees to 25% or less of total outstanding advances as of the previous year.

Inter-Bank Exposure

We have developed a detailed credit rating model for domestic banks covering broadly the parameters on capital adequacy, asset quality, profitability, liquidity, ownership and management. The rating grades correspond to the grades for our rating models for commercial advances. Exposure limits in respect of advances to domestic banks are set on the basis of the rating grade and are then allocated to various products and among operating centres. Ratings assigned by leading international rating agencies are taken into account for fixing exposure limits on overseas banks.

Country Exposure

We presently follow the Export Credit Guarantee Corporation's risk model and have set limits on the level of exposure that can be assumed in respect of different countries. Country risks are factored into setting counter-party limits.

Portfolio Management

We have a system in place for the identification of credit weaknesses. We have established guidelines for tracking early warning signals of credit weaknesses and for the surveillance and monitoring approach to be adopted at various stages of our lending operations. These guidelines are set out in our Monitoring Policy.



We evaluate our loan portfolio quality by tracking the migration of borrowers from one rating scale to another in various industries and business segments.

Loan Review Mechanism and Monitoring

We have put in place a system for constantly evaluating the quality of our loan book through review of sanctions made, renewal process, submission of monitoring reports and credit-related MIS.

Loan Security and Recovery Policy

A large number of our loans are secured by collateral or supported by guarantees. Our trade and commercial loans are secured by a charge over inventory or receivables. Longer-term loans are usually secured by a charge over fixed assets. Our larger retail loans are secured by collaterals, or guarantee. Our retail loans are generally secured, made against delivery of post-dated cheques or debited to an account maintained with the bank in which the debtor's employer directly deposits their salary. In India, the bouncing of cheques is a criminal offence. Although we take collateral, we may sometimes not be able to realise its full value in a default situation. See the section titled "Risk Factors We may experience delays in enforcing our collateral when borrowers default on their obligations to us, which may result in failure to recover the expected value of the collateral" on page xii of this Red Herring Prospectus.

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

Credit Risk in Investment

In addition to market risks for investments, there is also a significant magnitude of credit risk in investments. Our Treasury Policy covers all aspects of credit risk management with respect to investments. Our Treasury Policy provides that all proposals for non-SLR investments should be subjected to the same degree of credit risk analysis as any loan proposal.

Investments in non-SLR securities are subjected to our internal rating model. Prudential limits for total investment in non-SLR securities are approved by the Investment Committee. We will not invest in unrated instruments.

Market Risk

Market risk is the possibility of loss caused by changes in market variables such as interest rates, foreign exchange rates, equity prices and commodity prices. The primary risk that arises for us as a financial intermediary is interest rate risk resulting from our asset-liability management activities. Other market-related risks to which we are exposed to a lesser extent are foreign exchange risk on foreign currency positions, liquidity or funding risk and price risk on trading portfolios.

In order to deal with the above risk issues, we have in place an Asset Liability Management Policy and a Treasury Policy. These policies detail the various tools and guidelines for market risk identification, market risk measurement and risk mitigation. The fundamental focus of our Asset Liability Management Policy is the protection and enhancement of our net interest margin in the short-term and the enhancement of shareholders' value (the market value of our Equity Shares) in the long-term. The important aspects of this effort are liquidity management, interest rate risk management and the pricing of assets and liabilities.

Our Asset Liability Management Committee (ALCO), which is chaired by our Chairman and Managing Director and includes nine other senior executives, is responsible for the implementation of and adherence to the market risk policies and strategies approved by the Board and the Supervisory Committee on Risk Management and Asset Liability Management. ALCO carries out asset-liability management as an independent function separated from the business unit functions. ALCO responsibilities also include the following:

- Reviewing our Asset Liability Management Policy and defining the asset-liability functions in the Bank.
- Formulating systems and procedures to effectively carry out the objectives set forth in the Asset Liability Management Policy.
- Identifying the risk associated with our portfolio and identify appropriate risk measurement methodologies for capturing the asset-liability management risk.
- Recommending prudential internal limits on the various market risks for approval by the Board of Directors.
- Determining the balance sheet planning in terms of the desired maturity profile and mix of incremental assets and liabilities as well as from a risk return perspective, including the strategic management of interest rate risk and liquidity risk.
- Pricing the products both for deposits and for advances and analysing the impact of such pricing on our profitability.
- Articulating the current interest rate view of the Bank.



ALCO is assisted by the ALM Desk for its day-to-day functioning. The broad functions of the ALM desk include the collection and management of the asset-liability management information, the development and testing of various models to facilitate behavioral analysis, computation of earnings at risk and other matters for analysis, and the regular reporting of liquidity risk and interest rate risk in our banking book to ALCO.

Our market risks are essentially managed by our Treasury Branch. The Treasury Department has clear-cut demarcations between its front office functions, mid office functions and back office functions. The front office undertakes actual treasury operations, while the back office undertakes all accounting and related operations. The mid office is responsible for the critical functions of independent market risk monitoring, analysis and reporting to ALCO. The mid office reports to the Head of the Risk Management Department and is independent of our treasury function. The functions of the mid office include:

- To apprise ALCO about the interest rate risk in the trading book;
- To provide advice for limit setting to the Head of the Risk Management Department;
- To monitor dealer and counter party positions, broker positions and exposures vis-à-vis the limits;
- To report exceptions to the Head of the Risk Management Department and ALCO;
- To check trading desk profit and loss on a daily basis;
- To assist in verifying the risk measurement models and methodologies for usage;
- To compute portfolio value at risk and other risk measures on a daily basis; and
- To conduct a risk review of the portfolio.

Liquidity Risk

Liquidity risk arises in three different ways:

- Funding risk, which is the need to replace cash outflows due to unanticipated withdrawals or the non-renewal of deposits.
- Time risk, which is the need to compensate for non-receipt of expected inflows of funds (i.e., performing assets turning into NPAs).
- Call risk, which is the risk of crystallization of contingent liabilities and the inability to undertake business opportunities when desirable.

The purpose of liquidity management is to ensure sufficient cash flow to meet all financial commitments and to capitalise on opportunities for business expansion. This includes our ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature and to make new loans and investments as opportunities arise.

Liquidity risk management is covered in our Asset Liability Management Policy, which covers the asset-liability management process and organisation and articulates liquidity risk management processes, procedures, limits and review mechanisms. The policy covers various aspects of liquidity management, including:

- Identification of liquidity risk.
- Quantification of liquidity risk.
- Tolerance limits for liquidity mismatches.
- Strategies for liquidity risk management.
- Contingency liquidity plans under various scenarios with respect to a normal situation, a Bank specific crisis and a market crisis.

Our liquidity risk management system includes:

- Analysis of liquidity by tracking cash flow mismatches. We prepare fortnightly maturity gap analyses to review our liquidity position, and must submit a monthly analysis to RBI. RBI has prescribed a limit on the negative mismatch during 1-14 day and 15-28 day periods, which should not exceed 20% of the outflow in the respective periods.
- Establishment of limits for mismatches and cumulative gaps for all other time buckets, and monitoring the same on a fortnightly basis as per RBI requirements.
- Measuring and managing our net funding requirements by the use of a maturity ladder and the calculation of cumulative surplus or deficit of funds at different maturity dates, as recommended by RBI.



- Estimating the liquidity profile on a dynamic basis by giving due recognition to seasonal patterns of deposits and loans and the potential liquidity needs for meeting loan commitments.
- Undertaking variance analysis at periodical intervals to validate the assumptions and fine tune the same.

Interest Rate Risk

Interest rate risk refers to the potential impact on our net interest income and net interest margin in the short-term and the market value of equity in the long-term. There are four basic sources of interest rate risk:

- Repricing risk, which arises out of differences in the timing of repricing of assets and liabilities and off-balance sheet items.
- Yield curve risk, which arises when unexpected shifts of the yield curve have adverse effects on our income or economic value.
- Options risk, which arises from options embedded in our banking products, such as pre-payment of loans and premature closure of deposits.
- Basis risk, which arises from imperfect correlation in the adjustment of rates earned on assets and paid on liabilities with otherwise similar repricing characteristics. When interest rates change, these differences can cause changes in the cash flow and earnings spread between assets, liabilities and off-balance sheet instruments.

Our approach towards management of interest rate risk varies with the segmentation of the balance sheet, depending on whether the interest rate risk is in the trading book or banking book. The management of interest rate risk in our trading book is covered in our Treasury Policy, while interest rate risk in our banking book is covered in our Asset Liability Management Policy. Both the policies spell out in detail the tools for interest rate risk measurement, prudential limit setting and the monitoring thereof.

Interest Rate Risk in the Banking Book

Our banking book comprises assets and liabilities, which are contracted on account of a relationship or for steady income and statutory obligations and are generally held till maturity. Thus, the earnings or economic value changes are the main focus of the banking book. We currently have in place measurement systems to assess the effect of rate changes on both earnings and economic value such as gap analysis for addressing changes in net interest income and duration gap analysis for addressing changes in economic value.

As our expertise grows, we intend in due course to move to a simulation technique to gauge the effect of market interest rate variations over different time periods.

Price Risk - Trading Portfolio

The assets in our trading book are held primarily for generating profit on short-term differences between prices and yields. As such, price risk is our prime concern with respect to the trading book. Our Treasury Policy has clear guidelines with regard to volume, maximum maturity, holding period, stop loss, defeasance period, and rating standards for classifying securities in our trading book. We currently limit the maximum size of our trading book to Rs. 7,500 million.

A stop loss limit of 25 basis points is prescribed based on the weighted average yield for cutting losses that may arise in the trading book. A dealer may hold on to the position up to a limit of 50 basis points if the market is perceived to recover within a short period, subject to the approval of the Investment Committee.

We have fixed per dealer limits for single transactions as well as aggregate day limits for GOI securities and other debt instruments. Dealings per broker are subject to 5% ceiling of our annual turnover set by RBI.

We use the value at risk method to assess the potential loss that could capitalise on the trading position of our government securities portfolio. In addition, factor and sensitivity measures such as duration modified duration, convexity and the price variation over a one basis-point movement in interest rates (Pv01) are also calculated for government securities in the trading book.

Our Investment Committee reviews and sets ceilings/limits with respect to duration, value at risk and Pv01 for government securities in our trading book from time to time and also decides on the desired composition of the securities in our trading book.

Foreign Exchange Rate Risk

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



Foreign exchange rate risk arising out of changes on foreign exchange spot rates and foreign exchange forward rates is managed through limits fixed at the individual currency level as well as aggregate currencies as set forth below:

- Intra-day limit;
- Overnight limit; and
- Stop loss limits for our trading book.

Maximum deal size limits for proprietary transactions have been fixed with respect to outright spot deals, outright forward deals, short swaps and long swaps.

Foreign exchange forward rate risk caused due to gaps or mismatches in the merchant transactions and the corresponding cover operations in respect of maturities and quantum is managed by individual gap limits, aggregate gap limits and by assessing the value at risk on a daily basis.

Foreign exchange sensitive gaps are measured using the value at risk model developed by Foreign Exchange Dealers' Association of India (FEDAI) and is monitored on daily basis.

We have set limits for nostro balances, which are allocated between operational units based on the volume of business handled by them and their requirements.

Besides setting appropriate limits for both open positions and gaps, we monitor our foreign risk exposures through maturity and pattern statements and interest rate sensitivity statements introduced by RBI.

Operational Risk

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

Recognising the importance attached to the management of operational risk, we have institutionalised a comprehensive operational risk management framework with policies, strategies, structures and processes. The framework for Operational Risk Management is consistent with the draft guidelines of RBI on operational risk management.

The Operational Risk Management Committee, which comprises of senior executives, oversees and guides the operational risk management functions while the Operational Risk Management Cell in the Risk Management Department takes care of the day-to-day management aspects.

We have implemented systems for monitoring operational risk on an ongoing basis by focusing on operational performance measures such as extraordinary increases in loan volumes, excesses over limits, settlement delays and errors.

Operational loss events are monitored directly with an analysis of each occurrence and description of the nature and causes of the loss. Functional departments, in co-ordination with the Operational Risk Management Committee, are required to evolve action plans to address any issues found as a result of analyzing an operational loss.

We have a comprehensive internal control system in place covering the following major components:

- Reporting lines and segregation of duties;
- Clarity of decision making processes at various levels; and
- Appropriate housekeeping procedures and controls.

A book of instruction is in place for all areas of our operations and is updated on a regular basis.

A new product approval process has been institutionalised to address all of the risk issues prior to the launching a new product.

We are aware of the increasing threat from information technology related risks and risks from external events, and we have implemented a comprehensive Information Technology Policy and are in the process of implementing a Business Continuity and Disaster Management Policy, respectively, to manage the same.

Internal Inspections and Audits

The internal audit function of the Bank and the risk based internal audit complements our ability to control and mitigate operational risks.



During fiscal 2005, regular inspections were conducted at 2,022 branches. A concurrent external audit was conducted at 558 branches, covering 61.68% of our business against the RBI stipulation of 50% of business.

During fiscal 2005, in addition to the regular inspections, we carried out risk assessment of 2,022 branches under risk based internal audit. Of these branches, 935 were deemed low risk, 778 were categorised as medium risk, 261 were identified as high risk, 45 were assigned with a very high risk rating and three branches were considered as extremely high risk.

Our treasury operations are subject to monthly concurrent audits.

Legal Risk

Legal risk arises when there is possibility that we will be unable to enforce a contract or our legal rights are adversely affected. We seek to manage legal risk through:

- Usage of standardised loan documentation, which is prepared with the help of solicitors;
- Usage of various forms, formats and stationery that are clear as to the rights and obligation between the parties concerned;
- Standardisation of the list of documents to be obtained for various transactions;
- Registration of our legal rights and charges within prescribed time with the relevant authorities;
- Prompt attendance, and, where appropriate, settlement of all legal matters pertaining to us; and
- Compliance with customer confidentiality rules.

Basel-II Requirements

The RBI is adopting the requirements of Basel II, the international capital adequacy framework for banks. These requirements will affect our management of all three principal categories of risk. In particular, Basel II will introduce minimum capital requirements for market risk and operational risk in addition to the previous requirement of minimum capital only for credit risk. RBI has also initiated the phased implementation of Basel II norms.

We have performed a comprehensive self-assessment exercise spanning all the risk areas and have developed a road map to move towards implementation of Basel II, as per RBI directions. Standardised methods for market risk as per Basel II norms will be implemented as directed by RBI by March 31, 2006. Standardised approach for credit risk and basic indicator approach for operational risk as per RBI draft guidelines on Capital Adequacy is expected to be implemented by March 31, 2007.

Human Resources

The table below sets forth the size of our workforce as at the dates indicated:

	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
Officers	7,580	8,745	8,696	10,039
Other employees	18,126	16,885	16,949	15,570
Total	25,706	25,630	25,645	25,609

Our Human Resources Department is responsible for the welfare of the employees of the Bank. The department conducts recruitment, hiring, collective bargaining, benefit administration, and employee record maintenance on behalf of our employees.

In fiscal 2003 we rolled out the "Union Parivar" software application developed by Peoplesoft to assist us with our human resource management. We have made a concerted effort to automate and improve the effectiveness of our human resources functions, as we believe that this leads to greater employee satisfaction.

Training and Employee Development

We believe we have one of the leading systems in India for customised banking sector training and staff development. Our commitment to staff development and training has been rewarded by the Institute of Directors in New Delhi, which has awarded our staff college at Bangalore the prestigious Golden Peacock Training Award for the best training system in India in both 1998 and 2005.

We have eight training facilities spread across the country including our Staff College in Bangalore. All of the training that we impart in these facilities has been designed, implemented and assessed by our training consultants Vinstar Limited (AGL Group) of New Zealand. These training programs are designed to be interactive and directly relevant to the work of each employee that undertakes the program. We monitor the effectiveness of our training through post-course evaluation.



In addition, we have established ten computer-learning centers that are equipped to train our staff in our Core Banking Solution programs.

Staff College

Our Staff College is located on the outskirts of Bangalore. It is a dedicated live-in learning center equipped with lecture theatres, hostel-style rooms, recreational areas, a jogging track, a swimming pool and landscaping.

The training programs available at our Staff College are also offered to staff of other Indian banks and financial institutions, including the Oriental Bank of Commerce and Vijaya Bank, and international banks, such as the Vietnam Bank for Agriculture and Rural Development. During the six months ended September 30, 2005 we generated income of Rs. 0.25 million from the education and training of non-staff.

The following programs are regularly conducted at the College:

- Credit Appraisal Program (Industrial and Commercial Advances);
- Credit Monitoring and Recovery Program (Industrial and Commercial Advances);
- Management Skills Program;
- Marketing Skills and Customer Service Program;
- Imports for Officers Program;
- Exports for Officers Program;
- Asset Liability Management Program; and
- Preventive Vigilance Program.

We conduct the following programs in association with the Institute of Chartered Financial Analysts of India Business School, Bangalore:

- Finance for Non-Financial Executives;
- Leadership Skills and Styles;
- Treasury and Forex Management;
- IT for Banking;
- Customer Relations Management;
- Effective Services Marketing;
- Software Project Management; and
- Practical Team Building.

We also conduct the following customised programs:

- Advanced Credit Program for Audit Officers of the Oriental Bank of Commerce;
- Program on HRD for Key Members of Staff;
- Branch Manager Training for Vijaya Bank;
- General Faculty Development Program - Train the Trainers;
- Base Level Program on Forex for Vijaya Bank; and
- Advance Program on Forex for Vijaya Bank.

In February 2001, our staff college was awarded ISO 9001 certification for the design and development of customised training programs by Det Norske Veritas of the Netherlands.

Management Education Programme (MEP)

We are introducing a 15-month management education program along the lines of MBA programs offered by prestigious management institutes, to identify and develop in-house talents to groom up leadership skills among the employees. Successful candidates will be awarded a certificate and entrusted with higher responsibilities. Annually, 30 officers will be trained under this program. An academic council comprising of eminent persons from academia and industry has been formed to advice, guide and oversee the program.

Leadership Programs at Indian School of Business (ISB), Hyderabad

We have arranged training programs on leadership qualities amongst the executives of the Bank at the Indian School of Business, Hyderabad.



Program on Enhancing the Effectiveness of Branch Managers

All branch managers have been put through a one-week training program at internal training colleges on leadership and the challenges faced by the Bank.

Staff Welfare

We provide welfare benefits to our employees, including financial assistance in times of need, loans to assist payment of health-related expenses reimbursement of medical expenses, academic scholarships for dependents of staff and holiday homes. Training up to the lowest level (part time sweepers) in the Bank has been undertaken to improve operational efficiency and customer centricity.

HR Initiatives

In order to give recognition and increase motivational levels amongst the employees of the Bank we have introduced a performance-linked incentive scheme. The scheme provides for cash incentives at branch level to reward employees who have achieved their targets. In fiscal 2005 we had allocated 0.11% of the net profits of the Bank to meet the expenditure under the scheme.

Competition

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

Corporate Banking

Our principal competitors in wholesale banking are public and new private sector banks as well as foreign banks. In commercial banking, the large public sector banks have traditionally been the market leaders, with the focus of foreign banks being multinational companies and Indian corporations with cross-border financing requirements including trade, transactional and foreign exchange services. In contrast, large public sector banks have established extensive branch networks and large local currency funding capabilities.

Retail Banking

In retail banking, our principal competitors are the large public sector banks, as well as existing and new private sector banks and foreign banks that offer retail loan products. Other public sector banks similar to us have a large deposit bases and extensive branch networks, including the State Bank of India Group, which has over 13,500 branches. Although foreign banks have a small market penetration, they have a significant presence among NRIs and also compete for non-branch based products such as auto loans and credit cards. Private sector and foreign banks compete through a wider product range offering and greater technological sophistication.

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

Agriculture and Priority Segments

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

Treasury

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

Properties

Our Central Office is located at 239, Vidhan Bhavan Marg, Nariman Point, Mumbai 400 021. The buildings at our Head Office are constructed on land owned by us. We have six offices, each headed by a Field General Manager, in Ahmedabad, Lucknow, Delhi, Mumbai, Kolkata and Chennai. We also have two zonal offices at Bhopal and Pune and an additional 43 regional offices located in various geographical centres throughout the country. Of these premises 53 are owned and 2,186 are leased. We conduct our business through a total network of 2,064 branches and 146 extension counters as at December 31, 2005. 97.04% of our branches are located in leased premises. We own 78 residential properties, 53 commercial properties and 5 vacant sites.

Insurance

We maintain various insurance policies. We believe our insurance coverage is appropriate to protect us from material loss in light of the activities we conduct.



REGULATIONS AND POLICIES

The main legislation governing commercial banks, the Banking Regulation Act, applies to public sector banks like the Union Bank of India only to a limited extent. Sections 34A, 36AD and Section 51 of the Banking Regulation Act are applicable to corresponding new banks constituted under the Bank Acquisition Act. In turn, Section 51 of the Banking Regulation Act makes some of its sections applicable to corresponding new banks.

The Bank, as a corresponding new bank, is governed primarily by the provisions of the Bank Acquisition Act. The Nationalised Bank Scheme and the Bank Regulations also govern our operations.

Other important laws include the Reserve Bank of India Act, 1934. Additionally, the RBI, from time to time, issues guidelines, regulations, policies, notifications, press releases, circulars, etc. to be followed by us and supervises our compliance with these guidelines.

Like all corresponding new banks, we are regulated and supervised by the RBI. The RBI requires us to furnish statements, information and certain details relating to our business. It has issued guidelines on several matters including recognition of income, classification of assets, valuation of investments, maintenance of capital adequacy and provisioning for impaired assets. The RBI has set up a Board for Financial Supervision ("BFS"), under the chairmanship of the Governor of the RBI. The primary objective of the BFS is to undertake consolidated supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies. The appointment of the auditors of banks is subject to the approval of the RBI.

The Companies Act does not apply to us and therefore there are important differences in the rights that are available to a shareholder under the Companies Act and the rights available to a shareholder of a corresponding new bank. The table below summarises these differences.

Comparative Table of Rights of Shareholders under Companies Act, 1956 and under Bank Regulations, Banking Regulation Act, Bank Acquisition Act and Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, as applicable to Corresponding New Banks

Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
38	Not to be bound by an alteration made in the memorandum of association/articles of association after the date of becoming a member, so far as the alteration requires him to subscribe for more shares, or increases his liability to contribute to the share capital, or otherwise to pay money to the company.	No corresponding provision.	
39	To require a company to send within seven days of the requisition, a copy of each of the following documents as in force for the time being: (a) the Memorandum of Association; (b) the Articles of Association; and (c) every agreement and every resolution referred to in section 192, if any so far as they have not been embodied in the memorandum or articles.	No corresponding provision.	
49	To inspect the register of investments and to petition the Central Government if the inspection is refused.	No corresponding provision.	



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
53	To be served with a document by the company.	Regulation 46	Regulation 46: Service of a notice or document to shareholders The Bank may serve a notice or a document on any shareholder either personally, or by ordinary post at his registered address or if he has no registered address in India, at the address, if any, within India.
62	To sue directors, promoters or persons who have authorised the issue of the prospectus for loss or damage suffered by reason of any untrue statement included in the prospectus.	No corresponding provision.	
71	To avoid irregular allotment of shares/debentures.	No corresponding provision.	
73	To obtain repayment of the application money/excess application money.	No corresponding provision	
81	Rights in relation to rights issue and preferential allotment.	No corresponding provision	
84	To receive a share certificate and obtain a duplicate if the original lost or damaged.	Regulations 14 and 15	Issue of Share Certificates. Issue procedure of share certificate and joint share certificates, duplicate share certificates detailed.
87	Voting rights at general meetings and on a poll in proportion to the share of the paid-up equity capital of the company.	Regulations 61 and 68 Sections 3(2BBA) (a) and 3(2E)	Regulation 61: Voting at general meetings (i) At any general meeting, a resolution put to the vote of the meeting shall, unless a poll is demanded, be decided on a show of hands. (ii) Save as otherwise provided in the Act every matter submitted to a general meeting shall be decided by a majority of votes. (iii) Before or on the declaration of the result of the voting on any resolution on a show of hands, a poll may be ordered to be taken by the chairman of the meeting of his own motion and shall be ordered to be taken by him on a demand made on that behalf by any shareholder or shareholders present in person or by proxy and holding shares in the bank which confer a power to vote on the resolution not being less than one fifth of the total voting power in respect of the resolution.



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
			Regulation 68: Determination of voting rights (i) Subject to the provisions contained in Section 3 (2E) of the Act, each shareholder shall, at such meeting, have one vote on show of hands and in case of a poll shall have one vote for each share held by him. (ii) Subject to the provisions contained in Section 3 (2E) of the Act, every shareholder entitled to vote as aforesaid who, not being a company, is present in person or by proxy or who being a company is present by a duly authorised representative, or by proxy shall have one vote on a show of hands and in case of a poll shall have one vote for each share held by him as stated hereinabove in sub-regulation (i) Explanation – For this Chapter, “Company” means any body corporate. (iii) Shareholders of the Bank entitled to attend and vote at a general meeting shall be entitled to appoint another person (whether a shareholder or not) as his proxy to attend and vote instead of himself but a proxy so appointed shall not have any right to speak at the meeting. Section 3(2BBA)(a)A corresponding new bank may from time to time and after any paid-up capital has been raised by public issue under clause I of sub-section (2B), by resolution passed at an annual general meeting of the shareholders entitled to vote, voting in person, or, where proxies are allowed, by proxy, and the votes cast in favour of the resolution are not less than three times the number of the votes, if any, cast against the resolution by the shareholders so entitled and voting, reduce its paid-up capital in any way. Section 3(2E) No shareholder of the corresponding new bank, other than the central Government, shall be entitled to exercise voting rights in respect of any shares held by him in excess of one per cent of the total voting rights of all the shareholders of the corresponding new bank.



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
91	To have calls on shares on a uniform basis on all the shares falling under the same class.	Regulations 22, 24, 26 and 29	Regulation 22: Calls on shares The Board may make such calls as it thinks fit for all moneys remaining unpaid, which are by the conditions of allotment not made payable at fixed times, and each shareholder shall pay the amount of every call so made on him to the person and at the time and place appointed by the Board.
99	Right to determine that uncalled share capital shall be capable of being called only upon winding up.	No corresponding provision.	
106	To consent to the variation of rights attached to the shares.	No corresponding provision.	
107	To apply to the National Company Law Tribunal to have the variation of rights cancelled if no consent is given.	No corresponding provision.	
108	To transfer shares held in the company.	Regulations 3, 17, 18 and 19 Section 3(2D)	Regulation 3: Nature of Shares The shares of the bank shall be movable property, transferable in the manner provided in the bank Regulations which include a detailed procedure for such transfer Section 3(2D) The shares of every corresponding new bank not held by the central Government shall be freely transferable: Provided that no individual or company resident outside India or any company incorporated under any law not in force in India of any branch of such company, whether resident outside India or not, shall at any time hold or acquire by transfer or otherwise shares of the corresponding new bank so that such investment in aggregate exceed the percentage, not being more than twenty per cent of the paid-up capital as may be specified by the central Government by notification in the Official Gazette.
110	To apply for the registration of transfer of shares.	Regulations 18 and 19	Regulation 18: Power to suspend transfers The board or the committee designated by the board shall not register any transfer during any period in which the register is closed. Regulation 19: Board's right to refuse registration of transfer of shares



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
			(i) The board or committee may refuse transfer of any shares in the name of the transferee on any one or more of the following grounds, and on no other grounds: - the transfer of shares is in contravention of the provisions of the Bank Acquisition Act or regulations made thereunder or any other law or that any other requirement under the law relating to registration of such transfer has not been complied with; - the transfer of shares, in the opinion of the board, is prejudicial to the interests of the bank or to public interest; - the transfer of shares is prohibited by an order of court, tribunal or any other authority under any law for the time being in force; - an individual or a company resident outside India or any company incorporated under any law not in force in India or any branch of such company, whether resident outside India or not, will on the transfer being allowed, hold or acquire as a result thereof, shares of the bank and such investment in the aggregate will exceed the percentage being more than 20% of the paid up capital or as may be prescribed by the central government by notification in the official gazette. (ii) The board or the committee shall, after the instrument of transfer of shares of the bank is lodged with it for the purpose of registration of such transfer, form its opinion as to whether such registration ought or ought not to be refused on any of the grounds referred to above: - if it has formed the opinion that such registration ought not to be so refused, effect such registration; and - if it has formed the opinion that such registration ought to be refused on any of the grounds mentioned above intimate the same to the transferor and the transferee by notice in writing giving reasons for such refusal within 60 days from the receipt of the transfer form or within such period as may be laid down in the listing agreement with the concerned stock exchange.



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
111, 111A	To make a petition to the National Company Law Tribunal against refusal by the company for the registration of transfer of shares or rectification of the register of members.	No corresponding provision.	
112	To have the share transfer instrument certified by the company in the case of part transfer of the total holding.	Regulation 16	Regulation 16: Consolidation and sub-division of shares On a written application made by the shareholder(s), the board or the committee designated by it may consolidate or sub-divide the shares submitted to it for consolidation/ sub-division as the case may be and issue new certificate(s) in lieu thereof on payment to the bank of its costs, charges and expenses of and incidental to the matter.
113	To have the share certificate delivered within the time limit stipulated.	Regulation 17(v)	Regulation 17(v) Unless the transfer of shares is refused under regulation 19, the share certificate duly transferred shall be delivered to the transferee within sixty days of the date of lodging the instrument of transfer.
113	To serve on the company a notice, requiring it to make good any default in delivering share/ debenture/ stock certificates.	No corresponding provision.	
113	To apply to the Central Government in the event of the company's failure to make good any default as above.	No corresponding provision.	
117A	To inspect debenture trust deed and obtain a copy thereof.	No corresponding provision.	
118	To request the company to forward a copy of a debenture trust deed.	No corresponding provision.	
118	To apply to the Central Government to direct the company to forward a copy of the debenture trust deed forthwith.	No corresponding provision	
134	To file with the Registrar of Companies the particulars of a charge created by the company, as a person interested therein.	No corresponding provision.	
141	To apply to the Central Government for the rectification of the register of charges as an interested party.	No corresponding provision.	
144	To inspect the copies of instruments creating charge.	No corresponding provision.	



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
144	To apply to the Central Government for compelling inspection of the copies and the register aforesaid, in case of refusal by the company.	No corresponding provision.	
163	To inspect, to obtain copies of the register of members or register of debenture holders and copies of annual returns together with the copies of certificates and documents required to be annexed thereto.	Regulations 11 and 12Section 3 (2F)	Share register maintained under Regulation 5 and Section 3(2F) Regulation 11: Inspection of Register The register shall, except when closed under Regulation 12, be open to inspection, free of charge, at the place where it is maintained during business hours, subject to such reasonable restrictions as the board may impose, but not less than two hours in each working day be allowed for inspection Notwithstanding anything contained in sub-regulation (ii), any duly authorised officer of the Government shall have the right to make a copy of any entry in the register or be furnished a copy of the register or any part thereof.
163	To apply to the central Government for compelling inspection of the registers of shareholders and debenture-holders and annual returns.	No corresponding provision.	
165	To receive a copy of the statutory report and to attend the statutory meeting.	No corresponding provision.	
165	To discuss at the statutory meeting, any matter relating to the formation of the company or arising out of the statutory report, without giving a previous notice therefore.	No corresponding provision.	
165	To have accessible, a list of members with details, during the continuation of the statutory meeting.	No corresponding provision.	
169	To attend an extra-ordinary general meeting.	Regulations 60	Regulation 60: Persons entitled to attend general meetings (i) All directors and all shareholders of the bank shall, subject to the provisions of sub-regulation (ii), be entitled to attend a general meeting. (ii) A shareholder (not being the central government) or a director, attending a general meeting shall for the purpose of identification and to determine his voting rights, be required to sign and deliver to the bank a form to be



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
			specified by the chairman containing the particulars relating to: (a) his full name and registered address; (b) the distinctive number of his shares; (c) whether he is entitled to vote and the number of votes to which he is entitled in person or by proxy or as a duly authorised representative.
169	To requisition an extra-ordinary general meeting.	Regulation 57	Regulation 57: Extraordinary General Meeting (i) The chairman and managing director or in his absence the executive director of the bank or in his absence any one of the directors of the bank may convene an extra-ordinary general meeting of shareholders, if so directed by the board, or on a requisition for such a meeting having been received either from the central government or from other shareholders holding shares carrying, in the aggregate not less than ten percent of the total voting rights of all shareholders. (ii) The requisition referred in sub-regulation (i) shall state the purpose for which the extra ordinary general meeting is required to be convened, but may consist of several documents in like form each signed by one or more of the requisitionists. (iii) Where two or more persons hold any shares jointly, the requisition or a notice calling a meeting signed by one or some of them shall, for the purpose of this regulation have the same force and effect as if it had been signed by all of them. (iv) The time, date and place of the extra ordinary general meeting shall be decided by the board: Provided that the extraordinary general meeting convened on the requisition by the central government or other shareholder shall be convened not later than 45 days of the receipt of the requisition. (v) If the chairman and managing director or in his absence the executive director, as the case may be, does not



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
			convene a meeting as required by sub-regulation (i), within the period stipulated in the proviso to sub-regulation (iv), the meeting may be called by the requisitionist themselves within three months from the date of the requisition: Provided that nothing in this sub-regulation shall be deemed to prevent a meeting duly convened before the expiry of the period of three months aforesaid, from being adjourned to some day after the expiry of that period. (vi) A meeting called under sub-regulation (v) by the requisitionist shall be called in the same manner, as nearly as possible as that in which the other general meetings are called by the board.
169	To hold an extra-ordinary general meeting if the board of directors fails to convene a meeting on the requisition, within the time limit stipulated.	Regulation 57	
169	To have reimbursed, the expenses incurred for convening/ holding the extra-ordinary general meeting, on failure of the board as aforesaid.	No corresponding provision.	
171,172	To receive a notice of every general meeting.	Regulation 56	Regulation 56: Notice convening an Annual General Meeting (i) notice convening an annual general meeting of the shareholders shall be published at least twenty-one clear days before the meeting in not less than two daily newspapers having wide circulation in India. (ii) the time and date of such meeting shall be as specified by the board. The meeting shall be held at the place of head office of the bank.
173	To have the notice of a general meeting annexed with an explanatory statement.	No corresponding provision.	
174	To be counted for the purpose of constituting a quorum at a general meeting.	Regulation 58	Regulation 58: Quorum of general meeting No business shall be transacted at any meeting of the shareholders unless a quorum of at least five shareholders entitled to vote at such meeting in person are present at the commencement of such business.



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
176	To appoint a proxy to attend and vote at a general meeting of a company.	Regulations 68 and 70	Shareholders can attend and vote personally and through proxy.
176	To inspect the proxies lodged with the company in the manner specified.	No corresponding provision.	
179	To demand a poll and to withdraw the demand in the manner laid down in this section at a general meeting of the company.	Regulation 61	Regulation 61: Voting at general meetings -At any general meeting, a resolution put to the vote of the meeting shall, unless a poll is demanded be decided on a show of hands.
182	Not to be prohibited from exercising the voting right on the ground that the shares or other interest in the company has not been held for any specified period or on any other ground than the one specified in Section 181.	No corresponding provision.	
183	To use votes on a poll differently, for or against the resolution.	No corresponding provision.	
184	To be appointed as a scrutineer at a poll.	Regulation 61A	Regulation 61A: Scrutineers at a Poll Of the two scrutineers appointed under this regulation one shall always be a shareholder (not being an officer or employee of the bank) present at the meeting; provided that such a shareholder is available and willing to be appointed.
186	To apply to the National Company Law Tribunal to order a general meeting other than annual general meeting, to be called.	No corresponding provision.	
187	To be represented at a general meeting of a company (if the member to be represented, is a company).	Regulation 69(i)	Regulation 69(i): Voting by duly authorised representative – A shareholder, being the central Government or a company, may authorise any of its officials or any other person to act as its representative at any general meeting. The authorisation so given may be in favour of two persons in the alternative and in such a case any one of such persons may act as the duly authorised representative of the central Government / company.
187A	To be represented at a general meeting of a company (if the member to be represented, is the President or Governor of a State).	Regulation 69(i)	Same as above
188	To have a resolution to be proposed at a general meeting to be circulated amongst members of the company.	No corresponding provision.	



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
190	To give a special notice to the company in respect of the resolutions requiring special notice.	No corresponding provision.	
190	To be given a notice of a resolution requiring special notice.	No corresponding provision.	
196	To inspect and be furnished with a copy of the minutes of any general meeting.	Regulation 62	Regulation 62: Minutes of general meetings – (i) The bank shall cause the minutes of all proceedings to be maintained in the books kept for the purpose. (ii) On written request made by a shareholder for inspection of the minute book or for a copy of the minute of a specified meeting, the bank shall allow the inspection or furnish the copy of the minute, as the case may be.
196	To apply to the central Government for inspection of the minutes books or to be furnished with a copy of minutes of the general meeting.	No corresponding provision.	
203	To apply to the court/ National Company Law Tribunal to restrain fraudulent persons from managing companies.	No corresponding provision.	
205	Dividend to be paid only out of profits	No corresponding provision.	
205A, 205B	To claim any unclaimed dividend.	No corresponding provision.	
206	To receive dividend declared.	No corresponding provision.	
206A	To have the dividend transferred to the special account where the transfer of shares has not been registered by the company.	No corresponding provision.	
206A	To have any rights shares or bonus shares kept in abeyance in relation to the shares, the registration of transfer of which has not been registered by the company.	No corresponding provision.	
219	To receive 21 days before the date of the annual general meeting, copies of the balance sheet, profit and loss account, directors' report, auditor's report and other documents.	No corresponding provision.	
219	To require a company to furnish the full accounts where the company has sent abridged accounts.	No corresponding provision.	



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
219	To inspect the full accounts at the annual general meeting if the company has sent the abridged accounts.	Section 10A(2)	Section 10A(2): Annual general meeting The shareholders present at an annual general meeting shall be entitled to discuss the balance-sheet and the profit and loss account of the corresponding new bank made up to the previous 31st day of March, the report of the board of directors on the working and activities of the corresponding new bank for the period covered by the accounts and the auditor's report on the balance-sheet and accounts.
224(5)	To nominate a person for appointment as auditor of the company if the first auditors are removed at a general meeting.	No corresponding provision.	
225	To give a special notice for a resolution appointing as auditor, person other than the retiring auditor or providing expressly that a retiring auditor shall not be re-appointed.	No corresponding provision.	
227	To be reported upon the accounts, balance sheet, profit and loss account, etc by the auditors of the company.	Section 30(2), Banking Regulation Act, 1949.	The auditor shall discharge the duties and be subject to the liabilities imposed on auditors of companies by Section 227 of the Companies Act, 1956. This provision is applicable to corresponding new banks by virtue of the provisions of Section 51 of the Banking Regulation Act.
230	To inspect the auditors' report at the general meeting where it is laid.	Section 10 A	
250	To apply to the National Company Law Tribunal to impose restrictions on shares, debentures or to prohibit transfer thereof in certain cases.	No corresponding provision.	
257	To stand for election for directorship at a general meeting.	Section 9(3) Regulation 63	Regulation 63: Directors to be elected at general meeting - (i) director under clause (i) of sub-section (3) of Section 9 of the Act shall be elected by the shareholders on the register, other than the central Government, from amongst themselves in the general meeting of the bank.
257	To give notice to the company for proposing a resolution at a general meeting to have himself or any other person elected as a director.	Regulation 65	Regulation 65: Nomination of candidates for election (i) No nomination of a candidate for election as a director shall be valid unless, a. he is a shareholder holding not less than 100 (one hundred) shares in the bank;



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
			b. he is on the last date for receipt of nomination, not disqualified to be a director under the Act or under the Scheme; c. he has paid all calls in respect of the shares of the bank held by him, whether alone or jointly with others, on or before the last date fixed for the payment of the call; d. nomination is in writing signed by at least one hundred shareholders entitled to elect directors under the Act. (ii) No nomination shall be valid unless it is received with all the connected documents complete in all respects and received, at the Head Office of the bank on a working day not less than fourteen days before the date fixed for the meeting.
257	To be informed of the candidature for directorship or the intention of a member to propose such person for directorship.	No corresponding provision.	
265	To vote for appointing a director by the proportional representation system.	No corresponding provision.	
284	To give a notice to the company proposing a resolution at a general meeting for removal of a director and appointment of a person as director in place of the removed director.	Clause 11A	Clause 11-A: Removal from office of an elected director. The shareholders other than the Central Government, may, by a resolution passed by majority of the votes of such shareholders holding in the aggregate not less than one half of the share capital held by all such shareholders, remove any director elected by the shareholders and elect in his stead another person to fill the vacancy.
301	To inspect, to take copies of the register of contracts, etc kept under this Section.	No corresponding provision.	
302	To receive an abstract of the terms of the contract or variation thereof, in respect of the appointment of manager or managing director, in which any director is interested.	No corresponding provision.	
304	To inspect the register of directors.	No corresponding provision.	



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
304	To apply to the Central Government/ National Company Law Tribunal for compelling inspection of the aforesaid register, if it is refused by the company. To inspect the register kept by the registrar under this Section.	No corresponding provision.	
306	To inspect at the annual general meeting, the register of directors' shareholdings.	No corresponding provision.	
307	To inspect at the registered office, the register of directors' shareholdings.	No corresponding provision.	
307	To apply to the Central Government/ National Company Law Tribunal for compelling inspection of the aforesaid register, if refused by the company.	No corresponding provision.	
391	To apply to the National Company Law Tribunal to call a meeting of the creditors or of the members in case compromise or arrangement is proposed with its creditors or members.	No corresponding provision.	
391	To agree to any compromise or arrangement at a special meeting called for that purpose.	No corresponding provision.	
391	To have disclosed in the notice of the special meeting referred to above, the particulars notified in sub-s (1) of this Section.	No corresponding provision.	
393	To be furnished by the company, with a copy of the statement setting forth the terms of the compromise or arrangement proposed and explaining its effect where the notice of the meeting is given by an advertisement.	No corresponding provision.	
393	To be offered the same terms as offered to all holders of shares of that class, whose transfer is involved if the member is a dissenting member.	No corresponding provision.	
395	To receive notice within one month from the date of the transfer, of that fact in the prescribed manner, to the holders of the remaining shares or of the remaining shares of that class, as the case may be, who have not assented to the scheme or contract.	No corresponding provision.	



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
395	To require the transferee company to acquire the shares in question within three months of giving the notice.	No corresponding provision.	
395	To have a copy of the notice transmitted to the transferor company together with an instrument of transfer and within one month of the date of registration be informed of the fact of registration, and of the receipt of amount or other consideration.	No corresponding provision.	
396	To have as nearly as may be, the same interests in or rights against the company resulting from the amalgamation, as he had in the company in which he was originally a member, and to receive compensation in case such interests or rights are reduced.	No corresponding provision.	
396	If aggrieved by any assessment of compensation, to prefer an appeal to the National Company Law Tribunal.	No corresponding provision.	
397, 398	To apply to the National Company Law Tribunal if he is of the opinion that the affairs of the company are being conducted in a manner prejudicial to the public interest or in a manner oppressive to any member.	No corresponding provision.	
408	To apply to the National Company Law Tribunal for appointment of a nominee director, to safeguard the interests of the company or its shareholders or the public interests.	No corresponding provision.	
433	To resolve along with other members, at a general meeting, that the company be wound-up by the National Company Law Tribunal.	No corresponding provision.	
439	To petition the National Company Law Tribunal for winding-up the company.	No corresponding provision.	
440	To present winding-up petition where company is being wound-up voluntarily or subject to court's supervision.	No corresponding provision.	
490	To appoint one or more liquidators in the case of voluntary liquidation, and to fix the remuneration if any, to be paid to the liquidator.	No corresponding provision.	



Section of Companies Act	Rights available to shareholders of a company	Corresponding Provision*	Rights available to shareholders of a Corresponding New Bank
492	To fill the vacancy occurred by the death, resignation or otherwise in the office of the liquidator appointed by the company, in a general meeting and convene a general meeting for this purpose.	No corresponding provision.	
511	To have distributed to himself on the winding-up, the assets of the company according to his rights and interests in the company.	No corresponding provision.	
545	To have the opportunity of making a statement in writing to the registrar and being heard thereon, in case he is being prosecuted as a delinquent member.	No corresponding provision.	
621	To make a complaint in a court regarding offence under the Companies Act.	No corresponding provision.	

*Please note the following for the above table:

1. All references to **Sections** are references to Sections of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, except where otherwise specified.
2. All references to **Regulations** are references to provisions of Union Bank of India (Shares and Meetings) Regulations, 1998.
3. All references to **Clauses** are references to provisions of the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970.
4. The above rights are in addition to the rights that may be available to the shareholders, present as well as prospective, under the listing agreements that we have entered into with the Stock Exchanges.

Licensing of Corresponding New Banks

Section 22 of the Banking Regulation Act, which requires a licence to be obtained from the RBI in order to carry out banking business in India, applies only to banking companies, and not to corresponding new banks. Accordingly, the Bank does not require a licence in order to carry out banking activities.

Regulations relating to the Opening of Branches

Banks are required to obtain licences from the RBI to open new branches. Permission is granted based on factors such as overall financial position of the bank, quality of its management, efficacy of the internal control system, profitability and other relevant factors. The RBI may cancel the licence for violations of the conditions under which it was granted. It is left to the judgment of the individual banks to assess the needs for opening additional branches.

Capital Adequacy Requirements

We are subject to the capital adequacy requirements of the RBI, which are based on the guidelines of the Basel Committee on Banking Regulations and Supervisory Practices, 1998. With a view to adopting the Basel Committee framework on capital adequacy norms which takes into account the elements of risk in various types of assets in the balance sheet as well as off-balance sheet business and also to strengthen the capital base of banks, RBI decided in April 1992 to introduce a risk asset ratio system for banks (including foreign banks) in India as a capital adequacy measure. This requires us to maintain a minimum ratio of capital to risk adjusted assets and off-balance sheet items of 9.0%, at least half of which must be Tier I capital.



The total capital of a banking company is classified into Tier I and Tier II capital. Tier I capital, i.e. the core capital, provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital and reserves consisting of any statutory reserves, free reserves and capital reserves as reduced by equity investments in subsidiaries, intangible assets, and losses in the current period and those brought forward from the previous period. A bank's deferred tax asset is to be treated as an intangible asset and deducted from its Tier I capital.

Tier II capital comprises the undisclosed reserves and cumulative perpetual preference shares, revaluation reserves (at a discount of 55.0%), general provisions and loss reserves (allowed up to a maximum of 1.25% of risk weighted assets), hybrid debt capital instruments (which combine certain features of both equity and debt securities) and subordinated debt. Any subordinated debt is subject to progressive discounts each year for inclusion in Tier II capital and total subordinated debt considered as Tier II capital cannot exceed 50.0% of Tier I capital. Tier II capital cannot exceed Tier I capital.

With a view to enabling the building up of adequate reserves to guard against any possible reversal of the interest rate environment in the future due to unexpected developments, the RBI has advised banks to build up an investment fluctuation reserve of a minimum of 5.0% of the bank's investment portfolio within a period of five years from fiscal 2001. This reserve has to be computed with respect to investments in Held for Trading and Available for Sale categories. Investment fluctuation reserve is included in Tier II capital. Though investment fluctuation reserve is also considered in the general provision for Tier II, the same is not subjected to the ceiling of 1.25% of risk-weighted assets. In terms of RBI mid-term review of Monetary Policy for the year 2005-06, banks are permitted to treat Investment Fluctuation Reserve (IFR) as part of Tier-I capital, if they maintain capital of atleast 9% in respect of investment under 'Held for Trading' and 'Available for sale'.

Risk adjusted assets and off-balance sheet items considered for determining the capital adequacy ratio are the weighted aggregate of specified funded and non-funded exposures. Degrees of credit risk expressed as percentage weights are assigned to various balance sheet asset items and conversion factors to off-balance sheet items. The value of each item is multiplied by the relevant weight or conversion factor to produce risk-adjusted values of assets and off-balance-sheet items. Guarantees and letters of credit are treated as similar to funded exposure and are subject to similar risk weight. All foreign exchange and gold open position limits carry a 100.0% risk weight. A risk weight of 2.5% to cover market risk has to be assigned in respect of the entire investments portfolio over and above the risk weight for credit risk. Banks are required to assign a 100.0% risk weight for all state government guaranteed securities issued by defaulting entities. The aggregate risk weighted assets are taken into account for determining the capital adequacy ratio.

As per regulatory requirements, banks have to maintain a capital to risk asset ratio of 9.0%. However, as per RBI guidelines issued in September 2002, in addition to other conditions to be complied with for declaration of dividend without approval of RBI, capital to risk asset ratio must also be maintained at 11.0%.

Asset Classification and Provisioning

In April 1992, the RBI issued formal guidelines on income recognition, asset classification, provisioning standards and valuation of investments applicable to banks, applicable from the financial year 1992-93, which are revised from time to time.

As per these guidelines, the basis of treating various credit facilities as non-performing are set forth below.

Non-Performing Assets

An advance is a non-performing asset where:

- interest and/or installment of principal remained overdue for a period of more than 90 days in respect of a term loan;
- the account remained "out-of-order" for a period of more than 90 days in respect of an overdraft or cash credit (if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power or there are no credits continuously for 90 days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period, then such accounts are treated as "out of order");
- the bill remained overdue for a period of more than 90 days in case of bills purchased and discounted;
- if the interest and/or principal remained overdue for two harvest seasons but for a period not exceeding two half-years in the case of an advance granted for agricultural purposes. With effect from September 30, 2004, a loan granted for short duration crops will be treated as a non-performing asset, if the installment of principal or interest thereon remains overdue for two crop seasons. With effect from September 30, 2004, a loan granted for long duration crops will be treated as a non-performing asset, if the installment of principal or interest thereon remains overdue for one crop season (crops with crop season longer than one year are long duration crops, and crops, which are not long duration crops are treated as short duration crops).
- any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.



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

Asset Classification

Non-performing assets are classified as described below:

- **Sub-Standard Assets:** Assets that are non-performing assets for a period not exceeding 18 months. With effect from March 31, 2005, a sub-standard asset is one, which has remained as an NPA for a period less than or equal to 12 months.
- **Doubtful Assets:** Assets that are non-performing assets for more than 18 months. With effect from March 31, 2005, an asset is classified as doubtful if it remains in the sub-standard category for 12 months.
- **Loss Assets:** Assets on which losses have been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been fully written off.

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

The RBI had issued separate guidelines for restructured assets under the corporate debt restructuring mechanism and under other mechanisms. A fully secured standard asset can be restructured by reschedulement of principal repayments and/or the interest element, but must be separately disclosed as a restructured asset. The amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved. Similar guidelines apply to sub-standard assets, and to doubtful assets, in the case of restructuring of assets under the corporate debt restructuring mechanism. The sub-standard accounts which have been subjected to restructuring, whether in respect of principal instalment or interest amount, are eligible to be upgraded to the standard category only after the specified period, i.e. a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period.

Provisioning and Write-Offs

Provisions are based on guidelines specific to the classification of the assets. The following guidelines apply to the various asset classifications:

- **Standard Assets:** A general provision of 0.25% was required until September 30, 2005. After September 30, 2005, a general provision of 0.40% is required except for direct advances to agriculture and SME sectors, which are exempted from additional provisioning requirement.
- **Sub-Standard Assets:** A general provision of 10.0% of the total outstanding should be made. The unsecured exposures which are identified as sub-standard would attract additional provision of 10%, i.e. a total of 20% on the unsecured exposures.
- **Doubtful Assets:** A 100.0% provision/write-off of the unsecured portion of advances, which are not covered by realizable value of the security. In cases where there is a secured portion of the asset, depending upon the period for which the asset remains doubtful, a 20.0% to 100.0% provision is required to be made against the secured asset as follows:
 - Up to one year: 20.0% provision
 - One to three years: 30.0% provision
 - More than three years:
 1. In respect of outstanding non-performing assets as on March 31, 2004: 50.0% provision, which has become 60% with effect from March 31, 2005 and will become 75 % with effect from March 31, 2006 and 100 per cent with effect from March 31, 2007.
 2. In respect of assets, which have been doubtful for over three years on or after April 1, 2004, provision has been raised to 100% with effect from March 31, 2005.
- **Loss Assets:** The entire asset is required to be written off or provided for.

While the provisions indicated above are mandatory, banks are encouraged to make higher provisions over and above the mandatory level.

Regulations relating to Making Loans

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



- The RBI has prescribed norms for bank lending to non-bank financial companies and financing of public sector disinvestment.
- The banks should charge interest on loans/advances/cash credits/overdrafts or any other financial accommodation granted/provided/renewed by them or discount usance bills in accordance with the directives on interest rates on advances issued by RBI from time to time. Banks are free to determine their own lending rates but each bank must declare its benchmark prime lending rate as approved by its board of directors. Benchmark prime lending rate is determined on the basis of various parameters, which inter alia, include cost of funds, operating expenses, capital charge and profit margin. Each bank should also indicate the maximum spread over the benchmark prime lending rate for all credit exposures other than retail loans over Rs. 200,000. The interest charged by banks on advances up to Rs. 200,000 to any one entity (other than most retail loans) must not exceed the benchmark prime lending rate. Banks are also given freedom to lend at a rate below the prime lending rate in respect of creditworthy borrowers and exporters on the basis of a transparent and objective policy approved by their boards. Interest rates for certain categories of advances are regulated by the RBI. Banks are also free to stipulate lending rates without reference to their own benchmark prime lending rates in respect of certain specified categories of loans.
- In terms of Section 20(1) of the Banking Regulation Act, a bank cannot grant any loans and advances on the security of its own shares. A bank is also prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company (not being a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, or a Government company) of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor. There are certain exemptions in this regard as the explanation to the Section provides that 'loans or advances' shall not include any transaction which the RBI may specify by general or special order as not being a loan or advance for the purpose of such Section.

Legislation introduced in the Indian Parliament to amend the Banking Regulation Act has proposed to prohibit lending to relatives of directors and to non-subsidiary companies that are under the same management as the banking company, joint ventures, associates or the holding company of the banking company.

There are guidelines on loans secured by shares, debentures and bonds, money market mutual funds, fixed deposits receipts issued by other banks, gold/silver bullion etc. in respect of amount, margin requirement and purpose.

Regulations relating to Sale of Assets to Asset Reconstruction Companies

The Securitisation Act provides for sale of financial assets by banks and financial institutions to asset reconstruction companies. The RBI has issued guidelines to banks on the process to be followed for sales of financial assets to asset reconstruction companies. These guidelines provide that a bank may sell financial assets to an asset reconstruction company provided the asset is a non-performing asset. A bank may sell a standard asset only if the borrower has a consortium or multiple banking arrangement, at least 75% by value of the total loans to the borrower are classified as non-performing and at least 75% by value of the banks and financial institutions in the consortium or multiple banking arrangement agree to the sale. The banks selling financial assets should ensure that there is no known liability devolving on them and that they do not assume any operational, legal or any other type of risks relating to the financial assets sold. Further, banks may not sell financial assets at a contingent price with an agreement to bear a part of the shortfall on ultimate realisation. However, banks may sell specific financial assets with an agreement to share in any surplus realised by the asset reconstruction company in the future. While each bank is required to make its own assessment of the value offered in the sale before accepting or rejecting an offer for purchase of financial assets by an asset reconstruction company, in consortium or multiple banking arrangements where more than 75% by value of the banks or financial institutions accept the offer, the remaining banks or financial institutions are obliged to accept the offer. Consideration for the sale may be in the form of cash, bonds or debentures or security receipts or pass through certificates issued by the asset reconstruction company or trusts set up by it to acquire the financial assets. Any loss on sale must be charged to the profit and loss account, but any gains must be used for meeting losses on sale of other financial assets. For computing capital adequacy, a risk weight of 102.5% is applied to instruments received by banks as consideration for sale of financial assets to asset reconstruction companies.

Directed Lending

Priority Sector Lending

The RBI requires commercial banks to lend a certain percentage of their net bank credit to specific sectors (known as priority sectors), such as agriculture, small-scale industry, small businesses and housing finance. Total priority sector advances should be 40.0% of net bank credit with agricultural advances required to be 18.0% of net bank credit, advances to weaker sections required to be 10.0% of net bank credit and 1.0% of the previous year's total advances is required to be lent under the Differential Rate of Interest scheme. Domestic scheduled commercial banks having shortfall in lending to agriculture sector



are allocated amounts for contribution to the Rural Infrastructure Development Fund established by the National Bank for Agricultural and Rural Development. Any shortfall by foreign banks in the amount required to be lent to the priority sectors may be required to be deposited with the Small Industries Development Bank of India.

The RBI requires banks to make advances towards housing finance. This can be in the form of home loans to individuals or subscription to the debentures and bonds of the National Housing Bank and housing development institutions recognised by the Government of India.

The RBI also periodically issues instructions/directives to banks with regard to providing credit facilities to minority communities.

Export Credit

The RBI also requires commercial banks to make loans to exporters at concessional rates of interest. This enables exporters to have access to an internationally competitive financing option. Pursuant to existing guidelines, 12.0% of a bank's net bank credit is required to be in the form of export credit. We provide export credit for pre-shipment and post-shipment requirements of exporter borrowers in rupees and foreign currencies.

Credit Exposure Limits

As a prudent measure aimed at better risk management and avoidance of concentration of credit risk, the RBI has prescribed credit exposure limits for banks and long-term lending institutions in respect of their lending to individual borrowers and to all companies in a single group (or sponsor group).

The limits set by the RBI are as follows:

- Credit exposure ceiling for a single borrower shall not exceed 15.0% of capital funds. Group exposure limit is 40.0% of capital funds. In case of financing for infrastructure projects, the single borrower exposure limit is extendable by another 5.0%, i.e. up to 20.0% of capital funds and the group exposure limit is extendable by another 10.0%, i.e. up to 50.0% of capital funds. Capital funds are the total capital as defined under capital adequacy standards (Tier I and Tier II capital).
- A bank may, in exceptional circumstances, with the approval of its board of directors, consider enhancement of the exposure over the above specified limits, up to a further 5% of capital funds. Such additional exposure can be taken, subject to the consent of the borrower to disclose their names in a bank's balance sheet.
- Exposure shall include credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and other similar commitments) as well as certain types of investments in companies. The sanctioned limits or outstandings, whichever are higher, are considered for arriving at the exposure limit. Non-fund exposures are to be reckoned at 100% of the limit or outstandings, whichever is higher.

Credit exposure is the aggregate of:

- all types of funded and non-funded credit limits;
- facilities extended by way of equipment leasing, hire purchase finance and factoring services;
- advances against shares, debentures, bonds and units of mutual funds to stock brokers and market makers;
- bank loan for financing promoters' contributions;
- bridge loans against equity flows/issues; and
- financing of initial public offerings.

Investment exposure comprises of the following elements:

- investments in shares and debentures of companies acquired through direct subscription, devolvement arising out of underwriting obligations or purchase from secondary markets or on conversion of debt into equity;
- investment in public sector undertaking bonds through direct subscription, devolvement arising out of underwriting obligations or purchase made in the secondary market;
- investments in commercial papers issued by corporate bodies or public sector undertakings; and
- investments in debentures, bonds, security receipts, pass through certificates issued by a securitisation or reconstruction company. However, initially, since only a few securitisation and reconstruction companies are being set up, banks will be allowed to exceed prudential exposure on account of such investments on a case-to-case basis.

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



Regulations relating to Investments and Capital Market Exposure Limits

There are no limits on the amount of investment by banks in non-convertible debt instruments. However, credit exposure limits specified by the RBI in respect of lending to individual borrowers and borrower groups apply in respect of these investments.

Pursuant to the RBI guidelines, the exposure of banks to capital markets by way of investments in shares, convertible debentures, units of equity-oriented mutual funds and loans to brokers, should not exceed 5.0% of outstanding domestic advances (excluding inter-bank lending and advances outside India and including commercial paper) at March 31 of the previous fiscal year and investments in shares, convertible debentures and units of equity-oriented mutual funds should not exceed 20.0% of the bank's net worth.

The Bank's investment in the following instruments, which are issued by other banks and are eligible for capital status for the investee bank, should not exceed 10 per cent of the investing bank's capital funds (Tier I plus Tier II): (a) equity shares; (b) preference shares eligible for capital status; (c) subordinated debt instruments; (d) hybrid debt capital instruments; and (e) any other instrument approved as in the nature of capital.

In December 2003, the RBI issued guidelines on investments by banks in non-Statutory Liquidity Ratio securities issued by companies, banks, financial institutions, central and state government sponsored institutions and special purpose vehicles. These guidelines apply to primary market subscriptions and secondary market purchases. Pursuant to these guidelines, banks are prohibited from investing in non-Statutory Liquidity Ratio securities with an original maturity of less than one year, other than commercial paper and certificates of deposits. Banks are also prohibited from investing in unrated securities. A bank's investment in unlisted non-Statutory Liquidity Ratio securities may not exceed 10.0% of its total investment in non-Statutory Liquidity Ratio securities as at the end of the preceding fiscal year. These guidelines will not apply to investments in security receipts issued by securitisation or reconstruction companies registered with the RBI and asset backed securities and mortgage-backed securities with a minimum investment grade credit rating. These guidelines have been effective from April 1, 2004, with provision for compliance in a phased manner by January 1, 2005.

Consolidated Supervision Guidelines

In fiscal 2003, the RBI issued guidelines for consolidated accounting and consolidated supervision for banks. These guidelines became effective April 1, 2003. The Bank has adopted these guidelines and the principal features thereof are:

- The Bank is required to prepare consolidated financial statements intended for public disclosure.
- The Bank is required to submit to the RBI, consolidated prudential returns reporting its compliance with various prudential norms on a consolidated basis, excluding insurance subsidiaries. Compliance on a consolidated basis is required in respect of the following main prudential norms:
 - Single borrower exposure limit of 15.0% of capital funds (20.0% of capital funds provided the additional exposure of up to 5.0% is for the purpose of financing infrastructure projects);
 - Borrower group exposure limit of 40.0% of capital funds (50.0% of capital funds provided the additional exposure of up to 10.0% is for the purpose of financing infrastructure projects);
 - Deduction from Tier I capital of the bank, of any shortfall in capital adequacy of a subsidiary for which capital adequacy norms are specified; and
 - Consolidated capital market exposure limit of 2.0% of total on-balance sheet assets (excluding intangible assets and accumulated assets). Within the total limit, investment in shares, convertible bonds and debentures and units of equity-oriented mutual funds should not exceed 10.0% of the Bank's consolidated net worth.

Bank's Investment Classification and Valuation Norms

The salient features of the RBI's guidelines on investment classification and valuation are given below:

- The entire investment portfolio is required to be classified under three categories: (a) Held to Maturity; (b) Held for Trading; and (c) Available for Sale. Banks should decide the category of investment at the time of acquisition.
- Held to Maturity investments compulsorily include (a) recapitalisation bonds, (b) investments in subsidiaries and joint ventures and (c) investments in debentures deemed as advance. Held to Maturity investments also include any other investment identified for inclusion in this category subject to the condition that such investments cannot exceed 25.0% of the total investment excluding recapitalisation bonds and debentures.
- Profit on sale of investments in this category should be first taken to the profit and loss account and thereafter be appropriated to the capital reserve account. Loss on sale will be recognised in the profit and loss account.



- Investments under the Held for Trading category should be sold within 90 days; in the event of inability to sell due to adverse factors including tight liquidity, extreme volatility or a unidirectional movement in the market, the unsold securities should be shifted to the Available for Sale category.
- Profit or loss on the sale of investments in both Held for Trading and Available for Sale categories is taken in the profit and loss account.
- Shifting of investments from or to Held to Maturity may be done with the approval of the board of directors once a year, normally at the beginning of the accounting year; shifting of investments from Available for Sale to Held for Trading may be done with the approval of the board of directors, the asset liability management committee or the investment committee; shifting from Held for Trading to Available for Sale is generally not permitted.

In September 2004, the Reserve Bank of India announced that it would set up an internal group to review the investment classification guidelines to align them with international practices and the current state of risk management practices in India, taking into account the unique requirement applicable to banks in India of maintenance of a statutory liquidity ratio equal to 25.0% of their demand and time liabilities. In the meanwhile, the Reserve Bank of India has permitted banks to exceed the limit of 25.0% of investments for the Held to Maturity category provided the excess comprises only statutory liquidity ratio investments and the aggregate of such investments in the Held to Maturity category do not exceed 25.0% of the demand and time liabilities. The Reserve Bank of India has permitted banks to transfer additional securities to the Held to Maturity category as a one time measure during fiscal 2005, in addition to the transfer permitted under the earlier guidelines. The transfer would be done at the lower of acquisition cost, book value or market value on the date of transfer.

Held to Maturity securities are not marked to market and are carried at acquisition cost or at an amortized cost if acquired at a premium over the face value.

Securities classified as Available for Sale or Held for Trading are valued at market or fair value as at the balance sheet date. Depreciation or appreciation for each basket within the Available for Sale and Held for Trading categories is aggregated. Net appreciation in each basket, if any, that is not realised is ignored, while net depreciation is provided for.

Investments in security receipts or pass through certificates issued by asset reconstruction companies or trusts set up by asset reconstruction companies should be valued at the lower of the redemption value of the security receipts / pass-through certificates, and the net book value of the financial asset.

Restrictions on Investments in a Single Company

No bank can hold shares in any company, whether as owner or as pledge or mortgagee, exceeding the lower of 30.0% of the paid up share capital of that company and 30.0% of its own paid up share capital and reserves, whichever is less, except as statutorily provided.

Limit on Transactions through Individual Brokers

Guidelines issued by the RBI require banks to empanel brokers for transactions in securities. These guidelines also require that a disproportionate part of the bank's business should not be transacted only through one broker or a few brokers. The RBI specifies that not more than 5.0% of the total transactions in securities through empanelled brokers can be transacted through one broker. If for any reason this limit is breached, the RBI has stipulated that the board of directors of the bank concerned should be informed on a half-yearly basis of such occurrences.

Restriction on Short-Selling

RBI permits intra-day short selling of Government securities by banks provided the banks have adequate risk management systems and also provided that they have an internal policy in place.

Regulations Relating to Deposits

The RBI has permitted banks to independently determine rates of interest offered on term deposits. Primary (urban) co-operative banks are permitted to pay interest on current account deposits at rates not exceeding 0.5% per annum. Further, banks may only pay interest of 3.5% per annum on savings deposits. In respect of savings and time deposits accepted from employees, we are permitted by the RBI to pay an additional interest of 1.0% over the interest payable on deposits from the public.

Domestic time deposits have a minimum maturity of 15 days (seven days in respect of deposits over Rs. 1.5 million) and a maximum maturity of 10 years. Time deposits from NRIs denominated in foreign currency have a minimum maturity of one year and a maximum maturity of five years.

The RBI has permitted banks the flexibility to offer varying rates of interests on domestic deposits of the same maturity subject to the following conditions:



- Time deposits are of Rs. 1.5 million and above; and
- Interest on deposits is paid in accordance with the schedule of interest rates disclosed in advance by the bank and not pursuant to negotiation between the depositor and the bank.
- The RBI has stipulated that the interest rate on NRE deposits accepted before July 17, 2003 should not exceed 250 basis points and interest rates on those NRE deposits accepted before September 15, 2003 should not exceed 100 basis points over the US dollar LIBOR/ swap rates for the corresponding maturity. Further, NRE deposits contracted effective close of business in India on October 18, 2003 should not exceed 25 basis points over the US dollar LIBOR/ swap rates for the corresponding maturity, and those contracted effective close of business in India on April 17, 2004 should not exceed the LIBOR/ swap rates for US dollar of corresponding maturity. From November 18, 2005, interest on NRE deposits should not exceed 75 basis points over LIBOR/swap rate of corresponding maturity.

Deposit Insurance

Demand and time deposits of up to Rs. 100,000 accepted by Indian banks have to be compulsorily insured with the Deposit Insurance and Credit Guarantee Corporation, a wholly-owned subsidiary of the RBI. Banks are required to pay the insurance premium for the eligible amount to the Deposit Insurance and Credit Guarantee Corporation on a semi-annual basis. The cost of the insurance premium cannot be passed on to the customer.

Regulations relating to Knowing the Customer and Anti-Money Laundering

The RBI has issued several guidelines relating to identification of depositors and has advised banks to put in place systems and procedures to control financial frauds, identify money laundering and suspicious activities, and monitor high value cash transactions. The RBI has also issued guidelines from time to time advising banks to be vigilant while opening accounts for new customers to prevent misuse of the banking system for perpetration of frauds.

The RBI requires banks to open accounts only after verifying the identity of customers as to their name, residence and other details to ensure that the customer is opening the account in his own name. To open an account, a prospective customer is required to be introduced by an existing customer who has had an account with the bank for at least six months and has satisfactorily conducted that account, or a well-known person in the local area where the prospective customer resides.

If the prospective customer does not have an introducer, the prospective customer is required to submit documents such as the prospective customer's identity card, passport or details of bank accounts with other banks. It must be made incumbent upon such prospective customer to provide sufficient proof of his antecedents before the account is allowed to be opened.

The Prevention of Money Laundering Act, 2002 has been passed by Indian Parliament and has received the assent of the President of India on January 17, 2003. The Act seeks to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering and for incidental and connected matters.

Legal Reserve Requirements

Cash Reserve Ratio

A banking company such as ours is required to maintain a specified percentage of its demand and time liabilities, excluding inter-bank deposits, by way of balance in current account with the RBI. The cash reserve ratio can be a minimum of 3.0% and a maximum of 20.0% pursuant to Section 42 of the Reserve Bank of India Act, 1934. From October 2, 2004, the cash reserve ratio has been increased to 5% from 4.75%.

Paid up capital, reserves, credit balance in the profit and loss account of the bank, amount availed of as refinance from the RBI, and apex financial institutions, provision for income tax in excess of the actual estimated liabilities, specified inter bank term deposits/term borrowing liabilities are excluded from the calculation of the cash reserve ratio:

The RBI pays no interest on the cash reserves up to 3.0% of the demand and time liabilities and pays interest on the eligible cash balances, currently at the rate of 3.5%. Earlier, interest was paid by the RBI at the bank rate.

The cash reserve ratio has to be maintained on an average basis for a fortnightly period and should not be below 70.0% of the required cash reserve ratio on any day of the fortnight.

Statutory Liquidity Ratio

In addition to the cash reserve ratio, a banking company such as ours is required to maintain a specified minimum percentage of its net demand and time liabilities by way of liquid assets like cash, gold or approved securities. The percentage of this liquidity ratio is fixed by the RBI from time to time, and it can be a minimum of 25.0% and a maximum of 40.0% pursuant to Section 24 of the Banking Regulation Act. At present, the RBI requires banking companies to maintain a liquidity ratio of 25.0%. The Banking Regulation (Amendment) and Miscellaneous Provisions Bill, 2003 introduced in the Indian Parliament proposed to amend Section 24 of the Banking Regulation Act to remove the minimum Statutory Liquidity Ratio stipulation, thereby giving the RBI the freedom to fix the Statutory Liquidity Ratio below this level.



Regulations on Asset Liability Management

At present, the RBI's regulations for asset liability management require banks to draw up asset-liability gap statements separately for rupee and for four major foreign currencies. These gap statements are prepared by scheduling all assets and liabilities according to the stated and anticipated re-pricing date, or maturity date and behaviour studies that may be conducted by banks. These statements have to be submitted to the RBI on a monthly basis. The RBI has advised banks to actively monitor the difference in the amount of assets and liabilities maturing or being re-priced in a particular period and place internal prudential limits on the gaps in each time period, as a risk control mechanism. Additionally, the RBI has asked banks to manage their asset-liability structure such that the negative liquidity gap in the 1-14 day and 15–28 day time periods does not exceed 20.0% of cash outflows in these time periods. This 20.0% limit on negative gaps was made mandatory with effect from April 1, 2000. On the basis of RBI's direction, the Bank has fixed limits for mismatches as a percentage to outflows and cumulative mismatches for all the other time buckets and the Board of Directors has approved of these limits. In case of interest rate sensitivity, our Bank has set limits for cumulative mismatches upto one year to earning assets and individual bucket wise limits as a ratio of Rate Sensitive Liabilities.

Foreign Currency Dealership

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

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

Our foreign exchange operations are subject to the guidelines specified by the RBI under the Foreign Exchange (Management) Act, 1999. As an authorised dealer, we are required to enrol as a member of the Foreign Exchange Dealers Association of India, which prescribes the rules relating to foreign exchange business in India.

Authorised dealers, like us, are required to determine their limits on open positions and maturity gaps in accordance with the RBI's guidelines and these limits are approved by the RBI. Further, we are permitted to hedge foreign currency loan exposures of Indian corporations in the form of interest rate swaps, options, currency swaps and forward rate agreements, subject to certain conditions.

Statutes Governing Foreign Exchange and Cross Border Business Transactions

The foreign exchange and cross border transactions undertaken by banks are subject to the provisions of the Foreign Exchange Management Act. All branches should monitor all non resident accounts to prevent money laundering.

Restriction on Transfer of Shares

For public sector banks the RBI monitors the ceilings on FII/NRI/PIO investments on a daily basis. For effective monitoring the RBI has fixed cut off points lower than the actual ceilings which is 18% for public sector banks. Once the aggregate net purchase of equity shares reaches the cut off points, further acquisition of equity shares by FIIs/NRIs/PIOs requires approval of the RBI. However, the Non Resident Shareholding cannot exceed 20% of the paid up capital of the bank in terms of Section 3 of the Bank Acquisition Act.

In addition, the provisions of the SEBI Takeover Regulations apply and must be complied with.



Prohibited Business

The Banking Regulation Act specifies the business activities in which a bank may engage. Banks are prohibited from engaging in business activities other than the specified activities. For further details, refer to the section titled “History and Certain Corporate Matters – Main Objects of the Bank” on page 98 of this Red Herring Prospectus.

Reserve Fund

Any bank incorporated in India is required to create a reserve fund to which it must transfer not less than 25.0% of the profits of each year before dividends. If there is an appropriation from this account, the bank is required to report the same to the RBI within 21 days, explaining the circumstances leading to such appropriation. The GoI may, on the recommendation of the RBI, exempt a bank from the requirements relating to reserve fund.

Restrictions on Payment of Dividends

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

Further, as per RBI guidelines on payment of dividends, only those banks which comply with the following minimum prudential requirements are eligible to declare dividends with the prior approval of the RBI:

- Capital to risk asset ratio of at least 9% for the preceding two accounting years and for the accounting year for which it proposes to declare dividend.
- Net non-performing assets of less than 7%. In case any bank does not meet the above CRAR norm, but is having a CRAR of at least 9% for the accounting year for which it proposes to declare a dividend, it would be eligible to declare a dividend provided its net NPA ratio is less than 5%.
- The dividend pay out ratio does not exceed 40%.
- The proposed dividend is payable out of the current year's profit.
- The financial statements pertaining to the financial year for which the bank is declaring a dividend should be free of any qualifications by the statutory Auditors, which have an adverse bearing on the profit during that year.
- Compliance with restrictions as to payment of dividends and the setting up of a reserve fund as per Sections 15 and 17 of the Banking Regulation Act, 1949.

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

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

Restriction on Share Capital and Voting Rights

Public sector banks can issue equity shares as per the SEBI Guidelines.

The paid up capital of corresponding new banks may be increased by such amounts as the board of directors of the corresponding new bank may, after consultation with the RBI and with the previous sanction of the central government, raise by public issue of shares in such manner as may be prescribed, so however that the central government's shareholding does not fall below 51% of the paid up capital of the bank.

No shareholder of the corresponding new bank, other than the central government, shall be entitled to exercise voting rights in respect of any shares held by them in excess of one percent of the total voting rights of all the shareholders of the corresponding new bank.

Regulatory Reporting and Examination Procedures

The RBI is empowered under Section 27(2) of the Banking Regulation Act to inspect a bank. In 1995, RBI introduced a system of off-site monitoring and surveillance, with the primary objective of monitoring the financial condition of banks in between on-site examinations. The RBI monitors prudential parameters at quarterly intervals. To this end and to enable off-site monitoring and surveillance by the RBI, banks are required to report to the RBI on aspects such as:



- assets, liabilities and off-balance sheet exposures;
- risk weighting of these exposures, the capital base and the capital adequacy ratio;
- unaudited operating results for each quarter;
- asset quality;
- concentration of exposures;
- connected and related lending and the profile of ownership, control and management;
- ownership, control and management;
- structural liquidity and interest rate sensitivity;
- subsidiaries, associates and joint ventures;
- consolidated accounts and related financial information;
- information on risk based supervision;
- analysis of balance sheet; and
- other prudential parameters.

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

The RBI also conducts on-site supervision of zonal offices, regional offices and other selected branches with respect to their general operations and foreign exchange related transactions.

Appointment and Remuneration of the Chairman and Managing Director and Other Directors

Directors on the Board of Directors of our Bank are appointed by the Central Government in terms of Section 9 of the Bank Acquisition Act. The Chairman and Managing Director and Executive Director (wholetime directors) are appointed by the Central Government in consultation with the RBI. The other Directors nominated/ appointed by the Central Government include one official each from the GoI and RBI and one Director representing the non-workmen employees of the Bank. Further, a specified number of Directors are elected by the shareholders. The wholetime Directors appointed by the Central Government and the officials of the Central Government and the RBI who serve as the nominee directors of the Central Government and RBI cannot be a director of any other corresponding new bank. For the text of Section 9 of the Bank Acquisition Act, see the section titled "Main Provisions of Constitutional Documents" on page 245 of this Red Herring Prospectus.

The remuneration paid to Directors is determined by the Central Government in consultation with the RBI.

Penalties

The RBI may impose penalties on banks and their employees in case of infringement of regulations under the Banking Regulation Act. The penalty may be a fixed amount or may be related to the amount involved in any contravention of the regulations. The penalty may also include imprisonment.

Assets to be Maintained in India

Every bank is required to ensure that its assets in India (including import-export bills drawn in India and RBI approved securities, even if the bills and the securities are held outside India) are not less than 75.0% of its demand and time liabilities in India.

Subsidiaries and other investments

A bank requires the prior permission of RBI to incorporate a subsidiary. A bank is required to maintain an "arms' length" relationship in respect of its subsidiaries and in respect of mutual funds sponsored by it in regard to business parameters such as taking undue advantage in borrowing/lending funds, transferring/selling/buying of securities at rates other than market rates, giving special consideration for securities transactions, in supporting/financing the subsidiary and financing our clients through them when we ourselves are not able or are not permitted to do so.



Restriction on Creation of Floating Charge

Prior approval of the RBI is required for creating floating charge on our undertaking or our property.

Maintenance of Records

We are required to maintain books, records and registers. The Banking Companies (Period of Preservation of Records) Rules, 1985 require a bank to retain records of books, accounts and other documents relating to stock and share register for a period of three years.

Secrecy Obligations

Under Section 13 of the Bank Acquisition Act, our Bank is statutorily bound to maintain secrecy about the affairs of its constituents, except in circumstances in which it is, in accordance with law or practices and usages customary among bankers, necessary or appropriate for the bank to divulge such information.

Our obligations relating to maintaining secrecy arise out of common law principles governing our relationship with our customers. We cannot disclose any information to third parties except under clearly defined circumstances. The following are the exceptions to this general rule:

- where disclosure is required to be made under any law;
- where there is an obligation to disclose to the public;
- where we need to disclose information in our interest; and
- where disclosure is made with the express or implied consent of the customer.

We are required to comply with the above in furnishing any information to any parties. We are also required to disclose information if ordered to do so by a court. The RBI may, in the public interest, publish the information obtained from the bank. Under the provisions of the Banker's Books Evidence Act, 1891 a copy of any entry in a bankers' book, such as ledgers, day books, cash books and account books certified by an officer of the bank may be treated as prima facie evidence of the transaction in any legal proceedings. The RBI has directed banks to incorporate consent clauses in loan agreements to enable disclosure of borrower information to credit bureaus.

Regulations governing Offshore Banking Units

The Government and the RBI have permitted banks to set up offshore banking units in special economic zones, which are specially delineated duty free enclaves deemed to be foreign territory for the purpose of trade operations, duties and tariffs. The key regulations applicable to offshore bank units include, but are not limited to, the following:

- No separate assigned capital is required. However, the parent bank is required to provide a minimum of US\$ 10 million to its offshore banking unit.
- Offshore banking units are exempt from cash reserve ratio requirements.
- The RBI may exempt a bank's offshore banking unit from statutory liquidity ratio requirements on specific application by the bank.
- An offshore banking unit may not enter into any transactions in foreign exchange with residents in India, unless such a person is eligible under the existing exchange control regulations to invest/maintain foreign currency accounts abroad.
- All prudential norms applicable to overseas branches of Indian banks apply to offshore banking units. The offshore banking units are also required to follow the best international practice of 90 days' payment delinquency norm for income recognition, asset classification and provisioning.
- Offshore banking units are required to adopt liquidity and interest rate risk management policies prescribed by the RBI in respect of overseas branches of Indian banks as well as within the overall risk management and asset and liability management framework of the bank subject to monitoring by the bank's board of directors at prescribed intervals.
- Offshore banking units may operate and maintain balance sheets only in foreign currency and are not allowed to deal in Indian rupees except for having a special rupee account out of the convertible funds in order to meet their daily expenses. These branches are prohibited from participating in the domestic call, notice, term, money market and payment system.
- The loans and advances of offshore banking units would not be reckoned as net bank credit for computing priority sector lending obligations.
- Offshore banking units must follow the 'Know Your Customer' guidelines and must be able to establish the identity and address of the participants in a transaction, the legal capacity of the participants and the identity of the beneficial owner of the funds.



- A bank cannot borrow from its offshore banking unit.
- The exposures of an offshore banking unit in the domestic tariff area should not exceed 25% of its total liabilities as at the close of business of the previous working day, at any point of time.

Regulations and Guidelines of SEBI

SEBI was established to protect the interests of public investors in securities and to promote the development of, and to regulate, the Indian securities market. We are subject to SEBI regulations for our equity and debt capital issuances, as well as our banker to the issue, custodial and depositary participant activities. These regulations provide for our registration with the SEBI for each of these activities, functions and responsibilities. We are required to adhere to a code of conduct applicable for these activities.

Foreign Ownership Restrictions

Foreign investment in our Bank, as a corresponding new bank, is regulated by the provisions of the Bank Acquisition Act. Under Section 3(2D), foreign investment in new corresponding banks is subject to an overall statutory limit of 20% of the paid up capital. For public sector banks, the RBI monitors the ceilings on Non Resident investments on a daily basis. For effective monitoring, the RBI has fixed cut off points lower than the actual ceilings which is 18% for public sector banks. Once the aggregate net purchase of equity shares reaches the cut off points, further acquisition of equity shares by Non Residents to the ceiling of 20% requires approval of the RBI, beyond which Non Residents are not allowed to acquire shares.

Special Status of Banks in India

The special status of banks is recognised under various statutes including the Sick Industrial Companies Act, 1985, Recovery of Debts Due to Banks and Financial Institutions Act, 1993, and the Securitisation Act. As a bank, we are entitled to certain benefits under various statutes including the following:

The Recovery of Debts Due to Banks and Financial Institutions Act, 1993 provides for establishment of Debt Recovery Tribunals for expeditious adjudication and recovery of debts due to any bank or Public Financial Institution or to a consortium of banks and Public Financial Institutions. Under this Act, the procedures for recoveries of debt have been simplified and time frames has been fixed for speedy disposal of cases. Upon establishment of the Debt Recovery Tribunal, no court or other authority can exercise jurisdiction in relation to matters covered by this Act, except the higher courts in India in certain circumstances.

The Sick Industrial Companies Act, 1985, provides for reference of sick industrial companies to the Board for Industrial and Financial Reconstruction. Under it, other than the board of directors of a company, a scheduled bank (where it has an interest in the sick industrial company by any financial assistance or obligation, rendered by it or undertaken by it) may refer the company to the BIFR. The Sick Industrial Companies Act, 1985 has been repealed by the Sick Industrial Companies (Special Provisions) Repeal Act, 2004 ("SICA Repeal Act"). However, the SICA Repeal Act, which is due to come into force on a date to be notified by the central government in the official gazette, has not yet been notified. On the repeal becoming effective, the provisions of the Companies Act will apply in relation to sick companies, under which the reference must be made to the National Company Law Tribunal, and not the Board for Industrial and Financial Reconstruction.

The Securitisation Act focuses on improving the rights of banks and financial institutions and other specified secured creditors as well as asset reconstruction companies by providing that such secured creditors can take over management control of a borrower company upon default and/or sell assets without the intervention of courts, in accordance with the provisions of the Securitisation Act.

Regulations Governing Insurance Companies

Subsidiaries offering life insurance and non-life insurance are subject to the provisions of the Insurance Act, 1938 and the various regulations prescribed by the Insurance Regulatory and Development Authority. These regulations regulate and govern, among other things, registration as an insurance company, investment, licensing of insurance agents, advertising, sale and distribution of insurance products and services and protection of policyholders' interests. In May 2002, the Indian Parliament approved the Insurance (Amendment) Act 2002, which facilitates the appointment of corporate agents by insurance companies and prohibits intermediaries and brokers from operating as surrogate insurance agents.

Regulations Governing International Businesses

Our international business operations would be governed by regulations in the countries in which we have a presence. We are required to obtain approval of the RBI to set up overseas subsidiaries, offshore branches and representative offices abroad. Further, approval from the foreign regulatory authority is also required prior to undertaking such banking operations.



Overseas branches

We propose to establish representative offices in Dubai, UAE; Doha, Qatar and Shanghai, China and have received approvals from the RBI in this regard. We have applied to the Central Bank of the United Arab Emirates and Qatar for permission to open representative offices at Dubai and Doha respectively. We are also in the process of applying to the Chinese Banking Regulatory Commission for permission to open a representative office in Shanghai. For further details, please see “Licenses and Approvals” on page 204 of this Red Herring Prospectus.

The Regional Rural Banks Act, 1976

Regional Rural Banks (RRBs) are established under the Regional Rural Banks Act, 1976 by the GoI at the instance of a sponsor bank. The GoI may also issue notifications specifying the local limits within which a given RRB shall operate. The sponsor bank shall subscribe to the share capital of the RRB, train personnel and provide managerial and financial assistance to the RRB during the first five years of its operations.

The Regional Rural Banks Act, 1976 stipulates the limit of the paid-up capital of a regional rural bank and further stipulates that the shares shall always be fully paid up shares of one hundred rupees each. Of this, 50% shall be subscribed to by the GoI, 15% by the concerned state government and 35% by the sponsor bank. The issued capital can be changed by the board of directors of the RRB (with the prior approval of the GoI) after consultation with NABARD, the concerned state government and the sponsor bank.

The Regional Rural Banks Act, 1976 further requires that the board of directors shall consist of the following:

- a Chairman appointed by the sponsor bank;
- two Directors, nominated by GoI, who are not officers of GoI, the concerned state government, the RBI, the NABARD, sponsor bank or any other bank;
- one Director to be nominated by the RBI, such person being an officer of the RBI;
- one Director to be nominated by NABARD, such person being an officer of NABARD;
- two Directors to be nominated by the sponsor bank, such person being an officer of the sponsor bank; and
- two Directors to be nominated by the concerned state government, who are officers of the concerned State Government.

Every RRB shall carry on the business of banking as defined in Section 5(b) of the Banking Regulation Act and may engage in one or more forms of business specified in Section 6(1) of the Banking Regulation Act.

Every RRB shall prepare an annual report within three months from the date of closure of the accounting year or such further period, not exceeding three months, as may be permitted by the RBI. Such annual report shall be sent to all of its shareholders.

RRBs have been deemed to be co-operative societies for the purposes of the I.T. Act. Further, the GoI is empowered to give directions to the RRBs and the RRBs shall have to obey and follow such directions.

Amendments under the Finance Act, 2005

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

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

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



HISTORY AND CERTAIN CORPORATE MATTERS

Union Bank of India was originally incorporated on November 11, 1919 in Mumbai as “The Union Bank of India Limited” under the Companies Act, 1913. Its registered office was initially situated at 7, Marzban Road, Fort, Mumbai 400 001. The registered office was moved to Mumbai Samachar Marg, Fort, Mumbai 400 001 in 1921 and was inaugurated by Mahatma Gandhi.

Pre Nationalization

The Bank entered a growth phase in the 1960s and it aligned its activities in line with the national priorities of the time. In light of the foreign exchange crisis faced by the country in the late 1950s and early 1960s, the Bank took steps to assist the export sector and focused on the growth of its foreign exchange business.

Post Nationalization

The Bank was nationalised on July 19, 1969. After nationalization, the name of the Bank was changed to “Union Bank of India”.

Pursuant to nationalization, the Bank sponsored four regional rural banks in 1972. In 2002, the Bank undertook its initial public offer of Equity Shares and the Equity Shares were subsequently listed on the BSE and NSE.

Main Objects of the Bank

Section 3(5) of the Bank Acquisition Act states as follows:

“Every corresponding new bank shall carry on and transact the business of banking as defined in clause (b) of section 5 of the Banking Regulation Act, 1949 (10 of 1949) and may engage in one or more of the other forms of business specified in sub-section (1) of section 6 of that Act.”

Section 5(b) of the Banking Regulation Act reads as follows:

“‘banking’ means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.”

Section 6(1) of the Banking Regulation Act reads as follows:

“Form and business in which banking companies may engage

(1 In addition to the business of banking, a banking company may engage in any one or more of the following forms of business, namely—

- (a) the borrowing, raising, or taking up of money; the lending or advancing of money either upon or without security; the drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundis, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments and securities whether transferable or negotiable or not; the granting and issuing of letters of credit, traveller’s cheques and circular notes; the buying, selling and dealing in bullion and specie; the buying and selling of foreign exchange including foreign bank notes; the acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds; the purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or others, the negotiating of loans and advances; the receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise; the providing of safe deposit vaults; the collecting and transmitting of money and securities;*
- (b) acting as agents for any Government or local authority or any other person or persons; the carrying on of agency business of any description including the clearing and forwarding of goods, giving of receipts and discharges and otherwise acting as an attorney on behalf of customers, but excluding the business of a managing agent or secretary and treasurer of a company;*
- (c) contracting for public and private loans and negotiating and issuing the same;*
- (d) the effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue, public or private, of State, municipal or other loans or of shares, stock, debentures, or debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue;*
- (e) carrying on and transacting every kind of guarantee and indemnity business;*
- (f) managing, selling and realising any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims;*



- (g) *acquiring and holding and generally dealing with any property or any right, title or interest in any such property which may form the security or part of the security for any loans or advances or which may be connected with any such security;*
- (h) *undertaking and executing trusts;*
- (i) *undertaking the administration of estates as executor, trustee or otherwise;*
- (j) *establishing and supporting or aiding in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the company or the dependents or connections of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent objects or for any exhibition or for any public, general or useful object;*
- (k) *the acquisition, construction, maintenance and alteration of any building or works necessary or convenient for the purposes of the company;*
- (l) *selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with all or any part of the property and rights of the company;*
- (m) *acquiring and undertaking the whole or any part of the business of any person or company, when such business is of a nature enumerated or described in this sub- section;*
- (n) *doing all such other things as are incidental or conducive to the promotion or advancement of the business of the company;*
- (o) *any other form of business which the Central Government may, by notification in the Official Gazette, specify as a form of business in which it is lawful for a banking company to engage.”*

Section 3 (7) of Chapter II of the Bank Acquisition Act provides for the Bank to act as Agent of RBI.

- (1) *The Bank shall, if so required by the Reserve Bank of India, act as agent of the Reserve Bank at all places in India where it has a branch for:*
 - (a) *Paying, receiving, collecting and remitting money, bullion and securities on behalf of the Government of India.*
 - (b) *Undertaking and transacting any other business which the Reserve Bank may from time to time entrust to it.*
- (2) *The terms and conditions on which any such agency business shall be carried on by the corresponding new Bank on behalf of the Reserve Bank shall be such as may be agreed upon.*
- (4) *The corresponding new Bank may transact any business or perform any function entrusted to it under Clause (1) by itself or through any agent approved by the Reserve Bank.*

Changes in Memorandum of Association

We do not have any articles or memorandum of association as we are a “corresponding new bank” under the provisions of the Bank Acquisition Act.

Key Milestones

Date	Event
1919	Incorporation of the Bank
1921	Inauguration of the registered office of the Bank by Mahatma Gandhi
1975	Belgaum Bank Limited, a private sector bank, merged with the Bank
2001	Staff Training College, Bangalore, the Bank's staff college acquired 'ISO 9001' certification
2002	Initial Public Offering of 180 million Equity Shares
2003	Core Banking Solution providing “Anytime Anywhere Banking” launched.
2005	• Launched Unioncard, an international credit card and an international debit card in association with VISA • Commencement of clearing bank operations with the NSE and BSE for settlement of funds and securities obligations under Cash and Future and Options Segments • Bank's total business crossed Rs.1,200,000 million • Introduction of “Union White Card” for dairy units

**Awards and Recognition**

Year	Awards And Recognitions
1982	Received the national award for outstanding export performance during 1979-80 from the President of India
1999	Bank's staff college awarded the Golden Peacock National Training Award in the category of Best Training Provider for 1998
2004	Entered the Forbes 2000 list of world's biggest and most powerful companies
2005	Study by Assocham Eco Pulse identified Union Bank of India as "number one in terms of return to investors" among banking stocks in 2004-05.
2005	Bank's staff college awarded the Golden Peacock National Training Award in the category of Best Training Provider
2005	As at December 31, 2005 over 530 branches/ offices certified under ISO 9001:2000



OUR MANAGEMENT

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

Board of Directors

Sl. No.	Name, Designation, Father's Name, Address, Occupation	Nationality	Age	Date of Appointment and Term	Other Directorships
1.	K. Cherian Varghese Chairman and Managing Director Varghese Kuncheria A-32, Meherina Apartments Block A, 3 rd Floor Behind Hyderabad Estate Napeansea Road Mumbai 400 036 Maharashtra, India <i>Professional Banker</i>	Indian	59	December 9, 2004 Appointed up to March 31, 2006 or until further instructions, whichever is earlier	Export Import Bank of India and Agricultural Finance Corporation Ltd.
2.	K. Rathnakar Hegde Executive Director Late Dasu Hegde 154-A, Sealord Apartments 117, Cuffe Parade, Mumbai 400 005 Maharashtra, India <i>Professional Banker</i>	Indian	59	February 5, 2004 Appointed up to April 30, 2006 or until further instructions, whichever is earlier	Nil
3.	B. S. Bhalla Gol Nominee Director M. S. Bhalla 47/16, Delhi Flats Rajpur Road Delhi 110 054, India <i>Director, Banking Division, MoF, Gol</i>	Indian	40	January 24, 2005 Appointed until further orders or till he ceases to be an officer of the Ministry of Finance, Government of India whichever is earlier	Nil
4.	A. N. Rao RBI Nominee Director K. Annappa 102, Vasant Vihar, 85, Nepean Sea Road Mumbai 400 006. <i>RBI Official</i>	Indian	51	January 9, 2004 Appointed until further orders	Nil
5.	Ashutosh Tandon Shareholder Director Lalji Tandon 64, Sondhi Tola Chowk Lucknow 226 003 Uttar Pradesh, India <i>Businessman</i>	Indian	44	June 19, 2003 Appointed until June 18, 2006	KLT Enterprises Private Limited
6.	Dr. N. Balasubramanian Shareholder Director M. V. Narayanswamy Apartment No.401, Olympus 1 Prestige Acropolis, No. 20, Hosur Main Road, Bangalore 560 029 Karnataka, India <i>Professor, Indian Institute of Management, Bangalore</i>	Indian	70	June 19, 2003 Appointed until June 18, 2006	1. i-gate Global Systems Limited; and 2. Securities Trading Corporation of India Limited



Sl. No.	Name, Designation, Father's Name, Address, Occupation	Nationality	Age	Date of Appointment and Term	Other Directorships
7.	R. R. Nair Shareholder Director N. Ramakrishna Pillai 785, Avishkar 4th Block 5th Cross Koramangala Bangalore 560 034 Karnataka, India <i>Consultant</i>	Indian	65	June 19, 2003 Appointed until June 18, 2006	1. BASF India Limited 2. TVS Electronics Limited
8.	N. L. Sarda Shareholder Director Laxminarayan C-111, Building 18, IIT Campus, Powai Mumbai 400 076 Maharashtra, India <i>Professor, Indian Institute of Technology, Mumbai</i>	Indian	57	June 19, 2003 Appointed until June 18, 2006	Nil
9.	S. V. Dange Workmen Employee Director Vishnupant Dange A/6, Comrades' Colony G.I.D.C. Road Near 'Suvarna Duplex' Manjalpur Baroda 390 011 Gujarat, India <i>Bank Employee</i>	Indian	54	September 5, 2003 Appointment until his successor is appointed or until he ceases to be a workman employee of the Bank or until further orders, whichever is earliest provided that he shall not hold office continuously for a period exceeding six years	Nil
10.	Debasis Ghosh Officer Employee Director Nihar Ranjan Ghosh 104, Samrat Apartments, Vasundhara Enclave Delhi 110096, India <i>Bank Employee</i>	Indian	45	November 22, 2005 for a period of three years or until his successor has been nominated or until he ceases to be an officer of the Bank, which ever is earlier.	Nil

K. Cherian Varghese, the Chairman and Managing Director has over 10 years of experience as Chairman of three banks. He was earlier the Chairman and Managing Director of Corporation Bank, another public sector bank,. He was Executive Director of Central Bank of India, a public sector bank with over 3,000 branches from 1998 to 2000. He was also Chairman and Chief Executive Officer of the South Indian Bank Limited, a private sector bank, from 1991 to 1996.

He is President of the Indian Institute of Banking and Finance and is a member of the Managing Committee of the Indian Banks' Association (IBA) and Chairman of the IBA Committee on implementation of Basel II. He is also a Director on the Board of the Export Import Bank of India (EXIM Bank). He also serves as a Director on the Board of Agricultural Finance Corporation Limited.

He started his career in Indian Bank in 1970 as an officer and rose to the position of General Manager in 1994. In Indian Bank he served as head of Merchant Banking Division and International Division. He was also in charge of Priority Sector Advances and worked as head of two Zones and one Region. He also served as Technical Advisor to P.T. Bank Rama, Jakarta, from 1979 to 1983 on deputation from Indian Bank.

He has a post-graduate degree in Physics and is a winner of the gold medal for B.Sc. from the University of Kerala for outstanding performance from University College, Trivandrum. He is an associate of the Chartered Institute of Bankers, London. He is also a Fellow of the Indian Institute of Banking and Finance.



K. Rathnakar Hegde, the Executive Director of the Bank, started his career with Vijaya Bank in 1967 after obtaining degrees in Humanities and Law. He has worked as a Branch Head and Regional Head and was involved in various departments at the Corporate Office of Vijaya Bank such as Credit (Review and Recovery), Planning and Economic Research, International Banking, Information Technology, Inspection and General Administration and Credit Card Department.

B.S. Bhalla represents the GoI on the Board of Directors of the Bank. He has a Bachelor of Commerce degree with Honours from the University of Delhi. He is also a holder of a Post Graduate Diploma in Management from Indian Institute of Management, Bangalore and a Master of Business Administration degree from the University of Georgia, U.S.A. He has been in the Indian Administrative Services since 1990 and is presently the Director, Banking Division, MoF, GoI. He has held various posts in the MoF including Secretary (IT), Secretary (Education), Chief Electoral Officer Goa, Deputy Commissioner (North) Government of Delhi and Collector and District Magistrate, Diu.

A.N. Rao is the RBI nominee on the Board of the Bank. He is presently, Regional Director, RBI, Mumbai in the rank of Chief General Manager. He started his career with Vijaya Bank after obtaining post graduate qualifications in Physics from the University of Bangalore. He has experience in various aspects of banking and has been involved in information technology related projects at the RBI.

Ashutosh Tandon represents the shareholders' interests on the Board. He has obtained a degree in Social Work and Economics from the University of Lucknow. He is an active member of various social welfare organizations in Lucknow.

Dr. N. Balasubramanian was elected to the Board by the shareholders of the Bank at the EGM held on June 19, 2003. He has a PhD. degree in Finance from the University of Mumbai and is presently a Professor at the Indian Institute of Management, Bangalore. He is also a Fellow of the Institute of Chartered Accountants. His fields of expertise are finance and corporate governance.

R.R. Nair was elected to the Board by the shareholders of the Bank at the EGM held on June 19, 2003. He has a Masters Degree in Psychology and a Masters' Diploma in Industrial and Personnel Management from the Indian Institute of Technology, Kharagpur. He has over 30 years of experience in human resources development with Hindustan Lever and Brooke Bond. He is on the Advisory Board of Indian School of Business, Hyderabad and is on the Academic Council of Tata Management Training Centre, Pune.

Professor N.L. Sarda was elected to the Board by the shareholders of the Bank at the EGM held on June 19, 2003. He is presently a Professor at the Indian Institute of Technology, Mumbai in the Department of Computer Science and Engineering. He received his Masters and PhD. degrees from the Indian Institute of Technology.

S.V. Dange is the Director representing the interests of the workmen employees of the Bank on the Board of Directors of the Bank. He has been employed with the Bank since 1972. He is currently the Vice President of the All India Union Bank Employees' Association. He is the founder and president of the Credit Co-operative Society Gujarat and a trustee of the Veer Savarkar Smriti Trust, Mumbai.

Debasish Ghosh is the Director representing the interests of the officer employees of the Bank on the Board of Directors. He has been employed with the Bank since 1985. He is currently the Vice President of the Union Bank of India Officers' Federation.

Remuneration of Directors

1. K. Cherian Varghese, Chairman and Managing Director

K. Cherian Varghese was appointed as the Chairman and Managing Director of our Bank by notification number F.No. 9/31/2004 - B.O.I dated December 9, 2004 issued by the Department of Economic Affairs (Banking Division), MoF, GoI, after consultation with the RBI under clause (a) of Sub-Section (3) of Section 9 of the Bank Acquisition Act. He holds the position until March 31, 2006.

Salary: The CMD is entitled to receive Rs. 26,000 per month in the scale of pay of Rs. 24,050-650-26,000 as remuneration during his term as the Chairman and Managing Director of our Bank.

Other perquisites and benefits: In addition to the above, the CMD is entitled to certain benefits in accordance with relevant GoI regulations including housing allowance, leave travel allowance, provident fund, gratuity, superannuation, reimbursement of medical expenses and entertainment allowance.

2. K. Rathnakar Hegde, Executive Director

K. Rathnakar Hegde was appointed as the Executive Director of the Bank by notification number F.No.9/5/2003 - B.O.I dated January 30, 2004 issued by the Department of Economic Affairs (Banking Division), MoF, GoI, after consultation with the RBI under clause (a) of sub-section (3) of section 9 of the Bank Acquisition Act read with sub-clause (1) of clause 3, clause 5, clause 6, clause 7 and sub-clause (1) of clause 8 of the Nationalised Banks Scheme. He holds the position until April 30, 2006.



Salary: K. Rathnakar Hegde is entitled to receive Rs. 22,050 per month in the scale of Rs. 22,050-500-24,050 as remuneration during his term as the Executive Director of our Bank.

Other perquisites and benefits: In addition to the above, K. Rathnakar Hegde is entitled to certain benefits in accordance with relevant Gol regulations including housing allowance, leave travel allowance, provident fund, gratuity, superannuation, reimbursement of medical expenses and entertainment allowance.

Other Directors who are entitled to receive the sitting fees receive a sitting fee of Rs. 5,000 per meeting of the board and a sitting fee of Rs. 2,500 per meeting of any committee of the board. In accordance with the same, sitting fees paid to the Directors for the six months ended September 30, 2005 aggregated Rs. 0.24 million.

Payment or benefit to officers of our Bank

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

Corporate Governance

We made a public issue of 180 million Equity Shares on August 20, 2002 and are currently listed on the NSE and the BSE. We had entered into listing agreements with the Stock Exchanges and we are in compliance with the provisions of the listing agreements with the Stock Exchanges including provisions relating to corporate governance, broad basing of management and the establishment of necessary committees such as the Audit Committee and the Shareholders'/ Investors' Grievance Committee. We are continuously striving to implement best practices in corporate governance.

We have complied with the requirements of the SEBI circular SEBI/CFD/DIL/CG/1/2004 dated October 29, 2004, which notifies revised corporate governance guidelines for listed entities like our Bank..

The Board has 10 Directors, of which two are wholetime Directors. The Chairman of the Board is a wholetime Director.

Committees of the Board

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

- a) Audit Committee; and
- b) Shareholders' and Investors' Grievances Committee.

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

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

Audit Committee

The Audit Committee was constituted on November 18, 1995. The present members of the Audit Committee are K. Rathnakar Hegde, B.S. Bhalla, A.N.Rao, Dr. N. Balasubramanian, and N.L. Sarda.

The Audit Committee directs and oversees the audit function of the Bank including organisational, operational and quality control of internal audit and inspection systems within the Bank. The Committee also follows-up on the statutory and external audits of the Bank and inspection by the RBI and reviews inspection reports of extra large branches, specialised branches and branches rated unsatisfactory in the rating system of the Bank

The Committee has met six times during the six month period from April 1, 2005 to September 30, 2005.

Shareholders'/ Investors' Grievances Committee

The Board constituted the Shareholders'/Investors' Grievance Committee of the Board to look into the redressal of shareholders and investors complaints regarding, among other things, transfer of shares, non-receipt of refund orders, share certificates and dividends. The Committee was constituted on October 23, 2002 and its members comprise K. Rathnakar Hegde, N.L. Sarda and Dr. N. Balasubramanian.

The Committee has met once during the six month period from April 1, 2005 to September 30, 2005.

Other Committees

In addition to the Audit Committee and the Shareholders'/Investors' Grievances Committee, we have also constituted the following committees: Management Committee, Departmental Promotion Committee, Share Transfer Committee, Risk Management Committee, the Special Committee for Monitoring Frauds of Rs. 10 million and above and the Customer Service Committee.



The details of these committees are provided below.

Management Committee

The Management Committee was constituted on May 18, 1990 to consider various business matters of material significance such as sanctioning of credit proposals, compromise/write-off, approval of revenue and capital expenditure, leasing/purchasing premises, making investments and donations, etc.

The Management Committee comprises K. Cherian Varghese, K. Rathnakar Hegde, B. S. Bhalla, A.N. Rao, Ashutosh Tandon and R.R. Nair.

The Committee has met 16 times during the six month period from April 1, 2005 to September 30, 2005.

Departmental Promotion Committee

The Departmental Promotion Committee was constituted in 1986.

The Departmental Promotion Committee comprises K. Cherian Varghese, B.S. Bhalla and A.N. Rao.

The Committee has met twice during the six month period from April 1, 2005 to September 30, 2005.

Share Transfer Committee

The Share Transfer Committee was constituted on March 27, 2004 with the powers to confirm, among other things, transfer/ transmission of shares so as to ensure the speedy transfer of shares.

The Share Transfer Committee comprises K. Cherian Varghese, K. Rathnakar Hegde, A.N. Rao and N.L. Sarda.

The Committee has met 14 times during the six month period from April 1, 2005 to September 30, 2005.

Supervisory Committee of Directors on Risk and Asset Liability Management

The Bank constituted a Supervisory Committee of Directors on Risk and Asset Liability Management on October 31, 2000 to supervise the functions of Risk and Asset Liability Management in the Bank. The Committee is responsible for identifying, evaluating and monitoring the overall risks faced by the Bank.

It comprises K. Cherian Varghese, K. Rathnakar Hegde, B.S. Bhalla, A.N. Rao and Ashutosh Tandon.

The Committee has met twice during the six month period from April 1, 2005 to September 30, 2005.

Customer Service Committee

The Customer Service Committee was constituted on August 21, 2004 to make suggestions on improving the quality of services, to review the implementation of the existing customer service policies and procedures with a view to rationalise and simplify them, and to suggest appropriate incentives to facilitate changes on an ongoing basis and to oversee the Bank's compliance with recommendations of the Committee on Procedure and Performance Audit on Public Service (CPPAPS) set up by the RBI.

It comprises K. Cherian Varghese, K. Rathnakar Hegde, Ashutosh Tandon, Prof. N.L. Sarda and S.V. Dange.

Since its inception, Committee has met once.

Special Committee for Monitoring Frauds of Rs. 10 million and above

The Special Committee for Monitoring Frauds of Rs. 10 million and above was constituted on February 16, 2004 as per RBI guidelines to monitor and review frauds exceeding Rs. 10 million against the Bank.

It comprises K. Cherian Varghese, K. Rathnakar Hegde, B.S. Bhalla, Ashutosh Tandon and R.R. Nair.

The Committee has met once during the six month period from April 1, 2005 to September 30, 2005.

Shareholding of the Directors

Directors nominated under Section 9(3) (a) to (h) of the Bank Acquisition Act are not required by law to hold any qualification shares in our Bank. The list of Directors holding Equity Shares and the number of Equity Shares held by each of them as of September 30, 2005 is set forth below:

Directors	No. of Equity Shares held
Ashutosh Tandon	600
Dr. N. Balasubramanian	100
R.R.Nair	100
N.L. Sarda	700
Total	1,500



Interests of Directors

All Directors of the Bank may be deemed to be interested to the extent of fees, if any, payable to them for attending meetings of the Board or a Committee thereof as well as to the extent of other remuneration, reimbursement of expenses payable to them under our Constitutional Documents and notifications by RBI determining their remuneration. The Directors will be interested to the extent of remuneration paid to them for services rendered by them as officers or employees of the Bank. All our Directors may also be deemed to be interested to the extent of Equity Shares, if any, already held by them or their relatives in the Bank, or that may be subscribed for and allotted to them, out of the present Issue in terms of this Red Herring Prospectus and also to the extent of any dividend payable to them and other distributions in respect of the said Equity Shares.

None of our Directors are interested in any advances or facilities that have been provided by us, to their relatives or to persons in which such relatives are interested.

Borrowing Powers of Directors

Under our Constitutional Documents, the Directors do not have any borrowing powers and all borrowings by the Bank are approved by the Board of Directors.

Changes in our Board of Directors during the Last Three Years

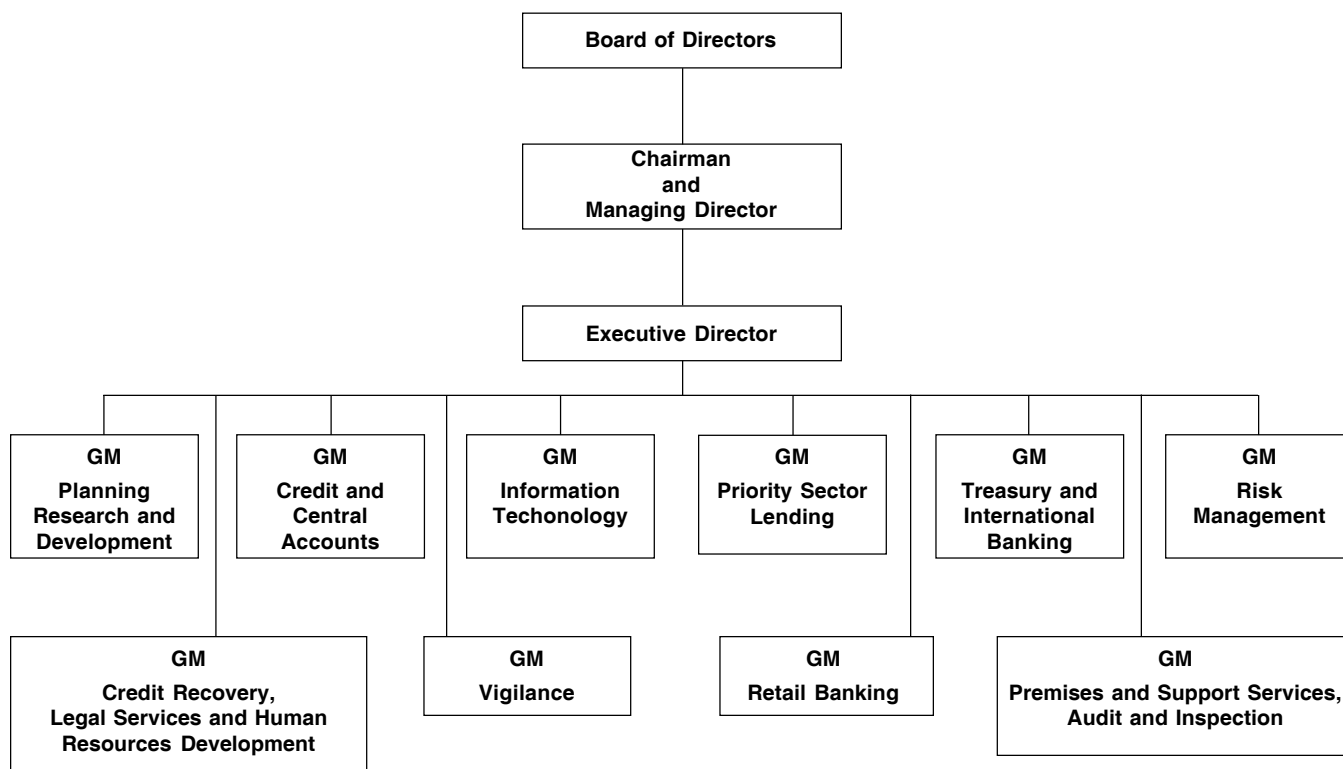
The changes in our Board of Directors during the last three years are as follows:

Name	Date of Appointment	Date of Cessation	Reasons
V.Leeladhar	April 24, 2000	September 21, 2004	Appointed as Deputy Governor, RBI
M. Venugopalan	September 25, 2000	August 14, 2003	Appointed as chairman and managing director of Bank of India
A.V. Sardesai	June 1, 2001	June 30, 2003	Term expired
P.K. Sarkar	November 10, 1998	November 9, 2004	Term expired
Arun Singh	September 12, 2001	May 25, 2003	Resigned
Ujjwal Nikam	September 12, 2001	June 17, 2003	Retired
Vijayalaxmi P.Rao	September 12, 2001	June 17, 2003	Retired
Pasupathi Matta	September 12, 2001	December 11, 2004	Term expired
P. Saran	June 30, 2003	January 9, 2004	Term expired
Ashutosh Tandon	June 19, 2003	-	Appointed by shareholders
Dr. N. Balasubramanian	June 19, 2003	-	Appointed by shareholders
Prof. N.L.Sarda	June 19, 2003	-	Appointed by shareholders
R.R. Nair	June 19, 2003	-	Appointed by shareholders
Suresh V. Dange	September 5, 2003	-	Appointed as workmen Director
A.N. Rao	January 9, 2004	-	Appointed by Gol
K. Rathnakar Hegde	February 5, 2004	-	Appointed by Gol
K. Cherian Varghese	December 9, 2004	-	Appointed by Gol
Dr. K.B.L. Mathur	March 21, 2001	January 23, 2005	Appointed as a director of Punjab National Bank
B.S. Bhalla	January 24, 2005	-	Appointed by Gol
A. K. Sharma	June 12, 2002	June 11, 2005	Term expired
M.L. Sabharwal	June 12, 2002	June 11, 2005	Term expired
V.M. Sudheeran	September 16, 2005	December 7, 2005	Resigned
Debasis Ghosh	November 11, 2005	-	Appointed as officer employee director



ORGANISATIONAL STRUCTURE

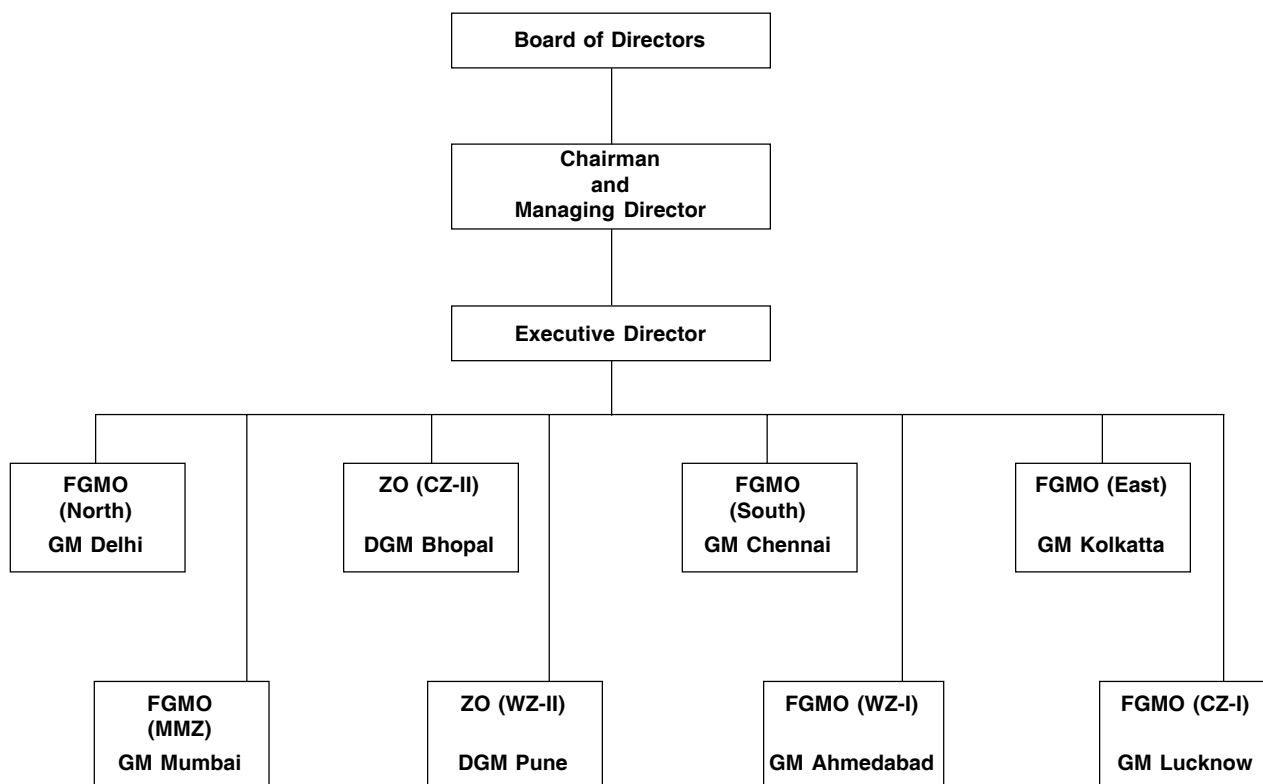
Corporate Office





ORGANISATIONAL STRUCTURE

Field Offices



FGMO : Field General Manager's Office

ZO : Zonal Office

MMZ : Metropoliton Mumbai Zone

CZ : Central Zone

WZ : West Zone



Key Managerial Personnel of our Bank

R.Venkataramani, General Manager, aged 56 years, joined us on March 3, 1975. He is a qualified chartered accountant. He also has a bachelor's degree in commerce and has completed part I of CAIIB. He is currently the head of our risk management department. He has over 30 years of experience in credit recovery, international banking, merchant banking, treasury operations and risk management.

A.A. Taj, General Manager, aged 53 years, joined us on June 20, 1977. He has a bachelor's degree in commerce. He is also a qualified chartered accountant. He is currently the head of our premises and support services department and central audit and inspection department. He has over 28 years experience in the field of audit, central accounts, credit recovery and premises and support services.

R.Vishwanathan, General Manager, aged 58 years, joined us on May 11, 1966. He has a bachelor's degree in commerce and in law. He is currently the head of our South Zone operations. He has over 39 years of experience in information technology, credit and administration.

V. K. Khanna, General Manager, aged 54 years, joined us on February 7, 1976. He is a graduate in science and a qualified chartered accountant. He is presently the head of our information technology department. He has experience of over 30 years in the field of credit, recovery, merchant banking, investment and information technology and as regional and zonal head.

K. S. M. Rao, General Manager, aged 58 years, joined our Bank on November 22, 1972. He has a bachelor's degree in commerce and in law. He is a CAIIB. He is currently the head of our credit and central accounts department. He has more than 33 years experience in international banking, social banking, audit, central accounts and credit.

V. S. R. Murthy, General Manager, aged 58 years, joined us on May 22, 1970. He is a post graduate in science and is a CAIIB. He is currently the head of our retail banking department. He has over 35 years of experience in the field of planning and development, audit and retail banking.

B. L. Javeri, General Manager, aged 57 years, joined our Bank on September 18, 1972. He has a bachelor's degree in commerce and law. He is currently the head of our planning research, development and new initiative department. He has over 33 years experience in human resources, credit, administration and planning research and development.

M. S. Sunderarajan, General Manager, aged 55 years, joined our Bank on December 29, 1972. He is a post graduate in arts and is a qualified company secretary. He is currently the head of our Mumbai Zone. He is a CAIIB. He has over 33 years of experience in corporate banking, training and credit.

G. S. Mehta, General Manager, aged 57 years, joined our Bank on January 10, 1974. He is a post graduate in science. He is presently the head of our Central Zone I operations. He has over 31 years experience in the banking industry.

T. P. Balakrishnan, General Manager, aged 57 years, joined our Bank on November 23, 1972. He is post graduate in commerce. He is currently the head of Credit Recovery, Legal Services and Human Resource Management department. He has 33 years experience in audit, credit recovery, risk management and human resources.

T. K. Sharma, General Manager, aged 53 years, joined us on March 1, 1976. He is a post graduate in commerce and a qualified chartered accountant. He is currently the head of West Zone I. He has 30 years of experience in audit, credit and human resource management.

N. S. Mehta, General Manager, aged 53 years, joined us on January 20, 1978. He is a graduate in commerce and a qualified chartered accountant. He is presently the head of our priority sector lending division. He has 28 years of experience in audit, credit recovery, planning and development and social banking.

V. K. Dhingra, General Manager, aged 55 years, joined us on December 28, 1972. He is a post graduate in commerce. He is presently the General Manager, North Zone. He has over 32 years of experience in the banking industry.

Bhaskar Sen, General Manager, aged 53 years, joined our Bank on December 5, 1974. He is a graduate in commerce and is a CAIIB. He is presently the head of our treasury and international banking division. He has over 31 years experience in international banking and treasury operations.

V. A. Mendonsa, General Manager, aged 54 years, joined our Bank on December 14, 1974. He is a post graduate in commerce and is a CAIIB. He is presently on deputation to Corporation Bank as Chief Vigilance Officer. He has over 31 years of experience in training, audit and vigilance.

S. M. Nasir, General Manager, aged 57 years, joined our Bank on December 30, 1972. He is a post graduate in commerce. He is currently the head of our East Zone. He has over 33 years of experience in audit and training.

N. K. Agarwal, General Manager, aged 54 years, joined our Bank on November 17, 2005. He is a post graduate in commerce. He is currently the Chief Vigilance Officer of our Bank. He has experience of more than 30 years in credit, audit and corporate banking.



Shareholding of the Key Managerial Personnel

Except as disclosed below, none of our Key Managerial Personnel hold any Equity Shares:

Name	Number of Equity Shares
A.A.Taj	500
R.Vishwanathan	2,100
V. K.Khanna	1,000
K.S.M. Rao	100
V.S.R. Murthy	200
B.L. Javeri	50
M.S. Sunderarajan	3,300
G.S. Mehta	1,100
T.K. Sharma	300
N.S. Mehta	1,100
V.K. Dhingra	300
Bhaskar Sen	1,600
V.A. Mendonsa	2,100
S.M. Nasir	1,000
Total	14,750

Changes in our key managerial personnel during the last three years

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

Name	Date of becoming key managerial personnel	Date of cessation	Reason for Change
K.P. Lazar	February 1, 2001	April 30, 2002	Retired
G.R. Anand	May 6, 1994	May 31, 2002	Retired
P.C. Shrivastava	January 10, 2000	July 10, 2002	Repatriation to State Bank of India
U.S. Kohli	July 11, 2002	June 18, 2005	Appointed as executive director of Dena Bank
K.V.S. Shyamsunder	October 1, 1996	July 31, 2002	Retired
M. Ganoorkar	December 30, 2000	July 31, 2002	Retired
S.P.S. Walia	December 2, 1996	October 31, 2003	Retired
H.A. Daruwalla	April 22, 1997	August 27, 2004	Appointed as the executive director of Oriental Bank of Commerce
S.P. Roy	October 1, 1996	December 31, 2004	Retired
K.L. Gopalakrishna	December 12, 1996	June 18, 2005	Appointed as executive director of Corporation Bank
P.L. Gairola	July 1, 2001	June 18, 2005	Appointed as executive director of Bank of India

Other than the above changes, there have been no changes to the Key Managerial Personnel of the Bank that are not in the normal course of employment.



OUR PROMOTER AND ASSOCIATES

Promoter

Our Promoter is the President of India, acting through the MoF, GoI, which holds 60.85% of the pre-Issue paid up equity share capital of our Bank and will hold at least 55.43% of the fully diluted post-Issue paid up equity share capital of our Bank.

Associates

In accordance with the Regional Rural Banks Act, 1976 providing for the incorporation, regulation and functioning of Regional Rural Banks and with the view to developing the rural economy, the Bank has sponsored two RRBs with a network of 416 branches spread over 10 districts in two states of India being the states of Uttar Pradesh and Madhya Pradesh, in order to provide banking services in rural areas in compliance of GoI policies.

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

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

The RRBs sponsored by us are:

Kashi Gomti Samyut Gramin Bank

Pursuant to a notification dated September 12, 2005 issued by the GoI, Ministry of Finance, Department of Economic Affairs (Banking Division), the Kashi Gomti Samyut Gramin Bank was formed on September 12, 2005 through the amalgamation of three RRBs, i.e., Kashi Gramin Bank, Gomti Gramin Bank and Samyut Kshetriya Gramin Bank, which were sponsored by us. The head office of Kashi Gomti Samyut Gramin Bank is situated at Varanasi and its operational area comprises the districts of Azamgarh, Ghazipur, Mau, Ambedkar Nagar, Varanasi, Chandauli, Sant Ravidas Nagar and Jaunpur in the state of Uttar Pradesh. It has 334 branches.

The board of directors of Kashi Gomti Samyut Gramin Bank is in the process of being constituted and as of date, the following directors have been appointed on the board of Kashi Gomti Samyut Gramin Bank:

Director	Post
R. K. Malhotra	Chairman
P. K. Pradhan	Director
N. M. Sinha	Director
M. R. Bhalla	Director
R. B. Patel	Director
A. K. Srivastava	Director
A. P. Tiwari	Director

As this RRB was formed on September 12, 2005, no financial statements are available for the amalgamated entity. However, the audited accounts for the last three years of the three RRBs that were amalgamated to form the Kashi Gomti Samyut Gramin Bank are provided hereunder.



The audited financial position of Kashi Gramin Bank for the last three financial years is as follows:

(Rs. million)

Particulars	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005
Capital	10.00	10.00	10.00
Share Capital Deposit Account	252.76	261.89	261.89
Reserves and Surplus	24.44	9.52	80.10
Deposits	4,396.25	4,928.24	5,212.55
Advances	1,146.35	1,466.64	1,861.94
Accumulated losses	85.99	-	-
Total Income	440.66	461.59	467.85
Total Expenditure	372.53	366.09	391.51
Profit after Tax	68.13	95.50	76.34
Net Asset value/Book value per share	10.93	10.35	12.95
Earnings per share (Rs.10 face value)	2.59	3.51	2.81

The financial performance of Samyut Kshetriya Gramin Bank for the last three financial years is as follows:

(Rs. million)

Particulars	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005
Capital	10.00	10.00	10.00
Share Capital Deposit Account	8.68	8.68	8.68
Reserves and Surplus	1,087.98	1,270.11	1,415.62
Deposits	9,794.86	10,616.93	11,443.67
Advances	1,427.73	1,932.08	2,597.11
Accumulated losses	-	-	-
Total Income	990.74	1,003.08	907.14
Total Expenditure	788.96	772.95	761.62
Profit after Tax	201.78	230.13	145.51
Net Asset value/Book value per share	592.55	690.08	767.99
Earnings per share (Rs.10 face value)	108.04	123.22	77.91



The financial performance of Gomti Gramin Bank for the last three financial years is as follows:

(Rs. million)

Particulars	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005
Capital	10.00	10.00	10.00
Share Capital Deposit Account	146.82	155.49	155.49
Reserves and Surplus	150.32	331.83	372.56
Deposits	4,737.29	5,116.93	5,473.91
Advances	1,198.22	1,310.77	1,506.55
Accumulated losses	-	-	-
Total Income	460.19	467.71	471.96
Total Expenditure	414.33	407.37	417.50
Profit after Tax	45.86	60.34	54.46
Net Asset value/Book value per share	19.59	30.05	32.51
Earnings per share (Rs.10 face value)	2.92	3.65	3.29

Rewa Sidhi Gramin Bank

Rewa Sidhi Gramin Bank was established on December 20, 1976 with its head office at Rewa in Madhya Pradesh. The operational area of the Rewa Sidhi Gramin Bank comprises the districts of Rewa and Sidhi in the state of Madhya Pradesh and it has 82 branches.

The board of directors of Rewa Sidhi Gramin Bank, as of September 30 2005 are as follows:

Director	Post
A. K. Thakur	Chairman
Anjani Mishra	Director
A. K. Udgir	Director
Pravin Kulshreshta	Director
V. K. Malhotra	Director
O. P. Tiwari	Director
O. P. Dubey	Director
Sanjay Shrivastava	Director
Rajbali Singh	Director

The financial performance of Rewa Sidhi Gramin Bank for the last three financial years is as under:

(Rs. million)

Particulars	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005
Capital	10.00	10.00	10.00
Share Capital Deposit Account	81.27	81.27	81.27
Reserves and Surplus	96.64	121.73	151.80
Deposits	3,685.63	4,106.98	4,573.92
Advances	800.05	840.64	964.27
Accumulated losses	-	-	-
Total Income	354.16	364.47	369.56
Total Expenditure	341.96	339.38	339.49
Profit after Tax	12.20	25.09	30.07
Net Asset value/Book value per share	20.59	23.34	26.63
Earnings per share (Rs.100 face value)	1.34	2.75	3.30



RELATED PARTY TRANSACTIONS

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

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

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

Sl. No	Name	Designation	Salary and emoluments (Rs.)
1.	K Cherian Varghese	Chairman and Managing Director	302,490
2.	K Rathnakar Hegde	Executive Director	256,808



DIVIDEND POLICY

The declaration and payment of dividends will be recommended by our Board of Directors at their discretion and discussed by our shareholders, and will depend on a number of factors, including but not limited to our profits, capital requirements and overall financial condition, and are subject to the guidelines issued by RBI. The Board may also from time to time pay interim dividends. For further details on restrictions on dividend declaration, see the section titled “Regulations and Policies—Restrictions on Payment of Dividends” on page 93 of this Red Herring Prospectus.

The dividends declared by our Bank during the last five years have been presented below.

	2005	2004	2003	2002	2001
Face value of Equity Share (Rs. per share)	10	10	10	10	10
Interim Dividend on Equity Shares (Rs. million)	920.24	920.24	-	-	-
Final Dividend on Equity Shares (Rs. million)	690.18	690.18	966.25	450	310.93
Total Dividend on Equity Shares (Rs. million)	1610.42	1610.42	966.25	450	310.93
Dividend rate (%)	35	35	21	13	9
Dividend tax (Rs. million)	210.46	206.33	123.80	Nil	70.27

However, the amounts paid as dividends in the past are not necessarily indicative of dividend amounts to be paid or our dividend policy, if any, in the future. Future dividends will depend on our revenues, profits, cash flow, financial condition, capital requirements and other factors.



FINANCIAL STATEMENTS

M/s. Chandiok & Guliani.
Chartered Accountants
C-44, Nizamuddin East,
New Delhi-110013

M/s Raj K. Aggarwal & Associates.
Chartered Accountants,
3072/41, Gola Market, Darya Ganj,
New Delhi -110002

M/s. Batliboi & Purohit
Chartered Accountants,
National Insurance Building, 204,
D.N. Road, Mumbai – 400 001.

M/s Lodha & Co.
Chartered Accountants,
14, Government Place East,
Kolkata – 700 069

M/s.Price Patt & Co.,
Chartered Accountants
New No.44, Old No.108,
Sir P.S. Siva Swamy Salai,
II Street, Mylapore, Chennai – 600 004.

M/s. Dass Maulik Mahendra K.
Agrawala & Co.
Chartered Accountants,
Ground Floor, Block B, Monalika Apt.,
L.B.S. Road, Old station Square,
Cuttack Road, Bhubaneshwar – 751 006.

The Board of Directors

Union Bank of India,
Mumbai.

We have been engaged to examine and report on the financial information (as set out in Annexure A to F of this report) of Union Bank of India (the Bank).

The preparation and presentation of this financial information is the responsibility of the Bank's management. We have reported on the said financial information on the basis of such tests and procedures which in our opinion were considered necessary, information and explanations provided by the management and a review of the books & records produced to us to ensure that the said information has been prepared in accordance with the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 issued by the Securities and Exchange Board of India (SEBI) on January 19, 2000 as amended from time to time in pursuance of section 11 of the SEBI Act, 1992(SEBI Guidelines).

This financial information is proposed to be included in the offer document of the Bank in connection with its proposed public offer of equity shares.

1. For the purpose of our examination of the financial information, we have placed reliance on the following:

- (a) The financial statements of the Bank for the financial years ended on March 31, 2001, 2002, 2003, 2004 and 2005 which were audited and reported upon by the respective auditors, names of whom and the year of their audit are furnished below:

Year	Name of Auditors
2000-01	1) B. Gupta & Co., Patna, 2) C.S. Hariharan & Co., Chennai, 3) D.P. Sen & Co., Kolkata, 4) Gala & Gala, Mumbai 5) Sundaram & Srinivasan, Chennai, 6) V.P. Aditya & Co, Kanpur.
2001-02	1) B. Gupta & Co., Patna, 2) D.P. Sen & Co., Kolkata 3) Gala & Gala, Mumbai, 4) S.N. Dhawan & Co., Delhi, 5) Sundaram & Srinivasan, Chennai, 6) V.K. Verma & Co., Delhi.
2002-03	1) D. P. Sen & Co., Kolkata 2) Gala & Gala, Mumbai, 3) S.N. Dhawan & Co., Delhi, 4) Sundaram & Srinivasan, Chennai, 5) V.K. Verma & Co., Delhi, 6) Chandiok & Guliani, Delhi.
2003-04	1) Gala & Gala, Mumbai, 2) S.N. Dhawan & Co., Delhi, 3) Sundaram & Srinivasan, Chennai, 4) V.K. Verma & Co., Delhi, 5) Chandiok & Guliani, Delhi, 6) Raj K. Aggarwal & Associates, Delhi.
2004-05	1) S.N. Dhawan & Co., Delhi, 2) V.K. Verma & Co. Delhi, 3) Chandiok & Guliani, Delhi, 4) Raj K. Aggarwal & Associates, Delhi, 5) Batliboi & Purohit, Mumbai, 6) Lodha & Co., Kolkata.

- (b) The unaudited financial results of the Bank for the half-year ended September 30, 2004, which were subject to a limited review by Statutory Central Auditors.
- (c) The unaudited financial results of the Bank for the half-year ended September 30, 2005, which were subject to a limited review by us. The aforesaid financial results incorporated the relevant returns of 20 branches reviewed by us and un-reviewed returns in respect of 1869 branches. In the conduct of our review, we had taken note of the review reports received from the concurrent auditors of 169 branches. These review reports received from the concurrent auditors and branches and Central Office departments reviewed by us cover 64.45% of the advances portfolio of the Bank and 51.15% of non-performing advances of the bank.

Since no financial results have been reviewed subsequent to September 30, 2005 till date, prior to three months before the issue of the prospectus, the said financial results of the Bank for the half-year ended September 30, 2005 have been incorporated.



2. The audit of the financial statements for the years referred to in paragraph 1(a) of this report comprised of audit tests and procedures deemed necessary by the respective auditors for the purpose of expressing an opinion on such financial statements taken as a whole in accordance with generally accepted auditing practices.
3. The review of the financial statements for the period referred to in paragraph 1(b) & 1(c) above consisted principally of applying analytical procedures to financial data and making enquires of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards, the objective of which is an expression of an opinion on the financial statements as a whole. Accordingly, neither was an audit performed nor an opinion expressed.
4. We report that the profits of the Bank as restated for the financial years ended March 31, 2001, 2002, 2003, 2004, 2005 and for the half-years ended September 30, 2004 and September 30, 2005 are set out in Annexure A - I. These profits have been arrived at after charging all operating and management expenses, including depreciation and after making such adjustments and regroupings as in our opinion are appropriate and are to be read with accounting policies and notes thereon furnished.
5. We report that the assets and liabilities of the Bank as restated as at March 31, 2001, 2002, 2003, 2004, 2005, and September 30, 2004 & September 30, 2005 are also as set out in Annexure A - II after making such adjustments and regroupings as in our opinion were appropriate and are to be read with the accounting policies and notes thereon.
6. We report that the cash flow statement of the Bank as restated for the financial year ended March 31, 2003, 2004, 2005 and Unaudited cash flow statement for the half-year ended September 30, 2004 & September 30, 2005 are also set out in Annexure A - III.
7. The financial information as laid out in Annexure A referred to in paragraph 4, 5 & 6 above consists of the following:
 - (i) Summary statement of Profit and Loss as restated. (Annexure A-I)
 - (ii) Summary statement of Assets and Liabilities as restated. (Annexure A-II)
 - (iii) Cash Flow statement as restated. (Annexure A- III)
 - (iv) Significant accounting policies for the year ended March 31, 2005 (Annexure A-IV)
 - (v) Notes on adjustments carried out. (Annexure A-V)
 - (vi) Notes on adjustments not carried out. (Annexure A-VI)
 - (vii) Notes on accounts, for the year ended 31st March 2005. (Annexure A-VII)
 - (viii) Statement of Related Party transactions for the year 2002-03, 2003-04 and 2004-05. The Bank did not report related party transactions for the year 2000-01 & 2001- 02 since the relevant accounting standard was not mandatory for that year. (Annexure A-VIII)
 - (ix) Segment Reporting (not restated) for the year 2002-03, 2003-04, 2004-05 and for the half-year ended September 30, 2004 & September 30, 2005. The Bank did not prepare segment reports for the year 2000-01 and 2001-02 since the relevant accounting standard was not mandatory for those years (Annexure A-IX)
8. For the purpose of our examination of the financial information furnished in Annexure A, we have performed such tests and procedures, which, in our opinion, were necessary for the purpose of our examination. These procedures, mainly involved comparison of the attached financial information with the bank's audited financial statements for the years 2000-01 to 2004-05 and un-audited financial statements for the half-year ended September 30, 2004 and September 30, 2005 as prepared by the bank.
9. We have examined the statement of dividends (subject to deduction of tax at source and excluding tax on dividend under section 115 O of Income Tax Act, 1961, wherever applicable) declared by the Bank for the five financial years ended March 31, 2005 as set out in Annexure B.
10. We have also examined the following financial information relating to the Bank proposed to be included in the offer document.
 - (i) Summary of accounting ratios based on adjusted profits as set out in Annexure C.
 - (ii) Capitalization statement as at September 30, 2005 of the Bank as set out in Annexure D.
 - (iii) Statement of tax shelter as set out in Annexure E.
 - (iv) Statement of borrowings as set out in Annexure F.



11. (a) In our opinion, the financial information of the Bank as stated in Annexure A above read with significant accounting policies and material notes to accounts, after making adjustments as were considered appropriate by us and subject to non-adjustment of certain matters as stated in the said Annexure, have been prepared in accordance with the SEBI Guidelines.
- (b) In our opinion, the financial information as given in Annexures B to F have been properly extracted from bank's audited financial statements for the years ended March 31, 2001, 2002, 2003, 2004, 2005 and the Unaudited financial statements of the bank for the period ended September 30, 2004 and September 30, 2005 and after taking into account the adjustments as mentioned in 7 (v) above have been correctly prepared in accordance with the SEBI guidelines subject to consequential effect of adjustment, if any, not carried out.
12. This report is intended solely for your information and for inclusion in the offer document in connection with the proposed public issue of the shares of the Bank and is not to be used, referred to or distributed for any other purpose without our prior written consent.
13. This report should neither in any way be construed as a reissuance or redrafting of any of the previous audit reports issued by us or by other firms of chartered accountants nor construed as a new opinion on any financial statements referred to herein.

FOR CHANDIOK & GULIANI
CHARTERED ACCOUNTANTS

V.K.LALLA
PARTNER
(M. No. 80847)

FOR RAJ K.AGGARWAL & ASSOCIATES
CHARTERED ACCOUNTANTS

RAJ K. AGGARWAL
PARTNER
(M. No. 81492)

FOR BATLIBOI & PUROHIT
CHARTERED ACCOUNTANTS

R.D. HANGEKAR
PARTNER
(M. No. 30615)

FOR LODHA & CO.
CHARTERED ACCOUNTANTS

H.K. VERMA
PARTNER
(M. No. 55104)

FOR PRICE PATT & CO.
CHARTERED ACCOUNTANTS

M. NAGANATHAN
PARTNER
(M. No. 7547)

FOR DASS MAULIK MAHENDRA K. AGRAWALA & CO.
CHARTERED ACCOUNTANTS

M.K. AGRAWALA
PARTNER
(M. No. 51764)

Place: Mumbai

Dated: January 24th 2006.



ANNEXURE A

A -I

SUMMARY STATEMENT OF PROFIT AND LOSS RESTATED

(Rs. million)

SR. NO.	PARTICULAR	AUDITED					LIMITED REVIEW	
		FINANCIAL YEAR ENDED 31 ST MARCH					HALF YEAR ENDED	
		2001	2002	2003	2004	2005	SEPT.04	SEPT.05
A	INCOME							
1	INTEREST EARNED	37329.5	40156.8	43061.8	45163.1	49697.9	23589.2	27779.5
1.1	INT.& DISC ON ADV./BILLS	19550.6	21686.4	23461.9	24146.7	28685.7	13319.6	17449.8
1.2	INCOME ON INVESTMENT	15244.4	16745.1	18134.5	19375.3	19050.8	9726.7	9621.3
1.3	INT. ON BAL WITH RBI & OTHER INTER-BANK LENDING	2022.2	1537.1	1296.5	1174.3	785.7	484.1	431.9
1.4	INT. ON INCOME TAX	11.2	101.5	-	275.6	1070.0	-	240.5
1.5	OTHERS	501.1	86.7	168.9	191.2	105.7	58.8	36.0
2	OTHER INCOME	3192.8	4863.4	8245.6	8314.6	7661.0	3959.4	2739.5
2.1	COMM.EXCHANGE & BROKERAGE	1212.9	1291.8	1425.3	1555.4	1769.2	802.4	1031.1
2.2	PROFIT ON SALE OF INVESTMENT(NET)	343.5	1598.3	4751.4	4353.7	2603.2	1678.9	545.7
2.3	PROFIT ON SALE OF LAND/ BLDG & OTHER ASSETS	-01.2	-03.6	-03.3	-04.2	-06.1	-03.9	-03.4
2.4	PROFIT ON EXCH TRANSACTIONS (NET)	895.4	1143.7	997.3	1184.8	1665.9	717.9	656.7
2.5	INCOME EARNED BY WAY OF DIVIDEND FROM SUBSIDIARIES /JVs IN INDIA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2.6	MISC. INCOME	742.2	833.2	1074.9	1224.9	1628.8	764.1	509.4
	TOTAL INCOME	40522.3	45020.2	51307.4	53477.7	57358.9	27548.6	30519.0
B	EXPENDITURE							
3	INTEREST EXPENDED	25139.5	26790.4	28085.0	27800.7	29052.3	14354.5	16409.2
3.1	INT. ON DEPOSIT	24270.7	25730.4	26924.4	26309.9	27103.2	13509.2	15078.7
3.2	INT. ON RBI/INT-BANK BORROWING	219.3	190.4	76.0	30.7	208.5	14.6	415.3
3.3	OTHERS	649.5	869.6	1084.6	1460.1	1740.6	830.7	915.2
4	OPERATING EXPENSES	10193.4	9665.4	10183.2	10846.2	12574.9	6178.7	7008.3
4.1	PAYMENT & PROV.FOR EMPLOYEES &WAGES	7561.9	6866.5	6892.3	7304.2	8064.2	4142.4	4432.7
4.2	RENT,TAXES &LIGHTING	553.1	575.7	653.1	724.7	847.9	371.3	441.9
4.3	INSURANCE	192.4	224.8	272.1	332.3	548.3	257.1	376.3
4.4	PRINT. & STATIONERY	130.5	141.3	158.9	180.3	199.4	96.0	87.6
4.5	ADVERTISEMENT	60.5	89.2	102.6	146.4	252.1	46.4	90.2
4.6	POST. TELEGRM. TELE. ETC	95.0	95.0	103.9	136.6	160.0	80.4	90.3
4.7	REPAIRS & MAINTENANCE	103.8	114.3	144.1	159.5	219.2	101.2	135.9
4.8	LAW CHGS	45.9	38.7	57.8	48.9	57.8	27.5	23.0
4.9	DIRECTOR'S FEES, ALLOW&EXP	00.7	01.5	03.3	04.1	03.9	02.0	01.6
4.10	AUDITOR'S FEES & EXP	63.9	72.3	83.8	102.2	107.1	50.0	57.1
4.11	OTHER EXP	939.2	1004.5	1192.7	1204.1	1382.1	693.9	845.6
4.12	DEPRECIATION ON BNK'S PROPERTIES	446.5	441.6	518.6	502.9	732.9	310.5	426.1



(Rs. million)

SR. NO.	PARTICULAR	AUDITED					LIMITED REVIEW	
		FINANCIAL YEAR ENDED 31 ST MARCH					SEPTEMBER HALF YEAR ENDED	
		2001	2002	2003	2004	2005	SEPT.04	SEPT.05
5.0	TOTAL EXPEND.	35332.9	36455.8	38268.2	38646.9	41627.2	20533.2	23417.5
6.0	GROSS PROFIT BEFORE PROVISION FOR INCOME TAX & EXTRAORDINARY ITEMS	5189.4	8564.4	13039.2	14830.8	15731.7	7015.4	7101.5
6.1	LESS : EXTRA ORDINARY ITEMS							
6.2	PROVISIONS & CONTINGENCIES	3386.5	5551.1	7512.3	7710.3	8541.1	2804.7	4086.6
7.0	NET PROFITS /(LOSS) FOR THE YEAR	1802.9	3013.3	5526.9	7120.5	7190.6	4210.7	3014.9
7.1	ADD: DIV. RECD. BACK FROM GOVT.	-	-	-	-	-		
7.2	AMT RECD FROM INV FLUCT. RESERVES.	-	-	-	-	-		
7.3	PROFIT&LOSS BROUGHT FORWARD	-	-	-	406.6	774.4	406.6	774.4
7.4	PROFIT AVAILABLE FOR APPROPRIATION	1802.9	3013.3	5526.9	7527.1	7965.0	4617.3	3789.3
8.0	APPROPRIATION							
8.1	TRANSFER TO STATUTORY RESERVE	466.4	950.0	1658.1	2144.5	2160.0	-	-
8.2	TRANSFER TO REVENUE & OTHER RESERVE	868.6	613.3	730.0	0.00	2240.2	-	-
8.3	TRF TO CAP. RES.-EXCESS DEP. ON INV.W.B.	86.7	0.0	02.0	31.5	783.9	-	-
8.4	TRF TO INV. FLUCT. RES. (Net)	00.0	1000.0	1640.2	2260.0	150.0	-	-
8.5	SPL. RESERVE (SEC.36(1) (VIII) OF IT ACT	0.00	0.00	0.00	500.0	400.0	-	-
8.6	DIVIDEND	310.9	450.0	966.2	1610.4	1610.4	-	-
8.7	DIVIDEND TAX	70.3	0.0	123.8	206.3	210.5	-	-
8.8	BAL. CARRIED OVER TO BAL SHEET	0.0	0.0	406.6	774.4	409.9	-	-
8.9	FOREIGN CURRENCY TRANSLATION RESERVE	0.0	0.0	0.0	0.0.	00.1	-	-
9	TOTAL	1802.9	3013.3	5526.9	7527.1	7965.0	4617.3	3789.3
10	BREAK- UP OF PROVISION & CONTINGENCIES							
10.1	PROV.FOR INC.TAX, INT.TAX & WEALTH TAX	608.7	1420.0	2763.0	1079.8	-1074.7	1140.0	750.0
10.2	DEPRECIATION ON INV.	175.5	164.6	-90.4	-254.5	225.9	280.7	-182.3
10.3	BAD DEBTS W/OFF(NET)	-	-	-	-	-	-	-
10.4	INT WAIVER / CONCESSION GRANTED	-	-	-	-	-	-	-
10.5	PROV FOR BAD & DOUBTFUL DEBTS	2308.0	3216.0	4174.8	6436.1	2164.6	1170.0	436.5
10.6	PROV FOR DICGC CLAIMS LODGED A/C.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10.7	PROV FOR STANDARD ADV.	72.5	112.5	100.0	100.0	257.5	115.0	160.0
10.8	OTHERS	221.8	638.0	564.9	348.9	6967.8	99.0	2922.4
10.9	TOTAL	3386.5	5551.1	7512.3	7710.3	8541.1	2804.7	4086.6



A-II

Statement of Assets and Liabilities - Restated

(Rs million)

	As on March 31 st ,	2001	2002	2003	2004	2005	Sept.04	Sept.05
A) ASSETS								
1 Cash in Hand		1487.4	1633.1	1628.3	1525.5	1697.6	1483.6	1700.0
2 Balance with RBI		25947.6	22293.7	20844.1	22474.8	34774.1	27600.3	31535.5
3 Balance with Banks								
In India		7172.4	10389.0	13377.1	8953.3	11246.0	2448.3	8652.4
Outside India		15813.4	13742.2	3146.8	2075.6	8102.2	405.0	1088.4
4 Money at call & short notice		2750.0	1000.0	0.0	3450.0	9899.7	200.0	8124.7
5 Investments								
In India		136714.9	154095.8	193706.8	229461.4	227926.8	238252.4	253062.8
Outside India		1.1	1.1	1.1	1.1	1.1	1.1	2.0
6 Advances								
In India		175053.5	213833.1	255148.5	289217.0	401050.8	341263.9	461235.3
Outside India								
7 Fixed Assets #		2467.9	2322.1	2385.4	2860.6	3487.9	3043.4	3363.7
8 Other Assets		17376.2	19214.1	15419.3	18300.7	21196.3	16715.3	22010.2
TOTAL (A)		384784.4	438524.2	505657.4	578320.0	719382.5	631413.3	790775.0
B LIABILITIES								
1 Demand deposits from banks		1434.5	1525.3	1364.4	1490.4	2367.1	1128.9	5147.0
Demand deposits from others		59227.2	65019.7	48998.0	48548.6	47734.2	41493.1	51006.9
2 Saving Deposits		84241.5	97010.2	111716.7	130842.9	151971.2	141250.6	166251.2
3 Term deposit from banks		7799.2	7828.7	7644.7	7805.4	11151.0	7547.8	13244.2
Term deposit from others		196178.2	226554.8	277762.4	316902.1	405082.3	365107.3	451078.1
4 Borrowings								
In India		3133.4	533.0	3981.4	338.6	7876.4	162.7	5046.1
Outside India		-	-	439.3	9003.8	12333.2	9302.3	12506.0
5 Other liabilities & provisions		19198.0	24165.1	33029.7	37363.6	49472.7	35185.3	52086.2
TOTAL (B)		371212.0	422636.8	484936.6	552295.4	687988.1	601178.0	756365.7
C Net Assets (C=A-B)		13572.4	15887.4	20720.8	26024.6	31394.4	30235.3	34409.3
Represented by:								
D SHARE CAPITAL		3380.0	3380.0	4601.2	4601.2	4601.2	4601.2	4601.2
E RESERVES & SURPLUS #								
I Statutory reserve		5637.4	6587.4	8245.5	10390.0	12550.0	10390.0	12550.0
II Capital Reserves-others		86.7	86.7	88.7	120.2	904.1	120.2	904.1
III Investment Fluctuation Reserve		499.8	1499.8	3140.0	5400.0	5550.0	5400.0	5550.0
IV Share Prem Spl.Reserve		0.4 -	0.4 -	979.0 -	979.0 500.0	979.0 900.0	979.0 500.0	979.0 900.0
V Revenue & other reserves		3968.1	4333.1	3259.8	3259.8	5500.1	3259.8	5500.2
VI Balance of Profit & Loss account		-	-	406.6	774.4	409.9	4985.1	3424.8
TOTAL (E)		10192.4	12507.4	16119.6	21423.4	26793.2	25634.1	29808.1
F TOTAL		13572.4	15887.4	20720.8	26024.6	31394.4	30235.3	34409.3



(Rs. million)

	As on March 31 st ,	2001	2002	2003	2004	2005	Sept.04	Sept.05
G	CONTINGENT LIABILITIES							
	i) Claims against the Bank not ack. as debt	1352.6	1503.1	1598.8	1645.7	1533.0	1645.7	1533.0
	ii) Disputed IT demand under appeal/refer, etc.	3885.8	4269.4	5162.4	3784.8	5283.3	2439.2	5300.6
	iii) Liability for partly paid investments	36.0	11.4	5.9	5.9	5.9	5.9	5.9
	iv) Liability on account of o/s. for. exch. Contract	40928.8	48947.5	91530.5	189172.2	259261.6	257869.6	227938.8
	v) G/tees. Given on behalf of constituents	12906.4	15709.2	19084.3	24054.2	30295.8	26785.0	40343.1
	vi) Acceptances, endorsements & other oblig.	9278.1	14040.3	28659.1	58793.2	97214.9	82277.9	80187.6
	vii 1) Other items for which bank is cont.liable	-	-	-	-	-	-	-
	2) Liability on a/c. of rounding of interest tax	-	-	-	-	-	-	-
	viii Others	352.1	229.4	127.6	202.4	199.6	137.7	162.8
	TOTAL (G)	68739.8	84710.3	146168.6	277658.4	393794.1	371161.0	355471.8
	Bills for Collection.	16476.6	26726.1	27205.0	33331.0	95191.2	31770.0	8515.0
	# Excluding Revaluation Reserve	5164.3	5054.7	4947.5	4846.8	4750.0	4798.4	4703.4

A-III

CASH FLOW STATEMENT

(Rs. million)

		31.03.03	31.03.04	31.03.05
A	Cash flow from operating activities	(14176.1)	1218.8	27302.9
B	Cash flow from investing activities	(585.4)	(838.2)	(1279.1)
C	Cash flow from financing activities	4699.8	(897.7)	1216.7
		(10061.7)	(517.1)	27240.5
D	Cash and cash equivalents at the beginning of the year	49058.0	38996.3	38479.2
E	Cash and cash equivalents at the end of the year	38996.3	38479.2	65719.7
F	Total Cash Flow during the year (A+B+C) or (E-D)	(10061.7)	(517.1)	27240.5
BREAK UP DETAILS				
A	CASH FLOW FROM OPERATING ACTIVITIES			
	Interest received during the year from advances, investments etc.,	43094.6	45296.4	49988.9
	Other Income	8248.9	8314.6	7661.0
	Less : Interest paid on deposits, borrowings etc. (excl. subordinated debts)	(27234.4)	(26562.3)	(27482.8)
	Operating expenses including provisions and contingencies	(17695.4)	(18556.5)	(21115.9)
	Deferred tax adjustments	385.6	(1053.2)	(1074.7)
	Add : Adjustment for depreciation	518.5	502.9	732.9
	I. Cash profit generated from operations	7317.8	7941.9	8709.4



		31.03.03	31.03.04	31.03.05
	II. Cash flow from operating assets & liabilities			
	[increase/(decrease)] in liabilities			
	Deposits	49547.6	58103.0	112716.6
	Borrowings	3887.6	4921.5	10867.2
	Other liabilities etc. (including write back of excess provision made in earlier)	2235.1	3012.8	8178.2
	Decrease/(Increase) in Assets			
	Advances	(41315.3)	(39110.8)	(106791.7)
	Investments	(39611.0)	(30712.5)	'(3507.6)
	Others	3762.1	(2937.1)	(2869.2)
	Cash flow from operating assets & liabilities	(21493.9)	(6723.1)	18593.5
	NET CASH FLOW FROM OPERATING ACTIVITIES (I+II)	(14176.1)	1218.8	27302.9
B	CASH FLOW FROM INVESTING ACTIVITIES			
	Investment in subsidiaries/joint ventures	-		
	Income from investment in subsidiaries/joint ventures	-		
	Sale/disposal of fixed assets	43.5	328.2	57.2
	Purchase of fixed assets	(628.9)	(1166.4)	(1336.3)
	NET CASH FLOW FROM INVESTING ACTIVITIES	(585.4)	(838.2)	(1279.1)
C	CASH FLOW FROM FINANCING ACTIVITIES			
	Proceeds of Equity Share Issue including premium	2881.9		
	Return of capital to Central Govt.	(580.0)		
	Public Issue Expenses	(102.0)		
	Interest on Recapitalised bonds	(56.5)		
	Dividend paid	(450.0)	(2128.1)	(1819.1)
	Proceeds of subordinated debts - Tier II Capital	4000.0	2500.0	4500.0
	Interest on Tier II Capital	(993.6)	(1269.6)	(1464.2)
	NET CASH FLOW FROM FINANCING ACTIVITIES	4699.8	(897.7)	1216.7
D	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
	Cash and Balances with RBI	23926.8	22472.4	24000.3
	Balances with banks and Money at call	25131.2	16523.9	14478.9
	Net cash and cash equivalents at the beginning of the year	49058.0	38996.3	38479.2
E	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
	Cash and Balance with RBI	22472.4	24000.3	36471.8
	Balances with banks and Money at call	16523.9	14478.9	29247.9
	Net cash and cash equivalents at the end of the year	38996.3	38479.2	65719.7



CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 30.09.2005 & 30.09.2004

(Rs. million)

Sr. No.	Particulars	30/09/2005	30/09/2004
A	Cash flow from operating activities	(20,702.7)	(572.4)
B	Cash flow from investing activities	(264.0)	(472.1)
C	Cash flow from financing activities	6,348.0	(1,650.3)
		(14,618.7)	(2,694.8)
D	Cash and cash equivalents at the beginning of the year	65,719.7	38,479.3
E	Cash and cash equivalents at the end of the half year	51,101.0	35,784.5
F	Total Cash Flow during the year (A+B+C) or (E-D)	(14,618.7)	(2,694.8)
BREAK UP DETAILS			
A	CASH FLOW FROM OPERATING ACTIVITIES		
	Interest received during the year from advances, investments etc.,	27,169.9	23,402.7
	Other Income	2,742.7	3,963.3
	Less : Interest paid on deposits, borrowings etc. (excl. subordinated debts)	(15,359.3)	(13,660.0)
	Operating expenses including provisions and contingencies	(11,094.7)	(8,983.4)
	Deferred tax adjustments		
	Add : Adjustment for depreciation	426.0	310.5
	I. Cash profit generated from operations	3,884.6	5,033.1
	II. Cash flow from operating assets & liabilities		
	[increase/(decrease)] in liabilities		
	Deposits	68,421.4	50,938.3
	Borrowings	(2,657.5)	122.6
	Other liabilities etc. (including write back of excess provision made in earlier)	(4,825.5)	(1,229.1)
	Decrease/(Increase) in Assets		
	Advances	(60,184.4)	(47,004.8)
	Investments	(25,136.9)	(10,186.0)
	Others	(204.4)	1,753.5
	Cash flow from operating assets & liabilities	(24,587.3)	(5,605.5)
	NET CASH FLOW FROM OPERATING ACTIVITIES (I+II)	(20,702.7)	(572.4)
B	CASH FLOW FROM INVESTING ACTIVITIES		
	Sale/disposal of fixed assets	43.9	28.2
	Purchase of fixed assets	(307.9)	(500.3)
	NET CASH FLOW FROM INVESTING ACTIVITIES	(264.0)	(472.1)
C	CASH FLOW FROM FINANCING ACTIVITIES		
	Proceeds of Equity Share Issue including premium	-	-
	Return of capital to Central Govt.	-	-
	Public Issue Expenses	-	-
	Interest on Recapitalised bonds	-	-
	Dividend paid	(690.2)	(690.2)
	Dividend Tax	(90.2)	(88.4)
	Proceeds of subordinated debts - Tier II Capital	8,000.0	
	Interest on Tier II Capital	(871.6)	(871.7)
	NET CASH FLOW FROM FINANCING ACTIVITIES	6,348.0	(1,650.3)



Sr. No.	Particulars	30/09/2005	30/09/2004
D	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
	Cash and Balances with RBI	36,471.8	24,000.4
	Balances with banks and Money at call	29,247.9	14,478.9
	Net cash and cash equivalents at the beginning of the year	65,719.7	38,479.3
E	CASH AND CASH EQUIVALENTS AT THE END OF THE HALF YEAR		
	Cash and Balance with RBI	33,235.5	29,083.9
	Balances with banks and Money at call	17,865.5	6,700.6
	Net cash and cash equivalents at the end of the half year	51,101.0	35,784.5

Details of Adjustments

(Rs. million)

Year ended March 31	2001	2002	2003	2004	2005	Sept.04	Sept.05
INCOME							
OTHER INCOME							
Miscellaneous Income (Processing charges for compensation claims of Gulf war victims)	77.0	-128.0	-	-	-	-	-
TOTAL INCOME	77.0	-128.0	-	-	-	-	-
EXPENDITURE							
OPERATING EXPENSES							
Payment to & Provision for employees (Provision for arrears of wage revision)	0.0	0.0	-	-	-	-	-
TOTAL EXPENDITURE	0.0	0.0	-	-	-	-	-
Gross Profit before provision for income tax & extra ordinary items	77.0	-128.0	-	-	-	-	-
LESS							
PROVISION & CONTINGENCIES							
Provision for Income Tax (Interest on Zero Coupon Bonds)	-171.3	0.0	-	-	-	-	-
NET PROFIT/LOSS FOR THE YEAR	248.3	-128.0	-	-	-	-	-
Profit Available For Appropriation	248.3	-128.0	-	-	-	-	-
APPROPRIATION							
Transfer to revenue & other reserves	248.3	-128.0	-	-	-	-	-

Increase/Decrease in Assets & Liabilities (Cumulative)

(Rs million)

Nature of Adjustments	2001	2002	2003	2004	2005	Sept.04	Sept.05
ASSETS							
Fixed Assets	-5164.3	-5054.7	-4947.5	-4846.8	-4750.0	-4798.4	-4703.4
Other Assets	171.3	0.0	-	-	-	-	-
Increase/decrease in assets	-4993.0	-5054.7	-4947.5	-4846.8	-4750.0	-4798.4	-4703.4
LIABILITIES							
Other Liabilities & Provision	-77.0	128.0	-	-	-	-	-
RESERVE & SURPLUS							
Revaluation Reserve	-5164.3	-5054.7	-4947.5	-4846.8	-4750.0	-4798.4	-4703.4
Revenue & Other Reserves	248.3	-128.0	-	-	-	-	-
Sub-total	-4916.0	-5182.7	-4947.5	-4846.8	-4750.0	-4798.4	-4703.4
Increase/decrease in Liabilities	-4993.0	-5054.7	-4947.5	-4846.8	-4750.0	-4798.4	-4703.4



A-IV

SIGNIFICANT ACCOUNTING POLICIES: 2004-2005

1. Accounting Convention

The accompanying financial statements are prepared by following the going concern concept and on the historical cost basis unless otherwise stated and conform to the statutory provisions and practices prevailing in the country.

2. Revenue Recognition

- i) Income & Expenditure is generally accounted for on accrual basis unless otherwise stated.
- ii) Income on Non-performing Assets (NPAs) is recognised to the extent realised as per the prudential norms prescribed by the Reserve Bank of India. Income accounted for in the preceding year and remaining unrealised is derecognised in respect of assets classified as NPAs during the year.
- iii) Commission, exchange and brokerage earned and rent on Safe Deposit Lockers are accounted for on realization basis.

3. Investments

- i) The Investment portfolio of the Bank is classified in accordance with the Reserve Bank of India guidelines into three categories viz.,
 - a) Held to Maturity (HTM),
 - b) Available for Sale (AFS),
 - c) Held for Trading (HFT).
- ii) For the purpose of valuation, in terms of RBI guidelines, the following principles have been adopted:
 - a) Securities held in “Held to Maturity” category - at acquisition cost. The excess of acquisition cost over the face value is amortised over the remaining period of maturity.
 - b) Securities held in “Available for Sale” category.

i.	Govt. of India Securities	At market price as per quotations put out by Fixed Income Money Market & Derivatives Association (FIMMDA)
ii.	State Development Loans, Securities guaranteed by Central/State Government, PSU Bonds	On appropriate yield to maturity basis as per FIMMDA
iii.	Equity Shares	As per market rates, if quoted, otherwise at Book value as per latest Balance Sheet (not more than 1 year old) or Re.1/- per company
iv	Preference Shares	At market price, if quoted, or on appropriate yield to maturity basis not exceeding redemption value as per FIMMDA guidelines
v	Debentures	At market price, if quoted, otherwise on appropriate yield to maturity basis as per FIMMDA guidelines.
vi	Mutual Funds	At market price, if quoted, otherwise at Repurchase Price/Net Asset Value
vii	Treasury Bills / Certificate of Deposits / Commercial Papers	At carrying cost

- c) Securities held in “Held for Trading” category - At market price based on quotations of Government Securities put out by FIMMDA.

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 Account while net appreciation, if any, is ignored.

- iii) The non-performing investments are identified and depreciation / provision is made as per RBI guidelines.



- iv) Profit/loss on sale of investments in any category is taken to the Profit & Loss Account. However, in case of profit on sale of investments in "Held to Maturity" category, an equivalent amount is appropriated to the Capital Reserve Account.
- v) Commission, brokerage, broken period interest etc. on Securities are debited/credited to Profit & Loss Account.
- vi) a) The Interest Rate Swap which hedges interest bearing asset or liability are accounted for on accrual basis except the swap designated with an asset or liability that is carried at market value or lower of cost or market value in the financial statement.

Gains or losses on the termination of swaps are recognised over the shorter of the remaining contractual life of the swap or the remaining life of the asset/liability.
- b) Trading swap transactions are marked to market with changes recorded in the financial statements.

4. **Advances**

- i) All advances are classified under four categories, ie (a) Standard, (b) Sub-standard, (c) Doubtful or (d) Loss assets. Provisions required on such advances are made as per the extant prudential norms issued by the Reserve Bank of India.
- ii) Advances are stated net of provisions and unrecovered interest held in sundry / claims received from CGTF/ECGC relating to non-performing assets.

5. **Fixed Assets**

- i) Land and buildings are stated at historical cost except those recorded upto 31.3.1995 which are stated at values as determined as at 30.9.1995 by an approved valuer. The appreciation on revaluation is credited to Revaluation Reserve and depreciation attributable thereto is stated as a deduction there from. Other fixed assets including those given on lease, are stated at their historical cost.
- ii) Depreciation on Fixed Assets is provided for on the diminishing balance method at the rates considered appropriate by the management as under :

- a) on historical cost :

<u>Type of Asset</u>	<u>Rate of Depreciation</u>
I. Premises	5 %
II. Other Fixed Assets	
- Furniture & Fittings	10 %
- Electric Fittings & Equipment, Office Appliances and SDV Lockers/Strong rooms etc.	15 %
- Transport Vehicles	20 %
- U.P.S.	33.33%

- b) on the amount consequent upon revaluation of the assets: over the economic residual life of the respective assets.
- iii) Depreciation on computers is provided at 33.33% on straight-line method.
- iv) The cost of software systems is capitalised as intangible asset. The same is depreciated over the estimated life of the asset limited to 3 years.
- v) Depreciation on additions to assets made upto 30th September of the year is provided at full rate and on additions made thereafter at half the rate.
- vi) Depreciation on premises is provided on composite cost, wherever the value of land and buildings is not separately identifiable.
- vii) No depreciation is provided on assets sold/disposed off during the year.
- viii) Leasehold land is amortised over the period of lease.



6. Transactions involving Foreign Exchange :

1. Translation in respect of Integral Foreign Operations :

- i) Monetary assets and liabilities, guarantees, acceptances, endorsements and other obligations are revalued at the exchange rates notified by FEDAI at the close of the year and resultant gain/loss is taken to revenue.
- ii) Income and Expenditure items are translated at the exchange rates prevailing on the date of the transaction.
- iii) Forward exchange contracts are translated at the exchange rate prevailing on the date of commitment. Gain/loss on evaluation of outstanding forward exchange contracts is taken to revenue as per FEDAI guidelines.

2. Translation in respect of Non-Integral Foreign Operations:

Offshore Banking Units (OBUs) are classified as non-integral foreign operations and their financial statements are translated as follows:

- i) Assets and Liabilities (both monetary and non-monetary as well as contingent liabilities) are translated at the closing rates notified by FEDAI at the year end.
- ii) Income and expenses are translated at the quarterly average closing rate notified by FEDAI at the end of respective quarter.
- iii) All resulting exchange differences are accumulated in a separate account 'Foreign Currency Translation Reserve' till the disposal of the net investments.

7. Retirement Benefits of Employees

Annual contribution to Gratuity Fund and Pension Fund and provision towards leave encashment are accounted on the basis of actuarial valuation as at the year end.

8. Amortisation of Voluntary Retirement Scheme (VRS) Expenditure

In accordance with the guidelines issued by RBI, the expenditure incurred under VRS is amortised over a period of 5 years.

9. Taxation

Provision for Tax is made for both current and deferred taxes. Current tax is provided on the taxable income using applicable tax rate and tax laws. Deferred Tax Assets and Liabilities arising on account of timing differences and which are capable of reversal in subsequent periods are recognised using the tax rates and the tax laws that have been enacted or substantively enacted till the date of the Balance Sheet. Differed Tax Assets are not recognised unless there is 'virtual certainty' that sufficient future taxable income will be available against which such deferred tax assets will be realised.

A-V

NOTES ON ADJUSTMENTS

1. Appropriate adjustments resulting from Auditors' qualifications wherever quantifiable and material adjustments for previous years wherever practicable have been carried out while preparing the Statements of Profit & Loss and Assets & Liabilities (Part I & II).
2. During the five consecutive financial years ended 31.3.2005 and 6 months ended September 30,2005 various guidelines were issued by Reserve Bank of India on Income Recognition, Asset Classification, provisioning in respect of Standard Assets/Non Performing Advances/Other Assets, Classification of Investments, Valuation thereof, Treatment of Depreciation on Investments and Amortisation of Voluntary Retirement Scheme expenditure. Necessary amendments in the Accounting Policies have been carried out by the Bank in the relevant years, to be in conformity with the Reserve Bank of India guidelines. Accordingly, the amounts for the respective years and period are based on RBI guidelines prevailing in the said years.
3. The liability in respect of wage revision to employees pending finalisation of the terms of revision was provided on an adhoc basis as under:

Year	Amount Provided (Rs million)
1998-99	200.0
1999-00	600.0



As against the above provision, the actual liability got determined at Rs. 800.6 million in the year ended 31/3/2001. The difference of Rs. 6 million was adjusted against the credit balance in Sundry Deposit Account. The year-wise break-up as furnished in 'Details of Adjustments' are given below:

(Rs million)

Year	Amount of provision	Amount of Expenditure	Required adjustment in Profit & Loss Account
1997-98	(Op. Bal.) 00.6	79.9	79.3
1998-99	200.0	312.8	112.8
1999-00	600.0	407.9	(-)192.1
TOTAL	800.6	800.6	NIL

4. The income earned by way of processing charges in respect of compensation claims of Gulf war victims aggregating to Rs128 million was accounted in Sundry Deposit Account during the period from 1996-'97 to 2000-'01, and appropriated to Income Account only during 2001-02.

The year wise break up of the amount as considered in the "Details of Adjustments" is as follows:

(Rs million)

	Amount to be accounted	Amount accounted	Difference
1996-97	00.1	—	00.1
1997-98	06.7	—	06.7
1998-99	17.4	—	17.4
1999-2000	26.8	—	26.8
2000-2001	77.0	—	77.0
2001-2002	0.00	128.0	(-128.0)
Total	128.0	128.0	NIL

5. The income on Zero Coupon Bonds though credited to Profit & Loss Account on accrual basis was offered to tax on maturity/disposal. During the year 1997-98, a sum of Rs92.9 million provided towards tax on said interest in earlier year was written back. A sum of Rs. 178.3 million was provided during 1999-2000 towards income tax on such interest. The year-wise break up of the amount to be considered in 'Details of Adjustments' on the basis that the said interest is taxable on accrual basis in the respective years is as follows:-

(Rs million)

Year	Amount of provision to be made	Amount provided	Amount considered in the Details of Adjustments
1997-98	85.4	(-)92.9	178.3
1998-99	31.3	—	31.3
1999-00	140.0	178.3	(-)38.3
2000-01	27.1	198.4	(-)171.3
Total	283.8	283.8	NIL

6. Capital Adequacy Ratio revised to 10.51% as of 30.09.2005 from 11.06 % due to clarification received from Reserve Bank of India.

Year wise Audit Qualifications

The auditors have made qualifications in their report with respect to the following items:

2004-05

- Confirmation/reconciliation of balances with foreign and other banks has generally been obtained/carried out except in few cases.
- Adjustment of outstanding entries in Suspense Accounts, Sundry Deposits, Clearing Adjustments, Bank Reconciliation statements and various inter-branch/office accounts is in progress. Reconciliation of Central Office Accounts maintained by branches has been completed upto 31st March 2005 and adjustment of the outstanding entries is in progress. The consequential effect on the accounts, due to the above is not quantifiable.



2003-04

- a) Confirmation/reconciliation of balances with foreign and other banks has generally been obtained/carried out except in few cases.
- b) Adjustment of outstanding entries in Suspense Accounts, Sundry Deposits, Clearing Adjustments, Bank Reconciliation statements and various inter-branch/office accounts is in progress. Reconciliation of Central Office Accounts maintained by branches has been completed upto 31st March 2004 and adjustment of the outstanding entries is in progress. The consequential effect on the accounts, due to the above is not quantifiable.

2002-2003

- a) Confirmation/reconciliation of balances with foreign and other banks has generally been obtained/carried out except in a few cases.
- b) Adjustment of outstanding entries in Suspense Accounts, Sundry Deposits, Clearing Adjustments, Bank Reconciliation statements and various inter-branch/office accounts is in progress. Initial matching of entries outstanding as on 31.03.2003 in inter-branch/office accounts has since been done for the purpose of reconciliation.

The consequential effect on the accounts due to the above is not quantifiable.

2001-2002

- a) Confirmation/reconciliation of balances with foreign and other banks has generally been obtained/carried out except in a few cases.
- b) Adjustment of outstanding entries in Suspense Accounts, Sundry Deposits, Clearing Adjustments, Bank Reconciliation statements and various inter-branch/office accounts is in progress. Initial matching of entries outstanding as on 31.12.2001 in inter-branch/office accounts has since been done for the purpose of reconciliation.

The consequential effect on the accounts due to the above is not quantifiable.

- c) Commission, exchange earned and rent on Safe Deposit Lockers are accounted for on realization.
- d) Leave encashment benefits are accounted for on cash basis.
- e) The system of providing for interest on overdue term deposits has been discontinued during the year as against the practice of providing the same upto previous year. The effect of the said change is not quantified.

2000-2001

- a) At a few branches, balancing of books and/or reconciliation with balances in general ledger is in progress and confirmation/reconciliation of balances with foreign and other banks has generally been obtained/carried out except in a few cases.
- b) Adjustment of outstanding entries in Suspense Accounts, Sundry Deposits, Clearing Adjustment, Bank Reconciliation statements and various inter-branch/office accounts is in progress. Initial matching of entries outstanding as on 31.12.2000 in inter-branch office accounts has since been done for the purpose of reconciliation.

The consequential effect on the accounts due to the above is not quantifiable.

- c) Commission, exchange earned and rent on Safe Deposit Lockers are accounted for on realization.
- d) Leave encashment benefits are accounted for on cash basis.

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AUDITORS' QUALIFICATIONS FOR WHICH ADJUSTMENTS COULD NOT BE CARRIED OUT

1. a) At a few branches, balancing of books and/or reconciliation with balances in general ledger is in progress and confirmation/reconciliation of balances with foreign and other banks has generally been obtained/carried out except in few cases. However, the balancing of books has since been updated.
- b) Adjustment of outstanding entries in Suspense accounts, Sundry Deposits, Clearing Adjustments, Bank Reconciliation statements and various Inter-branch/office accounts is in progress. Reconciliation of Central Office account maintained by Branches has been completed up to 31 March, 2005 and adjustment of the outstanding entries is in progress.

The consequential effect on the accounts due to the above remained unadjusted.



2. The Forward Exchange Contracts / balances outstanding as at 31.3.1998 had been valued in line with FEDAI guidelines approved by RBI, which is not in accordance with AS-11 on "Accounting for the Effects of Changes in Foreign Exchange Rates" issued by the Institute of Chartered Accountants of India, the impact whereof is not quantified.
3. Leave Encashment benefit has been accounted for on cash basis instead of accrual basis, as laid down in AS-15 on Retirement Benefits issued by the Institute of Chartered Accountants of India up to 31 March, 2002..
4. Income from commission, exchange and rent on Safe Deposit Lockers are accounted for on cash basis which is not in accordance with AS-9 on Revenue Recognition issued by the Institute of Chartered Accountants of India.
5. In respect of the years up to 31.3.2000, the ultimate realisability of claims under revised scheme of DICGC was not ascertainable and hence, provision, if any, required in respect of claims lodged and pending settlement was not made. However, during the year ended 31.3.2001, since the Bank had opted out of DICGC and all claims pending were finally disposed of, the claims to the extent unrealised have been written off in full.
6. The system of providing for interest on overdue term deposits has been discontinued during the year ended 31-03-2002 as against the practice of providing the same up to previous year. The effect of the said change is not quantified including those of the previous years.
7. The year / period end business ratios, as applicable under the RBI guidelines, are subject to the qualifications listed above.

A-VII

NOTES ON ACCOUNTS : 2004-05

1. HOUSEKEEPING

Confirmation/reconciliation of balances with foreign and other banks has generally been obtained/carried out except in a few cases.

Adjustment of outstanding entries in Suspense Accounts, Sundry Deposits, Clearing Adjustments, Bank Reconciliation statements and various inter-branch/office accounts is in progress. Reconciliation of Central Office Accounts maintained by branches has been completed upto 31st March 2005. Pending final clearance of the above, the overall impact, if any, on the accounts, in the opinion of the management will not be significant.

2. INVESTMENTS:

- i) Pursuant to Reserve Bank of India circular No.DBOD. No.BP.BC.37/21.04.141/2004 dated 2nd September 2004, the Bank has transferred SLR securities aggregating Rs.6,2754.4 million from "Available for Sale" category to "Held to Maturity" category. The marked-to market depreciation of Rs.5454.7 million has been debited to the Profit & Loss Account.
- ii) As per RBI guidelines, an amount of Rs.783.9 million (previous year Rs.31.5 million) being an amount equivalent to the profit on sale of "Held to Maturity" category securities is transferred to "Capital Reserve Account".
- iii) In accordance with the guidelines of Reserve Bank of India to build up adequate reserves to meet future depreciation on investments a sum of Rs.150.00 million (previous year Rs.2260.00 million) was transferred to Investment Fluctuation Reserve out of the profits for the year 2004-2005. The aggregate amount held under Investment Fluctuation Reserve as on 31st March 2005 amounts to Rs.5550.00 million (previous year Rs.5400.00 million) which constitutes 4.09% (previous year 3.00%) of investments excluding those held under "Held to Maturity" category.
- iv) In respect of "Held to Maturity" category, as stated in significant Accounting Policy No.3(ii)(a) the excess of acquisition cost over face value of the securities amortised during the year amounted to Rs.165.8 million (previous year Rs.99.7 million).
- v) Total investments made in shares, convertible debentures and units of equity linked mutual funds/ventures capital funds and also advances against shares aggregate to Rs.3153.6 million (previous year Rs.4019.8 million).

DERIVATIVES : INTEREST RATE SWAPS.

- i) The Notional principal of Interest Rate Swap transactions outstanding at the year end amounted to Rs.34702.5 million (previous year - Rs.20940.0 million).
- ii) Interest Rate Swaps in Indian rupees were undertaken for hedging Tier II Bonds, Term Loans, Foreign Currency Loans, Refinances and in US Dollars for hedging Fixed Rate Liabilities.



- iii) The Bank has entered into Floating to Fixed or Fixed to Floating Interest Rate Swap transactions for hedging and trading during the year.
- iv) The losses which could be incurred if counterparties fail to fulfil their obligations are estimated at Rs.19.7 million (previous year Rs.23.3 million).
- v) Collateral required on entering into swaps is NIL.
- vi) Concentration of credit risk arising from swaps pertain to Banking Industry.
- vi) The fair value of the total Swap Book is Rs.(-) 227.2 million (previous year Rs.(+)366.8 million). All underlyings for hedge transactions are on accrual basis.

3. FIXED ASSETS

Documentation formalities are yet to be completed in respect of certain immovable properties held by the Bank at written down value of Rs.117.6 million in respect of which steps have already been initiated (previous year Rs.151.7 million)

4. INCOME TAX

The Bank considers that provision for Income tax held in its accounts is adequate on the following basis :

- (i) Provision for income tax for the year is arrived at after due consideration of the various judicial decisions on certain disputed issues.
- (ii) Disputed income tax/interest tax paid amounting to Rs.5283.3 million, (net of provision) has been included in "Other Assets" (Schedule 11), (Previous year Rs.3784.8 million). The provision for taxation is not considered necessary in respect of the above disputed demands based on various judicial decisions on such disputed issues. Management does not envisage any liability in respect of the disputed issues.

5. SUBORDINATED DEBT RAISED AS TIER II CAPITAL

During the year, the Bank has raised subordinated Debt to the tune of Rs.4500.0 million (Rs.2500.0 million in the previous year) by issue of Unsecured Redeemable Bonds under Tier II Capital at a coupon rate of 7.15% (previous year 5.95%) and the amount is reflected under "Other Liabilities and Provisions" in Schedule 5 of the Balance Sheet.

6. PROVISION ON STANDARD ADVANCES

Provision made on standard advances amounting to Rs. 980.0 million is shown under "Other Liabilities" in Schedule 5 of Balance Sheet as per RBI Guidelines. (Previous year - Rs. 722.5 million)

7. VOLUNTARY RETIREMENT SCHEME (VRS) :

Total VRS liability of the Bank was Rs.4853.3 million, out of which the Bank had written off Rs.3684.3 million upto 31st March 2004 and further an amount of Rs.871.7 million during the year. The balance of Rs.297.3 million is included in Schedule 11 (Other Assets - Others).

8. Additional disclosures in terms of the Reserve Bank of India guidelines :

(Rs. million)

	31-03-05	31-03-04
i) Percentage of shareholding of the Government of India	60.85%	60.85%
ii) Percentage of net NPAs to net advances	2.64%	2.87%
iii) Details of Provisions and Contingencies in Profit & Loss Account :		
Provisions made towards NPAs	2164.6	6436.1
Provision for Depreciation on Investments	225.9	(-) 254.5
Provision for Standard Advances	257.5	100.0
Provision for Income Tax for the year (including Deferred Tax)	(-)1074.7	1079.8
Provision for shifting loss	5454.7	0.0
Provision for wage arrears	1200.0	400.0
Others	313.1	(-) 51.2
Total	8541.1	7710.2



iv) Subordinated debt raised as Tier II Capital	4500.0	2500.0
v) Business Ratios as at the year-end as computed by the Management as per the guidelines of the Reserve Bank of India :		
Capital Adequacy Ratio (Tier I: 6.07%, Tier II: 6.02%)	12.09%	12.32%
Interest Income *	7.96%	8.42%
Non-interest income *	1.23%	1.55%
Operating Profit *	2.52%	2.77%
Return on assets **	1.10%	1.30%
Business per employee ***	34.7	28.6
Profit - net, per employee.	0.28	0.28

* as a percentage to working funds reckoned as average of total of assets as reported to Reserve Bank of India in Form X under Section 27 of Banking Regulation Act, 1949 during the 12 months of the financial year.

** as a percentage to working funds comprising total average assets for the year.

*** based on fortnightly average of deposits (other than Inter Bank Deposits) plus advances, including for special reporting days communicated to Reserve Bank of India.

9. (i) **Movement of provision towards NPAs**

Rs. million

	31.03.05	31.03.04
Opening Balance	14665.0	11004.8
Add : Provision made during the year	2164.6	6436.1
Less : Write Off, write back of excess provision during the year	3076.3	2775.9
Closing Balance	13753.3	14665.0

(ii) **Movement of provision for Depreciation on Investments :**

	31.03.05	31.03.04
Opening Balance	101.7	356.2
Add : Provision made during the year	225.8	-
Less : Write off, write back of excess provision during the year	79.0	254.5
Closing Balance	248.5	101.7

10 **Issuer Composition of non SLR Investments as on 31st March 2005**

(Rs. million)

Sr. No.	Issuer	Amount (Book Value)	Extent of private Placement	Extent of below investment grade securities	Extent of unrated securities	Extent of unlisted securities
1	PSU	11637.7	9453.3	-	980.0	4922.9
2	FIs	26717.6	21499.6	745.6	835.0	8564.9
3	Banks	2614.3	2240.0	-	24.3	510.0
4	Private Corporates	13121.8	8015.2	-	653.6	3035.3
5	Subsidiaries/Joint Ventures	-	-	-	-	-
6	Others	9736.0	9736.0	-	3255.2	9736.0
7	Provision held towards depreciation	(201.8)	-	-	-	-
	Total (1 to 6 - 7)	63625.6	50944.1	745.6	5748.1	26769.1



a) Shares	1453.1
b) Debentures & Bonds	54283.9
c) Subsidiaries & Joint Venture	-
d) Others	7888.6
Total	63625.6

Note: Investments of Rs.191.6 million in subsidiaries & joint ventures in Annexure 8 to Balance Sheet represents Bank's investment in Regional Rural Banks which are SLR investments.

11. Non Performing non SLR Investments as on 31.03.2005

Particulars	Rs. million
Opening Balance	79.2
Additions during the year since 1st April	591.8
Reduction during the above period	79.0
Closing Balance	592.0
Total Provision held	77.3

12. Repo/Reverse Repo Transactions

(Rs. million)

	Minimum Outstanding during the year	Maximum Outstanding during the year	Daily average Outstanding during the year	as on 31.03.05
Securities sold under Repos	Nil	11043.9	1410.1	Nil
Securities purchased under reverse Repos	Nil	1018.0	02.8	Nil

DISCLOSURES ON RISK EXPOSURES IN DERIVATIVES:

QUALITATIVE DISCLOSURE:

Operations in the Treasury Branch are segregated in three functional areas, i.e., Front Office, Mid Office and Back Office, which are provided with trained officers with necessary systems support and their responsibilities are clearly defined.

The Treasury Policy of the Bank lays down the types of financial derivative instruments, scope of usages, approval process as also the limits like the open position limits, deal size limits and stop loss limits for trading in approved instruments.

The Mid Office monitors the transactions in the trading book and excesses, if any, are brought to the notice of the Risk Management Division, for necessary action. The Mid Office also measures the financial risks for transactions in the trading book on a daily basis, by way of MTM, VAR and PV01 and the figures so arrived at, are reported to the Risk Management Division who, in turn, appraises the risk profile to the Directors Committee on the assets and liability management.

The transactions with the corporate clients are concluded only after the inherent credit exposures are quantified and approved in terms of the procedure laid down in the Treasury Policy and necessary documents like ISDA agreement etc., are duly executed. The bank has adopted Current Exposure Method for monitoring the credit exposure.

The Bank uses financial derivative transactions for hedging it's on or off Balance Sheet exposures. The Treasury Policy of the Bank spells out the approval process for hedging the exposures. The hedge transactions are marked to market on a regular basis and notional MTM profits or losses are reported to the Board every month.

The hedged/non-hedged transactions are recorded separately. The hedge transactions are accounted for on accrual basis. All trading contracts are marked-to-market and resultant gain or loss is recorded in the income statement.

In case of option contracts, guidelines issued by FEDAI from time to time for recognition of income, premiums, and discounts are being followed. While sanctioning the limits, the competent authority may stipulate condition of obtaining collaterals/margins as deemed appropriate. The derivative limit is reviewed periodically along with other credit limits.



QUANTITATIVE DISCLOSURES

(Rs. million)

Sr. No.	Particulars	Currency Derivatives	Interest Rate Derivatives
1.	Derivatives (Notional Principal Amount)		
	a. For Hedging	–	21562.4
	b. For Trading	27171.6	20146.1
2.	Marked to Market Positions		
	a. Asset(+)	90.4	99.7
	b. Liability(-)	–	–
3	Credit Exposure	971.4	518.6
4.	Likely impact of one percentage change in interest rate(100*PV01)		
	a. On Hedging Derivatives	–	387.3
	b. On Trading Derivatives	–	–
5.	Maximum and Minimum of 100*PV01 observed during the year		
	I a. On Hedging	–	397.5
	b. On Trading	–	00.1
	II a. On Hedging	–	300.8
	b. On Trading	–	–

13. Compliance with Accounting Standards :

The Bank has complied with all the Accounting Standards (AS) issued by The Institute of Chartered Accountants of India. Following disclosures are made in accordance with the provisions of such Accounting Standards.

1. There were no material prior period items of Income/Expenditure during the year requiring disclosure under AS 5. (Net Profit or Loss for the Period, Prior Period and Extraordinary items and Changes in Accounting Policies).
2. Income items recognised on cash basis were either not material or did not require disclosure under AS 9. (Revenue Recognition).
3. The Bank has identified its primary reportable segments under AS 17 (Segment Reporting) and necessary disclosure is made as given below:

(Rs. million)

Business Segment Particulars	Treasury operations		Other Banking		Total	
	31.03.05	31.03.04	31.03.05	31.03.04	31.03.05	31.03.04
Revenue	23606.8	24800.0	33752.1	28670.0	57358.9	53470.0
Result	-169.5	7340.0	18616.8	10010.0	18447.3	17350.0
Unallocated Expenses					2715.6	2520.0
Operating Profit					15731.7	14830.0
Total Provisions					9615.8	6630.0
Income Taxes					-1074.7	1080.0
Extraordinary Profit/Loss					Nil	Nil
Net Profit					7190.6	7120.0
OTHER INFORMATION						
Segment Assets	270910.9	256920.0	427933.4	310730.0	698844.3	567650.0
Unallocated Assets					25288.2	15520.0
Total Assets					724132.5	583170.0
Segment Liabilities	270910.9	256920.0	388174.2	277000.0	659085.1	533920.0
Unallocated Liabilities					65047.4	49250.0
Total Liabilities					724132.5	583170.0



4. The Bank has identified the following persons to be the Key Management Personnel as per AS-18 (Related Party Disclosures):

- i) Shri V.Leeladhar, Chariman & Managing Director from 01.04.2004 till 20.09.2004
- ii) Shri K.Cherien Varghese Chairman & Managing Director from 09.12.2004
- iii) Shri K.Ratnakar Hegde, Executive Director from 05.02.2004

The transactions with Related Parties are as under :

	2004-2005	2003-2004
Remuneration paid to		
- Chairman & Managing Directors	Rs. 4,55,873	Rs. 5,30,100
- Executive Director	Rs. 4,92,779	Rs. 2,44,002
Total	Rs. 9,48,652	Rs. 7,74,102

5. **EARNINGS PER SHARE (EPS) AS – 20**

	31.03.05	31.03.04
i) Basic EPS	Rs. 15.63	Rs. 15.48
Diluted EPS	Not applicable	Not applicable
ii) Calculation of Basic EPS		
a) Net Profit after Tax available for equity share holders(in million)	Rs. 7190.6	Rs. 7120.5
b) Weighted average number of equity shares(in million)	No. 460.1	No. 460.1
c) Basic Earnings per Share	Rs. 15.63	Rs. 15.48
d) Nominal Value per Share	Rs. 10.00	Rs. 10.00

6. The Bank has accounted for Income Tax in compliance with AS 22(Accounting for Taxes on Income). Accordingly, Deferred Tax Assets and Liabilities are recognised. Major components of Deferred Tax Assets and Deferred Tax Liabilities as on March 31, 2005 are as under :

(Rs. million)

Sr. No.	Components	As at 31.03.05	As at 31.03.04
	Deferred Tax Assets		
1.	Amortisation of Premium on Investments	134.8	72.8
2.	Others	159.1	54.8
	Total	293.9	127.6
	Deferred Tax Liabilities		
1.	Provision for Diminution in value of securities	212.3	466.1
2.	Depreciation on Fixed Assets	490.4	444.0
3.	Interest accrued but not due on Securities	-	122.0
4.	Expenditure on Voluntary Retirement Scheme	36.6	110.2
	Total	739.3	1142.3
	Net Deferred Tax	445.4	1014.7

7. The Bank has identified that there is no material impairment of assets and as such no provision is required as per Accounting Standard (As 28) issued by ICAI.



8. Disclosure in terms of Accounting Standard-29 on Provisions, Contingent Liabilities and Contingent Assets.

a) Movement of provisions for liabilities *

(Rs. million)

Particulars	Salary arrears under negotiation
Balance as at 1st April 2004	400
Provided during the year	1200
Balance as at 31st March 2005	1600
Timing of outflow/uncertainties	On finalisation of wage settlement

* excluding provisions for others

b) Refer Schedule -12 on contingent liabilities

Such liabilities at S. No. (I), (II), (III), (IV), (V) & (VI) are dependent upon, the outcome of court / arbitration / out of court settlement, the amount being called up, terms of contractual obligations, devolvement and raising of demand by concerned parties, disposal of appeals respectively. No reimbursement is expected in such cases.

14. Restructuring of Accounts :

(Rs. million)

Sr No	Particulars	O/s as of 31.03.05	O/s as of 31.03.04
a)	Loans to Industrial units		
	Total amount of loan assets subjected to Restructuring, of which	5116.3	6881.4
	i) The amount of Standard Assets subjected to Restructuring	4784.4	5653.7
	ii) The amount of Sub-standard Assets subjected to Restructuring	7.3	570.8
	iii) The amount of Doubtful Assets subjected to Restructuring	324.6	633.2
	iv) The amount of Loss Assets subjected to Restructuring	Nil	23.7

(Rs. million)

Sr No	Particulars	O/s as of 31.03.05	O/s as of 31.03.04
b)	Corporate Debt Restructuring (CDR)		
	Total amount of loan assets subjected to Restructuring, of which	2739.7	3556.8
	i) The amount of Standard Assets subjected to Restructuring	2739.7	2821.9
	ii) The amount of Sub-standard Assets subjected to Restructuring	-	444.5
	iii) The amount of Doubtful Assets subjected to Restructuring	-	266.7
	iv) The amount of Loss Assets subjected to Restructuring	-	23.7



15. Maturity pattern of Assets & Liabilities :

The classification of Assets & Liabilities into various time buckets has been done on the basis of Reserve Bank of India guidelines :

(Rs. million)

Maturity Pattern	Deposits	Loans and Advances	Investment Securities	Foreign Currency		Borrowings
				Assets	Liabilities	
1 to 14 Days	31740	17340	1180	11110	4080	590
15 to 28 Days	19040	5720	3240	1560	480	–
29 Days and upto 3 Months	53260	33830	10730	7480	3690	5640
Over 3 Months and upto 6 Months	59150	40030	5350	12440	2180	350
Over 6 Months and upto 12 Months	97640	29860	5940	2340	14090	9990
Over 1 Year and upto 3 Years	318650	182860	34730	250	6040	2910
Over 3 Years and upto 5 Years	26350	46880	51910	80	–	610
Over 5 Years	12480	44530	114850	–	–	120
Total	618310	401050	227930	35260	30560	20210

16. Movement of NPAs:

(Rs. million)

	31.03.05	31.03.04
Gross NPAs at the beginning of the year	23468.4	23876.1
Additions during the year	5098.3	6776.4
Reductions during the year	7985.2	7184.1
Gross NPAs at the end of the year	20581.5	23468.4
Net NPAs :		
Opening	8451.5	12534.3
Closing	10603.8	8451.5

17. Lending to Sensitive Sectors :

(Rs. million)

	31.03.05	31.03.04
Advance to Capital Market Sector	149.2	396.0
Advance to Real Estate Sector	6403.2	8551.1

18. As Bank's net funded exposure for the year ended 31st March 2005 in respect of the foreign exchange transactions with each country was below 1% of the total assets of the Bank, no provision and disclosure are required as per RBI circular.

19. Details of Assets sold to Securitisation Company/Reconstruction Company, if any. - NIL

20. Details of credit exposures where the bank had exceeded the Prudential Exposure during the year:

(Rs. million)

Sr.	Name of the Borrower	Exposure ceiling	Limit sanctioned	Period during which limit exceeded	Amount Outstanding during the period that exceeded	Board sanction details	Position as on 31.03.2005
1	Housing Development Finance Corpn. Ltd.	* 20% of capital fund = 7831.2	7805.4	Sep. 04 to Mar 05	7805.4	CD:MCM: 04-05:435 dated 11.12.04 (Appl. on 27.12.04)	7805.4



Sr.	Name of the Borrower	Exposure ceiling	Limit sanctioned	Period during which limit exceeded	Amount Outstanding during the period that exceeded	Board sanction details	Position as on 31.03.2005
2	Indian Railway Finance Corpn. Ltd.	* 20% of capital fund = 7831.2	7735.2	Sep. 04 to Mar. 05	7715.1	CD:MCM: 04-05:565 dated 31.03.05 (Appl. on 31.03.05)	7715.1
3	Power Finance Corpn. Ltd.	* 25% of capital fund = 9789.0	9740.4	Sep. 04 to Mar.05	9740.4	CD:MCM: 03-04:478 dated 08.01.05 (Appl. on 11.01.05)	9449.8
4	National Agricultural Co-op Marketing Federation	* 20% of capital fund = 7831.2	7750.0	Feb. 05 to Mar.05	7750.0	CD:MCM: 04-05:534 dated 14.02.05 (Appl. on 22.02.05)	7095.4

* Individual exposure ceiling is 15%. For Infrastructure, individual exposure ceiling is 20%, 5% additional exposure can be taken with the permission of the Board.

21. The figures of the previous year have been regrouped/rearranged wherever considered necessary.



A-VIII

RELATED PARTY TRANSACTIONS :

The Related party transactions are as under:

Remuneration to Key Management Personnel are as under:

Year	2002-03	2003-04	2004-05	Six months ended Sept.05
Remuneration	9,52,282.50	7,74,102.00	9,48,651.81	5,59,298.25
Name of the Party	Shri V. Leeladhar, Chairman & MD Rs.5,06,700.00	Shri V. Leeladhar, Chairman & MD Rs.5,30,100.00	Shri V. Leeladhar, Chairman & MD Upto 20.9.2004 Rs. 2,73,790.00	Shri K. Cherian Varghese, Chairman & MD Rs.302490.00
			Shri K.Cherian Varghese, Chairman & MD From 9.12.04 Rs. 1,82,082.56	
	Shri M. Venugopalan Executive Director Rs.4,45,582.50	Shri M. Venugopalan, Executive Director Upto 14.8.03 Rs.174054.32	Shri K.Rathnakar Hegde, Executive Director, Rs.4,92,779.25	Shri K.Rathnakar Hegde, Executive Director, Rs.256808.25
		Shri K.Rathnakar Hegde, Executive Director From 5.2.04 Rs.69947.68		



A-IX

SEGMENT REPORTING:

Part A - Business Segments

(Rs. million)

Sr.No.	Particulars	Year Ended 31.03.03	Year Ended 31.03.04	Year Ended 31.03.05	Six Months Ended 30.09.04	Six Months Ended 30.09.05
1.	Segment Revenue					
	(a) Treasury Operations	23980	24800	23606.8	12004.3	10838.5
	(b) Other Banking Operations	27330	28670	33752.1	15544.3	19680.4
	Total	51310	53470	57358.9	27548.6	30518.9
2	Segment Results					
	(a) Treasury Operations	7220	7340	-169.5	2988.6	-1292.4
	(b) Other Banking Operations	9700	10010	18616.8	6902.7	10795.0
	Total	16920	17350	18447.3	9891.3	9502.6
	Unallocated expenditure	3880	2520	2715.6	2875.9	2401.1
	Profit before Tax	13040	14830	15731.7	7015.4	7101.5
	Provisions & Contingencies	4750	6630	9615.8	1664.6	3336.6
	Provision for Tax	2760	1080	-1074.7	1140.0	750.0
	Net Profit	5530	7120	7190.6	4210.8	3014.9
3	Other Information					
	Segment Assets					
	(a) Treasury Assets	209030	256920	270910.9	266718.7	294328.4
	(b) Other Banking Operations	290390	310730	427933.4	356196.1	485307.1
	Total	499420	567650	698844.3	622914.8	779635.5
	Unallocated Assets	11180	15520	25288.2	13296.9	15842.8
	Total	510600	583170	724132.5	636211.7	795478.3
	Segment Liabilities					
	(a) Treasury Operations	5180	256920	270910.9	266718.7	294328.4
	(b) Other Banking Operations	463550	277000	388174.2	316549.7	433048.4
	Total	468730	533920	659085.1	583268.4	727376.8
	Unallocated Liabilities	41870	49250	65047.4	52943.3	68101.5
	Total	510600	583170	724132.5	636211.7	795478.3



ANNEXURE B

STATEMENT OF DIVIDEND

(Rs. million)

Year ended March 31	Share Capital	Net Profit	Rate of Dividend*	Amount of Dividend	Dividend Tax
2000	3380.0	1012.4	20.00%	202.5	44.5
2001	3380.0	1554.6	20.00%	310.9	70.3
2002	3380.0	3141.3	14.33%	450.0	Nil
2003	4601.2	5526.9	21.00%	966.2	123.8
2004	4601.2	7120.5	35.00%	1610.4	206.3
2005	4601.2	7190.6	35.00%	1610.4	210.5

*Prior to the Banks's IPO in 2002, dividend was payable to the Central Government (holding 100% of the Bank's capital) as a percentage of net profit. From 2003 onwards the rate of dividend is calculated as a percentage of paid-up share capital.



ANNEXURE C

KEY ACCOUNTING RATIOS

Key Accounting Ratios

Year Ended March 31	2001	2002	2003	2004	2005	Six Months Ended Sept2004	Six Months Ended Sept2005
Earning Per Share (Rs) (annualised)	5.33	8.92	13.95	15.48	15.63	18.30	13.10
Book Value per Share (Rs) (Excl RR)	40.16	47.00	47.25	53.91	67.18	63.82	74.08
Return on Net Worth (%)	13.28	18.97	29.53	28.71	23.26	28.78	17.69
OTHER RATIOS							
Net NPA to Net Advances Ratio (%)	6.86	6.26	4.91	2.87	2.64	2.06	1.37
Interest Income/working Fund (%)	10.49	9.96	9.20	8.42	7.96	7.66	7.59
Non Interest Income/Working Fund (%)	0.90	1.21	1.76	1.55	1.23	1.29	0.75
Return on Assets (%)	0.47	0.69	1.08	1.22	0.99	1.32	0.76
Operating Profit/Working funds (%)	1.46	2.12	2.78	2.77	2.52	2.28	1.94
Business per employee (Rs million)	16.88	21.4	24.9	28.6	34.7	33.5	41.1
Net Profit per employee (Rs million)	0.064	0.12	0.21	0.28	0.28	0.33	0.24
Capital Adequacy Ratio (%)	10.86	11.07	12.41	12.32	12.09	12.12	10.51
Tier I	6.19	6.16	6.86	6.47	6.07	6.86	5.82
Tier II	4.67	4.91	5.55	5.85	6.02	5.26	4.69
Credit/Deposit Ratio (%) (net)	50.18	53.74	57.02	57.20	64.86	64.96	71.07
Interest Spread/Average working fund (%)	3.43	3.32	3.20	3.24	3.31	3.00	3.11
Gross Profit /Average working fund (%)	1.46	2.12	2.79	2.77	2.52	2.28	1.94
Operating exp./Avg. working funds (%)	2.86	2.40	2.17	2.02	2.01	2.00	1.91
Return on Average net worth (%)	13.86	20.46	34.64	32.72	25.81	31.09	18.55
Yield on Advances (%)	12.10	10.95	10.02	9.03	8.33	8.33	8.28
Yield on Investments (%)	11.75	10.95	10.21	9.00	8.20	8.16	7.89
Cost of Deposits (%)	7.57	7.03	6.46	5.64	4.97	5.12	4.78
Gross Profit per employee (Rs. million)	0.19	0.33	0.51	0.58	0.61	0.55*	0.56*
Business per Branch (Rs million)	230.56	274.10	317.80	363.50	433.50	419.2*	511.2*
Gross profit per Branch (Rs million)	2.53	4.23	6.50	7.34	7.70	6.94*	6.91*

*Annualised figures



Definitions of key ratios

Credit/Deposit Ratio	Total advances/Total deposits
Average Working Funds (AWF)	Total average of monthly total assets as per Form X
Interest Spread/AWF (%)	Net Interest earned /AWF
Gross profit/AWF (%)	Profit prior to provisions and contingencies/AWF
Net profit/AWF (%)	Net Profit/AWF
Operating expenses/AWF (%)	Non-interest expenditure/AWF
Cost of deposits (%)	Interest expended/Average deposits as per Form X
Yield on investments	Interest earned on investments/Average investments as per Form X
Yield on advances	Interest earned on Advances/Average advances as per Form X
Return on average net worth (%)	Net profit/Average of opening and closing net worth
Business per employee (Rs million)	Total deposits excl. bank deposits + Total Advances/Employees strength
Gross profit per employee (Rs.million)	Profit prior to provisions & contingencies/Employees Strength
Business per branch (Rs million)	Total deposits excluding bank deposits & Advances/No. of branches
Gross profit per branch (Rs million)	Profit prior to provisions & contingencies/ No. of branches



ANNEXURE D

CAPITALISATION STATEMENT AS ON :

(Rs million)

Particulars	March 31,2004	March 31, 2005	Post Issue
Loan Funds			
Long Term	15200.0	19700.0	27700.0
Short Term	9342.4	20209.6	20209.6
Total Debt	24542.4	39909.6	47909.6
Shareholders' Funds			
Share Capital	4601.2	4601.2	5051.2
Reserves And Surplus	21423.5	26793.2	*
Total Equity	26024.7	31394.4	*
Long Term Debt/ Equity Ratio	0.58	0.63	*

* As this is an issue by way of book building process, post issue figure are not possible to be ascertained and therefore not furnished.



ANNEXURE E

TAX SHELTER

(Rs. million)

Financial Year Ended March 31,	2001	2002	2003	2004	2005
Tax Rate (%)	39.55	35.70	36.75	35.87	36.59
Tax at actual rate on profit	926.6	1629.5	901.6	2549.1	2631.0
ADJUSTMENTS					
Permanent Differences					
i) Interest on Tax Free Bonds	-993.7	-1453.3	-1000.3	-981.1	-970.1
ii) Dividends (exempt from Tax)	-546.2	-	-252.7	-404.8	-150.0
iii) Interest income from Infrastructure Project	-144.8	-300.0	-290.1	-992.4	-1531.2
iv) Others	-86.3	87.7	667.8	451.8	-2710.1
Total	-1771.0	-1665.6	-875.3	-1926.5	-5361.4
Timing Difference					
i) Difference between Income-Tax Depreciation and Book Depreciation on fixed assets	-03.7	-	25.7	-174.5	-207.6
ii) Provision for Bad & Doubtful Debts	651.4	1047.8	-	-139.3	-3042.7
iii) VRS Expenditure	-538.5	-62.0	208.6	208.6	253.5
iv) Interest on securities	-603.5	-1160.0	-07.8	340.0	174.0
v) Zero Coupon Bonds	1002.8	-	-	-	-
vi) Others	54.7	88.3	-	-	-
vii) Carry forward of losses	-	-	-	-	-
Total	563.2	-85.9	226.5	234.8	-2822.8
Net Adjustments	-1207.8	-1751.5	-648.8	-1691.7	-8184.2
Tax Savings thereon	-477.7	-625.3	-238.4	-606.8	-2994.5
Total Taxation thereon	448.9	1004.2	663.2	1942.2	Nil

The figures for the five financial years ended 31/3/2005 has been computed as per the relevant Income Tax returns filed with the Department.



ANNEXURE F

Statement of Borrowings

(Rs. million)

	Financial Year ended 31st March					Six Months Ended	
	2001	2002	2003	2004	2005	Sept.04	Sept.05
NHB	444.6	351.0	62.0	50.5	1539.0	47.6	1536.1
Reserve Bank of India	2470.0	-	-	-	-	-	-
Other Banks	26.7	36.9	3810.1	198.9	64.4	65.1	20.6
IDBI Refinance	-	-	-	-	-	-	-
SIDBI Refinance	62.7	37.7	22.1	30.9	3031.9	36.2	30.5
NABARD Refinance	129.5	107.5	87.3	58.3	2741.4	13.8	3459.0
Other Institutions - CBLO	-	-	-	-	499.7	-	-
Borrowings Outside India	519.5	-	439.3	9003.8	12333.1	9302.3	12506.0
Sub Total	3653.0	533.1	4420.8	9342.4	20209.5	9465.0	17552.2
Tier II Bonds							
Series I	5000.0	5000.0	5000.0	5000.0	5000.0	5000.0	5000.0
Series II	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0
Series III & IV	-	2700.0	2700.0	2700.0	2700.0	2700.0	2700.0
Series V	-	-	4000.0	4000.0	4000.0	4000.0	4000.0
Series VI	-	-	-	2500.0	2500.0	2500.0	2500.0
Series VII	-	-	-	-	4500.0	-	4500.0
Series VIII	-	-	-	-	-	-	8000.0
Sub Total	6000.0	8700.0	12700.0	15200.0	19700.0	15200.0	27700.0
Total	9653.0	9233.1	17120.8	24542.4	39909.5	24665.0	45252.2



STATEMENT OF NET WORTH (EXCLUDING REVALUATION RESERVES ON FIXED ASSETS)

(Rs million)

Year Ended 31 st March	2001	2002	2003	2004	2005
Share Capital	3380.0	3380.0	4601.2	4601.2	4601.2
RESERVES & SURPLUS #					
I Statutory reserve	5637.4	6587.4	8245.5	10390.0	12550.0
II Capital Reserves(others)	87.1	87.1	88.7	120.2	904.1
III Investment Fluctuation Reserve	499.8	1499.8	3140.0	5400.0	5550.0
IV Revenue & other reserves	3968.1	4333.1	4645.4	5513.2	7789.1
TOTAL	10192.4	12507.4	16119.6	21423.4	26793.2
Net Worth (Excluding Revaluation Reserve)	13572.4	15887.4	20720.8	26024.6	31394.4
# Excluding Revaluation Reserve	5164.3	5054.7	4947.5	4846.8	4750.0

Note: The Net Worth as mentioned above for the Year Ended 31-03-2001, 31-03-2002, 31-03-2003, 31-03-2004 & 31.03.2005 includes unamortised expenditure on Voluntary Retirement Scheme as permitted by Reserve Bank of India.

There are no subsidiaries as at 31.3.2005 & also as at 30.09.2005.

The associates (Regional Rural Banks sponsored by the Bank) as at 31.3.2005 are as under: -

1. Samyut Kshetriay Gramin Bank (SKGB)
2. Gomti Gramin Bank (GGB)
3. Kashi Gramin Bank (KGB)
4. Rewa Sidhi Gramin Bank (RSGB)

Details of RRBs:

The Board of Directors of Kashi Gomti Samyut Gramin Bank, Varanasi* as of 30.09.2005 is as follows:

Director	Post
1. Shri R.K.Malhotra	Chairman
2. Shri P.K.Pradhan, Nominee Director of RBI	Director
3. Shri N.M.Sinha, Nominee Director of NABARD	Director
4. Shri M.R.Bhalla, Nominee Director of Sponsor Bank	Director
5. Shri R.B.Patel, Nominee Director of Sponsor Bank	Director
6. Shri A.K.Srivastava, Nominee Director of State Govt. (U.P.)	Director
7. Shri A.P.Tiwari, Nominee Director of State Govt. (U.P.)	Director

Two Non-official Directors are yet to be appointed.

* KGSGB is formed out of merger of 3 RRBs viz. SKGB, GGB and KGB.

The Board of Directors of Rewa Sidhi Gramin Bank, Rewa as of 30.09.2005 is as follows:

Director	Post
1. Shri A.K.Thakur	Chairman
2. Shri Anjani Mishra, Nominee Director of RBI	Director
3. Shri A.K.Udgir, Nominee Director of NABARD	Director
4. Shri Pravin Kulshreshta, Nominee Director of Sponsor Bank	Director
5. Shri V.K.Malhotra, Nominee Director of Sponsor Bank	Director
6. Shri O.P.Tiwari, Nominee Director of State Govt. (M.P.)	Director
7. Shri O.P.Dubey, Nominee Director of State Govt. (M.P.)	Director
8. Shri Sanjay Shrivastava, Non-official Director	Director
9. Shri Rajbali Singh, Non-official Director	Director



The audited financial position of Kashi Gramin Bank, Varanasi for the last three financial years is as under:

(Rs. million)

Particulars	Year ended March 03.	Year ended March 04.	Year ended March 05.
Capital	10.00	10.00	10.00
Share Capital Deposit Account	252.76	261.89	261.89
Reserves & Surplus	24.44	9.52	80.10
Deposits	4396.25	4928.24	5212.55
Advances	1146.35	1466.64	1861.94
Accumulated losses	85.99	-	-
Total Income	440.66	461.59	467.85
Total Expenditure	372.53	366.09	391.51
Profit after Tax	68.13	95.50	76.34
Net Asset value/Book value per share	10.93	10.35	12.95
Earnings per share (Rs.100 face value)	2.59	3.51	2.81

The audited financial position of Samyut Kshetriya Gramin Bank, Azamgarh for the last three financial years is as under:

(Rs. millions)

Particulars	Year ended March 03.	Year ended March 04.	Year ended March 05.
Capital	10.00	10.00	10.00
Share Capital Deposit Account	8.68	8.68	8.68
Reserves & Surplus	1087.98	1270.11	1415.62
Deposits	9794.86	10616.93	11443.67
Advances	1427.73	1932.08	2597.11
Accumulated losses	-	-	-
Total Income	990.74	1003.08	907.14
Total Expenditure	788.96	772.95	761.62
Profit after Tax	201.78	230.13	145.51
Net Asset value/Book value per share	592.55	690.08	767.99
Earnings per share (Rs.100 face value)	108.04	123.22	77.91



The audited financial position of Gomti Gramin Bank, Jaunpur for the last three financial years is as under:

(Rs. million)

Particulars	Year ended March 03.	Year ended March 04.	Year ended March 05.
Capital	10.00	10.00	10.00
Share Capital Deposit Account	155.49	155.49	155.49
Reserves & Surplus	150.32	331.83	372.56
Deposits	4737.29	5116.93	5473.91
Advances	1198.22	1310.77	1506.55
Accumulated losses	-	-	-
Total Income	460.19	467.71	471.96
Total Expenditure	414.33	407.37	417.50
Profit after Tax	45.86	60.34	54.46
Net Asset value/Book value per share	19.59	30.05	32.51
Earnings per share (Rs.100 face value)	2.92	3.65	3.29

The audited financial position of Rewa Sidhi Gramin Bank, Rewa for the last three financial years is as under:

(Rs. million)

Particulars	Year ended March 03.	Year ended March 04.	Year ended March 05.
Capital	10.00	10.00	10.00
Share Capital Deposit Account	81.27	81.27	81.27
Reserves & Surplus	96.64	121.73	151.80
Deposits	3685.63	4106.98	4573.92
Advances	800.05	840.64	964.27
Accumulated losses	-	-	-
Total Income	354.16	364.47	369.56
Total Expenditure	341.96	339.38	339.49
Profit after Tax	12.20	25.09	30.07
Net Asset value/Book value per share	20.59	23.34	26.63
Earnings per share (Rs.100 face value)	1.34	2.75	3.30



SELECTED STATISTICAL INFORMATION

The following information should be read together with our financial statements included in this Red Herring Prospectus as well as the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The amounts presented in this section are based on our financial statements prepared in accordance with Indian GAAP and internally generated statistical data. These amounts do not give effect to the adjustment to our net profits as a result of the restatement of our financial statements in connection with this Issue.

Average Balance Sheet and Net Interest Margin

The table below presents the average balances for interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of the average yields and cost for each period. The average balance is the fortnightly average of balances outstanding, as reported to the RBI on Form A. The average yield on average interest-earning assets is the ratio of interest income to average interest-earning assets. The average cost on average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. The average balances in the table below include gross non-performing assets.

				As at March 31,					
	2003			2004			2005		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
	(Rs. million, except percentages)								
Assets:									
Advances	234,124.1	23,461.9	10.02	267,463.5	24,146.7	9.03	344,256.2	28,685.7	8.33
Investments	177,615.2	18,134.5	10.21	215,372.3	19,375.3	9.00	232,408.1	19,050.8	8.20
Others	23,311.8	1,465.4	6.29	21,407.8	1,641.1	7.67	14,449.7	1,961.4	13.57
Total interest earning assets	435,051.1	43,061.8	9.90	504,243.6	45,163.1	8.96	591,114.0	49,697.9	8.41
Fixed assets	7,273.8			7,470.6			8,081.5		
Other assets	25,862.2			24,314.9			25,431.8		
Total assets	468,187.1	43,061.8		536,029.1	45,163.1		624,627.3	49,697.9	
Liabilities:									
Deposits	417,055.3	26,924.4	6.46	466,782.1	26,309.9	5.64	544,907.0	27,103.2	4.97
Demand deposits	34,317.3	13.3	0.04	36,158.7	14.7	0.04	42,093.6	11.4	0.03
Savings deposits	102,125.7	3,487.3	3.41	119,194.1	3,679.3	3.09	140,062.4	4,256.2	3.04
Term deposits	280,612.3	23,423.8	8.35	311,429.3	22,615.9	7.26	362,751.0	22,835.6	6.30
Borrowings									
Unsecured subordinated bonds ("Tier II bonds")	9,033.3	1,012.5	11.21	14,158.3	1,356.1	9.58	15,950.0	1,464.2	9.18
Other borrowings	1,998.6	148.1	7.41	6,701.5	134.7	2.01	15,645.1	485.0	3.10
Total interest bearing liabilities	428,087.2	28,085.0	6.56	487,641.9	27,800.7	5.70	576,502.1	29,052.4	5.04
Capital and reserves	23,339.6			28,269.9			33,507.9		
Other Liabilities	16,760.3			20,117.3			14,617.3		
Total liabilities	468,187.1	28,085.0	6.00	536,029.1	27,800.7	5.19	624,627.3	29,052.4	4.65
Net interest income		14,976.8			17,362.4			20,645.5	
Net Interest Margin ⁽¹⁾			3.44			3.44			3.49

⁽¹⁾ The net interest margin is ratio of net interest income to average interest-earning assets. The difference in net interest margin and spread arises due to the difference in the amount of average interest-earning assets and average interest-bearing liabilities. If average interest-earning assets exceed average interest-bearing liabilities, net interest margin is greater than the spread. If average interest-bearing liabilities exceed average interest-earning assets, net interest margin is less than the spread.



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

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

	Fiscal 2004 vs. Fiscal 2003			Fiscal 2005 vs. Fiscal 2004			First 6 months of Fiscal 2006 vs. First 6 months of Fiscal 2005		
	Net change in interest income or expense	Change due to change in average volume ⁽¹⁾	Change due to change in average rate ⁽²⁾	Net change in interest income or expense	Change due to change in average volume ⁽¹⁾	Change due to change in average rate ⁽²⁾	Net change in interest income or expense	Change due to change in average volume ⁽¹⁾	Change due to change in average rate ⁽²⁾
	(Rs million)								
Interest income:									
Advances	684.8	3340.6	-2655.8	4539.0	6934.4	-2395.4	4130.2	8540.1	4409.9
Investments	1240.8	3855.0	-2614.2	-324.5	1533.2	-1857.7	-105.4	453.7	-559.1
Others	175.7			320.3			165.5		
Total interest earning assets	2101.3			4534.8			4190.3		
Interest expense									
Deposits	-614.5	3212.4	-3826.9	793.3	4406.3	-3613.0	1569.5	5264.4	-3694.9
Demand deposits	1.4	0.7	0.7	-3.3	2.4	-5.7	4.5	4.8	-0.3
Savings deposits	192.0	582.0	-390.0	576.9	644.8	67.9	439.9	648.9	-209.0
Term deposits	-807.9	2573.2	-1765.3	219.7	3726.0	-3506.3	1125.1	4663.9	-3538.8
Borrowings									
Unsecured Subordinated Bond	343.6	574.5	-230.9	108.1	171.6	-63.5	172.7	427.3	-254.6
Other borrowings	-13.4	348.5	-361.9	350.3	179.8	170.5	312.5	153.2	159.3
Total interest bearing liabilities	-284.3			1251.7			2054.7		
Net interest margins	0			-0.05			0.07		

⁽¹⁾ The change due to change in average volume was calculated from the change in average balance over the two periods multiplied by the average rate in the earlier period.

⁽²⁾ The change due to change in average rate is the total change less the change due to change in volume.



Yields, Spreads and Margins

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

	Fiscal Year					First 6 months of fiscal year	
	2001	2002	2003	2004	2005	2005	2006
	(Rs. million except percentages)						
Interest income	37,329.5	40,156.8	43,061.8	45,163.1	49,697.9	23,589.2	27,779.5
Average interest-earning assets	327,265.8	380,050.4	435,051.1	504,243.6	591,114.0	591,935.3	711,791.5
Interest expense	25,139.5	26,790.4	28,085.0	27,800.7	29,052.3	14,354.5	16,409.2
Average interest-bearing liabilities	292,387.1	316,557.9	428,087.2	487,641.9	576,502.1	512,705.8	615,812.7
Net interest income	12,189.9	13,366.4	14,976.8	17,362.4	20,645.5	9,234.8	11,370.4
Average total assets	355,793.2	403,123.7	468,187.1	536,029.1	624,627.3	616,020.0	732,370.0
Average interest-earning assets as a percentage of average total assets	91.98	94.27	92.92	94.07	94.63	96.09	97.19
Average interest-bearing liabilities as a percentage of average total assets	-						
Average interest-earning assets as a percentage of average interest-bearing liabilities	-						
Average interest-earning rupee assets as a percentage of average interest-bearing rupee liabilities	-						
Yield	10.49	9.96	9.90	8.96	8.41	7.97	7.81
Cost of funds	7.07	6.65	6.00	5.19	4.65	4.66	4.48
Spread	12,189.9	13,366.4	14,976.8	17,362.4	20,645.6	9,234.8	11,370.4
Net interest margin	3.42	3.31	3.44	3.44	3.49	3.12	3.19



Returns on Equity and Assets

The following table presents selected financial ratios for the periods indicated.

	Fiscal Year					First 6 months of fiscal year	
	2001	2002	2003	2004	2005	2005	2006
	(Rs. million except percentages)						
Net profit after tax	1554.7	3141.3	5526.9	7120.5	7190.6	4210.7	3014.9
Average total assets	355793.2	403124.0	468187.1	536030.0	624627.3	616020.0	732370.0
Average shareholders' funds	11698.2	12200.0	15954.7	21760.1	27858.6	27085.4	32500.3
Net profit after tax as a percentage of average total assets	0.44	0.78	1.18	1.32	1.15	1.37	0.82
Net profit after tax as a percentage of average shareholders' funds	13.29	25.75	34.64	32.72	25.81	31.10	18.55
Average shareholders' funds as a percentage of average total assets	3.28	3.03	3.41	4.06	4.46	4.40	4.44

The following table sets forth, as of March 31, 2005, an analysis of the residual maturity profile of our investments in coupon-bearing securities. The amounts indicate the book value (i.e., the acquisition cost) of the securities and are gross of depreciation.

	As of March 31, 2005					
	Up to one year	One to five years	Five to ten years	More than ten years	Total	
	Amount	Amount	Amount	Amount	Amount	Yield (%)
	(Rs. million except percentages)					
Government and other approved securities(excluding recap/ special bonds)	5,845.0	45,656.0	82,950.0	13,634.0	148,085.0	8.50
Other debt securities (including recap/ special bonds)	10,396.0	38,960.0	9,263.0	3,930.0	62,549.0	7.48
Total coupon-bearing securities	16,241.0	84,616.0	92,213.0	17,564.0	210,634.0	8.2
Total market value of coupon-bearing securities	16,431.0	87,148.0	93,344.0	17,041.0	213,964.0	

Funding

Our funding operations are designed to optimise the cost of funding and effective liquidity management. The primary source of funding is deposits raised from our customers.



Total Deposits

The average cost (interest expense divided by average of monthly balances) of savings deposits was 3.41% in fiscal 2003, 3.09% in fiscal 2004 and 3.04% in fiscal 2005. The average cost of term deposits was 8.35% in fiscal 2003, 7.26% in fiscal 2004 and 6.30% in fiscal 2005. Demand deposits do not bear interest, and are therefore carried at zero cost. The following table sets forth, as of the dates indicated our outstanding deposits and the percentage composition by each category of deposits.

	March 31, 2003		March 31, 2004		March 31, 2005		September 30, 2005	
	Balance outstanding	% of total	Balance outstanding	% of total	Balance outstanding	% of total	Balance outstanding	% of total
	(Rs. million, except for percentages)							
Demand deposits								
From banks	1364.4	0.30	1490.4	0.29	2367.1	0.38	5147.0	0.75
From others	48998.0	10.95	48548.5	9.60	47734.2	7.72	51006.9	7.43
Savings deposits	111716.7	24.97	130842.9	25.88	151971.2	24.58	166251.2	24.21
Term deposits								
From banks	7644.7	1.71	7805.4	1.54	11151.0	1.80	13244.2	1.93
From others	277762.3	62.07	316902.1	62.69	405082.3	65.52	451078.1	65.68
Total deposits	447486.1	100.00	505589.3	100.00	618305.8	100.00	686727.4	100.00

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

	March 31, 2003		March 31, 2005		March 31, 2005		September 30, 2005	
	Balance outstanding	% of total	Balance outstanding	% of total	Balance outstanding	% of total	Balance outstanding	% of total
	(Rs. million, except for percentages)							
Geographic Distribution								
Northern	76606.99	17.12	85429.58	16.90	109858.78	17.77	130237.36	18.96
North Eastern	6274.35	1.40	5969.76	1.18	7098.08	1.15	7418.69	1.08
Eastern	43414.93	9.70	47358.53	9.37	50288.32	8.13	54110.79	7.88
Central	118658.97	26.52	125842.77	24.89	151174.21	24.45	163823.80	23.86
Western	131272.10	29.34	162544.44	32.15	208953.05	33.79	238675.73	34.76
Southern	71258.79	15.92	78444.19	15.52	90933.38	14.71	92460.95	13.46
Domestic total	447486.13		505589.27		618305.83		686727.32	
Overseas Territories	-		-		-		-	
Total	447486.13	100.00	505589.27	100.00	618305.83	100.00	686727.32	100.00



Total Borrowings

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

	Fiscal 2003			Fiscal 2004			Fiscal 2005		
	Average balance	Interest Expense	Average cost	Average balance	Interest Expense	Average cost	Average balance	Interest Expense	Average cost
	(Rs. million, except for percentages)								
Borrowings, excluding Tier II bonds	1998.6	148.1	7.41%	6701.5	134.7	2.01%	15645.1	485.0	3.10%
Tier II bonds	9033.3	1012.5	11.21%	14158.3	1356.1	9.58%	15950.0	1466.2	9.18%
Total borrowings	11031.9	1160.6		20859.8	1490.8		31595.1	1951.2	

	First six months of Fiscal 2006		
	Average balance	Interest Expense	Average cost
	(Rs. million, except for percentages)		
Borrowings, excluding Tier II bonds	14723.3	447.8	6.08
Tier II bonds	19775.3	882.6	8.92
Total borrowings	34498.6	1330.4	



Asset-Liability Gap

The following tables set forth our asset-liability gap position as of March 31, 2003, March 31 2004 and March 31, 2005.

(Rs. million, except for percentages)

	As at March 31, 2003								
Outflows	Total	1-14 days	15-28 days	29 days to 3 months	>3 to 6 months	>6 to 12 months	>1 to 3 years	>3 to 5 years	Over 5 years
Capital	4,601.20								4,601.20
Reserve & Surplus	21,067.10								21,067.10
Deposits	447485.30	28217.60	8013.71	30716.83	37552.35	58691.12	242667.85	26721.67	14904.18
Borrowings	4420.73	4252.66	0.28	1.47	21.28	24.56	67.85	15.79	36.84
Other Liabilities & Provisions	33029.74	3975.21	303.61	1038.60	1824.17	1.72	4795.95	5000.00	16090.48
Off Balance Sheet items	13573.34	1592.66	1333.69	3301.12	2677.74	4668.13	-	-	-
A. Total Outflows	524177.41	38038.13	9651.29	35058.02	42075.54	63385.53	247531.65	31737.46	56699.80
B. Cumulative Outflows	524177.41	38038.13	47689.42	82747.44	124822.98	188208.51	435740.16	467477.62	524177.42
Inflows									
Cash	1628.40	1628.40	-	-	-	-	-	-	-
Balance with RBI	20844.10	2989.63	337.40	1293.28	1581.08	2471.10	10419.03	1125.07	627.51
Balance with Other Banks	16523.87	4643.97	75.02	339.98	983.61	1009.89	-	-	9471.40
Investments (Performing)	193707.90	4520.90	3571.50	3642.10	5250.60	5817.60	29944.40	27908.40	113052.40
Advances (Performing)	242614.22	10809.06	3676.68	17701.10	21248.10	34933.42	110865.09	16854.80	26525.97
Net NPAs	12534.25	-	-	-	-	-	-	6643.36	5890.89
Fixed Assets	7332.90	-	-	-	-	-	-	-	7332.90
Other Assets	15419.38	2045.50	652.54	2210.01	2008.33	287.98		4873.11	3341.90
Committed lines of credit/Off B/s items	10864.61	8430.20	1394.36	-	624.08	-	415.97	-	-
C. Total Inflows	521469.63	35067.65	9707.50	25186.46	31695.81	44519.99	151644.49	57404.75	166242.97
D. Asset / Liability Gap (C-A)	(2707.78)	(2,970.47)	56.21	(9,871.56)	(10,379.73)	(18,865.55)	(95,887.15)	25,667.29	109,543.17
E. % Asset / Liability Gap (D as a % of A)	(0.52)	(7.81)	0.58	(28.16)	(24.67)	(29.76)	(38.74)	80.87	193.20
F. Cumulative Asset / Liability Gap (D Cumulative)	(2707.78)	(2970.47)	(2,914.26)	(12,785.82)	(23,165.55)	(42,031.09)	(137,918.25)	(112,250.95)	(2,707.78)
G. % Cumulative Asset / Liability Gap (F as a % of B)	(0.52)	(7.81)	(6.11)	(15.45)	(18.56)	(22.33)	(31.65)	(24.01)	(0.52)



(Rs. million, except for percentages)

	As at March 31, 2004								
Outflows	Total	1-14 days	15-28 days	29 days to 3 months	>3 to 6 months	>6 to 12 months	>1 to 3 years	>3 to 5 years	Over 5 years
Capital	4601.20	-	-	-	-	-	-	-	4601.20
Reserve & Surplus	26270.20	-	-	-	-	-	-	-	26270.20
Deposits	505,589.34	27,392.69	10,152.11	34,871.88	52,262.22	74,215.08	267,199.58	28,149.91	11,345.86
Borrowings	9,342.40	660.50	1,311.50	4,121.50	26.00	3,124.40	49.00	21.50	28.00
Other Liabilities & Provisions	37,363.60	5,203.77	310.14	1,023.65	1,783.38	2.00	12,312.37	2,700.00	14,028.30
Off Balance Sheet items	17125.46	1515.72	1515.72	6499.21	2868.83	4725.98	-	-	-
A. Total Outflows	600,292.19	34,772.68	13,289.47	46,516.24	56,940.42	82067.46	279560.95	30871.41	56273.56
B. Cumulative Outflows	600,292.19	34,772.68	48,062.15	94,578.39	151,518.81	233,586.27	513,147.22	544,018.63	600,292.19
Inflows									
Cash	1525.50	1525.50	-	-	-	-	-	-	-
Balance with RBI	22,474.80	8,090.36	301.60	1,035.99	1,552.63	2,204.82	8,116.04	836.29	337.07
Balance with Other Banks	14,478.96	9,783.82	516.18	1,243.72	250.00	43.15	-	-	2,642.10
Investments (Performing)	224,420.30	1,217.50	7,379.40	6,130.70	2,475.10	4,415.80	30,512.90	35,655.60	136,633.30
Advances (Performing)	285,807.77	15,060.16	3,532.46	30,096.10	21,837.77	30,752.84	133,029.63	24,682.31	26,816.50
Net NPAs	8,451.30	-	-	-	-	-	-	6,891.00	1,560.30
Fixed Assets	7668.10	-	-	-	-	-	-	-	7,668.10
Other Assets	18,339.94	2,601.47	723.50	2,197.81	2,092.67	304.89	-	4,915.10	5,504.50
Committed lines of credit / Off B/s items	10950.33	6190.27	4122.15	-	62.83	-	575.08	-	-
C. Total Inflows	594,117.00	44,469.07	16,575.30	40,704.31	28,271.01	37,721.50	172,233.64	72,980.30	181,161.87
D. Asset / Liability Gap (C-A)	(6175.19)	9,696.39	3,285.83	(5,811.93)	(28,669.42)	(44,345.96)	(107,327.30)	42,108.88	124,888.31
E. % Asset / Liability Gap (D as a % of A)	(1.03)	27.89	24.73	(12.49)	(50.35)	(54.04)	(38.39)	136.40	221.93
F. Cumulative Asset/ Liability Gap (D Cumulative)	6,175.20	9,696.39	12,982.22	7,170.29	(21,499.13)	(65,845.09)	(173,172.39)	(131,063.51)	(6,175.20)
G. % Cumulative Asset/ Liability Gap (F as a % of B)	(1.03)	27.89	27.01	7.58	(14.19)	(28.19)	(33.75)	(24.09)	(1.03)



(Rs. million, except for percentages)

	As at March 31, 2005								
Outflows	Total	1-14 days	15-28 days	29 days to 3 months	>3 to 6 months	>6 to 12 months	>1 to 3 years	>3 to 5 years	Over 5 years
Capital	4601.20	-	-	-	-	-	-	-	4601.20
Reserve & Surplus	31543.15	-	-	-	-	-	-	-	31543.15
Deposits	618,305.90	31,740.48	19,037.55	53,258.55	59,154.13	97,639.60	318,646.07	26,348.48	12,481.03
Borrowings	20,209.56	594.31	-	5,637.38	346.40	9,994.01	2,914.51	606.45	116.51
Other Liabilities & Provisions	49,472.63	6,475.91	336.61	1,076.65	2,187.23	2.50	15,124.83	4,915.10	19,353.80
Off Balance Sheet items	26,019.87	9,038.47	1,960.46	6,076.35	4,210.66	4,681.14	52.78	-	-
A. Total Outflows	750152.32	47849.18	21334.63	66048.94	65898.42	112317.24	336738.20	31870.03	68095.69
B. Cumulative Outflows	750152.32	47,849.18	69,183.81	135,232.75	201,131.17	313,448.41	650,186.61	682,056.64	750,152.33
Inflows									
Cash	1697.60	1697.60	-	-	-	-	-	-	-
Balance with RBI	34,774.10	5,863.13	928.76	2,598.27	2,885.89	4,763.44	15,840.29	1,285.43	608.90
Balance with Other Banks	29,247.93	25,447.93	2,000.00	1,800.00	-	-	-	-	-
Investments (Performing)	227,927.90	1,180.30	3,234.70	10,728.70	5,345.50	5,940.90	34,734.60	51,914.50	114,848.70
Advances (Performing)	390,447.06	17,336.64	5,722.29	33,828.07	40,031.39	29,862.77	182,863.17	43,010.62	37,792.10
Net NPAs	10603.71	-	-	-	-	-	-	3,862.72	6,740.99
Fixed Assets	8237.90	-	-	-	-	-	-	-	8237.90
Other Assets	21,196.28	2,671.58	685.40	2,244.83	1,474.86	376.22	-	6,957.30	6,786.10
C. Total Inflows	738743.49	57410.68	18571.15	51199.87	49737.64	46340.84	233438.05	107030.57	175014.69
D. Asset / Liability Gap (C-A)	(11,408.83)	9,561.51	(2,763.48)	(14,849.07)	(16,160.78)	(65,976.41)	(103,300.14)	75,160.54	106,919.00
E. % Asset / Liability Gap (D as a % of A)	(1.52)	19.98	(12.95)	(22.48)	(24.52)	(58.74)	(30.68)	235.83	157.01
F. Cumulative Asset / Liability Gap (D Cumulative)	(11,408.83)	9,561.51	6,798.03	(8,051.04)	(24,211.82)	(90,188.23)	(193,488.37)	(118,327.83)	(11,408.83)
G. % Cumulative Asset / Liability Gap (F as a % of B)	(1.52)	19.98	9.83	(5.95)	(12.04)	(28.77)	(29.76)	(17.35)	(1.52)



Assumptions

1. Capital Reserves and Surplus have been shown in over five years time bucket.
2. Current and savings bank deposits have been distributed in various time buckets on the basis of behavioral Studies on Volatility & Core portion of these deposits.
3. In case of term deposits the maturity pattern has been taken on the basis of data received from the branches, without considering any roll over of term deposits.
4. Borrowings have been allocated as per actual re-payment schedule.
5. In case of bills payable, the core portion has been shown in 1-3 years time bucket and the remaining portion has been shown in 1-14 days time bucket.
6. Subordinate debts have been distributed as per the actual repayment schedule.
7. Cash has been shown in 1-14 days time bucket.
8. Call lending/Term deposits with banks and others have been shown in respective maturity time buckets as per actual maturity profile.
9. In case of current and savings deposits with banks, volatile portion has been shown in 1-14 days time bucket, while the remaining portions have been shown in 1-3 years time bucket.
10. Investments have been distributed in various time buckets as per actual maturity.
11. In case of CC/OD the core and volatile portion has been determined on the basis of Behavioral Studies.
12. In case of bills purchased and discounted and term loans, maturity period have been taken on the basis of data collected from branches.
13. NPAs have been distributed in 3-5 years and over 5 years time bucket.
14. Fixed assets have been shown in over 5 years time bucket.

Loan Portfolio

As of September 30, 2005, our total outstanding loan portfolio was Rs. 474,975.4 million. The following table sets forth, for the dates indicated, our loan portfolio classified by product group.

	As at March 31, 2003		As at March 31, 2004		As at March 31, 2005		As at September 30, 2005	
	Amount	%	Amount	%	Amount	%	Amount	%
	(Rs. million, except percentages)							
Bills Purchased/ Discounted	13972.9	5.24	17247.5	5.67	23008.3	5.60	21036.1	4.43
Cash Credit, overdrafts and others	162589.2	61.01	172688.9	56.76	219605.1	53.43	255026.7	53.69
Term Loans	89928.2	33.75	114297.7	37.57	168415.2	40.97	198912.6	41.88
Total	266490.3	100	304234.1	100	411028.6	100	474975.4	100



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

	As at March 31, 2003		As at March 31, 2004		As at March 31, 2005		As at September 30, 2005	
Sector	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Rs. million, except for percentages)							
Corporate and Commercial	132040.0	49.54	155533.8	51.12	225260.5	54.80	275581.0	58.02
(Of which Small Scale Industries (SSIs)	27725.0	10.40	31962.8	10.51	37657.6	9.16	39841.5	8.38
Retail ⁽¹⁾	50851.3	19.09	62440.2	20.52	85279.1	20.74	95712.9	20.15
(of which Housing)	12326.6	4.63	19938.5	6.55	30801.5	7.49	35076.7	7.38
Agriculture	37943.6	14.23	45866.6	15.08	62615.5	15.23	73167.6	15.40
Others	45658.1	17.14	40393.5	13.28	37869.0	9.21	30513.9	6.43
Total outstanding loans	266493.0	100.00	304234.1	100.00	411028.6	100.00	474975.4	100.00

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

Concentration of Loans and Credit Substitutes

Under the RBI guidelines, our exposure to individual borrowers must not exceed 15% of capital funds comprising Tier I and Tier II capital. Exposure to individual borrowers may exceed the exposure norm of 15% of capital funds by an additional 5% (i.e., up to 20%) provided the additional exposure is for infrastructure financing. Under the RBI guidelines, exposure to a group of companies under the same management control must not exceed 40% of capital funds unless the exposure is in respect of an infrastructure project in which case the ceiling is 50%. An additional exposure of 5% of capital funds can be taken both for single and group borrowers with the approval of the Board and consent to be obtained from the borrower.

As at September 30, 2005, our largest exposure to a single borrower was 19.19% of our capital funds, and our largest group exposure was 39.48% of our capital funds; all these borrowers are currently performing according to the terms of our contracts with them.

Our policy with respect to our maximum exposure to a particular industry as a percentage of our gross credit and non-SLR investment as at September 30, 2005 is set forth below.

Industry	Exposure as a percentage of gross credit and non-SLR investment
Iron and Steel	10.00%
Engineering	10.00
Petroleum	10.00
Chemicals, Dyes, Paints, etc.	10.00
Of which Drugs & Pharma/Petrochemicals (each)	10.00
Power Generation and Transmission (existing units)	10.00
Information Technology and Computer Software	10.00
Infrastructure Projects (aggregate)	15.00
- Power (new projects)	10.00
- Road and Highway Projects	10.00
- Port, Airport and Inland Waterways	10.00
- Telecommunication services	10.00
- Other infrastructure	10.00
Textiles	10.00
Cements/Sugar/Gems and Jewellery (each)	10.00 / 10.00 / 10.00
Automobile/Bio-technology and Coffee (each)	10.00 / 10.00 / 10.00
NBFCs (Leasing, hire purchase and factoring services)	2.50



Our policy with respect to sector-wise exposure ceilings is set forth below.

Sector

Film Industry	Aggregate should not exceed Rs. 500 million
Sensitive Sectors:	
- Capital Markets	5.0% of total outstanding advances (including commercial paper) as on previous year
- Real Estate	5.0% of gross credit

The following table sets forth, for the dates indicated, our ten largest single exposures (in descending order) as determined by the RBI guidelines, which includes funded exposure, non-funded exposure along with adjustments if any, whichever is higher.

As at March 31, 2005					As at September 30, 2005			
(Rs. million, except percentages)								
	Exposure	% of Total Outstanding Exposure	% of Capital Funds	Classification (Whether standard, sub-standard, doubtful or loss assets)	Exposure	% of Total Outstanding Exposure	% of Capital Funds	Classification (Whether standard, sub-standard, doubtful or loss assets)
Borrower A	9740.40	2.37	24.88	Standard	9805.36	2.06	19.19	Standard
Borrower B	7805.36	1.90	19.93	Standard	9490.80	2.00	18.57	Standard
Borrower C	7750.00	1.89	19.79	Standard	9350.00	1.97	18.30	Standard
Borrower D	7735.18	1.88	19.75	Standard	7661.00	1.61	14.99	Standard
Borrower E	7658.96	1.86	19.56	Standard	7645.38	1.60	14.96	Standard
Borrower F	6538.82	1.59	16.70	Standard	7220.90	1.52	14.13	Standard
Borrower G	5800.00	1.41	14.81	Standard	6537.82	1.38	12.79	Standard
Borrower H	5752.00	1.40	14.69	Standard	6502.00	1.37	12.72	Standard
Borrower I	5150.00	1.25	13.15	Standard	5800.00	1.22	11.35	Standard
Borrower J	4895.48	1.19	12.50	Standard	5750.00	1.21	11.25	Standard
Total	68826.20	16.74%	175.76%		75763.26	15.95%	148.25%	



The following table sets forth, for the dates indicated, our ten largest group exposures (in descending order) as determined by the RBI guidelines, which includes funded exposure, non-funded exposure along with adjustments if any, whichever is higher.

As at March 31, 2005					As at September 30, 2005			
(Rs. million, except percentages)								
	Exposure	% of Total Outstanding Exposure	% of Capital Funds	Classification (Whether standard, sub-standard, doubtful or loss assets)	Exposure	% of Total Outstanding Exposure	% of Capital Funds	Classification (Whether standard, sub-standard, doubtful or loss assets)
Group A	17262.52	4.20	44.09	Standard	20171.66	4.25	39.48	Standard
Group B	16957.18	4.12	43.31	Standard	18667.22	3.93	36.53	Standard
Group C	11591.01	2.82	29.60	Standard	17020.23	3.58	33.31	Standard
Group D	10378.70	2.53	26.51	Standard	12103.32	2.55	23.69	Standard
Group E	6627.68	1.61	16.93	Standard	9904.20	2.09	19.38	Standard
Group F	6417.00	1.56	16.39	Standard	8798.00	1.85	17.22	Standard
Group G	5510.89	1.34	14.07	Standard	8504.73	1.79	16.64	Standard
Group H	4452.40	1.08	11.37	Standard	6283.30	1.32	12.30	Standard
Group I	4335.00	1.05	11.07	Standard	4612.20	0.97	9.03	Standard
Group J	2633.80	0.64	6.73	Standard	4335.00	0.91	8.48	Standard
Total	86166.18	20.95	220.07		110399.86	23.24%	216.06	

In terms of our lending policy different exposure norms are fixed for different industries. Our maximum credit exposure to a particular industry is limited to maximum 10% of our total credit.

The following table sets forth, for the periods indicated, our ten largest industry exposures.

	As at March 31, 2003		As at March 31, 2004		As at March 31, 2005		September 30, 2005	
	Exposure	% of Total Exposure	Exposure	% of Total Exposure	Exposure	% of Total Exposure	Exposure	% of Total Exposure
(Rs. million, except percentages)								
Textiles	14330	5.37	14970	4.84	16890	4.11	18250	3.84
Chemicals and Dyes	12010	4.50	14200	4.59	10380	2.52	11360	2.39
Iron and Steel	10490	3.93	6320	2.04	9150	2.22	9960	2.09
Engineering	9160	3.43	9690	3.13	8480	2.06	7780	1.63
Metal & Metal Products	4880	1.83	4780	1.54	3250	0.79	5070	1.07
Petroleum	4860	1.92	2720	0.87	1980	0.48	2590	0.54
Food Processing	4440	1.66	5170	1.67	6020	1.47	8510	1.79
Electricity (Generation & Transmission)	5220	1.96	8680	2.81	15750	3.83	24270	5.11
Gems and Jewellery	2370	0.88	1240	0.40	5860	1.42	6160	1.29
Sugar	2260	0.84	1740	0.56	2450	0.59	3080	0.64
Construction	2080	0.78	2310	0.74	4070	0.99	4620	0.97
Paper and Paper Products	2050	0.76	2570	0.83	850	0.20	950	0.20
Total	74150	27.86	74390	24.02	85130	20.68	102600	21.56



Security

The table below shows the amount of our net advances as at fiscal 2003, 2004, 2005 and as at September 30, 2005, which are secured or covered by guarantees or unsecured.

Particulars	Classification of Net Advances							
	As at March 31,						September 30,	
	2003		2004		2005		2005	
	(Rs. million, except percentages)							
	Amount	% of advances	Amount	% of advances	Amount	% of advances	Amount	% of advances
Secured by tangible assets (including advances against book debts)	230,309.4	86.53	262,830.3	85.08	315,510.2	76.80	355,469.5	74.88
Covered by bank or Government guarantees	5,131.0	1.93	4,414.7	1.43	7921.4	1.92	6,684.4	1.40
Unsecured	30713.0	11.54	41679.7	13.49	87433.3	21.28	112627.6	23.72
Total	266153.4	100	308924.7	100	410864.9	100	474781.5	100

Non-Performing Assets

As at March 31, 2005, our gross non-performing assets as a percentage of gross advances was 5.01% and our net non-performing assets as a percentage of net advances was 2.64 %. As of September 30, 2005, our gross non-performing assets as a percentage of gross advances was 4.22% and our net non-performing assets as a percentage of net advances was 1.37%. We define net NPAs as gross NPAs less our loan loss provision, Deposit Insurance and Credit Guarantee Corporation/ Export Credit Guarantee Corporation (DICGC/ECGC) claims received and held and any partial payments received and held. We have made provisions for 67.62% of our gross non-performing advances as of March 31, 2005 and 68.56% as of September 30, 2005. As of March 31, 2005, 53% of our gross NPAs were from priority sector advances while as of September 30, 2005 it is 56%.

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

(Rs. million, except percentages)

	March 31, 2001			March 31, 2002			March 31, 2003			March 31, 2004			March 31, 2005			September 30, 2005		
	Amt	NPAs	NPAs as % of Adv	Amt	NPAs	NPAs as % of Adv	Amt	NPAs	NPAs as % of Adv	Amt	NPAs	NPAs as % of Adv	Amt	NPAs	NPAs as % of Adv	Amt	NPAs	NPAs as % of Adv
Gross Advances	183604.8	20563.3	11.20	224654.4	24204.8	10.77	266490.2	23876	8.96	304234.1	23468.4	7.71	411028.6	20581.5	5.01	474975.4	20040.5	4.22
Interest Suspense	1.6	1.6		1.40	1.40													
DICGC/ECGC claims (includes SFSD) received and held	66.7	66.7		207.6	207.6		337	337		351.9	351.9		163.7	163.7		244.7	244.7	
Provisions (as per RBI)	8483	8483		10112.2	10112.2		9484.8	9484.8		9664	9664		9814.1	9814.1		10570.1	10570.1	
Other Adjustments																		
Floating Provisions				500	500		1520	1520		5001	5001		3939.2 [#]	3939.2 [#]		2925.4	2925.4	
Total Deductions	8551.3	8551.3		10821.2	10821.2		11341.8	11341.8		15016.9	15016.9		9977.8	9977.8		13740.2	13740.2	
Net Adv (for Net NPA %)	175053.5	12012	6.86	213833.2	13383.6	6.26	255148.4	12534.2	4.91	289217.2	8451.5	2.87	401050.8	10603.7	2.64	461235.2	6300.3	1.37
Unapplied Interest (Domestic NPAs)		22588			21822			34640			45582			44642			50400	

[#] not included as deduction for calculation of Net Advances/NPA



Classification of Assets

We classify and account for our assets in accordance with the RBI guidelines. Under these guidelines, term loans are regarded as non-performing if any amount of interest or principal remains overdue for more than 90 days; overdrafts and cash credits are regarded as non-performing if the account balance remains out of order for a period of 90 days; and bills are regarded as non-performing if the account remains overdue for more than 90 days. Prior to fiscal 2004, these assets were deemed non-performing if the irregularity continued for 180 days. Prior periods have not been restated to reflect this. In respect of agricultural loans, the loan is classified as non-performing if any installment of principal or interest thereon remains overdue for two crop seasons for short duration crops or one crop season for long duration crops. Crops with a crop season longer than one year are long duration crops, and other crops are treated as short duration crops.

Our assets are classified as described below:

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

The following table provides a break down of our gross advances as of the dates indicated. (Rs. million, except percentages)

	Fiscal										Six months ended September 30, 2005	
	2001		2002		2003		2004		2005			
	Rs	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Standard assets	163041.5	88.80	200449.6	89.23	242614.2	91.04	280765.7	92.29	390447.1	94.99	454934.9	95.78
Non-Performing assets	20563.3	11.20	24204.8	10.77	23876.0	8.96	23468.4	7.71	20581.5	5.01	20040.5	4.22
of which:												
Sub-standard	5886.0	3.21	7837.1	3.49	7837.0	2.94	8044.9	2.64	4473.8	1.09	4987.6	1.05
Doubtful assets	13192.0	7.18	14035.4	6.25	14284.5	5.36	13918.0	4.58	14700.6	3.58	13583.1	2.86
Loss assets	1485.3	0.81	2332.3	1.03	1754.5	0.66	1505.5	0.49	1407.1	0.34	1469.8	0.31
Total Loan assets	183604.8		224654.4		266490.2		304234.1		411028.6		474975.4	

Restructured Assets

The RBI has separate guidelines for restructured assets. A fully secured standard asset can be restructured by rescheduling the principal or interest payments, but must be separately disclosed as a restructured asset. The amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provided for to the extent of the sacrifice involved. Similar guidelines apply to sub-standard assets. Sub-standard assets that have been restructured, whether in respect of principal or interest payments, are eligible to be upgraded to the "standard assets" category only after a specified period, which is one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period.

In order to create an institutional mechanism for the restructuring of corporate debt, the RBI has also created a Corporate Debt Restructuring (CDR) system in 2003. The objective of this framework is to provide a more timely and transparent mechanism for the restructuring of corporate debts of viable entities facing financial difficulties. This system has led to the approval of restructuring programs for a large number of companies, which has resulted in an increase in the level of restructured assets in the Indian financial system, including an increase in our restructured assets.



The following table presents our assets restructured during the periods indicated:

(Rs. million)

	Fiscal			Six months ended September 30,
	2003	2004	2005	2005
CDR restructured assets				
Standard assets	1186.0	2821.9	2739.7	903.4
Sub-standard assets	–	444.5	–	–
Doubtful assets	–	266.7	–	–
Loss assets	–	23.7	–	–
Total CDR restructured assets	1186.0	3556.8	2739.7	903.4
Other restructured assets	5205.5	5653.7	4784.4	972.5
Standard assets	638.4	570.8	7.3	124.9
Sub-standard assets	65.9	633.2	324.6	–
Doubtful assets	–	23.7	–	–
Total other restructured assets	5909.9	6881.4	5116.3	1097.4
Total restructured assets	7095.9	10438.2	7856.0	1981.9

Provisioning and Write-offs

Our policies on provisioning and write-offs of non-performing assets are consistent with those prescribed by the RBI guidelines. The following is a summary of our provisioning policies:

Standard assets	A general provision of 0.25% was required until September 30, 2005. Thereafter it will be 0.40% except for direct advances to agriculture and SME sectors, which are exempted from additional provisioning requirement.
Sub-standard assets	A general provision of 10% and, from the second quarter of fiscal 2005, an additional provision of 10% for the unsecured portion of the advances.
Doubtful assets	We provide for 100% of the unsecured portion of the doubtful assets which are not covered by the realizable value of the security. We provide for secured advances (or the secured portion of partly secured advances) based on the period for which the asset remains doubtful, as follows: Up to one year: 20% provision One to three years: 30% provision More than three years: 50% provision The value assigned to the collateral securing a loan is that reflected on the borrower's books or that is determined by third party appraisers to be realizable, whichever is lower. Beginning on March 31, 2005, a 100% provision against secured exposure is required for assets categorised as doubtful assets for over three years from April 1, 2004. For assets categorised as doubtful assets for over three years as of March 31, 2004, the provision for secured exposure is to be raised to 60% by March 31, 2005, 75% by March 31, 2006 and 100% by March 31, 2007.
Loss assets	The entire asset is provided for.
Restructured Assets	Reductions in the rate of interest, measured in present value terms, is provided for to the extent of the reduction. For the purposes of future interest due as per the original loan agreement in respect of an account, this amount should be discounted to present value at a rate appropriate to the risk category of the borrower and compared to the present value of the amounts expected to be received under the restructuring package discounted on the same basis. The policy regarding asset classification mentioned above is also applicable to restructured assets.



In addition to the provisions required by the RBI guidelines, we also make additional provisions for NPAs such as float provisions. As of March 31, 2005, out of our total provision for NPAs of Rs. 13,753 million we had Rs. 3,939 million in excess of the required provision against NPAs of Rs. 20,582 million. These provisions account for a coverage ratio for gross NPAs of 67% (the coverage ratio is calculated using our total provisions, Deposit Insurance and Credit Guarantee Corporation/Export Credit Guarantee Corporation (DICGC/ECGC) claims received and held as coverage). This has increased to 69% as at September 30, 2005. The table below shows the changes in our provisions for the periods below.

(Rs. million)

	Fiscal			Six months ended September 30,
	2003	2004	2005	2005
Opening Balance	10612.2	11004.8	14665.0	13753.3
ADD: Provisions made during the year (including float provisions)	4174.8	6436.1	2164.6	436.5
LESS: Write-off/write-back during the year.	3782.2	2775.9	3076.3	694.3
Closing Balance	11004.8	14665.0	13753.3	13495.5

Once loan accounts are identified as non-performing, interest and other fees charged in the account, if uncollected, are suspended. In compliance with regulations governing the presentation of financial information by banks, we report non-performing assets net of cumulative provision and interest suspended in our financial statements.

In accordance with the RBI guidelines, interest income from advances for NPAs is recognised upon realization, rather than on an accrual basis as with all other assets. Recovery in respect of non-performing advances is allocated first toward principal and thereafter against interest.

Industry - wide Analysis of Gross Non-Performing Assets

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

(Rs. million except percentages)

INDUSTRY	March 31, 2001			March 31, 2002		
	NPA	% NPA to Total industry O/s	Provision	NPA	% NPA to Total industry O/s	Provision
Coal	348.6	87.39	103.7	0.4	0.51	0.1
Mining	11.1	6.58	1.2	31.6	9.50	11.7
Iron & Steel	476.0	5.09	249.1	659.8	10.58	311.1
Metals & Metal Prod	465.3	32.65	234.6	929.5	38.94	582.1
All Engineering	352.4	11.71	133.7	749.6	11.49	295.8
Textiles	1079.3	17.25	353.5	3261.5	27.32	1188.5
Sugar	14.2	0.86	12.5	74.2	4.36	9.5
Tea	21.6	28.88	10.0	33.6	5.28	13.6
Food Processing	74.3	13.07	19.5	39.1	11.80	15.2
Veg Oils & Vanasp	203.7	27.89	89.0	105.5	20.49	49.8
Tobacco & Tobacco Products	28.4	6.14	10.6	15.9	15.53	8.3
Paper & Paper Products	199.3	19.91	111.9	205.3	22.69	120.0
Rubber & Rubber Products	842.8	69.12	419.6	117.4	21.16	72.0
Chemicals, Dyes Paints, Fertilizers, Pharma	450.7	17.56	167.4	657.9	17.55	317.2



	March 31, 2001			March 31, 2002		
INDUSTRY	NPA	% NPA to Total industry O/s	Provision	NPA	% NPA to Total industry O/s	Provision
Cement	69.7	15.28	19.9	211.4	33.58	38.2
Leather & Leather Products	101.6	14.47	23.7	217.0	17.14	83.1
Gems & Jewellery	71.7	4.47	13.9	118.0	23.47	29.4
Construction	70.5	7.29	24.1	128.1	6.10	41.5
Automobiles	28.9	1.22	11.9	82.6	3.32	28.1
Computer Software	14.5	3.69	3.1	205.8	22.09	68.7
Infrastructure	0	0	0	0	0	0
Other Industries	139.3	3.49	44.7	678.6	7.48	301.7
Total	5063.9	13.17	2057.6	8522.8	16.09	3585.6

(Rs. million except percentages)

	March 31, 2003			March 31, 2004		
INDUSTRY	NPA	% NPA to Total industry O/s	Provision	NPA	% NPA to Total industry O/s	Provision
Coal	0	0	0	0.4	0.74	0
Mining	69.4	3.61	23.0	95.3	5.20	60.2
Iron & Steel	1310.7	19.61	679.7	760.3	10.57	408.2
Metals & Metal Products	284.2	17.33	150.0	198.9	9.93	90.2
All Engineering	2428.4	9.04	1144.0	1578.1	6.43	619.8
Textiles	4082.7	26.88	1748.9	3484.8	20.81	1402.0
Sugar	61.8	6.25	17.1	69.3	4.93	19.3
Tea	11.0	3.03	2.2	51.0	2.98	7.9
Food Processing	730.8	7.81	311.2	602.6	7.07	276.9
Veg Oils & Vanasp	11.6	2.63	6.3	240.3	27.8	137.7
Tobacco & Tobacco Products	23.9	4.77	7.5	37.7	11.20	9.4
Paper & Paper Products	249.5	9.84	125.2	425.8	15.27	143.7
Rubber & Rubber Products	61.4	10.04	29.7	73.0	8.04	33.5
Chemicals, Dyes Paints, Fertilizers, Pharma	1104.7	20.45	270.9	960.9	9.29	433.4
Cement	97.4	7.19	44.6	259.5	14.64	206.3
Leather & Leather Products	291.1	22.47	119.9	198.7	13.77	89.4
Gems & Jewellery	114.4	4.73	37.4	47.6	1.81	15.1
Construction	104.3	2.63	39.3	288.0	2.69	73.1
Automobiles	330.8	15.65	128	230.9	11.16	59.6
Computer Software	42.3	20.80	9.2	40.5	2.88	14.5
Infrastructure	12.1	0.35	5.7	35.9	0.60	23.9
Other Industries	1060.5	6.07	384.5	1255.6	5.81	538.0
Total	12483	11.92	5284.3	10935.1	8.62	4662.1



(Rs. million except percentages)

INDUSTRY	March 31, 2005			September 31, 2005		
	NPA	% NPA to Total industry O/s	Provision	NPA	% NPA to Total industry O/s	Provision
Coal	0.4	1.05	0.2	0.4	1.53	0.3
Mining	42.0	3.39	18.7	41.9	0.32	22.9
Iron & Steel	468.3	4.15	270.7	361.2	2.72	239.5
Metals & Metal Products	174.7	7.34	92.6	164.6	7.93	98.3
All Engineering	1315.6	8.23	506.6	942.7	7.9	570.1
Textiles	1213.5	10.19	501.5	951.7	6.78	458.6
Sugar	64.5	3.46	26.6	63.4	2.75	30.6
Tea	50.7	5.54	10.3	51.8	8.27	12.7
Food Processing	341.1	4.46	175.4	327.6	4.23	129.1
Veg Oils & Vanasp	160.8	11.2	74.4	158.8	10.34	81.1
Tobacco & Tobacco Products	21.7	2.75	9.1	16.3	3.03	6.2
Paper & Paper Products	346.3	10.92	190.4	372.5	12.02	202.8
Rubber & Rubber Products	56.8	4.94	32.8	45.2	2.03	32.1
Chemicals, Dyes Paints, Fertilizers, Pharma	1464.1	11.51	699.9	1322.6	11.41	621.0
Cement	228.8	7.30	150.2	365.9	10.92	257.5
Leather & Leather Products	183.2	8.70	102.8	266.5	14.25	108.8
Gems & Jewellery	54.0	1.24	31.3	37.7	0.70	19.3
Construction	298.3	1.30	83.7	398.8	1.98	191.0
Automobiles	209.1	8.31	68.4	197.7	7.31	78.2
Computer Software	82.6	1.05	52.7	159.4	1.91	63.6
Infrastructure	61.2	0.79	40.4	71.7	0.83	39.2
Other Industries	1369.8	3.52	450.2	1690.5	2.84	520.2
Total	8207.5	5.06	3588.9	8008.9	4.13	3783.1



The following table sets forth our ten largest gross non-performing assets as of September 30, 2005. Together, these borrowers constitute 8.87% of our gross NPAs as of September 30, 2005.

(Rs. million)

	Gross NPA	Derecognised income	Provision	DICGC/ ECGC	Net NPA	Realizable value of collateral	Industry
Borrower A	269.70	0.00	269.70	0.00	0.00	0.00	Petroleum Products
Borrower B	262.02	0.00	78.61	0.00	183.41	262.02	Chemicals & Chemical Products
Borrower C	226.87	0.00	32.73	0.00	194.14	126.47	Mfg. of El. Machinery
Borrower D	193.30	0.00	125.88	0.04	67.38	83.79	Mfg. of Machinery & Equip.
Borrower E	173.81	0.00	143.71	6.60	23.50	93.96	Chemical Products
Borrower F	157.20	0.00	157.20	0.00	0.00	0.00	Cement
Borrower G	152.16	0.00	27.11	0.00	125.05	33.18	Commission Agent
Borrower H	124.90	0.00	12.86	0.00	112.04	121.23	Construction
Borrower I	112.73	0.00	44.06	0.00	68.67	98.10	Metal Products
Borrower J	104.81	0.00	14.10	0.00	90.71	68.59	Leather Products
Total	1777.50	0.00	905.96	6.64	864.90	887.34	

Interest in Suspense

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

(Rs. million)

	Fiscal					Six months ended September 30,
	2001	2002	2003	2004	2005	2005
Interest in suspense	1.6	1.4	-	-	-	-



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

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements included in this Red Herring Prospectus, along with the section titled "Selected Financial Information" beginning on page 116 and the section titled "Selected Statistical Information" beginning on page 151, which presents important statistical information about our Bank's business. You should also read the section titled "Risk Factors" beginning on page x, which discusses a number of factors and contingencies that could impact our financial condition and results of operations. The following discussion relates to the Bank and is based on our restated financial statements, which have been prepared in accordance with Indian GAAP, the RBI guidelines and the SEBI guidelines. The following discussion is also based on internally prepared statistical information and on information publicly available from the RBI and other sources.

Introduction

Overview

We are a public sector banking institution in India. As at December 31, 2005, we had 2,064 branches and 146 extension counters in India spread over 25 states and three union territories. As at September 30, 2005, we served over 15 million customers.

Our business is principally divided into three main areas: corporate financial services, retail financial services and agricultural financial services, along with other allied services. In addition, we also provide fee-based services including distribution of third party products.

In fiscal 2005, we made a net profit of Rs. 7,190.6 million. As at 2005, we had assets of Rs. 719,382.5 million and net worth of Rs. 31,394.4 million. Our net profit, for the six months ending September 30, 2004 and 2005 was Rs. 4,210.7 million and Rs. 3,014.9 million, respectively. As at September 30, 2005, our Bank had assets of Rs. 790,775.00 million and our net worth was Rs. 34,409.2 million. We have a record of consistent growth in deposits and advances, with deposits growing at a compound annual rate of 15.8% during the last three years and net advances growing at a compound annual rate of 23.3% during the same period.

Revenue

Our revenue, which is referred to herein and in our financial statements as our total income, consists of interest income and other income.

Interest income consists of interest on advances (including the bills discounted) and income on investments. Income on investments consists of interest and dividends from securities and our other investments. We also earn interest income from inter-bank loans, cash deposits that we keep with the RBI and foreign banks in various currencies (primarily in US dollars). Our securities portfolio consists primarily of Govt and state government securities. We meet SLR ratio requirements through investments in these and other approved securities. We also hold debentures and bonds issued by public sector undertakings and other corporations, commercial paper, equity shares and mutual fund units. Our interest income is affected by fluctuations in interest rates as well as the volume of activity.

Our other income consists principally of fee-based income such as commission, exchange income, net profit on sales of investments and gains or losses on foreign exchange transactions. Fee-based income includes charges for services such as cash management services and credit-related transactional services and also includes service charges and processing fees chargeable on customers' accounts and fees for remittance services, documentary credits, letters of credit and issuance of guarantees. It also includes commission on sales of service products, such as debit cards, demat services, distribution of insurance and mutual funds products, and commission on collections on behalf of the Government. We also generate income from our treasury activities.

Expenses

Our interest expense consists of the interest we pay on deposits as well as borrowings. Our interest expense is affected by fluctuations in interest rates, deposit mix and volumes.

Our non-interest expense consists principally of operating expenses, including expenses for wages and employee benefits, depreciation on fixed assets, rent paid on premises, insurance, postage and telecommunications, printing and stationery, advertising and publicity, other administrative expenses and other expenses. Our provisioning for non-performing assets, depreciation on investments and income tax are included in our expenses for provisions and contingencies and do not affect our operating profit.



Financial Performance Indicators

We use a variety of indicators to measure our performance. These indicators are presented in tabular form in the section titled "Selected Statistical Information" on page 151 of this Red Herring Prospectus. Our net interest income (or spread) represents our total interest income net of total interest expense. Net interest margin represents the ratio of net interest income to the fortnightly average of total interest earning assets. We calculate average yield on the fortnightly average of advances and average yield on the fortnightly average of investments, as well as the average cost of the fortnightly average of deposits and average cost of the fortnightly average of borrowings. Our cost of funds is the average of the average cost of the fortnightly average of interest bearing liabilities. For the purposes of these averages and ratios only, the interest cost of the unsecured subordinated bonds that we issue for Tier II capital adequacy purposes ("Tier II Bonds") is included in our cost of interest bearing liabilities. In our financial statements, these bonds are accounted for as "other liabilities and provisions" and their interest cost is accounted for under other interest expenses.

The Indian Economy

Our financial condition and results of operations are affected in large measure by general economic conditions prevailing in India. The Indian economy has grown steadily over the past three years. GDP growth was 4.0% in fiscal 2003, 8.5% in fiscal 2004 and 6.9% in fiscal 2005. GDP growth in fiscal 2003 was adversely affected by insufficient rainfall, which contributed to a decrease in agricultural production. GDP growth increased in fiscal 2004 due to, among other things, agricultural production recovery, resurgence of the industrial sector and continued growth in the services sector. GDP growth was less in fiscal 2005 compared with fiscal 2004, primarily due to a smaller increase in the growth of the agricultural sector.

Industrial growth was 6.2% in fiscal 2003, 6.6% in fiscal 2004 and 8.4% in fiscal 2005. The agriculture sector grew by 5.2% in fiscal 2003, 9.6% in fiscal 2004 and 1.1% in fiscal 2005.

The annual rate of inflation, as measured by variations in the wholesale price index (WPI), on a point-to-point basis was 6.5% in fiscal 2003, 4.6% in fiscal 2004 and 6.01% in fiscal 2005. It was at 6.0% by April 23, 2005, but declined steadily thereafter to 4.6% in October 2005.

In its Mid-term Review of the Annual Policy Statement for 2005-2006 released on October 25, 2005, the RBI forecast GDP growth for fiscal 2006 at 7.0-7.5% and has given an inflation rate forecast of 5.0-5.5%. The average exchange rate of the Indian Rupee to one U.S. Dollar was Rs. 48.27 in fiscal 2003, Rs. 45.83 in fiscal 2004, Rs. 44.89 in fiscal 2005 and Rs. 43.69 for the six months ended September 30, 2005. Foreign exchange reserves were US\$142.62 billion as of November 4, 2005.

In fiscal 2003 and 2004, there was a general downward movement in interest rates in India, reflecting local and global economic conditions. Banks have generally followed the direction of interest rates set by the RBI and have adjusted both their deposit rates and lending rates downwards. However, the RBI's principal influence on interest rates is on short term interest rates, with long-term rates being set more by market conditions. During fiscal 2005, following the general trend of interest rates in the economy, deposit rates in the banking industry also displayed an upward bias. In the six months ended September 30, 2005, interest rates remained stable.

The RBI has maintained a policy of assuring adequate liquidity in the banking system and has generally lowered the rate at which it would lend to Indian banks to ensure that borrowers have access to funding at competitive rates. The RBI's primary motive has been to realign interest rates with the market to facilitate a smooth transition from a government-controlled regime in the early 1990s, when interest rates were heavily regulated, to a market-oriented interest rate regime.

The following table sets forth the bank rate, reverse repo rate, deposit rate and prime lending rate of scheduled commercial banks as of the dates indicated.

As of	Bank rate	Reverse Repo rate	Deposit rate	Prime lending rate for 5 major banks
(as percentages)				
March 31, 2003	6.25	5.00	4.25-6.00	10.75-11.50
March 31, 2004	6.00	4.50	4.00-5.25	10.25-11.00
March 31, 2005	6.00	4.75	5.25-6.25 ¹	10.25-10.75
September 30, 2005	6.00	5.00 ²	5.25-6.25 ¹	10.25-10.75

Source: Reserve Bank of India statistical data.

1. Relates to rates for major banks for term deposits of more than one-year maturity.
2. With effect from October 25, 2005, the Reverse Repo Rate stands at 5.25%.



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

Global Economic Conditions Affecting our Operations

In recent years, changes in the global economy and an increased integration of the Indian economy with international markets have had an impact on the Indian economy in general and the banking sector in particular. Hardening of yields and rising inflation in US markets have also impacted bond yields in the Indian market.

Critical Accounting Policies

Income and expenditure are generally accounted for on accrual basis, unless otherwise stated.

Income on advances classified as non-performing is recognised to the extent realised as per the prudential norms prescribed by the RBI. Income accounted for in the preceding year and remaining unrealised is derecognised in respect of assets classified as NPAs during the year. Prior to March 31, 2004, advances were classified as non-performing if any amount of interest or principal remained overdue for more than 180 days. From March 31, 2004, this period was shortened to 90 days. See also the discussion under the section titled "Selected Statistical Information" on page 151 of this Red Herring Prospectus

Income from commission, exchange, brokerage fees and rent on safe deposit lockers is accounted for upon realisation.

In accordance with RBI guidelines, we classify our investments into three categories. Securities that we intend to hold until maturity are classified as Held to Maturity securities. These securities are recorded on our balance sheet at their acquisition cost and any premium paid to acquire these securities is amortised in our statement of profit and loss over the remaining years to maturity of the securities. For fiscal 2003, fiscal 2004 and part of fiscal 2005, these investments were not allowed to exceed 25% of our total investments. Following a change in the RBI guidelines in September 2004, these investments are not allowed to exceed 25% of our demand and time liabilities. Securities that are held with the intention to trade by taking advantage of short-term price or interest rate movements are classified as Held for Trading, and securities not falling into either of the first two categories are classified as Available for Sale. Our investments are accounted for under various sub-categories, including government securities, equity shares, preference shares, debentures, mutual funds and commercial paper. For Available for Sale securities, any appreciation or depreciation in value is aggregated within each sub-category and we provide for any net depreciation in value and ignore any net appreciation in value.

Gains or losses on the sale of investments are recognised in our profit and loss account. In addition, the amount of gain on the sale of Held to Maturity securities is appropriated to our capital reserve account.

Hedge and non-hedge (market making) transactions are recorded separately. Hedging derivatives are accounted for on an accrual basis. Trading derivative positions are marked-to-market, and the resulting losses or profits, if any, are recognised in our profit and loss account. Income and expenditure relating to interest rate swaps are recognised on the settlement date. Gains/losses on termination of trading swaps are recorded over the shorter of the remaining contractual life of the swap or the remaining life of the asset/liability as income/expenditure.

Our policies on provisioning and write-offs of non-performing assets are consistent with those prescribed by RBI guidelines. The size of our "floating" provision against non-performing assets, however, is determined by our management based on a number of factors, including our net profit position, tax benefits available, expectations and estimates regarding our asset portfolio and general prudential principles. As of March 31, 2004, we had an NPA provision coverage ratio of 64% for our non-performing assets at Rs. 23,468.4 million, as at March 31, 2005, we had an NPA provision coverage ratio of 67.62% for our non-performing assets of Rs. 20,581.5 million and as at September 30, 2005, we had an NPA provision coverage ratio of 68.56% for our non-performing assets of Rs. 20,040.5 million. Our provisioning policies are discussed in further detail in the section titled "Selected Statistical Information" on page 151 of this Red Herring Prospectus.

Segment Reporting

In line with RBI guidelines on compliance with Accounting Standard 17 - Segment Reporting issued by the Institute of Chartered Accountants of India, we have recognised business segments as our primary reporting segment and geographical segments as our secondary segment. We report Treasury Operations and Other Banking Operations as our two business segments.

Business Segments

For the six months ended September 30, 2005, revenue from our Treasury Operations comprised Rs. 10,838.5 million or 35.5% of our total revenue and our Other Banking Operations comprised Rs. 19,680.40 million or 64.5% of our total revenue. Set forth below is a table showing our revenue from our Treasury Operations and Other Banking Operations and total revenue for fiscal 2003, 2004 and 2005 and the six months ended September 30, 2004 and 2005.



(Rs. million)

	Fiscal 2003⁽²⁾	Fiscal 2004⁽²⁾	Fiscal 2005	Six months ended September 30, 2004	Six months ended September 30, 2005
Business Segment Revenue ⁽¹⁾:					
Treasury Operations	23,980.00	24,800.00	23,606. 80	12,004. 30	10,838. 50
Other Banking Operations	27,330.00	28,670.00	33,752.10	15,544. 30	19,680.40
Total Revenue	51,310.00	53,470.00	57,358.90	27,548.60	30,518. 90

(1) Segment revenue represents revenue from external customers.

(2) Published data is available only in crores, hence figures have been rounded off to the nearest million

Results of Operations

Six Months Ended September 30, 2005 Compared with the Six Months Ended September 30, 2004

Our total income increased by 10.8% from Rs. 27,548.6 million in the six months ended September 30, 2004 to Rs. 30,518.9 million in the six months ended September 30, 2005 and our total expenditure increased by 14.0% from Rs. 20,533.2 million in the six months ended September 30, 2004 to Rs. 23,417.5 million in the six months ended September 30, 2005. Our operating profit increased by 1.2% from Rs. 7,015.4 million in the six months ended September 30, 2004 to Rs. 7,101.5 million in the six months ended September 30, 2005. The operating profit and total income increased mainly due to higher interest on advances. Our net profit decreased by 28.4% from Rs. 4,210.7 million in the six months ended September 30, 2004 to Rs. 3,014.9 million in the six months ended September 30, 2005 due to a notional loss of Rs 2,354.7 million as a result of shifting securities from the Available For Sale to Held To Maturity category.

Net Interest Income

Our net interest income increased by 23.1% from Rs. 9,234.7 million in the six months ended September 30, 2004 to Rs. 11,370.3 million in the six months ended September 30, 2005. The following table sets forth the components of our net interest income:

	Six months ended September 30,	
	2004	2005
	(Rs. million)	
Interest income	23,589.2	27,779.5
Interest expense	14,354.5	16,409.2
Net interest income	9,234.7	11,370.3

The increase in net interest income from the six months ended September 30, 2004 to the six months ended September 30, 2005 was primarily due to a 17.8% increase in total interest income from Rs. 23,589.2 million in the six months ended September 30, 2004 to Rs. 27,779.5 million in the six months ended September 30, 2005, partially offset by a 14.3% increase in interest expense.

Net interest margin increased slightly from 3.12% in the six months ended September 30, 2004 to 3.19% in the six months ended September 30, 2005.



Interest Income

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

	Six months ended September 30,	
	2004	2005
	(Rs. million)	
Interest and Discount on advances/bills	13,319.6	17,449.8
Income on Investment	9,726.7	9,621.3
Interest on balance with RBI and other Inter Bank Lending	484.1	431.9
Interest on Income Tax Refund	-	240.5
Others	58.8	36.0
Total interest income	23,589.2	27,779.5

Interest and discount on advances and bills increased by 31.0% from Rs. 13,319.6 million in the six months ended September 30, 2004 to Rs. 17,449.8 million in the six months ended September 30, 2005, due to a 31.8% increase in our average advances from Rs. 319,749.3 million in the six months ended September 30, 2004 to Rs. 421,659.0 million in the six months ended September 30, 2005, partially offset by decrease in average yield from 8.33% to 8.28%. Income on investment decreased slightly from Rs. 9,726.7 million in the six months ended September 30, 2004 to Rs. 9,621.3 million in the six months ended September 30, 2005, although there was a 2.3% increase in our average investments from Rs. 238,422.7 million in the six months ended September 30, 2004 to Rs. 243,961.2 million in the six months ended September 30, 2005. The average yield fell from 8.16% in the six months ended September 30, 2004 to 7.89% in the six months ended September 30, 2005. The decrease in average yield was due to redeployment of funds in lower yielding securities, due to the lower interest rate environment, on sale and redemption of securities at maturity.

Interest on balances with the RBI and other inter-bank lending decreased by 10.8% from Rs. 484.1 million in the six months ended September 30, 2004 to Rs. 431.9 million in the six months ended September 30, 2005 because we reduced our volume of inter-bank deposits due to an increase in credit off-take.

Other interest includes interest on swaps and interest on other assets. Other interest decreased by 38.8% from Rs. 58.8 million in the six months ended September 30, 2004 to Rs. 36.0 million in the six months ended September 30, 2005 because of lower volumes.

Interest Expense

Our interest expense increased by 14.3% from Rs. 14,354.5 million in the six months ended September 30, 2004 to Rs. 16,409.2 million in the six months ended September 30, 2005, mainly due to an increase in volumes of average deposits. Our average deposits increased by 19.4% from Rs. 527,850.4 million in the six months ended September 30, 2004 to Rs. 630,465.2 million in the six months ended September 30, 2005. Our average cost of deposits declined from 5.12% in the six months ended September 30, 2004 to 4.78% in the six months ended September 30, 2005 due to re-pricing of deposits that matured during the period. Average cost of funds decreased from 4.66% in the six months ended September 30, 2004 to 4.48% in the six months ended September 30, 2005 also due to lower cost of deposits as mentioned above.

Our interest expense on RBI and other inter-bank borrowing increased by 2,763.4% from Rs. 14.6 million to Rs. 415.3 million due to an increase in volume of foreign borrowings.

Our other interest expense increased by 10.2% from Rs. 830.7 million in the six months ended September 30, 2004 to Rs. 915.2 million in the six months ended September 30, 2005. This was mainly due to the interest provision on the additional Tier II bonds of Rs. 4,500 million issued in February 2005.



Other Income

Our other income decreased by 30.8% from Rs. 3,959.4 million in the six months ended September 30, 2004 to Rs. 2,739.5 million in the six months ended September 30, 2005. The following table sets forth the components of our other income:

	Six months ended September 30,	
	2004	2005
	(Rs. million)	
Commission, Exchange and Brokerage	802.4	1,031.1
Profit on sale of investments (net)	1,678.9	545.7
Profit on sale of land, buildings and other assets (net)	(3.9)	(3.4)
Profit on exchange transaction (net)	717.9	656.7
Income earned by way of dividends, etc., from subsidiaries and associates	-	-
Miscellaneous Income	764.1	509.4
Total other income	3,959.4	2,739.5

Income from commissions, exchange and brokerage increased by 28.0% from Rs. 802.4 million in the six months ended September 30, 2004 to Rs. 1,031.1 million in the six months ended September 30, 2005. This increase was mainly due to increased business activity in this area.

Profit on the sale of investments decreased by 67.5% from Rs. 1,678.9 million in the six months ended September 30, 2004 to Rs. 545.7 million in the six months ended September 30, 2005. This was due to rise in yields, negatively impacting volumes in the market.

Net profit from foreign exchange transactions decreased by 8.5% from Rs. 717.9 million in the six months ended September 30, 2004 to Rs. 656.7 million in the six months ended September 30, 2005, due to lower margins and fewer trading opportunities.

Miscellaneous income includes recovery of bad debts previously written off, incidental charges such as account keeping fees and sundry charges. Miscellaneous income decreased by 33.3% from Rs. 764.1 million in the six months ended September 30, 2004 to Rs. 509.4 million in the six months ended September 30, 2005. This decrease was primarily due to a reduction in recovery in write off accounts, a reduction in miscellaneous earnings and the payment of service tax out of miscellaneous income.

Operating Expenses

Total operating expenses increased by 13.42% from Rs. 6,178.7 million in the six months ended September 30, 2004 to Rs. 7,008.3 million in the six months ended September 30, 2005. As a percentage of our total income, operating expenses increased to 23.0% in the six months ended September 30, 2005 compared with 22.4% in the six months ended September 30, 2004.

	Six months ended September 30,	
	2004	2005
	(Rs. million)	
Payment to and provision for employees	4,142.4	4,432.7
Rent, Taxes and Lighting	371.3	441.9
Printing and Stationery	96.0	87.6
Advertisement and publicity	46.4	90.2
Depreciation on Banks Properties (net of amounts adjusted against revaluation reserve)	310.5	426.1
Directors' Fees, Allowances and Expenses	2.0	1.6
Auditor's Fees and Expenses	50.0	57.1
Law Charges	27.5	23.0
Postage, Telegrams, Telephones, etc.	80.4	90.3
Repairs and Maintenance	101.2	135.9
Insurance	257.1	376.3
Other Expenditure	693.9	845.6
Total Operating Expenses	6,178.7	7,008.3



The primary component of our operating expenses was payments to and provision for employees, which increased by 7.0% from Rs. 4,142.4 million in the six months ended September 30, 2004 to Rs. 4,432.7 million in the six months ended September 30, 2005. This was primarily due to the effects of wage enhancements across all levels of employees of public sector banks. As a percentage of total income, payments to and provision for employees remained stable at 14.5% in the six months ended September 30, 2005 and 15% in the six months ended September 30, 2004. We had 25,309 employees as of September 30, 2004 and 25,609 employees as of September 30, 2005.

Our other expenditure includes, among others, traveling and conveyance expenses and stamp charges. Other expenditure increased by 21.9% from Rs. 693.9 million in the six months ended September 30, 2004 to Rs. 845.6 million in the six months ended September 30, 2005. This was primarily due to the stamp charges incurred on the issue of Tier II bonds, traveling expenses and expenditure on training staff.

Operating Profit

As a result of the foregoing factors, operating profit before provisions and contingencies increased by 1.2% from Rs. 7,015.4 million in the six months ended September 30, 2004 to Rs. 7,101.5 million in the six months ended September 30, 2005. As a percentage of total income, our operating profit decreased from 25.5% in the six months ended September 30, 2004 to 23.3% in the six months ended September 30, 2005.

Provisions and Contingencies

Provisions and contingencies made in the six months ended September 30, 2005 increased by 45.7% to Rs. 4,086.6 million compared with Rs. 2,804.7 million in the six months ended September 30, 2004. The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

	Six months ended September 30,	
	2004	2005
	(Rs. million)	
Provision for Non Performing Advances	1,170.0	436.5
Provision for Standard Advances	115.0	160.0
Depreciation on Investments	280.7	(182.3)
Provisions for Taxes	1,140.0	750.0
Others	99.0	2,922.4
Floating Provision for NPAs (in addition to norms)	-	-
Total provisions and contingencies.	2,804.7	4,086.6

Our provisioning in respect of non-performing assets decreased significantly from Rs. 1,170.0 million in the six months ended September 30, 2004 to Rs. 436.5 million in the six months ended September 30, 2005. This decrease was primarily due to our decision to reduce existing surplus (over RBI required) provisions.

Depreciation on investments decreased by Rs. 463.0 million, from Rs. 280.7 million in the six months ended September 30, 2004 to Rs. (182.3) million in the six months ended September 30, 2005 primarily due to recovery of investments, which were earlier, considered as NPAs.

Our provision for income, wealth and fringe benefit tax decreased significantly from provisions of Rs. 1,140.0 million in the six months ended September 30, 2004 to Rs. 750.0 million in the six months ended September 30, 2005, which was primarily due to lower profit for the period compared with the previous period.

Other provisions increased from Rs. 99.0 million in the six months ended September 30, 2004 to Rs. 2,922.4 million in the six months ended September 30, 2005 primarily due to provision of Rs. 2,350.3 million for notional loss on securities transferred from the Available For Sale category to the Held To Maturity category.

Net Profit

As a result of the foregoing factors our net profit decreased by 28.4% from Rs. 4,210.7 million in the six months ended September 30, 2004 to Rs. 3,014.9 million in the six months ended September 30, 2005. As a percentage of total income, our net profit decreased from 15.3% in the six months ended September 30, 2004 to 9.9% in the six months ended September 30, 2005.



Fiscal Year Ended March 31, 2005 Compared with the Fiscal Year Ended March 31, 2004

Our total income increased marginally from Rs. 53,477.7 million in fiscal 2004 to Rs. 57,358.9 million in fiscal 2005 and our total expenditure increased from Rs. 38,646.9 million in fiscal 2004 to Rs. 41,627.2 million in fiscal 2005. Our operating profit increased by 6.1% from Rs. 14,830.8 million in fiscal 2004 to Rs. 15,731.7 million in fiscal 2005. Our net profit increased by 1.0% from Rs. 7,120.5 million in fiscal 2004 to Rs. 7,190.6 million in fiscal 2005.

Our total income was higher in fiscal 2005 mainly on account of Rs. 4,539.0 million, or 18.8%, increase in interest earned on advances (including discounts on bills) from Rs. 24,146.7 million in fiscal 2004 to Rs. 28,685.7 million in fiscal 2005. Excluding interest earned on advances (including discounts on bills) for both periods, our total income would have decreased by 2.2%, mainly due to a 40.2% decrease in profit on sale of investments.

Net Interest Income

Our net interest income increased by 18.9% from Rs. 17,362.4 million in fiscal 2004 to Rs. 20,645.6 million in fiscal 2005. The following table sets forth the components of our net interest income:

	Year ended March 31,	
	2004	2005
	(Rs. million)	
Interest income	45,163.1	49,697.9
Interest expense	27,800.7	29,052.3
Net interest income	17,362.4	20,645.6

The increase in net interest income was primarily due to a 10.0% increase in total interest income, which was partially offset by a 4.5% increase in interest expense from Rs. 27,800.7 million in fiscal 2004 to Rs. 29,052.3 million in fiscal 2005. This increase was due to an 18.8% increase in interest and discount on advances/bills from Rs. 24,146.7 million in fiscal 2004 to Rs. 28,685.7 million in fiscal 2005.

Our average interest-earning assets increased by 17.2% from Rs. 504,243.6 million in fiscal 2004 to Rs. 591,114.0 million in fiscal 2005. Our net interest margin increased from 3.44% in fiscal 2004 to 3.49% in fiscal 2005, and our spread increased from Rs. 17,362.4 million in fiscal 2004 to Rs. 20,645.6 million in fiscal 2005.

Interest Income

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

	Year ended March 31,	
	2004	2005
	(Rs. million)	
Interest and Discount on advances/bills	24,146.7	28,685.7
Income on Investment	19,375.3	19,050.8
Interest on balance with RBI and other Inter Bank Lending	1,174.3	785.7
Interest on Income Tax	275.6	1070.0
Others	191.2	105.7
Total interest income	45,163.1	49,697.9

Interest and discount on advances and bills increased by 18.8% from Rs. 24,146.7 million in fiscal 2004 to Rs. 28,685.7 million in fiscal 2005, reflecting a 28.7% increase in average advances from Rs. 267,463.5 million in fiscal 2004 to Rs. 344,256.2 million in fiscal 2005. The increase in income from the increase in average advances was partially offset by reduction in average yield on advances from 9.03% in fiscal 2004 to 8.33% in fiscal 2005. The reduction in average yield was due to general decrease in market interest rates.

Income from investments decreased marginally from Rs. 19,375.3 million in fiscal 2004 to Rs. 19,050.8 million in fiscal 2005. Our average volume of investments increased by 7.9% from Rs. 215,372.3 million in fiscal 2004 to Rs. 232,408.1 million in fiscal 2005. Average yield on our investments decreased from 9.0% in fiscal 2004 to 8.2% in fiscal 2005, reflecting a general reduction in market interest rates.



Interest on balances with the RBI and other inter-bank lending decreased from Rs. 1,174.3 million in fiscal 2004 to Rs. 785.7 million in fiscal 2005. This was primarily due to a reduction in inter-bank lending and placements owing to an increase in credit off-take.

Interest Expense

Our interest expense increased by 4.4% from Rs. 27,800.7 million in fiscal 2004 to Rs. 29,052.3 million in fiscal 2005. This increase has been primarily due to an increase in our average deposits from Rs. 466,782.1 million in fiscal 2004 to Rs. 544,907.0 million in fiscal 2005. This however was offset by a fall in the average cost of deposit from 5.64% to 4.97%.

The fall in the average cost of deposits reflected a general decline in market interest rates and our focus on increasing the share of low cost deposits. The average cost of funds decreased from 5.19% in fiscal 2004 to 4.65% in fiscal 2005 due to repricing of deposits that matured during the period.

Our other interest expense, which consists mainly of interest on unsecured bonds for Tier-II capital, increased by 19.2% from Rs. 1,460.1 million in fiscal 2004 to Rs. 1,740.6 million in fiscal 2005, due to interest on Rs. 4,500 million of Tier II bonds issued in February 2005 and the payment of interest on Rs. 2,500 million of Tier II bonds issued in September 2003, which was provided for only in part in fiscal 2004.

Other Income

Our other income decreased by Rs. 653.6 million, or 7.9%, from Rs. 8,314.6 million in fiscal 2004 to Rs. 7,661.0 million in fiscal 2005. The following table sets forth the components of our other income:

	Year ended March 31,	
	2004	2005
	(Rs. million)	
Commission, Exchange and Brokerage	1,555.4	1,769.2
Profit on sale of investments (Net)	4,353.7	2,603.2
Profit on sale of land, buildings and other assets (Net)	(4.2)	(6.1)
Profit on exchange transaction (Net)	1,184.8	1,665.9
Income earned by way of dividends etc. from subsidiaries/companies/ joint ventures in India	-	-
Miscellaneous Income	1,224.9	1,628.8
Total other income	8,314.7	7,661.0

Net profit on the sale of investments decreased substantially from Rs. 4,353.7 million in fiscal 2004 to Rs. 2,603.2 million in fiscal 2005. This was due to a rise in yields in the latter half of fiscal 2005 negatively impacting volumes in the market and our ability to sell our investments profitably. Net profit from foreign exchange transactions increased from Rs. 1,184.8 million in fiscal 2004 to Rs. 1,665.9 million in fiscal 2005, mainly due to increased business activity in this area.

Our miscellaneous income includes incidental income from services charges, minimum balance charges, up front-fees and other account keeping fees and recovery of bad debts previously written off. Our miscellaneous income increased by 33.0% from Rs. 1,224.9 million in fiscal 2004 to Rs. 1,628.8 million in fiscal 2005. This was mainly due to an increase in incidental charges and processing charges for advances and an increase in recovery of written off accounts.



Operating Expenses

Total operating expenses increased from Rs. 10,846.2 million in fiscal 2004 to Rs. 12,574.9 million in fiscal 2005. As a percentage of our total income, operating expenses increased to 21.9% in fiscal 2005 compared with 20.3% in fiscal 2004. Set forth below are the details of our total operating expenses for fiscal 2004 and fiscal 2005.

	Year ended March 31,	
	2004	2005
	(Rs. million)	
Payment to and provision for employees	7,304.2	8,064.2
Rent, Taxes and Lighting	724.7	847.9
Printing and Stationery	180.3	199.4
Advertisement and publicity	146.4	252.1
Depreciation on Banks Properties (net of amounts adjusted against revaluation reserve)	502.9	732.9
Director's Fees, Allowances and Expenses	4.1	3.9
Auditor's Fees and Expenses	102.2	107.1
Law Charges	48.9	57.8
Postage, Telegrams, Telephones etc.	136.6	160.0
Repairs and Maintenance	159.5	219.2
Insurance	332.3	548.3
Other Expenditure	1,204.1	1,382.1
Total Operating Expenses	10,846.2	12,574.9

The primary component of our operating expenses was payments to and provision for employees, which increased by 10.4%, from Rs. 7,304.2 million in fiscal 2004 to Rs. 8,064.2 million in fiscal 2005. This increase was primarily due to an increase in provisions for terminal (on retirement) benefits. As a percentage of total income, payments to and provision for employees increased to 14.1% in fiscal 2005 from 13.7% in fiscal 2004. We had 25,630 employees as of March 31, 2004 and 25,645 employees as of March 31, 2005.

Depreciation expenses on our property (our fixed assets, including furniture, fixtures and computers) increased by 45.7% from Rs. 502.9 million in fiscal 2004 to Rs. 732.9 million in fiscal 2005. Depreciation expenses were primarily affected by an increase in expenditure on computer hardware and software in fiscal 2005.

Insurance expenses increased by 65.0% from Rs. 332.3 million in fiscal 2004 to Rs. 548.3 million in fiscal 2005, mainly due to an increase in the volume of deposits and partly due to enhanced rate of charges.

Other expenditure increased by 14.7% from Rs. 1,204.1 million in fiscal 2004 to Rs. 1,381.2 million in fiscal 2005. The primary reason for this increase was an increase in traveling and conveyance expenditure in line with the general increase in business activity during the period.

Operating Profit

As a result of the foregoing factors, our operating profit before provisions and contingencies increased from Rs. 14,830.8 million in fiscal 2004 to Rs. 15,731.7 million in fiscal 2005. As a percentage of total income, our operating profit decreased from 27.7% in fiscal 2004 to 27.4% in fiscal 2005. Excluding the profit on the sale of investments in both periods, our operating profit before provisions and contingencies would have increased by 25.3% in fiscal 2005 compared with fiscal 2004.



Provisions and Contingencies

Provisions and contingencies made in fiscal 2005 increased by 10.8% from Rs. 7,710.3 million in fiscal 2004 to Rs. 8,541.1 million in fiscal 2005. The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

	Year ended March 31,	
	2004	2005
	(Rs. million)	
Provision for Non Performing Advances	6,436.1	2,164.6
Provision for Standard Advances	100.0	257.5
Depreciation on Investments	(254.5)	225.9
Provisions for Income Tax	1,079.8	(1,074.7)
Provision for Restructured Standard Accounts	-	-
Others	348.9	6967.8
Floating Provision for NPAs (in addition to norms)	-	-
Total provisions and contingencies.	7,710.3	8,541.1

Our provisioning in respect of non-performing assets decreased by 66.4% from Rs. 6,436.1 million in fiscal 2004 to Rs. 2,164.6 million in fiscal 2005. This decrease was due to our decision to reduce existing surplus (over RBI required) provisions.

Our provisioning for depreciation on investments was Rs. 225.9 million in fiscal 2005, as against Rs. 254.5 million written back in fiscal 2004. The provision for depreciation in investments in fiscal 2005 was required because of depreciation in value of our investments owing to rise in yields.

In fiscal 2005, we allocated an amount of Rs. 700 million towards provisions for income tax, however excess provisions for income tax made in the earlier fiscal years were written back. Similarly in fiscal 2004, our allocation towards provision for income tax was Rs. 2,133 million; however, after write-backs for deferred tax the provision for income tax came to Rs. 1,079.8 million.

Our other provisions increased significantly from Rs. 348.9 million in fiscal 2004 to Rs. 6,967.8 million in fiscal 2005. This increase was due to provision of Rs 5,454.7 million made for notional loss on securities transferred from the Available For Sale category to Held To Maturity category.

Net Profit

As a result of the foregoing factors, our net profit increased from Rs. 7,120.5 million in fiscal 2004 to Rs. 7,190.6 million in fiscal 2005. As a percentage of total income, our net profit decreased from 13.3% in fiscal 2004 to 12.5% in fiscal 2005.

Fiscal Year Ended March 31, 2004 compared with the Fiscal Year Ended March 31, 2003

Our total income increased by 4.2% from Rs. 51,307.4 million in fiscal 2003 to Rs. 53,477.7 million in fiscal 2004, and our total expenditure increased slightly by 1.0% from Rs. 38,268.2 million in fiscal 2003 to Rs. 38,646.9 million in fiscal 2004. Our operating profit increased by 13.7% from Rs. 13,039.2 million in fiscal 2003 to Rs. 14,830.8 million in fiscal 2004. Our net profit increased by 28.8% from Rs. 5,526.9 million in fiscal 2003 to Rs. 7,120.5 million in fiscal 2004.

Our total income was higher in fiscal 2004 primarily because of an increase in interest income from investments from Rs. 18,134.5 million in fiscal 2003 to Rs. 19,375.3 million in fiscal 2004.

Net Interest Income

Our net interest income increased by 15.9% from Rs. 14,976.8 million in fiscal 2003 to Rs. 17,362.4 million in fiscal 2004. The following table sets forth the components of our net interest income:

	Year ended March 31,	
	2003	2004
	(Rs. million)	
Interest income	43,061.8	45,163.1
Interest expense	28,085.0	27,800.7
Net interest income	14,976.8	17,362.4



The increase in net interest income was primarily due to a 6.8% increase in interest income from investments.

Our average interest earning assets increased by 15.9% from Rs. 435,051.1 million in fiscal 2003 to Rs. 504,243.6 million in fiscal 2004. Our net interest margin remained the same at 3.44% in fiscal 2003 and in fiscal 2004 and our spread increased from Rs. 14,976.8 million in fiscal 2003 to Rs. 17,362.4 million in fiscal 2004.

Interest Income

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

	Year ended March 31,	
	2003	2004
	(Rs. million)	
Interest and Discount on advances/bills	23,461.9	24,146.7
Income on Investment	18,134.5	19,375.3
Interest on balance with RBI and other Inter Bank Lending	1,296.5	1,174.3
Interest on Income Tax	-	275.6
Others	168.9	191.2
Total interest income	43,061.8	45,163.1

Interest and discount on advances and bills increased by 2.9% from Rs. 23,461.9 million in fiscal 2003 to Rs. 24,146.7 million in fiscal 2004, due to a 14.2% increase in our average advances from Rs. 234,124.1 million in fiscal 2003 to Rs. 267,463.5 million in fiscal 2004. This increase was offset by a decrease in the average yield on our advances from 10.02% in fiscal 2003 to 9.03% in fiscal 2004. This decrease was due to market conditions.

Investment income increased by 6.8% from Rs. 18,134.5 million in fiscal 2003 to Rs. 19,375.3 million in fiscal 2004. Our average volume of investments increased by 21.0% from Rs. 177,615.2 million in fiscal 2003 to Rs. 215,372.3 million in fiscal 2004 because slow credit resulted in excess funds being invested. Average yield on our investments decreased from 10.2% in fiscal 2003 to 9.0% in fiscal 2004, reflecting a decline in market rates of interest.

Interest on balances with the RBI and other inter-bank lending decreased by 9.4% from Rs. 1,296.5 million in fiscal 2003 to Rs. 1,174.3 million in fiscal 2004, reflecting a decline in interest rates.

Interest Expense

Our interest expense decreased from Rs. 28,085.0 million in fiscal 2003 to Rs. 27,800.7 million in fiscal 2004, mainly due to reduction in interest paid on deposits. Interest paid on deposits decreased slightly from Rs. 26,924.4 million in fiscal 2003 to Rs. 26,309.9 million in fiscal 2004. Our total deposits increased by 13.0% from Rs. 447,486.2 million in fiscal 2003 to Rs. 505,589.2 million in fiscal 2004. Our average cost of deposits declined from 6.46% in fiscal 2003 to 5.64% in fiscal 2004 due to repricing of matured deposits. Average cost of funds decreased from 6.00% in fiscal 2003 to 5.19% in fiscal 2004 mainly due to the decline in the average cost of deposits.

Our other interest expense increased from Rs. 1,084.6 million in fiscal 2003 to Rs. 1,460.1 million in fiscal 2004 mainly due to our issuance of Rs. 2,500.00 million in Tier-II bonds and the payment of interest thereon.

Other Income

Our other income increased by 0.8% from Rs. 8,245.6 million in fiscal 2003 to Rs. 8,314.6 million in fiscal 2004. The following table sets forth the components of our other income:

	Year ended March 31,	
	2003	2004
	(Rs. million)	
Commission, Exchange Brokerage	1,425.3	1,555.4
Profit on sale of investments (Net)	4,751.4	4,353.7
Profit on sale of land, building and other assets (Net)	(3.3)	(4.2)
Profit on exchange transaction (Net)	997.3	1,184.8
Income earned by way of dividends, etc., from subsidiaries/companies/ associates	-	-
Miscellaneous Income	1,074.9	1,224.9
Total other income	8,245.6	8,314.6



Net profit on the sale of investments decreased by 8.4% from Rs. 4,751.4 million in fiscal 2003 to Rs. 4,353.7 million in fiscal 2004. This was due to a rise in yield and lower trading volumes.

Net profit from foreign exchange transactions increased by 18.8% from Rs. 997.3 million in fiscal 2003 to Rs. 1,184.8 million in fiscal 2004. This increase was due to more business activity in this area.

Miscellaneous income increased by 14.0% from Rs. 1,074.9 million in fiscal 2003 to Rs. 1,224.9 million in fiscal 2004. This increase was mainly due to an increase in processing charges and recovery in written-off accounts.

Operating Expenses

Total operating expenses increased from Rs. 10,183.2 million in fiscal 2003 to Rs. 10,846.2 million in fiscal 2004. As a percentage of our total income, operating expenses decreased to 19.8% in fiscal 2004 compared with 20.3% in fiscal 2003.

	Year ended March 31,	
	2003	2004
	(Rs. million)	
Payment to and provision for employees	6,892.3	7,304.2
Rent, Taxes and Lighting	653.1	724.7
Printing and Stationery	158.9	180.3
Advertisement and publicity	102.6	146.4
Depreciation on Banks Properties (net of amounts adjusted against revaluation reserve)	518.6	502.9
Director's Fees, Allowances and Expenses	3.3	4.1
Auditor's Fees and Expenses	83.8	102.2
Law Charges	57.8	48.9
Postage, Telegrams, Telephones etc.	103.9	136.6
Repairs and Maintenance	144.1	159.5
Insurance	272.1	332.3
Other Expenditure	1,192.7	1,204.1
Total Operating Expenses	10,183.2	10,846.2

The primary component of our operating expenses was payments to and provision for employees, which increased from Rs. 6,892.3 million in fiscal 2003 to Rs. 7,304.2 million in fiscal 2004. As a percentage of total income, payments to and provision for employees increased slightly from 13.4% in fiscal 2003 to 13.7% in fiscal 2004. The increase was due to our increased contribution to retirement benefits of employees. We had 25,706 employees as of March 31, 2003 and 25,630 employees as of March 31, 2004.

Expenses for advertising and publicity increased by 42.7% from Rs. 102.6 million in fiscal 2003 to Rs. 146.4 million in fiscal 2004. This increase was mainly due to our image-building advertising promotion and also because of our introduction of new products and services.

Expenses for insurance increased by 22.1% from Rs. 272.1 million in fiscal 2003 to Rs. 332.3 million in fiscal 2004. This increase was mainly due to an increase in the volume of deposits.

Other expenditure remained stable at Rs. 1,192.7 million in fiscal 2003 to Rs. 1,204.1 million in fiscal 2004.

Operating Profit

Due to the factors described above, operating profit before provisions and contingencies increased by 13.7% from Rs. 13,039.2 million in fiscal 2003 to Rs. 14,830.8 million in fiscal 2004. As a percentage of total income, our operating profit increased from 25.4% in fiscal 2003 to 27.7% in fiscal 2004.



Provisions and Contingencies

Provisions and contingencies made in fiscal 2004 increased by 2.6% to Rs. 7,710.3 million compared with Rs. 7,512.3 million in fiscal 2003. The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

	Year ended March 31,	
	2003	2004
	(Rs. million)	
Provision for Non Performing Advances	4174.8	6,436.1
Provision for Standard Advances	100.0	100.0
Depreciation on Investments	(90.4)	(254.5)
Provisions for Income Tax	2,763.0	1,079.8
Provision for Restructured Standard Accounts	-	-
Others	564.9	348.9
Floating Provision for NPAs (in addition to norms)	-	-
Total provisions and contingencies	7,512.3	7,710.3

Our provisioning in respect of non-performing assets increased by 54.2% from Rs. 4,174.8 million in fiscal 2003 to Rs. 6,436.1 million in fiscal 2004. This was due to our decision to increase the NPA coverage from 47.3% as at March 31, 2003 to 64% as on March 31, 2004.

Our other provisions decreased from Rs. 564.9 million in fiscal 2003 to Rs. 348.9 million in fiscal 2004.

Our provision for income tax decreased by 60.9% from Rs. 2,763.0 million in fiscal 2003 to Rs. 1,079.8 million in fiscal 2004 due to a write-back of deferred tax of Rs.1, 053.2 million.

Net Profit

As a result of the foregoing factors, our net profit increased by 28.8% from Rs. 5,526.9 million in fiscal 2003 to Rs. 7,120.5 million in fiscal 2004. As a percentage of total income, our net profit increased from 10.8% in fiscal 2003 to 13.3% in fiscal 2004.

Fiscal Year Ended March 31, 2003 compared with the Fiscal Year Ended March 31, 2002

Our total income increased by 13.9% from Rs. 45,020.2 million in fiscal 2002 to Rs. 51,307.4 million in fiscal 2003, and our total expenditure increased slightly by 5.0% from Rs. 36,455.8 million in fiscal 2002 to Rs. 38,268.2 million in fiscal 2003. Our operating profit increased by 52.2% from Rs. 8,564.4 million in fiscal 2002 to Rs. 13,039.2 million in fiscal 2003. Our net profit increased by 83.4% from Rs. 3,013.3 million in fiscal 2002 to Rs. 5,526.9 million in fiscal 2003.

Our total income was higher in fiscal 2003 primarily on account of (i) a Rs. 1,775.5 million increase in the interest earned on advances (including discounts on bills) from Rs. 21,686.4 million in fiscal 2002 to Rs. 23,461.9 million in fiscal 2003, (ii) a Rs. 1,389.4 million increase in income earned on investments from Rs. 16,745.1 million in fiscal 2002 to Rs. 18,134.5 million in fiscal 2003, and (iii) a Rs. 3,153.1 million increase in profit on sale of investments from Rs. 1,598.3 million in fiscal 2002 to Rs. 4,751.4 million in fiscal 2003.

Net Interest Income

Our net interest income increased by 12.0% from Rs. 13,366.4 million in fiscal 2002 to Rs. 14,976.8 million in fiscal 2003. The following table sets forth the components of our net interest income:

	Year ended March 31,	
	2002	2003
	(Rs. million)	
Interest income	40,156.8	43,061.8
Interest expense	26,790.4	28,085.0
Net interest income	13,366.4	14,976.8

The increase in net interest income was primarily due to a 7.2% increase in total interest income, which was partially offset by a 4.8% increase in interest expenses from Rs. 26,790.4 million in fiscal 2002 to Rs. 28,085.0 million in fiscal 2003.



Our average interest earning assets increased by 14.5% from Rs. 380,050.4 million in fiscal 2002 to Rs. 435,051.1 million in fiscal 2003, which further increased by 15.9% to Rs. 504,243.6 million in fiscal 2004. Our net interest margin was 3.31% in fiscal 2002, which increased to 3.44% in fiscal 2003. Our spread increased from Rs. 13,366.4 million in fiscal 2002 to Rs. 14,976.8 million in fiscal 2003.

Interest Income

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

	Year ended March 31,	
	2002	2003
	(Rs. million)	
Interest and discount on advances/bills	21,686.4	23,461.9
Income on investment	16,745.1	18,134.5
Interest on balance with RBI and other inter-bank lending	1,537.1	1,296.5
Interest on income tax	101.5	-
Others	86.7	168.9
Total interest income	40,156.8	43,061.8

Interest and discount on advances and bills increased by 8.2% from Rs. 21,686.4 million in fiscal 2002 to Rs. 23,461.9 million in fiscal 2003 as a result of 18.24% increase in our average advances from Rs. 198,006.0 million in fiscal 2002 to Rs. 234,124.1 million in fiscal 2003. This increase was offset by a decrease in the average yield on our advances from 10.95% in fiscal 2002 to 10.02% in fiscal 2003. This decrease was due to market conditions.

Investment income increased by 8.3% from Rs. 16,745.1 million in fiscal 2002 to Rs. 18,134.5 million in fiscal 2003. Our average volume of investments increased by 16.14% from Rs. 152,927.9 million in fiscal 2002 to Rs. 177,615.2 million in fiscal 2003. Average yield on our investments decreased from 11.0% in fiscal 2002 to 10.2% in fiscal 2003, reflecting a decline in market rates of interest.

Interest on balances with the RBI and other inter-bank lending decreased by 15.7% from Rs. 1,537.1 million in fiscal 2002 to Rs. 1,296.5 million in fiscal 2003, reflecting a decline in interest rates.

Interest Expense

Our interest expense increased from Rs. 26,790.4 million in fiscal 2002 to Rs. 28,085.0 million in fiscal 2003, mainly due to increase in our average deposits from Rs. 365,986.3 million in fiscal 2002 to Rs. 417,055.3 million in fiscal 2003. Interest paid on deposits increased slightly from Rs. 25,730.4 million in fiscal 2002 to Rs. 26,924.4 million in fiscal 2003. Our total deposits increased by 12.5% from Rs. 397,938.7 million in fiscal 2002 to Rs. 447,486.2 million in fiscal 2003. Our average cost of deposits declined from 7.03% in fiscal 2002 to 6.46% in fiscal 2003 due to a general decline in market interest rates and our focus on increasing the share of low cost deposits. Average cost of funds decreased from 6.65% in fiscal 2002 to 6.00% in fiscal 2003 mainly due to the decline in the average cost of deposits.

Our other interest expense increased from Rs. 869.6 million in fiscal 2002 to Rs. 1,084.6 million in fiscal 2003 mainly due to increase in interest on unsecured bonds for Tier II Capital raised in fiscal 2003.

Other Income

Our other income increased by 69.5% from Rs. 4,863.4 million in fiscal 2002 to Rs. 8,245.6 million in fiscal 2003. The following table sets forth the components of our other income:

	Year ended March 31,	
	2002	2003
	(Rs. million)	
Commission, Exchange Brokerage	1,291.8	1,425.3
Profit on sale of investments (Net)	1,598.3	4,751.4
Profit on sale of land, building and other assets (Net)	(3.6)	(3.3)
Profit on exchange transaction (Net)	1,143.7	997.3
Income earned by way of dividends, etc., from subsidiaries/ companies/associates	-	-
Miscellaneous Income	833.2	1,074.9
Total other income	4,863.4	8,245.6



Net profit on the sale of investments increased by 197.3% from Rs. 1,598.3 million in fiscal 2002 to Rs. 4,751.4 million in fiscal 2003. This was due to a declining interest rate and higher trading volumes.

Net profit from foreign exchange transactions decreased by 12.8% from Rs. 1,143.7 million in fiscal 2002 to Rs. 997.3 million in fiscal 2003. This decrease was due to lower business activity in this area.

Miscellaneous income increased by 29.0% from Rs. 833.2 million in fiscal 2002 to Rs. 1,074.9 million in fiscal 2003. This increase was mainly due to increase in incidental charges by Rs. 87.7 million, increase in processing charges on advances by Rs. 76.4 million and increase in Safe Deposit Vault Rent by Rs. 13.7 million.

Operating Expenses

Total operating expenses increased from Rs. 9,665.4 million in fiscal 2002 to Rs. 10,183.2 million in fiscal 2003. As a percentage of total income, operating expenses decreased to 19.8% in fiscal 2003 compared with 21.5% in fiscal 2002.

	Year ended March 31,	
	2002	2003
	(Rs. million)	
Payment to and provision for employees	6,866.5	6,892.3
Rent, Taxes and Lighting	575.7	653.1
Printing and Stationery	141.3	158.9
Advertisement and publicity	89.2	102.6
Depreciation on Banks Properties (net of amounts adjusted against revaluation reserve)	441.6	518.6
Director's Fees, Allowances and Expenses	1.5	3.3
Auditor's Fees and Expenses	72.3	83.8
Law Charges	38.7	57.8
Postage, Telegrams, Telephones etc.	95.0	103.9
Repairs and Maintenance	114.3	144.1
Insurance	224.8	272.1
Other Expenditure	1,004.5	1,192.7
Total Operating Expenses	9,665.4	10,183.2

The primary component of our operating expenses was payments to and provision for employees, which increased from Rs. 6,866.5 million in fiscal 2002 to Rs. 6,892.3 million in fiscal 2003. As a percentage of total income, payments to and provision for employees decreased slightly from 15.3% in fiscal 2002 to 13.4% in fiscal 2003. The decrease was due to higher growth in total income. We had 25,822 employees as of March 31, 2002 and 25,706 employees as of March 31, 2003.

Expenses for advertising and publicity increased by 15.0% from Rs. 89.2 million in fiscal 2002 to Rs. 102.6 million in fiscal 2003. This increase was mainly due to publicity expenses for the Initial Public Offering of the Bank launched in fiscal 2003.

Expenses for insurance increased by 21.0% from Rs. 224.8 million in fiscal 2002 to Rs. 272.1 million in fiscal 2003. This increase was mainly due to increase in the volume of deposits.

Other expenditure marginally increased from Rs. 1,004.5 million in fiscal 2002 to Rs. 1,192.7 million in fiscal 2003.

Operating Profit

Due to the factors described above, operating profit before provisions and contingencies increased by 52.2% from Rs. 8,564.4 million in fiscal 2002 to Rs. 13,039.2 million in fiscal 2003. As a percentage of total income, our operating profit increased from 19.0% in fiscal 2002 to 25.4% in fiscal 2003.



Provisions and Contingencies

Provisions and contingencies made in fiscal 2003 increased by 35.3% to Rs. 7,512.3 million compared with Rs. 5551.1 million in fiscal 2002. The following table sets forth, for the periods indicated, the components of our provisions and contingencies:

	Year ended March 31,	
	2002	2003
	(Rs. million)	
Provision for Non Performing Advances	3,216.0	4174.8
Provision for Standard Advances	112.5	100.0
Depreciation on Investments	164.6	(90.4)
Provisions for Income Tax	1,420.0	2,763.0
Provision for Restructured Standard Accounts	-	-
Others	638.0	564.9
Floating Provision for NPAs (in addition to norms)	-	-
Total provisions and contingencies	5,551.1	7,512.3

Our provisioning in respect of non-performing assets increased by 29.8% from Rs. 3,216.0 million in fiscal 2002 to Rs. 4,174.8 million in fiscal 2003. This was due to our decision to increase the NPA coverage from 43.84% as at March 31, 2002 to 47.3% as on March 31, 2003.

Our other provisions decreased from Rs. 638.0 million in fiscal 2002 to Rs. 564.9 million in fiscal 2003.

Our provision for income tax increased by 94.6% from Rs. 1,420.0 million in fiscal 2002 to Rs. 2,763.0 million in fiscal 2003 due to increase in operating profit by 52.2% from Rs. 8,564.4 million in fiscal 2002 to Rs. 13,039.2 million in fiscal 2003 and also providing of Net Deferred Tax Liability amounting to Rs. 385.6 million.

Net Profit

As a result of the foregoing factors, our net profit increased by 83.4% from Rs. 3,013.3 million in fiscal 2002 to Rs. 5,526.9 million in fiscal 2003. As a percentage of total income, our net profit increased from 6.7% in fiscal 2002 to 10.8% in fiscal 2003.

Liquidity and Capital Resources

Our growth over the last three fiscal years and the six months ended September 30, 2005 has been financed by a combination of cash generated from operations, increases in our customer deposits and borrowings.

The table below sets forth our cash flows from operations, cash flows from investment activities, cash flows from financing activities and net changes in cash and cash equivalents for the periods indicated:

(Rs. million)

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Six months ended September 30, 2004	Six months ended September 30, 2005
Cash Flow from Operations	(14,176.1)	1,218.8	27,302.9	(572.4)	(20,702.7)
Cash Flow from Investment Activities	(585.4)	(838.2)	(1,279.1)	(472.1)	(264.0)
Cash Flow from Financing Activities	4,699.8	(897.7)	1,216.7	(1,650.3)	6,348.0
Net Changes in Cash and Cash Equivalents	(10,061.7)	(517.1)	27,240.5	(2,694.8)	(14,618.7)

Cash Flows from Operations

Our net cash from operating activities was Rs. (14,176.1) million, Rs. 1,218.8 million and Rs. 27,302.9 million, in fiscal 2003, 2004 and 2005, respectively, and Rs. (572.4) million and Rs. (20,702.7) million in the six months ended September 30, 2004 and 2005, respectively.



Our net cash from operating activities reflects interest received during the period from advances and investments and other income and non-cash charges such as depreciation and provisions (mainly for non-performing and standard assets) made during the period, as well as adjustments for cash charges. In addition, our net cash from operating activities reflects changes in operating assets and liabilities, including investments, advances, deposits and borrowings, as well as other assets and liabilities. Change in borrowings reflects only short-term borrowings and not Tier II Bonds, which are included in cash flows from financing activities. The table below sets cash flows from cash profits, deposits, investments and advances for the periods indicated. We believe that these are the material line items to explain changes in our cash flow from operations.

(Rs. million)

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Six months ended September 30, 2004	Six months ended September 30, 2005
Cash Profits	7,317.8	7,941.9	8,709.4	5,033.1	3,884.6
Deposits	49,547.6	58,103.0	112,716.6	50,938.3	68,421.4
Investments	(39,611.0)	(30,712.5)	(3,507.6)	(10,186.0)	(25,136.9)
Advances	(41,315.3)	(39,110.8)	(106,791.7)	(47,004.8)	(60,184.4)

Cash Flows from Investment Activities

Our net cash flow from investing activities was Rs. (585.4) million, Rs. (838.2) million and Rs. (1,279.1) million in fiscal 2003, 2004 and 2005, respectively. Net cash flow from investing activities was Rs. (472.1) million and Rs. (264.0) million for the six months ended September 30, 2004 and 2005, respectively.

Our net cash used in investing activities reflects investments consisting of the purchase and sale of fixed assets.

Cash Flows from Financing Activities

Our net cash from financing activities was Rs. 4,699.8 million, Rs. (897.7) million and Rs. 1,216.7 million, in fiscal 2003, 2004 and 2005, respectively, and Rs. (1,650.3) million and Rs. 6,348.0 million for the six months ended September 30, 2004 and 2005, respectively. Our net cash from financing activities fluctuated primarily due to our initial public offering of equity share issue in fiscal 2003 and the payment of dividends and corporate tax related to dividends and interest on our Tier II Bonds. Our net cash from financing activities reflects cash received from the issuance of our Tier II Bonds and our equity share issue in fiscal 2003. We issued Rs. 4,000 million, Rs. 2,500 million and Rs. 4,500 million of Tier II Bonds in fiscal 2003, 2004 and 2005, respectively.

Capital

We are subject to the capital adequacy requirements of the RBI, which are primarily based on the capital adequacy accord reached by the Basel Committee of the Bank of International Settlements in 1988. We are required to maintain a minimum ratio of total capital to risk adjusted assets as determined by a specified formula of 9.0%, at least half of which must be Tier I capital.

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

	As of			
	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
	(Rs. million, except percentages)			
Tier I capital	17,570.8	20,572.9	25,661.2	28,735.4
Tier II capital	14,214.3	18,583.6	25,437.3	23,124.2
Total capital	31,785.1	39,156.5	51,098.5	54,609.6
Total risk weighted assets and contingents	256,196.7	317,763.8	422,660.6	493,550.8
Capital adequacy ratios:				
Tier I	6.86%	6.47%	6.07%	5.82%
Tier II	5.55%	5.85%	6.02%	4.69%
Total capital ratio	12.41%	12.32%	12.09%	10.51%
Minimum capital ratios required by the RBI:				
Tier I	4.50%	4.50%	4.50%	4.50%
Total capital ratio	9.00%	9.00%	9.00%	9.00%



As shown above, our total capital adequacy ratio was 12.41% as of March 31, 2003, 12.32% as of March 31, 2004, 12.09% as of March 31, 2005 and 10.51% as of September 30, 2005. As at September 30, 2005 if the Bank includes Investment Fluctuation Reserve in its Tier I capital then the total CAR shall increase to 11.06%. We have been able to maintain the required Capital Adequacy Ratio (CAR) prescribed by the RBI. During fiscal 2004 and 2005, the CAR reduced due to an increase in advances and lower plough back of profit due to notional loss provision of Rs. 5,454.7 million as a result of shifting securities from Available For Sale to Held to Maturity. We are consistently reviewing our portfolio mix to maximise our return as well as to maintain the required CAR. Our CAR as of September 30, 2005 decreased due to the lower available profit owing to the notional loss of Rs 2,354.7 million as a result of shifting securities from Available For Sale to Held To Maturity, partially offset by the issuance of Rs. 8,000.0 million of Tier II Bonds in September 2005.

The RBI has also initiated the phased implementation of Basel II norms. Implementation of market risk will be completed within two years from the year ended March 31, 2005 and the credit risk and operational risk with effect from March 31, 2007.

Financial Condition

Our net worth, which we define as our total assets less our total liabilities, increased by 25.6% from Rs. 20,720.8 million as of March 31, 2003 to Rs. 26,024.6 million as of March 31, 2004, and increased by 20.6% to Rs. 31,394.4 million as of March 31, 2005. Our net worth as of September 30, 2005 was Rs. 34,409.3 million.

Assets

The following table sets forth the principal components of our assets as at March 31, 2003, March 31, 2004, March 31, 2005 and September 30, 2005, as restated:

	As at			
	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
	(Rs. million)			
Cash in hand (including foreign currency notes)	1,628.3	1,525.5	1,697.6	1,700.0
Balance with the RBI	20,844.1	22,474.8	34,774.1	31,535.5
Balance with banks in India	13,377.1	8,953.3	11,246.0	8,652.4
Balance with banks outside India	3,146.8	2,075.6	8,102.2	1,088.4
Money at call and short notice	0	3,450.0	9,899.7	8,124.7
Investments (Net)	193,707.9	229,462.5	227,927.9	253,064.8
Total advances	255,148.5	289,217.0	401,050.8	461,235.3
Fixed Assets (net of revaluation reserve)	2,385.4	2,860.6	3,487.9	3,363.7
Other Assets	15,419.3	18,300.7	21,196.3	22,010.2
Total Assets	505,657.4	578,320.0	719,382.5	790,775.0

Our total assets increased by 14.4% from Rs. 505,657.4 million as of March 31, 2003 to Rs. 578,320.0 million as of March 31, 2004, and further increased by 24.4% to Rs. 719,382.5 million as of March 31, 2005. Our total assets as of September 30, 2005 were Rs.790,775.0 million. The most significant elements of these changes were increase in investments and advances as a result of a general increase in our business activities.

Our net investments increased by 18.5% from Rs. 193,707.9 million as of March 31, 2003 to Rs. 229,462.5 million as of March 31, 2004, and decreased slightly by 0.7% to Rs. 227,927.9 million as of March 31, 2005. Our net investments as of September 30, 2005 were Rs. 253,064.8 million. Of our investment portfolio in India as of September 30, 2005, 72.5% consisted of securities issued by the Government of India and state governments, compared with 72.2%, 69.4% and 69.5% as of March 31, 2003, 2004 and 2005, respectively.

Our advances increased by 13.4% from Rs. 255,148.5 million as of March 31, 2003, to Rs. 289,217.0 million as of March 31, 2004, and further increased by 38.7% to Rs. 401,050.8 million as of March 31, 2005. Our advances as of September 30, 2005 were Rs.461,235.3 million. The reasons for these increases in our advances were improved credit off take in the market together with our focus on credit growth.

Other assets, which included interest accrued, tax paid, tax deducted at source, stationery and stamps and non banking assets acquired in satisfaction of claims, increased by 18.7% from Rs. 15,419.3 million as of March 31, 2003 to Rs. 18,300.7 million as of March 31, 2004, and increased by 15.8% to Rs. 21,196.3 million as of March 31, 2005. Our other assets as of



September 30, 2005 were Rs. 22,010.2 million. Our gross non-performing assets decreased from Rs. 23,876.1 million as of March 31, 2003, to Rs. 23,468.4 million as of March 31, 2004, and decreased to Rs. 20,581.5 million as of March 31, 2005, or, as a percentage of gross advances were 8.96%, 7.71% and 5.01%, respectively. Our gross non-performing assets as of September 30, 2005 were Rs. 20,040.5 million or 4.22% as a percentage of gross advances. The reduction in gross NPAs was due to our concerted efforts to reduce NPAs, due to the recovery of NPAs and the writing off of NPAs during the periods.

Our net NPAs to net advances ratio was 4.91% as of March 31, 2003, 2.87% as of March 31, 2004, 2.64% as of March 31, 2005 and 1.37% as of September 30, 2005. Our provisions for reductions of NPAs were Rs. 4,174.8 million as of March 31, 2003, Rs. 6,436.1 million as of March 31, 2004, Rs. 2,164.6 million as of March 31, 2005 and Rs. 436.5 million as of September 30, 2005. Our net NPAs as of September 30, 2005 were Rs. 6,300.3 million.

See the section titled “Selected Statistical Information” on page 151 of this Red Herring Prospectus for a further discussion of our non-performing assets.

Liabilities

The following table sets forth the principal components of our liabilities as at March 31, 2003, March 31, 2004, March 31, 2005 and September 30, 2005:

	As at			
	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
	(Rs. million)			
Demand deposits from banks	1,364.4	1,490.4	2,367.1	5,147.0
Demand deposits from others	48,998.0	48,548.6	47,734.2	51,006.9
Savings deposits	111,716.7	130,842.8	151,971.2	166,251.2
Term deposits from banks	7,644.7	7,805.4	11,151.0	13,244.2
Term deposits from others	277,762.4	316,902.1	405,082.3	451,078.1
Total deposits	447,486.2	505,589.4	618,305.8	686,727.4
Borrowings	4,420.7	9,342.4	20,219.6	17,552.1
Other liabilities and provisions	33,029.7	37,363.6	49,472.7	52,086.2
Subordinate debts	-	-	-	-
Total liabilities	484,936.6	552,295.4	687,988.1	756,365.7

Our total liabilities increased by 13.9% from Rs. 484,936.6 million as of March 31, 2003 to Rs. 552,295.2 million as of March 31, 2004 and further increased by 24.6% to Rs. 687,988.1 million as of March 31, 2005. Our total liabilities as of September 30, 2005 were Rs. 756,365.7 million. Other liabilities and provisions include bills payable, interest accrued on deposits and borrowings, inter-office adjustments, our Tier II Bonds and provisions for standard advances and other provisions.

Off-Balance Sheet Arrangements and Financial Instruments

Contingent Liabilities

The following table sets forth the principal components of our contingent liabilities as of March 31, 2003, March 31, 2004 and March 31, 2005:

	As at			
	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
	(Rs. million)			
Contingent liabilities				
Claims against the Bank not acknowledged as debt	1,598.8	1,645.7	1,533.0	1,533.0
Disputed IT demand under appeal	5,162.4	3,784.8	5,283.3	5,300.6
Liability for partly paid investments	5.9	5.9	5.9	5.9



	As at			
	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
	(Rs. million)			
Liability on account of outstanding forward exchange contracts	91,530.5	189,172.2	259,261.6	227,938.8
Guarantees given on behalf of constituents in India	19,084.3	24,054.2	30,295.8	40,343.1
Acceptances, endorsements and other obligations	28,659.1	58,793.2	97,214.9	80,187.6
Other items for which the Bank is contingently liable	-	-	-	-
Others	127.6	202.4	199.6	162.8
Total	146,168.6	277,658.4	393,794.1	355,471.8

Contingent liabilities increased by 90.0% from Rs. 146,168.6 million as of March 31, 2003 to Rs. 277,658.4 million as of March 31, 2004 and increased by 41.8% to Rs. 393,794.1 million as of March 31, 2005. Our contingent liabilities as of September 30, 2005 were Rs. 355,471.8 million. These changes were primarily due to our increasing the scope of our derivative operations in fiscal 2004 and enhancing it further in fiscal 2005 and an increase in our non-funded business (e.g., letters of credit and guarantees).

Foreign Exchange and Derivative Transactions

We enter into foreign exchange and derivative transactions for our customers and for our own account. Our foreign exchange contracts arise out of spot and forward foreign exchange transactions with corporate and non-corporate customers and inter-bank counter parties. Our derivative contracts include interest rate swaps for corporate customers and for our own hedging activities. We earn profit on inter-bank and customer transactions by way of a spread between the purchase rate and the sale rate. Income from foreign exchange transactions is recorded as income from exchange transactions and income from derivatives transactions in the hedging book is recorded as interest income and income from proprietary book is recorded as trading income. We use International Swaps and Derivatives Association (ISDA) master agreements for our derivatives transactions.

The aggregate notional principal amount of our forward foreign exchange contracts was Rs. 91,530.5 million as of March 31, 2003, Rs. 189,172.1 million as of March 31, 2004, Rs. 259,261.6 million as of March 31, 2005 and Rs. 227,938.8 million as of September 30, 2005. Since these contracts are marked to market, their fair value as of those dates was the same as their notional value.

Our notional principal amount of our single currency interest rate swap agreements, cross currency swap agreements and forward rate agreements was Rs. 222.5 million as of March 31, 2003, Rs. 245.2 million as of March 31, 2004, Rs. 541.4 million as of March 31, 2005 and Rs. 449.5 million as of September 30, 2005.

Significant Developments after September 30, 2005

We have declared unaudited financial results for the quarter/ nine months ended December 31, 2005. The Auditors have performed a limited review of these results and the same has been reported to the stock exchanges on January 24, 2006. To our knowledge no circumstances other than the announcement of results have arisen which materially and adversely affect or are likely to affect, the trading and profitability of the Bank or the value of our assets or our ability to pay our liabilities.



UNAUDITED FINANCIAL RESULTS FOR THE QUARTER / NINE MONTHS ENDED 31.12.2005

(Rs. million)

Sr. No.	Particulars	Quarter Ended 31.12.2005 (Reviewed)	Quarter Ended 31.12.2004 (Reviewed)	9 Months Ended 31.12.2005 (Reviewed)	9 Months Ended 31.12.2004 (Reviewed)	Year Ended 31.3.2005 (Audited)
1	Interest earned (a+b+c+d)	15134.9	12888.2	42914.4	36477.4	49697.9
	a) Interest/Discount on Advances/Bills	9897.8	7523.5	27347.6	20843.1	28685.8
	b) Income on investments	4940.3	4661.2	14561.6	14387.9	19050.8
	c) Interest on balances with RBI	177.7	122.2	609.6	606.3	785.6
	d) Others	119.1	581.3	395.6	640.1	1175.7
2	Other Income	1390.1	1913.6	4129.5	5872.9	7661
	A. TOTAL INCOME (1+2)	16525	14801.8	47043.9	42350.3	57358.9
3	Interest Expended	8741.2	7092.4	25150.3	21446.8	29052.4
4	Operating Expenses (e+f)	3500.7	3773.9	10509	9952.6	12574.9
	e) Payments to and provisions for employees	2185.3	2568.9	6618	6711.3	8064.2
	f) Other operating expenses	1315.4	1205	3891	3241.3	4510.7
	B. TOTAL EXPENDITURE (3+4) (excl Provisions & Contingencies)	12241.9	10866.3	35659.3	31399.4	41627.3
	C. OPERATING PROFIT (A - B) (Profit before Provisions & Contingencies)	4283.1	3935.5	11384.6	10950.9	15731.6
	D. PROVISIONS & CONTINGENCIES	1302.3	4144.8	4638.9	5809.4	9615.7
	of which provision for Non-performing Assets	228.5	-930	665	240	2164.6
	E. PROVISION FOR TAXES	690	-800	1440	340	-1074.7
	F. NET PROFIT (C - D - E)	2290.8	590.7	5305.7	4801.5	7190.6
	Paid -up Equity share capital	4601.2	4601.2	4601.2	4601.2	4601.2
	Reserves excluding revaluation reserves (as per Balance sheet of previous accounting year)					26793.2
	Analytical Ratio					
	i) Percentage of shares held by Government of India (%)	60.85	60.85	60.85	60.85	60.85
	ii) Capital adequacy Ratio (%)	10.91	11.38	10.91	11.38	12.09
	iii) Earning per share at face value Rs.10/- (Non-annualised)	4.98	1.28	11.53	10.44	15.63



(Rs. million)

Sr. No.	Particulars	Quarter Ended 31.12.2005 (Reviewed)	Quarter Ended 31.12.2004 (Reviewed)	9 Months Ended 31.12.2005 (Reviewed)	9 Months Ended 31.12.2004 (Reviewed)	Year Ended 31.3.2005 (Audited)
iv)	a) Amount of Gross NPAs	19032.9	21247.0	19032.9	21247.0	20581.5
	b) Amount of Net NPAs	5672.0	7619.0	5672.0	7619.0	10603.8
	c) Percentage of Gross NPAs (%)	3.75	5.66	3.75	5.66	5.01
	d) Percentage of Net NPAs (%)	1.15	2.11	1.15	2.11	2.64
v)	Return on Average Assets (annualised)	1.23	0.38	0.95	1.03	1.10
vi)	Return on Terminal Assets (annualised)	1.10	0.36	0.85	0.98	0.99
	Total Business	1211876.0	933156.9	1211876.0	933156.9	1029334.6
	Deposits	704693.7	558165.7	704693.7	558165.7	618306
	Advances	507182.3	374991.2	507182.3	374991.2	411028.6
	Investments	253620.3	220919.85	253620.3	220919.8	228176.4
	Cost of Deposits	4.61	4.78	4.73	4.99	4.97
	Cost of Funds	4.29	4.44	4.41	4.59	4.65
	Yield on Advances	8.19	8.44	8.28	8.4	8.33
	Yield on Funds	7.43	8.07	7.53	7.8	7.96
	Yield on Investment	7.78	8.16	7.86	8.15	8.2
	Net Interest Margin	3.14	3.63	3.12	3.21	3.31
	Book Value per share			79.28	65.44	67.18



OUTSTANDING LITIGATION AND MATERIAL DEVELOPMENTS

There are no outstanding or pending litigations or suits or proceedings (whether criminal or civil), no defaults, non-payment or overdues of statutory dues, no proceedings initiated for any economic or civil offences (including past cases if found guilty) and no disciplinary action taken by SEBI or any stock exchanges, and no outstanding litigation, defaults, etc., pertaining to matters likely to affect the operations and finances (including those of the Bank's subsidiaries and other group companies) whose outcome could have a material adverse effect on the Bank's operations except as disclosed and discussed in "Risk Factors" on pages x to xxii including "We are involved in certain legal proceedings that, if determined against us, could have a material adverse impact on us," "We may experience delays in enforcing our collateral when borrowers default on their obligations to us, which may result in inability to recover the expected value of the collateral" "Our contingent liabilities could adversely affect our financial condition" and "We are involved in certain income tax and interest tax cases, which if determined against us could have a material adverse impact on us." However, at January 13, 2006, the following are the outstanding or pending litigations or suits or proceedings against the Bank involving a claim of Rs. 5.0 million and more, and criminal complaints or cases, defaults, non-payment or overdues of statutory dues, proceedings initiated for any economic or civil offences (including past cases where we have been found guilty) and disciplinary action taken by SEBI or any stock exchanges (during the past five years) against the Bank, its subsidiaries and other group companies and the outstanding or pending litigations or suits or proceedings against the Bank's subsidiaries and other group companies. The consolidated information of claims against the Bank (excluding Tax related matters) involving an amount of less than Rs. 5.0 million has been provided separately.

Civil Cases

1. Haria Exports Limited has filed a civil suit (Suit No. 4367 of 1995) against the Bank before the High Court of Bombay seeking damages of Rs. 1,000 million for loss of business and damage to its reputation. The plaintiff has stated that the Bank, in response to the plaintiff's loan application, did not grant a loan and on the basis of a report from the State Bank of India, certified to all its branches that the plaintiff had adverse credit worthiness and advised the branches not to provide any financial assistance to the plaintiff. The plaintiff has alleged that as a result, its suppliers refused to supply materials resulting in huge economic losses. The Bank has filed its reply and the suit is pending.
2. The Bombay Dyeing and Manufacturing Company Limited has filed a civil suit (Suit No. 1712 of 2001) against the Bank in the High Court of Bombay claiming a refund of Rs. 31.07 million and damages of Rs. 5 million. The plaintiff has claimed that the Bank has wrongly deducted its charges towards acting as a lead manager under a consortium agreement. The plaintiff has alleged that the credit facility cannot be linked to the charges payable for acting as a lead banker and that the account facility is only governed by the terms and conditions of the sanction letter. The Bank has, by its written statement, denied all the charges. The suit is pending and has not been listed for hearing.
3. Vao Techmach Exports Company Limited, a Russian company, has filed a writ petition (CWP No. 19820 of 2000) before the High Court of Calcutta against the Union of India, RBI, the Bank and Hooghly Mills Company Limited for the issuance of a writ directing the Bank to deposit a sum of Rs. 30.22 million on account of currency rate fluctuations. The petitioner has alleged that since the Bank had stood as guarantor for a transaction between the petitioner and the Hooghly Mills Company Limited for the supply of equipment, the Bank should pay the petitioner the amount of loss suffered on account of the currency rate fluctuations. The Bank has filed its written statement and has denied all the charges. The matter is pending.
4. Milk Foods Limited has filed a civil suit (Suit No.1217 of 1993) against the Bank before the High Court of Delhi for the recovery of Rs. 8.56 million. The Bank had acted as a guarantor for the supply, erection and commissioning of an evaporating plant by Dany Dairy to the plaintiff. The plaintiff has alleged that since Dan Dairy has committed a default, the Bank is required to honour the bank guarantees. The Bank has refused to honour the guarantees and has filed the written statement. The matter is pending.
5. The District Co-operative Central Bank has filed a civil suit (O.S. No. 18 of 2002) against the Bank before the District Judge, Vishakhapatnam for the recovery of Rs. 13.58 million. The plaintiff had deposited four fixed deposits receipts ("FDRs") with Sikkim Bank, which subsequently merged with the Bank pursuant to a scheme of amalgamation. The plaintiff realised three FDRs on their maturity. Therefore, the plaintiff has filed the suit seeking full realisation of the fourth FDR instead of the rateable distribution made by the Bank on the ground that the FDRs had matured before the moratorium imposed by the Ministry of Finance, Government of India under the scheme of amalgamation came into effect. Further, the plaintiff has claimed that Sikkim Bank had agreed to make the payments for the entire maturity amount. The Bank has filed its written statement and has denied all claims. The matter is pending.
6. Bombay Textiles, Gopal Krishna Kedia and Pradip Kedia have filed a suit (Civil Suit No. 166 of 2004) against the Bank and the RBI before the High Court of Calcutta claiming Rs. 29.64 million as damages. Gopal Krishna Kedia and Pradip



Kedia had stood as guarantors for a loan taken by Bombay Textiles from the Bank. The plaintiffs have alleged that the Bank wrongfully debited the accounts of the above named guarantors to the extent of Rs. 27.14 million and also failed to release the securities pledged with the Bank by the guarantors. The Bank has filed a reply wherein it has denied all the charges. The Bank has also filed an application before the Debt Recovery Tribunal for the recovery of Rs. 12.76 million along with interest from the plaintiffs. The matter is still pending.

7. A counter claim has been filed by Mazda Textiles Limited in the civil suit filed by the Bank before the Civil Judge (Senior Division), Surat wherein Mazda Textiles Limited is claiming the recovery of Rs. 30.7 million along with interest. The Bank had sanctioned a loan of Rs. 21.5 million for a textile unit being set up by the claimant in collaboration with certain NRIs. The claimant has alleged that the sanctioned amount was reduced by the Bank to Rs. 0.11 million without furnishing any reason. The claimants have alleged that reduction in the credit limit led to a loss of production and increase in cost of production of the unit. The Bank has denied the charges and said that the sanctioned limit was reduced as the unit itself was not viable. The matter is pending.
8. Prestolite Industries Limited ("Prestolite") has filed an appeal (Misc. Appeal No.50/2005) before the Debt Recovery Appellate Tribunal, Chandigarh against the order of the DRT, Chandigarh dated January 14, 2005 directing the appellant to pay Rs. 18.91 million in accordance with the consent decree in Case No. 350/81 before the Senior Sub-Judge, Faridabad. The case before the Senior Sub-Judge, Faridabad was filed by the Bank for recovery of Rs. 22.76 million. A consent agreement was reached between the parties on November 15, 1991 wherein Prestolite was to pay Rs. 11.2 million to the Bank. The present appeal has been filed by Prestolite on the grounds that the Bank has violated certain terms of the consent decree and Prestolite has also made a counter claim of Rs. 11.37 million as of the date of the consent decree plus interest. Prestolite has alleged that in terms of the consent decree, the Bank had to provide No-Objection Certificate to Prestolite so as to enable it to take further dues in order to pay the amount awarded in terms of the consent decree. The appeal is presently pending before the Debt Recovery Appellate Tribunal, Chandigarh.
9. Virangana Bharadwaj has filed a suit (Civil Suit No. 898 of 1998) against the Bank and the State of Maharashtra before the Civil Judge (Senior Division), Shivajinagar, Pune for the recovery of damages amounting to Rs. 11.8 million. The plaintiff has alleged that the Bank improperly instituted criminal proceedings against the plaintiff thereby causing loss, damage and harm to her and her family. The Bank has denied the charges and has stated that the plaintiff has no *locus standi* in claiming damages on account of her husband's alleged defamation. The suit is pending.
10. Deluxe Dye Chemicals has filed a suit (Civil Suit No. 106/2001) against the Bank before the Civil Judge (Senior Division), Ahmedabad for the recovery of Rs. 16.21 million. The plaintiff had approached the Bank for financial assistance of Rs. 7.5 million. The Bank has alleged that although the Bank sanctioned a loan for Rs. 7.5 million, however, financial disbursement was only for Rs. 5.0 million. The plaintiff alleged that the disbursement of a lesser amount caused it loss and damage of Rs. 10.16 million. The plaintiff has further alleged that the Bank has got securities pledged for an amount exceeding Rs. 7.50 million. The Bank has filed its reply and has denied the claim. The suit is pending and is at the stage of framing of issues. The Bank has also instituted proceedings before the DRT by an application (Original Application No. 55 of 1998) for the recovery of Rs. 1.98 million. The next date of hearing in this matter is March 10, 2006.
11. U.P. Co-operative Federation Limited has filed a recovery suit (R.S. No 74 of 1988) against the Bank and named Chemical Construction Limited before the Additional Civil Judge, Lucknow for the recovery of Rs. 6.09 million along with interest. The plaintiff has alleged that Chemical Construction Company was contracted to supply plant and machinery worth Rs. 20.82 million, for which the Bank executed two bank guarantees aggregating Rs. 4.16 million. Thereafter, the plaintiff has alleged that Chemical Construction Company failed to fulfill its obligations and thereafter, the complainant sought to invoke the bank guarantee. However, the plaintiff has alleged that the Bank refused to honour the guarantee. In its written statement, the Bank has denied its liability and has stated that Chemical Construction Company has performed its obligations under the contract. The suit is pending.
12. Divya Prints Private Limited has filed a suit (Civil Suit No. 286/1997) against the Bank before the City Civil Court, Ahmedabad for the recovery of Rs. 54.74 million. The plaintiff was sanctioned packing credit facilities of Rs. 21.0 million by the Bank. The plaintiff has alleged that although the Bank had realised and recovered the foreign exchange for the goods exported by the plaintiff but the Bank had failed to transfer such amount or credit the account of the plaintiff in relation to the same. Therefore, the plaintiff has alleged that it could not avail of the packing credit facilities resulting in huge losses and damage by way of loss of profits, payment of interest, penal interest and damage charges that the plaintiff had to pay on account of failure to meet export commitments. The Bank has also filed an application before the DRT for recovery of an amount of Rs. 64.63 million. Therefore, the City Civil Court, Ahmedabad has transferred the plaintiff's claim to the DRT and the same shall be heard simultaneously along with the Bank's application.
13. Hindustan Static and Dynamic Products has filed a civil suit (Suit No. 44 of 1998) against the Bank before the Civil Judge, Navsari, Gujarat for damages amounting to Rs. 44.40 million along with interest on account of property belonging to the plaintiff allegedly being locked by the Bank for a period from 1976 till 1993. The plaintiff has alleged that the Bank had



illegally locked the property. The amount has been claimed by the plaintiff on account of loss of stoppage of business for the entire period that the property was locked. The plaintiff has also claimed rent for the period that the property was kept by the Bank. The Bank has filed its reply and has denied the claim of the plaintiff. The suit is currently pending. The next date of hearing is February 2, 2006.

14. N. L. Mehta and others have filed a suit (TE&R Suit No.227/246 of 2003) against the Bank before the Court of Small Causes at Mumbai for the recovery of mesne profits amounting to Rs. 11.20 million for a property occupied by the Bank. Further, the plaintiffs have also asked the Court to direct the Bank to quit and vacate the property immediately and hand over possession. The plaintiffs have alleged that the Bank was in possession of the concerned property, the lease period in relation to which expired in March 1993. The plaintiff has alleged that the lease was renewed by mutual consent at an enhanced rent for a further period of ten years even though no fresh lease deed was executed. The plaintiff has alleged that the Bank was in possession of the property even after March 1993. Therefore, the plaintiff has demanded mesne profits for the period starting from March 1993. The Bank has filed its reply and has denied the claim of the plaintiffs.

The Bank had also filed an application (Application No.1489 of 2000) before the DRT, Mumbai for the recovery of Rs. 9.80 million on account of the overdues in the overdraft facility. N L Mehta and others have made a counter claim of Rs. 9.95 million on account of the unpaid rent due from March 1993 on the property occupied by the Bank. The DRT, vide its orders dated January 14, 2003 and August 13, 2003, has allowed the counter claim and has directed the Bank to pay Rs. 4.59 million to N L Mehta. Aggrieved by this order, the Bank has filed an appeal before the Debt Recovery Appellate Tribunal. The appeal is currently pending. The premises have been vacated by the bank on July 31, 2004

15. Ronak Prints Limited has filed four suits against the Bank. One suit is a civil suit (Civil Suit No. 5283 of 1996) filed before the City Civil Court, Ahmedabad for the recovery of damages amounting to Rs. 58.10 million on account of loss due to payment of wages to labourers, machinery maintenance, electricity and telephone charges, technology becoming obsolete, loss of profits and loss of raw materials among others. The plaintiffs have alleged that the Bank recalled an advance of Rs. 10 million and locked and sealed the factory. Due to this, the plaintiffs were not able to operate their factory and clear their dues on time. The Bank has filed its reply and has stated that the loan facility was withdrawn on account of certain defaults that were committed by the plaintiff. This suit has been transferred to DRT, Ahmedabad as T.A No. 1150 of 2002. In relation to the first suit, the plaintiffs have also filed a suit (Civil Suit No. 127/97) against the Bank before the City Civil Court, Ahmedabad for the recovery of Rs. 50.0 million as damages for defaming and causing harm to the reputation of the plaintiffs as a result of the closure of their factory due to the recall of advance by the Bank.

The plaintiffs filed two injunction suits before the City Civil Court, Ahmedabad that have also been transferred to the DRT, Ahmedabad as T.A No. 1148 and 1149 of 2002. These two suits have been filed seeking to restrain the Bank from taking possession of the property belonging to the plaintiffs. These two suits shall also be heard along with T.A No. 1150 of 2002.

16. Maharaja Textile Printers has filed a suit (Civil Suit No. 72 of 2001) against the Bank before the City Civil Court, Jaipur for the recovery of Rs. 21.11 million. The plaintiff has alleged that in relation to certain goods that were supposed to be exported by the plaintiff, the Bank did not send the document to the shipping company on time. As a result, the plaintiff has alleged that the shipping company sold the goods at a lower price causing loss to the plaintiff. The plaintiff has demanded that the Bank compensate it for the loss caused. The court has directed the plaintiff to deposit the court fees and it has fixed January 30, 2006 as the next date of hearing for deciding the admissibility of the case.

The plaintiff has also filed an application against the Bank before the DRT, Jaipur for the recovery of Rs. 48.49 million. The plaintiff has alleged that its account was wrongly declared as a NPA by the Bank. The plaintiff has alleged that the Bank did not collect the bills under the bill discounting facility that the plaintiff enjoyed with the Bank. The matter is pending and is posted for hearing on January 30, 2006.

17. Information Technology Park Limited ("ITPL") has filed a suit (O.S. No. 2152 of 2003) against one of its employees, Aravind Kumar, and three banks, including the Bank, for recovery of Rs. 24.63 million from Aravind Kumar. The plaintiff has alleged that Aravind Kumar, who was employed as a management trainee with the plaintiff, had committed fraud and had embezzled funds by making false payments to fictitious entities controlled by him. One of the banks where these cheques were encashed was Union Bank of India. Therefore, the Bank has been made a party to the suit. The Bank in its reply has stated that the suit should be dismissed as the fraud was committed by an employee of ITPL itself, there was no privity of contract between the Bank and ITPL and that the suit was bad for non joinder of necessary parties such as other employees of ITPL as well as other banks where the cheques were also encashed. The suit is pending. The next date of hearing is February 8, 2006.

18. Vithal Bhai Private Limited ("Vithal"), landlord of the service branch of the Bank at Kolkata has filed a suit (C.S. No. 272 of 1984) for eviction and mesne profits against the Bank before the High Court of Calcutta. The division bench dismissed the suit. However, the Supreme Court by an order dated March 11, 2005, ordered the eviction of the Bank and directed the single Judge of the High Court to determine the mesne profits. On the basis of report of the advocate commissioner, the High Court has passed an order dated August 31, 2005 whereby it has directed the Bank to pay approximately Rs 15.00



million towards mesne profits from June 25, 1984. Aggrieved by the aforesaid order, the Bank has filed an appeal before the Supreme Court.

Securities Related Offences

1. The Bank was one of the bankers to the public issue of Jaltarang Motels Limited ("Jaltarang") in December, 1995. SEBI, by its order dated January 19, 2000 directed the Bank to refund the sum of Rs. 35.4 million being the application money for the shares released by the Bank to Jaltarang with interest at 15% from March 25, 1996 (i.e. the day the Bank allowed withdrawal of the funds by Jaltarang in respect of funds collected from the public issue). The Bank preferred an appeal before the Securities Appellate Tribunal and the Tribunal, by order dated July 27, 2000, rejected the appeal. The Bank has filed an appeal (Appeal No.2 of 2000) before the High Court, Mumbai against the said order of the Tribunal. The High Court, Mumbai, on November 13, 2000, granted interim relief of stay of the operation of the orders dated July 27, 2000 of the Securities Appellate Tribunal and January 19, 2000 of SEBI and has further directed that the matter be placed on the board for final hearing. The matter is still pending.
2. The Bank had acted as lead managers along with SBI Caps to the issue of shares by Navbharat Enterprises Limited. The plaintiff had purchased certain shares of Navbharat Enterprises vide the public issue. The plaintiff has filed a suit (Civil Suit No. 1922 of 1997) against the Bank and others for the recovery of Rs. 10.73 million invested in the shares of Navbharat Enterprises Limited on the grounds of fraud and misstatements in the prospectus for the issue of shares. The plaintiff has alleged that certain projections with respect to the profitability of the Company had not come true and certain statements in the prospectus were not correct. The plaintiff has further alleged that while making an investment, they also considered the background of the lead managers to the issue. The matter is pending.

Consumer Cases

1. M. P. Dullaramani and others have filed a complaint against the Bank before the National Consumer Disputes Redressal Commission (Complaint No. 116/2003), claiming an aggregate sum of USD 446,844.7 on account of non payment of the amount deposited in the Foreign Currency Non Resident ("FCNR") deposits maintained by the complainants with the Bank. The complainants have alleged that on maturity of the FCNR deposits, the Bank refused to hand over the amounts to the nominee of the complainant, Bhojwani Bio Consultancy Services Private Limited ("Bhojwani"). The complainants have alleged that since Bhojwani defaulted, the Bank, without the authorisation of the complainants, is enforcing a lien on the deposits and is not refunding the matured amount in violation of the contractual arrangements. The Bank has filed its reply. The complaint is still pending.
2. Purna Chandra Senapati, Managing Partner of Bhubaneswari Food Products has filed a complaint (Case No. 62 of 2004) against the Bank before the Orissa State Consumer Disputes Redressal Commission for payment of Rs. 6.0 million on account of loss caused to the complainant and mental agony and harassment suffered by him. The complainant has also asked the commission to direct the Bank to disburse a working capital loan of Rs. 2.45 million in favour of the complainant. The complainant has alleged that the Bank only disbursed an amount of Rs. 0.55 million as against sanctioned amount of Rs. 3.0 million. The complainant has alleged that it has not been able to run his factory on account of lack of working capital facilities that were to be provided by the Bank. The Bank has denied the claim of the complainant. The matter is pending. The next date of hearing in this matter is March 1, 2006.
3. Rachna Enterprises, a partnership firm, has filed a complaint (Complaint No. 34 of 2005) against the Bank before the Maharashtra State Consumer Disputes Redressal Commission for the recovery of Rs. 6.62 million. The complainant has alleged that the Bank permitted an unauthorised withdrawal of Rs. 2.48 million from its account. Apart from Rs. 2.48 million, the complainant has claimed Rs. 1.14 million as interest on the aforesaid amount along with Rs. 3.0 million as compensation on account of the alleged mental torture and agony suffered by it. In its reply, the Bank has denied all charges and has stated that the person who made the withdrawal was a partner of the firm.
4. Chandi Nihalani has filed a complaint (Complaint No. 24 of 2004) against the Bank before the Maharashtra State Consumer Disputes Redressal Commission for the recovery of Rs. 8.02 million. The complainant has alleged that he maintained seven FCNR deposits with the Bank, the amounts in which were not refunded on maturity by the Bank. The complainant has alleged that the Bank has falsely considered the same as a guarantee/security against a secured overdraft facility granted to the complainant. The complainant has alleged that the said deposits were non transferable and has charged the Bank with deficiency of service. The complainant has further alleged that no sanction was received by the Bank before adjusting the FCNR deposits. The Bank has filed its reply and has denied the charges of the complainant. The matter is pending and it has been adjourned sine die.
5. Gulrej Industries has filed a complaint (Complaint No. 122/1999) against the Bank before the National Consumer Disputes Redressal Commission for the recovery of Rs. 16.94 million on account of loss of profits, higher cost of materials and compensation for deficient service, among others. The complainant has alleged that the Bank refused to grant additional credit facilities resulting in it becoming financially unsound. The complainant has further charged the Bank with



dishonouring its cheques, freezing its accounts without furnishing any reason, transferring money from its accounts without any authorisation and has stated that the above amounts to deficiency in service. The Bank has filed its reply and has denied the charges. The matter is pending.

6. Electra (Jaipur) Limited has filed a complaint (Complaint No. 4/2005) against the Bank before the Rajasthan State Consumer Disputes Redressal Commission, Jaipur for the recovery of USD 283,125. The complainant has alleged that they had hypothecated certain transformers and had submitted the original bill to the Bank for realisation against the letter of credit issued by the Bank. It claims the Bank informed the complainant that the bill could not be realised. Further, when the complainant requested them to return the documents, the Bank did not return the documents and did not realise the bill as well. The complainant has alleged that this amounts to a deficiency in service and that it should be compensated for the same. The Bank has filed its reply and has denied its liability. The matter is pending.
7. Montel Tapes and Chemicals Private Limited has filed a complaint (Complaint No. 5/2004) against the Bank before the Rajasthan State Consumer Disputes Redressal Commission, Jaipur for the recovery of Rs 5.58 million. The complainant has alleged that the Bank sanctioned cash credit of Rs. 1.5 million and a term loan of Rs. 0.5 million. The complainant has further alleged that out of the sanctioned cash credit of Rs. 1.5 million, only Rs. 0.6 million was released. The complainant has alleged that due to the shortfall in disbursed amount, the factory had to be shut down as it was mired in financial losses. Therefore, the complainant has claimed the aforesaid amount on account of expenditure incurred by it in establishment of the factory, raw materials purchased for the factory, mental agony and marketing expense incurred on the factory. The Bank has filed its reply denying its liability. The matter is pending.

Debt Recovery Cases

1. Chinmaya Techno Engineering Private Limited has filed an application (Application No. 231 of 1999) before the Debt Recovery Tribunal, Mumbai against the Bank for damages amounting to Rs. 197.20 million. The applicant has stated that it had hypothecated certain property, including its production facilities, as security for a loan taken from the Bank for the diversification of its business. The applicant has alleged that the Bank has taken possession of the hypothecated property and is not allowing it access to the hypothecated property. The application has alleged that as a result, it has suffered financial loss and damage and loss of reputation. The Bank has filed its reply and the matter is pending.
2. Navinon Limited ("Navinon") has filed a counter claim against seven banks including the Bank in its reply to the application filed by the banks (O.A. No. 598 of 2001) before the DRT, Mumbai wherein Navinon has sought the set off of Rs. 70.9 million from the amount sought to be recovered by the banks from it. The banks have filed the application seeking recovery of various amounts borrowed by Navinon. Navinon has sought set off of the aforesaid amount on account of excessive interest and processing charges charged by the banks, entries being made in books of accounts even when the banks have not made any financial disbursement, etc. It has challenged the authenticity of the accounts maintained by the banks. In the meanwhile, Navinon has made a reference to BIFR for declaring it a sick company. Therefore, BIFR has stayed the proceedings in the DRT. The banks have made a representation to BIFR for continuation of the legal proceedings before the DRT.
3. Govardhan Agro Products Private Limited ("Govardhan") has filed a counter claim against the Bank in its reply to the application filed by the Bank (O.A. No. 514-A of 2001) before the DRT, Aurangabad, wherein Govardhan has claimed Rs. 45.33 million from the Bank on account of losses in its business caused due to various irregularities committed by the Bank. Govardhan has alleged that the Bank did not sanction the various amounts on time and further, the disbursement of the sanctioned amounts was delayed. Further, it has alleged that the disbursed amounts were much less than the sanctioned amounts. This, it claims, led to delay in its business and damages and loss of business amounting to Rs. 45.33 million. The Bank has denied the claim. The matter is still pending.
4. Canara Bank has filed an application (Original Recovery Application No. 42/2003) against the Bank before the DRT, Mumbai for the recovery of Rs. 8.33 million along with interest. The applicant has alleged that it along with the Bank had formed part of a consortium and has provided term loans, working capital facilities and bank guarantees to Icon Electronics India Limited ("Icon"). The applicant has alleged that the Bank agreed to remit 50% of the guarantee amount furnished on any of the guarantees being revoked. The applicant has alleged that two guarantees amounting to Rs. 10.62 million given on behalf of Icon were invoked and it had to pay the aforesaid amount. Therefore, it has demanded that the Bank pay 50% of the amount paid by it on account of the bank guarantees being invoked. The Bank has denied its liability stating that the bank guarantees were issued prior to the consortium arrangement being finalised and the guarantees had a standard limitation clause. The matter is pending.
5. Kalyanji Walji Private Limited ("Kalyanji") and three others have filed a counter claim against the Bank in its reply to the application filed by the Bank (O.A. No. 519 of 2000) before the DRT, Mumbai for the recovery of Rs. 21.19 million. The Bank has filed an application for recovery of Rs. 21.19 million which Kalyanji has sought to set off by way of the counter claim. The counter claim has been filed on grounds of delay in disbursement of the loan amount, charging of excessive interest leading to loss of business and damage to the reputation of Kalyanji. Further, they have alleged that additional



loan amounts were not released by the Bank leading to loss of business. A consent decree has been entered into with three parties. However, one Jayesh Devji Aiya has sought to maintain the counter claim. The matter is pending and is posted for hearing on February 2, 2006.

An appeal has also been filed before the Debt Recovery Appellate Tribunal for enhancing the amount of the counter claim to Rs. 55.56 million. This appeal is currently pending.

6. Neetha Impex Private Limited ("Neetha") has filed a counter claim to the application (O.A. No. 416 of 2002) filed by the Bank before the DRT, Hyderabad wherein Neetha has claimed an amount of Rs. 5.75 million against the Bank. Neetha, which was exporting certain goods has alleged that, submitted the documents in relation to the consignment to the Bank to be given to the courier 'DHL Express' for delivery to the consignee. Neetha has alleged that the Bank did not provide proper directions to the courier with respect to the value of the documents and the consignee to whom the documents were to be delivered. The Bank has filed its reply and it has denied the charges.

Neetha has also filed a complaint (O.P. No. 204 of 2002) against the Bank and DHL Worldwide Express ("DHL") before the National Consumer Disputes Redressal Commission for the recovery of Rs. 12.2 million from DHL. The Bank is only a proforma party in this complaint as Neetha has sought to recover the amount from DHL on account of the fact that the documents in relation to the export of goods were not properly delivered to the consignee. The Bank has filed a reply and has sought discharge from the complaint.

7. D. K. Brothers has filed a counter claim against the Bank as a part of its' written statement in the recovery case filed by the Bank before the DRT, Allahabad being T.A. No.1680 of 2000, for recovery of Rs.363.51 million towards losses and damages due to acts and omissions of the Bank such as non-sanctioning of regular facilities, failure to discharge the duties of an agent for collection in the event of dishonour of bills, crystallizing the bills at 180 days as against 270 days as permitted by RBI and non-adherence to the terms of the rehabilitation package approved by the Bank among others. The Bank has denied the claim and the matter is pending before DRT for adjudication.
8. Commander Commercial Services India (P) Limited ("Commander") has filed a counter claim against the Bank as part of its reply in the recovery case filed by the Bank before the DRT, Allahabad being TA No.277/2000, seeking recovery of Rs.19.02 million on account of losses and damages on the ground that the Bank transferred the amount from one account to the other without any authorisation. Commander has also charged the Bank with charging a higher rate of interest and charging penal interest. The Bank has denied these allegations and the matter is pending.
9. Indian Designo has filed a counter claim in a recovery suit filed by the Bank before DRT, Allahabad being O.A No. 48 of 2001 for recovery of Rs. 75.22 million from the Bank on the ground that the Bank failed and neglected to grant financial assistance at the appropriate time to the claimant. The Bank has denied the allegations and the matter is pending.
10. Samiullah & Sons ("Samiullah") has filed a counter claim against the Bank in the recovery case filed by the Bank before DRT, Allahabad being O.A. No. 111 of 2004, wherein Samiullah has sought recovery of Rs.6.00 million on the ground that some of its consignments to Germany were not properly delivered and mishandled by the Bank. The Bank has denied the counter claim and the same is pending for adjudication.
11. Ideal Exports ("Ideal") has filed a counter claim against the Bank in the recovery case filed by the Bank before DRT being O.A. No. 115 of 2002 for the recovery of Rs.7.48 million. Ideal has alleged that the Bank purchased certain bills of exchange and therefore, became holder of the documents of title. Further, it is alleged that the Bank released the goods under the said bills of exchange without realising their value resulting in a loss of profits to the tune of Rs. 7.48 million to Ideal. The Bank has denied the counter claim and the same is pending for adjudication.
12. Jaiswal Rug Industries ("Jaiswal") has filed a counter claim for Rs.10.00 million as a part of its reply to the recovery suit filed by the Bank before the DRT, Allahabad being O.A. No. 193 of 2000. The amount has been claimed on account of business losses suffered by Jaiswal due to the recall of the advance by the Bank, financing arrangements being blocked and subsequent black listing. Jaiswal has alleged that as a result, its export orders were cancelled and it has suffered losses. The Bank has denied the counter claim and the same is pending for adjudication.

Tax Cases

There were 19 disputes relating to income tax and interest tax assessments in which the aggregate amount (excluding interest thereon) claimed against us was Rs. 7,603.42 million as of January 13, 2006.

Income Tax

There are 14 pending cases in relation to the income tax liability of the Bank, of which 12 cases are pending before the Income Tax Appellate Tribunal and two cases are before the CIT (Appeals). The cases pending before the Income Tax Appellate Tribunal relate to assessment years 1988-1989, 1990-1991, 1991-1992, 1993-1994 to 2001-2002. The cases pending before the CIT (Appeals) relate to the assessment years 2002-2003 and 2003-2004. The major disallowances disputed in appeal by



the Bank and allowances disputed in appeal by the income tax authorities, are as under:

1. Interest accrued on securities: Tax Rs. 1,457.91 million plus interest

The tax authorities have added to the income of the Bank the interest accrued but not due on securities. The Bank's contention is that the interest is due and payable on such securities only on the coupon dates, i.e. the date of payment of interest, and not on a day to day basis, and has challenged the addition of such interest to its income.

2. Broken period interest paid on purchase of securities: Tax Rs. 1,196.04 million plus interest

The tax authorities have included the broken period interest on securities as part of the income of the Bank treating this as part of capital component of purchase price of the securities. The Bank has disputed the same and has claimed the deduction on account of it being revenue expenditure.

3. Allocation of expenses to earn tax free income: Tax Rs. 2,091.88 million plus interest

The disputed issue involves disallowance by the income tax authorities of allocation of expenses to earn tax free income. The Department has made an assumption that certain expenses have been allocated towards tax free income which is being disputed by the Bank.

4. Bad and doubtful debts: Tax Rs. 1,856.74 million plus interest

The disputed issue involves bad and doubtful debts written off in the books of accounts of the Bank deduction in relation to which has been disallowed by the income tax authorities. However, the same is being disputed by the Bank.

5. Appreciation in the value of investments: Tax Rs. 475.41million plus interest

The unrealised gain in the value of investments made by the Bank has been added by the income tax authorities to the income of the Bank and charged for taxation. The Bank has challenged the aforesaid addition.

6. Others: Tax Rs. 507.74 million plus interest

There are various disallowances made by the income tax authorities which are being contested by the Bank. The issues involved are prior period expenses, depreciation on leased assets, interest reversal on NPA accounts, expenses on guesthouses maintained by the Bank.

Interest Tax

There are 5 interest tax cases pending before the Income Tax Appellate Tribunal in relation to the assessment years 1996-1997 to 2000-2001. The issues involved are:

1. Interest tax charged on leasing transactions: Tax Rs. 6.08 million plus interest

The Bank has filed appeals before the Income Tax Appellate Tribunal against various orders of the CIT (Appeals) directing the Bank to furnish interest on leasing transactions. This issue has arisen in relation to all assessment years from 1996-1997 to 2000-2001. The Income Tax Department has been treating these leasing transactions as loans given by the Bank and is charging interest on the same. However, the Bank has stated that the same are leasing transactions and therefore, no interest tax is applicable.

2. Interest tax charged on interest tax recovered from the customers of the Bank: Tax Rs. 11.62 million plus interest

The Bank has filed appeals challenging the imposition of interest tax by the Income Tax Department on the interest tax component that was recovered by the Bank from the customers and/or borrowers. These appeals relate to the assessment years 1999-2000 and 2000-2001.

Miscellaneous

1. Abdul Rahman Mansoor, represented by his power of attorney holder, has filed a complaint (Complaint No. A/4379/UBI/7) against the Bank before the Banking Ombudsman, Kerala for the recovery of GBP 60,466.59 along with interest. The complainant has alleged that the Bank did not return the amount kept in FCNR deposit maintained by the complainant with the Bank when such deposit had matured. The complainant has alleged that the Bank had falsely stated that the deposit receipt submitted by the complainant was fake and that there was no such instrument. The Bank has denied all charges. The matter is still pending.
2. St. Mary's Educational and Charitable Trust (No. SP-240/2005) has filed a complaint against the Bank before the Banking Ombudsman for the recovery of Rs. 4.34 million. The complainant held a sum of Rs. 5.0 million in its deposits with the Bank. It also held overdraft facilities with the Bank and the outstanding amount under such overdraft facilities was Rs. 4.34 million. The complainant has alleged that the Bank, without any authorisation, adjusted the amount held in the deposits against the amounts due on the overdraft facilities. The complainant has claimed that the Bank had been



provided with a copy of a board resolution of the complainant stating that any withdrawals shall only be made on the joint signatures of both Chairman and the Secretary of the complainant. However, the complainant has alleged that the Bank permitted the adjustment only on the basis of the signature of the Chairman and also gave possession of the mortgaged title deeds to the Chairman. The Bank has filed its reply and the matter is pending.

The following table sets forth the consolidated information regarding claims (excluding tax related matters) involving an amount of less than Rs. 5.0 million, at January 13, 2006:

Sr. No.	Nature of claim	Cases with Monetary Claim		Cases with no specific monetary claim
		Number	Rs. million	Number
1	Suits filed by the Bank's shareholders/bond holders	-	-	-
2.	Suits filed by debenture holders against the Bank as debenture trustees	-	-	-
3	Suits filed by lessees/hirers seeking injunction against the Bank	5	3.99	-
4	Counter claims filed by Borrower/s or Guarantor/s	48	595.18	-
5	Counter claims filed by customers	50	25.21	-
6	Writ Petitions filed against the Bank	23	19.80	55
7	Cases filed before the Banking Ombudsman	39	17.09	22
8.	Suits pertaining to fraudulent transactions	-	-	-
9.	Suits pertaining to foreign exchange regulations	-	-	-
10	Suits pertaining to products/facilities provided by the Bank	-	-	-
11	Suits by statutory authorities	17	8.01	-
12	Suits pertaining to interest charges	-	-	-
13	Suits pertaining to property disputes	53	11.27	28
14	Suits where the Bank is impleaded as third party	58	39.19	111
15	Suits in respect of labour related matters	-	-	2
16	Criminal cases against the Bank or its Directors/Senior Management/Officials	3	2.0	-
17	Suits pertaining to economic offences including stamp duty matters	3	0.63	-
18	Suits in relation to securities law	-	-	-
19	Winding up petitions against the Bank	-	-	-
20	Miscellaneous suits/ legal proceedings in the course of business.	342	36.20	137
	Total	641	758.57	355



Litigation against our Directors

1. Two criminal cases have been filed against K Cherian Varghese as the then Chairman and Managing Director of Corporation Bank before the Court of the Metropolitan Magistrate, Kolkata. These cases have been filed by legal heirs of partners of a borrower firm of Corporation Bank against him and other officials of Corporation Bank as the name of the borrower firm was reported to Reserve Bank of India as a willful defaulter. On a revision petition filed by K. Cherian Varghese and other officials, the Calcutta High Court has stayed the proceedings before the lower court pending the disposal of the revision petition.
2. A civil contempt petition (Civil Contempt Petition No. 381/2000) has been filed against B.S. Bhalla before the High Court of Delhi in his earlier capacity as Deputy Commissioner (North), Government of National Capital Territory of Delhi. The case is pending.

Litigation against our RRBs

Kashi Gomti Samyut Grameen Bank

As the Bank was formed on September 12, 2005, no financial statements have been prepared yet by the Kashi Gomti Samyut Gramin Bank. However, the details in relation to contingent liability and the cases pending against the erstwhile 3 regional rural banks, viz. Kashi Gramin Bank, Samyut Kshetriya Gramin Bank and Gomti Gramin Bank that merged to form Kashi Gomti Samyut Gramin Bank have been provided hereinafter

Gomti Gramin Bank

1. Contingent Liabilities not provided for as of March 31, 2005:
 - Guarantees provided on behalf of constituents in India – Rs. 3.35 million
 - Acceptance endorsements and other obligations – Rs. 4.96 million
2. Litigation against the bank as of January 13, 2006:

Civil Cases

There are 20 civil cases pending against the bank and the total amount involved in these cases is Rs. 3.80 million.

Customer Cases

There are 157 complaints filed by the borrowers against the bank and the total amount involved in these cases is Rs. 2.26 million.

Kashi Gramin Bank

1. Contingent Liabilities not provided for as of March 31, 2005:
 - Guarantees provided on behalf of constituents in India – Rs. 2.65 million
 - Bills for collection – Rs. 6.55 million
2. Litigation against the bank as of January 13, 2006:

Criminal Cases

There is one criminal revision petition that has been filed before the High Court of Allahabad against the bank.

Civil Cases

There is one case involving the bank that relates to recovery of Rs. 0.59 million from the bank.

Labour Cases

There are 23 labour cases involving the bank. These are cases relating to the staff of the bank and no amounts are involved.

Customer Cases

There are 163 customer cases involving the bank and the total amount involved in these cases is Rs. 9.92 million.

Samyut Kshetriya Gramin Bank

1. Contingent Liabilities not provided for as of March 31, 2005: NIL



2. Litigation against the bank as of January 13, 2006:

Criminal Cases

There are seven criminal cases involving the bank and the amount involved is Rs. 6.5 million. These cases relate to unauthorised withdrawals and fake loans.

Customer Cases

There are 84 customer cases involving the bank and the total amount involved in these cases is Rs. 3.00 million.

Rewa Sidhi Gramin Bank

1. Contingent Liabilities not provided for as of March 31, 2005:

- Guarantees provided on behalf of constituents in India – Rs. 2.32 million

2. Litigation against the bank as of January 13, 2006:

Criminal Cases

There is one criminal case that has been filed by a suspended officer of the bank against the Chairman and General Manager.

Labour Cases

There are 22 labour cases involving the Bank. These cases mainly relate to disciplinary action carried out against an employee of the bank, denial of promotions, seniority, etc.

Customer Cases

There are 2 customer cases involving the bank and the total amount involved in these cases is Rs. 0.70 million.



LICENSES AND APPROVALS

On the basis of the indicative list of approvals provided below, we can undertake this Issue and our current business activities and no further major approvals from any Government authority/RBI are required to continue these activities. It must be distinctly understood that, in granting these licenses, the Government of India and/or RBI does not take any responsibility for our financial soundness or for the correctness of any of the statements made or opinions expressed in this behalf.

Approvals for the Issue

1. Letter no. F.No.11/21/2005-BOA dated November 16, 2005, from the Gol, Ministry of Finance, Department of Economic Affairs (Banking Division), granting its approval for the Issue. The approval is subject to the Bank complying with certain conditions, including:
 - compliance with the provisions of Section 3 of the Bank Acquisition Act;
 - ensuring that the Government of India's shareholding does not fall below 51% at any point of time;
 - the Issue should be timed with due consideration to the prevailing market conditions;
 - obtaining necessary approvals from its Board of Directors, SEBI, shareholders and other regulatory bodies;
 - allotment to non residents will be subject to prior approval of the Exchange Control Department of RBI and the post-Issue non-resident equity shareholding in the Bank shall not exceed 20% of the paid up capital or any lower ceiling that may be specified by the Gol under Section 3(2D) of the Bank Acquisition Act;
 - that the Gol shall not consider any proposal for disinvestment of its shares in the Bank; and
 - public issue expenses should be restricted to a bare minimum.
2. Letter no. FE.CO.FID/14975/10.78.016/2005-06 dated January 9, 2006 from RBI permitting the Bank to issue shares to Non Residents, including Non Resident Indians and FIIs, with repatriation benefits, in the Issue. The permission is subject to ensuring that the post Issue non-resident equity holding in the Bank shall not exceed 20% of the post Issue paid up capital or any lower ceiling that may be notified by the Gol under Section 3 (2D) of the Bank Acquisition Act. The permission is further subject to conditions laid down by the Gol in their approval F.No.11/21/2005-BOA dated November 16, 2005, conditions prescribed by SEBI and terms and conditions for issue of shares as stipulated in Schedule 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 3, 2000, as amended from time to time. However, in the absence of specific approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid up capital of the Bank.

Approvals for our Business

Licences and Approvals from the Gol

Appointment and remuneration of Directors

1. Notification no. F.No.9/31/2004-B.O.I dated December 9, 2004 issued by the Department of Economic Affairs (Banking Division), MoF, Gol appointing K. Cherian Verghese as the Chairman and Managing Director of the Bank from the date of his taking charge and up to March 31, 2006 or until further orders, whichever is earlier.
2. Notification no. F.No.9/5/2003-B.O.I dated January 30, 2004 issued by the Department of Economic Affairs (Banking Division), MoF, Gol appointing K. Rathnakar Hegde as a wholetime director (designated as the Executive Director) of the Bank from the date of his taking charge and up to April 30, 2006 or until further orders, whichever is earlier.
3. Notification no. F.No.9/2/2004-B.O.I dated January 9, 2004 issued by the Department of Economic Affairs (Banking Division), MoF, Gol nominating A. N. Rao, Chief General Manager, Department of Expenditure and Budgetary Control, RBI, as a Director of the Bank, with immediate effect and until further orders.
4. Notification no. F.No.9/11/2004-B.O.I dated January 24, 2005 issued by the Department of Economic Affairs (Banking Division), MoF, Gol nominating B. S. Bhalla, Director, Banking Division, MoF, Gol, as a Director of the Bank, with immediate effect and until further orders.
5. Notification no. F.No.15/3/2003-IR dated September 5, 2003 issued by the Department of Economic Affairs (Banking Division), MoF, Gol nominating S. V. Dange as a Workmen Employee Director of the Bank for a period of three years with effect from September 5, 2003 or until his successor has been nominated or until he ceases to be a workmen employee of the Bank, whichever is earlier.



6. Notification no. F.No.9/35/2003-B.O.I dated November 22, 2005 issued by the Department of Economic Affairs (Banking Division), MoF, Gol nominating Debasis Ghosh as an Officer Employee Director of the Bank for a period of three years from the date of notification or until his successor has been nominated or until he ceases to be an officer of the Bank, whichever is earlier.
7. Letter no. F.No.26/2/2000-B.O.I dated January 15, 2004 issued by the Department of Economic Affairs (Banking Division), MoF, Gol, to the Chairman and Managing Directors/Executive Directors of the nationalised banks stating that the sitting fees payable to the directors nominated by MoF, Gol, and elected directors and entitled to receive the same shall be Rs.5,000 per meeting of the Board and Rs.2,500 per meeting of the committees of the Board.
8. Letter no. F. No.20/1/98-B.O.I dated January 12, 2005 issued by the Department of Economic Affairs (Banking Division), MoF, Gol to the Chairman and Managing Director intimating him that his remuneration package would be the same as the one that he was entitled to as the Chairman and Managing Director of Corporation Bank.
9. Letter no. F. No.20/1/2004-B.O.I dated February 24, 2004 issued by the Department of Economic Affairs (Banking Division), MoF, Gol to K. Rathnakar Hegde intimating him of his remuneration package as the Executive Director of the Bank. Attached to this letter are appendices that specify the details of remuneration of the Executive Director including the salary, dearness allowance and other perquisites.

Others

1. Notification F.No.11/21/2005-BOA dated December 7, 2005, from the MoF, Gol granting an exemption to us from the provisions of sections 13 and 15(1) of the Banking Regulations Act for a period of two years from the date of the notification.
2. Notification F.No.1(2)/2001-RRB dated September 12, 2005 from the Department of Economic Affairs (Banking Division), MoF, Gol amalgamating three regional rural banks, i.e., Kashi Gramin Bank, Gomti Gramin Bank and Samyut Kshetriya Gramin Bank to establish Kashi Gomti Samyut Gramin Bank.

Taxation

1. Permanent Account No. (PAN) AAACU0564G issued by the Department of Income Tax, Gol.
2. Tax deducted at source Account Number ("TAN") U-502-B (C)/BBY issued by the Department of Income Tax, Gol.
3. Certificate of registration (Registration No. BFS/Mum-I/158) dated January 21, 2002 issued by the Office of the Commissioner of Central Excise, Gol for payment of service tax on services of banking and financial services.
4. The Principal Chief Controller of Accounts, Central Board of Excise and Customs has issued three letters dated August 16, 2005 to the Bank authorising it for collection of central excise and service tax duties with effect from September 1, 2005, through four branches in the Rajkot zone, one branch in the Bhavnagar zone and ten branches in the Vadodara zone.
5. Letter no. F.No.III/Accts/20-7/03-04/Raigad dated April 13, 2004 from the Commissioner, Central Board of Excise and Customs, Raigad authorising the branches of the Bank for collection of central excise and service tax duties with effect from April 15, 2004, in the Mumbai Zones I to V, Belapur, Raigad, Thane I and Thane II.
6. Letter no. Coord II/9-7/M.Banking/2004/Vol.II/375 dated October 7, 2004 from the Principal Chief Controller of Accounts, Central Board of Excise and Customs authorising ten branches of the Bank for collection of central excise and service tax duties with effect from November 15, 2004, in the Goa zone.
7. Letter no. Coord II/2-7/Mumbai-III/2001/53 dated May 7, 2004 from the Principal Chief Controller of Accounts, Central Board of Excise and Customs authorising 49 additional branches of the Bank for collection of central excise and service tax duties in the Mumbai Zones I to V, Belapur, Raigad, Thane I and Thane II.

Licences and Approvals from RBI

1. Section 22 of the Banking Regulation Act, which requires a license to be obtained from RBI in order to carry out banking business in India, applies only to banking companies, and not to corresponding new banks constituted under the Bank Acquisition Act. Accordingly, our Bank does not require a license in order to carry out banking activities.
2. Letter no. DBOD.No.FSC.BC 27/24.01.018/2003-2004 dated September 22, 2003 issued by RBI to all scheduled commercial banks (excluding RRBs and LABs) permitting them to enter into insurance referral business without prior approval of RBI, subject to certain conditions including obtaining approval of the IRDA.
3. Letter no. DBOD No.Comp. 22/07.03.29/2003-04 dated March 3, 2004 issued by the Department of Banking Operations and Development, RBI permitting the Bank to launch internet banking services subject to compliance with the instructions contained in circular DBOD.COMP.BC.No.130/07.03.23/2000-01 dated June 14, 2001.



4. Letter no. DBOD.IBD.No.699/23.01.013/2005-06 dated November 11, 2005 granting approval to the Bank for opening a representative office in Shanghai, China.
5. Letter no. DBOD.IBD.No.150/23.01.013/2005-06 dated July 30, 2005 extending validity of approval to the Bank for opening of representative offices in Dubai, United Arab Emirates and Doha, Qatar. The validity of the approval has been extended up to August 31, 2006.
6. Letter no. Ref.DGBA.GAD.No.937/42.01.001/2005-06 dated September 12, 2005 authorising 177 branches (as enclosed with the letter) of the Bank for direct tax collection work.
7. Letter No. DBOD.FSC.No.283/24.01.001/2004-05 dated December 22, 2004 authorising the Bank to become a professional clearing member of the Multi Commodity Exchange of India Limited ("MCX") with the approval of its Board of Directors, subject to the following:
 - (a) The Bank should not undertake trading in derivative segment of commodity segment and should restrict itself to clearing and settlement transactions;
 - (b) The Bank should put in place effective risk control measures; and
 - (c) The Bank should not guarantee trades and should strict compliance with margin requirements as prescribed by MCX.

Subsequently, by a letter dated September 17, 2005, the Bank has requested a dilution of the condition that the Bank should not guarantee trades executed by members of MCX.

We require prior approval from RBI for opening a new place of business in India or abroad. We have obtained the necessary approvals from the appropriate statutory and regulatory authorities for carrying out our business and operations through our branches and no further approvals are required from any Indian government authority / RBI to continue our business and operations. As regards our overseas operations through branch/representative offices/subsidiaries, except as disclosed in the section "Licenses and Approvals – Approvals applied for and pending Approval" on page 207 of this Red Herring Prospectus, we have obtained the necessary approvals from the appropriate statutory and regulatory authorities. Except as disclosed hereunder, there are no approvals which have expired, or which have been applied for and have not been granted to the Indian branches of the Bank. We are not required to apply for any other approvals for the purposes of running our business and operations.

Registration with SEBI

1. Certificate of Registration dated November 10, 2003 granted by SEBI to the Bank for carrying on the activities of a banker to an issue under the SEBI (Bankers to an Issue) Regulations, 1994 with the registration code INB100000006. The license is valid till October 31, 2006.
2. Certificate of Registration dated July 8, 2005 granted by SEBI to the Bank for carrying on the activities of a Category I merchant banker under the SEBI (Merchant Bankers) Regulations, 1992 with the registration code INM000001733. The license is valid till July 15, 2008.
3. Certificate of Registration dated January 23, 2002 granted by SEBI to the Bank for carrying on the activities of a participant with the registration code INB100000006. The license is subject to the conditions specified in the SEBI Act, the Depositories Act and the regulations made thereunder. The license is valid till January 22, 2007.

Approvals granted by the Insurance Regulatory and Development Authority

1. Licence no.891295 dated December 30, 2002 issued by the IRDA authorizing the Bank to act as a corporate agent for procuring/soliciting insurance business of both life and general insurance for three years from December 6, 2002. The said licence has been renewed on December 8, 2005 for a further period of three years.

Approvals from the Stock Exchanges

1. Letter no. 20050411-31 dated April 11, 2005 from the BSE intimating its members that with effect from April 12, 2005, the Bank has commenced operations as a clearing bank for the clearing and settlement operations of the cash and derivatives segment of BSE.

Miscellaneous

1. Credit rating of 'CARE AA+' assigned by CARE vide letter dated August 18, 2005 for the Tier II subordinated bond issue of the Bank aggregating Rs. 8,000 million.
2. Credit rating of 'AA+/Stable' assigned by CRISIL vide Letter No. RS/FSR/UNIBNKI/2005-06/0324 dated August 5, 2005 for the non convertible debenture issue of the Bank aggregating Rs. 4,000 million.



3. Credit rating of 'AA+/Stable' assigned by CRISIL vide Letter No. PS/FSR/UBI/0800/2004-05 dated January 13, 2005 for the subordinated debt programme of the Bank aggregating Rs. 4,500 million.
4. Credit rating of 'AA+' assigned by CRISIL vide Letter No. AJ/FSR/UBI/0330/2003-04 dated August 12, 2003 for the Tier II bond issue of the Bank aggregating Rs. 2,500 million.
5. Credit rating of 'AA+' assigned by CRISIL vide Letter No. GVM/FSR/UBI/0908/2002-03 dated January 22, 2003 for the Tier II bond issue of the Bank aggregating Rs. 4,000 million.
6. Credit rating of 'AA+' assigned by CRISIL vide Letter No. KG/FSR/UBOI/0420/2001-02 dated December 20, 2001 for the subordinated bonds issue of the Bank aggregating Rs. 1,700 million.
7. Certificate of registration (registration no. ARN-4480) dated April 17, 2003 issued by the Association of Mutual Funds of India to the Bank for enrolment as AMFI Registered Mutual Fund Advisor.
8. Letter no. NSCCL/FUNDS/113 dated July 15, 2005 from the National Securities Clearing Corporation Limited approving the empanelment of the Bank as a clearing bank.
9. The Bank has been authorised by the Office of the Deputy Inspector General of Registration and Deputy Controller of Stamps, Government of Maharashtra to use franking machines at its branches at Nashik, Fort, Mumbai and Thane (West). These authorisations are valid till December 31, 2006.

Intimations by the Bank to RBI

1. Letter no. MD:247:03 dated June 19, 2003 from the Bank to RBI stating that at the EGM of the Bank held on June 18, 2003, Ashutosh L Tandon, Dr. N Balasubramanian, Prof. Nandlal L Sarda and R. R. Nair were elected as Directors of the Bank representing shareholders other than the Government of India. The said Directors will assume the office from June 19, 2003 till June 18, 2006. The same has been intimated to the Department of Economic Affairs, MoF, Gol, vide letter no. MD:248:03 dated June 19, 2003.

Approvals applied for and pending approval

1. Letter no. IBD.KPS.KP.839 dated August 16, 2005 to the RBI wherein the Bank has sought RBI's permission for establishment of a branch at Singapore.
2. Letter no. IBD.KPS.KP.839(A) dated August 22, 2005 to the RBI wherein the Bank has sought RBI's permission for establishment of a branch at Hong Kong.
3. Letter no. IBD.KPS.707 dated August 27, 2005 to the RBI seeking permission for establishment of a branch at San Jose, United States of America.
4. Letter No. MBD:1071 to SEBI dated October 4, 2005 for renewal of certificate of registration as underwriters under the SEBI (Underwriters) Regulation, 1992.
5. Letter dated October 5, 2003 to the Banking Supervision and Examination Department, Central Bank of U.A.E for permission to establish a representative office at Dubai.
6. Licensing application form dated September 10, 2003 to the Central Bank of Qatar for the purpose of establishment of a representative office at Doha.
7. Application dated December 8, 2005 for registration of our new logo as a trademark under the provisions of the Trade Marks Act, 1999. The said application has been accepted under class 36, and Trade Mark Rules and has been allotted application number 1404746.



OTHER REGULATORY AND STATUTORY DISCLOSURES

Authority for the Issue

Our Board of Directors authorised a fresh issue of up to 45,000,000 Equity Shares of Rs. 10 each pursuant to a resolution passed at its meeting held on August 23, 2005. Our shareholders subsequently authorised the fresh issue of up to 45,000,000 Equity Shares of Rs. 10 each, by a resolution passed unanimously at the EGM of our Bank held on December 21, 2005, subject to the approval of the GoI, the RBI, SEBI and other applicable authorities.

Our Bank applied to the GoI for its consent to a fresh issue of up to 45,000,000 Equity Shares by its letter dated August 27, 2005. The GoI, Ministry of Finance, Department of Economic Affairs (Banking Division) has granted its approval for the present Issue of 45,000,000 Equity Shares through its letter no. F.No.11/21/2005-BOA dated November 16, 2005, inter alia on the conditions that the holding of GoI shall not fall below 51% at any point of time and allotment to Non-Residents, if any, will be subject to the prior approval of the Exchange Control Department of RBI and should be within the ceiling of 20% of the paid-up capital or any lower ceiling that may be notified by the Government of India under sub-section (2D) of the Section 3 of the Bank Acquisition Act.

Our Bank has applied to the Chief General Manager, Foreign Exchange Department (Foreign Investment Division), RBI by letter no. MBD/1137 dated December 7, 2005 seeking approval of the RBI to issue Equity Shares under this Issue to the public including NRIs and FIIs with repatriation benefits. The RBI has through its letter FE.CO.FID/14975/10.78.016/2005-06 dated January 9, 2006, permitted the Bank to issue shares to Non Residents, including Non Resident Indians and FIIs, with repatriation benefits, in the Issue. The permission is subject to ensuring that the post Issue non-resident equity holding in the Bank shall not exceed 20% of the post Issue paid up capital or any lower ceiling that may be notified by the GoI under Section 3 (2D) of the Bank Acquisition Act. The permission is further subject to conditions laid down by the GoI in their approval F.No.11/21/2005-BOA dated November 16, 2005, conditions prescribed by SEBI and terms and conditions for issue of shares as stipulated in Schedule 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 3, 2000, as amended from time to time. However, absent specific approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid up capital of the Bank.

Prohibition by SEBI

Neither we, nor our Directors or our Associates, or companies with which our Directors are associated with as directors or promoters, have been prohibited from accessing or operating in the capital markets under any order or direction passed by SEBI.

Eligibility for the Issue

As a corresponding new bank set up under the Bank Acquisition Act, we are exempt from the eligibility norms specified under clause 2.2 and 2.3 of the SEBI Guidelines to make a public issue of equity shares.

The relevant extract of the SEBI Guidelines is set forth below:

“2.4 Exemption from Eligibility Norms

2.4.1 The provisions of clauses 2.2 and 2.3 shall not be applicable in case of;

- (ii) *a corresponding new bank set up under the Banking Companies (Acquisition and Transfer of Undertaking) Act, 1970, State Bank of India Act, 1955 and State Bank of India (Subsidiary Banks) Act, 1959 (hereinafter referred to as “public sector banks”).*

Clause 2.2 referred in the clause above relates to unlisted companies and Clause 2.3 relates to listed companies. The clauses are reproduced below:

“2.3. Public Issue by Listed Companies

2.3.1 A listed company shall be eligible to make a public Issue of equity shares or any other security which may be converted into or exchanged with equity shares at a later date.

Provided that the aggregate of the proposed Issue and all previous issues made in the same financial year in terms of size (i.e. offer through offer document + firm allotment + promoters’ contribution through the offer document), Issue size does not exceed 5 times its pre-Issue net worth as per the audited balance sheet of the last financial year.

Provided that in case there is a change in the name of the issuer company within the last 1 year reckoned from the date of filing of the offer document, the revenue accounted for by the activity suggested by the new name is not less than 50% of its total revenue in the preceding 1 full-year period.



2.3.2. A listed company which does not fulfil the conditions given in the provisos to Clause 2.3.1 above, shall be eligible to make a public Issue subject to complying with the conditions specified in Clause 2.2.2)”

Therefore, since our Bank is a corresponding new bank and is exempt under clause 2.4 of the SEBI Guidelines, we are eligible to make this Issue.

Disclaimer Clause

AS REQUIRED, A COPY OF THE RED HERRING PROSPECTUS HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THE RED HERRING PROSPECTUS TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE RED HERRING PROSPECTUS. THE BOOK RUNNING LEAD MANAGERS, SBI CAPITAL MARKETS LIMITED, CITIGROUP GLOBAL MARKETS INDIA PRIVATE LIMITED, DSP MERRILL LYNCH LIMITED, ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED AND KOTAK MAHINDRA CAPITAL COMPANY LIMITED HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THE RED HERRING PROSPECTUS ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURES AND INVESTOR PROTECTION) GUIDELINES, 2000 AS FOR THE TIME BEING IN FORCE. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING AN INVESTMENT IN THE PROPOSED ISSUE. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE BANK IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE RED HERRING PROSPECTUS, THE BOOK RUNNING LEAD MANAGERS ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE BOOK RUNNING LEAD MANAGERS, SBI CAPITAL MARKETS LIMITED, CITIGROUP GLOBAL MARKETS INDIA PRIVATE LIMITED, DSP MERRILL LYNCH LIMITED, ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED AND KOTAK MAHINDRA CAPITAL COMPANY LIMITED HAVE FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED [●] IN ACCORDANCE WITH THE SEBI (MERCHANT BANKERS) REGULATIONS, 1992, WHICH READS AS FOLLOWS:

1. “WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE RED HERRING PROSPECTUS PERTAINING TO THE SAID ISSUE.
2. ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE BANK.
3. WE CONFIRM THAT:
 - THE RED HERRING PROSPECTUS FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;
 - ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE INCLUDING THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH;
 - THE DISCLOSURES MADE IN THE RED HERRING PROSPECTUS ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE;
 - BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE RED HERRING PROSPECTUS ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATIONS ARE VALID; AND
 - WHEN UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS.”
4. ALL LEGAL REQUIREMENTS PERTAINING TO THE ISSUE WILL BE COMPLIED WITH AT THE TIME OF FILING OF THE RED HERRING PROSPECTUS WITH THE DESIGNATED STOCK EXCHANGE IN ACCORDANCE WITH APPLICABLE LAW, AS ALSO ANY GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, GOI AND ANY OTHER COMPETENT AUTHORITY. ALL LEGAL REQUIREMENTS PERTAINING TO THE ISSUE WILL BE COMPLIED WITH AT THE TIME OF REGISTRATION OF THE PROSPECTUS WITH THE DESIGNATED STOCK EXCHANGE IN ACCORDANCE WITH APPLICABLE LAW, INCLUDING ANY GUIDELINES, INSTRUCTIONS, ETC., ISSUED BY SEBI, GOVERNMENT OF INDIA AND ANY OTHER COMPETENT AUTHORITY.”



THE FILING OF THE RED HERRING PROSPECTUS DOES NOT, HOWEVER, ABSOLVE THE BANK FROM ANY LIABILITIES IN THE NATURE OF LIABILITIES UNDER SECTION 63 AND SECTION 68 OF THE COMPANIES ACT OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY AND OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP AT ANY POINT OF TIME, WITH THE BOOK RUNNING, ANY IRREGULARITIES OR LAPSES IN THE RED HERRING PROSPECTUS.

Note:

Our Bank, our Directors and the BRLMs accept no responsibility for statements made otherwise than in this Red Herring Prospectus or in any advertisements or any other material issued by or at instance of the above mentioned entities and anyone placing reliance on any other source of information, including our website, www.unionbankofindia.com, would be doing so at his or her own risk.

The BRLMs accept no responsibility, save to the limited extent as provided in the Memorandum of Understanding entered into among the BRLMs and us dated December 16, 2005 and the Underwriting Agreement to be entered into among the Underwriters and us.

All information shall be made available by us and the BRLMs to the public and investors at large and no selective or additional information would be made available to a select portion of the investors in any manner whatsoever including at road show presentations, in research or sales reports or at Bidding centres.

We shall not be liable to the Bidders for any failure in downloading the Bids due to faults in any software/hardware system or otherwise.

Disclaimer in Respect of Jurisdiction

This Issue is being made in India to Persons resident in India (including Indian nationals resident in India), who are majors, HUFs, companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), or trusts under the applicable trust law and who are authorised under their constitution to hold and invest in shares, permitted insurance companies and pension funds and to permitted non residents including FIIs, NRIs and other eligible foreign investors. This Red Herring Prospectus does not, however, constitute an offer to sell or an invitation to subscribe to Equity Shares offered hereby in any other jurisdiction to any Person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any Person into whose possession this Red Herring Prospectus comes is required to inform himself or herself about and to observe, any such restrictions. Any dispute arising out of this Issue will be subject to the jurisdiction of appropriate court(s) in Mumbai, India only.

No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Red Herring Prospectus has been filed with SEBI for observations and SEBI has given its observations. Accordingly, the Equity Shares, represented thereby may not be offered or sold, directly or indirectly, and this Red Herring Prospectus may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Red Herring Prospectus nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in our affairs from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

The Equity Shares have not been and will not be registered under the US Securities Act of 1933 ("the Securities Act") or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, "U.S. Persons" (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares are only being offered and sold (i) in the United States to "Qualified Institutional Buyers", as defined in Rule 144A of the Securities Act in reliance on Rule 144A under the Securities Act, and (ii) outside the United States to certain Persons in offshore transactions in compliance with Regulation S under the Securities Act and the applicable laws of the jurisdictions where those offers and sales occur.

Disclaimer Clause of the BSE

As required, a copy of this Red Herring Prospectus will be submitted to BSE. BSE has given vide its letter dated December 26, 2005, permission to the Bank to use BSE's name in this Red Herring Prospectus as one of the stock exchanges on which our further securities are proposed to be listed. BSE has scrutinised this Red Herring Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to us. BSE does not in any manner:

1. Warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; or
2. Warrant that this Bank's securities will be listed or will continue to be listed on BSE; or



3. Take any responsibility for the financial or other soundness of this Bank, its promoters, its management or any scheme or project of this Bank;

and it should not for any reason be deemed or construed to mean that this Red Herring Prospectus has been cleared or approved by BSE. Every Person who desires to apply for or otherwise acquires any securities of this Bank may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against BSE whatsoever by reason of any loss which may be suffered by such Person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

Disclaimer Clause of the NSE

As required, a copy of this Red Herring Prospectus will be submitted to NSE. NSE has given in its letter dated December 28, 2005 permission to us to use NSE's name in this Red Herring Prospectus as one of the stock exchanges on which our further securities are proposed to be listed, subject to the Bank fulfilling the various criteria for listing including the one related to paid up capital and market capitalization (i.e., the paid up capital shall not be less than Rs. 100 million and the market capitalization shall not be less than Rs. 250 million at the time of listing). The NSE has scrutinised this Red Herring Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to us. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed to mean that this Red Herring Prospectus has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; nor does it warrant that our securities will be listed or will continue to be listed on the NSE; nor does it take any responsibility for the financial or other soundness of the Bank, its management or any scheme or project of this Bank.

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

Filing

A copy of this Red Herring Prospectus has been filed with SEBI at Corporation Finance Department, Ground Floor, Mittal Court, "A" Wing, Nariman Point, Mumbai 400 021.

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

Listing

Our existing Equity Shares are listed on the BSE and the NSE.

Applications have been made to the NSE and BSE seeking permission for listing of the Equity Shares issued pursuant to this Issue. The BSE will be the Designated Stock Exchange.

If the permissions to deal in and for an official quotation of the Equity Shares are not granted by any of the Stock Exchanges mentioned above, our Bank will forthwith repay, without interest, all moneys received from the applicants in pursuance of this Red Herring Prospectus. If such money is not repaid within eight days after our Bank becomes liable to repay it, i.e. from the date of refusal or within 70 days from the Bid/Issue Closing Date, whichever is earlier, then the Bank, and every Director of the Bank who is an officer in default shall, on and from such expiry of eight (8) days, be liable to repay the money, with interest at the rate of 15.0% per annum on application money, as prescribed under Section 73 of the Companies Act.

Our Bank shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges mentioned above are taken within seven (7) working days of finalization of Allotment for the Issue.

Impersonation

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

"Any person who:

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



Consents

Consents in writing of: (a) the Directors, the Company Secretary, the Compliance Officer, the Auditors, the Banker to the Issue; and (b) BRLMs, Syndicate Members, Registrar to the Issue, Escrow Collection Bank, Banker to the Issue, Domestic Legal Counsel to the Bank, Domestic Legal Counsel to the BRLMs, International Legal Counsel to the BRLMs, to act in their respective capacities have been obtained and shall be filed along with a copy of the Red Herring Prospectus with the Designated Stock Exchange and such consents have not been withdrawn up to the time of delivery of this Red Herring Prospectus for registration with the Designated Stock Exchange.

Our Auditors have given their written consent to the inclusion of their report in the form and context in which it appears in this Red Herring Prospectus and such consent and report have not been withdrawn up to the time of delivery of this Red Herring Prospectus for filing with the SEBI.

Expert Opinion

Except as stated elsewhere in this Red Herring Prospectus, we have not obtained any expert opinions.

Expenses of the Issue

The expenses of this Issue include, among others, underwriting and management fees, selling commission, printing and distribution expenses, legal fees, statutory advertisement expenses and listing fees. The estimated Issue expenses are as follows:

Activity	Expense		
	(in Rs. Million)	(Percentage of total Issue expenses)	(Percentage of total Issue size)
Lead management, underwriting commission*	[●]	[●]	[●]
Advertising and Marketing expenses	[●]	[●]	[●]
Printing and stationery	[●]	[●]	[●]
Registrars fee, legal fee, etc.	[●]	[●]	[●]
Others	[●]	[●]	[●]
Total estimated Issue expenses	[●]	[●]	[●]

* Will be incorporated after finalisation of Issue Price

Fees Payable to the BRLMs, Brokerage and Underwriting Commission

The total fees payable to the BRLMs including brokerage and underwriting commission for the Issue will be as per the memorandum of understanding executed between the Bank and the BRLMs dated December 16, 2005, a copy of which is available for inspection at our Head Office.

Fees Payable to the Registrar to the Issue

The fees payable to the Registrar to the Issue will be as per the Registrar's memorandum of understanding dated December 15, 2005, a copy of which is available for inspection at our Head Office.

Adequate funds will be provided to the Registrar to the Issue to enable them to send refund orders or allotment advice by registered post or speed post or under certificate of posting.

Bidding Period / Issue Period

BID / ISSUE OPENS ON	February 15, 2006
BID / ISSUE CLOSES ON	February 21, 2006

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

We reserve the right to revise the Price Band during the Bidding Period/Issue Period in accordance with SEBI Guidelines. The cap on the Price Band should not exceed the floor of the Price Band by more than 20% of the floor of the Price Band. Subject



to compliance with the immediately preceding sentence, the floor of the Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Red Herring Prospectus.

In case of revision of the Price Band, the Bidding Period/Issue Period will be extended for three additional days after revision of Price Band subject to the Bidding Period/Issue Period not exceeding 10 days. Any revision of the Price Band and the revised Bidding Period/Issue Period, if applicable, will be widely disseminated by notification to BSE and NSE by issuing a press release, and also by indicating the change on the websites of the BRLMs and at the terminals of the Syndicate.

Designated Date and allotment of Equity Shares

- (a) We will ensure that the Allotment of Equity Shares is done within 15 days of the Bid Closing Date/Issue Closing Date. After the funds are transferred from the Escrow Accounts to the Issue Account on the Designated Date, we would ensure the credit to the successful Bidders' depository account as well as the refund to unsuccessful Bidders within two working days of the date of Allotment.
- (b) As per SEBI Guidelines, **Equity Shares will be issued and allotment shall be made only in the dematerialised form to the allottees.** Allottees will have the option to re-materialise the Equity Shares, if they so desire, in the manner stated in the Depositories Act.

Letters of allotment or refund orders

We shall give credit to the beneficiary account with Depository Participants within two working days from the date of the finalisation Allotment. We shall ensure despatch of refund orders, if any, of value up to Rs. 1,500 by "Under Certificate of Posting", and shall dispatch refund orders above Rs. 1,500, if any, by registered post or speed post only at the sole or First Bidder's sole risk within 15 days of the Bid Closing Date/Issue Closing Date, and adequate funds for the purpose shall be made available to the Registrar by us.

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

- Allotment shall be made only in dematerialised form within fifteen days from the Issue Closing Date;
- Despatch of refund orders shall be done within 15 days from the Issue Closing Date; and
- We shall pay interest at 15.0% per annum (for any delay beyond the 15-day time period as mentioned above), if allotment is not made, refund orders are not despatched and/or demat credits are not made to Bidders within the 15-day time prescribed above, provided that the beneficiary particulars relating to such Bidders as given by the Bidders is valid at the time of the upload of the demat credit.

We will provide adequate funds required for despatch of refund orders or allotment advice to the Registrar to the Issue.

Refunds will be made by cheques, pay orders or demand drafts drawn on the Escrow Collection Bank and payable at par at places where Bids are received. The bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centres will be payable by the Bidders.

Companies under the Same Management

There are no companies under the same management.

Particulars Regarding Public Issues during the last Five Years

We made a public issue of our Equity Shares in 2002, the details of which are as under:

Public Issue in which 180,000,000 Equity Shares of Rs. 10 each for cash at par aggregating Rs. 1,800 million were allotted to public.

Opening Date	August 20, 2002
Closing Date	August 28, 2002
Date of Allotment	September 17, 2002
Date of Refunds	September 19, 2002
Date of Listing on Stock Exchanges	September 24, 2002

Promise vs. Performance

The prospectus of our initial public offering in August, 2002 did not contain any promises and accordingly, a comparison of promises vis-à-vis performance can not be furnished.



Issue of Bonds

Details	Deemed date of allotment	Amount allotted (Rs. million)	Description	Allotment Date	Date of Redemption	Credit Rating Agency	Rating
Series I	September 15, 1999	5,000	Unsecured Redemable Non Convertible Subordinated Bonds in form of Promisory Notes	September 15, 1999	September 15, 2006	CRISIL	AA+
Series II	08.02.2001	1,000	Unsecured Redemable Non Convertible Subordinated Bonds in form of Promisory Notes	February 8, 2001	May 8, 2006	CRISIL	AA+
Series III	01.09.2001	1,000	Unsecured Redemable Non Convertible Subordinated Bonds in form of Promisory Notes	September 1, 2001	June 1, 2007	ICRA	LAA+
Series IV	February 5, 2002	1,700	Unsecured Redemable Non Convertible Subordinated Bonds in form of Promisory Notes	February 5, 2002	July 5, 2007	CRISIL	AA+
Series V	March 7, 2003	4,000	Unsecured Redemable Non Convertible Subordinated Bonds in form of Promisory Notes	March 7, 2003	April 7, 2010	CRISIL	AA+
Series VI	September 3, 2003	2,500	Unsecured Redemable Non Convertible Subordinated Bonds in form of Promisory Notes	September 3, 2003	April 7, 2013	CRISIL	AA+
Series VII	February 8, 2005	4,500	Unsecured Redemable Non Convertible Subordinated Bonds in form of Promisory Notes	February 8, 2005	May 8, 2015	CRISIL	AA+
Series VIII (Option I: Fixed Rate)	September 23, 2005	6,000	Unsecured Redemable Non Convertible Subordinated Bonds in form of Promisory Notes	September 23, 2005	April 23, 2015	CARE CRISIL	AA+ AA+
Series VIII (Option II: Floating Rate)	September 23, 2005	2,000	Unsecured Redemable Non Convertible Subordinated Bonds in form of Promisory Notes	September 23, 2005	April 23, 2012	CARE CRISIL	AA+ AA+

The said bonds have been issued on a private placement basis and IDBI Trusteeship Service Limited ("ITSL") is the trustee for the holders of the aforementioned bonds. Pursuant to an agreement dated March 26, 2004 with ITSL, the Bank is prohibited from declaring/paying any dividend during the period the bonds are outstanding unless all dues to the bondholders/trustees have been paid or satisfactory provisions therefore have been made.



Commissions and Brokerages paid on previous issues by us

Name of the Issue	Month and Year	Commission and Brokerage (Rs. million)
Initial Public Issue of Equity Shares	September, 2002	22.83

Issues otherwise than for cash

We have not issued any Equity Shares for consideration otherwise than for cash in the last five years.

Remuneration Payable to the Directors

Please refer to the section titled “Our Management- Remuneration of Directors” on page 103 of this Red Herring Prospectus.

Purchase of Property

Except as stated in the section titled “Objects of the Issue” and elsewhere in this Red Herring Prospectus, there is no property which we have purchased or acquired or propose to purchase or acquire which is to be paid for wholly, or in part, from the net proceeds of the Issue or the purchase or acquisition of which has not been completed on the date of this Red Herring Prospectus, other than property in respect of which:

- the contracts for the purchase or acquisition were entered into in the ordinary course of the business, and the contracts were not entered into in contemplation of the Issue nor is the Issue contemplated in consequence of the contracts; or
- the amount of the purchase money is not material; or
- disclosure has been made earlier in this Red Herring Prospectus.

We have not purchased any property in which any Directors have any direct or indirect interest in any payment made thereof.

Servicing Behaviour

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

Stock Market Data for our Equity Shares

Our Equity Shares are listed on NSE and BSE.

The following table sets forth, the high and low of daily closing prices of our Equity Shares on BSE and the NSE, for a period of three years, for the periods indicated

Period	BSE			NSE		
	High	Low	Average	High	Low	Average
2002-2003	29.00	13.55	11.49	29.10	14.60	11.50
2003-2004	60.25	24.80	43.14	60.25	24.75	42.06
2004-2005	133.50	42.95	91.65	133.60	38.00	82.00

The following table sets forth, the number of shares traded on the days when the high and low prices were recorded of our Equity Shares on BSE and the NSE, in the past three years, on the dates indicated:

Period	BSE				NSE			
	High		Low		High		Low	
	Date	No. of Equity Shares traded	Date	Number of Equity Shares traded	Date	No. of Equity Shares traded	Date	No. of Equity Shares traded
2002-2003	January 22, 2003	4,697,353	October 21, 2002	37,774	January 22, 2003	14,000,326	October 17, 2002	202,202
2003-2004	January 15, 2004	990,630	April 1, 2003	688,236	January 15, 2004	2,964,434	April 1, 2003	1,361,635
2004-2005	March 11, 2005	750,832	May 17, 2004	3,013,270	March 11, 2005	2,222,237	May 17, 2004	6,861,569



The following table sets forth, the high and low of daily closing prices of our Equity Shares on BSE and the NSE and the number of Equity Shares traded, in the last six months, for the periods indicated:

Period	BSE				NSE			
	High	Low	Average*	Volume	High	Low	Average*	Volume
July 2005	138.25	106.60	115.94	4,965,875	138.85	106.50	116.15	22,018,459
August 2005	140.60	117.70	131.70	4,519,563	140.20	117.60	131.77	18,228,668
September 2005	142.85	123	134.13	4,136,354	142.35	123.00	134.31	17,298,296
October 2005	148.70	106.65	121.45	4,047,488	139.95	106.10	121.69	12,440,545
November 2005	121	111	115.33	2,514,980	124.90	111.25	115.31	10,719,677
December 2005	126.50	110	117.05	5,198,843	126.40	109.65	117.10	20,120,322

* Average of the daily closing Equity Share price

The following table sets forth, the number of Equity Shares traded on the days when the high and low prices were recorded of our Equity Shares on BSE and the NSE, in the past six months, on the dates indicated:

Period	BSE				NSE			
	High		Low		High		Low	
	Date	No. of Equity Shares traded	Date	No. of Equity Shares traded	Date	No. of Equity Shares traded	Date	No. of Equity Shares traded
July, 2005	July 29, 2005	781,653	July 1, 2005	184,786	July 29, 2005	2,897,587	July 1, 2005	970,816
August, 2005	August 1, 2005	361,880	August 24, 2005	214,266	August 1, 2005	1,471,894	August 24, 2005	1,303,001
September, 2005	September 13, 2005	493,109	September 23, 2005	118,235	September 13, 2005	1,743,822	September 23, 2005	480,760
October, 2005	October 3, 2005	97,875	October 24, 2005	613,057	October 5, 2005	488,511	October 24, 2005	1,419,474
November, 2005	November 17, 2005	309,008	November 22, 2005	209,426	November 29, 2005	276,951	November 23, 2005	930,799
December 2005	December 20, 2005	556,877	December 27, 2005	101,217	December 20, 2005	1,868,738	December 27, 2005	634,078

As on August 24, 2005, the day after our Board approved this Issue, the closing market price of our Equity Shares on the BSE was Rs. 120.85 and the NSE was Rs. 120.85.

Mechanism for Redressal of Investor Grievances

Investor grievance will be settled expeditiously and satisfactorily by us. The agreement between the Registrar to the Issue and us will provide for retention of records with the Registrar to the Issue for a period as specified under the SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 from the last date of dispatch of letters of allotment, demat credit and refund orders to enable the investors to approach the Registrar to the Issue for redressal of their grievances.

All grievances relating to the Issue may be addressed to the Registrar to the Issue, MCS Limited, giving full details such as name, address of the applicant, application number, number of shares applied for, amount paid on application, Depository Participant, and the respective Syndicate Member or collection centre where the application was submitted.

Disposal of Investor Grievances

We estimate that the average time required by us or the Registrar to the Issue to address routine investor grievances shall be seven days from the date of receipt of the complaint. In case of non-routine complaints and complaints where external agencies are involved, we will seek to redress these complaints as expeditiously as possible.



The details of the investor grievances are as follows:

Category	Pending on September 30, 2005	Received up to December 31, 2005	Processed up to December 31, 2005	Pending on December 31, 2005
Complaints Directly from the shareholders	Nil	453	453	Nil
Complaints received from SEBI	Nil	Nil	Nil	Nil
Complaints received from Stock Exchanges	Nil	Nil	Nil	Nil

We have appointed R.B. Menon as the Compliance Officer and he may be contacted in case of any pre-Issue or post-Issue-related problems such as non-receipt of letters of allotment, credit of allotted shares in the respective beneficiary account, refund orders, etc. He can be contacted at the following address:

239, Vidhan Bhavan Marg
Nariman Point
Mumbai 400 021
Maharashtra, India
Tel: (91 22) 2289 6602
Fax: (91 22) 2202 5238
Email: rbmenon@unionbankofindia.com

Changes in Auditors

Our Auditors are appointed by the RBI from time to time and their remuneration, rights and duties are regulated by the Bank Acquisition Act.

There have been no changes in our Auditors in the last three years, except as detailed below:

Sl. No.	Year of appointment/cessation	Name	Reason for appointment/cessation
1.	September 30, 2005	M/s Price Patt & Co.	Appointment by RBI
2.	September 30, 2005	M/s Dass Maulik Mahendra K. Agrawala & Co.	Appointment by RBI
3.	September 30, 2005	M/s S.N.Dhawan & Co.	Cessation on completion of tenure
4.	September 30, 2005	M/s V.K.Verma & Co.	Cessation on completion of tenure
5.	March 31, 2005	M/s.Batliloi & Purohit	Appointment by RBI
6.	March 31, 2005	M/s.Lodha & Co.	Appointment by RBI
7.	March 31, 2005	M/s Sundaram & Srinivasan	Cessation on completion of tenure
8.	March 31, 2005	M/s Gala & Gala	Cessation on completion of tenure
9.	March 31, 2004	M/s D.P.Sen & Co.	Cessation on completion of tenure
10.	March 31, 2004	M/s Raj K. Aggarwal & Co.	Appointment by RBI
11.	March 31, 2003	M/s Chandiok & Guliani	Appointment by RBI
12.	March 31, 2002	M/s C.S.Hariharan & Co.	Cessation on completion of tenure
13.	March 31, 2002	M/s S.N.Dhawan & Co.	Appointment by RBI
14.	March 31, 2002	M/s V.K.Verma & Co.	Appointment by RBI

Capitalisation of Reserves or Profits

We have not capitalised any reserves or profits during the last five financial years.

Revaluation of Assets

There has been no revaluation of assets in the last five years.



FINANCIAL INDEBTEDNESS

Details of Tier II Bonds of the Bank

(Rs. million)

Issue/ Bond Series*	Date of Issue	Amount Outstanding as of September 30, 2005	Date of Repayment	Coupon (%)	Security	Servicing Behaviour
I	September 10, 1999	5,000	September 10, 2006	12.5	Unsecured	Annual
II	February 8, 2001	1,000	May 8, 2006	11.25	Unsecured	Annual
III	September 1, 2001	1,000	June 1, 2007	9.80	Unsecured	Annual
IV	February 5, 2002	1700	July 5, 2007	9.30	Unsecured	Annual
V	March 7, 2003	4000	April 7, 2010	6.90	Unsecured	Annual
VI	September 3, 2003	2,500	May 3, 2013	5.95	Unsecured	Annual
VII	February 8, 2005	4,500	May 8, 2015	7.15	Unsecured	Annual
VIII (Option I: Fixed Rate)	September 23, 2005	6,000	April 23, 2015	7.45	Unsecured	Annual
VIII (Option II: Floating Rate)	September 23, 2005	2,000	April 23, 2012	Bechmark+0.55 basis points	Unsecured	Semi Annual

* The said bonds have been issued on a private placement basis and IDBI Trusteeship Service Limited (ITSL) is the trustee for the holders of the aforementioned bonds. Pursuant to an agreement dated November 2, 2005 with ITSL for the aforementioned purpose, the Bank is prohibited from declaring/paying any dividend during the period the bonds are outstanding unless all dues to the bondholders/trustees have been paid or satisfactory provisions therefore have been made.

Investments by Our Associates in Our Bond Offerings

S. No.	Name	Issue/Bond Series	Amount (Rs. million)
1.	Gomti Gramin Bank	Series I Series VII	25.00 10.00
2.	Kashi Gramin Bank	Series I	52.50
3.	Samyukta Kshetriya Gramin Bank	Series I Series VII	100.00 18.00
4.	Rewa Sidhi Gramin Bank	Series I	20.00
	TOTAL		225.50

Details of Unsecured Liabilities

Set forth below is a brief summary of our aggregate unsecured borrowings as at September 30, 2005:

(Rs. million)

Particulars	September 30, 2005
Demand Deposits from banks	5,147.0
Demand Deposits from Others	51,006.9
Savings Bank deposits	166,251.2
Term Deposits from banks	13,244.2
Term Deposits from Others	451,078.1
Sub Ordinated Debts including Subordinated Bonds Tier II Series –II to VIII	27,700.0
Borrowing from other Bank	20.6
Borrowing outside India	12,506.0
Borrowing from other Institutions	5,025.6
Total	731,979.6



Borrowings in India

Borrowings within India are comprised of borrowings from the RBI, borrowings from banks and other financial institutions and agencies. These borrowings are in the ordinary course of the Bank's business comprising money market operations, refinance availed, etc. Some of these borrowings are against the security of Government securities that are held by the Bank while others are unsecured. In addition, the Bank also has certain borrowings in foreign currencies.

Borrowings in Foreign Exchange

RBI has opened avenues for authorised banks (including the Bank) to generate foreign currency resources by way of bilateral borrowings from overseas correspondent banks for the purposes of export financing.

The Bank has obtained the following currency loans:

1. Under a facility agreement dated January 7, 2005, the Bank has borrowed Japanese Yen equivalent to US\$100 million as a one-year syndicated loan from a consortium of overseas banks including Bank of Tokyo – Mitsubishi, DBS Bank Limited, Natexis Banques Populaires and DZ Bank AG. The said loan is repayable within 364 days.
2. Under a facility agreement dated March 18, 2005, the Bank has borrowed Japanese Yen equivalent to US\$125 million as a one-year syndicated loan from a consortium of overseas banks including BNP Paribas, Citibank N.A., Bahrain, Lloyds TSB Bank and Standard Chartered Bank. The said loan is repayable within 364 days.
3. Under a facility agreement dated July 12, 2005, the Bank has borrowed Japanese Yen equivalent to US\$50 million as a one-year syndicated loan from a consortium of overseas banks including BNP Paribas, Standard Chartered Bank, DBS Bank AG and Bank of Tokyo – Mitsubishi. The said loan is repayable within 364 days.



TERMS OF THE ISSUE

The Equity Shares being offered are subject to the provisions of the Banking Regulation Act, Constitutional Documents, the terms of the Draft Red Herring Prospectus, this Red Herring Prospectus, Prospectus, Bid cum Application Form, the Revision Form, the CAN and other terms and conditions as may be incorporated in the allotment advice and other documents/certificates that may be executed in respect of the Issue. The Equity Shares shall also be subject to laws as applicable, guidelines, notifications and regulations relating to the issue of capital and listing and trading of securities issued from time to time by SEBI, the Government of India, Stock Exchanges, RBI, and/or other authorities, as in force on the date of the Issue and to the extent applicable. The overall Allotment shall be subject to the condition that the Non Resident holding in the Bank shall not exceed 20% of our post Issue paid up capital.

Ranking of Equity Shares

The Equity Shares being offered shall be subject to the provisions of our Constitutional Documents and shall rank *pari passu* in all respects with the existing Equity Shares of the Bank including rights in respect of dividend. The Persons in receipt of Allotment will be entitled to dividend or other benefits, if any, declared by our Bank after the date of Allotment.

Face Value and Issue Price

The Equity Shares are being offered in terms of this Red Herring Prospectus at a total price of Rs. [●] per Equity Share. At any given point of time, there shall be only one denomination for the Equity Shares.

The face value of the shares is Rs. 10 and the Floor Price is [●] times of the face value and the Cap Price is [●] times of the face value.

Rights of the Equity Shareholder

Subject to applicable laws, the Equity Shareholders shall have the following rights:

- Right to receive dividend, if declared. However, the declaration of dividend of the Bank is subject to certain restrictions. Please refer to the restrictions on the payment of dividend in the section titled “Regulation and Policies - Restrictions on Payment of Dividends” on page 93 of this Red Herring Prospectus;
- Right to attend general meetings and exercise voting powers, unless prohibited by law. However, the power of shareholders to exercise voting rights is subject to certain restrictions. The Bank Acquisition Act states that no shareholder of the Bank, other than the GoI shall be entitled to exercise voting rights in respect of the shares held by him in excess of one percent of the total voting rights of all the shareholders of the Bank. For information on restrictions on the power of shareholders to exercise voting rights, please refer to the section titled “Regulation and Policies - Restriction on Share Capital and Voting Rights” on page 93 of this Red Herring Prospectus;
- Right to vote on a poll either in person or by proxy;
- Right of free transferability, subject to the provisions of Section 3(2D) of the Bank Acquisition Act and Regulations 17 and 19 of the Bank Regulations. The right of free transferability is subject to certain restrictions. For information on these restrictions, please refer to section titled “Main Provisions of Constitutional Documents” on page 245 of this Red Herring Prospectus; and
- Such other rights, as may be available to a shareholder of a listed corresponding new bank under the Banking Regulation Act and our Constitutional Documents and under the listing agreements with the Stock Exchanges. However, please note that all rights available to shareholders of a company are not available to shareholders of a corresponding new bank. For information on these restrictions please refer to section titled “Regulation and Policies - Comparative Table of Rights of Shareholders of Companies Act, 1956 and under Regulations applicable to Corresponding New Banks” beginning on page 69 of this Red Herring Prospectus.

For a detailed description of the main provisions of our Constitutional Documents dealing with, among other things, voting rights, dividend, forfeiture and lien, transfer and transmission see the section titled “Main Provisions of Constitutional Documents” beginning on page 245 of this Red Herring Prospectus.

Market Lot and Trading Lot

In terms of Section 68B of the Companies Act, the Equity Shares shall be allotted only in dematerialized form. As per the existing SEBI Guidelines, the trading in the Equity Shares shall only be in dematerialised form for all investors. Since trading of our Equity Shares is in dematerialised form, the tradable lot is one Equity Share. Allotment through this Issue will be done only in electronic form in multiples of one Equity Share subject to a minimum Allotment of [●] Equity Shares. For details of allocation and allotment, see the section titled “Issue Procedure- Basis of Allotment” on page 239 of this Red Herring Prospectus.



Nomination Facility to the Investor

In the nature of the rights specified in Regulation 20 of the Bank Regulations, the sole or first Bidder, along with other joint Bidder, may nominate any one Person in whom, in the event of the death of sole Bidder or in case of joint Bidders, death of all the Bidders, as the case may be, the Equity Shares allotted, if any, shall vest. A Person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the Equity Share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any Person to become entitled to Equity Share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale/transfer/alienation of Equity Share(s) by the Person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at the Head Office of the Bank or at the Registrar and Transfer Agents of our Bank. Any Person who becomes a nominee in the manner stated above, shall upon the production of such evidence as may be required by the Board of Directors, elect either:

- to register himself or herself as the holder of the Equity Shares; or
- to make such transfer of the Equity Shares, as the deceased holder could have made.

Further, the Board of Directors may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the Equity Shares, and if the notice is not complied with, within a period of 90 days, the Board of Directors may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the Equity Shares, until the requirements of the notice have been complied with.

Notwithstanding anything stated above, since the allotment in the Issue will be made only in dematerialised mode, there is no need to make a separate nomination with the Bank. Nominations registered with the respective depository participant of the applicant would prevail. If the investors require to change the nomination, they are requested to inform their respective depository participant.

Minimum Subscription

If we do not receive the minimum subscription of 90% of the Issue to the public to the extent of the amount payable on application, including devolvement on Underwriters, if any, within 60 days from the Bid Closing Date, we shall forthwith refund the entire subscription amount received. If there is a delay beyond eight days after we become liable to pay the amount (i.e., 60 days from the Bid Closing Date), we shall pay interest prescribed under Section 73 of the Companies Act.

Jurisdiction

Exclusive jurisdiction for the purpose of this Issue is with competent courts/authorities in Mumbai, India.

Subscription by Eligible Non Residents

There is no reservation for any Non Residents including NRIs, FIIs, foreign venture capital investors registered with SEBI and multilateral and bilateral development financial institutions and such NRIs, FIIs, foreign venture capital investors registered with SEBI and multilateral and bilateral development financial institutions will be treated on the same basis with other categories for the purpose of allocation.

The shareholding of Non Residents in the Bank cannot exceed 20% of the paid up capital of the Bank in terms of Section 3 of the Bank Acquisition Act. For public sector banks, RBI monitors the ceilings on FII/NRI/PIO investments on a daily basis. For effective monitoring, RBI has fixed cut off points lower than the actual ceilings which is 18% for public sector banks. Once the aggregate net purchase of Equity Shares reaches the cut off points further acquisition of Equity Shares by FIIs/NRIs/PIOs require approval of the RBI. In addition, the provisions of the SEBI Takeover Regulations apply and must be complied with. Further Bank Regulations also regulates the manner of transfer of shares consolidation and sub-division of the Equity Shares of the Bank. For further details, please refer to the section "Main Provisions of Our Constitutional Documents" on page 245 of this Red Herring Prospectus.

Our Bank had applied to the Chief General Manager, Exchange Department (Foreign Investment Division) through our letter no. MBD 1137 dated December 7, 2005, seeking approval of the RBI to issue Equity Shares under this Issue to the public including NRIs and FIIs with repatriation benefits. The RBI has, vide its letter no. FE.CO.FID/14975/10.78.016/2005-06 dated January 9, 2006, permitted the Bank to issue shares to Non Residents, including Non Resident Indians and FIIs, with repatriation benefits, in the Issue. The permission is subject to ensuring that the post Issue non-resident equity holding in the Bank shall not exceed 20% of the post Issue paid up capital or any lower ceiling that may be notified by the GoI under Section 3 (2D) of the Bank Acquisition Act. The permission is further subject to conditions laid down by the GoI in their approval F.No.11/21/2005-BOA dated November 16, 2005, conditions prescribed by SEBI and terms and conditions for issue of shares as stipulated in Schedule 1 and 2 to RBI Notification No. FEMA.20/2000-RB dated May 3, 2000, as amended from time to time.



However, absent specific approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid up capital of the Bank.

As per RBI regulations, OCBs cannot participate in the Issue.

Application in Issue

Equity Shares being issued through this Red Herring Prospectus can be applied for in the dematerialized form only.

Withdrawal of the Issue

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

The Equity Shares have not been and will not be registered under the US Securities Act of 1933 (“the Securities Act”) or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, “U.S. persons” (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares are only being offered and sold (i) in the United States to “qualified institutional buyers”, as defined in Rule 144A under the Securities Act in reliance on Rule 144A under the Securities Act, and (ii) outside the United States to certain Persons in offshore transactions in compliance with Regulation S under the Securities Act and the applicable laws of the jurisdictions where those offers and sales occur.

Notice to QIBs: Allotment Reconciliation

After the Bid/Offer Closing Date, an electronic book will be prepared by the Registrar on the basis of Bid applications received. Based on the electronic book, QIBs will be sent a CAN no later than March 8, 2006, indicating the number of Equity Shares that may be allocated to them. This CAN is subject to the basis of final Allotment, which will be approved by the Designated Stock Exchange and reflected in the physical book prepared by the Registrar. Subject to SEBI Guidelines, certain Bid applications may be rejected due to technical reasons, non-receipt of funds, cancellation of cheques, cheque bouncing, incorrect details, etc., and these rejected applications will be reflected in the reconciliation and basis of Allotment as approved by the Designated Stock Exchange and specified in the physical book. In addition, there are foreign investment limitations applicable to the Bank, which may result in a change (including potentially a decrease) in the number of Equity Shares being finally Allotted to QIBs (including FIIs) that are Non Resident Investors. As a result, a revised CAN may be sent to QIBs and the allocation of Equity Shares in such revised CAN may be different from that specified in the earlier CAN. It is not necessary that a revised CAN will be sent. QIBs should note that they may be required to pay additional amounts, if any, by the Pay-in Date specified in the revised CAN, for any increased Allotment of Equity Shares. The CAN will constitute the valid, binding and irrevocable contract (subject only to the issue of a revised CAN) for the QIB to pay the entire Issue Price for all the Equity Shares allocated to such QIB. The revised CAN, if issued, will supersede in entirety the earlier CAN.



ISSUE STRUCTURE

The present Issue of 45,000,000 Equity Shares Rs. 10 each, at a price of Rs. [●] for cash aggregating Rs. [●] million is being made through the 100% Book Building Process.

	QIBs	Non-Institutional Bidders	Retail Individual Bidders	Employee Reservation Portion
Number of Equity Shares*	Up to 20,250,000 Equity Shares	Minimum of 6,075,000 Equity Shares	Minimum of 14,175,000 Equity Shares	Up to 4,500,000 Equity Shares
Percentage of Issue Size available for allocation*	Up to 50% of Net Issue	Minimum 15% of Net Issue	Minimum 35% of Net Issue	Up to 10% of the Issue Size
Basis of Allocation (subject to compliance with sectoral caps)	Proportionate	Proportionate	Proportionate	Proportionate
Minimum Bid	Such number of Equity Shares that the Bid Amount is equal to or exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter.	Such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter.	[●] Equity Shares and in multiples of [●] Equity Share thereafter.	[●] Equity Shares and in multiples of [●] Equity Share thereafter.
Maximum Bid	Such number of Equity Shares not exceeding the Net Issue, subject to applicable limits.	Such number of Equity Shares not exceeding the Net Issue, subject to applicable limits.	Such number of Equity Shares whereby the Bid Amount does not exceed Rs. 100,000.	Such number of Equity Shares not exceeding the Employee Reservation Portion
Mode of Allotment	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.
Trading Lot	One Equity Share	One Equity Share	One Equity Share	One Equity Share
Who can Apply	Public financial institutions, as specified in Section 4A of the Companies Act, scheduled commercial banks, mutual funds, foreign institutional investors registered with SEBI, multilateral and bilateral development financial institutions, and State Industrial Development Corporations, permitted insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million in accordance with applicable law.	NRIs, Resident Indian individuals, HUF (in the name of Karta), companies, corporate bodies, scientific institutions societies, trusts	Individuals (including HUFs, NRIs) applying for Equity Shares such that the Bid Amount does not exceed Rs. 100,000 in value.	Eligible Employees



	QIBs	Non-Institutional Bidders	Retail Individual Bidders	Employee Reservation Portion
Terms of Payment	QIB Margin Amount shall be payable at the time of submission of Bid cum Application Form to the BRLMs.	Margin Amount shall be payable at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Amount shall be payable at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Amount applicable to Eligible Employees shall be payable at the time of submission of Bid cum Application Form to the Syndicate Members.
Margin Amount	10% of the Bid Amount	Full Bid Amount on bidding	Full Bid Amount on bidding	Full Bid Amount on bidding

* Subject to valid Bids being received at or above the Issue Price. Under-subscription, if any, in any category, would be allowed to be met with spillover from any other categories at the discretion of the Bank in consultation with the BRLMs. Under-subscription, if any, in the Employee Reservation Portion, would be allowed to be met first with spill over from the Retail Portion and then from any other category.

Bids by QIBs shall be submitted only to the BRLMs or Syndicate Members duly appointed by them in this regard.

Allotment in the manner detailed hereinabove shall be subject to the condition that the Non Resident shareholding in the Bank immediately after the Allotment shall not exceed a maximum of 20% of its post Issue paid up capital.



ISSUE PROCEDURE

Book Building Procedure

The Issue is being made through the 100% Book Building Process wherein up to 50% of the Net Issue to the public shall be available for allocation on a proportionate basis to QIB Bidders. Further, not less than 35% of the Net Issue to the public shall be available for allocation on a proportionate basis to the Retail Individual Bidders and not less than 15% of the Net Issue to the public shall be available for allocation on a proportionate basis to Non-Institutional Bidders, subject to valid Bids being received at or above the Issue Price.

Bidders are required to submit their Bids through the Syndicate. However, the Bids by QIB shall be submitted only to the BRLMs or Syndicate Members duly appointed by them in this regard. In case of QIB Bidders, the Bank in consultation with the BRLMs may reject Bids at the time of acceptance of the Bid cum Application Form provided that the reasons for rejecting the same shall be provided to such Bidder in writing. In case of Bids under the Non-Institutional Portion, Bids under the Retail Portion and Bids under Employee Reservation Portion, Bids would not be rejected except on the technical grounds listed in this Red Herring Prospectus.

Investors should note that Allotment to all successful Bidders will only be in the dematerialised form. Bidders will not have the option of getting Allotment in physical form. The Equity Shares, on Allotment, shall be traded only in the dematerialised segment of the Stock Exchanges.

Bid cum Application Form

Bidders shall only use the specified Bid cum Application Form bearing the stamp of a member of the Syndicate for the purpose of making a Bid in terms of this Red Herring Prospectus. The Bidder shall have the option to make a maximum of three Bids in the Bid cum Application Form and such options shall not be considered as multiple Bids. Upon the allocation of Equity Shares, dispatch of the CAN, and filing of the Prospectus with the Designated Stock Exchange, the Bid cum Application Form shall be considered as the application form. Upon completing and submitting the Bid cum Application Form to a member of the Syndicate, the Bidder is deemed to have authorised us to make the necessary changes in this Red Herring Prospectus and the Bid cum Application Form as would be required for filing the Prospectus with the Designated Stock Exchange and as would be required by Designated Stock Exchange after such filing, without prior or subsequent notice of such changes to the Bidder.

The prescribed colour of the Bid cum Application Form for various categories is as follows:

Category	Colour of Bid cum Application Form
Indian public including resident QIBs, Non Institutional Bidders, Retail Individual Bidders and eligible NRIs applying on a non-repatriation basis	White
Eligible NRIs, Non Resident QIBs, etc., applying on a repatriation basis	Blue
Eligible Employees	Pink

The Bids received under the Employee Reservation Category would not be considered in the Book Building process and the determination of the Issue Price.

Who can Bid?

- Indian nationals resident in India who are majors, in single or joint names (not more than three);
- Hindu Undivided Families or HUFs, in the individual name of the *Karta*. The Bidder should specify that the Bid is being made in the name of the HUF in the Bid cum Application Form as follows: "Name of Sole or First bidder: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the *Karta*". Bids by HUFs would be considered at par with those from individuals;
- Companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in the Equity Shares;
- Mutual Funds registered with SEBI;
- Indian Financial Institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission, as applicable);
- Venture Capital Funds registered with SEBI;



- Foreign Venture Capital Investors registered with SEBI;
- State Industrial Development Corporations;
- Trusts registered under the Societies Registration Act, 1860, as amended, or under any other law relating to Trusts and who are authorised under their constitution to hold and invest in equity shares;
- NRIs and FIIs on a repatriation basis or a non-repatriation basis subject to applicable laws;
- Scientific and/or Industrial Research Organisations authorised to invest in equity shares;
- Insurance Companies registered with Insurance Regulatory and Development Authority;
- Provident Funds with minimum corpus of Rs. 250 million and who are authorised under their constitution to hold and invest in equity shares;
- Pension Funds with minimum corpus of Rs. 250 million and who are authorised under their constitution to hold and invest in equity shares;
- Multilateral and Bilateral Development Financial Institutions;
- Eligible Employees; and
- Pursuant to the existing regulations, OCBs are not eligible to participate in the Issue.

Note: The BRLMs and Syndicate Members shall not be entitled to subscribe to this Issue in any manner except towards fulfilling their underwriting obligation.

Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under applicable law.

Application by Mutual Funds

As per the current regulations, the following restrictions are applicable for investments by mutual funds:

No mutual fund scheme shall invest more than 10% of its net asset value in the Equity Shares or equity related instruments of any company provided that the limit of 10% shall not be applicable for investments in index funds or sector or industry specific funds. No mutual fund under all its schemes should own more than 10% of any company's paid-up share capital carrying voting rights. These limits would have to be adhered to by the mutual funds for investment in the Equity Shares.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

Application by Eligible Non Residents

Foreign investment in a corresponding new bank is regulated by the provisions of the Bank Acquisition Act as applicable to the Bank. Under Section 3(2D) of the Bank Acquisition Act, foreign investment in a corresponding new bank is subject to an overall statutory limit of 20% of the paid up capital of the corresponding new bank. For corresponding new banks, the RBI monitors the ceilings on Non Resident investments on a daily basis. For effective monitoring the RBI has fixed cut off points lower than the actual ceiling which is 18% for public sector banks. Once the aggregate net purchase of equity shares reaches the cut off point, further acquisition of equity shares by Non Residents require approval of the RBI until the limit is reached till 20% beyond which Non Residents cannot acquire further shares.

The above information is given for the benefit of the Bidders. Our Bank and the BRLMs are not liable for any amendments or modification or changes in applicable laws or regulations, which may occur after the date of this Red Herring Prospectus. Bidders are advised to make their independent investigations and ensure that the number of Equity Shares bid for do not exceed the applicable limits under laws or regulations.

Application by NRIs

Bid cum application forms have been made available for NRIs at the Head Office of the Bank.

NRI applicants may please note that only such applications as are accompanied by payment in free foreign exchange shall be considered for Allotment. The NRIs who intend to make payment through Non Resident Ordinary (NRO) accounts shall use the form meant for Resident Indians.

Application by FIIs

As per the current regulations, the following restrictions are applicable for investments by FIIs:



The shareholding of a single FII should not exceed 10% of our post-Issue issued capital (i.e. 10% of [●] Equity Shares of Rs. 10 each). In respect of an FII investing in our Equity Shares on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of our total issued capital or 5% of our total issued capital in case such sub-account is a foreign corporate or an individual, together with the existing shareholding of such sub account.

Applications by Venture Capital Funds and Foreign Venture Capital Investors

As per the current regulations, the following restrictions are applicable for SEBI registered Venture Capital Funds and Foreign Venture Capital Investors:

The SEBI (Venture Capital) Regulations, 1996 and the SEBI (Foreign Venture Capital Investor) Regulations, 2000 prescribe investment restrictions on venture capital funds and foreign venture capital investors registered with SEBI. Accordingly, the holding by any individual venture capital fund or foreign venture capital investor registered with SEBI should not exceed the limits under these regulations.

Maximum and Minimum Bid Size

- (a) **For Retail Individual Bidders:** The Bid must be for a minimum of [●] Equity Shares and in multiples of [●] Equity Share thereafter, so as to ensure that the Bid Amount payable by the Bidder does not exceed Rs. 100,000. In case of revision of Bids, the Retail Individual Bidders have to ensure that the Bid Amount does not exceed Rs. 100,000. In case the Bid Amount is over Rs. 100,000 due to revision of the Bid or revision of the Price Band or on exercise of cut-off option, the Bid would be considered for allocation under the Non Institutional Bidders portion. The cut-off option is an option given only to the Retail Individual Bidders indicating their agreement to Bid and purchase at the final Issue Price as determined at the end of the Book Building Process.
- (b) **For Non-Institutional Bidders and QIB Bidders:** In case of a Non-Institutional Bidder, the Bid must be for a minimum of such number of Equity Shares such that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter. In case of a QIB Bidder, the Bid must be for a minimum of such number of Equity Shares such that the Bid Amount is equal to or exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter. A Bid cannot be submitted for more than the Net Issue to the public. However, the maximum Bid by a QIB Bidder should not exceed the investment limits prescribed for them by applicable laws. **Under existing SEBI Guidelines, a QIB Bidder cannot withdraw its Bid after the Bid Closing Date/Issue Closing Date and is required to pay the QIB Margin upon submission of the Bid cum Application Form.**

In case of revision in Bids, the Non Institutional Bidders, who are individuals, have to ensure that the Bid Amount is greater than Rs. 100,000 for being considered for allocation in the Non Institutional Portion. In case the Bid Amount reduces to Rs. 100,000 or less due to a revision in Bids or revision of the Price Band, Bids by Non Institutional Bidders who are eligible for allocation in the Retail Portion would be considered for allocation under the Retail Portion. Non Institutional Bidders and QIB Bidders are not allowed to Bid at 'Cut-off'.

- (c) **For Employee Reservation Portion:** The Bid must be for a minimum of [●] Equity Shares and in multiples of [●] Equity Shares thereafter. A single Bid under the Employee Reservation Portion shall not exceed 4,500,000 Equity Shares.

Information for the Bidders

- (a) The Bank will file the Red Herring Prospectus with the Designated Stock Exchange at least three days before the Bid Opening Date/ Issue Opening Date.
- (b) The Price Band shall be advertised at least one day prior to the Bid Opening Date/Issue Opening Date in Financial Express, an English language newspaper with wide circulation, Jansatta, a Hindi language newspaper with wide circulation and Navashakti, a Marathi language newspaper with wide circulation. With regard to the Price Band, the Bidders can be guided by the secondary market prices of the Equity Shares.
- (c) The members of the Syndicate will circulate copies of the Red Herring Prospectus along with the Bid cum Application Form to potential investors.
- (d) Investors other than QIBs, who are interested in subscribing for our Bank's Equity Shares should approach any of the BRLMs or Syndicate Members or their authorised agent(s) to register their Bid. QIBs interested in subscribing to our Bank's Equity Shares should only approach any of the BRLMs to register their Bid.
- (e) Any investor (who is eligible to invest in our Equity Shares according to the terms of this Red Herring Prospectus and applicable law) who would like to obtain the Red Herring Prospectus and/or the Bid cum Application Form can obtain the same from our Head Office or from any of the members of the Syndicate.



- (e) The Bids should be submitted on the prescribed Bid cum Application Form only. Bid cum Application Forms should bear the stamp of the members of the Syndicate. Bid cum Application Forms which do not bear the stamp of the members of the Syndicate will be rejected.

Method and Process of Bidding

- (a) The Bank, the BRLMs shall declare the Bid Opening Date/Issue Opening Date, Bid Closing Date/Issue Closing Date and Price Band at the time of filing the Red Herring Prospectus with the Designated Stock Exchange and also publish the same in Financial Express, an English language newspaper with wide circulation, Jansatta, a Hindi language newspaper with wide circulation and Navashakti, a Marathi language newspaper with wide circulation. The BRLMs and Syndicate Members shall accept Bids from the Bidders during the Issue Period in accordance with the terms of the Syndicate Agreement. QIBs should submit their BID to BRLMs or Syndicate Members duly appointed by them in this regard.
- (b) Investors other than QIBs, who are interested in subscribing for the Equity Shares should approach any of the members of the Syndicate or their authorised agent(s) to register their Bid. QIBs shall register their Bids only through a BRLM/or a Syndicate Member duly appointed by it in this regard.
- (c) The Bidding Period shall be a minimum of three working days and not exceed seven working days. In case the Price Band is revised, the revised Price Band and Bidding Period will be published in Financial Express, an English language newspaper with wide circulation, Jansatta, a Hindi language newspaper with wide circulation and Navashakti, a Marathi language newspaper with wide circulation and the Bidding Period may be extended, if required, by an additional three days, subject to the total Bidding Period not exceeding ten working days.
- (d) Each Bid cum Application Form will give the Bidder the choice to Bid for up to three optional prices (for details see the section titled "Issue Procedure-Bids at Different Price Levels" on page 228 of this Red Herring Prospectus) within the Price Band and specify the demand (i.e. the number of Equity Shares Bid for) in each option. The price and demand options submitted by the Bidder in the Bid cum Application Form will be treated as optional demands from the Bidder and will not be cumulated. After determination of the Issue Price, the maximum number of Equity Shares Bid for by a Bidder at or above the Issue Price will be considered for allocation and the rest of the Bid(s), irrespective of the Bid Price, will become automatically invalid.
- (e) The Bidder cannot bid on another Bid cum Application Form after Bids on one Bid cum Application Form have been submitted to any member of the Syndicate. Submission of a second Bid cum Application Form to either the same or to another member of the Syndicate may be treated as multiple Bids and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allocation or Allotment of Equity Shares in this Issue. However, the Bidder can revise the Bid through the Revision Form, the procedure for which is detailed under the section titled "Issue Procedure-Build up of the Book and Revision of Bids" on page 231 of this Red Herring Prospectus.
- (f) The Syndicate Members will enter each Bid option into the electronic bidding system as a separate Bid and generate a Transaction Registration Slip, ("TRS"), for each price and demand option and give the same to the Bidder. Therefore, a Bidder can receive up to three TRSs for each Bid cum Application Form.
- (g) During the Bidding Period, Bidders may approach the members of the Syndicate to submit their Bid. Every member of the Syndicate shall accept Bids from all clients / investors who place orders through them and shall have the right to vet the Bids. In case of Bids by QIB, the same shall be submitted only through the BRLMs or Syndicate Members duly appointed by them in this regard.
- (h) Along with the Bid cum Application Form, all Bidders will make payment in the manner described under the section titled "Issue Procedure-Terms of Payment and Payment into the Escrow Accounts" on page 229 of this Red Herring Prospectus.

Bids at Different Price Levels

1. The Price Band shall be advertised at least one day prior to the Bid Opening Date/ Issue Opening Date in Financial Express, an English language newspaper with wide circulation, Janasatta, a Hindi language newspaper with wide circulation and Navashakti, a Marathi newspaper with wide circulation and also on the websites of the BRLMs and the Bank, as appearing on the cover page. Bidders are advised to be guided by the price of our listed Equity Shares in the secondary market for the purposes of making a decision to invest in the Equity Shares offered as part of this Issue. The Bidders can bid at any price within the Price Band, in multiples of [●].
2. In accordance with SEBI Guidelines, the Bank reserves the right to revise the Price Band during the Bidding Period. The cap on the Price Band should not exceed the floor of the Price Band by more than 20%. Subject to compliance with the immediately preceding sentence, the floor of the Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Red Herring Prospectus.



3. In case of revision in the Price Band, the Issue Period will be extended for three additional days after revision of Price Band subject to a maximum of 10 working days. Any revision in the Price Band and the revised Bidding Period/Issue Period, if applicable, will be widely disseminated by notification to NSE and BSE, by issuing a public notice in Financial Express, an English language newspaper with wide circulation, Janasatta, a Hindi language newspaper with wide circulation and Navashakti, a Marathi newspaper with wide circulation, and also by indicating the change on the websites of the BRLMs and at the bidding terminals of the members of the Syndicate.
4. The Bank in consultation with the BRLMs can finalise the Issue Price within the Price Band in accordance with this clause, without the prior approval of, or intimation, to the Bidders.
5. Bidders can bid at any price within the Price Band. Bidders have to bid for the desired number of Equity Shares at a specific price. **Retail Individual Bidders and Bidders in the Employee Reservation Portion applying for a maximum Bid in any of the bidding options not exceeding Rs. 100,000 may bid at Cut-off Price. However, bidding at Cut-off Price is prohibited for QIB Bidders and Non-Institutional Bidders and such Bids from QIB Bidders and Non Institutional Bidders shall be rejected.**
6. Retail Individual Bidders who bid at the Cut-off Price and employees bidding under the Employee Reservation Portion at Cut-Off agree that they shall purchase the Equity Shares at any price within the Price Band. Retail Individual Bidders bidding at Cut-off Price shall deposit the Bid Amount based on the Cap Price in the respective Escrow Accounts. In the event the Bid Amount is higher than the subscription amount payable by the Retail Individual Bidders who Bid at Cut-off Price (i.e. the total number of Equity Shares allocated in the Issue multiplied by the Issue Price), the Retail Individual Bidders, who Bid at Cut off Price, shall receive the refund of the excess amounts from the respective Escrow Accounts/ refund account(s).
7. In case of an upward revision in the Price Band announced as above, Retail Individual Bidders and Eligible Employees bidding under the Employee Reservation, who had bid at Cut-off Price could either (i) revise their Bid or (ii) make additional payment based on the cap of the revised Price Band (such that the total amount i.e. original Bid Amount plus additional payment does not exceed Rs. 100,000 if the Bidder wants to continue to bid at Cut-off Price), with the Syndicate Member to whom the original Bid was submitted. In case the total amount (i.e. original Bid Amount plus additional payment) exceeds Rs. 100,000, the Bid will be considered for allocation under the Non-Institutional Portion in terms of this Red Herring Prospectus. If, however, the Bidder does not either revise the Bid or make additional payment and the Issue Price is higher than the cap of the Price Band prior to the revision, the number of Equity Shares Bid for shall be adjusted downwards for the purpose of Allotment, such that the no additional payment would be required from the Bidder and the Bidder is deemed to have approved such revised Bid at Cut-off Price.
8. In case of a downward revision in the Price Band and employees bidding under the Employee Reservation, announced as above, Retail Individual Bidders, who have bid at Cut-off Price could either revise their Bid or the excess amount paid at the time of bidding would be refunded from the respective Escrow Accounts/refund account(s).
9. In the event of any revision in the Price Band, whether upwards or downwards, the minimum application size shall remain [●] Equity Shares irrespective of whether the Bid Amount payable on such minimum application is not in the range of Rs. 5,000 to Rs. 7,000.

Escrow Mechanism

We shall open Escrow Accounts with one or more Escrow Collection Bank in whose favour the Bidders shall make out the cheque or demand draft in respect of his or her Bid and/or revision of the Bid. Cheques or demand drafts received for the full Bid Amount from Bidders in a certain category would be deposited in the respective Escrow Account. The Escrow Collection Bank will act in terms of this Red Herring Prospectus and the Escrow Agreement. The monies in the Escrow Accounts shall be maintained by the Escrow Collection Bank for and on behalf of the Bidders. The Escrow Collection Bank shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On the Designated Date, the Escrow Collection Bank shall transfer the monies from the Escrow Accounts to the Issue Account as per the terms of the Escrow Agreement. Payments of refund to the Bidders shall also be made from the Escrow Accounts/refund account(s) as per the terms of the Escrow Agreement and this Red Herring Prospectus.

The Bidders should note that the escrow mechanism is not prescribed by SEBI and has been established as an arrangement between us, the members of the Syndicate, the Escrow Collection Bank and the Registrar to the Issue to facilitate collections from the Bidders.

Terms of Payment and Payment into the Escrow Accounts

Each Bidder shall provide the applicable Margin Amount, with the submission of the Bid cum Application Form either by drawing a cheque or demand draft for such Margin Amount of his/her Bid in favour of the Escrow Account of the Escrow Collection Bank(s) (for details see the section titled "Issue Procedure-Payment Instructions" on page 237 of this Red Herring



Prospectus) and submit the same to the member of the Syndicate to whom the Bid is being submitted. The Bidder may also provide the applicable Margin Amount by way of an electronic transfer of funds through RTGS mechanism. Each QIB shall provide their QIB Margin Amount only to a BRLM. Bid cum Application Forms accompanied by cash shall not be accepted. The Margin Amount based on the Bid Amount has to be paid at the time of submission of the Bid cum Application Form.

The members of the Syndicate shall deposit the cheque or demand draft with the Escrow Collection Bank(s), which will hold the monies for the benefit of the Bidders till the Designated Date. On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds equivalent to the size of the Issue from the Escrow Accounts, as per the terms of the Escrow Agreement, into the Issue Account with the Banker(s) to the Issue. The balance amount after transfer to the Issue Account shall be held for the benefit of the Bidders who are entitled to refunds on the Designated Date, and not later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Bank(s) shall refund all monies to unsuccessful Bidders and also the excess amount paid on bidding, if any, after adjustment for Allotment to the Bidders.

Each category of Bidders, i.e. QIB Bidders, Non-Institutional Bidders, Retail Individual Bidders and permanent employees in the Employee Reservation Portion, would be required to pay their applicable Margin Amount at the time of the submission of the Bid cum Application Form. The Margin Amount payable by each category of Bidders is mentioned in the section titled "Issue Structure" on page 223 of this Red Herring Prospectus. Where the Margin Amount applicable to the Bidder is less than 100% of the Bid Amount, any difference between the amount payable by the Bidder for Equity Shares allocated at the Issue Price and the Margin Amount paid at the time of Bidding, shall be payable by the Bidder not later than the Pay-in-Date. QIB Bidders will be required to deposit a margin of 10% at the time of submitting of their Bids.

If the payment is not made favouring the appropriate Escrow Account within the time and in the manner stipulated above, the Bid of the Bidder is liable to be rejected. However, if the members of the Syndicate do not waive such payment, the full amount of payment has to be made at the time of submission of the bid form.

Where the Bidder has been allocated lesser number of Equity Shares than he or she had Bid for, the excess amount paid on bidding, if any, after adjustment for allocation, will be refunded to such Bidder within 15 days from the Bid Closing Date/Issue Closing Date, failing which we shall pay interest at 15% per annum for any delay beyond the periods as mentioned above.

Electronic Registration of Bids

- (a) The Syndicate Members will register the Bids using the on-line facilities of NSE and BSE. There will be at least one on-line connectivity in each city, where a stock exchange is located in India and where Bids are being accepted.
- (b) NSE and BSE will offer a screen-based facility for registering Bids for the Issue. This facility will be available on the terminals of the Syndicate Members and their authorised agents during the Bidding Period/Issue Period. Syndicate Members can also set up facilities for off-line electronic registration of Bids subject to the condition that they will subsequently download the off-line data file into the on-line facilities for book building on a regular basis. On the Bid Closing Date/ Issue Closing Date, the Syndicate Members shall upload the Bids till such time as may be permitted by the NSE and BSE.
- (c) The aggregate demand and price for Bids registered on the electronic facilities of NSE and BSE will be downloaded on a regular basis, consolidated and displayed on-line at all bidding centers. A graphical representation of the consolidated demand and price would be made available at the bidding centers and the websites of the NSE and BSE during the Bidding Period/Issue Period.
- (d) At the time of registering each Bid, the members of the Syndicate shall enter the following details of the investor in the on-line system:
 - Name of the investor;
 - Investor Category –Individual, Corporate, FII, NRI or mutual fund, etc.;
 - Numbers of Equity Shares Bid for;
 - Bid price;
 - Bid cum Application Form number;
 - Whether payment is made upon submission of Bid cum Application Form;
 - Margin Amount; and
 - Depository Participant identification no. and client identification no. of the demat account of the Bidder.
- (e) A system generated TRS will be given to the Bidder as a proof of the registration of each of the bidding options. **It is the Bidder's responsibility to obtain the TRS from the members of the Syndicate.** The registration of the Bid by the



member of the Syndicate does not guarantee that the Equity Shares shall be allocated either by the members of the Syndicate or the Bank.

- (f) Such TRS will be non-negotiable and by itself will not create any obligation of any kind.
- (g) In case of QIB Bidders, the BRLMs also have the right to accept the Bid or reject it. However, such rejection should be made at the time of receiving the Bid and only after assigning a reason for such rejection. Additionally, Bids would be liable to be rejected on the technical grounds listed in this Red Herring Prospectus.
- (h) It is to be distinctly understood that the permission given by NSE and BSE to use their network and software of the Online IPO system should not in any way be deemed or construed to mean that the compliance with various statutory and other requirements by the Bank or the BRLMs are cleared or approved by NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the statutory and other requirements nor does it take any responsibility for the financial or other soundness of our Bank, our management or any scheme or project of our Bank.
- (i) It is also to be distinctly understood that the approval given by NSE and BSE should not in any way be deemed or construed that this Red Herring Prospectus has been cleared or approved by the NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; nor does it warrant that the Equity Shares will be listed or will continue to be listed on the NSE and BSE.

Build Up of the Book and Revision of Bids

- (a) Bids registered by various Bidders through the Syndicate Members shall be electronically transmitted to the NSE or BSE mainframe on a regular basis.
- (b) The book gets built up at various price levels. This information will be available with the BRLMs on a regular basis.
- (c) During the Bidding Period, any Bidder who has registered his or her interest in the Equity Shares at a particular price level is free to revise his or her Bid within the Price Band using the printed Revision Form, which is a part of the Bid cum Application Form.
- (d) Revisions can be made in both the desired number of Equity Shares and the Bid price by using the Revision Form. Apart from mentioning the revised options in the Revision Form, the Bidder must also mention the details of all the options in his or her Bid cum Application Form or earlier Revision Form. For example, if a Bidder has Bid for three options in the Bid cum Application Form and he is changing only one of the options in the Revision Form, he must still fill the details of the other two options that are not being changed, in the Revision Form unchanged. Incomplete or inaccurate Revision Forms will not be accepted by the members of the Syndicate.
- (e) The Bidder can make this revision any number of times during the Bidding Period. However, for any revision(s) in the Bid, the Bidders will have to use the services of the same member of the Syndicate through whom he or she had placed the original Bid. Bidders are advised to retain copies of the blank Revision Form and the revised Bid must be made only in such Revision Form or copies thereof.
- (f) Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft for the incremental amount, if any, to be paid on account of the upward revision of the Bid. The excess amount, if any, resulting from downward revision of the Bid would be returned to the Bidder at the time of refund in accordance with the terms of this Red Herring Prospectus. In case of QIB Bidders, the BRLMs shall collect additional payment, if any, in the form of cheque or demand draft for the incremental amount in the QIB Margin Amount, if any, to be paid on account of the upward revision of the Bid at the time of one or more revisions by the QIB Bidders.
- (g) When a Bidder revises his or her Bid, he or she shall surrender the earlier TRS and get a revised TRS from the members of the Syndicate. **It is the responsibility of the Bidder to request for and obtain the revised TRS, which will act as proof of his or her having revised the previous Bid.**
- (h) Only Bids that are uploaded to the online IPO system of NSE/BSE shall be considered for allocation/Allotment. In the event of a discrepancy in data between the Bids registered on the online IPO system and the physical Bid cum Application Form, the decision of the Bank in consultation with the BRLMs based on the physical Bid cum Application Form shall be final and binding on all concerned.

Price Discovery and Allocation

- (a) After the Bid Closing Date/Issue Closing Date, the BRLMs will analyse the demand generated on the basis of electronic registration of Bids, at various price levels and discuss pricing strategy with us.



- (b) Our Bank, in consultation with the BRLMs, shall finalise the “Issue Price” and the number of Equity Shares to be allotted in each investor category.
- (c) QIB Bidders will be required to deposit a margin of 10% at the time of submitting their Bids.
- (d) The allocation to all Bidders would be on proportionate basis, in the manner specified in the SEBI Guidelines and subject to sectoral caps. The basis for Allotment would be finalised by the Bank in consultation with Designated Stock Exchange.
- (e) Under subscription in any category would be allowed to be met with spill over from any of the other categories at the discretion of the Bank and the BRLMs. Undersubscription, if any, in the Employee Reservation Portion, would be allowed to be met first with spill over from the Retail Portion and then from any other category.
- (f) Allocation to Non Residents including FIIs, NRIs, etc applying on repatriation basis will be subject to the terms and conditions stipulated by RBI while granting permission for Allotment of Equity Shares to them.
- (g) The BRLMs in consultation with the Bank shall notify the members of the Syndicate of the Issue Price and allocations to their respective Bidders, where the full Bid Amount has not been collected from the Bidders.
- (h) The Bank reserves the right to cancel the Issue any time after the Bid Opening Date/Issue Opening Date but before Allotment without assigning any reasons whatsoever.
- (i) In terms of SEBI Guidelines, QIB Bidders shall not be allowed to withdraw their Bid after the Bid Closing Date/Issue Closing Date.
- (j) The allotment details shall be put on the website of the Registrar to the Issue.

Allotment to Non Residents including NRIs, FIIs, Foreign Venture Capital Investments (FVCI), etc.

Allocation to QIBs, Non Residents, FIIs and NRIs applying on repatriation basis would be subject to the terms and conditions stipulated by RBI while granting permission for allotment of Equity Shares to them.

The RBI vide its letter no. FE.CO.FID/14975/10.78.016 /2005-06 dated January 9, 2006, permitted the Bank to issue shares to Non Residents, including Non Resident Indians and FIIs, with repatriation benefits, in the Issue. The permission is subject to ensuring that the post Issue non-resident equity holding in the Bank shall not exceed 20% of the post Issue paid up capital.

However, in the absence of specific approval of the RBI, the shareholding of Non Residents in the Bank cannot exceed 18% of the paid up capital of the Bank.

The shares to be allotted to Non Residents including NRIs, FIIs, FVCIs, etc shall be worked out on proportionate basis depending on the category in which the application falls i.e. Retail Individual Bidders, Non-Institutional Bidders or Qualified Institutional Buyers subject to the Non-Resident holding not exceeding 20% of our post issue paid up capital.

Signing of Underwriting Agreement and Filing with the Designated Stock Exchange

Subject to the section entitled “ Notice to QIBs: Allotment Reconciliation and Revised CANs as set forth below:

- (a) The Bank, the BRLMs and the Syndicate Members shall enter into an Underwriting Agreement on finalisation of the Issue Price and allocation(s) to the Bidders.
- (b) After signing the Underwriting Agreement, we would update and file the updated Red Herring Prospectus with the Designated Stock Exchange, which then would be termed ‘Prospectus’. The Prospectus would have details of the Issue Price, Issue size, underwriting arrangements and would be complete in all material respects.

Advertisement regarding Issue Price and Prospectus

A statutory advertisement will be issued by the Bank after the filing of the Prospectus with the Designated Stock Exchange. This advertisement, in addition to the information that has to be set out in the statutory advertisement, shall indicate the Issue Price. Any material updates between the date of Red Herring Prospectus and the date of Prospectus will be included in such statutory advertisement.

Issuance of CAN

Subject to the section titled “Notice to QIBs: Allotment Reconciliation and revised CANs” as set forth below”

- (a) Upon approval of the Basis of Allotment by the Designated Stock Exchange, the BRLMs or the Registrar to the Issue shall send to the members of the Syndicate a list of their Bidders who have been allocated Equity Shares in the Issue. Investors should note that the Bank shall ensure that the demat credit of Equity Shares pursuant to Allotment shall be made on the same date to all investors in this Issue.



- (b) The BRLMs or members of the Syndicate would then send the CAN to their Bidders who have been allocated Equity Shares in the Issue. The dispatch of CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for all the Equity Shares allocated to such Bidder.
- (c) Bidders who have been allocated Equity Shares and who have already paid the Margin Amount for the said Equity Shares into the Escrow Account at the time of bidding shall directly receive the CAN from the Registrar to the Issue subject, however, to realisation of their cheque or demand draft paid into the Escrow Accounts. The dispatch of a CAN shall be a deemed a valid, binding and irrevocable contract for the Bidder.

Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be Allotted to them pursuant to this Issue.

Notice to QIBs: Allotment Reconciliation and Revised CANs

After the Bid/Offer Closing Date, an electronic book will be prepared by the Registrar on the basis of Bid applications received. Based on the electronic book, QIBs will be sent a CAN, no later than March 8, 2006, indicating the number of Equity Shares that may be allocated to them. This CAN is subject to the basis of final Allotment, which will be approved by the Designated Stock Exchange and reflected in the physical book prepared by the Registrar. Subject to SEBI Guidelines, certain Bid applications may be rejected due to technical reasons, non-receipt of funds, cancellation of cheques, cheque bouncing, incorrect details, etc., and these rejected applications will be reflected in the reconciliation and basis of Allotment as approved by the Designated Stock Exchange and specified in the physical book. In addition, there are foreign investment limitations applicable to the Bank, which may result in a change (including potentially a decrease) in the number of Equity Shares being finally Allotted to QIBs (including FIIs) that are Non-Resident Investors. As a result, a revised CAN may be sent to QIBs, and the allocation of Equity Shares in such revised CAN may be different from that specified in the earlier CAN. It is not necessary that a revised CAN will be sent. QIBs should note that they may be required to pay additional amounts, if any, by the Pay-in Date specified in the revised CAN, for any increased Allotment of Equity Shares. The CAN will constitute the valid, binding and irrevocable contract (subject only to the issue of a revised CAN) for the QIB to pay the entire Issue Price for all the Equity Shares allocated to such QIB. The revised CAN, if issued, will supersede in entirety the earlier CAN.

GENERAL INSTRUCTIONS

Do's:

- Check if you are eligible to apply;
- Read all the instructions carefully and complete the Resident Bid cum Application Form (White in colour) or Non Resident Bid cum Application Form (Blue in colour) or Employee Reservation Portion Bid cum Application Form (Pink in colour), as the case may be;
- Ensure that the details about Depository Participant and Beneficiary Account are correct as Allotment of Equity Shares will be in the dematerialized form only;
- Ensure that the Bids are submitted at the bidding centres only on forms bearing the stamp of a member of the Syndicate;
- Ensure that you have been given a TRS for all your Bid options;
- Submit revised Bids to the same member of the Syndicate through whom the original Bid was placed and obtain a revised TRS;
- Ensure that the bid is within the Price Band;
- Ensure that you mention your Permanent Account Number (PAN) allotted under the I.T. Act where the maximum Bid for Equity Shares by a Bidder is for a total value of Rs. 50,000 or more and attach a copy of the PAN Card and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating Allotment of PAN along with the application for the purpose of verification of the number, with the Bid cum Application Form. In case you do not have a PAN, ensure that you provide a declaration in Form 60 prescribed under the I.T. Act along with the application;
- Ensure that the Demographic Details (as defined hereinbelow) are updated, true and correct in all respects; and
- QIBs shall submit their Bids only to the BRLMs or Syndicate Members duly appointed by them in this regard.

Don'ts:

- Do not Bid for lower than the minimum Bid size;
- Do not Bid/ revise Bid price to less than the lower end of the price band or higher than the higher end of the Price Band;
- Do not Bid on another Bid cum Application Form after you have submitted a Bid to the members of the Syndicate;



- Do not pay the Bid Amount in cash;
- Do not provide your GIR number instead of your PAN;
- Do not send Bid cum Application Forms by post; instead submit the same to a member of the Syndicate only;
- Do not Bid at Cut-off Price (applicable to QIB Bidders and Non-Institutional Bidders, and for Eligible Employees where the Bid Amount exceeds Rs. 100,000);
- Do not fill up the Bid cum Application Form such that the Equity Shares Bid for exceeds the Issue size and/or investment limit or maximum number of Equity Shares that can be held under the applicable laws or regulations or maximum amount permissible under the applicable regulations;
- Do not submit Bid accompanied with Stockinvest; and
- Do not submit the Bid without the applicable Margin Amount.

Instructions for Completing the Bid Cum Application Form

Bidders can obtain Bid cum Application Forms and/or Revision Forms from the members of the Syndicate.

Bids and Revisions of Bids

Bids and revisions of Bids must be:

- Made only in the prescribed Bid cum Application Form or Revision Form, as applicable (white colour for Resident Indians and eligible NRIs applying on a non-repatriation basis, blue colour for Non Resident QIBs, NRIs, FIIs, etc. and applying on repatriation basis and pink colour for Bidders under Employee Reservation portion).
- Completed in full, in BLOCK LETTERS in ENGLISH and in accordance with the instructions contained herein, in the Bid cum Application Form or in the Revision Form. Incomplete Bid cum Application Forms or Revision Forms are liable to be rejected.
- The Bids from the Retail Individual Bidders must be for a minimum of [●] Equity Shares and in multiples of [●] thereafter subject to a maximum Bid Amount of Rs. 100,000.
- For Non-Institutional Bidders, Bids must be for a minimum of such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter. For QIB Bidders, Bid Amount must be a minimum of such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter. Bids cannot be made for more than the Issue size. Bidders are advised to ensure that a single Bid from them should not exceed the investment limits or maximum number of Equity Shares that can be held by them under the applicable laws or regulations.
- For Employee Reservation Category, the Bid must be for a minimum of [●] Equity Shares and in multiples of [●] Equity Shares thereafter subject to a maximum of the Employee Reservation Portion being 4,500,000 Equity Shares.
- In single name or in joint names (not more than three, and in the same order as their Depository Participant details).
- Thumb impressions and signatures other than in the languages specified in the Eighth Schedule of the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal.

Bids by Eligible Employees

For the purpose of the Employee Reservation Portion, Eligible Employee means permanent employees or Director of the Bank as at September 30, 2005, who are Indian Nationals based in India..

Bids under Employee Reservation Portion by Eligible Employees shall be:

- Made only in the prescribed Bid cum Application Form or Revision Form (i.e. pink colour form).
- Eligible Employees, as defined above, should mention the following at the relevant place in the Bid cum Application Form:
- Name of the employer
- Employee Number
- The sole/ first bidder should be an Eligible Employee as defined above.
- Only Eligible Employees would be eligible to apply in this Issue under the Employee Reservation Portion.
- Eligible Employees will have to bid like any other Bidder. Only those Bids, which are received at or above the Issue Price, would be considered for allocation under this category.



- Eligible Employees who apply or bid for securities of or for a value of not more than Rs. 100,000 in any of the bidding options can apply at Cut-Off. This facility is not available to other Eligible Employees whose Bid Amount exceeds Rs. 100,000.
- Bid/ Application by Eligible Employees can be made also in the “Net Issue to the Public” and such Bids shall not be treated as multiple Bids.
- If the aggregate demand in this category is less than or equal to 4,500,000 Equity Shares at or above the Issue Price, full allocation shall be made to the Eligible Employees to the extent of their demand.
- Undersubscription, if any, in the Employee Reservation Portion, would be allowed to be met first with spill over from the Retail Portion and then from any other category. In case of under-subscription in the Net Issue, spillover to the extent of under-subscription shall be permitted from the Employee Reservation Portion.
- If the aggregate demand in this category is greater than 4,500,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis. For the method of proportionate basis of allocation, refer to para “Basis of Allotment” on page 239 of this Red Herring Prospectus.
- Securities of the Bank, including any offering of the Equity Shares, may not be offered or sold in the United States in the absence of registration under the U.S. securities laws or unless exempt from registration under such laws.

Bidders Bank Details

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository the Bidders bank account details. **These bank account details would be printed on the refund order, if any, to be sent to Bidders. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the depository participant.** Please note that failure to do so could result in delays in credit of refunds to Bidders at the Bidders sole risk and neither the BRLMs nor the Bank shall have any responsibility and undertake any liability for the same.

Bidder's Depository Account Details

IT IS MANDATORY FOR ALL THE BIDDERS TO GET THEIR EQUITY SHARES IN DEMATERIALIZED FORM. ALL BIDDERS SHOULD MENTION THEIR DEPOSITORY PARTICIPANT'S NAME, DEPOSITORY PARTICIPANT IDENTIFICATION NUMBER AND BENEFICIARY ACCOUNT NUMBER IN THE BID CUM APPLICATION FORM. INVESTORS MUST ENSURE THAT THE NAME GIVEN IN THE BID CUM APPLICATION FORM IS EXACTLY THE SAME AS THE NAME IN WHICH THE DEPOSITORY ACCOUNT IS HELD. IN CASE THE BID CUM APPLICATION FORM IS SUBMITTED IN JOINT NAMES, IT SHOULD BE ENSURED THAT THE DEPOSITORY ACCOUNT IS ALSO HELD IN THE SAME JOINT NAMES AND ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE BID CUM APPLICATION FORM.

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository demographic details of the Bidders such as address, bank account details for printing on refund orders and occupation (“Demographic Details”). Hence, Bidders should carefully fill in their Depository Account details in the Bid cum Application Form.

These Demographic Details would be used for all correspondence with the Bidders including mailing of the refund orders/ CANs/Allocation Advice and printing of bank particulars on the refund order and the Demographic Details given by Bidders in the Bid cum Application Form would not be used for these purposes by the Registrar.

Hence, Bidders are advised to update their Demographic Details as provided to their Depository Participants and ensure that they are true and correct.

By signing the Bid cum Application Form, Bidder would have deemed to authorise the depositories to provide, upon request, to the Registrar to the Issue, the required Demographic Details as available on its records.

Refund Orders/Allocation Advice/CANs would be mailed at the address of the Bidder as per the Demographic Details received from the Depositories. Bidders may note that delivery of refund orders/allocation advice/CANs may get delayed if the same once sent to the address obtained from the Depositories are returned undelivered. In such an event, the address and other details given by the Bidder in the Bid cum Application Form would be used only to ensure dispatch of refund orders. Please note that any such delay shall be at the Bidders sole risk and neither the Bank nor the BRLMs shall be liable to compensate the Bidder for any losses caused to the Bidder due to any such delay or liable to pay any interest for such delay.



In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity, then such Bids are liable to be rejected.

Bids under Power of Attorney

In case of Bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the memorandum and articles of association and/or bye laws must be lodged along with the Bid cum Application Form. Failing this, we reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made pursuant to a power of attorney by FIIs, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of their SEBI registration certificate must be lodged along with the Bid cum Application Form. Failing this, we Bank reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made by insurance companies registered with the IRDA, a certified copy of certificate of registration issued by the IRDA must be lodged along with the Bid cum Application Form. Failing this, we reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made by provident funds with minimum corpus of Rs. 250 million (subject to applicable law) and pension funds with minimum corpus of Rs. 250 million, a certified copy of certificate from a chartered accountant certifying the corpus of the provident fund/ pension fund must be lodged along with the Bid cum Application Form. Failing this, we reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

We, in our absolute discretion, reserve the right to relax the above condition of simultaneous lodging of the power of attorney along with the Bid cum Application Form, subject to such terms and conditions that we and the BRLMs may deem fit.

We, in our absolute discretion, reserve the right to permit the holder of the power of attorney to request the Registrar that for the purpose of printing particulars on the refund order and mailing of the refund order/CANs/allocation advice, the Demographic Details given on the Bid cum Application Form should be used (and not those obtained from the Depository of the Bidder). In such cases, the Registrar shall use Demographic Details as given in the Bid cum Application Form instead of those obtained from the depositories.

Bids by NRIs

NRI bidders to comply with the following:

- Individual NRI bidders can obtain the Bid cum Application Forms from the Registrar to the Issue or BRLMs whose addresses are printed on the cover page.
- NRI bidders may please note that only such bids as are accompanied by payment in free foreign exchange shall be considered for Allotment under the NRI category. The NRIs who intend to make payment through Non Resident Ordinary (NRO) accounts shall use the form meant for resident Indians.

Bids by NRIs and FIIs on a repatriation basis

Bids and revision to Bids must be made:

- On the Bid cum Application Form or the Revision Form, as applicable (blue in color), and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.
- In a single name or joint names (not more than three).
- By FIIs for a minimum of such number of Equity Shares and in multiples of [●] thereafter that the Bid Amount exceeds Rs. 100,000. For further details see section titled "Issue Procedure - Maximum and Minimum Bid Size" on page 227 of this Red Herring Prospectus.
- In the names of individuals, or in the names of FIIs but not in the names of minors, firms or partnerships, foreign nationals (including NRIs) or their nominees, foreign venture capital investors.
- Refunds, dividends and other distributions, if any, will be payable in Rupees only and net of bank charges and/or commission. In case of Bidders who remit money through Rupee drafts purchased abroad, such payments in Rupees will be converted into U.S. Dollars or any other freely convertible currency as may be permitted by RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post or speed post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid cum Application Form. We will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.



It is to be distinctly understood that there is no reservation for NRIs and FIIs and other Non Residents and NRIs and FIIs will be treated on the same basis with other categories for the purpose of allocation.

As per RBI regulations, OCBs cannot participate in the Issue.

Payment Instructions

We shall open Escrow Accounts with the Escrow Collection Bank for the collection of the Bid Amounts payable upon submission of the Bid cum Application Form and for amounts payable pursuant to allocation in the Issue.

Each Bidder shall either draw a cheque or demand draft or remit the funds electronically through the RTGS mechanism for the amount payable on the Bid and/or on allocation as per the following terms:

(a) Payment into Escrow Account

- The Bidders for whom the applicable Margin Amount is equal to 100% or 10% as the case may be, shall, with the submission of the Bid cum Application Form draw a payment instrument for the Margin Amount in favour of the Escrow Account and submit the same to the members of the Syndicate.
- QIB Bidders will be required to deposit a margin of 10% at the time of submitting of their Bids.
- In case the above Margin Amount paid by the Bidders during the Bidding Period is less than the Issue Price multiplied by the Equity Shares allocated to the Bidder, the balance amount shall be paid by the Bidders into the Escrow Account within the period specified in the CAN which shall be subject to a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs.
- The payment instruments for payment into the Escrow Account should be drawn in favour of:
 - In case of Resident QIB Bidders : UBI FPO - QIB
 - In case of Non Resident QIB Bidders : UBI FPO – QIB (NR)
 - In case of Resident Retail and Non Institutional Bidders : UBI FPO
 - In case of Non Resident Retail and Non Institutional Bidders applying on a non-repatriation basis: UBI FPO (NR)
 - In case of Eligible Employees: UBI FPO - EMP

In case of bids by NRIs applying on a repatriation basis, the payments must be made through Rupee drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in the NRE Accounts or the Foreign Currency Non Resident Accounts, maintained with banks authorised to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of Non Resident Ordinary (NRO) Account of the Non Resident Bidder bidding on a repatriation basis. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to the NRE Account or the Foreign Currency Non Resident Account.

In case of Bids by FIIs, the payment should be made out of funds held in Special Rupee Account along with documentary evidence in support of the remittance. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to Special Rupee Account.

- Where a Bidder has been allocated a lesser number of Equity Shares than the Bidder has Bid for, the excess amount, if any, paid on bidding, after adjustment towards the balance amount payable on the Equity Shares allocated, will be refunded to the Bidder from the Escrow Accounts.
- The monies deposited in the Escrow Account will be held for the benefit of the Bidders till the Designated Date.
- On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds from the Escrow Account as per the terms of the Escrow Agreement into the Issue Account with the Banker to the Issue.
- On the Designated Date and no later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Bank(s) shall also refund all amounts payable to unsuccessful Bidders and also the excess amount paid on Bidding after adjusting for allocation to the Bidders

Payments should be made by cheque, or demand draft drawn on any bank (including a Co-operative bank), which is situated at, and is a member of or sub-member of the bankers' clearing house located at the centre where the Bid cum Application Form is submitted. Outstation cheques/bank drafts drawn on banks not participating in the clearing process will not be accepted and applications accompanied by such cheques or bank drafts are liable to be rejected. Cash/ money orders/postal orders will not be accepted.



Submission of Bid cum Application Form

All Bid cum Application Forms or Revision Forms duly completed and accompanied by account payee cheques or drafts shall be submitted to the members of the Syndicate at the time of submission of the Bid. Each member of the Syndicate may, at its sole discretion, waive the requirement of payment at the time of submission of the Bid cum Application Form and Revision Form; provided however that the QIB Bidders shall pay the QIB Margin Amount only to the BRLMs or Syndicate Members duly authorised by them in this regard who would deposit the same in the Escrow Account.

No separate receipts shall be issued for the money payable on the submission of Bid cum Application Form or Revision Form. However, the collection center of the members of the Syndicate will acknowledge the receipt of the Bid cum Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid cum Application Form for the records of the Bidder.

Other Instructions

Joint Bids in the case of Individuals

Bids may be made in single or joint names (not more than three). In the case of joint Bids, all payments will be made out in favour of the Bidder whose name appears first in the Bid cum Application Form or Revision Form. All communications will be addressed to the First Bidder and will be dispatched to his or her address.

Multiple Bids

A Bidder should submit only one Bid (and not more than one) for the total number of Equity Shares required. Two or more Bids will be deemed to be multiple Bids if the sole or First Bidder is one and the same.

Bid/ Application by Eligible Employees can also be made in the "Net Issue to the Public" and such bids shall not be treated as multiple bids.

We reserve the right to reject, in our absolute discretion, all or any multiple Bids in any or all portion.

PAN

Where Bid(s) is/are for Rs. 50,000 or more, the Bidder or in the case of a Bid in joint names, each of the Bidders, should mention his/her Permanent Account Number (PAN) allotted under the I.T. Act. **The copy of the PAN card or PAN allotment letter is required to be submitted with the application form.** Applications without this information and documents will be considered incomplete and are liable to be rejected. **It is to be specifically noted that Bidders should not submit the GIR number instead of the PAN as the Bid is liable to be rejected on this ground.** In case the Sole/First Bidder and Joint Bidder(s) is/are not required to obtain PAN, each of the Bidder(s) shall mention "Not Applicable" and in the event that the sole Bidder and/or the joint Bidder(s) have applied for PAN which has not yet been allotted each of the Bidder(s) should mention "Applied for" in the Bid each of the Joint Bidder(s), as the case may be, would be required to submit Form 60 (Form of declaration to be filed by a person who does not have a permanent account number and who enters into any transaction specified in rule 114B), or, Form 61 (form of declaration to be filed by a person who has agricultural income and is not in receipt of any other income chargeable to income tax in respect of transactions specified in rule 114B), as may be applicable, duly filled along with a copy of any one of the following documents in support of the address: (a) Ration Card; (b) Passport; (c) Driving License; (d) Identity Card issued by any institution; (e) Copy of the electricity bill or telephone bill showing residential address; (f) Any document or communication issued by any authority of the Central Government, State Government or local bodies showing residential address; and (g) Any other documentary evidence in support of address given in the declaration. **It may be noted that Form 60 and Form 61 have been amended vide a notification issued on December 1, 2004 by the Ministry of Finance, Department of Revenue, Central Board of Direct Taxes. All Bidders are requested to furnish, where applicable, the revised Form 60 or 61, as the case may be.**

Right to Reject Bids

In case of QIB Bidders, the Bank, in consultation with the BRLMs may reject Bids at the time of acceptance of the bid provided that the reasons for rejecting the same shall be provided to such Bidder in writing. In case of QIB Bidders, Non-Institutional Bidders and Retail Individual Bidders who Bid, we have a right to reject Bids on technical grounds. Consequent refunds shall be made by cheque or pay order or draft and will be sent to the Bidder's address at the Bidder's risk.

Grounds for Technical Rejections

Bidders are advised to note that Bids are liable to be rejected on among others on the following technical grounds:

- Amount paid does not tally with the amount payable for the highest value of Equity Shares Bid for;
- Age of First Bidder not given;



- In case of partnership firms, shares may be registered in the names of the individual partners and no firm as such, shall be entitled to apply;
- Bids by Persons not competent to contract under the Indian Contract Act, 1872, including minors, insane Persons;
- PAN photocopy/ PAN Communication/ Form 60 declaration along with documentary evidence in support of address given in the declaration, not given if Bid is for Rs. 50,000 or more;
- Submission of the GIR number instead of the PAN;
- Bids for lower number of Equity Shares than specified for that category of investors;
- Bids at a price less than lower end of the Price Band;
- Bids at a price more than the higher end of the Price Band;
- Bids at Cut-off Price by Non-Institutional Bidders and QIB Bidders applying for greater than 100,000 Equity Shares;
- Bids for number of Equity Shares, which are not in multiples of [●];
- Category not ticked;
- Multiple Bids as defined in this Red Herring Prospectus;
- In case of Bid under power of attorney or by limited companies, corporate, trust etc. relevant documents are not submitted;
- Bids accompanied by money order/postal order/cash;
- Signature of sole and /or joint Bidders missing;
- Bid cum Application Forms does not have the stamp of the BRLMs or the Syndicate Members;
- Bid cum Application Forms does not have Bidder's depository account details;
- Bid cum Application Forms are not delivered by the Bidders within the time prescribed as per the Bid cum Application Forms, Bid Opening Date/Issue Opening Date advertisement and this Red Herring Prospectus and as per the instructions in this Red Herring Prospectus and the Bid cum Application Forms;
- In case no corresponding record is available with the Depositories that matches three parameters namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity;
- Bids for amounts greater than the maximum permissible amounts prescribed by the regulations. See the details regarding the same in the section titled "Issue Procedure–Bids at Different Price Levels" on page 228 of this Red Herring Prospectus;
- Bids by OCBs;
- Bids by employees of the Bank or its Subsidiary who are not Eligible Employees;
- Bids without the applicable Margin Amount;
- Bids by QIBs are not made to the BRLMs or Syndicate Members duly appointed by them in this regard; and
- Bids by U.S Persons as defined in Regulation S under the Securities Act other than "qualified institutional buyers" as defined in Rule 144A under the Securities Act.

Basis of Allotment

A. For Retail Individual Bidders

- Bids received from the Retail Individual Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The Allotment to all the successful Retail Individual Bidders will be made at the Issue Price.
- The Net Issue size less Allotment to Non-Institutional Bidders and QIB Bidders shall be available for Allotment to Retail Individual Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this portion is less than or equal to 14,175,000 Equity Shares at or above the Issue Price, full Allotment shall be made to the Retail Individual Bidders to the extent of their demand.



- If the aggregate demand in this category is greater than 14,175,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis up to a minimum of [●] Equity Shares and in multiples of one Equity Share thereafter. For the method of proportionate basis of allocation, refer below.

B. For Non-Institutional Bidders

- Bids received from Non-Institutional Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The Allotment to all successful Non-Institutional Bidders will be made at the Issue Price.
- The Net Issue size less allocation to QIB Bidders and Retail Individual Bidders shall be available for allocation to Non-Institutional Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 6,075,000 Equity Shares at or above the Issue Price, full Allotment shall be made to Non-Institutional Bidders to the extent of their demand.
- In case the aggregate demand in this category is greater than 6,075,000 Equity Shares at or above the Issue Price, allocation shall be made on a proportionate basis up to a minimum of [●] Equity Shares and in multiples of 1 Equity Shares thereafter. For the method of proportionate basis of allocation refer below.

C. For QIB Bidders

- Bids received from the QIB Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allocation to all the QIB Bidders will be made at the Issue Price.
- The Net Issue size less allocation to Non-Institutional Bidders and Retail Individual Bidders shall be available for allocation to QIB Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- Allotment shall be undertaken in the following manner:
 - (a) In the first instance allocation to Mutual Funds for up to 5% of the QIB Portion shall be determined as follows:
 - (i) In the event that Bids from Mutual Fund exceeds 5% of the QIB Portion, allocation to Mutual Funds shall be done on a proportionate basis for up to 5% of the QIB Portion.
 - (ii) In the event that the aggregate demand from Mutual Funds is less than 5% of the QIB Portion, then all Mutual Funds shall get full allotment to the extent of valid bids received above the Issue Price.
 - (iii) Equity Shares remaining unsubscribed, if any, not allocated to Mutual Funds shall be available to all QIB Bidders as set out in (b) below;
 - (b) In the second instance allocation to all QIBs shall be determined as follows:
 - (i). The number of Equity Shares available for this category shall be the QIB Portion less allocation only to Mutual Funds as calculated in (a) above.
 - (ii). The subscription level for this category shall be determined based on the overall subscription in the QIB Portion less allocation only to Mutual Funds as calculated in (a) above.
 - (iii). Based on the above, the level of the subscription shall be determined and proportionate allocation to all QIBs including Mutual Funds in this category shall be made.
 - (iv). In the event allocation to QIB Bidders on a proportionate basis results in us breaching applicable sectoral caps, FIIs shall receive such lower proportion of the allocation such as to comply with the applicable sectoral caps. Such additional Equity Shares that are available for allocation would be allocated to the other QIB Bidders on a proportionate basis.
- The aggregate allocation to QIB Bidders shall be up to 20,250,000 Equity Shares.

D. For Employee Reservation Portion

- Bids received from the Eligible Employees at or above the Issue Price shall be grouped together to determine the total demand under this category. The allocation to all the successful Employees will be made at the Issue Price.
- If the aggregate demand in this category is less than or equal to 4,500,000 Equity Shares at or above the Issue Price, full allocation shall be made to the Employees to the extent of their demand.
- If the aggregate demand in this category is greater than 4,500,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis up to a minimum of [●] Equity Shares. For the method of proportionate basis of allocation, refer below.



- Only Eligible Employees are eligible to apply under Employee Reservation Portion.

Method of proportionate basis of allocation in the QIB, Retail, Non-Institutional and Employee Reservation Portions

Bidders will be categorised according to the number of Equity Shares applied for by them.

- (a) The total number of Equity Shares to be allotted to each portion as a whole shall be arrived at on a proportionate basis, being the total number of Equity Shares applied for in that portion (number of Bidders in the portion multiplied by the number of Equity Shares applied for) multiplied by the inverse of the over-subscription ratio.
- (b) Number of Equity Shares to be allotted to the successful Bidders will be arrived at on a proportionate basis, being the total number of Equity Shares applied for by each Bidder in that portion multiplied by the inverse of the over-subscription ratio.
- (c) If the proportionate Allotment to a Bidder is a number that is more than [●] but is not a multiple of one (which is the market lot), the decimal would be rounded off to the higher whole number if that decimal is 0.5 or higher. If that number is lower than 0.5, it would be rounded off to the lower whole number. Allotment to all Bidders in such categories would be arrived at after such rounding off.
- (d) In all Bids where the proportionate Allotment is less than [●] Equity Shares per Bidder, the Allotment shall be made as follows:
 - Each successful Bidder shall be Allotted a minimum of [●] Equity Shares; and
 - The successful Bidders out of the total Bidders for a portion shall be determined by draw of lots in a manner such that the total number of Equity Shares Allotted in that portion is equal to the number of Equity Shares calculated in accordance with (b) above; and
 - Each successful Bidder shall be Allotted a minimum of [●] Equity Shares.
- (e) If the Equity Shares allocated on a proportionate basis to any portion are more than the Equity Shares allotted to the Bidders in that portion, the remaining Equity Shares available for Allotment shall be first adjusted against any other portion, where the Equity Shares are not sufficient for proportionate Allotment to the successful Bidders in that portion. The balance Equity Shares, if any, remaining after such adjustment will be added to the portion comprising Bidders applying for minimum number of Equity Shares.

Equity Shares in Dematerialised Form with NSDL or CDSL

The Allotment of Equity Shares in this Issue shall be only in a de-materialised form, (i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through the electronic mode).

In this context, two agreements have been signed among the Bank, the respective Depositories and the Registrar to the Issue:

- a tripartite agreement dated July 30, 2002 with NSDL, us and MCS Limited; and
- a tripartite agreement dated July 29, 2002 with CDSL, us and MCS Limited.

All Bidders can seek Allotment only in dematerialised mode. Bids from any Bidder without relevant details of his or her depository account are liable to be rejected.

- A Bidder applying for Equity Shares must have at least one beneficiary account with either of the Depository Participants of either NSDL or CDSL prior to making the Bid.
- The Bidder must necessarily fill in the details (including the Beneficiary Account Number and Depository Participant's identification number) appearing in the Bid cum Application Form or Revision Form.
- Allotment to a successful Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder.
- Names in the Bid cum Application Form or Revision Form should be identical to those appearing in the account details in the Depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the Depository.
- If incomplete or incorrect details are given under the heading 'Bidders Depository Account Details' in the Bid cum Application Form or Revision Form, it is liable to be rejected.
- The Bidder is responsible for the correctness of his or her Demographic Details given in the Bid cum Application Form vis-à-vis those with his or her Depository Participant.



- It may be noted that Equity Shares in electronic form can be traded only on the Stock Exchanges having electronic connectivity with NSDL and CDSL. Of the Stock Exchanges where our Equity Shares are proposed to be listed, only the NSE and the BSE have electronic connectivity with CDSL and NSDL.
- The trading of the Equity Shares of the Bank would be in dematerialised form only for all investors in the demat segment of the respective Stock Exchanges.

Communications

All future communications in connection with Bids made in this Issue should be addressed to the Registrar to the Issue quoting the full name of the sole or First Bidder, Bid cum Application Form number, details of Depository Participant, number of Equity Shares applied for, date of Bid form, name and address of the member of the Syndicate where the Bid was submitted and cheque or draft number and issuing bank thereof.

Impersonation

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

“Any person who:

- (a) makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or***
- (b) otherwise induces a company to allot, or register any transfer of shares, therein to him, or any other person in a fictitious name,***

shall be punishable with imprisonment for a term which may extend to five years.”

Undertakings by the Bank

We undertake as follows:

- that the complaints received in respect of this Issue shall be attended to by us expeditiously and satisfactorily;
- that all steps will be taken for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges where the Equity Shares are proposed to be listed within seven working days of finalisation of the Allotment;
- that the funds required for dispatch of refund orders or Allotment advice by registered post or speed post shall be made available to the Registrar to the Issue by us;
- that the refund orders or Allotment advice to the successful Bidders shall be dispatched within specified time; and
- that no further issue of Equity Shares shall be made till the Equity Shares offered through the Red Herring Prospectus are listed or until the Bid monies are refunded on account of non-listing, under-subscription etc.

Utilisation of Issue Proceeds

The Bank shall not have any recourse to the Issue proceeds until the approval for trading the Equity Shares is received from the Stock Exchanges.

Disposal of Applications and Applications Money and Interest in Case of Delay in Despatch of Allotment Letters/ Refund Orders

We shall ensure dispatch of Allotment advice, refund orders and give benefit to the beneficiary account with Depository Participants and submit the documents pertaining to the Allotment to the Stock Exchanges within two working days of the date of finalisation Allotment of Equity Shares. We shall dispatch refund orders, if any, of value up to Rs. 1,500, “Under Certificate of Posting”, and shall dispatch refund orders above Rs. 1,500, if any, by registered post or speed post only at the sole or First Bidder’s sole risk and adequate funds for the purpose shall be made available to the Registrar by us.

We shall use best efforts to ensure that all steps for completion of the necessary formalities for listing and commencement of trading at the Stock Exchanges where the Equity Shares are proposed to be listed are taken within seven working days of Allotment.

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

- Allotment shall be made only in dematerialised form within 15 days of the Bid Closing Date/Issue Closing Date;
- dispatch refund orders within 15 days of the Bid Closing Date/Issue Closing Date would be ensured; and



- we shall pay interest at 15% per annum (for any delay beyond the 15 day time period as mentioned above), if Allotment is not made and refund orders are not dispatched and/or demat credits are not made to investors within the 15 day time prescribed above as per the guidelines issued by the Government of India, Ministry of Finance pursuant to their letter No. F/8/S/79 dated July 31, 1983, as amended by their letter No. F/14/SE/85 dated September 27, 1985, addressed to the Stock Exchanges, and as further modified by SEBI's Clarification XXI dated October 27, 1997, with respect to the SEBI Guidelines.

Refunds will be made by cheques, pay orders or demand drafts drawn on the Escrow Collection Bank(s) and payable at par at places where Bids are received. Bank charges, if any, for cashing such cheques, pay orders or demand drafts at other centers will be payable by the Bidders.



RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES

Foreign investment in corresponding new banks is regulated by the provisions of the Bank Acquisition Act. Under Section 3(2D) of the Bank Acquisition Act, foreign investment in corresponding new banks is subject to an overall statutory limit of 20% of the paid-up capital of the bank.

Section 3(2D) of the Bank Acquisition Act states as follows:

“(2D) The shares of every corresponding new bank not held by the Central Government shall be freely transferable:

Provided that no individual or company resident outside India or any company incorporated under any law not in force in India of any branch of such company, whether resident outside India or not, shall at any time hold or acquire by transfer or otherwise shares of the corresponding new bank so that such investment in aggregate exceed the percentage, not being more than twenty per cent of the paid-up capital as may be specified by the Central Government by notification in the Official Gazette.

Explanation— For the purposes of this clause “company” means any body corporate and includes a firm or other association of individuals.”

Hence, Section 3(2D) of the Bank Acquisition Act prescribed that foreign investment in the aggregate is permitted in the correspondent new bank, like our Bank only until 20% under the automatic route. For public sector banks, the RBI monitors the ceilings on FII/NRI/PIO investments on a daily basis. For effective monitoring the RBI has fixed cut off points lower than the actual ceilings, which is 18% for public sector banks. Once the aggregate net purchase of Equity Shares reaches the cut off points, further acquisition of Equity Shares by FIIs/NRIs/PIOs requires prior approval of the RBI.



MAIN PROVISIONS OF CONSTITUTIONAL DOCUMENTS

We were constituted as a “corresponding new bank” in 1970 under the provisions of the Bank Acquisition Act. We are not required to have memorandum and articles of association. Since we were constituted under the Bank Acquisition Act we have provided the salient terms thereof. Further since the Nationalised Banks Scheme and the Bank Regulations deal with the management of corporate affairs in our Bank, which are matters typically finding a place in the constitutional documents of a company incorporated under the Companies Act, the same have been profiled in this chapter.

The Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 was made by S.O. 3793 dated November 16, 1970 by the Central Government in consultation with the Reserve Bank of India in exercise of the powers conferred by Section 9 of the Bank Acquisition Act.

The Bank Regulations were formulated under Section 19 of the Bank Acquisition Act by our board of directors in consultation with the Reserve Bank of India, and with the previous sanction of the central government.

The Bank Acquisition Act amended Section 34A, 36AD and Section 51 of the Banking Regulation Act, 1949 and made these sections applicable to corresponding new banks constituted under the Bank Acquisition Act. For details of the applicability of the Banking Regulation Act to correspondent new bank like our Bank see the section titled “Regulations and Policies” on page 69 of this Red Herring Prospectus.

For more details, investors are advised to refer to the complete text of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, Banking Regulation Act, 1949, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 and the Union Bank of India (Shares and Meetings) Regulations, 1998.

Shareholders and investors in the Bank may note that the rights available to shareholders of a corresponding new bank are more restricted than the rights available to the shareholders of a company incorporated under the Companies Act, 1956. For further details on the restrictions and their potential impact on shareholders of our Bank please refer to the section titled “Risk Factors – External Risk Factors” on page xviii of this Red Herring Prospectus.

The salient features of the same are as below.

Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970

3. Establishment of corresponding new banks and business thereof.

- (1) On the commencement of this Act, there shall be constituted such corresponding new banks as are specified in the First Schedule.
- (2) The paid-up capital or every corresponding new bank constituted under sub-section (1) shall, until any provision is made in this behalf in any scheme made under section 9, be equal to paid-up capital of the existing bank in relation to which it is the corresponding new bank.
- (2A) Subject to the provisions of this Act, the authorised capital of every corresponding new bank shall be one thousand five hundred crores of rupees divided into one hundred fifty crores fully paid-up shares of ten rupees each.
Provided that the Central Government may, after consultation with the Reserve Bank and by notification in the Official Gazette, increase or reduce the authorised capital as it thinks fit, so however that after such increase or reduction, the authorised capital shall not exceed three thousand crores or be less than one thousand five hundred crores, of rupees.
- (2B) Notwithstanding anything contained in sub-section (2), the paid-up capital of every corresponding new bank constituted under sub-section (1) may from time to time be increased by:—
 - (a) such amounts as the Board of Directors of the corresponding new bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, transfer from the reserve fund established by such bank to such paid-up capital;
 - (b) such amounts as the Central Government may, after consultation with the Reserve Bank, contribute to such paid-up capital;
 - (c) such amounts as the Board of Directors of the corresponding new bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, raise by public issue of shares in such manner as may be prescribed, so however that the Central Government shall, at all times, hold not less than fifty-one per cent of the paid-up capital of each corresponding new bank.



(2BB) Notwithstanding anything contained in sub-section (2), the paid-up capital of a corresponding new bank constituted under sub-section (1) may, from time to time and before any paid-up capital is raised by public issue under clause (c) of sub-section (2B), be reduced by-

- (a) the Central Government, after consultation with the Reserve Bank, by canceling any paid-up capital which is lost, or is unrepresented by available assets;
- (b) the Board of Directors, after consultation with the Reserve Bank and with the previous sanction of the Central Government, by paying off any paid-up capital which is in excess of the wants of the corresponding new bank.

Provided that in a case where such capital is lost, or is unrepresented by available assets because of amalgamation of another corresponding new bank or a corresponding new bank as defined in clause (b) of Section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970) with the corresponding new bank, such reduction may be done, either prospectively or retrospectively, but not from a date earlier than the date of such amalgamation.

(2BBA) (a) A corresponding new bank may from time to time and after any paid-up capital has been raised by public issue under clause (c) of sub-section (2B), by resolution passed at an annual general meeting of the shareholders entitled to vote, voting in person, or, where proxies are allowed, by proxy, and the votes cast in favour of the resolution are not less than three times the number of the votes, if any, cast against the resolution by the shareholders so entitled and voting, reduce its paid-up capital in any way.

(b) without prejudice to the generality of the foregoing power the paid-up capital may be reduced by:

- (i) extinguishing or reducing the liability on any of its shares in respect of share capital not paid-up;
- (ii) either with or without extinguishing or reducing liability on any of its paid-up shares, canceling any paid-up capital which is lost, or is unrepresented by available assets; or
- (iii) either with or without extinguishing or reducing liability on any of its paid-up shares, paying off any paid share capital which is in excess of the wants of the corresponding new bank.

(2BBB) Notwithstanding anything contained in sub-section (2BB) or sub-section (2BBA), the paid-up capital of a corresponding new bank shall not be reduced at any time so as to render it below twenty-five per cent of the paid-up capital of that bank as on the date of commencement of the Banking Companies (Acquisition and Transfer of Undertakings) Amendment Act, 1995.

(2C) The entire paid-up capital of a corresponding new bank, except the paid-up capital raised by public issue under clause (c) of sub-section (2B), shall stand vested in and allotted to the Central Government.

(2D) The shares of every corresponding new bank not held by the Central Government shall be freely transferable:

Provided that no individual or company resident outside India or any company incorporated under any law not in force in India or any branch of such company, whether resident outside India or not, shall at any time hold or acquire by transfer or otherwise shares of the corresponding new bank so that such investment in aggregate exceed the percentage, not being more than twenty per cent of the paid-up capital as may be specified by the Central Government by notification in the Official Gazette.

Explanation— For the purposes of this clause “company” means any body corporate and includes a firm or other association of individuals.

(2E) No shareholder of the corresponding new bank, other than the Central Government, shall be entitled to exercise voting rights in respect of any shares held by him in excess of one per cent of the total voting rights of all the shareholders of the corresponding new bank.

(2F) Every corresponding new bank shall keep at its head office a register in one or more books, of the shareholders (in this Act referred to is the register) and shall enter therein the following particulars

- (i) the names, addresses and occupations, if any, of the shareholders and a statement of the shares held by each shareholder, distinguishing each share by its denoting number;
- (ii) the date on which each Person is so entered as a shareholder;
- (iii) the date on which any Person ceases to be a shareholder; and
- (iv) such other particulars as may be prescribed.



- (2G) Notwithstanding anything contained in sub-section (2F), it shall be lawful for every corresponding new bank to keep the register in computer floppies or diskettes subject to such safeguards as may be prescribed.
- (3) Notwithstanding anything contained in the Indian Evidence Act, 1872 (1 of 1872) a copy of, or extract from, the register, certified to be a true copy under the hand of an officer of the corresponding new bank authorised in this behalf by it, shall, in all legal proceedings, be admissible in evidence.
- (4) Every corresponding new bank shall be a body corporate with perpetual succession and a common seal with power, subject to the provisions of this Act, to acquire, hold and dispose of property, and to contract, and may sue and be sued in its name.
- (5) Every corresponding new bank shall carry on and transact the business banking as defined in clause (b) of Section 5 of the Banking Regulation Act, 1949 (10 of 1949), and may engage in (one or more of the other forms of business) specified in sub-section (1) of Section 6 of that Act.
- (6) Every corresponding new bank shall establish a reserve fund to which shall be transferred to share premiums and the balance, if any, standing to the credit of the reserve fund of the existing bank in relation to which it is the corresponding new bank, and such further sums, if any, as may be transferred in accordance with the provisions of Section 17 of the Banking Regulation Act, 1949 (10 of 1949).
- (7) (i) The corresponding new bank shall, if so required by the Reserve Bank, act as agent of the Reserve Bank at all places in India where it has a branch, for-
- (a) paying, receiving, collecting and remitting money, bullion and securities on behalf of any Government in India; and
- (b) undertaking and transacting any other business which the Reserve Bank may from time to time entrust to it.
- (ii) The terms and conditions on which any such agency business shall be carried on by the corresponding new bank on behalf of the Reserve Bank shall be such as may be agreed upon.
- (iii) If no agreement can be reached on any matter referred to in clause (ii), or if a dispute arises between the corresponding new bank and the Reserve Bank as to the interpretation of any agreement - between them, the matter shall be referred to the Central Government and the decision of the Central Government thereon shall be final.
- (iv) The corresponding new bank may transact any business or perform any functions entrusted to it under clause (a), by itself or through any agent approved by the Reserve Bank.

7. *Head office and management*

- (1) The head office of each corresponding new bank shall be at such place as the Central Government may, by notification in the Official Gazette, specify in this behalf, and, until any such place is so specified, shall be at such place at which the head office of the existing bank, in relation to which it is the corresponding new bank, is on the commencement of this Act, located.
- (2) The general superintendence, direction and management of the affairs and business of a corresponding new bank shall vest in a Board of Directors which shall be entitled to exercise all such powers and do all such acts and things as the corresponding new bank is authorised to exercise and do.
- (3) (a) As soon as may be after the appointed day, the Central Government shall, in consultation with the Reserve Bank, constitute the first Board of Directors of a corresponding new bank, consisting of not more than seven Persons, to be appointed by the Central Government, and every Director so appointed shall hold office until the Board of Directors of such corresponding new bank is constituted in accordance with the scheme made under Section 9: Provided that the Central Government may, if it is of opinion that it is necessary in the interests of the corresponding new bank so to do, remove a Person from the Membership of the first Board of Directors and appoint any other Person in this place.
- (b) Every Member of the first Board of Directors (not being an officer of the Central Government or of the Reserve Bank) shall receive such remuneration as is equal to the remuneration which a Member of the Board of Directors of the existing bank was entitled to receive immediately before the commencement of this Act.
- (4) Until the first Board of Directors is appointed by the Central Government under sub-section (3), the general superintendence, direction and management of the affairs and business of a corresponding new bank shall vest in a Custodian, who shall be the Chief Executive Officer of that bank and may exercise all powers and do all acts things as may be exercised or done by that bank.



- (5) The Chairman of an existing bank holding office as such immediately before the commencement of this Act, shall be the Custodian of the corresponding new bank and shall receive the same emolument as he was receiving immediately before such commencement:

Provided that the Central Government may, if the Chairman of an existing bank declines to become, or to continue to function as, a Custodian of the corresponding new bank, or, if it is of opinion that it is necessary in the interests of the corresponding new bank so to do, appoint any other Person as the Custodian of a corresponding new bank and the Custodian so appointed shall receive such emoluments as the Central Government may specify in this behalf.

- (6) The Custodian shall hold office during the pleasure of the Central Government.

8. Corresponding new banks to be guided by the Directions of the Central Government

Every corresponding new bank shall, in the discharge of its functions, be guided by such directions in regard to matters of policy involving public interest as the Central Government may, after consultation with the Governor of the Reserve Bank, give.

9. Power of Central Government to make scheme

- (1) The Central Government may, after consultation with the Reserve Bank, make a scheme for carrying out the provisions of this Act.
- (2) In particular, and without prejudice to the generality of the foregoing power, the said scheme may provide for all or any of the following matters, namely:—

- (a) the capital structure of the corresponding new bank;
- (b) the constitution of the Board of Directors, by whatever name called, of the corresponding new bank and all such matters in connection therewith or incidental thereto as the Central Government may consider to be necessary or expedient;
- (c) the reconstitution of any corresponding new bank into two or more corporations, the amalgamation of any corresponding new bank with any other corresponding new bank or with another banking institution, the transfer of the whole or any part of the undertaking of a corresponding new bank to any other corresponding new bank or banking institution or the transfer of the whole or any part of the undertaking of any other banking institution to a corresponding new bank;
- (d) such incidental, consequential and supplemental matters as may be necessary to carry out the provisions of this Act.

- (3) Every Board of Director of a corresponding new bank constituted under any scheme made under sub-section (1), shall include:

- (a) not more than two whole-time Directors to be appointed by the Central Government after consultation with the Reserve Bank;
- (b) one Director who is an official of the Central Government to be nominated by the Central Government:

Provided that no such Director shall be a Director of any other corresponding new bank.

Explanation—For the purposes of this clause, the expression “corresponding new bank” shall include a corresponding new bank within the meaning of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970);

- (c) one Director who is an Officer of the Reserve Bank to be nominated by the Central Government on the recommendation of the Reserve Bank.

Explanation—For the purpose of this clause, “an Officer of the Reserve Bank” includes an officer of the Reserve Bank who is deputed by that Bank under Section 54AA of the Reserve Bank of India Act, 1934 (2 of 1934) to any institution referred to therein:

- (d) not more than two Directors to be nominated by the Central Government from amongst the Securities and Exchange Board of India established under Section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the National Bank for Agriculture and Rural Development established under Section 3 of the National Bank for Agriculture and Rural Development Act, 1981 (61 of 1981), public financial institutions as specified in sub-section (1), or notified from time to time under sub-section (2) of Section 4A of the Companies Act, 1956 (1 of 1956) and other institutions established or constituted by or under any Central Act or incorporated



under the Companies Act, 1956 and having not less than fifty one per cent of the paid-up share capital held or controlled by the Central Government;

- (e) one Director, from among such of the employees of the corresponding new bank who are workmen under clause (s) of Section 2 of the Industrial Disputes Act, 1947 (14 of 1947) to be nominated by the Central Government in such manner as may be specified in a scheme made under this section;
- (f) one Director, from among the employees of the corresponding new bank who are not workmen under clause (s) of Section 2 of the Industrial Disputes Act, 1947, (14 of 1947) to be nominated by the Central Government after consultation with the Reserve Bank;
- (g) one Director who has been a Chartered Accountant for not less than fifteen years to be nominated by the Central Government after consultation with the Reserve Bank;
- (h) subject to the provisions of clause (i), not more than six Directors to be nominated by the Central Government;
- (i) where the capital issued under clause (c) of sub-section (2B) of Section (3) is—
 - (I) not more than twenty per cent of the total paid-up capital, not more than two Directors.
 - (II) more than twenty per cent but not more than forty per cent of the total paid-up capital, not more than four Directors,
 - (III) more than forty per cent of the total paid-up capital, not more than six Directors,

to be elected by the shareholders, other than the Central Government from amongst themselves:

Provided that on the assumption of charge after election of any such Directors under this clause, equal number of Directors nominated under clause (h) shall retire in such manner as may be specified in the scheme.

(3A) The Directors to be nominated under clause (h) or to be elected under clause (1) of sub-section (3) shall—

(A) have special knowledge or practical experience in respect of one or more of the following matters namely :-

- (i) agricultural and rural economy,
- (ii) banking,
- (iii) economics,
- (iv) co-operation,
- (v) finance,
- (vi) law,
- (vii) small-scale industry,

(viii) any other matter the special knowledge of, and practical experience in, which would, in the opinion of the Reserve Bank, be useful to the corresponding new bank;

(B) represent the interests of depositors; or

(C) represent the interests of farmers, workers and artisans.

(3B) Where the Reserve Bank is of the opinion that any Director of a corresponding new bank elected under clause (1) of sub-section (3) does not fulfill the requirements of sub-section (3A), it may, after giving to such Director and the bank a reasonable opportunity of being heard, by order, remove such Director and on such removal, the Board of Directors shall co-opt any other person fulfilling the requirements of sub-section (3A) as a Director in place of the person so removed till a Director is duly elected by the shareholders of the corresponding new bank in the next annual general meeting and the person so, co-opted shall be deemed to have been duly elected by the shareholders of the corresponding new bank as a Director.

(4) The Central Government may, after consultation with the Reserve Bank, make a scheme to amend or vary any scheme made under sub-section (1).

(5) On and from the date of coming into operation of a scheme made under this section with respect to any of the matters referred to in clause (c) of sub-section (2) or any matters incidental, consequential and supplemental thereto,—



- (a) the scheme shall be binding on the corresponding new bank or corporations or banking institutions, and also on the Members, if any, the depositors, and other creditors and employees of each of them and on any other persons having any right or liability in relation to any of them including the trustees or other persons, managing or in any other manner connected with any provident fund or other fund maintained by any of them;
- (b) the properties and assets of the corresponding new bank, or as the case may be, of the banking institution shall, by virtue of and to the extent provided in the scheme, stand transferred to, and vested in, and the liabilities of the corresponding new bank, or, as the case may be, of the banking institution shall, by virtue of, and to the extent provided in the scheme, stand transferred to, and become the liabilities of, the corporation or corporations brought into existence by reconstitution of the banking institution or the corresponding new bank, as the case may be.

Explanation I: In this section, “banking institution” means a banking company and includes the State Bank of India or a subsidiary bank.

Explanation II: For the purposes of this section, the expression “corresponding new bank” shall include a corresponding new bank within the meaning of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970).

10. Closure of accounts and disposal of profits

- (1) Every corresponding new bank shall cause its books to be closed and balanced on the 31st day of December or such other date in each year as the Central Government may, by notification in the Official Gazette, specify and shall appoint, with the previous approval of the Reserve Bank, Auditors for the audit of its accounts:

Provided that with a view to facilitating the transition from one period of accounting to another period of accounting under this sub-section, the Central Government may, by order published in the Official Gazette, make such provisions as it considers necessary or expedient for the closing and balancing of or for other matters relating to, the books in respect of the concerned years.

- (2) Every Auditor of a corresponding new bank shall be a person who is qualified to act as an Auditor of a company under Section 226 of the Companies Act, 1956 (1 of 1956) and shall receive such remuneration as the Reserve Bank may fix in consultation with the Central Government.
- (3) Every Auditor shall be supplied with a copy of the annual balance sheet and profit and loss account and a list of all books kept by the corresponding new bank, and it shall be the duty of the Auditor to examine the balance-sheet and profit and loss account with the accounts and vouchers relating thereto, and in the performance of his duties, the Auditor—
 - (a) shall have, at all reasonable times, access to the books, accounts and other documents of the corresponding new bank,
 - (b) may, at the expense of the corresponding new bank, employ accountants or other persons to assist him in investigating such accounts, and
 - (c) may, in relation to such accounts, examine the Custodian or any Officer or Employee of the corresponding new bank.
- (4) Every Auditor of a corresponding new bank shall make a report to the Central Government upon the annual balance sheet and accounts and in every such report shall state:
 - (a) whether, in his opinion, the balance-sheet is a full and fair balance-sheet containing all the necessary particulars and is properly drawn up so as to exhibit a true and fair view of the affairs of the corresponding new bank, and in case he had called for any explanation or information, whether it has been given and whether it is satisfactory;
 - (b) whether or not the transactions of the corresponding new bank, which have come to his notice, have been within the powers of that bank;
 - (c) whether or not the returns received from the offices and branches of the corresponding new bank have been found adequate for the purpose of his audit;
 - (d) whether the profit and loss account shows a true balance of profit or loss for the period covered by such account; and
 - (e) any other matter which he considers should be brought to the notice of the Central Government.



Explanation I: For the purposes of this Act

- (i) the balance-sheet shall not be treated as not disclosing a true and fair view of the affairs of the corresponding new bank, and
 - (ii) the profit and loss account shall not be treated as not showing a true balance of profit or loss for the period covered by such account,
- merely by reason of the fact that the balance-sheet or, as the case may be, the profit and loss account, does not disclose any matters which are by the provisions of the Banking Regulation Act 1949 (10 of 1949), read with the relevant provisions of this Act or any other Act, not required to be disclosed.

Explanation II: For the purposes of this Act the accounts of the corresponding new bank shall not be deemed as having not been properly drawn up on the ground merely that they do not disclose certain matters if:

- (i) those matters are such as the corresponding new bank is, by virtue of any provision contained in the Banking Regulation Act, 1949 (1 of 1949), read with the relevant provisions of this Act, or any other Act, not required to disclose; and
 - (ii) the provisions referred to in clause (i) are specified in the balance sheet and profit and loss account of the corresponding new bank or in the Auditor's report.
- (5) The report of the Auditor shall be verified, signed and transmitted to the Central Government.
- (6) The Auditor shall also forward a copy of the audit report to the corresponding new bank and to the Reserve Bank.
- (7) After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds and all other matters for which provision is necessary under any law, or which are usually provided for by banking companies, a corresponding new bank may out of its net profits declare a dividend and retain the surplus if any.
- (7A) Every corresponding new bank shall furnish to the Central Government and to the Reserve Bank the annual balance sheet, the profit and loss account, and the Auditor's report and a report by its Board of Directors on the working and activities of the bank during the period covered by the accounts.
- (8) The Central Government shall cause every Auditor's report and report on the working and activities of each corresponding new bank to be laid as soon as may be after they are received before each House of Parliament.
- (9) Without prejudice to the foregoing provisions, the Central Government may, at any time, appoint such number of Auditors as it thinks fit to examine and report on the accounts of a corresponding new bank and the Auditors so appointed shall have all the rights, privileges and authority in relation to the audit of the accounts of the corresponding new bank which an Auditor appointed by the corresponding new bank has under this section.

10A. Annual General Meeting

- (1) A general meeting (in this Act referred to as an annual general meeting) of every corresponding new bank which has issued capital under clause (c) of sub-section (2B) of Section 3 shall be held at the place of the head office of the bank in each year at such time as shall from time to time be specified by the Board of Directors:
- Provided that such annual general meeting shall be held before the expiry of six weeks from the date on which the balance sheet, together with the profit and loss account and Auditor's report under sub-section (7A) of Section 10, forwarded to the Central Government or to the Reserve Bank whichever date is earlier.
- (2) The shareholders present at an annual general meeting shall be entitled to discuss the balance-sheet and the profit and loss account of the corresponding new bank made up to the previous 31st day of March, the report of the Board of Directors on the working and activities of the corresponding new bank for the period covered by the accounts and the Auditor's report on the balance-sheet and accounts.

11. Corresponding new bank deemed to be an Indian company

For the purposes of the Income-tax Act, 1961 (43 of 1961), every corresponding new bank shall be deemed to be an Indian company and a company in which the public are substantially interested.

15. Certain defects not to invalidate acts of proceedings

- (a) All acts done by the Custodian, acting in good faith, shall, notwithstanding any defect in his appointment or in the procedure, be valid.



- (b) No act or proceeding of any Board of Directors or a local Board or Committee of a corresponding new bank shall be invalid merely on the ground of the existence of any vacancy in, or defect in the constitution of, such Board or the Committee, as the case may be.
- (c) All acts done by a person acting in good faith as a Director or Member of a local Board or Committee of a corresponding new bank shall be valid notwithstanding that it may afterwards be discovered that his appointment was not invalid by reason of any defect or disqualification or had terminated by virtue of any provision contained in any law for the time being in force:

Provided that nothing in this section shall be deemed to give validity to any act by a Director or Member of a local Board or Committee of a corresponding new bank after his appointment has been shown to the corresponding new bank to be invalid or to have terminated.

17. *Indemnity*

- (1) Every custodian of a corresponding new bank and every Officer of the Central Government or of the Reserve Bank and every Officer or other employee of a corresponding new bank, shall be indemnified by such bank against all losses and expenses incurred by him in or in relation to the discharge of his duties except such as have been caused by his own willful act or default.
- (2) A Director or Member of a local Board or Committee of a corresponding new bank shall not be responsible for any loss or expense caused to such bank by the insufficiency or deficiency of the value of, or title to, any property or security acquired or taken on behalf of the corresponding new bank, or by the insolvency or wrongful act of any customer or debtor, or by anything done in or in relation to the execution of the duties of his office, unless such loss, expense, insufficiency or deficiency was due to any willful act or default on the part of such Director or Member.

16A. *Arrangement with corresponding new bank on appointment of Directors to prevail*

- (1) Where any arrangement entered into by a corresponding new bank with a company provides for the appointment by the corresponding new bank of one or more Directors of such Company, such appointment of Directors made in pursuance thereof shall be valid and effective notwithstanding anything to the contrary contained in the Companies Act, 1956 (1 of 1956) or in any other law for the time being in force or in the memorandum, articles of association or any other instrument relating to the Company, and any provision regarding share qualification, age limit, number of Directorship, removal from office of Directors and such like conditions contained in any such law or instrument aforesaid, shall not apply to any Director appointed by the corresponding new bank in pursuance of the arrangement as aforesaid.
- (2) Any Director appointed as aforesaid shall—
 - (a) hold office during the pleasure of the corresponding new bank and may be removed or substituted by any person by order in writing of the corresponding new bank;
 - (b) and incur any obligation or liability by reason only of his being a Director or for anything done or omitted to be done in good faith in the discharge of his duties as a Director or anything in relation thereto;
 - (c) not be liable to retirement by rotation and shall not be taken into account for computing the number of Directors liable to such retirement.
 - (d) Power to make regulations.
- (3) The Board of Directors of a corresponding new bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, by notification in the Official Gazette make regulations, not inconsistent with the provisions of this Act or any scheme made thereunder, to provide for all matters for which provision is of an expedient for the purpose of giving effect to the provisions of this Act.
- (4) Until any regulation is made under sub-section (1), the articles of association of the existing bank and every regulation, rule, bye-law or order made by the existing bank shall, if in force at the commencement of this Act, be deemed to be the regulations made under sub-section (1) and shall have effect accordingly and any reference therein to any authority of the existing bank shall be deemed to be a reference to the corresponding authority of the corresponding new bank and until any such corresponding authority is constituted under this Act, shall be deemed to refer to the Custodian.
- (5) Every regulation shall, as soon as may be after it is made under this Act by the Board of Directors of a corresponding new bank, be forwarded to the Central Government and that Government shall cause a copy of the same to be laid before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive



sessions aforesaid, both houses agree in making any modification in the regulation or both Houses agree that the regulation should not be made, the regulation shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that regulation.

Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970

3. Constitution of the Board

- (2) (i) The director referred to in Clause (e) of sub-section (3) of Section 9 of the Act, shall be nominated by the Central Government from out of a panel of three such employees furnished to it by the representative union, within a date to be specified by the Central Government, which date shall not be more than six weeks from the date of communication made by the Central Government, requiring the representative union to furnish the panel of names:

Provided that where the Central Government is of the opinion that owing to the delay which is likely to occur in the verification and certification of any union or federation as a representative union it is necessary in the interest of the Nationalised Bank so to do, it may nominate any employee of the Nationalised Bank, who is a workman, to be a director of that bank.

- (ii) (a) Where there is no representative union, to represent the workman of a Nationalised Bank, or
(b) where such representative union being in existence omits or fails to furnish any panel of names within the specified date, or
(c) where all the persons specified in the panel furnished by the representative union are disqualified whether under item (iii) of this sub-clause or under Clause 10, the Central Government may, at its discretion appoint such workman of the Nationalised Bank, as it may think fit, to be a director of such bank.
- (iii) A workman of a Nationalised Bank shall be disqualified for being nominated as a director unless:
(a) he is, and has been serving for a continuous period of not less than five years in the Nationalised Bank; and
(b) he is of such age that there is no likelihood of his attaining the age of superannuation during his terms of office as director.

4. Manner of retirement of nominee directors

The director referred to in Clause (h) of sub-section (3) of Section 9 of the Act shall retire by rotation, when the elected directors assume charge, in such manner that the directors who have been longest in office since the last nomination, shall retire first and as between persons, who became directors on the same day, those who are to retire, shall, in default of or subject to any agreement among themselves, be decided by the Central Government.

5. Chairman

- (1) The Central Government shall, after consultation with the Reserve Bank, appoint one of the Directors to be the Chairman of the Board.
(2) The Chairman shall preside over the meetings of the Board.

6. Managing Director

The Central Government shall, after consultation with the Reserve Bank, appoint one of the directors referred to in Clause (a) of sub-section (3) of Section 9 of the Act to be the Managing Director, who shall be the Chief Executive Officer of the Nationalised Bank and shall exercise the powers and discharge such duties as may be delegated to him by the Board.

7. Same person may hold office as Chairman and Managing Director

The Central Government may, after consultation with the Reserve Bank appoint the same person to hold, at the same time, both the office of the Chairman and the Managing Director.

8. Term of office and remuneration of a wholetime Director including Managing Director

- (1) A wholetime Director, including the Managing Director shall devote his whole time to the affairs of the Nationalised Bank and shall hold office for such terms not exceeding five years as the Central Government may, after consultation with the Reserve Bank, specify and shall be eligible for re-appointment.
- (1-A) Notwithstanding anything contained in sub-clause (1), the Central Government shall have the right to terminate the term of office of a whole-time Director, including the Managing Director, at any time before the expiry of the term specified under that sub-clause by giving to him a notice of not less than three months, in writing or three



months salary and allowances in lieu of notice; and the whole-time Director, including the Managing Director, shall also have the right to relinquish his office at any time before the expiry of the term specified under that sub-clause by giving to the Central Government notice of not less than three months in writing.

(1-B) Any reference to a whole-time Director, including the Managing Director, in sub-clause (1-A) shall be construed as including a reference to the person holding office as such at the commencement of the Nationalised Banks Management and Miscellaneous Provision (Second Amendment) Scheme, 1976.

- (2) A whole-time Director, including the Managing director shall receive from the Nationalised Bank such salary, allowance, fees and perquisites and be governed by such terms and conditions as the Central Government may determine, after consultation with the Reserve Bank.
- (3) If a whole-time Director including the Managing Director is by infirmity or otherwise rendered incapable of carrying out his duties or is absent on leave or otherwise in circumstances not involving the vacation of his office, the Central Government may, after consultation with the Reserve Bank, appoint another person to act in his place during his absence.
- (4) The Central Government may, if it is satisfied that it is expedient in the interests of the nationalised bank so to do, remove a whole-time Director including the Managing Director from office:

Provided that no such removal shall be made except after—

- (a) consultation with the Board, and
- (b) giving a reasonable opportunity to the whole-time Director including the Managing director, of showing cause against the proposed action.

9. *Term of office of other Directors*

- (1) A Director other than a Director referred to in Clause (a) and Clause (i) of sub-section (3) of Section 9 of the Act shall hold office during the pleasure of the Central Government.
- (2) Subject to the provisions of sub-clause (1),
 - (a) a Director referred to in Clause (e), Clause (f), Clause (g) and Clause (h) of sub-section (3) of Section 9 of the Act shall hold office for such term not exceeding three years as the Central Government may specify at the time of his nomination and thereafter until his successor has been nominated and shall be eligible for re-nomination:
 - (b) a Director referred to in Clause (g) and Clause (h) of sub-section (3) of Section 9 of the Act shall hold office for such term not exceeding three years as the Government may specify at the time of his nomination and thereafter and shall be eligible for re-nomination:

Provided that no such Director shall hold office continuously for a period exceeding six years.

- (3) Without prejudice to the provisions of sub-clauses (1) and (2), a director referred to in Clause (b) of sub-section (3) of Section 9 of the Act shall retire in the manner specified in Clause 4.
- (4) An elected Director shall hold office for three years and thereafter until his successor shall have been duly elected and shall be eligible for re-election:

Provided that no such Director shall hold office continuously for a period exceeding six years.

10. *Disqualification of Directors*

A person shall be disqualified for being appointed as, and for being, a Director:

- (a) if he has at any time been adjudicated an insolvent or has suspended payment or has compounded with his creditors;
or
- (b) if he has been found to be of unsound mind and stands so declared by a competent Court; or
- (c) if he has been convicted by a Criminal Court of an offence which involves moral turpitude.

11. *Vacation of office of Directors, etc.*

- (1) If a Director becomes subject to any of the disqualifications specified in Clause 10 or is absent without leave of the Board for more than three consecutive meetings thereof he shall be deemed to have vacated his office as such and thereupon his office shall become vacant.
- (2) The Chairman or whole-time Director including the Managing Director or a Director referred to in Clause (b) or Clause (c) or Clause (d) of sub-section (3) of Section 9 of the Act may resign his office by giving notice thereof in writing to the Central



Government and on such resignation being accepted by that Government shall be deemed to have vacated his office; any other Director may resign his office by giving notice thereof in writing to the Central Government and such resignation shall take effect on the receipt of the communication of the resignation by the Central Government.

- (3) Without prejudice to the provisions of the foregoing sub-clause, the office of a Director referred to in Clause (e) or Clause (f) of sub-section (3) of Section 9 of the Act shall become vacant as soon as the Director ceases to be a workman or an employee, other than a workman of the nationalised bank of which he is a Director.
- (4) Where any vacancy occurs in the office of a Director, other than an elected Director, it shall be filled in accordance with sub-section (3) of Section 9 of the Act.

11-A. Removal from office of an elected Director

The shareholders other than the Central Government, may, by a resolution passed by majority of the votes of such shareholders holding in the aggregate not less than one half of the share capital held by all such shareholders, remove any Director elected under Clause (i) of sub-section (3) of Section 9 and elect in his stead another person to fill the vacancy.

11-B. Filling of vacancy in the office of an elected Director

- (1) Where any vacancy occurs before the expiry of the term of office of an elected Director, the vacancy shall be filled in by election:

Provided that where the duration of vacancy is likely to be less than six months, the vacancy may be filled in by the remaining directors.
- (2) A person elected or co-opted, as the case may be, under sub-clause (1) shall hold office for the unexpired portion of the term of his predecessor.

12. Meetings of the Board

- (1) Meetings of the Board shall ordinarily be held at least six times in a year and at least once in each quarter.
- (2) A meeting of the Board shall be held at the head office of the nationalised bank or such other place as the Board may decide.
- (3) Ordinarily, not less than fifteen days' notice shall be given of any meeting of the Board and such notice shall be sent to every director at the address specified by him in this behalf.
- (4) No business, other than that for which the meeting was convened shall be transacted at a meeting of the Board except with the consent of the Chairman of the meeting and a majority of the directors present, unless one week's notice of such business has been given in writing to the Chairman.
- (5) The quorum of a meeting of the Board shall be one-third of the number of Directors holding office as such Directors of the Board on the day of the meeting, subject to a minimum of three Directors, two of whom shall be directors referred to in Clause (b) or Clause (c) or Clause (d) or Clause (h) of sub-section (3) of Section 9 of the Act.
- (6) If, for any reason, the Chairman is unable to attend a meeting of the Board, the Managing Director shall preside over that meeting and in the absence of the Managing Director or in the event of the Chairman and the Managing Director being the same person, any other Director elected by the Directors present at the meeting from among themselves shall preside at the meeting.
- (7) All questions at the meeting shall be decided by a majority of the votes of the Directors present and voting and in the case of equality of votes, the person presiding shall have a second or a casting vote.
- (8) A director who is Directly or indirectly concerned or interested in any contract, loan, arrangement or proposal entered into or proposed to be entered into by or on behalf of the nationalised bank shall, as soon as possible after the relevant circumstances have come to his knowledge, disclose the nature of his interest to the Board and shall not be present at the meeting of the Board when any such contract, loan, arrangement or proposal is discussed unless his presence is required by the other directors for the purpose of eliciting information and no director so required to be present shall vote on any such contract, loan, arrangement or proposal:

Provided that nothing contained in this sub-clause shall apply to such director by reason only of his being—

- (i) a shareholder (other than a director) holding not more than two per cent of the paid-up capital in any public company as defined in the Companies Act, 1956 (1 of 1956), or any corporation established by or under any law for the time being in force in India or any co-operative society, with which or to which the Nationalised Bank has entered into or made or proposed to enter into or make, a contract, loan, arrangement or proposal, or



- (ii) an officer or other employee of the nationalised bank, if he is a director referred to in Clause (e) or Clause (f) of sub-section (3) of Section 9 of the Act.
- (9) A copy of the proceedings of each meeting of the Board shall be circulated as soon as possible after the meeting for other information of the directors and shall be signed by the Chairman of that or the next succeeding meeting.
- (10) No act or proceeding of the Board shall be invalid on the ground merely of the existence of any vacancy in or any defect in the constitution of the Board.

13. *Management Committee*

- (1) There shall be a Management Committee of the Board.
- (2) The Management Committee shall consist of—
 - (a) The Chairman
 - (b) The Managing Director
 - (c) The Executive Directors
 - (d) The Directors referred to in Clauses (b), (c) and (g) of sub-section (3) of Section 9 of the Act.
 - (e) One Director nominated by the Board from amongst, the directors referred to in Clause (d) of sub-section (3) of Section 9 of the Act;
 - (f) One Director nominated by the Board from amongst the Directors referred to in Clauses (e), (f), (h) and (i) of sub-section (3) of Section 9 of the Act:

Provided that the Directors nominated by the Board shall hold office for not more than six months at a time.

- (3) The Management Committee shall exercise such powers of the Board including the powers with regard to credit proposals, as may be delegated to it by the Board with the approval of the Central Government and such approval shall be given by the Central Government after consultation with the Reserve Bank of India.
- (4) The meetings of the Management Committee may be called by the Chairman of the Management Committee as often as he feels necessary.
- (5) Four members shall be the quorum for a meeting of the Management Committee.
- (6) The minutes of a meeting of the Management Committee shall be laid before the Board as soon as possible after the meeting.
- (7) Save as otherwise provided in sub-clauses (4), (5) and (6) the meetings and proceedings of the Management Committee shall be governed by the provisions contained in this Scheme for regulating the meetings and proceedings of the Board so far as the same are applicable thereto.
- (8) Where the Chairman of the Management Committee is of opinion that in view of urgency in any matter, it should be dealt with expeditiously, he may circulate a resolution to that effect to the members of the Management Committee, and such resolution shall be deemed to be the resolution passed by the Management Committee when it is approved by a majority of the Members but shall have effect from the date it is signed by the last signatory to the resolution:

Provided that any resolution passed as aforesaid shall be placed before the next meeting of the Management Committee:

Provided further that if any dissenting member requires in writing that any resolution so passed shall be placed before a meeting of the Management Committee, the resolution shall not be deemed to be valid and effectual as aforesaid unless the same is passed at such meeting.

Explanation— For the purpose of sub-clause (2), “Executive Director” means the whole-time Director, not being the Managing Director, appointed under sub-clause (a) of Clause 3 and designated as such.

18. *Resolution without meeting of the Board valid*

A resolution in writing signed by the majority of the members of the Board shall be valid and effectual and shall be deemed to be the resolution passed by the Board on the date it was signed by the last signatory to the resolution:

Provided that any resolution passed as aforesaid shall be placed before the next meeting of the Board.

Provided further that if any dissenting member requires in writing that any resolution so passed shall be placed before a meeting of the Board, the resolution shall not be deemed valid and effectual as aforesaid unless the same is passed at such meeting.



20. Increase of paid-up capital

The paid-up capital of a Nationalised Bank may be increased from time to time as in sub-clause (a) or sub-clause (b) or sub-clause (c) below or in combination with any of them:

- (a) the Board of Directors of a Nationalised Bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government transfer to its capital a specified amount from the reserve fund establishment by such bank under sub-section (6) of Section 3 of the Act;
- (b) the Central Government may, in consultation with the Reserve Bank, make contribution of any specified amount to the paid-up capital of a Nationalised Bank;
- (c) the Board may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, raise the paid-up capital by public issue of shares in such manner as may be prescribed; so however, that the Central Government shall at all times hold not less than fifty-one per cent of the paid-up capital of each Nationalised Bank.

Union Bank of India (Shares and Meetings) Regulations, 1998

3. NATURE OF SHARES

The shares of Union Bank of India shall be movable property, transferable in the manner provided under these regulations

4. KINDS OF SHARE CAPITAL

- (i) Preference Share Capital means that part of share capital of the bank which fulfils both the following conditions:
 - A) as respects dividends, it carries a preferential right to be paid a fixed amount or an amount calculated at fixed rate, which may be either free of or subject to income tax and
 - B) as respect capital, it carries or will carry, on winding up repayment of capital, a preferential right to be repaid the amount of the capital paid up or deemed to have been paid up, whether or not there is preferential right to the payment of either or both of the following amounts, namely,
 - (a) any money remaining unpaid in respect of the amounts specified in clause (A) up to the date of winding up or repayment of capital, and
 - (b) any fixed premium or premium on any fixed scale, specified by the Board with previous consent of the Central Government.
- (ii) "Equity Share Capital" means all share capital, which is not preference share capital.
- (iii) The expressions "Preference Share" and "Equity Share" shall be construed accordingly.

5. PARTICULARS TO BE ENTERED IN THE REGISTER:

- a) A share register shall be kept, maintained and updated in accordance with Sub-section 2(F) of Section 3 of the Act.
- b) In addition to the particulars specified in Sub-Section 2(F) of Section 3 of the Act, such other particulars as the Board may specify shall be entered in the register.
- c) In the case of joint holders of any share, their names and other particulars required by sub-regulations (i) shall be grouped under the name of the first of such joint holders.
- d) Subject to the proviso of sub-section 2(D) of Section 3 of the Act, a shareholder resident outside India may furnish to the Bank an address in India, and any such address shall be entered in the register and be deemed to be his registered address for the purposes of the Act and these regulations.

- 5A. (i) The Bank shall, unless the register is in such form as in itself to constitute an index, keep an index, which may be in form of a card index of the names of shareholders and shall, within fourteen days after the date on which any alteration is made in the register of shareholders, make the necessary alteration in the index.
- (ii) The index shall be kept with the register of shareholders.

6. CONTROL OVER SHARES AND REGISTERS:

Subject to the provisions of the Act and these regulations, and such directions as the Board may issue from time to time, the register shall be kept and maintained at the Head Office of the Bank and be under the Control of the Board and the decision of the Board as to whether or not a person is entitled to be registered as a shareholder in respect of any share shall be final.



7. PARTIES WHO MAY NOT BE REGISTERED AS SHAREHOLDERS:

- a) Except as otherwise provided by these regulations, all persons who are not competent to contract shall not be entitled to be registered as a shareholder and the decision of the board in this regard shall be conclusive and final.
- b) In case of partnership firms, shares may be registered in the names of the individual partners and no firm, as such, shall be entitled to be registered as a shareholder.

8. MAINTENANCE OF SHARE REGISTER IN COMPUTER SYSTEM, ETC.

- a) The Particulars required to be entered in the share register under Sub-section 2(F) of Section 3 of the Act, read with those mentioned in Regulations, shall be maintained under Sub-section 2 (G) of Section 3 of the Act, in the form of data stored in magnetic/ optical/ magneto – optical media by way of diskettes, floppies, cartridges or otherwise (hereinafter referred to as the 'media') in computers to be maintained at the Head Office and the back up at such location as may be decided from time to time by the Chairman and Managing Director or any other official not below the rank of the General Manager designated in this behalf by the Chairman and Managing Director (hereinafter referred to as 'the designated official')
- b) Particulars required to be entered in the share register under Section 3(B) of the Act read with Section 11 of the Depositories Act, 1996 shall be maintained in the electronic form in the manner and in the form as prescribed therein.
- c) The register in electronic form shall be maintained subject to such safeguards as stipulated for securing electronic records under the Information Technology Act, 2000 (21 of 2000).

9. SAFEGUARDS FOR PROTECTION OF COMPUTER SYSTEM:

- a) The access to the system set out in Regulation 8(i) in which data is stored shall be restricted to such persons including Registrars to an issue and/ or share transfer agents as may be authorised in this behalf by the Chairman and Managing Director or the designated official and the passwords if any, and the electronic security control systems shall be kept confidential under the custody of the said persons.
- b) The access by the authorised persons shall be recorded in logs by the computer system and such logs shall be preserved with the officials/ persons designated in this behalf by the Chairman and Managing Director or the designated official.
- c) Copies of the back-ups shall be taken on removable media at intervals as may be specified from time to time by the Chairman and Managing Director or the designated official, incorporating the changes made in the register of shareholders. Atleast one of these copies shall be stored in a location other than the premises in which processing is being done. This copy shall be stored in a fire-proof environment with locking arrangement and at the requisite temperature. The access to the Back-ups in both the locations shall be restricted to persons authorised in this behalf by the Chairman and Managing Director or the designated official. The persons so authorised shall record the access in a manual register kept at the location.
- d) It shall be the duty of the authorised persons to compare the data on the back-ups with that on the computer system by using appropriate software to ensure correctness of the back-up. The result of this operation shall be recorded in the register maintained for the purpose.
- e) It shall be competent for the Chairman and Managing Director, by special or general order, to add or modify the instructions, stipulations in regard to the safeguards to be observed in maintaining the register of the shareholders in the computer system with due regard to the advancement of technology, and/or in the exigencies of situation or for any other relevant consideration.

10. EXERCISE OF RIGHTS OF JOINT HOLDERS:

If any share stands in the names of two or more persons, the person first named in the register shall, as regards voting, receipt of dividends, service of notices and all or any other matters connected with the Bank except the transfer of shares, be deemed to be sole holder thereof.

11. INSPECTION OF REGISTER:

- a) The register shall, except when closed under Regulation 12, be open to inspection to any shareholder, free of charge, at the place where it is maintained during business hours subject to such reasonable restrictions as the Board may impose, but so that not less than two hours in each working day shall be allowed for inspection.
- b) Any shareholder may make extracts of any entry in the register or computer prints free of charge or if he requires a copy or computer prints of the register or any part thereof, the same will be supplied to him on pre-payment at the rate of Rs.5/- or at such rate as the Board may decide for every 1000 words or fractional part thereof required to be copied.



- c) Notwithstanding anything contained in sub-regulation (b), any duly authorised officer of the Government shall have the right to make a copy of any entry in the register or be furnished a copy of the register or any part thereof.

12. CLOSING OF THE REGISTER:

The Bank may, after ensuring compliance of the applicable guidelines and the listing agreement with the Stock Exchanges, and after giving not less than seven days previous notice by advertisement in at least two newspapers circulating in India, close the register of shareholders for any period or periods not exceeding in the aggregate forty- five days in each year, but not exceeding thirty days at any one time as may in its opinion, be necessary

13. SHARE CERTIFICATES:

- i) Each share certificate shall bear share certificate number, a distinctive number, the number of shares in respect of which it is issued and the names of the shareholder to whom it is issued and it shall be in such form as may be specified by the Board.
- ii) Every share certificate shall be issued under the common seal of the Bank in pursuance of a resolution of the Board and shall be signed by two directors and some other officer not below the rank of Scale II or the Company Secretary for the purpose.

Provided that the signature of the directors may be printed, engraved, lithographed or impressed by such other mechanical process as the Board may direct.

- (iii) A signature so printed, engraved, lithographed or otherwise impressed shall be as valid as a signature in the proper handwriting of the signatory himself.
- (iv) No share certificate shall be valid unless and until it is so signed. Share Certificates so signed shall be valid and binding notwithstanding that, before the issue thereof, any person whose signature appears thereon may have ceased to be a person authorised to sign share certificates on behalf of the Bank.

14. ISSUE OF SHARE CERTIFICATES:

- i) While issuing share certificates to any shareholder, it shall be competent for the Board to issue the certificates on the basis of one certificate for every hundred shares or multiples thereof registered in his name on any one occasion and one additional share certificate for the number of shares in excess thereof but which are less than hundred.
- ii) If the number of shares to be registered is less than hundred, one certificate shall be issued for all the shares.
- iii) In respect of any share or shares held jointly by several persons, the bank shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one of several joint holders shall be sufficient delivery to all such holders.

15. ISSUE OF NEW OR DUPLICATE SHARE CERTIFICATE:

- i) If any share certificate is worn out or defaced, the Board or the Committee designated by it on production of such certificate may order the same to be cancelled and have a new certificate issued in lieu thereof.
- ii) If any share certificate is alleged to be lost or destroyed, the Board or the Committee designated by it on such indemnity with or without surety as the Board or the Committee thinks fit, and on publication in two newspapers and on payment to the Bank of its costs, charges and expenses, a duplicate certificate in lieu thereof may be given to the person entitled to such lost or destroyed certificate.

16. CONSOLIDATION AND SUB-DIVISION OF SHARES:

On a written application made by the shareholder(s), the Board or the committee designated by it may consolidate or sub-divide the shares submitted to it for consolidation/ sub-division as the case may be and issue a new certificate(s) in lieu thereof on payment to the Bank of its costs, charges and expenses of and incidental to the matter.

17. TRANSFER OF SHARES:

- i) Every transfer of the shares of the Bank shall be by an instrument of transfer in form 'A' annexed hereto or in such other form as may be approved by the Bank from time to time and shall be duly stamped, dated and executed by or on behalf of the transferor and the transferee alongwith the relative share certificate.
- ii) The instrument of transfer alongwith the share certificate shall be submitted to the Bank at its Head Office and the transferor shall be deemed to remain the holder of such shares until the name of the transferee is entered in the share register in respect thereof.



- iii) Upon receipt by the Bank of an instrument of transfer along with a share certificate with a request to register the transfer, the Board or the Committee designated by the Board shall forward the said instrument of transfer along with share certificate to the Registrar or Share Transfer Agent for the purposes of verification that the technical requirements are complied with in their entirety. The Registrar or share Transfer Agent shall return the instrument of transfer along with the share certificate, if any, to the transferee for resubmission unless the instrument of transfer is presented to the bank, duly stamped and properly executed for registration and is accompanied by the certificate of the shares to which it relates and such other evidence as the Board may require to show the title of the transferor to make such transfer.

Explanation: - "Illustrations of technical requirements" means

- a) Transfer deed shall be duly stamped;
- b) Certificate number or distinctive number mentioned in the transfer deed shall tally with the share certificate;
- c) Transferor's signature shall tally;
- d) Transfer deed shall be witnessed.
- (iv) The Board or the Committee designated by the Board shall, unless it refuses to register the transfer under regulation 19 hereinafter, cause the transfer to be registered.
- (v) Unless the transfer of shares is refused under regulation 19, the share certificate duly transferred shall be delivered to the transferee within sixty days from the date of lodging of the instrument of transfer.

18. POWER TO SUSPEND TRANSFERS:

The Board or the Committee designated by the Board shall not register any transfer during any period in which the register is closed.

19. BOARD'S RIGHT TO REFUSE REGISTRATION OF TRANSFER OF SHARES:

- i) The Board or Committee may refuse transfer of any shares in the name of transferee on any one or more of the following grounds, and on no other ground:
 - a) The transfer of shares is in contravention of the provisions of the Act or regulations made there under or any other Law or that any other requirement under the law relating to registration of such transfer has not been complied with;
 - b) The transfer of shares, in the opinion of the Board, is prejudicial to the interest of the Bank or to public interest;
 - c) The transfer of shares is prohibited by an order of Court, Tribunal or any other authority under any law for the time being in force.
 - d) An individual or company resident outside India or any company incorporated under any law not in force in India or any Branch of such company whether resident outside India or not will on the transfer being allowed hold or acquire as a result thereof, shares of the Bank and such investment in the aggregate will exceed the percentage being more than 20% (twenty) of the paid up capital or as may be specified by the Central Government by notification in the Official Gazette.
- ii) The Board or Committee shall, after the instrument of transfer of shares of the Bank is lodged with it for the purpose of registration of such transfer form its opinion as to whether such registration ought or ought not to be refused on any of the grounds referred to in such regulation (i) -
 - a) If it has formed the opinion that such registration ought not to be so refused, effect such registration; and
 - b) If it has formed the opinion that such registration ought to be refused on any of the grounds mentioned in sub regulation (i) intimate the same to the Transferor and the Transferee by notice in writing giving reasons for such refusal within 60 days from the receipt of transfer form or within such period as may be laid down in the Listing Agreement with the concerned Stock Exchange

20. TRANSMISSION OF SHARES IN THE EVENT OF DEATH, INSOLVENCY ETC.:

- i) The executors or administrators of a deceased share holder in respect of a share, or the holder of letter of probate or letters of administration with or without the will annexed or succession certificate issued under Part X of the Indian Succession Act, 1925 or the holder of any legal representation or a person in whose favour a valid instrument of transfer was executed by the deceased sole holder during the latter's life time shall be the only person who may be recognised by the Bank as having any title to such share.



ii) In the case of shares registered in the name of two or more share holders, the survivor or survivors and on the death of the last survivor, his executors or administrators or any person who is the holder of letters of probate or letters of administration with or without will annexed or a succession certificate or any other legal representation in respect of such survivor's interest in the share or a person in whose favour a valid instrument of transfer of share was executed by such person and such last survivor during the latter's life time, shall be the only person who may be recognised by the Bank as having any title to such share.

iii) The Bank shall not be bound to recognise such executors or administrators unless they shall have obtained probate or letters of administration or succession certificate, as the case may be, from a Court of competent jurisdiction.

Provided, however, that in a case where the Board in its discretion thinks fit, it shall be lawful for the Board to dispense with the production of probate or letters of administration or succession certificate or such other legal representation, upon such terms as to indemnity or otherwise as it may think fit.

iv) Any such person becoming entitled to share in consequence of death of a share holder and any person becoming entitled to a share in consequence of the insolvency, Bankruptcy or liquidation of a share holder shall upon production of such evidence, as the Board may require, have the right –

a) to be registered as a shareholder in respect of such share

b) to make such transfer of such share as the person from whom he derives title could have made.

21. SHAREHOLDER CEASING TO BE QUALIFIED FOR REGISTRATION:

It shall be the duty of any person registered as a shareholder, whether solely or jointly with another or others forthwith upon ceasing to be qualified to be so registered in respect of any share to give intimation thereof to the Board in this regard.

Explanation- For the purposes of this regulation, a shareholder may cease to be qualified for registration:-

(a) If he is a guardian of minor, on the minor attaining the majority;

(b) If he is holding shares as a Karta, on his ceasing to be a Karta.

22. CALLS ON SHARES:

The Board may, from time to time, make such calls as it thinks fit upon the share holders in respect of all moneys remaining unpaid on the shares held by them, which are by the conditions of allotment not made payable at fixed times, and each shareholder shall pay the amount of every call so made on him to the person and at the time and place appointed by the Board. A call may be payable by instalments.

23. CALLS TO DATE FROM RESOLUTION:

A call shall be deemed to have been made at the time when the resolution of the Board authorizing such call was passed and may be made payable by the shareholders on the register on such date or at the discretion of the Board on such subsequent date as may be fixed by the Board.

24. NOTICE OF CALL:

A notice of not less than thirty days of every call shall be given specifying the time of payment provided that before the time for payment of such call the Board may by notice in writing to the shareholders revoke the same.

25. EXTENSION OF TIME FOR PAYMENT OF CALL:

The Board may, from time to time and at its discretion, extend the time fixed for the payment of any call to all or any of the shareholders having regard to distance of their residence or some other sufficient cause, but no shareholder shall be entitled to such extension as a matter of right.

26. LIABILITIES OF JOINT HOLDERS:

The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

27. AMOUNT PAYABLE AT FIXED TIME OR BY INSTALMENTS AS CALLS:

If by the terms of issue of any share or otherwise any amount is payable at any fixed time or by instalments at fixed times, every such amount or instalment shall be payable as if it were a call duly made by the Board and of which due notice had been given and all the provisions herein contained in respect of the calls shall relate to such amount or instalment accordingly.



28. WHEN INTEREST ON CALL OR INSTALMENT PAYABLE:

If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the holder for the time being or allottee of the share in respect of which a call shall have been made, or the instalment shall be due, shall pay interest on such sum at such rate as the Board may fix from time to time, from the day appointed for the payment thereof to the time of actual payment, but the Board may at its discretion waive payment of such interest wholly or in part.

29. NON-PAYMENT OF CALLS BY SHAREHOLDER:

No shareholder shall be entitled to receive any dividend or to exercise any right of a shareholder until he shall have paid all calls for the time being due and payable on every share held by him, whether singly or jointly with any person, together with interest and expenses, as may be levied or charged.

30. NOTICE ON NON-PAYMENT OF CALL OR INSTALMENT:

If any shareholder fails to pay the whole or any part of any call or instalment or any money due in respect of any shares either by way of principal or interest on or before the day appointed for the payment of the same, the Bank may at any time thereafter during such time as the call or instalment or any part thereof or other moneys remain unpaid or a judgement or decree in respect thereof remains unsatisfied in whole or in part, serve a notice on such shareholder or on the person (if any) entitled to the share by transmission, requiring him to pay such call or instalment or such part thereof or other moneys as remain unpaid together with any interest that may have accrued and all expenses (legal or otherwise) that may have been paid or incurred by the Bank by reason of such non-payment.

31. NOTICE OF FORFEITURE:

The notice of forfeiture shall name a day not being less than fourteen days from the date of the notice and the place or places on and at which such call or instalment or such part or other monies and such interest and expenses as aforesaid are to be paid. The notice shall also state that in the event of non-payment on or before the time and at the place appointed, the share in respect of which the call was made or instalment is payable will be liable to be forfeited.

32. SHARES TO BE FORFEITED ON DEFAULT:

If the requirements of any such notice as aforesaid are not complied with, any of the shares in respect of which such notice has been given may at any time thereafter for non-payment of all calls or instalments, interest and expenses or the money due in respect thereof, be forfeited by a resolution of the Board to that effect at its next meeting to be held after the expiry of the notice of forfeiture under regulation 31 at that effect. Such forfeiture shall include all dividends declared in respect of forfeited shares and not actually paid before the forfeiture.

33. ENTRY OF FORFEITURE IN THE REGISTER:

When any share has been forfeited under Regulation 32, an entry of the forfeiture with the date thereof shall be made in the register.

34. FORFEITED SHARES TO BE PROPERTY OF THE BANK AND MAY BE SOLD:

Any share so forfeited shall be deemed to be the property of the Bank and may be sold, reallocated or otherwise disposed off to any person upon such terms and in such manner as the Board may decide.

35. POWER TO ANNUAL FORFEITURE:

The Board may, at any time, before any share so forfeited under Regulation 32 shall have been sold, reallocated or otherwise disposed off, annul the forfeiture thereof upon such conditions as it may think fit.

36. SHAREHOLDER LIABLE TO PAY MONEY OWING AT THE TIME OF FORFEITURE AND INTEREST:

Any shareholder whose shares have been forfeited shall, notwithstanding the forfeiture, be liable to pay and shall forthwith pay to the Bank all calls, instalments, interest, expenses and other moneys owing upon or in respect of such shares at the time of forfeiture with interest thereon from the time of forfeiture until payment at such rate as may be specified by the Board and the Board may enforce the payment of the whole or a portion thereof.

37. PARTIAL PAYMENT NOT TO PRECLUDE FORFEITURE:

Neither a judgement nor a decree in favour of the Bank for calls or other monies due in respect of any shares nor any payment or satisfaction thereunder nor a receipt by the Bank of a portion of any money which shall be due from any shareholder from time to time in respect of any shares either by way of principal or interest nor any indulgence granted by the Bank in respect of payment of any money shall preclude the forfeiture of such shares under these regulations.



38. FORFEITURE OF SHARES EXTINGUISHES ALL CLAIMS AGAINST BANK:

The forfeiture of a share shall involve extension, at the time of forfeiture, of all interest in and all claims and demands against the Bank, in respect of the share and all other rights incidental to the share, except only such of those rights as by these presents expressly waived.

39. ORIGINAL SHARES NULL AND VOID ON SALE, RE-ISSUE, RE-ALLOTMENT OR DISPOSAL ON BEING FORFEITED:

Upon any sale, reissue, reallocation or other disposal under the provisions of the preceding regulations, the certificate(s) originally issued in respect of the relative shares shall (unless the same shall on demand by the Bank have been previously surrendered to it by the defaulting member) stand cancelled and become null and void and of no effect, the Board shall be entitled to issue a new certificate or certificates in respect of the said shares to the person or persons entitled thereto.

40. APPLICATION OF FORFEITURE PROVISIONS:

The provisions of these regulations as to the forfeiture shall apply in the case of non-payment of any sum which by terms of issue of a share become payable at a fixed time, whether on account of nominal value of the shares or by way of premium as if the same had been payable by virtue of a call duly made.

41. LIEN ON SHARES:

i) The Bank shall have a first and paramount lien -

- a) on every share (not being a fully paid share), for all moneys (whether presently payable or not) called, or payable at a fixed time, in respect of that share;
- b) on all shares (not being fully-paid shares) standing registered in the name of a single person, for all moneys presently payable by him or his estate to the Bank;
- c) upon all the shares registered in the name of each person (whether solely or jointly with others) and upon the proceeds of sale thereof for his debts; liabilities and engagements, solely or jointly with any other person to or with the Bank, whether the period for the payment, fulfilment, or discharge thereof shall have actually arrived or not and no equitable interest in any share shall be recognised by the Bank over its lien.

Provided that the Board may at any time declare any share to be wholly or in part exempt from the provisions of this clause.

ii) The Bank's lien, if any, on a share shall extend to all dividends payable thereon.

42. ENFORCING LIEN BY SALE OF SHARES:

i) The Bank may sell, in such manner as the Board thinks fit, any shares on which the Bank has a lien;

- a) if a sum in respect of which the lien exists is presently payable and
- b) after the expiration of fourteen days after a notice in writing stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder for the time being of the share or the person entitled thereto by reason of his death or insolvency.
- c) to give effect to any such sale, the Board may authorise some officer to transfer the shares sold to the purchaser thereof.

43. APPLICATION OF PROCEEDS OF SALE OF SHARES:

The net proceeds of any sale of shares under Regulation 42 after deduction of costs of such sale, shall be applied in or towards the satisfaction of the debt or liability in respect whereof the lien exists so far as the same is presently payable and the residue, if any, be paid to the shareholders or the person, if any, entitled by transmission to the shares so sold.

44. CERTIFICATE OF FORFEITURE:

A certificate in writing under the hands of any director, Company Secretary or any other Officer of the Bank not below the rank of Scale II duly authorised in this behalf, that the call in respect of a share was made and that the forfeiture of the share was made by a resolution of the Board to that effect, shall be conclusive evidence of the fact stated therein as against all persons entitled to such shares.



45. TITLE OF PURCHASER AND ALLOTTEE OF FORFEITED SHARE:

The Bank may receive the consideration, if any, given for the share on any sale, allotment or other disposition thereof and the person to whom such share is sold, allotted or disposed off may be registered as the holder of the share and shall not be bound to see to the application of the consideration, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale, allotment or other disposal of the share and the remedy of any person aggrieved by the sale shall be in damages only and against the Bank exclusively.

46. SERVICE OF A NOTICE OR DOCUMENT TO SHAREHOLDERS:

i) The Bank may serve a notice or a document on any shareholder either personally, or by ordinary post at his registered address or if he has no registered address in India, at the address, if any within India supplied by him to the Bank for giving of notice to him.

ii) Where a document or notice is sent by post, the service of such document or notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the document or notice:

Provided that where a shareholder has intimated to the Bank in advance that documents should be sent to him under a certificate of posting or by registered post, with or without acknowledgement due or by courier service or in an electronic mode and has deposited with the Bank a sum sufficient to defray the expenses of doing so, service of the document or notice shall not be deemed to be effected unless it is sent in the manner intimated by the shareholder. And such service shall be deemed to have been effected in the case of a notice of a meeting at the expiration of forty eight hours after the letter containing the same is posted, and in any other case, at the time at which the letter would have been delivered in the ordinary course of post or electronic media, as the case may be.

iii) A notice or a document advertised in a newspaper widely circulated in India shall be deemed to be duly served on the day on which the advertisement appears on every shareholder of the Bank who has no registered address in India and has not supplied to the Bank an address within India for giving of notice to him.

iv) A notice or document may be served by the Bank on the joint holder of a share by effecting service on the joint holder named first in the register in respect of the share and notice so given shall be sufficient notice to all the holders of the said shares.

v) A notice or a document may be served by the Bank on the persons entitled to a share upon death or in consequence of the insolvency of a shareholder by sending it through post in a prepaid letter addressed to them by name, or by the title of representatives of the deceased, or assignees of the insolvent, or by any like description, at the address, if any, in India supplied for the purpose by the persons, claiming to be so entitled, or until such an address has been so supplied, by serving the document in any manner in which it might have been served if the death or insolvency had not occurred.

vi) The signature to any notice to be given by the Bank may be written or printed.

CHAPTER III

SECURITIES OF THE BANK HELD IN A DEPOSITORY

47. AGREEMENT BETWEEN A DEPOSITORY AND THE BANK:

The Bank may enter into an agreement with one or more depository as defined in section 2 (e) of the Depositories Act, 1996 to avail of its services in respect of securities issued by the Bank.

CHAPTER IV

MEETINGS OF SHAREHOLDERS

56. NOTICE CONVENING AN ANNUAL GENERAL MEETING:

i) A notice convening an Annual General Meeting of the shareholders signed by the Chairman and Managing Director or Executive Director or any officer not below the rank of Scale VII or Company Secretary of the Bank shall be published at least twenty one clear days before the meeting in not less than two daily newspapers having wide circulation in India.

ii) Every such notice shall state the time, date and place of such meeting and also the business that shall be transacted at that meeting.

iii) The time and date of such meeting shall be as specified by the Board. The meeting shall be held at the place of Head Office of the Bank.



57. EXTRAORDINARY GENERAL MEETING:

- i) The Chairman and Managing Director or in his absence the Executive Director of the Bank or in his absence any one of the Directors of the Bank may convene an Extra Ordinary General Meeting of shareholders if so directed by the Board, or on a requisition for such a meeting having been received either from the Central Government or from other shareholders holding shares, carrying, in the aggregate, not less than ten percent of the total voting rights of all the shareholders.
- ii) The requisition referred in sub-regulation (i) shall state the purpose for which the Extra Ordinary General Meeting is required to be convened, but may consist of several documents in like form each signed by one or more of the requisitionists.
- iii) Where two or more persons hold any shares jointly, the requisition or a notice calling a meeting, signed by one or some of them shall, for the purpose of this regulation have the same force and effect as if it had been signed by all of them.
- iv) The time, date and place of the Extra Ordinary General Meeting shall be decided by the Board:
Provided that the Extra Ordinary General Meeting convened on the requisition by the Central Government or other shareholder shall be convened not later than 45 days of the receipt of the requisition.
- v) If the Chairman and Managing Director or in his absence the Executive Director, as the case may be, does not convene a meeting as required by sub-regulation (i), within the period stipulated in the proviso to sub-regulation (iv), the meeting may be called by the requisitionist themselves within three months from the date of the requisition;
Provided that nothing in this sub-regulation shall be deemed to prevent a meeting duly convened before the expiry of the period of three months aforesaid, from being adjourned to some day after the expiry of that period.
- vi) A meeting called under sub-regulation (v) by the requisitionist shall be called in the same manner, as nearly as possible as that in which the other general meetings are called by the Board.

58. QUORUM OF GENERAL MEETING:

- i) No business shall be transacted at any meeting of the shareholders unless a quorum of atleast five shareholders entitled to vote at such meeting in person are present at the commencement of such business.
- ii) If within half an hour after the time appointed for the holding of a meeting, a quorum is not present, in the case of a meeting called by a requisition of shareholders other than the Central Government, the meeting shall stand dissolved.
- iii) In any other case if within half an hour after the time appointed for the holding of a meeting, a quorum is not present, the meeting shall stand adjourned to the same day in the next week, at the same time and place or to such other day and such other time and place as the Chairman may determine. If at the adjourned meeting a quorum is not present within half an hour from the time appointed for holding the meeting, the shareholders who are present in person or by proxy or by duly authorised representative at such adjourned meeting shall be quorum and may transact the business for which the meeting was called:
Provided that no Annual General Meeting shall be adjourned to a date later than the date within which such Annual General Meeting shall be held in terms of Section 10A(1) of the Act and if adjournment of the meeting to the same day in the following week would have this effect, the Annual General Meeting shall not be adjourned but the business of the meeting shall be commenced within one hour from the time appointed for the meeting if the quorum is present or immediately after the expiry of one hour from that time and those shareholders who are present in person or by proxy or by duly authorised representative at such time shall form the quorum.

59. CHAIRMAN AT GENERAL MEETING:

- i) The Chairman and Managing Director or in his absence, the Executive Director or in his absence such one of the Directors as may be generally or in relation to a particular meeting be authorised by the Chairman and Managing Director or in his absence, the Executive Director in this behalf, shall be the Chairman of the meeting and if the Chairman and Managing Director or the Executive Director or any other Director authorised in this behalf is not present, the meeting may elect any other Director present to be Chairman of the meeting.
- ii) The Chairman of the General Meeting shall regulate the procedure at General Meetings and in particular shall have power to decide the order in which the shareholders may address the meeting to fix a time limit for speeches, to apply the closure, when in his opinion, any matter has been sufficiently discussed and to adjourn the meeting.



60. PERSONS ENTITLED TO ATTEND GENERAL MEETINGS:

- i) All Directors and all shareholders of the Bank shall, subject to the provisions of Sub-Regulation (ii) be entitled to attend the General Meeting.
- ii) A shareholder (not being the Central Government) or a Director, attending a General Meeting shall for the purpose of identification and to determine his voting rights, be required to sign and deliver to the Bank a form to be specified by the Chairman containing particulars relating to:
 - a) his full name and registered address,
 - b) the distinctive numbers of his shares,
 - c) whether he is entitled to vote and the number of votes to which he is entitled in person or by proxy or as a duly authorised representative.

61. VOTING AT GENERAL MEETINGS:

- i) At any General Meeting, a resolution put to the vote of the meeting shall, unless a poll is demanded be decided on a show of hands.
- ii) Save as otherwise provided in the Act every matter submitted to a General Meeting shall be decided by a majority of votes.
- iii) Unless a poll is demanded under Sub-Regulation (i), a declaration by the Chairman of the meeting that a resolution on show of hands has or has not been carried either unanimously or by a particular majority and an entry to that effect in the books containing the minutes of the proceedings, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes cast in favour or, or against, such resolution.
- iv) Before or on the declaration of the result of the voting or any resolution on a show of hands, a poll may be ordered to be taken by the Chairman of the Meeting of his own motion, and shall be ordered to be taken by him on demand made in that behalf by any shareholder or shareholders present in person or by proxy and holding shares in the Bank which confer a power to vote on the resolution not being less than one fifth of the total voting power in respect of the resolution.
- v) The demand for the poll may be withdrawn at any time by the person or persons who made the demand.
- vi) The poll demanded on a question of adjournment or election of Chairman of the meeting shall be taken forthwith.
- vii) A poll demanded on any other question shall be taken at such time not being later than forty eight hours from the time when the demand was made, as the Chairman of the meeting may direct.
- viii) The decision of the Chairman of the meeting as to the qualification of any person to vote, and also in the case of poll, as to the number of votes any person is competent to exercise shall be final.

61A. SCRUTINEERS AT POLL.

- i) Where a poll is to be taken, the Chairman of the meeting shall appoint two scrutineers to scrutinise the votes given on the poll and to report thereon to him.
- ii) The Chairman of the meeting shall have the power, at any time before the result of the poll is declared, to remove a scrutineer from the office and to fill the vacancy in the office of the scrutineers arising from such removal or from any other cause.
- iii) Of the two scrutineers appointed under this regulation one shall always be a shareholder(not being an Officer or employee of the Bank) present at the meeting: provided that such a shareholder is available and willing to be appointed.

61B. MANNER OF TAKING POLL AND RESULT THEREOF.

- i) The Chairman of the meeting shall have power to regulate the manner in which a poll shall be taken.
- ii) The result of the poll shall be deemed to be the decision of the meeting on the resolution on which the poll was taken"

62. MINUTES OF GENERAL MEETINGS:

- i) The Bank shall cause the minutes of all proceedings to be maintained in the books kept for the purpose.



- ii) Any such minutes, if purporting to be signed by the Chairman of the meeting at which the proceedings were held, or by the Chairman of the next succeeding meeting, shall be evidence of the proceedings.
- iii) Until the contrary is proved, every General Meeting in respect of the proceedings hereof minutes have been so made shall be deemed to have been duly called and held, and all proceedings held thereat to have been duly held.
- iv) On written request made by a shareholder for inspection of the minute book or for a copy of the minute of a specified meeting, the Bank shall allow the inspection or furnish the copy of the minute, as the case may be, to the shareholder

CHAPTER V

ELECTION OF DIRECTORS

63. DIRECTORS TO BE ELECTED AT GENERAL MEETING:

- i) A Director under Clause (i) of Sub-Section (3) of Section 9 of the Act shall be elected by the Shareholders on the register, other than the Central Government, from amongst themselves in the General Meeting of the Bank.
- ii) Where an election of a Director is to be held at any General Meeting, the notice thereof shall be included in the notice convening the meeting. Every such notice shall specify the number of Directors to be elected and the particulars of vacancies in respect of which the election is to be held.

64. LIST OF SHAREHOLDERS:

- i) For the purpose of election of a Director under Sub-Regulation (i) of Regulation 63 of these regulations, a list shall be prepared of shareholders on the register by whom the Director is to be elected.
- ii) The list shall contain the names of the shareholders, their registered addresses, the number and denoting numbers of shares held by them with the dates on which the shares were registered and the number of votes to which they will be entitled on the date fixed for the meeting at which the election will take place and copies of the list shall be available for purchases atleast three weeks before the date fixed for the meeting at a price to be fixed by the Board or the Management Committee, on application at the Head Office.

65. NOMINATION OF CANDIDATES FOR ELECTION:

- i) 'No nomination of a candidate for election as a Director shall be valid unless,
 - a) he is a shareholder holding not less than 100 (one hundred) shares in the Bank
 - b) he is on the last date for receipt of nomination, not disqualified to be a director under the Act or under the Scheme;
 - c) he has paid all calls in respect of the shares of the Bank held by him, whether alone or jointly with others, on or before the last date fixed for the payment of the call;
 - d) the nomination is in writing signed by atleast one hundred shareholders entitled to elect directors under the Act or by their duly constituted attorney, provided that a nomination by a shareholder who is a company may be made by a resolution of the Directors of the said company and where it is so made, a copy of the resolution certified to be a true copy by the Chairman of the meeting at which it was passed shall be dispatched to the Head Office of the Bank and such copy shall be deemed to be a nomination on behalf of such company;
 - e) the nomination accompanies or contains a declaration signed by the candidate before a Judge, Magistrate, Registrar or Sub-registrar of Assurances or other Gazetted Officer or any officer of the Reserve Bank of India or any nationalised bank, that he accepts the nomination and is willing to stand for election, and that he is not disqualified either under the Act or the scheme or these regulations from being a Director.
- ii) No nomination shall be valid unless it is received with all the connected documents complete in all respects and received, at the Head Office of the Bank on a working day not less than fourteen days before the date fixed for the meeting.

66. SCRUTINY OF NOMINATIONS:

- i) Nominations shall be scrutinised on the first working day following the date fixed for receipt of the nominations and in case any nomination is not found to be valid, the same shall be rejected after recording the reason thereof. If there is only one valid nomination for any particular vacancy to be filled by election, the candidate so nominated shall be deemed to be elected forthwith and his name and address shall be published as so elected. In such an event there shall not be any election at the meeting convened for the purpose and if the meeting had been called solely for the purpose of the aforesaid election, it shall stand cancelled.



- ii) In the event of an election being held, if valid nominations are more than the number of directors to be elected, the candidate polling the majority of votes shall be deemed to have been elected.
- iii) A director elected to fill an existing vacancy shall be deemed to have assumed office from the date following that on which he is, or is deemed to be elected.

67. ELECTION DISPUTES:

- i) If any doubt or dispute shall arise as to the qualification or disqualification of a person deemed, or declared to be elected, or as to the validity of the election of a director, any person interested, being a candidate or shareholder entitled to vote at such election, may, within seven days of the date of the declaration of the result of such election, give intimation in writing thereof to the Chairman and Managing Director of the Bank and shall in the said intimation give full particulars of the grounds upon which he doubts or disputes the validity of the election.
- ii) On receipt of an intimation under Sub-regulation (i), the Chairman and Managing Director or in his absence, the Executive Director of the Bank shall forthwith refer such doubt or dispute for the decision of a committee consisting of the Chairman and Managing Director or in his absence, the Executive Director and any two of the Directors nominated under Clause (b) and (c) of sub-section (3) of Section 9 of the Act.
- iii) The committee referred to in Sub-Regulation (ii) shall make such enquiry as it deems necessary and if it finds that the election was a valid election, it shall confirm the declared result of the election or, if it finds that the election was not a valid election, it shall, within 30 days of the commencement of the enquiry, make such order and give such directions including the holding of a fresh election as shall in the circumstances appear just to the committee.
- iv) An order and direction of such committee in pursuance of this regulation shall be conclusive.

CHAPTER VI

VOTING RIGHTS OF SHAREHOLDERS

68. DETERMINATION OF VOTING RIGHTS:

- i) Subject to the provisions contained in Section 3(2E) of the Act, each shareholder who has been registered as a shareholder on the date of closure of the register prior to the date of a General Meeting shall, at such meeting, have one vote on show of hands and in case of a poll shall have one vote for each share held by him.
- ii) Subject to the provisions contained in Section 3(2E) of the Act, every shareholder entitled to vote as aforesaid who, not being a company, is present in person or by proxy or who being a company is present by a duly authorised representative, or by proxy shall have one vote on a show of hands and in case of a poll shall have one vote for each share held by him as stated hereinabove in sub-regulation (i)

Explanation – for this Chapter, “ Company” means any body corporate.

- iii) Shareholders of the Bank entitled to attend and vote at a general meeting shall be entitled to appoint another person (whether a shareholder or not) as his proxy to attend and vote instead of himself; but a proxy so appointed shall not have any right to speak at the meeting.

69. VOTING BY DULY AUTHORISED REPRESENTATIVE:

- i) A shareholder, being the Central Government or a company, may by a resolution, as the case may be, authorise any of its officials or any other person to act as its representative at any General Meeting of the shareholders and the person so authorised (referred to as a 'duly authorised representative' in these regulations) shall be entitled to exercise the same powers on behalf of the Central Government or company which he represents, as if he were an individual shareholder of the Bank. The authorization so given may be in favour of two persons in the alternative and in such a case any one of such persons may act as a duly authorised representative of the Central Government/ Company.
- ii) No person shall attend or vote at any meeting of the shareholders of the Bank as the duly authorised representative of a company unless a copy of the resolution appointing him a duly authorised representative certified to be a true copy by the Chairman of the meeting at which it was passed shall have been deposited at the Head Office of the Bank not less than four days before the date fixed for the meeting.

70. PROXIES:

- i) No instrument of proxy shall be valid unless, in the case of an individual shareholder, it is signed by him or by his attorney duly authorised in writing or in the case of joint holders, it is signed by the shareholder first named in the



register or his attorney duly authorised in writing or in the case of the body corporate signed by its officer or an attorney duly authorised in writing;

Provided that an instrument of proxy shall be sufficiently signed by any shareholder, who is, for any reason, unable to write his name, if his mark is affixed thereto and attested by a Judge, Magistrate, Registrar or Sub-Registrar of Assurances or other Government Gazetted officer or an Officer of the Bank.

- ii) No proxy shall be valid unless it is duly stamped and a copy thereof deposited at the Head Office of the Bank not less than four days before the date fixed for the meeting, together with the power of attorney or other authority (if any) under which it is signed or a copy of that power of attorney or other authority certified as a true copy by a Notary Public or a Magistrate unless such a power of attorney or the other authority is previously deposited and registered with the Bank.
- iii) No instrument of proxy shall be valid unless it is in Form 'B'.
- iv) An instrument of proxy deposited with the Bank shall be irrevocable and final.
- v) In the case of an instrument of proxy granted in favour of two grantees in the alternative, not more than one form shall be executed.
- vi) The grantor of an instrument of proxy under this regulation shall not be entitled to vote in person at the meeting to which such instrument relates.
- vii) No person shall be appointed as duly authorised representative or a proxy who is an officer or an employee of the Bank.



MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following contracts (not being contracts entered into in the ordinary course of business carried on by our Bank or entered into more than two years before the date of this Red Herring Prospectus) which are or may be deemed material have been entered or to be entered into by our Bank. These contracts, copies of which have been attached to the copy of this Red Herring Prospectus, delivered to the Designated Stock Exchange for registration and also the documents for inspection referred to hereunder, may be inspected at the Head Office of our Bank between 10.00 am to 4.00 pm on working days from the date of this Red Herring Prospectus until the Bid Closing Date/Issue Closing Date.

Material Contracts

1. Letter of appointment dated December 3, 2005 to SBI Capital Markets Limited, Citigroup Global Markets India Private Limited, DSP Merrill Lynch Limited, Enam Financial Consultants Private Limited and Kotak Mahindra Capital Company from our Bank appointing them as BRLMs.
2. Letter of appointment dated December 7, 2005 for the Registrar to the Issue.
3. Memorandum of Understanding amongst our Bank and the BRLMs dated December 16, 2005.
4. Memorandum of Understanding executed by our Bank and the Registrar to the Issue dated December 15, 2005.
5. Escrow Agreement dated [●] between the Bank, the BRLMs, Escrow Collection Bank and the Registrar to the Issue.
6. Syndicate Agreement dated [●] between the Bank, the BRLMs and the Syndicate Members.
7. Underwriting Agreement dated [●] between the Bank, the BRLMs and the Syndicate Members.

Material Documents

1. Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, as amended from time to time.
2. Union Bank of India (Shares and Meetings) Regulations, 1998, as amended from time to time.
3. Shareholders' resolution dated December 21, 2005 in relation to this Issue and other related matters.
4. Resolution of the Board of Directors dated August 23, 2005 in relation to this Issue and other related matters.
5. Letter no. F.No.11/21/2005-BOA dated November 16, 2005 from the GoI, Ministry of Finance, Department of Economic Affairs (Banking Division), granting its approval for the Issue.
6. Letter no. FE.CO.FID/14975/10.78.016 /2005-06 dated January 9, 2006, from RBI permitting the Bank to issue shares to Non-Residents, including Non-Resident Indians and FIIs with repatriation benefits out of the issue of Equity Shares of Rs. 10 each amounting to Rs. 450,000,000.
7. Reports of the Auditors dated January 24, 2006 prepared as per Indian GAAP and disclosed elsewhere in this Red Herring Prospectus.
8. Copies of annual reports of our Bank for the last five financial years.
9. Consents of the Auditors for inclusion of their report on accounts in the form and context in which they appear in this Red Herring Prospectus.
10. Consents of BRLMs, Advisors to the Issue, Syndicate Members, Registrar to the Issue, Banker to the Issue, Domestic Legal Counsel to the Bank, Domestic Legal Counsel to the BRLMs, International Legal Counsel to the BRLMs, Directors, Company Secretary and Compliance Officer, as referred to, in their respective capacities.
11. In-principle listing applications dated December 16, 2005 and approvals dated December 26, 2005 and December 28, 2005 from BSE and NSE respectively.
12. Tripartite agreement between NSDL, our Bank and the Registrar to the Issue dated July 30, 2002.
13. Tripartite agreement between CDSL, our Bank and the Registrar to the Issue dated July 29, 2002.



14. Due diligence certificate dated December 16, 2005 to SEBI from the BRLMs.

15. Tax benefit report dated January 24, 2006 provided by the Auditors.

Any of the contracts or documents mentioned in this Red Herring Prospectus may be amended or modified at any time if so required in the interest of the Bank or if required by the other parties, without reference to the shareholders subject to compliance of the applicable laws.



DECLARATION

We, the Directors of the Bank, hereby declare that all the relevant provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, and subsequent amendments made thereto, Union Bank of India (Shares and Meetings) Regulations, 1998, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 and the guidelines issued by the Government of India or the guidelines issued by Securities and Exchange Board of India, established under Section 3 of the Securities and Exchange Board of India Act, 1992, as the case may be, have been complied with and no statement made in this Red Herring Prospectus is contrary to the provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and subsequent amendments made thereto, Union Bank of India (Shares and Meetings) Regulations, 1998, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, the Securities and Exchange Board of India Act, 1992 or rules made thereunder or guidelines issued, as the case may be. All legal requirements applicable till the filing of the Red Herring Prospectus with the Stock Exchanges have been complied with. We further certify that all statements and disclosures in this Red Herring Prospectus are true and fair.

SIGNED BY ALL DIRECTORS

K. Cherian Varghese

K. Rathnakar Hegde

B. S. Bhalla

A. N. Rao

Ashutosh Tandon

Dr. N. Balasubramanian

R. R. Nair

N. L. Sarda

S. V. Dange

Debasis Ghosh

Date: January 24, 2006

Place: Mumbai



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