



Letter of Offer
Dated January 31, 2008
*For private circulation to the equity
shareholders of the Bank only*

THE DHANALAKSHMI BANK LIMITED

(Incorporated on November 14, 1927 under the Indian Companies Act, 1913 with Registrar of Companies, Kerala)

Registered Office: Dhanalakshmi Buildings, Naickanal, Thrissur - 680001

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Contact person: Mr. Ravindran K. Warriar, Company Secretary and Compliance Officer

FOR PRIVATE CIRCULATION TO THE EQUITY SHAREHOLDERS OF THE BANK ONLY

Issue of 3,20,57,800 Equity Shares of Rs. 10 each for cash at a premium of Rs. 52/- per Equity Share aggregating Rs. 198,75,83,600 on rights basis to the existing Equity Shareholders of The Dhanalakshmi Bank Limited (the “Bank”/“DBL”/the “Issuer”) in the ratio of One Equity Share for every One Equity Share (i.e. 1:1) held as on the record date i.e. January 30, 2008.

The Issue Price is 6.2 times of the face value of the Equity Shares of our Bank.

GENERAL RISKS

Investment in equity and equity related securities involve a degree of risk and investors should not invest any funds in this issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Issuer and the Issue including the risks involved. The securities have not been recommended or approved by the Securities and Exchange Board of India (SEBI) nor does SEBI guarantee the accuracy or the adequacy of this document. **Investors are advised to refer to the section titled “Risk Factors” beginning on page vi of this Letter of Offer before making an investment in this Issue.**

ISSUER’S ABSOLUTE RESPONSIBILITY

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

LISTING

The existing Equity Shares of the Bank are listed on Bombay Stock Exchange Limited (“BSE”), National Stock Exchange of India Limited (“NSE”) and the Cochin Stock Exchange Limited (“CSE”). The Bank has received “in-principle” approvals from BSE, NSE and CSE for listing the Equity Shares arising from this Issue vide their letters dated October 17, 2007, October 26, 2007 and November 02, 2007 respectively. For the purposes of this Issue, the Designated Stock Exchange is BSE.

LEAD MANAGER TO THE ISSUE



ENAM SECURITIES PRIVATE LIMITED

SEBI Reg. No.: INM000006856
801/802, Dalamal Towers
Nariman Point, Mumbai 400 021
Tel: +91 22 6638 1800
Fax: +91 22 2284 6824
Email: dlb.rights@enam.com
Website: www.enam.com
Contact Person: Mr. Hitesh Mandot

REGISTRAR TO THE ISSUE



Karvy Computershare Private Limited

KARVY COMPUTERSHARE PRIVATE LIMITED

SEBI Reg. No.: INR000000221
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Hyderabad 500 081
Tel: +91-40-2342 0815 - 23420824
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Email: dlb.rights@karvy.com
Website: www.karvy.com
Contact Person: Mr. M. Murli Krishna

ISSUE PROGRAMME

ISSUE OPENS ON :	LAST DATE FOR RECEIVING REQUEST FOR SPLIT FORMS:	ISSUE CLOSES ON :
FEBRUARY 19, 2008	MARCH 04, 2008	MARCH 19, 2008

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DEFINITIONS, ABBREVIATIONS AND INTERPRETATION

A. CONVENTIONAL/ GENERAL TERMS

Act	:	The Companies Act, 1956 as amended
Articles or AOA	:	Articles of Association of the Bank
Board	:	The Board of Directors of the Bank or The Committee Authorized to act on its behalf
Equity Shares	:	The Issued, Subscribed and Paid Up Equity Share Capital of the Bank and the additional equity share of the Bank offered pursuant to the Rights Issue
Equity Shareholders	:	Means a holder/beneficial owner of equity shares of The Dhanalakshmi Bank Limited as on the record date i.e. January 30, 2008.
Depository	:	A depository registered with SEBI under the SEBI (Depository and Participant) Regulations, 1996, as amended from time to time.
Guidelines / SEBI Guidelines	:	SEBI (Disclosure and Investor Protection) Guidelines, 2000 and subsequent amendments thereto
ISIN	:	International Securities Identification Number allotted by the depository
Memorandum Or MOA	:	Memorandum of Association of the Bank
Rights Issue	:	Present issue of equity shares of Rs. 10/- each
UIN	:	Unique identification number

B. OFFER RELATED TERMS

CAF	:	Composite Application Form
Bankers To The Issue	:	The Dhanalakshmi Bank Limited and HDFC Bank Limited
Lead Manager/ENAM	:	Enam Securities Private Limited 801/802, Dalamal Towers Nariman Point, Mumbai 400 021
LOF / Letter Of Offer	:	Letter of Offer of the Bank for the rights issue of 3,20,57,800 equity shares of Rs. 10/- each at a premium of Rs. 52/-
Record Date	:	January 30, 2008
Registrar / Registrar To The Issue/ Registrar And Share Transfer Agent / R&T Agents	:	Karvy Computershare Private Limited Plot No. 17 - 24 , Vittal Rao Nagar, Madhapur Hyderabad 500 081

C. BANK/INDUSTRY RELATED TERMS

Auditors	:	The statutory auditors of the Bank - M/s PB Vijayaraghavan & Co.
Bank Acquisition Act	:	Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, as amended from time to time
Board of Directors/Board	:	The Board of Directors of our Bank or a committee constituted thereof
Chairman	:	The Chairman of the Bank
Repatriation	:	“Investment on repatriation basis” means an investment the sale proceeds of which are, net of taxes, eligible to be repatriated out of India, and the expression ‘Investment on non-repatriation basis’, shall be construed accordingly.
The BR Act	:	The Banking Regulation Act, 1949 and subsequent amendments thereto

D. ABBREVIATIONS

“We”, “us”, “our”, “the Issuer”, “the Bank”, “our Bank” or “The Dhanalakshmi Bank Limited”	:	Unless the context otherwise indicates or implies, refers to The Dhanalakshmi Bank Limited
AY	:	Assessment Year
AGM	:	Annual General Meeting
AS	:	Accounting Standard As Issued By The Institute Of Chartered Accountants Of India
BG	:	Bank Guarantee

BSE/Designated Stock Exchange	:	The Bombay Stock Exchange Ltd.
CAF	:	Composite Application Form
CSE	:	Cochin Stock Exchange
CDSL	:	Central Depository Services (India) Limited
DEMAT	:	Dematerialized (Electronic/Depository as the context may be)
DIN	:	Director Identification Number
DP	:	Depository Participant
EGM	:	Extra-Ordinary General Meeting
EPS	:	Earnings Per Share
FCNR	:	Foreign Currency Non Resident
FDI	:	Foreign Direct Investment
FEMA	:	Foreign Exchange Management Act 1999 and the subsequent amendments thereto
FERA	:	Foreign Exchange Regulation Act, 1973
FII	:	Foreign Institutional Investor [as defined under FEMA (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000] registered with SEBI
FIPB	:	Foreign Investment Promotion Board
FY	:	Financial Year
GOI / Government	:	Government Of India
HUF	:	Hindu Undivided Family
IT	:	Income-Tax Act 1961
ITAT	:	Income Tax Appellate Tribunal
LoO	:	Letter of Offer
MIS	:	Management Information System
MSE	:	Madras Stock Exchange
NABARD	:	National Bank for Agriculture and Rural Development
NR	:	Non Resident
NRE ACCOUNT	:	Non Resident External Account
NRI	:	Non Resident Indian
NRO ACCOUNT	:	Non Resident Ordinary Account
NSDL	:	National Securities Depository Limited
OCB	:	Overseas Corporate Bodies
PAN/GIR No.	:	Income Tax Permanent Account Number/General Index Reference Number
RBI	:	Reserve Bank Of India
SEBI	:	Securities And Exchange Board of India
SEBI (SAST) Regulations, 1997	:	SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and subsequent amendments thereto
SIDBI	:	Small Industries Development Bank of India

E. TECHNICAL AND INDUSTRY TERMS AND ABBREVIATIONS

AFS	:	Available for sale
ALCO	:	Asset Liability Management Committee
ARCIL	:	Asset Reconstruction Company of India Limited
ATMs	:	Automated Teller Machines
Bps	:	Basis points
CAIIB	:	Certified Associate of Indian Institute of Bankers
CAR	:	Capital Adequacy Ratio
CAGR	:	Compounded Annual Growth Rate
CAMEL	:	Capital, Asset Quality, Management, Earnings, Liquidity, Systems
CBS	:	Core Banking Solutions
CBLO	:	Collateralised Borrowing and Lending Obligation
CCIL	:	Credit Corporation of India Limited
CCBD	:	Cash Credit Book Debts
CDR	:	Corporate Debt Restructuring
CIBIL	:	Credit Information Bureau of India Limited
CISA	:	Certified Information Systems Auditor
CRAR	:	Capital to Risk Weighted Assets Ratio
CRR	:	Cash Reserve Ratio
DBS	:	Department of Banking Supervision

DBOD		Department of Banking Operations and Development
DICGC	:	Deposit Insurance and Credit Guarantee Corporation of India
DRS	:	Disaster Recovery Site
DRT	:	Debts Recovery Tribunal
ECGC	:	Export Credit and Guarantee Corporation of India Ltd
ECS	:	Electronic Clearing Services
EFT	:	Electronic Funds Transfer
EPS	:	Earnings Per Share
FBT	:	Fringe Benefit Tax
FIMMDA	:	Fixed Income Money Market and Derivatives Association
HR	:	Human Resources
HFT	:	Held for trading
HPLM	:	Hypothecation Loan – Machinery
HTM	:	Held to Maturity
IBA	:	Indian Banks Association
IDRBT	:	The Institute for Development and Research in Banking Technology
IRDA	:	Insurance Regulatory and Development Authority
IT	:	Information Technology
KYC	:	Know Your Customer Norms as stipulated by the Reserve Bank of India
FCNR (Account)	:	Foreign Currency Non Resident (Account)
FCNR (Banks)	:	Foreign Currency Non Resident (Banks)
NAV	:	Net Asset Value
NDS	:	Negotiated Dealing System
NPA	:	Non-Performing Asset
NDS-OM	:	Negotiated Dealing System-Order Matching
OCC	:	Open Cash Credit
PAT	:	Profit after Tax
PBIT	:	Profit before Interest and Tax
RBS	:	Risk Based Supervision
RDB Act		The Recovery of Debts Due to Banks and Financial Institutions Act, 1993
RTGS	:	Real Time Gross Settlement
SARFAESI Act 2002/Securitisation Act	:	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
SGL	:	Subsidiary General Ledger
SLR	:	Statutory Liquidity Ratio
SOD-RE	:	Secured Overdraft – Real Estate
SME	:	Small and Medium Enterprises
Tier I Capital	:	The core capital of a bank, which provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital and reserves consisting of any statutory reserves, free reserves and capital reserves as reduced by equity investments in subsidiaries, intangible assets, and losses in the current period and those brought forward from the previous period
Tier II Capital	:	The undisclosed reserves and cumulative perpetual preference shares, revaluation reserves, general provisions and loss reserves, hybrid debt capital instruments, investment fluctuation reserves and subordinated debt.
WDV	:	Written down value
YTM	:	Yield to Maturity

PRESENTATION OF FINANCIAL INFORMATION AND USE OF MARKET DATA

Unless stated otherwise, the financial data in this Letter of Offer is derived from our audited financial statements, as restated, under Indian GAAP and the SEBI Guidelines, included in this Letter of Offer. Our Financial Year commences on April 01 and ends on March 31 of the next year, and all references to a particular Financial Year are to the twelve-month period ending March 31 of that year unless otherwise mentioned. In this Letter of Offer, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding off.

All references to “Rs.” refer to Rupees, the lawful currency of India, “US\$” refer to the United States Dollar, the lawful currency of the United States of America, and the words “Lakh” or “Lac” mean “100 thousand” and the word “million” means “10 lakh” and the word “crore” means “10 million” or “100 lakhs” and the word “billion” means “1,000 million” or “100 crores”. Unless stated otherwise, throughout this Letter of Offer, all figures have been expressed in lakhs.

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

RISK FACTORS

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

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

INTERNAL RISK FACTORS

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

In the year ended March 31, 2007, net interest income represented 39.25% of our interest income and 35.04% of our total income. For the half year ended September 30, 2007, net interest income represented 35.24 % of our interest income and 32.20 % of our total income. Volatility and changes in market interest rates could affect the interest we earn on our assets differently from the interest we pay on our liabilities. The difference could result in an increase in interest expense relative to interest income leading to a reduction in our net interest income. Accordingly, volatility in interest rates could materially and adversely affect our business and financial performance. An increase in interest rates may also adversely affect the rate of growth of important sectors of the Indian economy, such as the corporate, retail and agricultural sectors, which may adversely impact our business.

Interest rates are sensitive to many factors beyond our control, including the RBI's monetary policy, deregulation of the financial sector in India and domestic and international economic and political conditions. On 10.11.07, the CRR was raised from 7.00% to 7.50%. Similarly, the repo rate at which banks borrow money from the RBI under liquidity adjustment facility was also increased to 7.75% with effect from March 31, 2007.

Under the RBI regulations, we are required to maintain a minimum specified Statutory Liquidity Ratio, which is presently 25% of our net demand and time liabilities in cash and government or other approved securities. As at March 31, 2007, 25.38% of our demand and time liabilities were in government and other approved securities and 28.13 % as at September 30, 2007. As at March 31, 2007, 85.74% of our total investments were in government and other approved securities and 86.99% as at September 30, 2007. 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 the increase was sudden or sharp, we could be materially and adversely affected by the decline in the market value of our government securities portfolio and other fixed income securities and may be required to further provide for depreciation in the "Available for Sale" and "Held for Trading" categories. As at March 31, 2007, 1.77% of our gross investments were in the "Held for Trading" category, 25.80% in the "Available for Sale" category and 72.43% in the "Held to Maturity" category. As at September 30, 2007, there were no investments in the "Held for Trading" category, 39.98% in the "Available for Sale" category and 62.02% in the "Held to Maturity" category. We are required to mark to market securities in the "Available for Sale" and "Held for Trading" categories which are subject to market risk. In respect of securities under the Held to Maturity category, we are required to amortise over the residual maturity period of the security the difference between acquisition cost and face value of the security, wherever the acquisition cost is greater than the face value.

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

Approximately 29.35%, 25.15%, 22.40% and 18.86%, of our total income in Fiscal 2005, Fiscal 2006, Fiscal 2007 and the half year ended September 30, 2007, respectively, 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 materially and adversely affect our business if we cannot offset the same by increasing returns on our loan assets.

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

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

The bank outsources some functions to other agencies and is exposed to the risk that external vendors may be unable to fulfil their contractual obligations to the bank (or will be subject to the same risk of fraud or operational errors by their respective employees as the bank) and to the risk that its (or its vendors') business continuity and data security systems prove to be inadequate. The Bank also faces the risk that the design of controls of the bank and procedures prove inadequate, or may be circumvented, thereby causing delays in detection or errors in information. Although the bank maintains a system of controls designed to keep operational risk at appropriate levels, there can be no assurance that the Bank 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 "*Our Business - Operational Risk*" on page 31 of this Letter of Offer.

4. System failures and calamities could adversely impact the bank's business.

With the implementation of CBS and other technology initiatives, the importance of systems technology to its business has increased significantly. The Bank's principal delivery channels include its branches and ATMs. Each of these delivery channels is vulnerable to systems failures or other calamities. Although the bank currently has the technology and facilities in place to back up its systems and the bank has established a data centre in Bangalore, any failure in the systems or the occurrence of calamities, accidents and other unexpected events that affect areas in which the bank has a significant presence, could affect the operations and the quality of its customer service.

5. Presently, we do not have a Disaster Recovery Site. This may result in operational risks. Any failure of our systems in the interim period till the time our disaster recovery system is fully operational may result in loss of business and may have an adverse effect on our operations.

6. 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 capital requirements for credit risk, market risk and operational risk. Our capital requirements are expected to increase when Basel II norms are implemented by the RBI, which take effect on March 31, 2009. 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. Credit risk and operational risk management measures, as per Basel II norms, will be implemented as directed by the RBI, on March 31, 2009.

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

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

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

We depend on our computer systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of our business and operating data. We seek to protect our computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems. Computer break-ins and power disruptions could affect the security of information stored in and transmitted through these computer systems and networks. We have implemented the Internet banking platform and we believe that these concerns will intensify with our increased use of technology and Internet-based resources. 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.

Also, Bank does not have a disaster recovery model till date. Currently, the bank is in process of establishing its disaster recovery model. Till the time such model is established, any system or technology failure may hamper our banking operations and may result in loss of revenues and customers

9. Any inability to attract and retain talented professionals may materially and 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 inability to attract and retain talented professionals or the loss of key management personnel could have an adverse impact on our business.

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

The Bank is a party to various legal proceedings including writ petition proceedings, suits, consumer matters, labour related proceedings, employee claims, taxation disputes etc. The amount of damages cannot be accurately estimated. There are 39 civil cases filed against us for disputes in relation to interest imposed, negligence, recovery of money, guarantees, letters of credit, 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 etc. Apart from the above mentioned cases, Bank has filed numerous suits for recovery of money. In view of the Bank, all outstanding civil, labour, consumer and tax related litigations and disputes of value more than 100 lakhs are material to the Bank. There are 26 cases filed by the Bank against various parties for recovery of amounts in excess of Rs. 1 crore. The proceedings are pending at

various forums and are at different stages of adjudication. The brief particulars of the matters having a balance of Rs. 1 crore and above are as detailed in the page No 181 of this Letter of Offer. We have filed an aggregate of 6062 cases for recovery of loan dues pending at various stages and the aggregate of the dues are approximately 17317.18 lakhs.

In the event that an unfavourable order(s) is/are passed, the same may have an adverse effect on our operations and continuation of our Directors on the Board of Directors. The other litigations pending against and/or filed by the Bank are as provided under “Outstanding Litigation and Material developments” of this Letter of Offer.

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

There were 15 disputes relating to income tax and interest tax assessments in which the aggregate amount (excluding interest thereon) in dispute was approximately Rs. 2408.11 lakhs. 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 will have to provide for the liability if orders are passed against us in the said cases. For details please refer to the section titled “Outstanding Litigation and Material developments-Tax Cases” of this Letter of Offer.

A brief description of the same is in the table below as on December 31, 2007. For details please refer to Page 181 of this Letter of Offer.

Sl. No.	Brief Description	No. of Cases	Amount Involved (Rs. in Lakhs)
1.	Suits filed by the Bank against defaulting borrowers.	6062	17317.18
2.	Appeals filed by the Bank on disputed Income tax.	15	2408.11
3.	Suits against the Bank which are not acknowledged as debts.	26	201.74
4.	Suits against the Bank which are not acknowledged as debts (no liability involved).	13	Nil

In view of the Bank, all outstanding civil, labour, consumer and tax related litigations and disputes of value more than 100 lakhs are material to the Bank.

Claims/Disputes (by and against the bank) (inclusive of tax claims) which have a value of more than Rs.100 Lakhs and less than Rs.100 Lakhs.

Sl. No.	Brief Description	No. of Cases	Amount Involved (Rs. In Lakhs)
1.	Disputes having a value of 100 lacs or more.	32	10, 740.99
2.	Disputes having a value of less than 100 lacs.	6071	9186.04

12. Any increase in our portfolio of non-performing advances (“NPA”) will have a materially adverse effect on our financial condition and results of operations.

Our gross NPAs were Rs. 9,629 Lakhs as at March 31, 2007, representing 5.06% of our gross advances and 2.79% of our total assets, and Rs. 11,138 Lakhs as at March 31, 2006, representing 6.71% of our gross advances and 3.91% of our total assets. Our gross NPAs were Rs. 8923 Lakhs as at September 30, 2007, representing 4.57 % of our gross advances and 2.46 % of our total assets.

Our net NPAs were Rs. 3224 Lakhs as at March 31, 2007, representing 1.75% of our net advances and 0.94% of our total assets, and Rs. 4489 Lakhs as at March 31, 2006, representing 2.82% of our net advances and 1.58% of our total assets. Our net NPAs were Rs. 2319 lakhs as at September 30, 2007, representing 1.23% of our net advances and 0.64% of our total assets.

We have been able to reduce our net non-performing advances through recoveries and the percentage of reduction in the NPA during the years ended March 31, 2005, March 31, 2006, March 31, 2007 and the half year ended on September 30, 2007 were 25.48%, 23.17%, 28.20% and 28.05% respectively. The reduction in the NPA through recoveries during the years ended March 31, 2005, March 31, 2006, March

31, 2007 and the half year ended on September 30, 2007 was Rs.3,772 lakhs, Rs.5,539 lakhs, Rs. 5,808 lakhs and Rs.1,708 lakhs respectively. As a result, the net NPA position during the years ended March 31, 2005, March 31, 2006, March 31, 2007 and the half year ended on September 30, 2007 were 3.92%, 2.82%, 1.75% and 1.23% respectively. However, our ability to continue to reduce or contain the level of our gross and net NPAs may be affected by a number of factors that are beyond our control, such as a recession in the economy, including in respect of specific industries to which we are exposed, decreases in agricultural production, decline in commodity and food grain prices, adverse fluctuations in interest and exchange rates or adverse changes in Government policies, laws or regulations. In addition, the expansion of our business may also cause the level of our NPAs to increase. Although our loan portfolio contains loans to a wide variety of businesses, adverse market conditions in these industries could increase our level of NPAs. Future increases in our NPAs may have a material adverse effect on our business and financial condition. For further details, refer to the section titled "Our Business" beginning on page 31 of this Letter of Offer.

13. We may experience delays in enforcing our collateral in the event of borrower defaults on their obligations to us, which may result in an inability to recover the expected value of the collateral.

We take collateral for a large proportion of our loans, including mortgages, pledges 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 March 31, 2007, 89.35% and as at September 30, 2007, 91.74 % 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 involve protracted proceedings, and the process of enforcing security interests against collateral can be difficult. As a result, it may be difficult and time consuming for us to take control of or liquidate the collateral securing any non-performing loans. Any delays in enforcement could result in a decline in the value of collateral securing our loans, which may decrease the amounts we can recover on the underlying loans.

The Bank is a member of the RBI Corporate Debt Restructuring ("CDR") mechanism. In situations where we have exposure of 25% or less, we could be required to agree to a 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 Fiscal 2007, we had one asset restructured under CDR and the total amount of loan assets under CDR was Rs. 507 lakhs. Any delay in enforcing collateral in the event of borrower defaults or any inability to realise the full value of collateral security could have a material adverse effect on our results of operations and financial condition.

14. We may fail to maintain the minimum capital adequacy requirements stipulated by the RBI.

We are required by the RBI to maintain a minimum capital adequacy ratio of 9% in relation to our total risk-weighted assets. We must maintain this minimum capital adequacy level to support our growth. Our capital adequacy ratio was 9.77% as at March 31, 2007 and 9.43% as at September 30, 2007. Although we currently meet the applicable capital adequacy requirements, certain adverse developments could affect our ability to continue to satisfy the capital adequacy requirements, including deterioration in our asset quality, declines in the values of our investments and changes in the minimum capital adequacy requirements. For example, the implementation of the Basel II capital adequacy standards could result in a decline in our capital adequacy ratio. Furthermore, our ability to support and grow our business could be limited by a declining capital adequacy ratio if we are unable to access or have difficulty accessing the capital markets or have difficulty obtaining capital in any other manner. If we fail to meet capital adequacy requirements, the RBI may take certain actions, including restricting our lending and investment activities and the payment of dividends by us. These actions could materially and adversely affect our reputation, results of operations and financial condition.

15. Contingent liabilities of the Bank as on 31 March, 2007 and September 30, 2007 not provided for are as follows:

Rs. in lakhs

	31 March, 2007	September 30, 2007
Claims against bank not acknowledged as debt	178.71	178.71
Liability on account of forward exchange contracts	25166.30	23550.07
Guarantees given on behalf of constituents in India	8364.04	10144.36
Acceptances endorsements and other obligations	2307.10	1436.07
Other items for which the Bank is contingently liable (Including disputed Income Tax Liabilities amounting to Rs 1982.18 Lakhs- Previous Year Rs 1982.18 Lakhs)	1982.18	1992.18

16. Our Bank had recorded a loss of Rs.2160 lakhs for the year ended March 31, 2005.

The Bank had recorded a net loss of Rs.2160 lakhs for the year ended March 31, 2005 as against a net profit of Rs 1748 lakhs for the year ended March 31, 2004. The net loss resulted mainly from making provision of Rs. 3214 lakhs for depreciation on investments in government securities on account of hardening of interest rates. The said provision was made by the Bank to mitigate the market risk from the investments held in trading book by shifting securities to "held to maturity" category. Such a shifting protected the Bank from making provisions in the case of rising interest rates.

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

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

- a. During the year 2005-06 the Bank has revised its Accounting Policy on amortization of premium (acquisition cost over the face value) paid, in respect of securities held under "Held to maturity" category from "Straight Line Method" to "Constant Yield Method". The change in the method has resulted in the net profit of the Bank being higher by Rs.215.69 lakhs in 2005-06. However, the effect of this change in accounting policy is not given effect in the previous years as the same is not ascertainable.
- b. The effect of adjustments arising from reconciliation/adjustment/clearance of outstanding items in Inter Branch/Bank accounts/other accounts for the years 2002-03 to 2006-07 and for half year ended 30 September 2007 could not be carried out, the consequential impact of which is not ascertainable.
- c. The liability under revised Accounting Standard 15 in respect of employee retirement benefits is provided on an estimated basis for the half year ended 30 September 2007 and transitional liability accrued as on 31 March 2007 is not provided in the accounts pending the receipt of actuarial valuation and Reserve Bank of India guidelines, the effect of which could not be ascertained.

18. Our business has negative operating cash flows for the year ended FY 2006 and half year ended September 30, 2007.

We had negative operating cash flows for the year ended March 31, 2006 and half year ended September 30, 2007 amounting to Rs 1805 lakhs and Rs. 4042 lakhs respectively. For further details, please refer to page 88 in the section "Financial Statements- Statement of Restated Cash Flows".

19. We do not have trademark for our logo.

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

20. We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We may also rely on certain representations as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit, we may assume that a customer's audited financial statements conform to generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our financial condition and results of operations could be negatively affected by relying on financial statements that do not comply with generally accepted accounting principles or other information that is materially misleading.

21. 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 and adverse effect on our business, financial condition and results of operations.

We require certain statutory and regulatory permits and approvals to operate our business.

We had previously submitted an application to the Reserve Bank Of India dated May 31, 2006 seeking approval for the opening of 24 branches including 7 extension counters and 2 seasonal branches. The Reserve Bank of India has declined to accord its approval for the same. In 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 and adverse effect on our business, financial condition and results of operations. For further information, refer to the section titled "Licenses and Approvals" on page 179 of this Letter of Offer.

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

Our Tier II subordinated bonds are currently rated by ICRA as LBBB+ and CARE as BBB. A downgrade in our credit ratings 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 materially and adversely affect our business, financial condition and results of operations.

23. The Bank faces significant challenges in its new businesses.

The Bank has diversified its products and services, particularly in retail banking. For example, the Bank markets life and general insurance products. The Bank has limited experience in these new products and services markets. These new products and services may not be profitable in the initial years of operation and are subject to general risks and costs associated with such businesses.

24. The Bank has a regional concentration in southern India, particularly the State of Kerala, and is dependent on the economies of South India and Kerala.

The Bank has a regional concentration in southern India, particularly in the State of Kerala. Its concentration in Kerala exposes the Bank more acutely to any adverse economic and/or political

circumstances in the southern region of India as compared to other public and private sector banks that have a more diversified national presence. If there is a sustained downturn in the economies of south India and Kerala, the Bank's financial performance is likely to suffer.

25. The Bank's portfolio of retail loans and advances is in the growth stage. If the Bank is unable to address credit risk in its retail portfolio, the Bank's financial performance may be adversely affected.

The Bank's portfolio of retail loans and advances has grown in recent years and the percentage of retail loans on total advances for the years ended March 31, 2005, 2006, 2007 and half year ended September 30, 2007 were 27.47%, 30.10%, 32.65% and 33.99% respectively. As part of the Bank's business and growth strategy, it will continue to focus on further growth in its retail banking business. Comprehensive third-party credit history reports for the majority of retail borrowers are currently not available in India. As a result, the Bank is exposed to higher credit risk in the retail business compared to banks in developed markets. If the Bank's internal credit screening process proves to be inadequate, it may experience an increase in impaired loans and it may be required to increase its provision for defaulted loans. This may impact the Bank's future financial performance and the market price of the Bank's equity shares.

26. Lending risks

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

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

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

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

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

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

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

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

B. EXTERNAL RISK FACTORS

1. There are a number of restrictions as per the Banking Regulation Act, which impede the flexibility of the Bank's operations and affect/restrict investor's right. They are as follows:

- i. The Bank can carry on business/activities as specified in the Act. There is no flexibility to pursue profitable avenues if they arise, in contrast with companies under the Companies Act, where shareholders can amend the Object Clause by a Special Resolution.
- ii. There are restrictions in the Banking Regulation Act regarding:
 - a) Setting up of subsidiaries by a Bank
 - b) Management of the Bank including appointment of Directors
 - c) Borrowings and creation of floating charge thereby hampering leverage. Banks may have to resort to unsecured debt instruments for borrowings
 - d) Expansion of business as branches need to be licensed
 - e) Disclosures in the Profit and Loss Account and Balance Sheet
 - f) Production of documents and availability of records for inspection by shareholders
 - g) Reconstruction of banks through amalgamation etc.
 - h) Voluntary winding up.
 - i) Production of documents and availability of documents for inspection by shareholders.
 - j) Reconstruction of banks through amalgamation etc.
- iii. The financial disclosures in the Letter of Offer may not be available to investors to the extent after listing, on continuous basis, though adequate provisions exist under the Companies Act and the Listing Agreement for disclosing material financial information in the prescribed manner.
- iv. The individual and corporate rights of shareholders under the Companies Act are subject to the provisions of Banking Regulation Act, 1949.
- v. Declaration of dividend on share capital is also subject to the norms introduced by the RBI in that regard. No banking company would be able pay dividend on its shares until all its capitalised expenses (including preliminary, organisational expenses, share selling commission, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off.
- vi. Directorships in banking companies is subject to certain additional norms introduced by RBI known as 'fit and proper criteria'.

2. Risks from Regulatory changes:

Major changes in Government / RBI Policies and Regulations relating to the Banking Sector may have an impact on the operations of the Bank. The regulatory changes have opened greater opportunities as also challenges to the Bank. The Bank is capable of responding to these challenges due to its long experience and expertise developed over the years as also its capabilities to adapt itself to the changing scenario.

3. Exchange Rate fluctuations may have an impact on the Bank's financial performance

As per RBI guidelines, banks are not allowed to keep open positions on their foreign exchange transactions beyond prescribed limits on a daily basis. Foreign Exchange transactions beyond such limits, if any, must be squared off at the end of each day. The bank has complied with the same. Hence, the risk from exchange rate fluctuations is minimised.

4. Dis-intermediation Risk

With the increasing trend towards dis-intermediation in the financial markets, many companies may access the markets directly, thereby reducing their dependence on the Banking System. The Bank has been proactive and has increased its thrust on businesses such as Treasury, Investment, Cash Management and Foreign Exchange. Due to its diversified services, the Bank is confident of facing any dis-intermediation effectively.

5. Natural calamities could have a negative impact on the Indian economy and cause the business of the bank 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 the business of the bank and the price of Equity Shares of the bank.

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

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

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

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

8. Financial instability in other countries, particularly emerging market countries, could disrupt the Bank's business and affect the price of the Bank's equity shares.

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

9. Interest Rate Risks.

The risk of potential impact on net interest income/net interest margin/market value of the security covered by unexpected changes in market interest rates. These risks are inherent in the Banking Business. Adverse

movement of interest rate will necessitate depreciation to be provided on investments affecting the profitability of the Bank.

10. Share price of the Bank may go for a correction after the record date.

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

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

We compete with public and private sector Indian commercial banks as well as foreign commercial banks. Many of our competitors 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 may have operational advantages in implementing new technologies, rationalising branches and recruiting employees through incentive-based compensation.

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

Our performance and the quality and growth of our assets are necessarily dependent on the health of the overall Indian economy. A slowdown in the Indian economy could materially and adversely affect our business. India's economy could be materially and adversely affected by a general rise in interest rates, weather conditions materially and adversely affecting agriculture, commodity and energy prices or various other factors. In addition, the Indian economy is in a state of transition. The share of the services sector of the economy is rising while that of the industrial, manufacturing and agricultural sectors is declining. It is difficult to gauge the impact of these fundamental economic changes on our business. Any slowdown in the Indian economy or future volatility in global commodity prices could materially and adversely affect our business, financial condition and results of operations.

Notes to risk factors:

1. Net worth of the Bank as restated on September 30, 2007 was Rs. 14386 lakhs. The net asset value per share as on September 30, 2007 was Rs. 44.88.
2. Issue of 3,20,57,800 fully paid Equity Shares of Rs. 10 each at a premium of Rs. 52 per Equity Share aggregating upto Rs. 198.76 crores to the Equity Shareholders of our Bank on a rights basis in the ratio of one Equity Shares for every One Equity Shares held on the Record Date i.e. January 30, 2008.
3. Before making an investment decision in respect of this Issue, you are advised to refer to the section titled "Basis for Issue Price" beginning on page 16 of this Letter of Offer.
4. Please also refer to the sub section titled "Basis of Allotment" beginning on page 209 of this Letter of Offer for details on allotment procedure and entitlement of shares.
5. Trading in Equity Shares of our Bank for all investors shall only be in dematerialised form.
6. We had entered into certain related party transactions disclosed in the section titled "Financial Statements" beginning on page 88 of this Letter of Offer.
7. For interest of our directors and KMP, please refer to the section titled "Our Management" beginning on page 72 of this Letter of Offer.
8. We and the Lead Manager are obliged to keep this Letter of Offer updated and inform the public of any material change/development till the listing and trading commencement of Equity Shares proposed to be issued through this Letter of Offer.

9. You may contact our Compliance Officer or the Lead Manager for any complaints pertaining to the Issue including any clarification or information relating to the Issue. The Lead Manager is obliged to provide the same to you.

INTRODUCTION

SUMMARY

We were incorporated by a group of residents of Thrissur in 1927 as a limited company under the Indian Companies Act, 1913 with an authorized capital of Rs. 20,000. Over the period with growth in size, we expanded to various parts of the country. In 1977, we became a scheduled commercial bank. We expanded our network beyond Kerala by opening branches in the States of Tamil Nadu, Andhra Pradesh, Karnataka, Maharashtra, Gujarat, Delhi and West Bengal.

As December 31, 2007, we had 181 branches (including 2 satellite branches and 5 service branches), 26 Extension Counters and 6 Administrative Offices spread over 8 States. Our total employee strength as on December 31, 2007 was 1419.

As at March 31, 2007, we had an asset base of Rs. 342727 lakhs and net worth of Rs. 12671 lakhs. Our deposits and net advances have recorded a growth of 68.02% and 70.25% respectively during the period from March 31, 2003 to March 31, 2007. As at September 30, 2007, we had an asset base of Rs. 361334 lakhs and net worth of Rs. 14386 lakhs.

We provide a range of retail banking and commercial banking products to our customers. Our retail banking product portfolio includes housing loans, gold loans, auto loans, educational loans and other personal loans. We offer deposit services like savings, demand and time deposit to our customers. On commercial banking, our product offering among others includes agricultural loans, industrial advances trade advances, and import / export facilities.

With a view to making available value-added services to the NRIs, we have also established in eight of our branches, NRI Boutiques (Exclusive Relationship Centres to cater to NRIs) in Kerala and one in Chennai. We also offer a wide range of general banking services to our customers, including debit cards and cash management services. Our Cash Management System (CMS) provides speedier cheque collection through 60 branches. We distribute life insurance products of M/s. MetLife India Insurance Company Private Limited and non-life insurance products of M/s. IFFCO TOKIO as their corporate agent. We are an active depository participant of NSDL (National Security Depository Limited) offering Demat services through our selected branches. As at December 31, 2007, we had 890 active depository accounts.

As at December 31, 2007, we have deployed Centralised Banking Solutions (CBS) on the Flexcube Platform for extending Anywhere/Anytime banking at 154 branches covering 96% of the total business.

As at December 31, 2007, we have extended tele-banking facility in 72 branches and Internet banking facility in 109 branches. We propose to cover all our branches with these facilities in a phased manner.

SELECTED FINANCIAL INFORMATION

Following selected financial data have been prepared in accordance with Indian Accounting Standards, in conjunction with our financial statements and related notes and "Management's Discussions and Analysis". The audited financial statements have been prepared in Indian rupees and have been prepared in accordance with Indian Accounting Standards for the financial year ended on 31st March 2003, 31st March 2004, 31st March 2005, 31st March 2006, 31st March 2007 and half year ended September 30, 2007.

(Rs. In Lakhs)

	31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
A ASSETS						
Cash in Hand	3507	4461	4914	4893	4390	5600
Balances with RBI	9295	9887	15490	12708	20682	22851
Balances with banks	9714	11619	13610	13276	35434	25825
Money at call & short notice	0	1000	0	0	0	2500
Investments	67506	89486	70800	77897	86519	102676
Advances	108049	113859	141015	159434	183950	188666
Fixed Assets	2358	2615	3170	3602	3242	3050
Other Assets	9758	11131	15043	11325	8863	10519
Less: Deferred Tax Asset	498	588	1500	1010	353	353
Net Other Assets	9260	10543	13543	10315	8510	10166
Total (A)	209689	243470	262542	282125	342727	361334
B LIABILITIES						
Deposits	183789	215577	233884	253268	308796	324730
Borrowings	3791	392	583	19	499	0
Other Liabilities & Provisions	11008	15104	18569	18146	20761	22218
Total (B)	198588	231073	253036	271433	330056	346948
NET ASSETS (A) - (B)	11101	12397	9506	10692	12671	14386
D Equity Share Capital	3206	3206	3206	3206	3206	3206
E Reserves and Surplus	8832	10201	8206	10234	11532	13247
Less: Revaluation Reserve	439	422	406	1738	1714	1714
Less: Deferred Tax Asset	498	588	1500	1010	353	353
Total Reserves and Surplus	7895	9191	6300	7486	9465	11180
NET WORTH (D+E)	11101	12397	9506	10692	12671	14386
Contingent Liabilities	41245	50626	23683	44887	37998	37301
Bills for collection	6199	8017	9787	7557	6656	7645

		YEAR ENDED						<i>(Rs. In Lakhs)</i>
		31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007	
A	INCOME							
A-1	Interest Earned	18922	19107	19216	20989	24653	15590	
A-2	Other Income	7016	5818	1068	2191	2963	1483	
	Total Income	25938	24925	20284	23180	27616	17073	
B	EXPENDITURE							
B-1	Interest Expended	13596	12169	11906	12689	14977	10096	
B-2	Operating Expenses	5990	6061	6936	8181	8775	4473	
	Total expenditure	19586	18230	18842	20870	23752	14569	
C	OPERATING PROFIT	6352	6695	1442	2310	3864	2504	
D	Provisions & Contingencies	3870	3672	3598	1323	1816	504	
E	Net Profit/(loss) before Tax	2482	3023	-2156	987	2048	2000	
	Provision for Income tax	980	1275	4	35	434	650	
F	Net Profit/(loss) after Tax	1502	1748	-2160	952	1614	1350	

GENERAL INFORMATION

Dear Shareholder(s),

Pursuant to the resolution passed by our Board and capital augmentation committee at its meetings held on April 16, 2007, September 24, 2007 and January 14, 2008, under Section 81, the Bank has been authorized to make the following Rights Issue to the equity shareholders of the Bank:

Issue of 3,20,57,800 Equity Shares of Rs.10 each for cash at a premium of Rs. 52/- per Equity Share aggregating to Rs. 198.76 crores on rights basis to the existing Equity Shareholders of the Bank, in the ratio of One Equity Share for Every One Equity Share (i.e. 1:1) held as on the record date i.e. January 30, 2008.

REGISTERED OFFICE

Dhanalakshmi Buildings,

P.B. No. 9

Naickanal, Thrissur - 680001

Registration Number 09 – 307

Company Identification Number: L65191KL 1927PLC000307

ADDRESS OF THE REGISTRAR OF COMPANIES

The Registrar of Companies, Kochi

Company Law Bhavan,

BMC P O, Thrikkakara,

Kochi – 682 021

BOARD OF DIRECTORS

Name	Designation	Director Identification Number
Mr. A D Navaneethan	Part time Chairman	00220765
Mr. P.S.Prasad	Managing Director and Chief Executive Officer	00206204
Mr. Suresh Balasubramaniam	Independent director	00424602
Ms. Nandini Rangaswamy	Independent director	00002223
Mr. D Lakshminarayanan	Independent director	00424278
Mr. Vidyadhara Rao Chalasani	Independent director	00472205
Mr. V Jagannathan	Independent director	01196055
Mr. Ghyanendra Nath Bajpai	Independent director	00946138
Mr. Kadapala Srikanth Reddy	Independent director	01433626

Company Secretary and Compliance Officer

Mr.Ravindran K. Warriar

The Dhanalakshmi Bank Limited,

Dhanalakshmi Buildings, Naickanal, Thrissur- 680001

Tel : 0487- 2335131, 2335177, 2334612(D)

Fax: 0487-2335367

Email:investor@dhanbank.co.in

Website: www.dhanbank.com

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

Auditors of the Bank

M/s. P.B. Vijayaraghavan and Co.

Address: 14, (Old No. 27), Cathedral Garden Road,

Nungambakkam,

Chennai 600 034.

Tel No: 044 - 28263918

Fax: 044 - 28276519

Email: pbv@vsnl.com
Contact Person: Mr.P.B. Santhanakrishnan

ISSUE MANAGEMENT TEAM

Lead Manager to the Issue

Enam Securities Private Limited
801/802, Dalamal Towers
Nariman Point, Mumbai 400 021
Tel: +91 22 6638 1800
Fax: +91 22 2284 6824
Email: dlb.rights@enam.com
Website: www.enam.com
Contact Person: Mr. Hitesh Mandot

Registrar to the Issue

Karvy Computershare Private Limited
Plot No. 17 - 24 , Vittal Rao Nagar, Madhapur
Hyderabad 500 081
Tel: +91-40-2342 0815 - 24320824
Fax: +91-40-2342 0814
Email: dlb.rights@karvy.com
Contact Person: Mr. M. Murli Krishna
Website: www.karvy.com

Legal Advisor to the Issue

ALMT Legal,
Advocates and Solicitors
#2 Lavelle Road, Bangalore - 560001
Tel : 080-40160000
Fax : 080- 40160001
E mail : bangalore@almtlegal.com
Contact Person: Mr. S R Arun

Bankers to the Issue

The Dhanalakshmi Bank Limited,
Dhanalakshmi Buildings, Naickanal, Thrissur- 680001
Tel.: 0487- 2335131, 2335177
Fax: 0487-2335367
Contact Person: Mr. N. Raghu Mohan
Email: raghumohann@dhanbank.co.in
Website: www.dhanbank.com
SEBI Registration No. INB100000025

HDFC Bank Limited

26A, Narayanan Properties,
Chandivali Farm Road,
Saki Naka, Andheri (E),
Mumbai - 400 072.
Tel: +91 22 2856 9009
Fax: +91 22 2856 9256
Contact Person: Mr. Deepak Rane
Email: deepak.rane@hdfcbank.com
SEBI Registration Number: INB100000063

Credit Rating

This being an issue of Equity Shares, no credit rating is required.

Statement of Responsibilities

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

- (a) Capital structuring with the relative components and formalities such as composition of equity.
- (b) Drafting and Design of the offer document and of advertisement / publicity material including newspaper advertisements and brochure / memorandum containing salient features of the offer document.
- (c) Ensuring compliance with the Guidelines for Disclosure and Investor Protection and other stipulated requirements and completion of prescribed formalities with Stock Exchanges and SEBI.
- (d) Selection of various agencies connected with issue, namely Registrar to Issue, bankers to issue, printers and advertising agencies.
- (e) Follow-up with bankers to the issue to get quick estimates of collection and advising the Bank about closure of the issue, based on the correct figures.
- (f) Post-issue activities will involve essential follow-up steps, including finalisation of basis of allotment / weeding out of multiple applications, listing of instruments and despatch of certificates and refunds, with the various agencies connected with the work such as Registrar to the issue, bankers to the issue, and the bank handling refund business.

UNDERWRITING

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

CAPITAL STRUCTURE

	Aggregate nominal value (in Rs. Lakhs)	Aggregate Value at Issue Price (in Rs. Lakhs)
Authorized share capital		
10,00,00,000 Equity Shares of Rs. 10 each	10,000.00	
Issued capital		
3,53,16,700 Equity Shares of Rs. 10 each	3,531.67	
Subscribed And Paid up Capital		
3,20,57,800 Equity Shares of Rs. 10 each	3,205.78	
Present Issue being offered to the Equity Shareholders through the Letter of Offer		
3,20,57,800 Equity Shares of Rs. 10 each at a premium of Rs. 52, i.e. at a price of Rs. 62 per share	3,205.78	19,875.83
Paid up capital after the Issue		
6,41,15,600 Equity Shares of Rs. 10 each	6411.56	
Share premium Account		
Before the Issue	3,832.62	
After the Issue	20502.67	

Changes in Authorised Share Capital

Changes in our authorized share capital since July 26, 1993 are as under:

Sr. No.	Date	No. of Equity Shares	Face Value (Rs.)	Authorised Share Capital (Rs.)
1.	Upto 25.07.1993	40,00,000	50	20,00,00,000
2.	26.07.1993	2,00,00,000	10*	20,00,00,000
3.	28.07.2000	5,00,00,000	10	50,00,00,000
4.	23.09.2005	10,00,00,000	10	100,00,00,000

* The shareholders of the Bank, at the Annual General Meeting held on July 26, 1993, approved the subdivision of the then existing authorized share capital of the Bank comprising of 40,00,000 equity shares having a face value of Rs. 50/- each into 2,00,00,000 equity shares of Rs. 10/- each.

NOTES TO CAPITAL STRUCTURE

1. Share Capital history

Our existing share capital has been subscribed and allotted as under:

Date of Allotment/ Fully paid-up	No of Equity Shares	Face Value (Rs.)	Issue Price (Rs.)	Consideration	Remarks	Cumulative paid-up Capital (Rs. In Lakhs)
Upto 21.10.93	27,37,910	10	-		Cumulative paid up capital build up since incorporation	273.79
22.10.93	61,125	10	10	Cash	Private Placement	279.90
12.03.94	22,23,595	10	12	Cash	Rights Issue	502.26
26.03.94	3,65,700	10	14	Cash	Private Placement	538.83
28.05.94	1,07,300	10	14	Cash	Private Placement	549.56

28.05.94	1,250	10	12	Cash	Allotment as part of the Rights Issue of 1994	549.69
05.11.94	4,275	10	12	Cash	Allotment as part of the Rights Issue of 1994	550.12
07.01.95	2,000	10	14	Cash	Private Placement	550.32
07.01.95	250	10	12	Cash	Allotment as part of the Rights Issue of 1994	550.34
30.03.95	25,33,170	10	35	Cash	Rights Issue	803.66
28.04.95	10,720	10	35	Cash	Allotment as part of the Rights Issue of 1995	804.73
28.04.95	200	10	12	Cash	Rights (as part of the Rights Issue of January 94)	804.75
24.06.95	8,570	10	35	Cash	Allotment as part of the Rights Issue of 1995	805.61
21.08.95	400	10	35	Cash	Allotment as part of the Rights Issue of 1995	805.65
11.09.95	70,000	10	10	Cash	Private Placement	812.65
27.09.95	3,39,450	10	50	Cash	Private Placement	846.59
25.10.95	1,62,100	10	35	Cash	Private placement	862.80
25.10.95	69,150	10	50	Cash	Private placement	869.72
25.11.95	6,450	10	35	Cash	Private placement	870.36
25.11.95	100	10	12	Cash	Allotment as part of the Rights Issue of 1994	870.37
15.02.96	6,200	10	50	Cash	Private placement	870.99
15.02.96	5,200	10	35	Cash	Allotment as part of the Rights Issue of 1995	871.51
30.03.96	28,230	10	35	Cash	Allotment as part of the Rights Issue of 1995	874.33
04.06.96 and 18.06.96	8235500*	10	50	Cash	Allotment of shares pursuant to the Initial Public Offer	1,466.26
24.08.2000	(3,237,745)**	10	-	-	Capital Reduction	1,373.75
14.09.2002	18316700	10	15	Cash	Rights Issue in the ratio 4:3	3,205.42
14.09.2002	3,600	10	15	Cash	Re-Issue of forfeited shares	3,205.78
Total	32057800					3205.78

* As part of the Bank's Initial Public Offer, the Bank offered shares to resident Indians on a partly paid basis and to non resident Indians on a fully paid basis. The monies received by the Bank against the face value of the shares issued as part of the IPO (till March 31, 2000) is as under:

	No. of Shares	Amount
Fully Paid (Rs 10/-)	3497000	34970000

	No. of Shares	Amount
Partly Paid (Rs.7.50/-)	219100	1643250
Partly Paid (Rs.5/-)	4515800	22579000
Partly Paid (Rs.5/-) shares forfeited	3600 [#]	18000
Total		59210250

[#]3,600 shares being partly paid at Rs.5 each issued pursuant to the IPO were forfeited on March 20, 1998

** The shareholders of the Bank at the Annual General Meeting of the Bank held on August 9, 1999 approved the reduction of the subscribed and paid up capital of the Bank by cancelling the called up and unpaid capital. Accordingly, 4,734,900 equity shares of Rs.10/- each partly paid up were converted into 14,97,155 equity shares of Rs.10/- each fully paid-up. Consequently, the subscribed and paid up capital of the Bank stood reduced to 1,373.75 lakhs. The reduction of capital was in accordance with the order of the High Court of Kerala dated July 31, 2000. The said order was duly registered by the RoC on August 24, 2000.

2. The present Issue being a rights Issue, as per extant SEBI guidelines, the requirement of promoters' contribution and lock-in are not applicable.

3. Shareholding pattern before and after the Issue

The Shareholding pattern before and after the Issue is as under :

	Category of shareholder	Pre – Issue		Post – Issue	
		Total number of shares held Pre Issue (as on Jan 25, 2008)	% of Pre Issue Holding	Total number of shares held Post Issue	% of Post Issue Holding*
(A)	Shareholding of Promoter and Promoter Group				
-1	Indian				
(a)	Individuals/Hindu Undivided Family	0	0.00	0	0.00
(b)	Central Government/ State Government(s)	0	0.00	0	0.00
(c)	Bodies Corporate	0	0.00	0	0.00
(d)	Financial Institutions/ Banks	0	0.00	0	0.00
(e)	Any Other	0	0.00	0	0.00
	Sub-Total (A)(1)	0	0.00	0	0.00
-2	Foreign				
(a)	Individuals (Non-Resident individuals/Foreign Individuals)	0	0.00	0	0.00
(b)	Bodies Corporate	0	0.00	0	0.00
(c)	Institutions	0	0.00	0	0.00
(d)	Any Other (specify)	0	0.00	0	0.00
	Sub-Total (A)(2)	0	0.00	0	0.00
	Total Shareholding of Promoter and Promoter Group	0	0.00	0	0.00
(B)	Public shareholding				
-1	Institutions				
(a)	Mutual Funds/UTI	700	0.00	1400	0.00
(b)	Financial Institutions/ Banks	960459	3.00	1920918	3.00

	Category of shareholder	Pre – Issue		Post – Issue	
		Total number of shares held Pre Issue (as on Jan 25, 2008)	% of Pre Issue Holding	Total number of shares held Post Issue	% of Post Issue Holding*
(c)	Central Government/ State Government(s)	0	0.00	0	0.00
(d)	Venture Capital Funds	0	0.00	0	0.00
(e)	Insurance Companies	0	0.00	0	0.00
(f)	Foreign Institutional Investors	7452537	23.25	14905074	23.25
(g)	Foreign Venture Capital Investors	0	0.00	0	0.00
(h)	Any Other	0	0.00	0	0.00
	Sub-Total (B)(1)	8413696	26.25	16827392	26.25
-2	Non-institutions				
(a)	Bodies Corporate	4298227	13.41	8596454	13.41
(b)	Individuals				
	I. Individual shareholders holding nominal share capital up to Rs. 1 lakh.	10696817	33.37	21393634	33.37
	II. Individual shareholders holding nominal share capital in excess of Rs. 1 lakh.	7340818	22.90	14681636	22.90
(c)	Any Other				
	i) Clearing Members	82394	0.26	164788	0.26
	ii) Non Resident Indians	1225668	3.82	2451336	3.82
	iii) Trusts	180	0.00	360	0.00
	Sub-Total (B)(2)	23644104	73.75	47288208	73.75
	Total Public Shareholding (B) = (B)(1) + (B)(2)	32057800	100.00	64115600	100.00
	TOTAL (A)+(B)	32057800	100.00	64115600	100.00
	Shares held by Custodians and against which Depository Receipts have been issued - GDRs	0	0.00	0	0.00
	GRAND TOTAL (A)+(B)+(C)	32057800	100.00	64115600	100.00

* Assuming all shareholders apply for and are allotted Equity Shares.

RELEVANT RBI PROVISIONS

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

- 1) In terms of RBI Circular DBOD.No.PSBS.BC.79/16.13.100 /2001-2002 dated March 20, 2002, listed as well as unlisted private sector banks are not required to obtain approval of RBI for Rights Issue.
- 2) While reviewing the following issues have emerged with reference to percentage of holding at the time of rights issue:-
 - a) When some shareholders (individuals/ entities / groups) pick up unsubscribed shares which would result in his / its holding going up as a percentage of total paid up capital of the bank.
 - b) When Some shareholders not picking up their entitlements, holdings of the other shareholders would go up in percentage even if they pick up their own entitlements.

The above matter has been examined from the point of view of applicability of RBI Circular DBOD. NO.PSBS. BC. 64/ 16.13.100/ 2003-04 dated February 3, 2004 on acknowledgement of transfer/ allotment of shares in

private sector banks and DBOD. NO. BP.BC.71/ 21.01.01/ 2004-05 dated February 28, 2005 on ownership and governance and also the regulatory limits such as the cap for the aggregate FDI/FII/NRI holdings and the 5% limit for a bank's investment in equity of another bank.

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

- i. Subscription to rights other than own entitlement will not be permitted if such subscription would result in breach of any statutory / regulatory ceilings
 - ii. any acquisition of shares that will take the shareholding of any entity/ group of entities to 5% or more of the paid up capital of the bank would require acknowledgement of RBI in terms of the criteria laid down in the RBI guidelines contained in the Circular DBOD. NO.PSBS. BC. 64/ 16.13.100/ 2003-04 dated February 3, 2004. Further, in terms of the guidelines on ownership and governance issued on February 28, 2005 any acquisition that will take the shareholding of any entity/ group, directly or indirectly, to 10% or more of the paid-up capital of the bank will require the prior approval of RBI
 - iii. If the holding of any shareholder breaches any statutory / regulatory ceilings as a result of non-subscription of rights by other shareholders, the shareholder concerned will not be able to acquire any further shares till his/ its shareholding is brought within the stipulated ceilings.
4. The Directors of our Bank, directly or indirectly, have not purchased and/or sold/financed any shares of our Bank during the last 6 months except for the following equity shares:

Date of Transaction	Shareholder	Nature of Transaction	Number of shares
August 3, 2007	D. Lakshminarayan	Purchase	6,203
October 26, 2007	D. Lakshminarayan	Purchase	100
November 30, 2007	Ghyanendra Nath Bajpai	Purchase	890

5. Top ten shareholders

Our top ten shareholders as on January 25, 2008 are as follows:

Sr. No.	Name of the Shareholders	Number of Equity Shares	Percentage of shareholding (%)
1.	Dr. P. Raja Mohan Rao	3104033	9.68%
2.	Lotus Global Investments Ltd	1546372	4.82%
3.	Somerset Emerging Opportunities Fund	1514500	4.72%
4.	Mavi Investment Fund Limited	1500000	4.68%
5.	Rhodes Diversified	1395631	4.35%
6.	Elara India Opportunities Fund Limited	1314610	4.10%
7.	Canara Bank – Mumbai	786273	2.45%
8.	Shital Raghu Kataria	608748	1.90%
9.	SPS Share Brokers Pvt. Ltd	575000	1.79%
10.	Quantum Securities Pvt Limited	450000	1.40%
	Total	12795167	39.89%

Our top ten shareholders as on January 18, 2008 are as follows :

Sr. No.	Name of the Shareholders	Number of Equity Shares	Percentage of shareholding (%)
1.	Dr. P. Raja Mohan Rao	3104033	9.68%
2.	Lotus Global Investments Ltd	1546372	4.82%
3.	Somerset Emerging Opportunities Fund	1514500	4.72%
4.	Mavi Investment Fund Limited	1500000	4.68%
5.	Rhodes Diversified	1395631	4.35%
6.	Elara India Opportunities Fund Limited	1314610	4.10%
7.	Canara Bank – Mumbai	786273	2.45%
8.	SPS Share Brokers Pvt. Ltd	475774	1.48%
9.	Quantum Securities Pvt Limited	450000	1.40%
10.	Shital Raghu Kataria	436750	1.36%
	Total	12523943	39.04%

Our top ten shareholders two years prior to the date of filing this Letter of Offer are as follows:

Sr. No.	Name of the Shareholder	Number of Equity Shares	Percentage of shareholding (%)
1.	Dr. P. Raja Mohan Rao	11763572	36.69%
2.	Patton International Limited	1491964	4.66%
3.	Swarnapushp Finlease Pvt Ltd	218605	0.68%
4.	CLSA Merchant Bankers Ltd [A/c CLSA (Mauritius) Ltd]	217378	0.68%
5.	Nagesh Rama Nayak	200000	0.62%
6.	Amila Credit Capital Pvt Ltd	196250	0.61%
7.	VMA Infomerics Pvt. Ltd.	191814	0.60%
8.	C. Sulochana	165994	0.52%
9.	C. Bojjeshwara Rao	141712	0.44%
10.	Amadevs Finance & Investments P Ltd	137740	0.43%
	TOTAL	14725029	45.93%

6. The total number of members of our Bank as on January 25, 2008 are 32,919.
7. Our Bank has not availed any bridge loans to be repaid from the proceeds of the Issue.
8. Our Bank / Directors / Lead Manager to the Issue have not entered into any buy-back and/or standby arrangements for purchase of Equity Shares of the Bank with any person.
9. The terms of issue to non-resident Equity Shareholders/applicants have been presented under the section “Terms of the Issue” beginning on page 199 of this Letter of Offer.
10. At any given time, there shall be only one denomination of the Equity Shares of the Bank.
11. We have not issued any Equity Shares out of revaluation reserves or for consideration other than cash.
12. There are no outstanding warrants, options or rights to convert debentures, loans or other instruments into Equity Shares as on the date of filing of this Letter of Offer.
13. No further issue of capital by way of issue of bonus shares, preferential allotment, rights issue or public issue or in any other manner which will affect the equity capital of the Bank, shall be made during the period commencing from the filing of the Letter of Offer with the SEBI to the date on which the Equity Shares issued under the Letter of Offer are listed or application moneys are refunded on account of the failure of the Issue. Further, at present the Bank has no intention to alter the equity capital structure by way of split/consolidation of the denomination of the shares on a preferential basis or issue of bonus or rights or public issue of shares or any other securities for a period of six months from the date of opening of the Issue.

14. The attention of the investors is drawn to section 12 (2) of the Banking Regulation Act 1949, as amended which states that: “No person holding shares in the banking company shall in respect of any shares held by him, exercise voting rights on poll in excess of 10% of the total voting rights of all the shareholders of the banking company.” Furthermore, in terms of RBI Circular DBOD.No.BC.79/ 16.13.100 /2001-2005 dated March 20, 2002, listed as well as unlisted private sector banks are not required to obtain approval of RBI for Rights Issue.
15. Further Article 14A of our Articles of Association states that the transfer of shares which results in acquisition of shares by a person/group which would take his/its holding to a level of 5% or more of the total issued capital of the Bank (or such other percentage as may be prescribed by the Reserve Bank of India from time to time) shall be with the prior approval of Reserve Bank of India
16. The Issue will remain open for 30 days. However, the Board will have the right to extend the Issue period as it may determine from time to time but not exceeding 60 days from the Issue Opening Date.

OBJECTS OF THE ISSUE

We are a banking company regulated by the RBI. The RBI guidelines require us to maintain a minimum Capital Adequacy Ratio of 9%, at least half of which must be Tier-I capital. For further details, please see “Regulations and Policies – Reserve Bank of India Regulations – Capital Adequacy Requirements” on page 55 of this Letter of Offer. As per our restated standalone financial statements, as of September 30, 2007, our total capital adequacy ratio was 9.43% including Tier-I capital adequacy ratio of 6.66% and Tier-II capital adequacy ratio of 2.77%. As per the Annual Report for financial year 2006-07 released by RBI on August 30, 2007; in order to further strengthen the domestic banking sector and to enable the banking sector to conform to international best practices, commercial banks which have presence overseas will migrate to Basel II norms in a phased manner from the year ending March 2008 and all other commercial banks are encouraged to migrate not later than March 31, 2009. The requirements for Tier I capital and total capital adequacy ratios are expected to increase with the proposed implementation of the Basel II standards.

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

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

Requirement and Sources of Funds

Particulars	Amount (Rs. in Lacs)
Augment our capital base to meet our capital adequacy requirements arising out of growth in our business	19875.84
Estimated Issue expenses	402.42
Net Issue Proceeds	19473.42

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

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

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

Estimated Issue Expenses

The total expenses of the Issue are estimated to be approximately Rs. 402.42 lakhs. The Issue related expenses include, among others, Issue management fees, Registrar fees, printing and distribution expenses, fees of the legal counsels, advertisement, listing fees to the Stock exchanges etc. The break-up of total issue expenses is as under –

Category	Estimated expenses (Rs. in Lacs)*	% of the Issue Expenses	% of total Issue Size
Fees to the Lead Manager	224.72	55.84%	1.13%
Fees to the Registrar to the Issue, Legal advisors and auditors	30.70	7.63%	0.15%
Advertising and Publicity Expenses	100	24.85%	0.50%
Printing, Postage, Stationery Expenses	20	4.97%	0.10%
Contingency, Stamp duty, Listing Fees	27	6.71%	0.14%
Total	402.42	100	2.02%

Monitoring of Utilisation of Funds

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

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

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

BASIS FOR ISSUE PRICE

The Issue Price of Rs. 62 has been determined by our Bank in consultation with the Lead Manager. The face value of the equity shares is Rs 10 and the Issue price is 6.2 times of the face value. Investors should also refer to the section “Risk Factors” and “Auditors’ Report” to get a more informed view before making the investment decision.

QUANTITATIVE FACTORS

Adjusted Earnings per Share (EPS)

Year ended	Rupees	Weight
Fiscal 2005	(6.74)	1
Fiscal 2006	2.97	2
Fiscal 2007	5.03	3
Weighted Average	2.38	

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

Price/Earning (P/E) ratio in relation to Rights Issue Price of Rs. 62

1. Based on adjusted EPS for Fiscal 2007 being Rs. 5.03.
2. Weighted average EPS being Rs. 2.38
3. Industry (Private sector banks) P/E –

Highest	232.2
Lowest	13.6
Industry Composite	44.8

Source: *Capital Market, Vol. XXII/23 Jan 14 – Jan 27, 2008*

Return on Net Worth

Year ended	RONW (%)	Weight
Fiscal 2005	(19.62)	1
Fiscal 2006	8.89	2
Fiscal 2007	12.39	3
Weighted Average	5.89	

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

Minimum Return on Increased Net Worth after the Issue required to maintain pre-issue EPS is 9.41%

Net Asset Value per Equity Share

As at September 30, 2007	Rs. 45.98
After the Issue	Rs. 53.99
Issue Price per share	Rs. 62

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

Comparison with Industry Peers

FY 2007	EPS (Rs.) #	NAV (Rs.)	P/E as on - 17.09.07*	RONW (%)
Federal Bank	16.7	212.4	17.0	21.4
Karur Vysya Bank	27.9	197.9	16.5	16.5
South Indian Bank	11.2	116.1	16.5	15.3
The Lakshmi Vilas Bank	3.4	81.0	43.2	5.1
The Dhanalakshmi Bank Limited	5.03	45.98	19.6	11.5

Year ended March 2007

*P/E for peer group companies is based on trailing twelve month's earnings ending September 2007.

Source: Capital Market, Vol. XXII/23 Jan 14 – Jan 27, 2008

The Issue price is 6.2 times of the face value of the Equity Shares.

On the basis of the above qualitative and quantitative parameters, the Lead Manager and the Bank are of the opinion that Issue price of Rs. 62 is justified.

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. 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 utilize the benefits. It may also be 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 a substitute for professional tax advice.

SPECIAL TAX BENEFITS

D) INCOME TAX

a) To the Bank

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

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

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

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

(iii) Further, with effect from April 1, 2004, the Bank, at its option, can claim further deduction in excess of the limits specified in the foregoing provisions for an amount not exceeding the income derived from redemption of securities in accordance with a scheme framed by the Central Government provided that such income is disclosed in the return of income of the Bank under the head "Profits & Gains of Business or Profession"

3. As per the provisions of section 72AA of the Act, where there has been an amalgamation of a banking company with the Bank under a scheme sanctioned and brought into force by the Central Government under sub-section (7) of section 45 of the Banking Regulation Act, 1949, 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 the Bank for the previous year in which the scheme of amalgamation was brought into force and other provisions of the Act relating to set-off and carry forward of loss and allowance for depreciation shall apply accordingly.

4. As per the provisions of Section 80LA of the Act as amended by SEZ Act, 2005 with effect from 10.02.2006, where the bank's gross total income, in any previous year, includes income from an Offshore Banking Unit (OBU) in a special economic zone or income from banking business (as defined in Banking Regulation Act, 1949 with an undertaking located in a special economic zone, or any other undertaking which develops, or develops and operates, or operates and maintains a special economic zone, shall, subject to the fulfillment of the conditions specified in Section 80LA of the Act, be entitled to 100% deduction of such income for five consecutive assessment years, beginning with the assessment year relevant to the previous year in which the RBI's permission to open the offshore unit shall have been obtained, and after those three years, 50% deduction of such income for the next five consecutive assessment years.

GENERAL TAX BENEFITS

a) To the resident shareholders of the Bank

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

2. Section 94(7) of the Act provides that losses arising from the sale/transfer of shares purchased up to three months prior to the record date and sold within three months after such date, will be disallowed to the extent dividend on such shares are claimed as tax exempt by the shareholder.

3. As per Section 54EC of the Act, subject to the conditions specified therein, capital gains arising from the transfer of a long-term capital asset (including Equity Shares of the Bank) is exempt from tax, provided that the shareholder has, at any time within a period of six months after the date of the transfer, invested the whole of the capital gains in any specified long-term asset for the purposes of Section 54EC. If only a portion of capital gains is so invested, then the exemption is available proportionately.

4. As per the provisions of Section 54F of the Act, subject to the conditions specified therein, long-term capital gains accruing to a shareholder, not owning more than one house, being an individual or a Hindu undivided family, on transfer of shares of the Bank, shall be exempt from tax, provided the net consideration is utilised in the purchase of a residential house within a period of one year before or two years after the date of transfer of such shares, or in the construction of a residential house within a period of three years from the date of transfer of such shares of the Bank. If only a portion of the net consideration is so invested, then the exemption is available proportionately. The exemption is subject to other conditions specified in Section 54F of the Act.

5. Long-term capital gains would accrue to resident shareholders, where the Equity Shares are held for a period of more than 12 months prior to the date of their transfer. In accordance with and subject to the provisions of Section 48 of the Act, in order to arrive at the quantum of capital gains, the following amounts would be deductible from the full value of the consideration:

(i) Cost of acquisition/improvement of the shares, as adjusted by the Cost Inflation Index notified by the Central Government; and

(ii) Expenditure incurred wholly and exclusively in connection with the transfer of the shares.

6. Capital gains arising on transfer of long-term capital assets, being equity shares in a company, on sale of which securities transaction tax is paid, are exempt under Section 10(38) of the Act, whereas short-term capital gains are subject to tax under Section 111A of the Act at the rate of 10% (plus applicable surcharge and education cess). However, shareholders being companies are required to pay minimum alternate tax of 10% (plus applicable surcharge and education cess) of book profit under Section 115JB on such long term capital gains if 10% of their book profit computed as per provisions of Section 115JB is higher than the total income as per normal provisions of the Act. If the shares on which securities transaction tax has been paid are treated as stock-in-trade, liable to tax as business profits at the maximum marginal rate, rebate can be claimed in accordance with provisions of Section 88E of the Act towards such securities transaction tax.

7. The benefit of exemption from tax under Section 10(38) of the Act, on long-term capital gains or, concessional rate of tax under Section 111A of the Act, on short-term capital gains, will not be available, where no securities transactions tax is applicable. In such cases, under the provisions of Section 112 of the Act, taxable long-term capital gains, if any, on sale of listed securities would be charged to tax at the concessional rate of 20% (plus applicable surcharge and education cess) after considering indexation benefits or at 10% (plus applicable surcharge and education cess) without indexation benefits, in accordance with and subject to the provision of Section 48 of the Act. In respect of capital gains not chargeable under section 111A, the short-term capital gains in respect of shares held for a period less than 12 months, is added to the total income. Total income, including short-term capital gains, is chargeable to tax as per the relevant rate applicable to the assessee, plus applicable surcharge and education cess.

b) To the Non-resident Shareholders, including NRIs, OCBs and FIIs.

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

2. Section 94(7) of the Act provides that losses arising from the sale/transfer of shares purchased up to three months prior to the record date and sold within three months after such date, will be disallowed to the extent dividend on such shares are claimed as tax exempt by the shareholder.

3. As per Section 54EC of the Act, subject to the conditions specified therein, tax on capital gains arising from the transfer of a long-term capital asset (including Equity Shares of the Bank) is exempt from tax, provided that the shareholder has, at any time within a period of six months after the date of the transfer, invested the whole of the capital gains in any specified long-term asset for the purposes of Section 54EC. If only a portion of capital gains is so invested, then the exemption is available proportionately.

4. As per the provisions of Section 54F of the Act, subject to the conditions specified therein, long-term capital gains accruing to a shareholder, not owning more than one house, being an individual or a Hindu undivided family, on transfer of shares of the Bank, shall be exempt from tax, provided the net consideration is utilised in the purchase of a residential house within a period of one year before or two years after the date of transfer of such shares, or in the construction of a residential house within a period of three years from the date of transfer of such shares of the Bank. If only a portion of the net consideration is so invested, then the exemption is available proportionately. The exemption is subject to other conditions specified in Section 54F of the Act.

5. Long-term capital gains would accrue to non-resident shareholders, where the equity shares are held for a period of more than 12 months prior to the date of their transfer. In accordance with and subject to the provisions of Section 48 of the Act, in order to arrive at the quantum of capital gains, the following amounts would be deductible from the full value of consideration:

(i) Cost of acquisition/improvement of the shares as adjusted by the Cost Inflation Index notified by the Central Government and

(ii) Expenditure incurred wholly and exclusively in connection with the transfer of the shares. As per the provisions of the first proviso to Section 48 of the Act, capital gains arising from the transfer of equity shares acquired by non-residents in foreign currency are to be computed by converting the cost of acquisition/improvement, expenditure incurred wholly and exclusively in connection with such transfer and the full value of the consideration received or accruing into the same foreign currency, as was initially utilised in the purchase of equity shares, and the capital gains so computed in such foreign currency shall then be re-converted into Indian currency. Cost indexation benefits will not be available in such cases.

6. Capital gains arising on transfer of long-term capital assets, being equity shares in a company, on sale of which securities transaction tax is paid, are exempt under Section 10(38) of the Act, whereas short-term capital gains are subject to tax under Section 111A of the Act at the rate of 10% (plus applicable surcharge and education cess). However, shareholders being companies are required to pay minimum alternate tax of 10% (plus applicable surcharge and education cess) of book profit under Section 115JB on such long term capital gains if 10% of their book profit computed as per provisions of Section 115JB is higher than the total income as per normal provisions of the Act. Where securities transaction tax has been paid on shares, which are treated as stock-in-trade, liable to tax as business profits at the maximum marginal rate, rebate can be claimed in respect of such securities transaction tax in accordance with provisions of Section 88E of the Act

7. The benefit of exemption from tax under Section 10(38) of the Act on long-term capital gains or, concessional rate of tax under Section 111A of the Act on short-term capital gains, will not be available where no securities transactions tax is applicable. In such cases, under the provisions of Section 112 of the Act, taxable long-term capital gains, if any, on sale of listed securities or units would be charged to tax at the concessional rate of 10% (plus applicable surcharge and education cess).

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

i) Under section 115E of the Act, capital gains arising to a Non-Resident on transfer of shares in a Company, subscribed to in convertible foreign exchange and held for a period exceeding 12 months (not covered under Section 10(38) of the Act) would be taxed at a concessional rate of 10% (without indexation benefit plus surcharge and education cess as applicable).

ii) Under section 115F of the Act, long-term capital gains accruing to a Non-Resident on transfer of shares in a company, subscribed to in convertible foreign exchange (not covered under Section 10(38) of the Act) would be exempt from income tax, if the net consideration is invested in specified assets as defined in Section 115C(f), or in any saving certificates specified under Section 10(4B), within six months of the date of transfer. If only part of the consideration is so invested, the exemption would be proportionately reduced. The amount so exempted would be chargeable to tax, if the specified assets are transferred or converted within three years from the date of their acquisition.

iii) The aforesaid benefits will apply only in case of transfer of shares of the Bank, which is not subject to STT, and hence not exempt from tax under section 10(38).

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

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

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

9. Capital gains arising to Foreign Institutions Investors (FIIs) on sale of shares on which securities transaction tax is not paid is governed by Section 115AD of the Act. As per Section 115AD of the Act, long-term capital gains arising on transfer of shares purchased by FIIs, are taxable at the rate of 10% (plus applicable surcharge and education cess). Short-term capital gains are, however, taxable at the rate of 30% (plus applicable surcharge and education cess). Cost indexation benefits will not be available. Further, the provisions of the first proviso of Section 48 of the Act, as stated in para 5 above, will not apply.

10. Where any Double Taxation Avoidance Agreement (DTAA) entered into by India with any other country or agreement entered into by specified association in India with any specified association in the specified territory outside India which is notified by the Central Government under Section 90 and 90A provides for a concessional tax rate or exemption in respect of income from the investment in the Company's shares, those beneficial provisions shall prevail over the provisions of the Act in that regard.

c) Mutual Funds

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

d) General

1. As per provisions of Section 10(15)(i) of the Income Tax Act, 1961 (hereinafter called “the Act”), income by way of interest, premium on redemption or other payment on securities, bonds, deposits etc. notified by the Central Government is exempt from tax, subject to such conditions and limits as may be specified by Central Government in this behalf.
2. Under Section 10(34) of the Act, income earned by way of dividend from another domestic company is exempt from tax in the hands of the Bank.
3. Under Section 10(35) of the Act, income received in respect of units of a mutual fund specified under Section 10(23D) of the Act, income received in respect of units from the Administrator of specified undertaking and / or specified company [as defined under Unit Trust of India (Transfer of Undertaking and Repeal Act, 2002)], are exempt from tax in the hands of the Bank.
4. Capital gains arising on transfer of long-term capital assets, being equity shares in a company or units of equity oriented mutual fund on sale, on which securities transaction tax is paid, are exempt under Section 10(38) of the Act, whereas short-term capital gains are subject to a concessional rate of tax under Section 111A of the Act at the rate of 10% (plus applicable surcharge and education cess). However, minimum alternate tax of 10% (plus applicable surcharge and education cess) of book profit is payable under Section 115JB on such long term capital gains if 10% of book profit computed as per provision of Section 115JB is higher than the total income as per normal provision of the Act. If the shares or units on which securities transaction tax has been paid are treated as stock-in-trade liable to tax as business profits, rebate can be claimed from the income tax payable by the Bank in accordance with provisions of Section 88E of the Act towards such securities transaction tax.
5. The benefit of exemption from tax under Section 10(38) of the Act on long-term capital gains, or, concessional rate of tax under Section 111A of the Act on short-term capital gains will not be available, where no securities transactions tax is applicable. In such cases, under the provisions of Section 112 of the Act, taxable long-term capital gains, if any, on sale of listed securities or units would be charged to tax at the concessional rate of 20% (plus applicable surcharge and education cess), after considering indexation benefits, or at 10% (plus applicable surcharge and education cess) without indexation benefits in accordance with and subject to the provision of Section 48 of the Act. Under Section 48 of the Act, the long-term capital gains arising out of sale of capital assets excluding bonds and debentures (except Capital Indexed Bonds issued by the Government) will be computed after indexing the cost of acquisition/improvement.
6. Under Section 36(1)(vii) of the Act, any bad debts, or part thereof, written off as irrecoverable, would be allowed as a deduction from the total income in accordance with and subject to the provisions contained therein.
7. As per provisions of clause (d) of proviso to Section 43(5) of the Act, an eligible transaction in respect of trading in derivatives referred to in clause (aa) of section 2 of Securities Contracts (Regulation) Act, 1956, carried out in a recognized stock exchange is not deemed to be a speculative transaction. An eligible transaction is defined to mean any transaction carried out electronically on screen-based systems by banks or mutual funds or through a SEBI registered stock broker or sub-broker, or such other intermediary, and which is supported by a time stamped contract note issued by such stock broker or sub-broker or intermediary to the client indicating unique client identity number and permanent account number. This has the benefit of set off of losses in respect of such transactions with other income of the Bank
8. As per the provisions of Section 43D of the Act, interest income on certain categories of bad or doubtful debts as specified in Rule 6EA of the Income Tax Rules 1962 shall be chargeable to tax only in the year in which it is credited to the Profit and Loss account or actually received, whichever is earlier.
9. As per Section 54EC of the Act, subject to the conditions specified therein, tax on capital gains arising from the transfer of a long-term capital asset is exempt from tax, provided that the Bank has, at any time within a period of six months after the date of the transfer, invested the whole of the capital gains in any specified long-term asset for the purposes of Section 54EC of the Act. If only a portion of the capital gains is so invested, then the exemption would be available proportionately.

II) WEALTH TAX

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

III) GIFT TAX

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

For P.B.Vijayaraghavan & Co.
Chartered Accountants

P.B.SANTHANAKRISHNAN
Partner
Membership No.: 20309
Date: 15.12.2007

INDUSTRY OVERVIEW

The information in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the GoI and its various ministries, the RBI and the Indian Banks' Association and has not been prepared or independently verified by us or any of our advisors. Wherever we have relied on figures published by the RBI, unless stated otherwise, we have relied on the RBI Annual Report, 2005-2006, Trend and Progress of Banking in India 2004-05 and 2005-06, Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks as on December 2006, the RBI's Annual Policy Statements 2007-08 and the Mid-Term Review of the RBI's Annual Policy Statement for 2006-2007. Wherever we have relied on figures published by the Indian Banks' Association, unless stated otherwise, we have relied on Indian Banking at a Glance 2006. References herein to "2003-04", "2004-05", "2005-06", etc. refer to the years ended March 31, 2004, March 31, 2005 and March 31, 2006, etc.

History

The East India Company set up Bank of Bombay in 1720 with the objective of increasing trade. In 1786, the General Bank of India was floated, which claimed limited liability on the shareholders. Subsequently, other banks, viz., the Carnatic Bank (1788), the Madras Bank (1795), the British Bank (1795) and the Asiatic Bank (1804) were established as private institutions. The evolution of the modern commercial banking industry in India can be traced to 1806 with the establishment of the Bank of Calcutta, later renamed to Bank of Bengal in 1809. 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 the RBI as the central bank of the country in 1935 ended the quasi-central banking role of the Imperial Bank of India. In order to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state sponsored bank taking over the Imperial Bank of India and integrating with it, the former state-owned and state-associate banks. Accordingly, the State Bank of India ("SBI") was constituted in 1955. Subsequently in 1959, the State Bank of India (Subsidiary Bank) Act was passed, enabling the SBI to take over eight former state-associate banks as its subsidiaries. In 1969, 14 private banks were nationalised followed by six private banks in 1980.

Until the 1980s, 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. Bank profitability was low, non-performing assets were comparatively high, capital adequacy was diminished, and operational flexibility was hindered.

The Government'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, i.e., the Narasimham Committee I. This was followed by reports submitted in 1998 by other Committees, such as the second Committee on Banking Sector Reform, i.e., the Narasimham Committee II and the Tarapore Committee on Capital Account Convertibility, and the second phase of reforms relating to capital adequacy requirements, asset classification and provisioning, risk management and merger policies. The deregulation of interest rates, the emergence of a liberalised domestic capital market, and the entry of new private sector banks have progressively intensified the competition among banks.

Constituents of the Indian Banking Sector

The RBI is the central regulatory and supervisory authority for the Indian banking sector. The Indian banking sector is comprised of 84 scheduled commercial banks of which 28 are public sector banks, 19 old private banks, eight new private banks, 29 foreign banks as on June 30, 2006. In addition, there are 109 regional rural banks and 1,864 urban cooperative banks.

The discussion below presents an overview of the role and activities of the RBI and of participants in the Indian banking sector, with a focus on commercial banks.

Reserve Bank of India

The RBI is the central banking and monitoring agency. It manages the country's money supply and foreign exchange and also serves as a bank for the Government and for the country's commercial banks. In addition to these traditional central banking roles, the RBI undertakes certain developmental and promotional activities.

As a regulator, the RBI issues guidelines, notifications and circulars in various areas, including exposure norms, income recognition, asset classification, provisioning for non-performing assets, investment valuation and capital adequacy standards for commercial banks.

Commercial Banks

Commercial banks in India have traditionally focused on meeting the short-term financial needs of industry, trade and agriculture. They may be categorised as Scheduled Commercial Banks (“SCBs”) and non-scheduled commercial banks.

SCBs 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. SCBs have a presence throughout India, with nearly 66.5 per cent of the bank branches located in rural or semi-urban areas of the country. A large number of these branches belong to the public sector banks.

As on June 30, 2006 there were 109 regional rural banks, 28 public sector banks, 27 private banks, 29 foreign banks and four non-scheduled commercial banks in the country, with a total network of 69,104 branches.

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 SBI and its seven associate banks and 19 nationalised banks and one other public sector bank. Nationalised banks are governed by the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980. The banks nationalised under the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980 are referred to as “corresponding new banks”.

As on June 30, 2006, public sector banks had 47,950 branches and accounted for 71.4 per cent of the aggregate deposits and 70.2 per cent of the gross bank credit outstanding of the SCBs in India.

Regional Rural Banks

Regional Rural Banks (“RRBs”) were established by the GoI, state governments and sponsoring commercial banks with a view to develop the rural economy. RRBs mainly provide credit to small farmers, artisans, small entrepreneurs and agricultural labourers. There were 109 RRBs as on June 30, 2006, with 14,369 branches and they accounted for 3.20 per cent of aggregate deposits and 2.6 per cent of the gross bank credit outstanding of the SCBs in India.

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, the RBI permitted entry by the private sector into the banking system. This resulted in the emergence of nine private sector banks. These banks are collectively known as the “New Private Sector Banks”. There are eight New Private Sector Banks operating as on June 30, 2006. In addition, 19 private sector banks existing prior to July 1993 were operating as on June 30, 2006. These are collectively known as the “Old Private Sector Banks”. With 6,543 branches, as on June 30, 2006, these banks accounted for 20.0 per cent of aggregate deposits and 20.3 per cent of the gross bank credit outstanding of the SCBs in India.

Foreign Banks

As on June 30, 2006, there were 29 foreign banks with 242 branches operating in India and these banks accounted for 5.4 per cent of aggregate deposits and 6.90 per cent of the gross bank credit outstanding of the SCBs in India.

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 per cent in a private bank. The foreign direct investment limit in private sector banks is 74 per cent under the automatic route, including investment by FIIs.

Cooperative Banks

Cooperative banks cater to the financing needs of agriculture, small industry and self-employed businessmen in urban, semi-urban and rural areas of India. The state land development banks and the primary land development banks provide long-term credit for agriculture. The Banking Regulation (Amendment) and Miscellaneous

Provisions Act, 2004, which came into effect from September 24, 2004, specifies that all multi-state co-operative banks are under the supervision and regulation of the RBI. Accordingly, the RBI is currently responsible for the supervision and regulation of urban co-operative societies, the National Bank for Agriculture and Rural Development (“NABARD”), state co-operative banks and district central co-operative banks.

Banking Sector Trends

Sustained demand for bank credit has characterised the Indian banking system in the past four years in consonance with the upturn in economic activity. Non-food credit extended by SCBs recorded an average annual growth of 26.1 per cent between 2002-03 and 2005-06, higher than that of 14.5 per cent recorded during the preceding four-year period (1998-99 to 2001-02).

The total advances of SCBs as on March 31, 2006 were Rs. 15,15,66,800 lakhs, which translates into a growth of 31.98 per cent over the previous year.

The sharp expansion in credit in recent years also reflects, in part, policy initiatives to improve flow of credit to sectors like agriculture. The agricultural credit provided by co-operative banks, commercial banks and RRBs increased by 44 per cent and reached Rs. 1,25,30,900 lakhs during 2004-05, compared to Rs. 86,98,100 lakhs during 2003-04. The ground level credit flow to agriculture and allied activities reached Rs.1,57,48,000 lakhs during 2005-06. Similarly, demand for credit by industry has shown a recovery in the current cyclical upturn. Growth of credit to the industrial sector accelerated from 15.6 per cent during the 1990s to 18.5 per cent between 2002-03 and 2004-05.

Retail loans, which witnessed a growth of over 40.0 per cent in 2004-05 and again in 2005-06, have been the prime driver of the credit growth in recent years. Retail loans as a percentage of gross advances increased from 22.0 per cent in March 2004 to 25.5 per cent in March 2006. Of the components of retail credit, the growth in housing loans was 50.0 per cent in 2004-05 and 34.0 per cent in 2005-06. Banks direct exposure to commercial real estate also more than doubled in the last financial year.

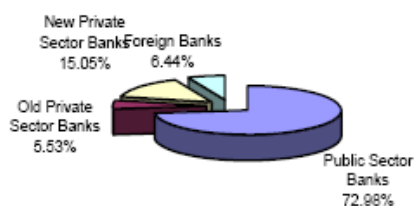
The program of linking self-help groups (“SHGs”) with the banking system is an important component of the micro-finance programme in the country. As on March 31, 2006, as many as 1,996,488 (provisional) SHGs were linked to banks and the total credit to SHGs was Rs. 9,49,500 lakhs. The Union Budget, 2006-07 (the “Budget”) has proposed to enhance the annual target of credit linkage to 385,000 SHGs during the year. The Budget also announced a scheme providing short-term credit to farmers at 7 per cent per annum. The Government shall provide a subsidy of 2 per cent on all crop loans extended by banks.

Banks are permitted to use the services of SHGs, non-governmental organisations (“NGOs”), micro-finance institutions (“MFIs”) and other civil society organisations (“CSOs”) and post offices as intermediaries in providing financial and banking services.

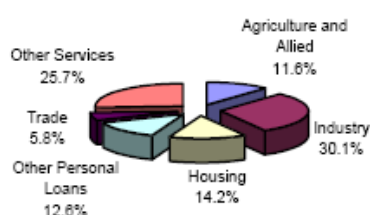
The share of total retail credit in bank credit has increased from 6.4 per cent to 22.5 per cent between 1990 and 2006. The share of agriculture in total credit, which had declined from 15.9 per cent as on March 31, 1990 to 9.6 per cent as on March 31, 2001, has since recovered to 10.8 per cent as on March 31, 2005. The share of industry in total credit has continued to decline, falling to 38.8 per cent as on March 31, 2005 from a peak of 49.1 per cent as on March 31, 1999.

The following charts provide the share of advances among banks in 2005-06 and the incremental bank credit available to various sectors in 2005-06.

Share of advances among banks in 2005-06



Incremental Bank Credit during 2005-06



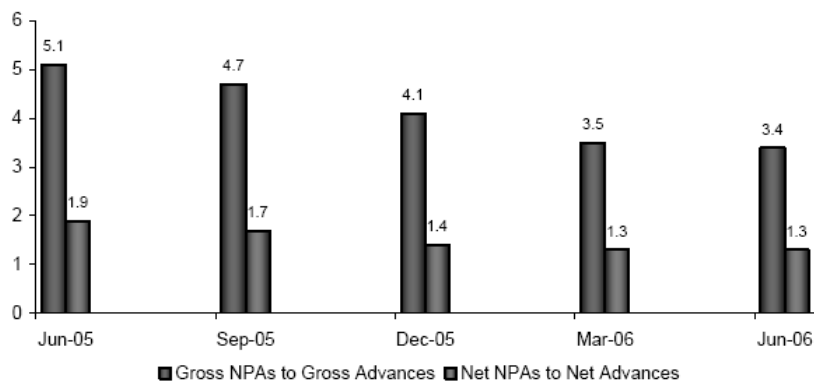
Source: IBA, Indian Banking at a Glance 2006

Source: Reserve Bank Of India Annual Report 2005-06

Asset Quality

The asset quality of SCBs improved during 2005-06, with gross and net NPA ratios reaching historical low levels of 3.5 per cent and 1.3 per cent, respectively, as on March 31, 2006. Robust economic activity and a better recovery climate have facilitated reduction in NPAs in recent years. The following chart shows the NPA ratios for SCBs for each quarter from the quarter ended June 30, 2005 to the quarter ended June 30, 2006.

NPA Ratios for SCBs



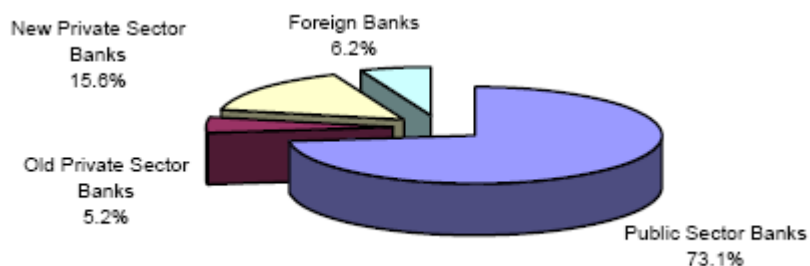
Source: Reserve Bank Of India Annual Report 2005-06

Investments

Investments by banks comprise two broad categories, namely, Government and other approved securities (SLR investments), and commercial paper, shares, bonds and debentures issued by the corporate sector and public sector undertakings (non-SLR investments). During 2005-06, investment of SCBs decreased by 0.2 per cent as against the increase of 8.1 per cent in the previous year.

The following chart shows investments by each category of banks in 2005-06.

Banks' Investments in 2005-06



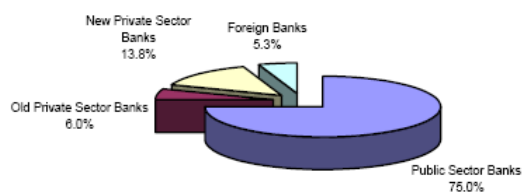
Source: The RBI, Report on Trend and Progress of Banking in India 2005-06

Deposits

Deposits of SCBs as on March 31, 2006 were Rs. 21,62,47,400 lakhs, growing at a rate of 17.96 per cent in 2005-06 over 2004-05, compared to a growth of 17.45 per cent in 2004-05 over 2003-04.

The following chart shows the share of deposits by category of banks in 2005-06.

Share of Deposits in 2005-06

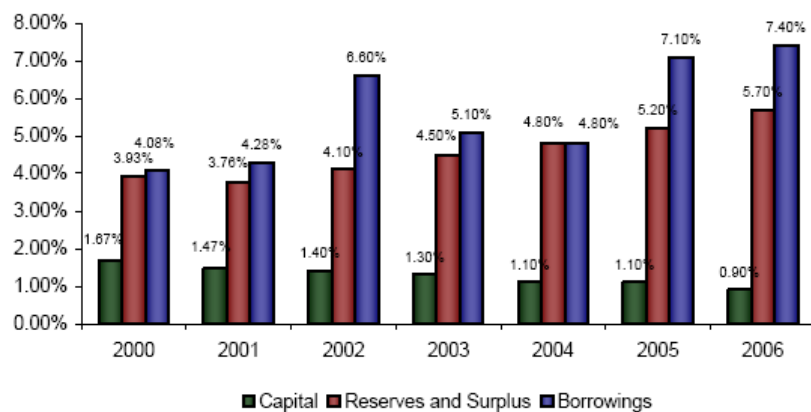


Source: The RBI, Report on Trend and Progress of Banking in India 2005-06

Non Deposit Resources

Banks have traditionally funded their lending operations with deposits. While deposits continue to be the main source of funding, the relative significance of non-deposit resources like borrowings, retained earnings and capital has increased.

The following chart shows the non-deposit resources of SCBs from 2000 to 2006.



(as a percentage of total liabilities/assets)

Source: The RBI, Report on Trend and Progress of Banking in India 2004-05 and 2005-06

Income and profitability

The total income of SCBs declined from 8.21 per cent of their assets in 2004-05 to 8.03 per cent in 2005-06, as both interest and non-interest income moderated during the year. Total expenditure (as a percentage of total assets), on the other hand, was unchanged from the previous year. As a result, earnings before provisions and taxes (as a percentage of total assets), during 2005-06 were lower than the previous year. However, in view of lower provisions, profits after tax (as a percentage of total assets), at 0.88 per cent during 2005-06 was almost the same as during 2004-05 (0.89 per cent).

Interest income, which is the major source of income, rose sharply by 18.59 per cent during 2005-06 compared to 9.8 per cent (including conversion impact) in 2004-05.

Capital Adequacy

The overall CRAR of SCBs at 12.4 per cent as on March 31, 2006 was less than the previous year's level (12.8 per cent). The decline in CRAR during 2005-06 could be attributed to the higher rate of increase in total risk weighted assets compared to the expansion in capital during the year.

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 the computerisation of their 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. A number of banks have joined together in small clusters to share their ATM networks. There are currently five such ATM network clusters functioning in India. The total number of ATMs installed by the SCBs was 21,147 as on March 31, 2006.

As on April 13, 2007 RTGS connectivity was available in 28,776 branches against 24,425 as on October 23, 2006.

The launch of the pilot project for Cheque Truncation System, which aims at enhancing efficiency in the retail cheque clearing sector, is expected to be implemented in December 2007.

The National Electronic Funds Transfer ("NEFT") system for electronic transfer of funds, which was operationalised on November 1, 2005, is now available at 9,096 branches.

Recovery/Rehabilitation of Debts

Debt Recovery Tribunals (DRTs)

DRTs have been established under the Recovery of Debts due to Banks and Financial Institutions Act, 1993 for expeditious adjudication and recovery of debts that are owed to banks and financial institutions. Out of 71,399 cases, involving an amount of Rs. 1,11,29,300 lakhs filed with DRTs by the banks, 36,803 cases, involving an amount of Rs. 42,79,200 lakhs have been adjudicated as on March 31, 2006. The amount recovered as on March 31, 2006 through the adjudicated cases was Rs. 14,99,200 lakhs.

SARFAESI Act

The SARFAESI Act passed in Parliament in 2002 gives powers of “seize and desist” to banks. Banks can give a 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. The SARFAESI Act also provides for the establishment of asset reconstruction companies regulated by the RBI to acquire assets from banks and financial institutions. The constitutionality of the SARFAESI Act was challenged in *Mardia Chemicals Limited v. Union of India*, AIR 2004 SC 2371. The Supreme Court upheld the validity of the SARFAESI Act, except Section 17(2), which it struck down on the ground that the requirement of making a deposit of 75 per cent 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. In addition to the SARFAESI Act several states also have revenue recovery acts and lok adalats.

Corporate Debt Restructuring (“CDR”)

In order to put in place an institutional mechanism for the restructuring of corporate debt, the RBI has devised a CDR system. The CDR system is a non-statutory, voluntary mechanism based on debtor-creditor and inter-creditor agreements. Multiple banking accounts with an exposure of Rs. 100 million and above may be referred to the CDR Forum.

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

Consolidation

So far, consolidation has been limited to mergers of a few private banks or financially distressed banks. The Government has provided tax breaks aimed at promoting mergers and acquisitions. For instance, Section 72A and Section 72AA of the I.T. Act enable the acquiring entity, which could be a company, a corresponding new bank, a banking company or a specified bank to “carry forward and set-off accumulated losses and unabsorbed depreciation” of the acquired entity, subject to specified conditions being fulfilled.

Recent Policy Developments

In its Annual Policy Statement 2007-08, the RBI introduced the following key measures:

- The fixed repo rate under the Liquidity Adjustment Facility was increased from 7.0 per cent to 7.75 per cent.
- Currently, the interest rate ceiling on FCNR (B) deposits of all maturities has been fixed at LIBOR/SWAP rates for the corresponding maturities minus 25 basis points for the respective foreign currencies. In view of the prevailing monetary conditions, RBI proposed to reduce, with immediate effect, the interest rate ceiling on FCNR (B) deposits by 50 basis points, i.e., to Libor minus 75 basis points.
- Currently, the interest rate ceiling on Non-Resident (External) Rupee Account (“NR(E)RA”) for one to three years maturity should not exceed 50 basis points above LIBOR/SWAP rates for U.S. dollar of corresponding maturity. In view of the prevailing monetary conditions, RBI proposed to reduce, with immediate effect, the interest rate ceiling on NR(E)RA deposits by 50 basis points, i.e., to LIBOR/SWAP rates.
- The Reserve Bank has taken several initiatives to provide a more conducive environment for the conduct of foreign exchange business to provide prompt and efficient customer service by progressively liberalising foreign exchange related transactions, removing restrictions, simplifying procedures and by rationalization of overseas investments.
- The prudential limit on credit and non-credit facilities extended by banks to Indian joint ventures /wholly owned subsidiaries incorporated outside India was enhanced from 10 per cent to 20 percent of unimpaired capital funds (Tier I and Tier II capital) of the bank with a view to facilitating the expansion of Indian corporates’ business abroad.
- Structural and developmental measures for deepening and widening the government securities market

- were adopted.
- To improve the credit delivery mechanism and make available basic banking services to the wider sections of society and to ensure development of the rural-agrarian economy by improving credit flow to agriculture and other segments of priority sector, strengthening of the rural financial infrastructure and promoting financial inclusion, financial literacy and credit counselling.
- Further, amalgamation and merger of RRBs was implemented reducing the total number of RRBs from 196 to 96.
- The pilot project for cheque truncation, which aims at enhancing efficiency in the retail cheque clearing sector, is expected to be implemented in December 2007.
- The proposed National Settlement System (“NSS”) which aims at settling clearing positions of various clearing houses centrally, is expected to be introduced during 2007-2008.
- As part of financial inclusion, the State Level/Union Territory Bankers’ Committee (SLBC/ UTLBC) of convenor banks in all States/Union Territories were advised to undertake an evaluation of the progress made in the selected districts in each State / Union Territory where these scheme were implemented for achieving 100 per cent financial inclusion by providing “no frills” accounts and general purpose credit cards.
- The RBI waived processing fees on banks for both electronic clearing services (“ECS”) and electronic fund transfers (“EFT”) transactions as well as for the RTGS and the NEFT transactions up to March 31, 2007 with a view to promoting electronic transactions. The RBI would continue with the waiver of processing fees to banks in order to further promote electronic transactions system, until the retail operations are taken over by the National Payments Corporation of India (NPCI). Accordingly, processing fees for transactions relating to RTGS, ECS, EFT and NEFT has been waived up to March 31, 2008.
- As part of the gradual process of financial sector liberalisation in India, it is proposed to introduce credit derivatives in a calibrated manner to permit banks and primary dealers to begin transacting in single-entity credit default swaps (CDS).
- Other measures which are proposed to be implemented during 2007-08 include: mandating all inter-bank transactions for settlement only through the RTGS mode; review of the norms relating to membership of the Indian Financial Network to facilitate larger participation in electronic payment based message transfers; effecting the settlements arrived at by the Clearing Corporation of India Limited. (CCIL) and the major stock exchanges National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) as RTGS batch settlements; implementation of the National Settlement System (NSS) for processing the clearing settlements of the major clearing houses as RTGS batch settlement; implementation of the National Electronic Funds Transfer (NEFT) for greater coverage and reach for the common man; gradual upward revision of the per-transaction limit for customer based transactions to a level of Rs.100 million; and migration of Government-based payment and receipt transactions to electronic means.

OUR BUSINESS

We were incorporated by a group of residents of Thrissur in 1927 as a limited company under the Indian Companies Act, 1913 with an authorized capital of Rs. 20,000. Over the period with growth in size, we expanded to various parts of the country. In 1977, we became a scheduled commercial bank. We expanded our network beyond Kerala by opening branches in the States of Tamil Nadu, Andhra Pradesh, Karnataka, Maharashtra, Gujarat, Delhi and West Bengal.

As December 31, 2007, we had 181 branches (including 2 satellite branches and 5 service branches), 26 Extension Counters and 6 Administrative Offices spread over 8 States. Our total employee strength as on December 31, 2007 was 1419.

As at March 31, 2007, we had an asset base of Rs. 342727 lakhs and net worth of Rs. 12671 lakhs. Our deposits and net advances have recorded a growth of 68.02% and 70.25% respectively during the period from March 31, 2003 to March 31, 2007. As at September 30, 2007, we had an asset base of Rs. 361334 lakhs and net worth of Rs. 14386 lakhs.

We provide a range of retail banking and commercial banking products to our customers. Our retail banking product portfolio includes housing loans, gold loans, auto loans, educational loans and other personal loans. We offer deposit services like savings, demand and time deposit to our customers. On commercial banking, our product offering among others includes agricultural loans, industrial advances trade advances, and import / export facilities.

With a view to making available value-added services to the NRIs, we have also established in eight of our branches, NRI Boutiques (Exclusive Relationship Centres to cater to NRIs) in Kerala and one in Chennai. We also offer a wide range of general banking services to our customers, including debit cards and cash management services. Our Cash Management System (CMS) provides speedier cheque collection through 60 branches. We distribute life insurance products of M/s. MetLife India Insurance Company Private Limited and non-life insurance products of M/s. IFFCO TOKIO as their corporate agent. We are an active depository participant of NSDL (National Security Depository Limited) offering Demat services through our selected branches. As at December 31, 2007, we had 890 active depository accounts.

As at December 31, 2007, we have deployed Centralised Banking Solutions (CBS) on the Flexcube Platform for extending Anywhere/Anytime banking at 154 branches covering 96% of the total business.

As at December 31, 2007, we have extended tele-banking facility in 72 branches and Internet banking facility in 109 branches. We propose to cover all our branches with these facilities in a phased manner.

The following table gives the break up of growth of deposits, advances and branch network as of March 31, 2006, March 31, 2007 and September 30, 2007.

(Rs. in lakhs)

As on March 31, 2006			As on March 31, 2007			As on September 30, 2007		
Number of Branches	Deposits	Advances	Number of Branches	Deposits	Advances	Number of Branches	Deposits	Advances
178	253,268	159434	181	308,796	183950	181	324,730	188666

Our Strategies

Leveraging our branch network to accelerate growth in loans and advances to corporate and retail sectors

We plan to strengthen our credit portfolio by focusing on loans and advances to the corporate and retail sectors. The relationships with our existing corporate customers will be strengthened by giving them various facilities at competitive terms and thereby expanding business growth. We are also offering value added products like ATM/debit cards, internet banking, telebanking, anywhere banking and mobile banking to improve customer satisfaction levels and to attract new customers thereby increasing our presence in the high yielding retail sector. We intend to further enhance our retail deposit position by extensive marketing of our diversified product portfolio and leveraging our strong branch network in potential centres.

Cost of Funds

Our cost of funds are primarily the cost of deposits that we mobilize from our customers. Our focus will be to reduce the average cost of deposits by increasing the overall low cost deposits in our deposit portfolio. As on December 31, 2007 our low cost deposits constituted 28.63% of our total deposits. The interest free demand deposit constituted 11.17%, while savings deposit accounted for 17.46%. We intend to increase our low cost deposit base to improve our financial position.

Fee based revenue

We intend to increase our fee based income by expanding the third party offerings like by leveraging our relationships with Met Life Insurance for life insurance products and IFFCO Tokio for non life insurance products. As part of our strategy to increase fee based income, we propose to enhance cross selling across different distribution channels including provision of cash management services and depository services. We intend to enter into more such arrangements with third parties to distribute their offerings through our vast network of branches.

Technological improvements

As on 31.12.07, 154 branches have been deployed with the core banking system and the remaining 27 branches are totally mechanised. We intend to migrate all our branches into Core Banking to facilitate our customers with all facilities including mobile banking, RTGS services, internet banking. This will enable us to serve our existing customers efficiently and will also enable to add more customers.

Our Lending Operations

We offer a variety of products and services to corporate and commercial customers, as well as retail and agricultural customers. In addition to the standard product offerings, some of the products and services are designed to satisfy specific customer requirements. We had total outstanding loans amounting to Rs. 192,820 lakhs as at March 31, 2007, an increase of 14.09% compared with Rs. 169,002 lakhs as at March 31, 2006, which was 0.76% higher than the Rs. 151,223 lakhs total outstanding loans as at March 31, 2005. Our loan portfolio consists of domestic loans (including foreign currency loans to domestic customers) only.

We have identified the growth of retail sector as an opportunity for our growth. Our total outstanding retail loans were Rs.62,955 lakhs as at March 31, 2007, which represented 32.65% of our total outstanding loans and advances as on that date as compared to Rs.50,871 lakhs as at March 31, 2006, which represented 30.10% of our total outstanding loans and advances as on that date. The following table provides data on break up of our retail loans as at March 31, 2006 and March 31, 2007 and September 30, 2007.

(Rs. in lakhs)

Sl.No.	Particulars	31.03.2006		31.03.2007		30.09.2007	
		Amount outstanding	% of total o/s to retail loans & advances	Amount outstanding	% of total o/s to retail loans & advances	Amount outstanding	% of total o/s to retail loans & advances
1	GOLD LOANS	11656	22.91	14239	22.62	17182	25.55

Sl.No.	Particulars	31.03.2006		31.03.2007		30.09.2007	
		Amount outstanding	% of total o/s to retail loans & advances	Amount outstanding	% of total o/s to retail loans & advances	Amount outstanding	% of total o/s to retail loans & advances
2	HOUSING LOANS	10183	20.02	13187	20.95	14162	21.06
3	LAD	8865	17.43	9252	14.70	10194	15.16
4	OD-FDR/GOVT.SEC/LIC POLICIES	2936	5.77	5291	8.40	5299	7.88
5	OD-CONTRACTORS	832	1.64	1299	2.06	1289	1.92
6	MICRO CREDIT LOANS	5563	10.94	6072	9.64	7175	10.67
7	DHANAM EASY LOAN	1137	2.24	728	1.16	694	1.03
8	EDUCATIONAL LOANS	1000	1.97	1425	2.26	1811	2.69
9	DHANAM CAR CREDIT	464	0.91	1131	1.80	1400	2.08
10	OTHER VEHICLE LOANS	1072	2.11	1158	1.84	1345	2.00
11	STAFF LOANS OTHER THAN HL	1119	2.20	1156	1.84	1172	1.74
12	DHANAM PERSONAL LOANS	1460	2.87	1404	2.23	1219	1.81
13	PROFESSIONAL & SELF EMPLOYED	1210	2.38	1204	1.91	Nil	Nil
14	DHANAM READY MONEY LOANS	1313	2.58	1177	1.87	1018	1.51
15	MORTGAGE LOANS	2061	4.05	4232	6.72	3292	4.90
16	TOTAL RETAIL LOANS	50871	100.00	62955	100.00	67252	100.00

The following is a brief description of our main retail loan products:

Gold Loans:

Provided to customers against pledge of gold ornaments upto 70/80% of the average market value of the gold. Concessional interest rates are offered for agricultural gold loans.

LAD: Loans against deposits are provided to depositors upto 92.5% of the deposit amount. Interest rate charged is 1% above the deposit rate.

OD-FDR/GOVT.SEC/LIC POLICIES: Overdraft against fixed deposit is provided for working capital requirements of the borrowers against security of deposits issued by the Bank.

MICRO CREDIT LOANS: Micro finance is the supply of loans, savings, insurance, transfer services and other financial products to the low income clients. It provides the mechanism for reaching the poor through the

medium of “Self Help Groups (SHG)” formed by Non Governmental Organizations (NGOs), banks, various government departments etc.

MORTGAGE LOANS

Housing Finance Scheme

This scheme provides loans to individuals for (i) the construction of houses and flats, (ii) acquiring new or existing houses and flats, (iii) the extension of existing houses and (iv) the repair, renovation or alteration of existing houses and flats. The maximum loan under this scheme varies depending on the income and repaying capacity of a borrower. Currently, the maximum amount that we lend to a single borrower under our scheme of “Dhanam Home Loan ” is Rs. 250 lacs.

Dhanam Car Credit and Dhanam Two Wheeler Loan

Under car credit scheme, we provide loans for purchase of new and second hand cars that are no older than three years. Under the two wheeler loan scheme, we provide loans for purchase of new two wheelers. These loans are secured by hypothecation of vehicles. Maximum amount under the car credit scheme is Rs.20 lakhs for new vehicle and Rs.10 lakhs for pre-owned vehicle.

Dhana Vidya Credit Loan

We provide educational loans on reasonable terms to the deserving students to pursue basic as well as higher education in India and abroad. Under this scheme, collateral is not required for loans up to Rs. 400,000.

Dhanam Easy Loan

Under this scheme, loans are provided against NSCs and Kissan Vikas Patra.

Dhanam Ready Money Loan/overdraft

The above facility can be availed of for a wide range of personal/ business needs. However, the loan is not for speculation, hoarding or activities restricted by Central/State Governments and local bodies. The minimum amount of loan is Rs. 1 lakh and the maximum limit is Rs. 300 lakhs. These loans are against mortgage of prime property, charge on gold ornaments, LIC policy & approved Govt. securities.

Dhanam Demat Loan/Overdraft

We provide loans / overdraft against security of demat shares which are under our approved list. This facility is available in select branches. The maximum amount of loan is 50% of market value of shares or average of traded shares, subject to a maximum of Rs. 20 lakhs.

Dhanam MediEquipment Scheme

Under this scheme, we provide loans to qualified medical practitioners and medical centres for purchase of medical equipments. Generally, we grant need based loan are sanctioned under this scheme.

Dhanam MediClinic Finance Scheme

We provide loans under this scheme to qualified doctors for setting up Medical practice/ consultancy ventures.

Dhanam Lease Loans

Under this scheme we provide loans against the lease rentals of the property of the borrower.

Dhanam Personal Loans

We provide personal loans to salaried, professional and self employed people for their personal needs. Quantum of loans is based on their salary or annual income of the applicants and is extended upto a maximum limit of Rs.10 lakhs.

Dhanam Home Appliance Scheme

This scheme provides loans to individuals to enable them to purchase house hold appliances.

Priority Sector Lending

According to Ministry of Statistical and Program Implementation, 21.04% of India's GDP was accounted for by agriculture as at the end of December 2006. In view of the importance of agriculture in India's economy, a sizable share of our total lending is allocated to this sector. As at March 31, 2007, we had an outstanding loan portfolio of Rs. 27,578 lakhs in the agriculture sector as compared to Rs. 20,583 lakhs as at March 31, 2006, with a year-on-year growth of 33.98%. Our main agricultural schemes are as under:

Dhanam Kissan Vahana

We provide credit facilities to farmers for purchase of two wheelers to enable them to increase their mobility, reduce wastage of perishable produce by faster transportation for market sales and for better supervision of agricultural operations.

Dhanam Kissan Card

This is meant to provide adequate and timely credit for the comprehensive credit requirements of farmers under single window adopting whole farm approach, including their short-term and contingent credit needs. The credit facility extended under the scheme is in the nature of term loan and revolving cash credit for agriculture and allied activities. The beneficiary under this scheme will be issued with a credit card cum pass book, specially designed for the purpose, incorporating the name, address, particulars of land holding, borrowing limit, validity period etc which will serve both as an identity card as well as facilitate recording of the transactions on an ongoing basis.

Our Performance under Priority Sector Lending

As per RBI norms, the Private Sector Banks' credit to Priority Sector should be atleast 40% of their Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher and that for agriculture should be 18% ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. The policy of the Bank with regard to financing to the Priority Sector is based upon the above norms. As on the last reporting Friday of March, 2007, the Priority Sector credit stood at Rs. 85,554 lakhs, constituting 46.55% of the Net Bank Credit. Details of sector-wise distribution of Gross Priority Sector Advances for the last five years are given below:

Our category wise performance under Priority Sector for the last five years and as at September 30, 2007 is as under:

(Rs. In lakhs)

	Category	March,03	March,04	March,05	March,06	March, 07	September, 07
1	Advances to agriculture #	7856	11881	19034	27720	38139	38944
2	Small Scale Industries	11281	10544	8832	12843	18062	26958
3	Other Priority Sector Advances Of which	18829	15434	22092	28923	29353	23540
	Retail Trade	Not available	Not available	4804	5292	5760	7479
	Small Business			3021	3230	4591	-*
	SRWTO			900	810	1301	-*
	Education			595	913	1367	1781
	Housing			4776	7583	9420	11535
	Others			7996	11095	6914	2745
4	Total Priority	37966	37859	49958	69486	85554	89442

	Sector Advances (1+2+3)						
5	Net Bank Credit (NBC)	93756	106196	142565	158482	183784	190289
6	% of Priority Sector Advances to NBC **	40.49%	35.65%	35.04%	43.84%	46.55%	47.00%

Includes investments in Rural Infrastructure Development Fund (RIDF).

* As per the RBI Circular bearing no. RPCD No.Plan .BC.5/04.09.01/2007-08 dated 02.07.2007 regrouping has been made.

** The priority sector advances and NBC figures in the above table are as on the last reporting Friday for March 2007. However, the priority sector ratio as published in the Annual Report for the year 2006-07 was 45.79%, which was as on 31st March 2007.

LOANS AND ADVANCES

We offer a variety of products and services to corporate and commercial customers, as well as retail and agricultural customers. In addition to the standard product offerings, some of the products and services are designed to satisfy specific customer requirements. We had total outstanding loans amounting to Rs. 192,821 lakhs as at March 31, 2007- an increase of 14.09% compared with Rs. 169,002 lakhs as at March 31, 2006. As at September 30, 2007, our total outstanding loans was Rs. 197.815 lakhs. Our products for corporate customers include term loans for the creation or improvement of assets and also for working capital funding. We also offer fee-based services, such as cash management and remittance services.

The table below provides details of our loans and advances (i.e., funded advances) by product type and as a percentage of total funded advances to corporate customers as at March 31, 2005, March 31, 2006, March 31, 2007 and September 30, 2007.

(Rs.in lakhs)

Product Type	As at March 31, 05		As at March 31, 06		As at March 31, 07		As at September 30, 2007	
	Amount outstanding	% of total outstanding to corporate loans and funded advances	Amount outstanding	% of total outstanding to corporate loans and funded advances	Amount outstanding	% of total outstanding to corporate loans and funded advances	Amount outstanding	% of total outstanding to corporate loans and funded advances
Term loans	59717	42.35	79206	49.68	82123	44.64	81407	43.15
Cash credit and other working capital Facilities*	73285	51.97	69546	43.62	89529	48.67	98281	52.09
Bills purchased /discounted	8013	5.68	10683	6.70	12298	6.69	8978	4.76
Net Advances	141015	100.00	159434	100.00	183950	100.00	188666	100.00

Rounded off to the nearest lakh Rupees.

*Cash credit and other working capital facilities include import finance.

The table below sets forth our non-funded advances by product type and as a percentage of total non-funded advances to corporate customers as at March 31, 2005, March 31, 2006 and March 31, 2007 and as at September 30, 2007.

(Rs. in lakhs)

Product Type	As at March 31, 2005		As at March 31, 2006		As at March 31, 2007		As at September 30, 2007	
	Amount outstanding	% of total outstanding to corporate loans and non-funded	Amount outstanding	% of total outstanding to corporate loans and non-funded	Amount outstanding	% of total outstanding to corporate loans and non-funded advances	Amount outstanding	% of total outstanding to corporate
Letters of credit	1506	14.44	1534	15.42	2307	21.62	1436	12.40
Guarantees	8921	85.56	8415	84.58	8364	78.38	10144	87.60
Total Non-Funded	10427	100.00	9949	100.00	10671	100.00	11580	100.00

We offer the following range of loans and advance products to assist our corporate customers in meeting their financial needs:

Term Loans

Our term loans primarily finance the creation and improvement of assets, including project finance. These loans are typically secured by the project assets and personal property financed, as well as by other assets of the borrower wherever required. Repayment is made in installments over the loan period.

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 mortgages of immovable property, pledges or hypothecation of marketable securities and personal guarantees. We also provide overdrafts, working capital demand loans, working capital term loans and bill discounting facilities to our corporate and commercial borrowers.

Import / Export Assistance

We provide import/export finance including packing credit, import loans and purchase & discount of foreign bills. We also offer loan facilities in foreign currencies to our domestic customers. Foreign currency-denominated loans in India are granted out of the Bank's FCNR (B) funds, in terms of RBI guidelines.

Import Finance

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

Letters of Credit

We provide letter of credit facilities, with our fee varying with the term of the facility as well as amount drawn. 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 are generally 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 financial and performance obligations. These are generally secured by counter guarantees and/or a fixed or floating charge on the assets of the borrower, including cash deposits.

Cash Management Services

As at the end December 31, 2007, we had 60 branches rendering Cash Management Services (CMS) to corporate clients, including correspondent banks, for managing their receivables and payments across the country. Generally, Cash Management comprises of integrated collection, payments, liquidity management and receivables.

We offer different quick cheque collection services for outstation cheques. Our Dhanam upcountry cheque collection service offers credit for cheques drawn on any of our CMS locations in the least possible time. In Dhanam local cheque collection, the client can deposit the instruments at the local collection centers also before a predetermined time and these instruments are presented in the next clearing and the proceeds are transferred to the designated branch. The details of instruments presented in the Collection centers will be available at the Base branch on the same day itself. We are also launching the facility of inter bank fund transfer to any branch in RBI centres. These services provide our customers with enhanced liquidity and better cash management.

In addition to the above, we also provide services in relation to corporate salary accounts wherein corporates can use the services of our Bank to disburse salaries to their employees on a single instruction and also distribute interest/ dividend / warrant to the security holders.

Retail Banking Operations

DEPOSITS

Our deposits are broadly classified into current (also known as demand) deposits, savings deposits and term (also known as time) deposits the details of which are as under:

- Current deposits are non-interest bearing;
- Savings deposits are deposits that accrue interest at a fixed rate set by the RBI (currently 3.5% p.a) and upon which cheques can be drawn; and
- Term deposits 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; and
 - 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, as at the dates indicated, our outstanding deposits and the percentage composition in respect of each category of deposits.

(Rs. in lakhs)

Head of account	As at March 31,2005		As at March 31,2006		As at March 31, 2007		As at September 30, 2007	
	Balance outstanding	% to total dep	Balance outstanding	% to total dep	Balance outstanding	% to total dep	% to total dep	Balance outstanding
Current deposits	27,140	11.60	27,899	11.35	35,037	11.02	38890	11.98
Savings deposits	35,706	15.27	45,342	17.02	52,555	17.90	57737	17.78
Term deposits	171,038	73.13	180,026	71.63	221,204	71.08	228103	70.24
Total deposits	233,884	100.00%	253,267	100.00%	308,796	100.00%	324730	100.00

Maturity profile of deposits for the last three years is as under:

(Rupees in lakhs)

Residual Maturity	31.3.2005		31.3.2006		31.3.2007		30.09.2007	
	Amount	%	Amount	%	Amount	%	Amount	%
1 – 14 days	18070	7.73	34834	13.75	36150	11.71	24569	7.57
15 – 28 days	15757	6.74	10492	4.14	16253	5.26	16133	4.97

Residual Maturity	31.3.2005		31.3.2006		31.3.2007		30.09.2007	
	Amount	%	Amount	%	Amount	%	Amount	%
29 days to 3 months	27532	11.77	25150	9.93	33622	10.89	28801	8.87
Over 3 months to 6 months	24495	10.47	21414	8.45	27591	8.93	20128	6.20
Over 6 months to 1 year	37863	16.19	46248	18.27	46239	14.97	74796	23.02
Over 1 year to 3 years	99763	42.66	107546	42.46	134411	43.53	147647	45.47
Over 3 years to 5 years	9083	3.88	6908	2.73	12688	4.11	10705	3.30
Over 5 years	1320	0.56	675	0.27	1842	0.60	1952	0.60
Total	233884	100	253267	100	308796	100	324730	100.00

Category-wise break-up of Term Deposits as on September 30, 2007 is given below:

(Rs. Lakhs)

Residual Maturity	Total
1 – 14 days	16971
15 days to 3 months	32489
Over 3 months to 1 year	94924
Over 1 year to 3 years	63737
Over 3 years to 10 years	12655
Total	220776

Note: Inter Bank deposits are excluded.

Deposit Products

Our retail deposit products comprise mainly of the following products:

Dhanam + and Dhanam ++

These are term deposit schemes of 15 days and 30 days respectively that enable the customers (individuals) to earn interest applicable to term deposit and also provided flexibility of saving bank deposit. Minimum initial deposit is Rs. 5,000

Dhanam Cumulative Deposit Certificate

Dhanam Cumulative Deposit Certificate (DCDC) is a term deposit scheme wherein customers can deposit a certain amount of money and interest is added to the principal every quarter and the customer gets compounded interest together with the principal on the due date. Loan facility is also allowed upto 90% of the deposit. The term of this scheme ranges from 3 months to 120 months.

Lakshmi Recurring Deposit

This is a deposit scheme wherein customers deposit a fixed amount monthly/quarterly for a fixed period. Interest is added to the balance every quarter and customers get the compounded interest together with the accumulated installments on the due date. Loan facility is allowed upto 90% of the deposit. The term of this scheme ranges from 12 months to 120 months.

Surabhi Deposit Scheme

This is a flexible Term Deposit with the objective of reducing the interest loss to the customers in the event of premature closure.

Insta Money Scheme

This scheme is aimed at providing fixed deposit facility with the convenience of withdrawal upto 90% by cheque i.e. overdraft against deposit at 1% above the deposit rate.

Sri Dhana Chakra Deposit Scheme

It is a fixed deposit scheme with facilities like maximum flexibility, automatic renewal facility and issue of special passbook instead of receipts. The rate of return is higher than on the fixed deposits.

Dhanam Supreme

This is an SB account designed to enable our deposit account holders to deposit cash and withdraw upto a maximum of Rs. 50,000/-each per day collectively at our CBS branches, acceptance of outstation cheques for collection directly at CBS clearing centres for collection, inter branch fund transfer upto Rs 10,000/- per day free of charge and three demand drafts per month free on any of the Bank branch centres. Under this scheme the customer needs to maintain minimum monthly average balance of Rs. 10,000/-. The scheme provides attractively designed multi city cheque books with customer's name printed.

Dhanam Power

This is a Current Account designed to enable our deposit account holders to deposit cash deposit of Rs.50,000/- and withdrawal of Rs.100,000/- per day by the account holder collectively at our CBS branches, acceptance of outstation cheques for collection directly at CBS clearing centres for collection, inter branch fund transfer upto Rs. 100,000/- per day free of charge and five demand drafts per month free on any of the Bank branch centres. Under this scheme the customer needs to maintain minimum monthly average balance of Rs. 50,000/-. The scheme provides attractively designed multi city cheque books with customer's name printed.

Dhanam Tax Advantage

This deposit scheme for 5 years and above enables customers to avail tax exemption under Section 80 C of the Income Tax Act, at an attractive interest rate of 8.50% per annum. This facility is available only to individuals and HUFs.

Dhanam Salary

This product is tailored specifically to suit the needs of employees of corporates, firms and other organizations. Under this scheme, among other benefits, we provide zero balance facility, free ATM with debit card, free cheque book and demand drafts, free collection of outstation cheques, free tele-banking and internet banking on the condition that salary account of the Corporate is maintained with the Bank.

Dhanam Simple

With a view to promoting financial inclusion, the Bank has introduced 'Dhanam Simple', a zero balance no frills SB account. More than 20000 accounts have been opened under this head as at the end of December 2007.

Special benefits available to Senior Citizens

Senior citizens of Indian nationality are given special benefits like additional interest rate of 0.75% over and above the normal interest rate, at par collection of 1 instrument for value of Rs. 5000/- or below once in a month and issue of demand draft for value of Rs.5000/- or below once in a month, without charging any commission.

TREASURY OPERATIONS

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, equity and foreign exchange within the framework of our treasury policy. Our treasury operations also include a range of products and services for corporate and commercial customers, such as forward contracts and foreign exchange products and services. These operations are overseen by our Funds and Investment Committee

The following table sets forth, as at the dates indicated, the allocation of our net investment portfolio:
(Rs. in lakhs)

	March 31, 2005		March 31, 2006		March 31, 2007		September 30, 2007	
Securities	Amount	%	Amount	%	Amount	%	Amount	%
SLR								
Government Securities	63806	90.12	66566	85.45	74126	85.68	89234	86.91
Other Approved Securities	258	0.37	256	0.33	58	0.06	81	.08
Sub total	64064	90.499	66822	85.78	74184	85.74	89315	86.99
Non-SLR								
Debentures and Bonds	5588	7.89	3645	4.68	1490	1.72	1676	1.63
Re-cap bonds (including Special Shares)	1148	1.62	493	0.63	284	0.33	65	.06
Others ⁽¹⁾			6937	8.91	10561	12.21	11620	11.32
Sub total	6736	9.51	11075	14.22	12335	14.26	13361	13.01
Total	70800	100	77897	100	86519	100	102676	100

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

(Rs. in lakhs)

	March 31, 2005		March 31, 2006		March 31, 2007		September 30, 2007	
Securities	Amount	%	Amount	%	Amount	%	Amount	%
Held to Maturity	54622	76.13	60856	76.79	64057	72.43	65116	62.02
Available for sale	17124	23.87	18394	23.21	22811	25.80	39882	37.98
Held for Trading	Nil	Nil	Nil	Nil	1561	1.77	Nil	Nil
Gross Investments	71746	100	79250	100	88429	100	104998	100
Less: Depreciation	(946)		(1353)		(1910)		(2322)	
Net Investments	70800		77897		86519		102676	

For details on how we categorise our investment portfolio, see the section titled “Regulations and Policies–Banks’ Investment Classification and Valuation Norms” on page 55 of this Letter of Offer.

GENERAL BANKING SERVICES

We offer a wide range of general banking services to our retail and corporate and customers, including cash management services, locker facilities, insurance services (life and Non-life) and specialized services to our NRI customers. We are the registered participants of NSDL thereby offering a whole range of depository services to our customers. We are also registered as a Banker to the Issue with Securities and Exchange Board of India.

Tie up with Met Life and IFFCO TOKIO

With a view to boosting the fee-based income of the Bank by sale of third party products, we have tied up with M/s MetLife India Insurance Company Private Limited, in the year 2002, for marketing life insurance products, and with M/s IFFCO TOKIO General Insurance Company Limited for marketing of general insurance products in the year 2005. Earlier we had the agency arrangement with the United India Insurance Co. Ltd. Over the years, our Bank has been able to improve our fee-based income from these arrangements.

Depository Services

We are a registered depository participant of NSDL (National Security Depository Limited) that enables to offer Demat services through our selected branches. As of December 31, 2007, we had over 890 active depository accounts.

Specialized services to NRI customers

All our branches are authorized to accept and maintain NRE, FCNR (B) and NRO accounts. We have set up NRI boutiques in our eight branches at major NRI intensive centers to offer specialized NRI services. We have an exclusive product for NRIs christened 'Dhanam Money Multiplier' wherein scheme pools fixed monthly installments into a Lakshmi Recurring Deposit for maturity periods of 12, 24, 36, 48, 60, 84 and 120 months. On maturity of the recurring deposit, the corpus will be transferred to a fixed deposit for a period of 60 months so as to give the benefit of maximum interest rate. The interest on the corpus built is paid to the customer monthly at a discounted rate. The quantum of the monthly payout to the customer will depend on the interest rate applicable at the time of conversion of Recurring Deposit to fixed deposits. Loan facilities against these deposits are available to the depositors. We have formed a network with correspondent banks for fund transfers and rupee drawing arrangements with a several exchange houses in the Middle East.

Fees based activities

Foreign Exchange Operations

We started our foreign exchange business in the year 1997. All our branches are eligible to provide following services:

- Foreign currency remittances.
- Issue and purchase of Traveler's Cheque.
- Issue and purchase of Foreign drafts /cheques/currency.
- Extending Export Credit both in Indian Rupee and Foreign Currency
- Issue of Foreign Letter of credit and providing Import Related services.

All foreign exchange transactions are conducted strictly adhering to FEMA/RBI guidelines/EXIM policy/stipulations and guidelines of GOI. Branches other than 'B' category branches are also permitted to undertake foreign exchange business, through the designated 'B' category branch. All the 'B' category branches are on Core Banking Platform and are equipped with the latest secured transmission facility like SWIFT (Society for Worldwide Inter bank financial telecommunication connection).

The dealing room and Nostro accounts transactions are maintained at the Integrated Treasury at Mumbai. The treasury department handles the following main activities viz. Foreign Exchange Dealings, Money Market Dealings, Trade Finance activities and FCNR-B and NRE Accounts.

We maintain Nostro accounts in the following currencies US Dollar, Great Britain Pound, Euro, Japanese Yen, Australian Dollar and Canadian Dollar. Bank's IFB branch maintains seven Nostro Accounts of various Exchange Houses based in the Middle East

The Bank is servicing its Exporters and Importers through its 17 designated 'B' category branches for their spot and Forward transactions for hedging their receivables/payables through high tech IP Messaging system.

Capital Adequacy Ratio

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, 1988. With a view to adopting the Basel Committee framework on capital adequacy norms which takes into account the elements of risk in various types of assets in the balance sheet as well as off-balance sheet business and also to strengthen the capital base of banks, RBI decided in April 1992 to introduce a risk asset ratio system for banks (including foreign banks) in

India as a capital adequacy measure. This requires us to maintain a minimum ratio of capital to risk adjusted assets and off-balance sheet items of 9%, at least half of which must be Tier 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 (ordinary shares), provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital, Innovative Perpetual Debt Instruments (IPDI) eligible for inclusion as Tier I Capital, perpetual non-cumulative preference shares eligible for inclusion as Tier I and reserves consisting of any statutory reserves, disclosed 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 of undisclosed reserves, revaluation reserves (at a discount of 55%), general provisions and loss reserves (allowed up to a maximum of 1.25% of risk weighted assets), hybrid debt capital instruments (which combine certain features of both equity and debt securities) and subordinated debt. Any subordinated debt is subject to progressive discounts each year for inclusion in Tier II capital and total subordinated debt considered as Tier II capital cannot exceed 50% of Tier I capital. Tier II capital cannot exceed Tier I capital.

With a view to 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% 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 subject to the ceiling of 1.25% of risk-weighted assets. In terms of RBI Mid- Term Review of Annual 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 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. All foreign exchange and gold open position limits carry a 100% risk weight. Capital as per the RBI circular dated June 24, 2004 to cover market risk, has to be calculated in respect of the entire investments portfolio over and above the risk weight for credit risk.

As per regulatory requirements, banks have to maintain a capital to risk asset ratio of 9%. However, as per RBI guidelines issued in September 2002, in addition to other conditions to be complied with for declaration of dividend without approval of RBI, capital to risk asset ratio must also be maintained at 9%.

The CAR for the past three years and as at September 30, 2007 along with Capital Funds and Risk Weighted Assets are given below.

Rs in Lakhs

Year ended	September 30, 2007	March 31, 2007	March 31, 2006	March 31, 2005
Eligible Tier I Capital	14386	12670	10692	8650
Eligible Tier II Capital	5975	7003	6102	5701
Total Capital	20361	19673	16794	14351
Total Risk Weighted Assets	215715	201418	172262	141204
Capital Adequacy Ratio (%)	9.43	9.77	9.75	10.16

The Bank's capital adequacy ratio as at September 30, 2007 was 9.43% as against the RBI stipulation of 9%. RBI has adopted a phased approach to the implementation of the Basel II norms. New capital norms for market

risk have been implemented with effect from the year ended 31 March, 2006 and norms for credit risk and operational risk are proposed to be implemented for Indian banks with presence outside India and foreign banks operating in India with effect from March 31, 2008, while all other Indian banks would be encouraged to migrate to these norms by March 31, 2009.

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 present rights issue is expected to achieve the objective of augmenting Tier I capital of Bank and to further strengthen the capital adequacy ratio.

Basel-II Requirements

The requirements of Basel II are the international capital adequacy framework for banks. These requirements affect the management of all three principal categories of risk. 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 the RBI's guidelines.

In particular, Basel II provides for minimum capital requirements for credit risk and operational risk in addition to the previous requirement of minimum capital for market risk.

The RBI in its Guidelines on the implementation of new capital adequacy framework advised that, at a minimum, banks which do not have presence outside India will implement the standard approach for assessing capital charge on Credit Risk and Basic Indicator Approach for assessing capital charge on Operational Risk with effect from March 31, 2009 with a parallel run from December 31, 2006. We have adopted the Standardized Approach for credit risk, standardized duration approach for market Risk and the Basic Indicator Approach for operational risk.

Based on the RBI's guidelines on the new capital adequacy framework, the capital requirements have been calculated from June, 2006 on a parallel basis. Our capital to risk weighted assets ratio ("CRAR") position as at September 30, 2007 under the different approaches is given below:

(Rs. in lakhs)

Particulars	Risk Weighted Assets	
	Basel I (Existing)	Basel II (New framework)
Credit Risk	209626	173735
Market Risk	6089	6089
Operational Risk		17098
Interest Rate Risk in Banking Book		--
Grand Total	215715	196922
Total Capital	20361	20361
CRAR	9.43%	10.33%

Asset Classification, Provisioning, NPA management

Asset Classification

Classification of our assets is in accordance with the RBI Guidelines. We categorize our assets broadly in four categories viz Standard assets, Non performing assets which are further classified into Sub Standard Assets, Doubtful Assets and Loss Assets. 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. 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.

As per extant RBI guidelines, provision has to be made at rates given below:

- Sub standard asset - 10%
- Doubtful asset -I - 20% (upto one year)
- Doubtful asset -II - 30% (1-3 years)
- Doubtfull asset-III - 100% (above 3 years)
- Loss asset - 100%

Once the account is classified as an NPA, interest already debited to the account which is not collected is derecognised and further interest is recognised on cash basis and not on accrual basis. Our asset classification for the last three years and as at September 30, 2007 is as under:

(Rs. in lakhs)

Nature of Assets	31.03.2005	31.03.2006	31.03.2007	30.09.2007
Sub-standard	1085	1727	1935	1291
Doubtful – I (upto 24 months)	3995	1483	1274	1368
Doubtful – II (24-48 months)	3900	4127	2504	2311
Doubtful – III (beyond 48 months)	4171	4401	3981	4082
Loss Assets	2689	2420	2466	2496
Standard Assets	135382	154845	180660	186282
Total advances	151222	169003	192820	197831
Gross Advances	147560	165983	190288	195206
Gross NPAs	12556	11138	9628	8924

Category wise advances in absolute and percentage terms for the last three years and as at September 30, 2007 are as under:

(Rs. in lakhs)

Category of assets	31.3.2005		31.3.2006		31.3.2007		30.09.2007	
	Amount	% of total assets	Amount	% of total assets	Amount	% of total assets	Amount	% of total assets
Standard	135382	89.53	154845	91.62	180660	93.69	186282	94.16
Substandard	1085	0.72	1727	1.03	1935	1.00	1291	0.65
Doubtful	12066	7.98	10011	5.92	7759	4.02	7762	3.92
Loss	2689	1.77	2420	1.43	2466	1.29	2496	1.26
Total	151222	100.00	169003	100.00	192820	100.00	197831	100.00

Owing to a series of initiatives taken, our gross NPAs have declined to Rs. 9628 lakhs as at March 31, 2007 from Rs. 14815 lakhs as at March 31, 2003. The table below sets forth the movement of NPAs in the last three years and as at September 30, 2007:

RECOVERIES IN NPA ACCOUNTS

(Rupees In lakhs)

Particulars	31.03.05	31.03.06	31.03.07	30.09.07
Opening balance	17251	16218	14158	12160
Reduction in NPAs	3772	5539	5808	1708
New Additions	2739	3479	3810	1096
Closing balance *	16218	14158	12160	11548

* including Interest in suspense

The year wise comparative position of NPA level of the Bank is as under:

(Rupees In lakhs)

PARTICULARS	31.03.05	31.03.06	31.03.07	30.09.07
Total advances	151222	169002	192821	197831

PARTICULARS	31.03.05	31.03.06	31.03.07	30.09.07
Int. susp. on NPA	3662	3020	2532	2625
Int. susp. on std. Assets (Government dues)	0.00	0.00	0.00	0
Gross advance (Excl. int. susp.)	147560	165983	190288	195206
ECGC Claim held	174	110	66	65
Provision held	6876	6539	6339	6539
Net advance	140504	159334	183883	188602
Gross NPA	12556	11138	9628	8923
Net NPA	5506	4489	3223	2319
% of Gross NPA	8.51	6.71	5.06	4.57
% of Net NPA	3.92	2.82	1.75	1.23

Total NPA for the bank (incl. Interest susp) = Rs. 12160 lakhs. (as on 31.03.2007)

Further, our sector wise NPAs as on September 30, 2007 were as follows:

(Rs. in lakh)

Sr. No.	Sector	No. of accounts	Balance outstanding	Interest Suspense
1	Agriculture	389	123.92	18.07
2	Agriculture/ allied	366	237.31	49.00
3	SSI	290	1280.30	259.40
4	Small Business	1182	679.23	116.32
5	Retail Trade	945	603.17	128.11
6	Prof & Self-employed	538	203.71	36.66
7	Transport Operators	148	132.63	27.43
8	Education	24	29.37	5.13
9	Housing	101	320.34	53.70
10	Non-Priority Sector	3202	7938.48	1931.08
	T o t a l	7185	11548.46	2624.90

With a view to avoiding fresh NPAs, we have devised the following strategies to actively monitor our loans, particularly special mentioned accounts. In addition, we have identified 4 Asset Recovery Management centres viz.: Coimbatore, Chennai, Bangalore and Ernakulam where the incidence of NPA is very high. There are a cluster of branches in each centre. Special Recovery Officers have been posted to these centres to supplement the efforts of the respective Branch Managers and other functionaries in achieving the desired level of recoveries.

The Bank periodically conducts Recovery Melas in identified centres, in order to settle maximum number of NPA accounts by giving waiver/remissions. The melas are attended by Senior Executives so as to enable taking spot decisions based on the merit of each account.

With a view to settling the NPA accounts under Government Sponsored Schemes, revenue recovery camps are being conducted by our Bank.

Setting up of Adalats

As per RBI Circular dated 02.05.2001, Adalats were set up at various Centres to settle the NPA accounts, classified as Doubtful or Loss assets up to a cut off limit of Rs. 5.00 Lakh. The Bank makes use of the services of the Adalats for one time settlement of accounts. In fiscal 2007, we made a recovery of Rs.77.38 lakhs by using services of these adalats.

Suit filed accounts

Since a major portion of NPA accounts are blocked in suit filed accounts, special focus is being laid on the follow up/out of court settlement of such accounts. In fiscal 2007, we made a recovery of Rs.1093.34 lakhs under this head.

One-Time Settlements

We have formulated policy guidelines with a view to arriving at one-time settlements. The guidelines are based on security, recovery and cost aspects. We are giving concessional interest for OTS, based on the merit of each account. We have settled 499 accounts and have recovered Rs.1001.70 lakhs in fiscal 2007 in comparison to 637 accounts with a recovery of Rs.1543 lakhs in fiscal 2006.

Corporate Debt Restructuring

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 to minimise the losses to the creditors and other stakeholders through an orderly and coordinated restructuring program. The corporate debt restructuring system is a non statutory mechanism and a voluntary system based on debtor-creditor and inter-creditor agreements. Any lender having a minimum 20% exposure in term loan or working capital may make a reference to the 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 vide circular DBOD.BP.BC.No. 45-21.04.132-2005-06 dated November 10, 2005 amended the above guidelines on CDR.

SARFAESI PROCEEDINGS

To facilitate speedy recovery, Banks have been empowered by the securitization ordinance. We are also effectively utilizing the tool in reducing the NPAs. The recovery made during the year 2006-07 was Rs.1209 lakhs and recovery made during 2007-08 from 01.04.07 to 30.09.07 was Rs.558 lakhs

Recovery Camps

The Bank is conducting Recovery camps at various centres calling borrowers for discussions and arriving at settlements

Asset Liabilities Management System of the Bank

We have an Asset Liability Management (ALM) system covering all our assets and liabilities. The ALM functions are governed by the ALM policy, which was reviewed comprehensively during the year. Our ALM is responsible for balance sheet planning from a risk-return perspective and strategic management of liquidity risk and interest rate risk. The ALM functions are governed and reviewed by the Asset Liability Committee (ALCO). ALCO's responsibilities broadly include the following:

- Implementation of ALM on an on-going basis.
- Monitoring our market risk levels.
- Moving our treasury operations to an integrated approach.
- Monitoring the structure of our balance sheet in light of the RBI's capital adequacy norms.
- Articulating our current interest rate view and devising business strategies such as product pricing for deposits and advances.

Credit Risk Management

Managing credit risk is at the core of all banking activity. We define credit risk as the possibility of losses associated with the diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to the inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement or other financial transactions.

Credit Risk related to lending is being addressed by the Bank's Credit Policy, Credit Monitoring Policy while Credit Risk related to trading, hedging and settlement are addressed through Investment / Treasury Policy, Asset Liability Management (ALM) Policy, Recovery Policy of the Bank. All these policies cover comprehensively risk management perspectives, in addition to business aspects.

The policy documents evolved detail the strategy the bank has, in addressing its target markets, risk tolerance, risk acceptance/ avoidance, risk diversification/ concentration, besides credit risk measurement, monitoring and controlling mechanisms.

Credit exposures beyond the threshold of Rs. 100 lakhs are subjected to Internal Rating and exposures beyond Rs.300 lakhs are subjected to Rating Validation by the Risk Management Department. Further, Prudential Exposure norms set are also monitored periodically and appraised to the Board.

Credit Policy

We have revised our credit policy on May 14, 2007 in the light of significant changes that have taken place in the macroeconomic environment. Accordingly, our policies of the Bank on bill discounting, real estate, NBFC, capital markets and micro credit have been restated and formulated.

The present policy envisages the achievement of credit plus investments (non-SLR) to deposits ratio of 70% which is considered a more desirable benchmark compared to CD ratio in view of various funding options, other than bank borrowings, available to corporates in the liberalised environment. The position in this regard as on March 31, 2007 is 69.76%. However, the CD ratio of the Bank as on March 31, 2007 is 65.37%.

Credit policy and related matters are placed before the Credit Policy Committee (CPC) constituted for the purpose comprising of the heads of credit, credit monitoring and administration, risk management, planning and operations departments.

The CPC would oversee issues relating to credit policy and procedures and analyze, manage and control credit risk, as prescribed. Proposals regarding credit product development are also being placed before the CPC for approval before Board consent.

Our Credit Process involves the following stages:

1. Credit Marketing;
2. Credit Processing;
3. Credit Sanction;
4. Credit Monitoring and Administration.

We generally obtain personal guarantee from the promoter of the corporate, or his personal assets as collateral security. This is generally successful in respect of small and medium enterprises as large enterprises do not often offer personal guarantees/ collaterals. Moreover, the value of personal guarantees may not match the large exposure. In such cases, the credit decision will have to depend to a higher degree on the track record of the promoters and the viability of the project/business.

Internal Credit Rating / Scoring Mechanism

Identifying, measuring, monitoring and controlling risk in an Asset Product (Loans/ Advances) is done through a process of Credit Rating (for large loans/advances), Credit Scoring (for relatively smaller loans/advances viz., retail credits, structured products etc.). Credit Rating / Scoring, tries to slot the borrower by assigning a 'Rating' which should typically signify the 'quality of the asset' during its tenure in the books of the Bank. The Standard Appraisal process followed by the Bank has measures capturing qualitative and quantitative parameters (which includes financial and non-financial parameters) to help in credit risk decision making. The Bank has a set Rating framework with 10 rating grades from AAA to F (ie. 7 Grades for performing assets and 3 Grades for Non-performing assets) which helps in standardising the Credit Risk measurement. The revised Rating models implemented suiting to the current requirements and best practices, address the aspects of granularity, structure, dimension in the Rating Framework. Separate set of models are deployed for exposures to Corporates, Traders, SMEs and others to capture the risk characteristics of the exposure. Apart from the Internal Rating system in vogue, Bank has in place scoring models for some of the structured retail credits. The Scoring is done as per the underlying parameters standardized by way of eligibility criterion adopted.

The rating exercise is carried out based on audited financials of the previous years. Rating needs to be reviewed along with review/renewal of assets at annual intervals based on audited financials. Bank has fixed minimum investment Grade for exposures.

Industry exposure

Exposure caps are prescribed to ensure a fairly diversified spread of the credit portfolio to avoid credit concentrations either to a sector or to any borrower/group. The caps are fixed taking into account the relative RBI guidelines and market situation, skill sets available internally, economic indicators, ALM requirements, regulatory issues, etc.

Taking into consideration the above, single party corporate exposure cap is presently fixed at 15% of the Bank's capital funds. Group exposure cap is fixed at 40% of capital funds. However, these caps would be 20% and 50% respectively, in case of exposure to infrastructure. The caps are in line with RBI guidelines in this regard. The sector-wise exposure caps are furnished below:

Industry/Sector	Percentage to Total Net Advances
Real Estate excluding Housing loan	12
Real Estate including housing loan	20
Infrastructure advances	12.50
NBFCs	5
Textiles	5
Capital Market	40% of Networth
Sugar	5
All other sectors	7.50

Retail Loan Procedures

As per our revised credit policy dated May 14, 2007, we have formulated guidelines to ensure that (a) clean loans/clean TODs are given sparingly (b) Personal loans of unsecured nature are restricted to structured products only and (c) temporary overdrawings to clients of good standing are permitted based on exigencies through appropriate delegation of powers.

Project Finance and Corporate Finance

Corporate Loans are a good avenue for establishing new corporate relationships. They provide a good avenue for profitable deployment of funds for short term at attractive spreads. These are therefore, entertained on a selective basis.

Bank extends credit for project finance and corporate finance by way of working capital loans and term loans for fixed capital requirements.

Sectors to which increased exposure can be considered are chosen subject to the prospects of the economy in general and the sector in particular, keeping in mind the demand/supply scenario in respect of the products/services concerned in the target market. Long term growth prospects based on own studies/reports from rating agencies/data available in public domain would form the basis for such assessment. Cyclical nature of the sectors is also taken into consideration. Credit Policy Committee periodically assesses the scenario on the basis of such study reports and initiates suitable steps by providing necessary advisories to increase/hold/decrease exposure, subject to report to Board. Further, industrial scenario analysis also forms part of the appraisals.

The strategy in respect of Corporate lending is to selectively enter into MBA/ Consortium with other banks in respect of better rated corporates from select industries/sectors to achieve enhanced credit disbursement expected levels.

Credit Approval authority

The Bank has moved towards the Committee Approach for credit approvals, which facilitates application of collective wisdom of the members on credit decisions, and avoids subjectivity in such decisions while enhancing credit skills in the system, in line with the industry best practices. The Bank has introduced

Corporate Credit Committee (CCC) for credit approvals at CO. Zonal Credit Committees (ZCC) headed by Zonal Heads in charge of the respective Zones have also been introduced, with necessary Board approvals. Adequate powers are delegated to the Branch Heads also. Credit proposals beyond the powers of Corporate Credit Committee are placed to the Management Committee/Board for approval.

Treasury

Our Treasury is located at World Trade Centre in Mumbai, the commercial capital of our country. It has state of the art dealing room with infrastructure like SWIFT, RTGS, NDS, Reuters dealing screen etc. It is monitoring the maintenance statutory and discretionary investments. Management of funds through Call/Notice, CBLO, investment in debt and equity products, Foreign Exchange trading, and cover operations are some of the key functions undertaken by them. The Bank has also an active trading desk. Structured products and services are offered to corporates and HNIs by them.

Interest rate risk (IRR)

Interest Rate Risk refers to potential impact on Net Interest Income (NII) or Net Interest Margin (NIM) in the short run or Market Value of Equity in the long run. There are four basic sources of Interest Rate Risk viz. re-pricing risk or gap risk, yield curve risk, options risk and basis risk. The management of Interest Rate Risk is a critical component of market risk management in the Bank. The deregulation of interest rates has exposed the Bank to adverse impacts of interest rate risk. The NII or NIM of the Bank is dependent on the movements of interest rates. Any mismatches in the cash flows (fixed assets or liabilities) or re-pricing dates (floating assets or liabilities), expose Bank's NII or NIM to variations. The earning of assets and the cost of liabilities are closely related to market interest rate volatility.

The Bank will address all material sources of interest rate risk covering gap or mismatch, basis, embedded option, yield curve and price risk exposures. The approach towards measurement of IRR varies with the segmentation of the balance sheet i.e. Trading and Banking Book. The management of IRR in Trading Book is covered in the Investment /Treasury Policy of the Bank, while Interest Rate Risk in the Banking Book is covered in the ALM Policy. Both the policies spell out in detail the tools for interest rate risk measurement, prudential limit setting and monitoring thereof.

Internal audit and inspection

The functions of Inspection and Audit cover the following areas:

- 1) Regular Inspection of Branches, Zonal offices and Head office
 - 2) Concurrent audit of branches and integrated treasury
 - 3) Revenue audit of branches
 - 4) Snap inspections and investigations at branches
 - 5) IS audit of branches
 - 6) Monitoring compliance of RBI directives
 - 7) Inspection of currency chest
- Regular inspection of branches is done once in 18 months in respect of all the Branches except the branches rated Unsatisfactory and in the case of Unsatisfactory rated branches, regular inspection is done once in 12 months.
 - The Bank has not identified any of the Branches as Unsatisfactorily rated. Risk Based Internal Audit of branches is also carried out along with the Regular inspection.
 - Inspection of all the Zonal offices is done once in 2 years and of Head office Departments once in 3 years.
 - 107 branches covering 87.49% of the total business are covered by concurrent audit by external auditors. All branches with a business turnover of Rs.15 crores or advances of Rs.5 crores come under the purview of concurrent audit. These auditors conduct revenue audit also at these branches.
 - Revenue audit is done at those branches where the business is Rs.5 crores and above and where there is no concurrent audit.
 - All branches are subject to surprise inspection.
 - 64 CBS and 11 TBA Branches were subjected to IS audit during the half -year ended September 30, 2007.
 - Currency Chest is inspected in alternate months.

Sector wise Advances

The assets portfolio of the Bank is well diversified. The Bank's exposure to any single borrower/ group is well within the exposure limits prescribed by RBI. Wherever it exceeds, RBI approval is obtained.

(Rs. in lakhs)

Sector	Outstanding as on 30/09/2007
Agricultural advances	22612
Small Scale Industry	26958
Advances to housing	14162
Educational loans	1781
Other Priority Sector	23539
Medium Industries	6418
Large industries	11141
Advances for purchase of consumer durables	1326
Advances to individuals/brokers against shares	152
Real estate advances	12824
Advances to abkari contractors	24
Food Credit	5029
Personal loans	1219
Staff Overdraft	841
Export Credit	4053
Infra other than Agriculture	11821
NBFCs	3122
Other advances	50809
Total	197831

Industry wise outstanding as on September 30, 2007

(Rs. in lakhs)

Industry	Outstanding
Mining	573
Iron & Steel	300
Engineering	4587
Other Metals & Metal Products	2811
Textiles	5897
Sugar	213
Food Processing	2370
Vegetable Oil & Vanaspathi	478
Paper & Paper Products	399
Rubber & Rubber Products	5251
Chemicals ,Dyes & Paints	4804
Cement	409
Gems & Jewellery	4634
Construction	6059
Automobiles	418
Computer Software	601
Infrastructure	13521
NBFCs	3122
Other Industries	2817
Residual Advances	138567
Total advances	197831

Market Risk Management

Market Risk is the possibility of loss caused by changes in the market variables such as interest rate, foreign exchange rate, equity price and commodity price. Market Risk Management of a Bank involves management of interest rate risk, foreign exchange risk, commodity price risk and equity price risk. Besides, it is also concerned about the Bank's ability to meet its obligations as and when they fall due, which can vary with market conditions. With progressive deregulation over the last few years, market risk is on the rise and small change in market variables can cause substantial changes in income and economic value of the bank.

In order to deal with the above risk issues, the Bank has in place an Asset Liability Management policy and an Investment /Treasury Policy which are duly approved by the Board. These policies detail the various tools and guidelines for market risk identification, market risk measurement and risk mitigation. The policy prescriptions and operating guidelines as laid down in the above policies shall be followed for Market Risk Management. Bank has constituted Asset Liability Management Committee and also a Supervisory Committee of Directors i.e., Risk Management Committee (RMC) on Risk Management and ALM to oversee the Risk Management and ALM functions in the Bank and monitor the progress in its implementation. The composition and the Role of Asset Liability Committee (ALCO), the ALM Support Group are detailed in the Asset Liability Management Policy.

The ALCO studies the liquidity risk and interest rate risk on the basis of fortnightly monthly statements of structural liquidity and interest rate sensitivity. ALCO also recommends for hike/revision in Rate of Interest based on the gap analysis and market trends.

Operational Risk

We have adopted the maiden Operational Risk Policy in the year 2006-07, in the light of the changes happening in the supervisory and regulatory environment and also in tune with the 'Guidance Note on Management of Operational Risk'. It broadly covers Operational Risks in Generic Banking Operations, Outsourcing and Business Continuity aspects.

Liquidity Risk Management

The Liquidity Risk management aspects are covered in the ALM policy, which was reviewed comprehensively during the year. The ALM functions are governed and reviewed by the Asset Liability Committee (ALCO). ALCO deliberates on various ALM issues to manage liquidity, interest-rate and earnings risks. As Liquidity Management assumes greater importance in ALM, the Bank tries to maintain optimal liquidity to carry out the operations in a smooth and efficient manner. The quantum of such requirement would be decided by the Treasury Department/ Investment Committee on a day to day basis.

The Structural Liquidity Statement (SLS) and Short Term Dynamic Liquidity Statement (DLS) are the basis to monitor Liquidity mismatches. The prudential limits for liquidity mismatches as approved by the Board of Directors are monitored on a fortnightly basis. The Bank proactively tries to manage liquidity within the limits set and wherever the negative gap/ mismatch exceeds the prudential limits set, the Bank will use the funding options available, viz., refinance, borrowings under repo, term money, call, CBLO etc. to fix the gap/ mismatch.

Maturity Profile of Asset Liability as on September 30, 2007 is as follows:

(Rupees in lakhs)

Due within	Advances	Investments	Foreign currency		Deposits	Borrowings
			Assets	Liabilities		
1 to 14 days	17302	1305	1190	658	24569	-
15 to 28 days	6705	--	637	106	16133	-
29 days upto 3 months	11872	2982	5984	1368	28801	-
Over 3 months and upto 6 months	9494	4313	270	1055	20128	-
Over 6 months and upto 1 year	12750	26145	-	1840	74796	-
Over 1 year	73911	2794	-	863	147647	-

Due within	Advances	Investments	Foreign currency		Deposits	Borrowings
and upto 3 years						
Over 3 years and upto 5 years	25713	11857	-	110	10705	-
Over 5 years	30918	53280	-	-	1952	-
Total	188666	102676	8081	6000	324730	-

Technology

We have tied up with one of the specialized software vendor for setting up our core banking system in our entire banking system. As on December 31, 2007 we have established core banking system in our 154 branches, these branches almost account for 96% our total business. The Core Banking module among others include General Ledger, Customer Information System, MIS, Risk Management, Letters of Credit & Guarantees, Bills & Collection, Corporate Loans, Foreign Exchange, Funds Transfer, Savings, Current and Time deposit Accounts. The helpdesk of CBS is managed from Data Centre, Bangalore. Also, our 27 branches have been fully automated.

As on December 31, 2007, we had 67 ATMs. We have outsourced the ATM service to M/s Euronet. We are also issuing Visa International ATM cum Debit Cards and are having arrangements with CashTree, Cashnet and Infinet for shared ATM network. Mobile recharge facility is also provided through ATMs. We provide mobile banking services in all our CBS branches on real time basis.

We have an information system security policy to oversee the implementation and monitoring of Information System Security in Bank periodically. Further we are in process of setting up disaster recovery site.

Customer Service

The Bank accords top priority to extending quality customer service. With this end in view, it has constituted Customer Service Committees at all Branches and Zonal Offices, which meet every quarter to assess the quality of service rendered and the scope for further improvement in their command area. Customer meets are also organized at periodical intervals by all branches. There is also a Customer Service Committee at Board as well as Corporate Office levels to monitor the implementation of the prescribed guidelines in this key area. The Bank has also implemented the recommendations on customer service by the Goiporia and Tarapore Committees. The employees of the Bank are trained on an ongoing basis on various aspects of service quality. One of the key reasons for migration of branches into Core Banking is the scope available through advanced technology for improving the range and quality of our customer service.

MICRO CREDIT

Recognising micro finance intervention as an effective tool for poverty alleviation, we have streamlined the Self Help Group Bank linkage as a major programme, enhancing the outreach of micro credit through 121 out of 172 branches. As on September 30, 2007, a total of 17770 SHGs are having SB account in the Bank out of which 9514 groups are graded for direct linkage. The number of groups under direct financial linkage is 7336. Direct assistance to Self Help Groups amounted to Rs.3737 lakhs, while finance extended through the medium of NGOs accounted for Rs.10421 lakhs. The total sanctions under Micro credit are Rs. 14158 lakhs.

We constantly give training and organise awareness programmes for the Self Help Groups, with a view to inculcating saving habits and build confidence to take up income generating activities.

The position of assistance under micro credit as on September 30, 2007:

Number of groups assisted	Number of families assisted	Amount of financial assistance extended so far
30768	457376	Rs. 14158 lakhs

Realising the abundant potential under micro credit, we have set up a “Strategic Business Unit” (SBU) which exclusively deals with micro credit with a view to achieving the desired momentum. It offers credit, savings, insurance and remittance facilities to the urban and rural poor.

As on 31.03.2007, Kudumbasree (State poverty eradication mission, local govt department) has adjudged our Bank as the Best Banker for its active participation in the poverty reduction efforts of Kudumbasree and for supporting community based organizations of the poor.

Employee

As at December 31, 2007, we had 1419 employees (including part-time employees). The following table sets forth the number of our employees as at the dates indicated:

	March 31, 2005	March 31, 2006	March 31, 2007	December 31, 2007
Officers	506	646	651	710
Clerks	634	602	596	591
Sub Staff	160	124	125	105
PTSK*	13	13	13	13
Total	1313	1385	1385	1419

* Part Time Safai Karmachari

The HR policies of the Bank have been designed to enhance the knowledge and skills of employees to enable them to better their career prospects and contribute, at the same time, to organizational prosperity. The Bank has cordial relations with various organizations representing the interests of employees. Employee welfare attracts priority in the Bank’s scheme of things. The entire workforce is attuned to the changing milieu in a service industry like banking and has imbibed the philosophy of customer delight as only route to organizational growth and development. All HR policies and practices are designed towards the above objectives only.

Properties

The Bank owned 18 properties at various places as on December 31, 2007. This includes the Head Office premises at Thrissur, besides buildings housing our Zonal Office at Thrissur and branches at Pushpagiri, Thrissur Main, Desom, Parli, Mattancherry, Cochin, Ahmedabad and Kalparamba. The Bank also owns flats at Mumbai and Chennai. Data Centre at Bangalore is functioning in own building at ITPL, Bangalore.

KEY REGULATIONS AND POLICIES

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

Reserve Bank of India Regulations

Commercial banks in India are required under the Banking Regulation Act to obtain a license from RBI to carry on banking business in India. Before granting the license, RBI must be satisfied that certain conditions are complied with, including (i) that the bank has the ability to pay its present and future depositors in full as their claims accrue; (ii) that the affairs of the bank will not be or are not likely to be conducted in a manner detrimental to the interests of present or future depositors; (iii) that the bank has adequate capital and earnings prospects; and (iv) that the public interest will be served if such license is granted to the bank. RBI can cancel the license if the bank fails to meet the above conditions or if the bank ceases to carry on banking operations in India.

We, being licensed as a banking company are regulated and supervised by RBI. RBI requires us to furnish statements, information and certain details relating to our business. It has issued guidelines for commercial banks on recognition of income, classification of assets, valuation of investments, maintenance of capital adequacy and provisioning for non-performing assets. RBI has set up a Board for Financial Supervision, under the chairmanship of the Governor of RBI. The appointment of the auditors of banks is subject to the approval of RBI. RBI can direct a special audit in the interest of the depositors or in the public interest.

Regulations relating to the Opening of Branches

Section 23 of the Banking Regulation Act provides that banks must obtain the prior approval of RBI to open new branches. Permission is granted based on factors such as the financial condition and history of the banking company, its management, adequacy of capital structure and earning prospects and the public interest. RBI may cancel the license for violations of the conditions under which it was granted. Under the banking license by RBI, at least 25.0% of branches are to be located in rural and semi-urban areas. A rural area is defined as a center with a population of less than 10,000. A semi-urban area is defined as a center with a population of greater than 10,000 but less than 100,000. These population figures relate to the 2001 census conducted by the Government of India. In September 2005, RBI issued a new branch authorization policy in terms of which the system of granting authorizations for opening individual branches from time to time was replaced by a system of aggregated approvals on an annual basis. RBI discusses with individual banks their branch expansion strategies and plans over the medium term. The term "branch" for this purpose has been defined to also include extension counters, offsite ATMs, administrative offices and back offices. While processing authorization requests, RBI gives importance to the nature and scope of banking services particularly in under-banked areas, actual credit flow to the priority sector and efforts to promote financial inclusion, the need to induce enhanced competition in the banking sector, the bank's regulatory compliance, quality of governance, risk management and relationships with subsidiaries and affiliates.

Capital Adequacy Requirements

We are subject to the capital adequacy requirements of RBI, which, based on the guidelines of the Basel Committee on Banking Regulations and Supervisory Practices, 1998, currently require 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, the core capital, provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital, reserves consisting of any statutory reserves and innovative perpetual debt instruments issued in compliance with extant regulations issued by RBI for inclusion in Tier I capital as reduced by equity investments in subsidiaries, intangible assets and losses in the current period and those brought forward from the previous period. In fiscal 2003, RBI issued a guideline requiring a bank's deferred tax asset to be treated as an intangible asset and deducted from its Tier I capital.

Tier II capital includes undisclosed reserves, 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 are able to support losses on an ongoing basis without triggering liquidation), 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.

RBI has issued guidelines permitting banks to issue perpetual debt with a call option which may be exercised after not less than 10 years, with its prior approval, for inclusion in Tier I capital up to a maximum of 15% of total Tier I capital, RBI also permitted banks to issue debt instruments with a minimum maturity of 15 years and a call option after not less than 10 years, to be exercised with its prior approval, for inclusion in Tier II capital. In July 2006, RBI issued guidelines permitting the issuance of Tier I and Tier II debt instruments denominated in foreign currencies.

Risk adjusted assets and off-balance sheet items considered for determining the capital adequacy ratio are the risk weighted total of specified funded and non-funded exposures. Degrees of credit risk expressed as percentage weighting have been assigned to various balance sheet asset items and 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. Standby letters of credit and guarantees are treated as similar to funded exposure and are subject to similar risk weight. All foreign exchange open positions carry a 100.0% risk weight. Capital requirements have also been prescribed for open positions in gold. Since fiscal 2004, RBI has increased risk weights on various categories of loans. Currently residential mortgages are risk weighted at 75.0% (other than loans upto Rs 2.0 million with loan-to-values ratio below 75.0%, which are risk weighted at 50.0% from May 2007), consumer credit and capital market exposure at 125.0%, exposure to commercial real estate and venture capital funds at 150.0% and other loans/credit exposures at 100.0%. RBI issued guidelines on securitization of standard assets on February 1, 2006. The guidelines define true sale, criteria to be met by special purpose vehicles set up for securitization, policy on provision of credit enhancement facilities, liquidity facilities, underwriting facilities and provision of services. The guidelines also cover capital requirements on securitization, prudential norms for investment in securities issued by special purpose vehicles, accounting treatment of the securitization transactions and disclosure requirements. In April 2007, RBI issued prudential guidelines pursuant to which securitisation exposures, which need to be deducted from regulatory capital, will have to be deducted 50.0% from Tier I and 50.0% from Tier II capital. The guidelines have also specified differential risk weight mapping based on the rating of the securitization exposure taken by the originator/ investor.

Effective March 31, 2001, banks and financial institutions were required to assign a risk weight of 2.5% in respect of the entire investment portfolio to cover market risk, over and above the existing risk weights for credit risk in nongovernment and non-approved securities. In fiscal 2002, with a view to the building up of adequate reserves to guard against any possible reversal of the interest rate environment in the future due to unexpected developments, RBI 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, by fiscal 2006. This reserve had 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. In June 2004, RBI issued guidelines on capital for market risk. The guidelines prescribe the method of computation of risk-weighted assets in respect of market risk. The aggregate risk weighted assets are required to be taken into account for determining the capital adequacy ratio. Banks were required to maintain a capital charge for market risk in respect of their trading book exposure (including derivatives) by year-end fiscal 2005 and securities included under available for sale category by year-end fiscal 2006. In October 2005, RBI specified that banks that maintain capital for both credit risk and market risk for both held for trading and available for sale categories at year-end fiscal 2006 would be permitted to treat the entire balance in the investment fluctuation reserve as Tier I capital.

In February 2005 RBI had issued draft Basel II guidelines which it further modified to issue revised draft guidelines in March 2007. In April 2007, RBI issued final guidelines for the implementation of a revised Basel-II capital adequacy framework that would be effective year-end fiscal 2008 for banks that have an international presence. The guidelines for the capital adequacy framework include an increase in the minimum Tier-I CAR from 4.5% to 6.0% and, the introduction of capital for operational risk as per Basel II. Further, the risk weight for consumer credit and residential mortgages will continue to remain at 125.0% and 75.0% (risk weights for residential mortgage loans of less than Rs. 2.0 million would be 50.0%). The capital adequacy norms stipulate a capital charge on undrawn commitments. The norms also increase the risk weights for loans to domestic corporates without a solicited external rating to 150.0% in a phased manner as compared to 100% currently. The same applies to loans to non-resident corporates (for loans greater than Rs. 100.0 million) without a rating from an international rating agency.

Loan Loss Provisions and Non-Performing Assets

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

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

Asset Classification

A non-performing asset is an asset in respect of which any amount of interest or principal is overdue for more than 90 days (180 days until year-end fiscal 2003). In particular, an advance is a non-performing asset where:

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

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

Interest in respect of non-performing assets is not recognized or credited to the income account unless collected.

Non-performing assets are classified as described below.

Sub-Standard Assets: Assets that are non-performing assets for a period not exceeding 12 months (18 months until year-end fiscal 2004). In such cases, the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery of dues to the banks in full. Such an asset has well-defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the bank will sustain some loss, if deficiencies are not corrected.

Doubtful Assets: Assets that are non-performing assets for more than 12 months (18 months until year-end fiscal 2004). A loan classified as doubtful has all the weaknesses inherent in assets that are classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

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

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

RBI also has separate guidelines for restructured loans. A fully secured restructured standard loan can be restructured by reschedulement of principal repayment and/or the interest element, but must be separately disclosed as a restructured loan. The amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved. Similar guidelines are applicable to substandard assets. The sub-standard accounts which have been subjected to restructuring, whether in respect of principal installment or interest amount, by whatever modality, are eligible to be upgraded to the standard category only after the specified period, i.e., a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period. RBI has issued separate guidelines concerning debt-restructuring mechanisms for small and medium enterprises. RBI has issued draft guidelines on rescheduling of loans covering all categories of loans.

To put in place an institutional mechanism for the restructuring of corporate debt, RBI has devised a corporate debt restructuring system.

Provisioning and Write-Offs

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

- ***Standard Assets:*** A general provision of 0.40% (0.25% upto fiscal 2005) is required (excluding direct advances to the agriculture and small and medium enterprise sectors for which the requirement continues to

be 0.25%). In fiscal 2007, RBI increased the general provisioning requirement for standard advances in specific sectors including residential housing loans greater than Rs 20 lakhs from 0.40% to 1.00% in the following manner:

- i) 0.55% by June 30, 2006;
- ii) 0.70% by September 30, 2006;
- iii) 0.85% by December 31, 2006; and
- iv) 1.00% by March 31, 2007.

In January 2007, RBI increased the general provisioning requirement for real estate sector loans (excluding residential housing loans), credit card receivables, loans and advances qualifying as capital market exposure, personal loans and exposures to non-deposit taking systemically important non-banking financial companies to 2.0%.

- *Sub-Standard Assets:* A general provision of 10.0% of the total outstanding is required. However, unsecured exposures which are identified as substandard attract an additional provision of 10.0%, i.e., a total of 20.0% on the outstanding balance.
- *Doubtful Assets:* A 100.0% write-off is required to be taken against the unsecured portion of the doubtful asset and charged against income. The value assigned to the collateral securing a loan is the amount reflected on the borrower's books or the realizable value determined by third party appraisers. For the secured portion of assets classified as doubtful, 20.0% provision is required to be made for assets that have been classified as doubtful for a year, 30.0% for assets that have been classified as doubtful for one to three years and 100.0% provision for assets classified as doubtful for more than three years.
- *Loss Assets:* The entire asset is required to be written off or provided for, i.e., a 100.0% provision.
- *Restructured Loans:* The amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

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

Regulations relating to Making Loans

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

- RBI has prescribed norms for bank lending to non-bank financial companies and financing of public sector disinvestment.
- Banks are free to determine their own lending rates but each bank must declare its prime lending rate as approved by its Board of Directors. Banks are required to declare a benchmark prime lending rate based on various parameters including cost of funds, non-interest expense, capital charge and profit margin. Each bank should also indicate the maximum spread over the prime lending rate for all credit exposures other than retail loans. The interest charged by banks on advances up to Rs. 200,000 to any one entity (other than certain permitted types of loans including loans to individuals for acquiring residential property, loans for purchase of consumer durables and other non-priority sector personal loans) must not exceed the prime lending rate. Banks are also given freedom to lend at a rate below the prime lending rate in respect of creditworthy borrowers and exposures. Interest rates for certain categories of advances are regulated by RBI.

- Section 21A of the Banking Regulation Act provides that the rate of interest charged by a bank shall not be reopened by any court on the ground that the rate of interest charged by a bank is excessive. In May 2007, RBI notified that the boards of banks should lay down internal principles and procedures so that interest rates charged by banks are in conformity with normal banking prudence and are not usurious. The Banking Regulation Act provides for protection to banks for interest rates charged by them.

In terms of Section 20(1) of the Banking Regulation Act, a bank cannot grant any loans and advances against the security of its own shares, a banking company is prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company (not being a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, 1956, or a government company) of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor. There are certain exemptions in this regard as the explanation to the section provides that 'loans or advances' shall not include any transaction which RBI may specify by general or special order as not being a loan or advance for the purpose of such section.

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

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

Loans to the borrower are classified as non-performing and at least 75.0% by value of the banks and financial institutions in the consortium or multiple banking 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 realization. However, banks may sell specific financial assets with an agreement to share in any surplus realized 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 75.0% by value of the banks or financial institutions accept the offer, the remaining banks or financial institutions are obliged to accept the offer. Consideration for the sale may be in the form of cash, 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.

Guidelines on Sale and Purchase of Non-performing Assets

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

Priority Sector Lending

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

100 lakhs per borrower. One-third of loans in excess of Rs. 100 lakhs per borrower would also be considered as direct finance while the remaining two-thirds would constitute indirect finance.

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

In addition, fresh investments made by banks with National Bank for Agriculture and the Rural Development in lieu of non-achievement of priority sector lending targets will no longer be considered as indirect finance subsequent to end fiscal 2007. However, the existing investments in such bonds would continue to be classified as indirect agriculture finance till 2010.

Export Credit

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

Credit Exposure Limits

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

The limits currently set by RBI are as follows:

- The exposure ceiling for a single borrower is 15.0% of capital funds and group exposure limit is 40.0% of capital funds. In case of financing for infrastructure projects, the exposure limit to a single borrower is extendable by another 5.0%, i.e., up to 20.0% of capital funds and the group exposure limit is extendable by another 10.0%, i.e., up to 50.0% of capital funds. Banks may, in exceptional circumstances, with the approval of their Board of Directors, consider enhancement of the exposure to a borrower up to a maximum of further 5.0% of capital funds, subject to the borrower consenting to the banks making appropriate disclosures in their annual reports.
- Capital funds is the total capital as defined under capital adequacy norms (Tier I and Tier II capital).
- Exposure shall include credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments). Non-fund based exposures are calculated at 100.0% and in addition, banks include forward contracts in foreign exchange and other derivative products, like currency swaps and options, at their replacement cost value in determining individual or group borrower exposure ceilings, effective April 1, 2003.

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

Limits on exposure to Non-Banking Finance Companies

On December 12, 2006, RBI issued guidelines on the financial regulation of systemically important non-banking financial companies and banks' relationship with them with a view to remove the possibility of regulatory arbitrage leading to an uneven playing field and potential systemic risk. Within non-deposit taking non-banking financial companies, the guidelines classify those with an asset size above Rs. 1.00 billion as per the last audited balance sheet as systemically important. These non-banking financial companies are required to maintain a minimum capital to risk weighted assets ratio of 10.0%, in addition to conforming with single and group exposure norms. The guidelines restrict banks' holding in a deposit taking non-banking financial company, excluding housing finance companies, to 10.0% of the paid up equity capital of the entity. The total exposure to a single non-banking financial company has been limited to 10.0% of the bank's capital fund while exposure to a non-banking asset finance company has been restricted to 15.0% of the bank's capital fund. The limit may be increased to 15.0% and 20.0% respectively provided that the excess exposure is on account of funds lent by the non-banking finance company to infrastructure sectors.

Regulations relating to Investments and Capital Market Exposure Limits

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

Of its total investment in non-Statutory Liquidity Ratio securities as at the end of the preceding fiscal year with a sub-ceiling of 5% for investments in bonds of public sector undertakings. These guidelines do not apply to

investments in security receipts issued by securitization or reconstruction companies registered with RBI and asset backed securities and mortgage backed securities with a minimum investment grade credit rating. These guidelines were effective April 1, 2004, with provision for compliance in a phased manner by January 1, 2005.

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

Consolidated Supervision Guidelines

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

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

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

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

Effective April 1, 2007 RBI has revised norms for capital market exposure. As per the new guidelines, consolidated capital market exposure by way of investment in shares, convertible debentures, and units of equity oriented mutual funds and loans to brokers should not exceed 40.0% of consolidated net worth. Within this limit direct investment in shares, convertible bonds/debentures, units of equity oriented mutual funds and all exposures to ventures capital funds have been restricted to 20.0% of consolidated net worth.

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

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

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

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

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

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

Limit on Transactions through Individual Brokers

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

Regulations relating to Deposits

RBI has permitted banks to independently determine rates of interest offered on term deposits. However, banks are not permitted to pay interest on current account deposits. Further, banks may only pay interest of up to 3.5% per annum on savings deposits.

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

Starting April 1998, RBI has permitted banks the flexibility to offer varying rates of interests on domestic deposits of the same maturity subject to the following conditions:

- Time deposits are of Rs. 15 lakhs and above; and
- Interest on deposits is paid in accordance with the schedule of interest rates disclosed in advance by the bank and not pursuant to negotiation between the depositor and the bank.

Till fiscal end 2007 interest rates on non-resident rupee term deposits of one to three years maturity were not permitted to exceed the LIBOR/ SWAP rates for US dollar of corresponding maturity. Similarly interest rates on non-resident rupee savings deposits were not permitted to exceed the LIBOR/SWAP rate plus 50 basis points for six months maturity on US dollar deposits and are fixed quarterly on the basis of the LIBOR/SWAP rate of US dollar on the last working day of the preceding quarter. In the Annual Policy Statement for fiscal 2008 RBI reduced the interest rates on non-resident foreign currency savings deposits by 50 basis points to LIBOR/SWAP minus 75 basis points and reduced the interest rate on nonresident rupee term deposits of one to three years by 50 basis points to the LIBOR/SWAP rate. The interest rate on non-resident savings deposits is at the rate applicable to domestic savings deposits.

Regulations relating to Knowing the Customer and Anti-Money Laundering

RBI issued a notification dated November 29, 2004 prescribing guidelines for Know Your Customer and anti money laundering procedures. Banks are required to have a customer acceptance policy laying down explicit criteria for acceptance of customers and defining risk parameters. A profile of the customers should be prepared based on risk categorization. Banks have been advised to apply enhanced due diligence for high-risk customers. The guidelines provide that banks should undertake customer identification procedures while establishing a banking relationship or carrying out a financial transaction or when the bank has a doubt about the authenticity or the adequacy of the previously obtained customer identification data. Banks need to obtain sufficient information necessary to establish the identity of each new customer and the purpose of the intended banking relationship. The guidelines also provide that banks should monitor transactions depending on the account's risk sensitivity. In February 2006, RBI issued guidelines on the obligations of banks under the Prevention of Money Laundering Act, 2002. RBI also issued anti money laundering guidelines to other entities such as non-bank finance companies and authorized money changers.

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

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

Regulations on Asset Liability Management

At present, RBI's regulations for asset liability management require banks to draw up asset-liability gap statements separately for rupee and for four major foreign currencies. These gap statements are prepared by scheduling all assets and liabilities according to the stated and anticipated re-pricing date, or maturity date. These statements have to be submitted to RBI on a quarterly basis. RBI has advised banks to actively monitor the difference in the amount of assets and liabilities maturing or being re-priced in a particular period and place internal prudential limits on the gaps in each time period, as a risk control mechanism. Additionally, RBI has asked banks to manage their asset-liability structure such that the negative liquidity gap in the 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. In respect of other time periods, up to one year, RBI has directed banks to lay down internal norms in respect of negative liquidity gaps. In April 2006, RBI issued draft guidelines on improvements to banks' asset liability management framework.

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

Foreign Currency Dealership

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

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

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

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

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

Restrictions on Payment of Dividends

In May 2005, RBI issued guidelines stating that a bank may declare dividends only if all of the following conditions are met:

- Capital adequacy ratio is at least 9.0% for the preceding two completed years and the accounting year for which Bank proposes to declare a dividend.
- Net non-performing asset ratio is less than 7%.

- We are in compliance with the prevailing regulations and guidelines issued by RBI, including the creation of adequate provision for the impairment of assets, staff retirement benefits, transfer of profits to statutory reserves, etc.
- The proposed dividend will be paid out of the current year's profit.

Banks that are eligible to declare dividends under the above rules can do so subject to the following:

- The dividend payout ratio (calculated as a percentage of dividend payable in a year to net profit during the year) must not exceed 40%. The maximum permissible dividend payout ratio would vary from bank to bank, depending on the capital adequacy ratio in each of the last three years and the net non-performing asset ratio.
- In case the profit for the relevant period includes any extraordinary income, the payout ratio must be calculated after excluding that income for compliance with the prudential payout ratio.
- The financial statements pertaining to the financial year for which the bank is declaring a dividend should be free of any qualification by the statutory auditors, which might have an adverse effect on the profit during that year. In case there are any such qualifications, the net profit should be suitably adjusted while computing the dividend payout ratio.

Moratorium, Reconstruction & Amalgamation of Banks

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

Statutes Governing Foreign Exchange and Cross-Border Business Transactions

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

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

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

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

Legal Reserve Requirements

Cash Reserve Ratio

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

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

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

The cash reserve ratio is 7.5% effective November 10, 2007. Further, effective April 13, 2007 RBI does not pay any interest on cash reserve ratio balances.

The cash reserve ratio has to be maintained on an average basis for a fortnightly period and should not be below 70% of the required cash reserve ratio on any day of the fortnight.

Statutory Liquidity Ratio

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

Requirements of the Banking Regulation Act

Prohibited Business

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

Reserve Fund

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

Payment of Dividend

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

Restriction on Share Capital and Voting Rights

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

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

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

Restrictions on Investments in a Single Company

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

Regulatory Reporting and Examination Procedures

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

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

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

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

Assets to be Maintained in India

Every bank is required to ensure that its assets in India (including import-export bills drawn in India and RBI approved securities, even if the bills and the securities are held outside India) are not less than 75% of its demand and time liabilities in India.

OUR HISTORY AND CERTAIN CORPORATE MATTERS

A. HISTORY AND MAJOR EVENTS

We were incorporated by a group of local residents of Thrissur in 1927 with an authorized capital of Rs. 20,000. Over a period of time we have expanded our branch network and reach to different parts of the country. As on December 31, 2007 we had 181 branches in the country. With this, our operations covered the entire Southern India apart from a strong presence in Kerala. During the initial years, emphasis was laid on socio economic activities and thus the operations were largely confined to personal Banking.

We have obtained Restricted Foreign Exchange Licence which permits us to maintain rupee accounts of Non Residents. We have also expanded to Consumer Banking, Corporate Banking and Merchant Banking.

Our Milestones

The key milestones of the Bank are as under:

Year	Milestone
1927	Incorporation of the Bank
1977	We became a scheduled bank
1996	The Bank went public with an IPO
1996	Total business crosses Rs. 1000 crores.
2003	The Bank launched its comprehensive and centralized banking solution which will run on Flexcube platform, provided by i-flex Solutions Limited.
2003	The Bank has been awarded the BS EN ISO 9001:2000 Quality Management System Certification for management of banking operations at its corporate office.
2007	Total business crosses Rs. 5000 crores.

B. MAIN OBJECTS OF THE BANK

1. To carry on the business of Modern Banking in all its phases such as:
 - a. to offer various deposit schemes including daily deposit scheme, monthly deposit scheme, fixed deposit scheme, saving deposit scheme, recurring deposit scheme, special deposit scheme;
 - b. granting loans and advances with or without collateral security of any form or kind;
 - c. discounting bills of exchange and other negotiable instruments;
 - d. undertaking the remittance of money by the issue of drafts, letters of credit, circular notes and the buying and selling of foreign currency;
 - e. to receive all kinds of bonds, securities and all kinds of valuables including movable properties, jewels, title deeds, receipts, instruments, agreements, licences for safe custody or otherwise and to provide safe deposit vaults;

- f. to buy, acquire, issue on commission, deal, sell, dispose of, exchange, convert, underwrite, manage, sponsor, place, subscribe, participate, invest in and hold whether on its own account or on behalf of any person, body corporate, company, society, firm or association of persons whether incorporated or not, shares, stocks, funds, debentures, debenture stocks, units, futures, options, derivatives, hybrid instruments including various money market and capital market instruments, promissory notes, bills of exchange, bonds, warrants, participation certificates or participation units, obligations and securities and investments of all kinds issued or granted by any Government, State, Dominion, sovereign body, corporation, public body or authority, supreme, local or municipal or company or body, whether incorporated or not, or by any person or association;
- g. promoting and financing industrial, trading and manufacturing concerns;
- h. to act as agents, trustees, executors, receivers, treasurers, custodians and undertake and execute trusts and administrate estates;
- i. undertaking the management of businesses of banking concerns, amalgamation with or absorption of such business on terms that may be fixed by the Company;
- j. undertaking and carrying on all kinds of guarantee or indemnity business for the Company's constituents;
- k. acquiring and holding properties, movables or immovables, or any rights or privileges thereon;
- l. maintaining, managing or realizing all properties movables and immovables and all securities that may come into the possession and ownership of the company in the course of its business;
- m. to establish and support or aid in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the company or the dependants or connections of such persons, granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent object or for any exhibition or for any public, general or useful object;
- n. organising the conducting chit funds and kuries under the kuri regulations in force in the State;
- o. to offer various treasury services including sophisticated risk management products and solutions;
- p. to adopt measures for the promotion of thrift and banking habits among the middle and poor class;
- q. to open, establish, maintain and operate Currency Chests and small coin depots on such terms and conditions as may be required by the Reserve Bank of India established under the Reserve Bank of India Act, 1934 and enter into all administrative or other arrangements for undertaking such functions with the Reserve Bank of India;
- r. to promote, set-up, establish and administer mutual funds of all types as may be permitted by the Reserve Bank of India, either singly or in association with other Bank/Financial Institutions and/or to promote, set-up, establish, incorporate, register or otherwise bring into existence wholly owned or partly owned or partly owned subsidiary companies, firms, trusts or any other form of organization for the purpose of undertaking and carrying on such mutual fund business;
- s. to undertake dealings in Foreign Exchange Transactions involving maintenance of Foreign Currency Deposits, Export Credits, Import Credits, Negotiation of Bill of Lading, Foreign Letters of Credit, correspondence arrangements with other banks and all other ancillary business where Foreign Currency transactions are involved and all other types of businesses permitted by the Reserve Bank of India and in accordance with the Exchange Control regulations;
- t. to engage in or carry on any activity of Leasing, Hire Purchase, or Factoring either singly or in association with other Bank's / Financial Institutions;

- u. to undertake credit card, debit card, pre-paid card, smart card or any other card business and business of similar or identical nature either alone or in association with other Banks or business organizations or entities specialized in the business of this kind and to establish and maintain card acceptance network (including physical, electronic, computer or automated machines network);
- v. to act as agents for any Government or local authority or any other person or persons and to carry on agency business of any description including clearing and forwarding of goods, give receipts and discharges and otherwise act as an attorney on behalf of customers, but excluding the business of a managing agent or secretary and treasurer of a company;
- w. to provide custodial, depository participant services and to do all such other things as may be advantageous, permitted or required for the said purposes;
- x. to assist in creation, promotion, expansion and modernization, participate in the capital, render advisory services and offer solutions in various fields such as foreign exchange, management, finance, investment, commerce, law, economics, accountancy, taxation, human resources, public relations, electronics, computers, information technology, infrastructure, telecommunication, quality control, strategic restructuring, valuation and appraisal;
- y. to issue, subscribe, acquire, trade or deal in bullion and specie and to carry on the business of providing various services and schemes with regard to futures, options, derivatives, hybrid instruments including various Money Market and Capital Market Instruments;
- z. to provide cash management and transactional banking solutions to customers;
- aa. to provide various products and banking services of any kind including money transfers, payment of bills, taxes and deposits and offer B2B and B2C services through internet / phone / mobile / mail / and other telecom innovative channels, information technology channels and to provide alternate delivery channels like ATMs and POS Terminals, tele-banking, net-banking and mobile-banking;
- ab. to carry on and render investment and advisory services and programs and provide financial solutions, information, data, rating and give advice on various investment avenues;
- ac. to provide trust services for efficient administration of securities of various persons to help those persons maximize returns, meet their fiduciary responsibilities and improve their liquidity and return on their investments;
- ad. to undertake Insurance or Assurance business of all kinds as agents or franchisees or brokers of insurance or assurance companies and to sell, market, distribute and deal in insurance products;
- ae. to undertake distribution of insurance products and/or to form joint venture companies for undertaking insurance business with risk participation and/or to invest in the capital of insurance companies and provide infrastructure and other support services;
- af. to securitise, purchase, acquire, invest in, transfer, sell, dispose of or trade in any financial asset whatsoever, movable or immovable properties, tangible or intangible properties, receivables, debts, whether unsecured or secured by mortgage or charge or otherwise, securitised debts, assets or mortgage backed securities or mortgage backed securitised debts and to manage, service or collect the same and to appoint managing, servicing or collection agents therefor and to issue certificates or other instruments in respect thereof to public or private investors and to guarantee and insure the due payment, fulfilment and performance of obligations in respect thereof or in connection therewith and to promote, establish, undertake, organize, manage, hold or dispose of any special purpose entity, body corporate or vehicle for carrying on all or any such activities.

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

Changes in Memorandum of Association

The Changes in the Memorandum of Association of the Bank since September 20, 1991 are as under:

Date	Changes
September 20, 1991	Amendment to the Main Objects Clause to include the authority to open and operate currency chests and small coin depots.
July 26, 1993	Amendment to the Main Objects Clause authorizing the Bank to promote, set-up, establish and administer mutual funds of all types as may be permitted by the Reserve Bank of India; and to undertake dealings in Foreign Exchange Transactions Subdivision of the authorized share capital of the Bank comprising of 40,00,000 equity shares having a face value of Rs. 50/- each into 2,00,00,000 equity shares of Rs. 10/- each.
September 28, 1994	Amendment to the Main Objects Clause authorizing the Bank to engage in or carry on activity of Leasing, Hire Purchase, or Factoring, singly or in association with other Bank's / Financial Institutions;
July 28, 2000	Increase in authorized capital from Rs. 20 crores comprising 2 crore equity shares of Rs. 10 each to Rs. 50 Crores comprising 5 crore equity shares of Rs. 10 each.
October 5, 2002	Amendment to the Main Objects Clause authorizing the Bank: <ul style="list-style-type: none"> (i) to offer various deposit schemes; (ii) to receive bonds, securities and valuables for safe custody or otherwise and to provide safe deposit vaults; (iii) to deal with securities and investments of issued or granted by any Governmental body, corporation, public body or company or body, whether incorporated or not, or by any person or association; (iv) to act as agents, trustees, executors, receivers, treasurers, custodians and undertake and execute trusts and administrate estates; (v) to establish and support or aid in the establishment and support of associations, institutions, funds, charitable trusts etc; (vi) to provide trust services for efficient administration of securities (vii) to offer various treasury services (viii) to undertake credit card, debit card, pre-paid card, smart card or any other card business (ix) to provide custodial, depository participant services (x) to issue, subscribe, acquire, trade or deal in bullion and specie (xi) to carry on and render investment and advisory services and programs and provide financial solutions (xii) to undertake Insurance or Assurance business (xiii) to undertake distribution of insurance products; (xiv) to securitise, purchase, acquire, invest in, transfer, sell, dispose of or trade in any financial asset;
September 23, 2005	Increase in authorized capital from Rs.50 Crores comprising 5 crore equity shares of Rs. 10 each to Rs. 100 Crores comprising 10 crore equity shares of Rs. 10 each

Strategic or Financial Partners

We do not have any strategic or financial partners.

DIVIDENDS

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

Financial Year	Dividend	
	Rate	Amount (<i>In Rs. lakhs</i>)
Fiscal 2007	Nil	Nil
Fiscal 2006	5%	160.29
Fiscal 2005	Nil	Nil
Fiscal 2004	5%	160.29
Fiscal 2003	15%	480.87

OUR MANAGEMENT

BOARD OF DIRECTORS

As per the Articles of Association of the Bank, the Bank must have a minimum of 3 and a maximum of 11 Directors. At present, the Bank has 9 Directors.

Name, address, nationality and Occupation	Designation	Age	Date of Appointment and Term	Other Directorships	DIN
<p>Mr. A.D. Navaneethan</p> <p>“Thangam”, No.5 (Old No. 4-C), Prof. Subramaniam St, Kilpauk, Chennai – 600 010.</p> <p>Nationality: Indian</p> <p>Occupation: Banking</p>	Part Time Chairman	69	Appointed on August 29, 2003 as a director.Re- appointed on March 30, 2005 as Part Time Chairman for 3 years.	Nil	00220765
<p>Mr. P.S. Prasad</p> <p>Current residential address: Flat A1, Omega Royal Park, Near West End Super Market, Thrissur 680002</p> <p>Permanent address: 1293, 8th Main West of Chord Road II Stage, Mahalingapuram Bangalore 560086</p> <p>Nationality: Indian</p> <p>Occupation: Service</p>	Manging Director and Chief Executive Officer (CEO)	53	Appointed on November 26, 2005 for 3 years.	Nil	00206204
<p>Mr. Suresh Balasubramaniam</p> <p>20, Sea Glimpse, Worli Hill Road, Worli, Mumbai- 400 018</p> <p>Nationality: Indian</p> <p>Occupation: Business</p>	Independent Director	44	Appointed on September 28, 2006. Liable to retire by rotation.	<ul style="list-style-type: none"> • Great Offshore Ltd. • Lehren Media Services Pvt. Ltd. • Lehren Broadband Content Pvt. Ltd. • Lehren Mobility Pvt. Ltd. • Lehren Technologies Pvt. Ltd. • Quartet Financial Services Pvt. Ltd. 	00424602
<p>Ms. Nandini Rangaswamy</p> <p>1388, Pioneer House, Avinashi Road, Peelamedu,</p>	Independent Director	44	Appointed on July 7, 2003. Liable to retire by rotation	<ul style="list-style-type: none"> • Magna Electro Castings Ltd. • Chandra Textiles Pvt. Ltd. • Chandra 	00002223

Name, address, nationality and Occupation	Designation	Age	Date of Appointment and Term	Other Directorships	DIN
Coimbatore - 641 004. Nationality: Indian Occupation: Business				<ul style="list-style-type: none"> Automobiles India Pvt. Ltd Lakshmigraha Apparels Pvt. Ltd Lakshmigraha Enterprises Sri Rangavilas Ginning & Oil Mills Chandra Electronics Lakshmigraha Worldwide Inc. 	
Mr. D. Lakshminarayanan “Karthika” Ayyappa Nagar, Punkunnam, Thrissur – 680 002. Nationality: Indian Occupation: Business	Independent Director	69	Appointed on August 29, 2003. Liable to retire by rotation	<ul style="list-style-type: none"> Terra Tile Consortium Pvt. Ltd. Kalyanam Tile Company 	00424278
Mr. Vidyadhara Rao Chalasani 6542, RFD, Long Grove IL – 60047 United States of America Nationality: United States of America Occupation: Business	Independent Director	63	February 16, 2005 for 5 years.	<ul style="list-style-type: none"> Advise America (USA) UNUM Film Creations Pvt. Ltd. 	00472205
Mr. V. Jagannathan New No. 5/3 Kasturi Estates 3 rd Street, Poes Gardens Chennai - 600018 Nationality: Indian Occupation: Consultant	Independent Director	63	Appointed on March 7, 2005. Liable to retire by rotation.	<ul style="list-style-type: none"> Star Health & Allied Insurance Co. Ltd. 	01196055
Mr. Ghyanendra Nath Bajpai 131 Shhan Apartment, K.D. Marg Prabhadevi Mumbai 400 028	Independent Director	65	Appointed on September 26, 2007. Liable to retire by rotation.	<ul style="list-style-type: none"> Future Generali Life Insurance Co. Ltd. Future General Insurance Company Ltd. 	00946138

Name, address, nationality and Occupation	Designation	Age	Date of Appointment and Term	Other Directorships	DIN
Nationality: Indian Occupation: Business				<ul style="list-style-type: none"> • Future Capital Holdings Limited • Emmar MGF Land Ltd. • Intuit Consulting Private Ltd. • Invent Asset Securitisation & Reconstruction Co. Pvt. Ltd. • Epitome Global Private Ltd. • Informerics Valuation & Rating Private Ltd. • Mandhana Industries Private Ltd. • IDE India • Apnaloan.com Services Private Limited • Nitesh Estates Private Limited • Kshitij Investment Advisory Company Limited • Indivision Investment Advisors Limited 	
Mr. Kadapala Srikanth Reddy 443A/56, Road No – 86, Jubilee Hills, Hyderabad – 5000 33 Nationality: Indian Occupation: Agriculture and Business	Independent Director	54	Appointed as Additional Director on October 29, 2007. Term valid till next Annual General Meeting	<ul style="list-style-type: none"> • OMCON Realtors and Developers (P) Limited 	01433626

The Reserve Bank of India has, in exercise of its powers under Section 36 (1)(d)(iii) of the Banking Regulation Act, 1949, deputed Ms. Parvathy Vairavasundaram and Mr. R.N. Panigrahi as Observers to watch the proceedings at the meetings of the Board of Directors of the Bank and the Audit Committee.

Brief biography of Directors

Mr. A.D. Navaneethan

Aged 68, was appointed on the Board of the Bank on August 29, 2003. Mr. Navaneethan was appointed as the Part Time Chairman of the Bank on March 30, 2005 for a period of 3 years pursuant to the approval granted by the Reserve Bank of India. Mr. Navaneethan has completed his M.A, LLB and the CAIIB. Mr, Navaneethan was previously the Chairman and CEO of the Karur Vysya Bank for the period 1993 – 2002. He was also the member of the Managing Committee of the IBA representing the old private sector banks. He has experience spanning 40 years in the banking sector.

Mr. P.S. Prasad

Aged 53, is our Managing Director and Chief Executive Officer and has been appointed on November 26, 2005 for a period of 3 year pursuant to the approval of the Reserve Bank of India. Mr. Prasad is a Bachelor of Science and Engineering. Prior to joining the Bank, Mr. Prasad was the General Manager of Al Khuwair Development & Services Co., Muscat. He has 24 years of experience on the banking sector having worked with the State Bank of India and ICICI Bank previously. As the Managing Director and CEO of the Bank, Mr. Prasad oversees the day to day operations of the Bank.

Mr. Suresh Balasubramaniam

Aged 44, was appointed on the Board of the Bank as an independent director on September 28, 2006. He is a commerce graduate and a Chartered Accountant. Mr. Subramaniam has 18 years of experience in financial services. He was the MD & CEO of American Orient Capital Partners India P. Ltd for the period April 1999- May 2004. Prior to this, he served in Credit Lyonnais from 1990 to 1999 as head of Merchant Banking, Project Finance and Correspondent Banking. Presently he advises on mergers & acquisitions and financing in the international capital markets.

Ms. Nandini Rangaswamy

Aged 44, was appointed on the Board of the Bank as an independent director on July 7, 2003. She is an industrialist having over 20 years decades of business experience in textile sector as a director of Chandra Textiles Private Limited. She is also handling the affairs of various institutions run by the GRG Trust as its secretary and correspondent. Ms. Rangaswamy was the Chairperson of Confederation of Indian Industries, Coimbatore chapter during the period 2004-05. She has established educational institutions and is the Secretary/ Correspondent of the institutions.

Mr. D. Lakshminarayanan

Aged 69, was appointed on the Board of the Bank as an independent director on August 29, 2003. He is a Bachelor of Science and has a Diploma in Commerce. He has 36 years of industrial experience in the business of tile manufacturing and is presently the managing partner of the Kalyanam Tile Company

Mr. Vidyadhara Rao Chalasanani

Aged 63, was appointed on the Board of the Bank as an additional/independent director on February 16, 2005. He has completed his MS (Polymer Science) and MS (Chemical Engineering). He has over three decades experience in financial services. He is presently the Director of Advice America (California, U.S.A) a provider of wealth management technology platform and software tools to financial institutions. During 1987-2000, he was the chief investment strategist of Wachovia Securities. He has presented reports on US Economy and the globalisation process.

Mr. V Jagannathan

Aged 62, was appointed on the Board of the Bank as an additional/independent director on March 7, 2005. He has completed his MA in Economics and has 36 years of experience in the finance sector and especially in insurance business. At present, he is the Managing Director of Star Health & Allied Insurance Co. Ltd. Mr. Jagannathan was the Chairman cum Managing Director of the United India Insurance Company Limited from March 2001 to October 2004. He was also the Chairman of General Insurers Public Sector Association of India (GIPSA), which is a Co-ordinating body for all the four public sector General Insurance Companies.

Mr. Ghyanendra Nath Bajpai

Aged 65, is an independent and non-executive director of the Company. Mr. Bajpai became a director of the Company in September 2007. Mr. Bajpai has had a distinguished career in the Indian financial sector and is currently a director of Future Generali Life Insurance Company Limited, Future Generali Insurance Company Limited, Intuit Consulting Private Limited, Invent ARC Private Limited, Epitome Global Private Limited, Informerics Valuation and Rating Private Limited, Mandhana Industries Private Limited and IDE India. Mr. Bajpai had been the Chairman of SEBI during the period September 2000 to February 2002, Life Insurance Corporation of India during the period February 2002 to February 2005 and the Corporate Governance Task Force of International Organisation of Securities Commission during the period October 2003 to February 2005 and the Chairperson of the Insurance Institute of India during September 2000 to September 2002. He has also been a member of the Board of Directors of General Insurance Corporation of India, ICICI Bank, Unit Trust of India, Axis Bank and Indian Railway Finance Corporation. Mr. Bajpai is a member of Reserve Bank of India's Standing Technical Committee on Financial Regulation and Board of Advisors of Indian Army Group Insurance Fund. He has served in the Governing Board of the National Insurance academy in the past. Mr. Bajpai is on the Board of Governors of the Indian Institute of Management (Lucknow). He has delivered lectures at the London School of Economics, Harvard University and the Massachusetts Institute of Technology and has addressed the Organisation of Economics Co-operation and Development (OECD) and International Monetary (IMF). Mr. Bajpai has written three books and was awarded the "Outstanding Contribution to the Development of Finance" on January 13, 2005. Mr. Bajpai completed his Master of Commerce degree from the University of Agra and his Bachelor of Laws degree from the University of Indore. Mr. Bajpai did not receive any remuneration from The Dhanalakshmi Bank Limited in the year ended March 31, 2007

Mr. Kadapala Srikanth Reddy

Aged 54, was appointed as an additional Director on the Board of the Bank on October 29, 2007. He represents Agriculture and Rural Economy pursuant to Section 10A of the Banking Regulation Act 1949. Mr. Reddy has completed his B.Com and M.B.A. Mr Reddy has been in Indian Civil Services for over 16 years and worked in Ministries of Planning and Programme Implementation, Food Processing Industries, Defense, Communications, Welfare and Tourism and Civil Aviation.

Terms of Appointment of Part Time Chairman

Salary

Rs.50,000/- per month.

Perquisites

- (i) Free telephone (for Official purpose)
- (ii) Free use of Banks Car for official purpose. If the car used for private purpose also a sum of Rs. 250/- per mensem shall be payable by the Chairman to the bank. Such non – duty journeys shall not exceed 750 kms in a month; journey

- from residence to office and vice versa being treated as duty runs, Charges for private use of the banks car in excess of 750 kms limit will be recoverable at the rate of Rs. 2/- for petrol vehicles and Rs.1.25/- for diesel vehicles per Km.
- (iii) There shall be no Provident Fund / Gratuity/ Pension, Medical benefits, leave fare concession and leave (casual / ordinary / sick)
 - (iv) Medical Benefits: shall be full reimbursement for self and family.
 - (v) Travelling and Halting allowance: Actual – Hotel accommodation (five star).

Terms of Appointment of Managing Director & CEO

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

Salary Rs.1,25,000/- per month in first year and an increment of Rs.10000/-every year.

- Perquisites**
- i) Free furnished house
 - ii) Free telephone (for Official purpose)
 - iii) Free use of Banks Car for official purpose. If the car used for private purpose also a sum of Rs. 250 /- per month shall be payable by MD & CEO to the bank. Such non – duty journeys shall not exceed 2250 kms. In a block of three months (each quarter of financial year), charges for private use of the banks car in excess of 2250 kms limit will be recoverable at the rate of Rs. 2/- for petrol vehicles and Rs.1.25/- for diesel vehicles per Km.
 - iv) There shall be no Provident Fund / Gratuity/ Pension
 - v) Medical Benefits: shall be full reimbursement for self and family.
 - vi) Travelling and Halting allowance: First Class AC if by rail, Business class if by Air.
 - vii) Leave Fare Concession: As applicable to Senior Executives of the Bank.
 - viii) Leave (Casual / Ordinary / Sick): As applicable to Senior Executives of the Bank.

Borrowing powers of the Board of Directors

At the Annual General Meeting held on September 28 1994, the shareholders of the Bank accorded their consent, pursuant to Section 293(1)(d) of the Companies Act, 1956, to the Board of Directors to borrow from time to time any sum or sums of money which together with the money already borrowed by the Bank (apart from temporary loans obtained from the bankers of the Bank in the ordinary course of business) shall not exceed in the aggregate at any one time Rs.100 Crores irrespective of the fact that such aggregate amount of borrowing outstanding at any one time may exceed the aggregate for the time being of the paid up capital of the Bank and its free reserves, that is to say, reserves not set apart for any specific purpose.

Compensation of Directors

Other than the Managing Director and Chief Executive Officer, all Directors are non-executive Directors and are not paid any remuneration other than the sitting fees for attending the meetings of the Board / Committee of Directors. The Board has not constituted a Remuneration Committee as the remuneration and other perquisites paid to the Part-time Chairman and Managing Director & CEO are as approved by the Reserve Bank of India.

CORPORATE GOVERNANCE

Our Bank has complied with the SEBI Guidelines in respect of Corporate Governance, particularly those relating to composition of Board of Directors, constitution of committees such as Audit Committee, Shareholder/ Investor Grievance Committee, etc.

1. Audit Committee

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

Name	Designation
Mr. Suresh Balasubramaniam	Chairman
Mr. Kadapala Srikanth Reddy	Member
Mr. D. Lakshminarayan	Member
Ms. Nandini Rangaswamy	Member

Brief description of the terms of reference:

In addition to the scope mentioned in the Clause 49 of the Listing Agreement, the role of the Committee includes the following:

- a. Providing direction as also overseeing the operations of the total audit function in the Bank.
- b. Reviewing the internal inspection / audit function – the system, its quality and effectiveness in terms of follow up
- c. Reviewing the first inspection reports of all branches and final review of branches having business of Rs.25 Crore and above.
- d. Focusing on the follow-up of:
 - Reconciliation of inter-branch adjustment accounts
 - Long outstanding entries in inter-bank accounts and nostro accounts
 - Arrears in balancing of books at various branches
 - Frauds and
 - Other key areas of housekeeping
- e. Reviewing half yearly reports from the Compliance Officers appointed in the Bank.
- f. Following up all the issues brought out in the Long Form Audit Report (LFAR) and interacting with the Statutory Auditors before finalisation of the annual financial accounts and reports.
- g. Following up on all the issues / concerns raised in the inspection reports of Reserve Bank of India.
- h. Reviewing with the Management, the quarterly and annual financial statements.
- i. Review, with the management, the statement of uses / application of funds raised through the public issue, the statement of funds utilized for purposes other than those stated in the offer document, and making appropriate recommendations to the Board to take up steps in this matter

Details of meetings held in the last three years

2004-2005

Nine meetings of the Audit Committee were held during the financial year 2004-05. The meetings were held on April 24, 2004; May 14, 2004; July 30, 2004; September 28, 2004; October 29, 2004; December 29, 2004; January 17, 2005; January 29, 2005; and March 29, 2005. The details of attendance of the directors are provided below:

Director	Number of Audit Committee Meetings	
	Held	Attended
Mr. A.D. Navaneethan	9	9
Mr. V.K. Sharma	9	9
Mr. S. Varadachary	8#	6
Mr. E. Madhavan (RBI's Nominee Director)	9	7

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

2005-2006

Seven meetings of the Audit Committee were held during the financial year 2005-06. The meetings were held on April 30, 2005; June 24, 2005; July 29, 2005; October 27, 2005; December 5, 2005; January 27, 2006; and March 30, 2006. The details of the attendance of the Directors are provided below:

Director	Number of Audit Committee Meetings	
	Held	Attended
Mr. V.K. Sharma (Chairman of Committee)	7	7
Mr. A.D. Navaneethan*	3#	3
Ms. Nandini Rangaswamy**	2#	1
Mr. D. Lakshminarayanan***	4#	3
Mr. V. Jagannathan	7	7
Ms. Parvathy	5	3
Vairavasundaram****		

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

* Ceased to be a member of the Committee w.e.f. September 22, 2005

** Inducted to the Committee on December 28, 2005

*** Ceased to be a member of the Committee on September 22, 2005

**** Ceased to be a member of the Committee on November 29, 2005

2006-2007

Seven meetings of the Audit Committee were held during the financial year 2006-07. The meetings were held on May 24, 2006; July 17, 2006; September 18, 2006; October 31, 2006; December 26, 2006; January 29, 2007; and March 10, 2007. The details of attendance of the directors in such meetings are as follows:

Director	Number of Audit Committee Meetings	
	Held	Attended
Mr. V.K. Sharma (Chairman of Committee)*	7	6
Mr. Suresh Balasubramaniam (Chairman of Committee)**	-	-
Ms. Nandini Rangaswamy	7	6
Mr. D. Lakshminarayanan	7	6
Mr. V. Jagannathan***	7	4

* Ceased to be the Chairman and member of the Committee w.e.f. March 10, 2007

** Inducted to the Committee as member and Chairman w.e.f. March 10, 2007

*** Ceased to be a member of the Committee w.e.f. December 12, 2007

2. Shareholders' Grievance Redressal Committee

The Shareholders' Grievance Redressal Committee consists of three members as on date. The Committee is comprised as under:

Name	Designation
Mr. A.D. Navaneethan	Chairman
Mr. P.S. Prasad	Member
Mr. D. Lakshminarayanan	Member

The Shareholders' Grievance Redressal Committee looks into redressal of investors' complaints like transfer of shares, non-receipt of Annual Reports, non-receipt of dividend warrants and other related matters. The Committee also ratifies share transfers / transmission / split / consolidation / name deletion / name transportation

/ dematerialization / rematerialisation. The Committee periodically reviews reports from the Registrar and Share Transfer Agents to monitor grievances redressal.

3. Remuneration Committee

The Board has not constituted a Remuneration Committee as the remuneration and other perquisites paid to the Part-time Chairman and Managing Director & CEO are as approved by the Reserve Bank of India.

We have formed other committees including 1) NPA Monitoring Committee, 2) Large Value Fraud Monitoring Committee, 3) Customer Service Committee, 4) Risk Management Committee, 5) Nomination Committee, 6) Management Committee, 7) Human Resources Development Committee, 8) Information Technology Committee

Shareholding of our Directors in the Bank

Save and except as detailed hereinbelow, none of our directors hold any shares in the Bank. The shareholding of our directors in the Bank as on date of filing is as under:

Sl. No.	Name of Director	No. of shares held	Percentage of shareholding
1.	Mr.A.D.Navaneethan	2200	-
2.	Mr. P.S Prasad	Nil	-
3.	Mr. Suresh Balasubramaniam	200	-
4.	Ms. Nandini Rangaswamy	200	-
5.	Mr. D. Lakshminarayanan	6303	0.02
6.	Mr. Vidyadhara Rao Chalasani	200	-
7.	Mr. V. Jaganathan	200	-
8.	Mr. Ghyanendra Nath Bajpai	890	-
9.	Mr. Kadapala Srikanth Reddy	15,000	0.05

Changes in Directors during the last three years:

The changes in our Board of directors during the last 3 years is as under:

Director	Date of Appointment	Date of resignation	Remarks
Dr. P. Raja Mohan Rao	04.05.1998	16.02.2005	Resigned
Mr. T.R. Madhavan	23.02.2004	27.07.2005	Resigned
Mr. Vidyadhara Rao Chalasani	16.02.2005	-	Appointed as Director
Mr. E. Madhavan	21.02.2003	28.04.2005	Withdrawal of nomination by RBI
Mr. V. Jagannathan	07.03.2005	-	Appointed as Director
Mr. P.S. Prasad	26.11.2005	-	Appointed as MD & CEO
Mr. Venkateswaran AP	30.09.2000	28.09.2006	Retired at AGM
Mr. Varadachary S	28.07.2000	28.09.2006	Retired at AGM
Mr. Suresh Balasubramaniam	28.09.2006	-	Appointed as Director
Mr. T. Umamaheshwara Rao	30.09.2006	-	Appointed as Director
Mr. T. Umamaheshwara Rao	30.09.2006	26-09-2007	Retired as Director
Mr. V.K Sharma	12.06.2000	26-09-2007	Retired as Director
Mr.Ghyanendra Nath Bajpai	26-09-2007	-	Appointed as Director
Mr. Kadapala Srikanth Reddy	29-10-2007	-	Appointed as Additional Director

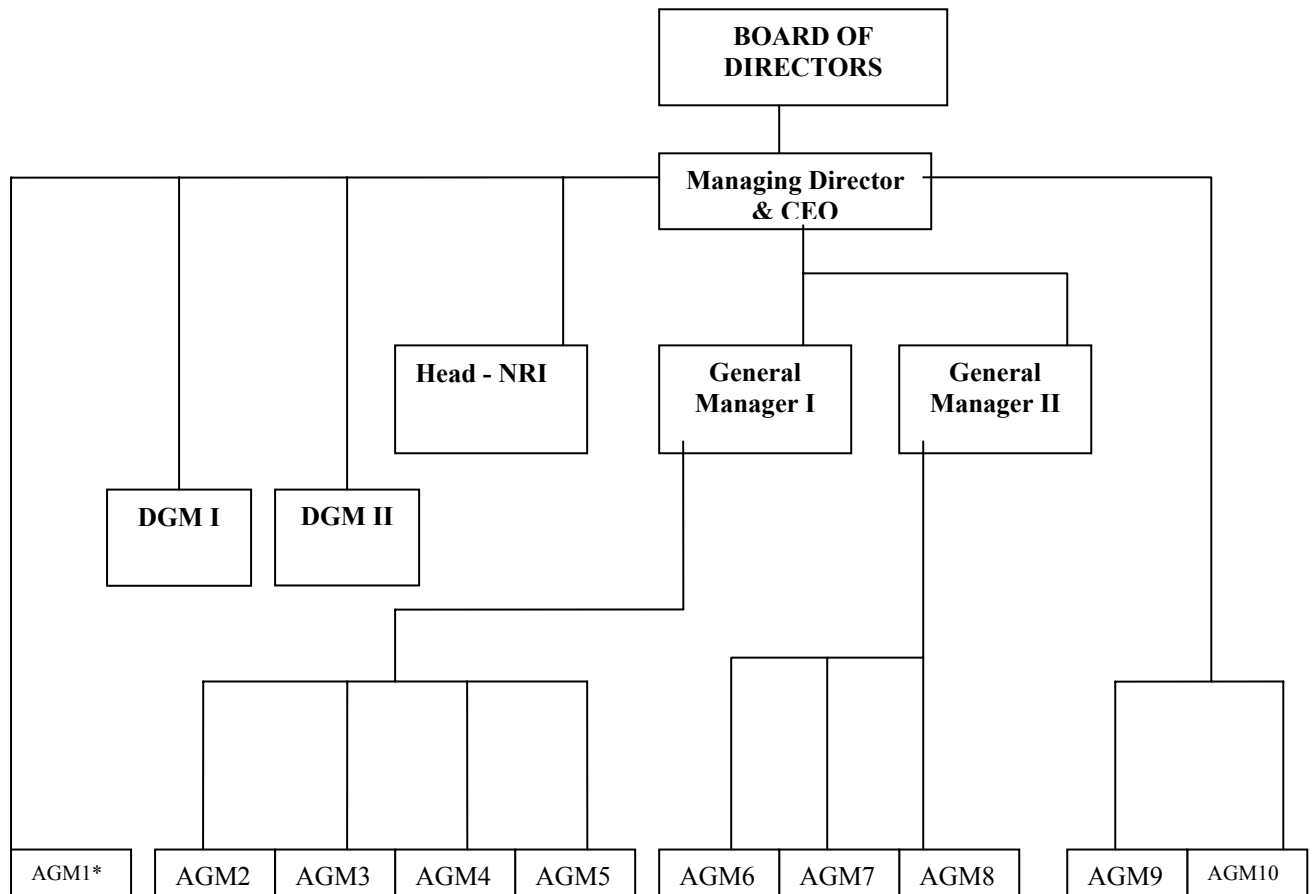
Nature and Interest of Directors

The Directors of the Bank are not interested under the provisions of Sections 299 and 301 of the Act. The part-time Chairman and Managing Director & CEO may be interested to the extent of remuneration paid / payable to them. All other Directors may be deemed to be interested to the extent of fees payable to them for attending meetings of the Board of Directors or any committee thereof as well as to the extent of other remuneration and

reimbursement of expense payable under the Articles / resolutions adopted by the Board of Directors. The Directors are also interested to the extent of shares, if any, held by them in the Bank.

ORGANISATION CHART OF THE BANK

ORGANISATION CHART (CORPORATE OFFICE) AS ON 31.12.07



Please see below for functional responsibilities of Executives.

Functional Responsibilities of Executives

HEAD- NRI	Also holds charge of Non interest Income Group comprising of Bancassurance, Cash Management and Depository Services
GM I	Oversees the functioning of HR and Training, Planning & Development, Accounts & Channel Management besides Business Development of branches in Kerala
GM II	Oversees the functioning of Credit, Fixed Assets, Stressed Assets and Compliance besides Business Development of Branches outside Kerala.
DGM 1	Inspection; also holds charge of Vigilance
DGM 2	Company Secretary and Secretary to Board
AGM 1 *	Treasury . The Positions is now lying vacant and the Senior Manager-in-charge is reporting to GM I
AGM 2	Information Technology
AGM 3	HRD

AGM 4	Planning & Development
AGM 5	Accounts & Administration
AGM 6	Credit Processing
AGM 7	Credit Monitoring
AGM 8	Stressed Assets & Law
AGM 9	Risk Management
AGM 10	Compliance (Basel II)

KEY MANAGERIAL PERSONNEL

The day-to-day management of the Bank is looked after by Mr. P.S. Prasad, Managing Director & CEO. He is assisted in the management of the Bank by a team of qualified professionals. The profile of the key management personnel of the Bank is as follows:

Name	Age (years)	Designation	Qualifications	Previous Employment	Total Experience (years)	Date of Joining	Salary Paid in FY 2007 (Rs.)
Mr. P.S. Prasad	53	MD & CEO	B.Sc., BE	Al Khuwair Development & Services Co.	28	November 26, 2005	1540000
Mr. M Sreedharankutty	51	Head – NRI	B.A., CAIIB	IndusInd Bank	27	July 22, 2004	624000
Mr. P.G. Jayakumar	55	General Manager	B.Sc., CAIIB	---	29	May 16, 1977	512845
Mr. D. Nanha Ram	55	General Manager	M.Sc.	Coastal Local Area Bank Ltd.	30	June 26, 2003	482362
Mr. P.S. Ravikumar	53	DGM (Inspn)	M.Com., CA Inter	---	28	August 04, 1978	446293
Mr. Ravindran K. Warriar	53	Company Secy & Secy to Board	B.Sc., FCS, CA Inter, NCFM, Corporate Governance	Kerela State Electronic Development Corporation Ltd.,	22	September 09, 1993	437677
Mr. Chinmoy Guha	52	DGM Group office, Mumbai	B.Com, CAIIB, Master of Business Statistics(I)	Bank of Rajasthan	28	July 20, 2007	-
Mr. H. Rangarajan	54	AGM (Planning)	M.Sc., MBA CAIIB	Syndicate Bank	32	April 23, 2004	410177
Mr. N.R. Balakrishnan	56	AGM Fort Mumbai Br.	B.Sc., CAIIB	----	33	September 01, 1973	405629
Mr. B.C.M. Prasad	54	AGM, ZO Chennai	M.A., LLB	----	28	August 04, 1978	387397
Mr. S. Suresh Kumar	53	AGM Z.O., Thrissur	B.Com., LLB, CAIIB	Union Bank of India	24	Jan 5, 2005	403560
Mr. G. Krishna Warriar	55	AGM, Tiruppur Br.	M.Sc.	----	30	December 12, 1976	385417
Mr. P. Manikandan	48	AGM Z.O., EKM	M.Com., LLB, CAIIB	CANFIN Homes Ltd.	15	September 25, 2003	398508
Mr. C.M. Muraleedharan	51	AGM Credit Monitoring Cell	B.Sc., PGDBA, CAIIB, LLB	Syndicate Bank	28	Oct 17, 2005	359596
Mr. N. Krishnakumar	38	AGM (Risk Mgt.)	B.Sc., B.Com., MBM, Ph.D , CAIIB	Union Bank of India	8	Dec 5, 2005	358069
Mr. G. Ajith Kumar	50	AGM (Law)	B.Sc., LLB, LLM	Union Bank of India	22	Jan 2, 2006	373774

Name	Age (years)	Designation	Qualifications	Previous Employment	Total Experience (years)	Date of Joining	Salary Paid in FY 2007 (Rs.)
Mr. K.K. Rajan	54	AGM (Credit)	B.Sc., CAIIB	State Bank of India	31	Jan 6, 2006	391409
Mr. Asok Hastagiri	47	AGM – Basel II compliance	B.Com., FCA	Arthur Andersen & Co.	20	April 28, 1997	381344
Mr. Ramadenu Surendra Babu	56	AGM (HRD)	M.Sc (Agri)	Union Bank of India	30	Aug 28, 06	225483
Mr. Jyotirmoy Jain	55	AGM New Delhi	M.Com., CAIIB	Bank of India	31	Sept 13, 06	217611
Mr. N. Raghunathan	48	AGM (Accounts) & CFO	B.Com., CA	Catholic Syrian Bank	12	January 03, 2007	94246
Mr. E.K. Raju Antony	44	AGM (IT)	M.Tech.	Lord Krishna Bank Ltd.	16	April 02, 2007	-
Mr. B. Venkateshwarlu	47	AGM (Hyderabad)	M Com., BL, PG Dip. in Industrial Relations & Per Mgt.	ING Vysya Bank	21	October 10, 2007	-
Mr. M. Narayana	52	AGM (ZO, B'lore)	M Com.	Andhra Bank	29	November 30, 2007	-

All the key managerial personnel listed above are the permanent employees of the Bank as on the date of this Letter of Offer

Bonus or profit sharing plan of the key managerial personnel

Except as required by law, there is no bonus or profit sharing plan for our key managerial personnel. There is no employee stock option scheme or employee stock purchase scheme for any our employees or Directors.

Interest of Directors and key managerial personnel

The key managerial personnel of our Bank do not have any interest in our Bank other than to the extent of the remuneration or benefits to which they are entitled to as per their terms of appointment and reimbursement of expenses incurred by them during the ordinary course of business and to the extent of the Equity Shares held by them in our Bank, if any. The Bank does not have a scheme for grant of stock options, bonus or profit sharing plan for our key managerial personnel.

Except as stated otherwise in this Letter of Offer, we have not entered into any contract, agreement or arrangement during the preceding two years from the date of this Letter of Offer in which our Directors are interested directly or indirectly and no payment have been made to them in respect of these contracts, agreements or arrangements or are proposed to be made to them. Our Directors and our key managerial personnel have not taken any loan from our Bank.

Change in Key Managerial Personnel during the last 3 years

Sl. No	Name	Designation	Appointed / Promoted on	Relieved on	Remarks
1.	Mr. T R Madhavan	MD & CEO	23.02.04	27.07.05	-
2.	Mr. P S Prasad	MD & CEO	26.11.05	-	-
3.	Mr. K A Menon	ED	15.01.01	31.12.05	VRS
4.	Mr. Nagesh S Belur	ED	11.07.05	31.03.06	Resigned
5.	Mr. V S R Murthy	ED	01.06.06	31.08.07	Resigned
6.	Mr. J S Kalyanpur	GM	18.08.03	31.01.05	Resigned

Sl. No	Name	Designation	Appointed / Promoted on	Relieved on	Remarks
7.	Mr. Thomas Mathew	GM	20.01.75	30.04.04	Voluntary Retirement
8.	Mr. M Sreedharankutty	Head NRI	22.07.04	-	-
9.	Mr. P G Jayakumar	GM	01.05.06	-	Promoted
10.	Mr. D Nanharam	GM	01.05.06	-	Promoted
11.	Mr. H L Sitaraman	DGM	20.01.75	30.04.04	Voluntary Retirement
12.	Mr. A.K.Ramakrishnan	DGM	16.07.76	23.06.07	Voluntary Retirement
13.	Mr. P T Thomas	DGM	01.09.76	30.04.04	Voluntary Retirement
14.	Mr. T Paramasivan	DGM	02.09.04	04.06.05	Resigned
15.	Mr. P S Ravikumar	DGM	01.08.05	-	Promoted
16.	Mr. Ravindran K Warriar	DGM	01.08.05	-	Promoted
17.	Dr.V S Somanath	DGM	08.02.07	20.01.08	Resigned
18.	Mr. Chinmoy Kumar Guha	DGM	20.07.07	-	-
19.	Mr. R Mallikarjun	AGM	09.06.03	31.12.2005	Term of Agreement expired
20.	Mrs. E Pankaja	AGM	11.12.03	25.02.05	Resigned
21.	Mr. H Rangarajan	AGM	23.04.04	-	-
22.	Mr. P R Naryanan	AGM	15.01.77	31.05.04	Voluntary Retirement
23.	Mr. A K Ramalingam	AGM	25.09.73	31.05.04	Voluntary Retirement
24.	Mr. M Vijayakumar	AGM	10.03.77	31.05.04	Voluntary Retirement
25.	Mr. K K Ranganathan	AGM	16.02.73	30.06.04	Voluntary Retirement
26.	Mr. R Krishnan	AGM	01.03.99	23.12.06	Voluntary Retirement
27.	Mr. N R Balakrishnan	AGM	01.07.04	-	Promoted
28.	Mr. B C M Prasad	AGM	01.07.04	-	-
29.	Mr. V Gopinath	AGM	09.01.95	31.10.06	Resigned
30.	Mr. C J Jose	AGM	01.09.97	16.09.06	Resigned
31.	Mr. P K Ganapathy	AGM	04.03.74	15.07.04	Voluntary Retirement
32.	Mr. A Rammohan	AGM	01.08.70	31.07.04	Voluntary Retirement
33.	Mr. M P S Sarma	AGM	14.10.76	31.07.04	Voluntary Retirement
34.	Mr. A Pugalenthay	AGM	27.09.04	06.08.05	Resigned
35.	Mr. Sureshkumar	AGM	05.01.05	-	-
36.	Mr. K Shankar	AGM	14.02.05	30.04.05	Resigned
37.	Mr. G K Warriar	AGM	01.08.05	-	Promoted
38.	Mr. P Manikandan	AGM	01.10.05	-	Promoted
39.	Mr. C M Muraleedharan	AGM	17.10.05	-	-
40.	Mr. K Deivarayan	AGM	14.11.05	08.09.07	Resigned
41.	Mr. N Krishna Kumar	AGM	05.12.05	-	-
42.	Mr. G Ajith Kumar	AGM	02.01.06	-	-
43.	Mr. K K Rajan	AGM	06.01.06	-	-
44.	Mr. S Arumugam	AGM	22.05.78	15.07.06	Resigned
45.	Mr. Asok Hastagiri	AGM	01.02.06	-	Promoted

Sl. No	Name	Designation	Appointed / Promoted on	Relieved on	Remarks
46.	Mr. N K Gupta	AGM	16.08.06	22.12.07	Resigned
47.	Mr. R Surendra Babu	AGM	28.08.06	-	-
48.	Mr. Jyotirmoy Jain	AGM	13.09.06	-	-
49.	Mr. N Raghumohan	AGM	03.02.07	-	-
50.	Mr. E.K.Raju Antony	AGM	02.04.07	-	-
51.	Mr. B. Venkateswarlu	AGM	17.10.07	-	-
52.	Mr. M. Narayana	AGM	30.11.07	-	-

Current shareholding of our key managerial personnel

Save and except as detailed hereinbelow, none of the Bank's key managerial personnel hold shares in the Bank:

No.	Name	No. Of Shares Held
1.	Mr. P.S. Ravikumar	1167
2.	Mr. Ravindran K Warriar	100
3.	Mr. N.R. Balakrishnan	950
4.	Mr. B.C.M Prasad	500
5.	Mr. P. Manikandan	350

Relation between any director and KMP

None of the Bank's key managerial personnel are related to our directors.

OUR PROMOTER AND PROMOTER GROUP

Our Bank does not have any identifiable promoter/promoter group.

Dr. P. Raja Mohan Rao's association with our Bank

Dr. P. Raja Mohan Rao was associated with our Bank as a Director w.e.f May 04, 1998 and he resigned from the Board on February 16, 2005. He was holding 14,300 shares (i.e. 0.10% of paid up capital of the Bank) until 2002. In the year 2002, our Bank embarked on a rights issue to infuse more capital to meet capital adequacy norms which was undersubscribed. At that point of time, Dr. P. Raja Mohan Rao along with Mrs. P. Padmavathy (wife) and Mr. C. Basavapurnaiah (father-in-law) expressed their desire to subscribe to such undersubscription. As such a subscription would lead to the Director and his relatives' holding being above the prescribed limits in the SEBI (SAST) Regulations, 1997. Therefore, Dr. P. Raja Mohan Rao approached SEBI for an exemption under the SEBI (SAST) Regulations, 1997. SEBI, after due consideration, had granted an exemption to Dr. P. Raja Mohan Rao and his relatives, i.e. Mrs. P. Padmavathy (wife) and Mr. C. Basavapurnaiah (father-in-law) to subscribe to such undersubscribed portion vide its order bearing no. FITTC/TO/AS/8497/02 dated May 16, 2002 and held that acquisition of shares by Dr. P. Raja Mohan Rao and his relatives will not trigger the Regulation 10 and 12 of the SEBI (SAST) Regulations, 1997. On receipt of such exemption and on due approval of the RBI, Dr. P. Raja Mohan Rao along with his relatives subscribed to such undersubscribed portion which resulted in their holding in the bank increasing to about 37.01%. As this would qualify them as "persons deemed to be acting in concert" ("PAC"), we treated Dr. P. Raja Mohan Rao and his relatives as PACs/Promoter/Promoter Group from September 30, 2002 and we filed declarations under SEBI (SAST) Regulations from September 24, 2002 till September 24, 2007 with the relevant stock exchanges accordingly. However, in consonance with the restrictions laid down as per Section 12(2) of the Banking Regulation Act 1949, Dr. P. Raja Mohan Rao's voting rights remained restricted to 10% despite such acquisition. Dr. P. Raja Mohan Rao has not been in "actual control of management of the Bank" despite acquiring 37.01% of the equity shares. In this regard Dr. P. Raja Mohan Rao had given an undertaking on March 27, 2002, that he had no intention of gaining a controlling interest in the Bank. Pursuant to a direction of the RBI under Section 35A of the Banking Regulation Act, 1949 on March 21, 2007, Dr. Rao and PAC reduced their shareholding to 10% of the paid up capital of the Bank during the period of September 2007 and the details of the same are provided below:

Date of Transaction	Transferor	Nature of Transaction	Number of shares	Selling Price (in Rs.)	Percentage of shareholding sold
July 31, 2007	Dr. P. Raja Mohan Rao	Sale	15,00,000	73.00	4.68
August 02, 2007	Dr. P. Raja Mohan Rao	Sale	4,50,000	74.50	1.40
August 10, 2007	Dr. P. Raja Mohan Rao	Sale	11,00,000	81.59	3.43
August 20, 2007	Dr. P. Raja Mohan Rao	Sale	9,00,000	79.00	2.81
August 28, 2007	Dr. P. Raja Mohan Rao	Sale	4,50,000	76.00	1.40
September 04, 2007	Dr. P. Raja Mohan Rao	Sale	14,00,000	78.15	4.37
September 11, 2007	Dr. P. Raja Mohan Rao	Sale	11,00,000	77.16	3.43
September 14, 2007	Dr. P. Raja Mohan Rao	Sale	4,50,000	77.00	1.40
September 26, 2007	Dr. P. Raja Mohan Rao	Sale	6,59,759	71.30	2.06
September 27, 2007	Dr. P. Raja Mohan Rao	Sale	6,49,780	70.33	2.03

Note: The above transactions have been undertaken in line with directives of RBI, which requires Dr. P. Raja Mohan Rao to bring down his shareholding in the Bank to about 10% of the paid-up capital of the Bank.

In the Draft Letter of Offer filed with SEBI on September 27, 2007, Dr. P. Raja Mohan Rao was disclosed as the promoter of the bank. We received a letter from Dr. P. Raja Mohan Rao dated December 26, 2007 intimating his intention not to be named as 'Promoter' in the the stock exchanges filings and Letter of Offer. Pursuant to the same, his name has been excluded from the 'Promoter' category and the stock exchanges filings have been modified and Letter of Offer has been updated accordingly.

**FINANCIAL STATEMENTS
“AUDITORS REPORT”**

The Board of Directors

The Dhanalakshmi bank Ltd
Head Office,
Thrissur, 680 001

Dear Sirs,

1. We have examined the financial statements and financial information of **The Dhanalakshmi Bank Ltd** (**Bank**) annexed to this report which have been prepared in accordance with the requirements of:
 - a) Paragraph B (1) of Part II of Schedule II to the Companies Act, 1956 (‘the Act’);
 - b) The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 (‘the Guidelines’) issued by the Securities and Exchange Board of India (‘SEBI’) on January 19, 2000 in pursuance of Section 11 of the Securities and Exchange Board of India Act, 1992.
2. The financial statements of the Bank for the financial years ended on March 31, 2003, 2004, 2005, 2006, 2007 and for the six months period ended 30 September 2007 were audited and reported upon by the respective auditors as under:

Year	Name of Auditors
2002-03	M/s R G N Price & Co, Kochi M/s Ford Rhodes & Parks & Co, Chennai
2003-04	M/s R G N Price & Co, Kochi M/s Ford Rhodes & Parks & Co, Chennai
2004-05	M/s R G N Price & Co, Kochi M/s Ford Rhodes & Parks & Co, Chennai
2005-06	M/s Ford Rhodes & Parks & Co, Chennai M/s P B Vijayaraghavan & Co, Chennai
2006-07	M/s P B Vijayaraghavan & Co, Chennai M/s. R. Subramanian & Co, Chennai
2007-08	M/s P B Vijayaraghavan & Co, Chennai

For our examination, we have placed reliance on the above auditor’s reports for the purpose of restatement. The above audited financial statements were adopted by the members of the Bank except for the six months period ended 30 September 2007 which has been adopted by the Capital Augmentation Committee of the Board of Directors of the Bank.

3. We report that the profits / losses of the Bank as restated for the financial years ended March 31, 2003, 2004, 2005, 2006, 2007 and for the six months period ended 30 September 2007 are as set out in Annexure A (including schedules thereof). These profits/losses 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.
4. We report that the assets and liabilities of the Bank as restated as at March 31, 2003, 2004, 2005, 2006, 2007 and for the six months period ended 30 September 2007 are also as set out in Annexure A (including schedules thereof) after making such adjustments and regroupings as in our opinion were appropriate and are to be read with the accounting policies and notes thereon.
5. The Annexure A as referred to in paragraphs 3 & 4 above consists of the following:

- a) Summary statement of Assets and Liabilities as restated. (Annexure A-I)
 - b) Summary statement of Profit and Loss as restated. (Annexure A-II)
 - c) Statement of Cash Flows as restated. (Annexure A-III)
 - d) Schedule to Annexure A-I (Annexure A-IV)
 - e) Schedule to Annexure A-II (Annexure A-V)
 - f) Significant accounting policies (Annexure A-VI)
 - g) Notes on accounts (Annexure A-VII)
 - h) Adjustments not carried out in the Statements of Profit & Loss and Assets and Liabilities. (Annexure A-VIII)
 - i) Related Party transactions (Annexure A -IX)
 - j) Segment Reporting (Annexure A -X)
6. We have also examined the following financial information for the financial years ended 2003, 2004, 2005, 2006, 2007 and for the six months period ended 30 September 2007 relating to the Bank proposed to be included in the Offer Document as approved by the Board of Directors and annexed to this report:
- a) Capitalization statement as at September 30, 2007 (Annexure B).
 - b) Statement of Dividends paid (Annexure C).
 - c) Summary of accounting ratios (Annexure D).
 - d) Statement of tax shelter (Annexure E).
7. In our opinion, the financial statements of the Bank as stated in Annexure A (including schedules thereof) above read with respective significant accounting policies have been prepared in accordance with the clause 6.10.2.7 of Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines and the financial information as given in Annexures B to E (including schedules thereof) have been properly extracted from bank's audited financial statements for the year ended March 31, 2003, 2004, 2005, 2006, 2007 and for the six months period ended 30 September 2007 and restated in accordance with the clause 6.10.2.7 of Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines for the following :
- a) Adjustments / rectification for all incorrect accounting policies practices or failures to make provisions or other adjustments which resulted in audit qualifications except :
 1. During the year 2005-06 the Bank has revised its Accounting Policy on amortization of premium (acquisition cost over the face value) paid, in respect of securities held under "Held to maturity" category from "Straight Line Method" to "Constant Yield Method". The change in the method has resulted in the net profit of the Bank being higher by Rs.215.69 lakhs in 2005-06. However, the effect of this change in accounting policy is not given effect in the previous years as the same is not ascertainable.
 2. The effect of adjustments arising from reconciliation/adjustment/clearance of outstanding items in Inter Branch/Bank accounts/other accounts for the years 2002-03 to 2006-07 and for half year ended 30 September 2007 could not be carried out, the consequential impact of which is not ascertainable.
 3. The liability under revised Accounting Standard 15 in respect of employee retirement benefits is provided on an estimated basis for the half year ended 30 September 2007 and transitional liability accrued as on 31 March 2007 is not provided in the accounts pending the receipt of actuarial valuation and Reserve bank of India guidelines, the effect of which could not be ascertained.
 - b) Material amounts relating to adjustments for previous years has been identified and adjusted in arriving at the profits of the years to which they relate irrespective of the year in which the event triggering the profit or loss occurred.
 - c) Change in accounting policy except during the year 2005-06 the Bank has revised its Accounting Policy on amortization of premium (acquisition cost over the face value) paid, in respect of securities held under "Held to maturity" category from "Straight Line Method" to "Constant Yield Method". The change in the method has resulted in the net profit of the Bank being higher by Rs.215.69 lakhs in

2005-06. However, the effect of this change in accounting policy is not given effect in the previous years as the same is not ascertainable.

8. This report is intended solely for your information and for inclusion in the offer document in connection with the right 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.
9. 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 **P.B. Vijayaraghavan & Co**
Chartered Accountants

P.B.SANTHANAKRISHNAN
Partner
Membership No. 20309
Place: Chennai
Date: December 15, 2007

ANNEXURE A-I

(Rs. in Lakhs)

STATEMENT OF RESTATED ASSETS AND LIABILITIES								
	Schedule	31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007	
A	ASSETS							
	Cash in Hand		3507	4461	4914	4893	4390	5600
	Balances with RBI		9295	9887	15490	12708	20682	22851
	Balances with banks	1	9714	11619	13610	13276	35434	25825
	Money at call & short notice		0	1000	0	0	0	2500
	Investments	2	67506	89486	70800	77897	86519	102676
	Advances	3	108049	113859	141015	159434	183950	188666
	Fixed Assets	4	2358	2615	3170	3602	3242	3050
	Other Assets		9758	11131	15043	11325	8863	10519
	Less: Deferred Tax Asset		498	588	1500	1010	353	353
	Net Other Assets		9260	10543	13543	10315	8510	10166
	Total (A)		209689	243470	262542	282125	342727	361334
B	LIABILITIES							
	Deposits	5	183789	215577	233884	253268	308796	324730
	Borrowings		3791	392	583	19	499	0
	Other Liabilities & Provisions	6	11008	15104	18569	18146	20761	22218
	Total (B)		198588	231073	253036	271433	330056	346948
	NET ASSETS (A) - (B)		11101	12397	9506	10692	12671	14386
D	Equity Share Capital		3206	3206	3206	3206	3206	3206
E	Reserves and Surplus	7	8832	10201	8206	10234	11532	13247
	Less: Revaluation Reserve		439	422	406	1738	1714	1714
	Less: Deferred Tax Asset		498	588	1500	1010	353	353
	Total Reserves and Surplus		7895	9191	6300	7486	9465	11180
	NET WORTH (D+E)		11101	12397	9506	10692	12671	14386
	Contingent Liabilities	8	41245	50626	23683	44887	37998	37301
	Bills for collection		6199	8017	9787	7557	6656	7645

ANNEXURE A-II

(Rs. in Lakhs)

STATEMENT OF RESTATED PROFIT AND LOSS								
		SCHEDULE	YEAR ENDED					
			31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
A	INCOME							
A-1	Interest Earned	1	18922	19107	19216	20989	24653	15590
A-2	Other Income	2	7016	5818	1068	2191	2963	1483
	Total Income		25938	24925	20284	23180	27616	17073
B	EXPENDITURE							
B-1	Interest Expended	3	13596	12169	11906	12689	14977	10096
B-2	Operating Expenses	4	5990	6061	6936	8181	8775	4473
	Total expenditure		19586	18230	18842	20870	23752	14569
C	OPERATING PROFIT		6352	6695	1442	2310	3864	2504
D	Provisions & Contingencies	5	3870	3672	3598	1323	1816	504
E	Net Profit/(loss) before Tax		2482	3023	-2156	987	2048	2000
	Provision for Income tax		980	1275	4	35	434	650
F	Net Profit/(loss) after Tax		1502	1748	-2160	952	1614	1350

ANNEXURE A-III

(Rs in lakhs).

STATEMENT OF RESTATED CASH FLOWS							
		Year ended 31.03.2003	Year ended 31.03.2004	Year ended 31.03.2005	Year ended 31.03.2006	Year ended 31.03.2007	Six Months ended 30.09.2007
I	CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2)						
	Interest received during the year from Advances, Investments etc	18922	19107	19216	20989	24653	15590
	Other Income	7016	5817	1068	2190	2963	1483
	Less: Interest paid during the Year on Deposits, Borrowings etc	13596	12169	11906	12689	14977	10096
	Less: Operating expenses including Provisions and Contingencies	10840	11008	10538	9539	11026	5627
	Add: Adjustments for Depreciation and non cash Charges	467	473	609	715	882	311
	1 CASH PROFIT GENERATED FROM OPERATIONS (prior to changes in operating Assets & Liabilities)	1968	2221	(1551)	1667	2496	1661
	2 CASH FLOWS FROM OPERATING ASSETS & LIABILITIES						
	Increase/ (Decrease) in Liabilities						
	Deposits	18065	31788	18306	19383	55529	15934
	Borrowings	1981	(3398)	191	(564)	481	(499)
	Other Operating Liabilities	(152)	714	1675	(492)	1362	1822
	Decrease/ (Increase) in Assets						
	Advances	(16278)	(5810)	(27156)	(18419)	(24515)	(4717)
	Investments	(2376)	(21979)	18686	(161)	(15559)	(16157)
	Other Operating Assets	1416	(317)	(3912)	(3219)	9398	(2086)
	TOTAL CASH FLOWS FROM OPERATING ASSETS & LIABILITIES	2657	998	7789	(3472)	26695	(5703)
	NET CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2)	4625	3218	6239	(1805)	29192	(4042)

		<i>Year ended 31.03.2003</i>	<i>Year ended 31.03.2004</i>	<i>Year ended 31.03.2005</i>	<i>Year ended 31.03.2006</i>	<i>Year ended 31.03.2007</i>	<i>Six Months ended 30.09.2007</i>
II	CASH FLOWS FROM INVESTING ACTIVITIES						
	Purchase of Fixed Assets	(519)	(739)	(1185)	(1150)	(527)	(123)
	Sale of Old Fixed Assets	4	9	21	3	5	4
	NET CASH FLOWS FROM INVESTING ACTIVITIES	(514)	(730)	(1164)	(1147)	(522)	(119)
III	CASH FLOWS FROM FINANCING ACTIVITIES						
	Subordinated Debt (Tier Bonds) raised	-	3500	2000	1000	1700	-
	Excess Dividend written back	275	-	181	-	-	-
	Redemption of Tier II Bonds	-	(1056)	(49)	(1184)	(558)	-
	Dividend Paid	-	(481)	(160)	-	(183)	-
	NET CASH FLOWS FROM FINANCING ACTIVITIES	275	1963	1971	(184)	959	-
	TOTAL NET CASH FLOWS FROM ACTIVITIES DURING THE YEAR (I + II + III)	4386	4452	7046	(3136)	29629	(4161)
	BALANCES AT THE BEGINNING OF THE YEAR						
	Cash and balances with RBI	10114	12802	14348	20404	17601	25072
	Balances with Bank and Money at Call	8016	9714	12619	13609	13277	35434
	BALANCES AT THE END OF THE YEAR						
	Cash and balances with RBI	12802	14348	20404	17601	25072	28451
	Balance with Bank and Money at Call	9714	12619	13609	13277	35434	27894

ANNEXURE A-IV

(Rs. in Lakhs)

SCHEDULE – 1

	31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
Balances with Banks						
Balances with banks in India	9222	11111	12974	13107	30969	25271
Balances with banks outside India	492	508	636	169	4465	554
Total Balances with Banks	9714	11619	13610	13276	35434	25825

SCHEDULE - 2

	31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
Investments						
In Government Securities	51759	76584	63806	66566	74126	89234
In Approved securities	689	448	258	256	58	81
Shares	433	1407	1148	493	284	65
Debentures and Bonds	14216	10554	5588	3645	1490	1676
Others	409	493	0	6937	10561	11620
Total	67506	89486	70800	77897	86519	102676
Investment in India (Gross)	68108	89852	71746	79250	88429	104998
Less: Depreciation and Provisions	602	366	946	1353	1910	2322
Total Investments	67506	89486	70800	77897	86519	102676

SCHEDULE – 3

	31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
Advances						
Bills Purchased and Discounted	12655	7313	8013	10682	12298	8978
Cash Credits, Overdrafts and Loans payable on Demand	57545	67408	73285	69546	89529	98281
Term Loans	37849	39138	59717	79206	82123	81407
Total Advances	108049	113859	141015	159434	183950	188666

ANNEXURE A-IV

(Rs. in Lakhs)

SCHEDULE - 4

	31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
Fixed Assets						
Gross Block	4769	5500	6665	9160	9659	9778
Less: Depreciation to date	1972	2463	3089	3820	4703	5014
Net Block	2797	3037	3576	5340	4956	4764
Less: Revaluation Reserve	439	422	406	1738	1714	1714
Total Fixed Assets	2358	2615	3170	3602	3242	3050

SCHEDULE - 5

	31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
Deposits						
Demand Deposits						
Demand deposits from banks	223	95	16	11	4	3
Demand deposits from others	19380	21155	27124	27888	35034	38887
Total Demand Deposits (A)	19603	21250	27140	27899	35038	38890
Savings deposits (B)	25244	32364	35706	45342	52555	57737
Term deposits						
Term deposits from banks	1870	1862	780	11466	13820	7327
Term deposits from others	137072	160101	170258	168561	207383	220776
Total Term Deposits (C)	138942	161963	171038	180027	221203	228103
Total Deposits (A+B+C)	183789	215577	233884	253268	308796	324730

ANNEXURE A-IV

(Rs. in Lakhs)

SCHEDULE – 6

	31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
Other Liabilities & Provisions						
Bills payable	2795	3198	2944	2894	3609	3206
Interoffice adjustments (net)	611	--	--	--	--	--
Interest Accrued	1448	1412	1640	2422	3408	4861
Tier II Bonds	2847	5292	7242	7058	8200	8200
Others (Including Provisions)	3307	5202	6743	5772	5544	5951
Total Other Liabilities & Provisions	11008	15104	18569	18146	20761	22218

SCHEDULE – 7

	31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
Reserves and Surplus						
Statutory Reserve	2374	2898	2898	3183	3668	3668
Capital Reserve	227	227	227	227	242	242
Revaluation Reserve	439	422	406	1738	1714	1714
Share Premium	3832	3832	3832	3833	3833	3833
Revenue Reserve	1059	1121	1121	1252	2074	2439
Investment Fluctuation Reserve	900	1700	856	0	0	0
Balance in Profit & Loss account	1	1	(1134)	1	1	1351
Total Reserves and Surplus	8832	10201	8206	10234	11532	13247

SCHEDULE – 8

	31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
Contingent Liabilities						
Claims against banks not acknowledged as debt	89	94	101	196	179	179
Liability on account of forward exchange contracts	30453	38296	10301	32758	25166	23550
Guarantees given on behalf of constituents in India	7481	8560	8921	8415	8364	10144
Acceptances, endorsements & other obligations	1517	1770	1506	1535	2307	1436
Other items for which the bank is contingently liable	1705	1906	2854	1983	1982	1992
Total of Contingent Liabilities	41245	50626	23683	44887	37998	37301

ANNEXURE A-V

(Rs. in Lakhs)

SCHEDULES TO STATEMENT OF RESTATED PROFIT AND LOSS**SCHEDULE - 1**

		31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
1	Interest Earned						
1.1	Interest and discount on advance/bills	10800	11453	12343	14455	17690	10794
1.2	Income from investments	7432	7091	6289	5375	5578	3370
1.3	Interest on balance with RBI & other inter bank funds	634	543	584	727	1299	1426
1.4	Others	56	20	0	432	86	0
	TOTAL INTEREST EARNED	18922	19107	19216	20989	24653	15590

SCHEDULE - 2

		31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
2	Other Income						
2.1	Commission, Exchange and Brokerage	1071	1082	936	943	909	581
2.2	Profit on sale of investments (net)	5028	3805	-694	-90	-24	140
2.3	Profit on revaluation of investments	0	0	-403	-514	-546	-290
2.4	Profit on sale of land, buildings & other assets (net)	20	3	32	0	3	1
2.5	Profit on Exchange transactions (net)	228	230	205	230	279	217
2.6	Income from Insurance	7	21	68	335	767	281
2.7	Miscellaneous Income from services	621	636	771	983	949	419
2.8	Miscellaneous Income from others	41	41	153	304	626	134
	Total Other Income	7016	5818	1068	2191	2963	1483

SCHEDULE - 3

		31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
3	Interest Expended						
3.1	Interest on deposits	12937	11656	11404	12079	14200	9607
3.2	Interest on RBI/Inter-bank borrowings	63	51	14	40	157	149
3.3	Others	596	462	488	570	620	340
	Total Interest Expended	13596	12169	11906	12689	14977	10096

ANNEXURE A-V

(Rs. in Lakhs)

SCHEDULE – 4

		31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
4	Operating Expenses						
4.1	Payment to and provision to employees	3936	3837	4176	4182	4371	2396
4.2	Rent, taxes & lighting	547	636	808	1003	1107	580
4.3	Printing & Stationery	98	114	113	125	95	54
4.4	Advertising & Publicity	158	165	95	77	64	20
4.5	Depreciation on bank's property	467	473	609	715	882	311
4.6	Directors fees, allowances & expenses	12	20	27	24	18	5
4.7	Auditors fees & expenses (including branch auditors)	15	19	23	27	32	4
4.8	Law charges	3	35	77	90	27	34
4.9	Postage, Telegrams & Telephones	78	83	205	274	155	132
4.10	Repairs and Maintenance	71	75	58	200	184	60
4.11	Insurance	87	93	169	231	250	147
4.12	Other expenditure	518	511	576	1233	1590	730
	Total expenditure	5990	6061	6936	8181	8775	4473

SCHEDULE - 5

		31/03/2003	31/03/2004	31/03/2005	31/03/2006	31/03/2007	30/09/2007
5	Break up of Provisions and Contingencies						
5.1	Write off of certain non performing advances	2997	2681	158	533	1005	99
5.2	Deferred Tax and FBT	-54	-90	-912	570	688	11
5.3	Provision of NPA	685	1145	889	0	-200	200
5.4	Provision for Depreciation on investments	0	-68	3112	-134	205	-23
5.5	Provision for NPI	53	4	279	71	-194	145
5.6	Others	71	0	0	0	0	0
5.7	Provision for Standard assets	118	0	72	283	312	72
	Total Provisions and Contingencies (Other than provision for Tax)	3870	3672	3598	1323	1816	504

SIGNIFICANT ACCOUNTING POLICIES*For the Six Months ended September 30, 2007***1. GENERAL**

The financial statements have been prepared on the basis of going concern concept based on historical cost convention and conform to statutory provisions and practices prevailing in the country unless otherwise stated.

2. TRANSACTIONS INVOLVING FOREIGN EXCHANGE

2.1 Monetary assets and liabilities have been translated at the exchange rates prevailing at the close of the year as advised by FEDAI and the resulting net gain/loss is recognized in the revenue account.

2.2 Profit or loss on outstanding forward foreign currency contracts has been accounted for at the exchange rates prevailing at the close of the half year ended 30.09.2007 as per FEDAI/ RBI guidelines.

2.3 Income and expenditure items have been accounted at the exchange rates ruling on the date of transaction.

2.4 Contingent Liability in respect of outstanding forward foreign currency exchange contracts, guarantees and letters of credit is stated at the exchange rates prevailing at of the half year ended 30.09.2007.

2.5 Premium /discount on hedge swaps are recognized as interest income/expenses and are recognized/ amortised over the period of the transactions

3. INVESTMENTS

3.1 Investments in Government and other approved securities are categorized into (a) Held to Maturity (b) Held for Trading and (c) Available for Sale in terms of RBI guidelines.

3.2 Brokerage, incentive and broken period interest are treated as revenue

3.3 For the purpose of valuation, the RBI rates/stock exchange quotations, where available, are taken as market rates. Investments for which such rates / quotations are not available are valued as per norms laid down by RBI, as under

Central Government Securities	Prices published by PDAI/ FIMMDA
State Government Securities	At YTM published by PDAI/FIMMDA
Other Approved Securities	YTM published by PDAI/FIMMDA duly adjusted as per RBI guidelines
Bonds, Debentures and Preference Shares	As per rates / methodologies prescribed by FIMMDA.
Equity Shares	Valued at book value as per the latest Balance Sheet. Where Balance Sheets are not available, at Re 1/- per Company.
Units of Mutual Fund	Re-purchase price / NAV declared by the Mutual Fund as at the half year ended 30.09.2007.

3.4 The premium (acquisition cost over the face value), if any, is amortised over the remaining period of maturity in respect of securities held under Held to Maturity category based on "Constant Yield Method". Profit on redemption / sale of securities in Held to Maturity category is transferred to Capital Reserve.

3.5 The shifting of securities from one category to another is done with the approval of the Board as per RBI guidelines. The shifting is effected at acquisition cost/book /market values on the date of transfer which ever is least and the depreciation if any at the time of shifting is fully provided for.

4. ADVANCES

4.1 Advances are stated in the Balance Sheet net of provisions made for non-performing assets in accordance with the norms prescribed by RBI from time to time and other provisions.

4.2 Provisions are deducted from advances except provision on standard assets, which is grouped under Other Liabilities. Unrealised income of the previous year in respect of advances classified as NPA for the first time during the current year has been reversed as per RBI guidelines.

4.3 Provision for Non-performing advances is deducted from gross advances under various categories, on a proportionate basis.

4.4 A general provision on standard assets on global portfolio basis is made as per Reserve Bank of India guidelines.

4.5 Advances given to units which have become sick including those under nursing and certain suit filed cases are considered secured on the basis of estimated realizable value of securities/Government/ ECGC guarantees considered adequate by the Management.

4.6 As per Reserve Bank of India Guidelines effective 1.4.2003, litigation expenses of Non-performing advances are debited to the Profit and Loss account in year of incurrence and the recovery if any is credited to the Profit and Loss account in the year of recovery.

5. FIXED ASSETS

5.1 Premises and other fixed assets are accounted at historical cost except revalued premises, which are accounted at the value, determined on the basis of such revaluation.

5.2 Premises including land were revalued during 1995-96 and 2005-06 by professional valuers and the incremental value was credited to Capital Reserve. An amount equal to the depreciation on enhanced value is transferred from Capital Reserve to Profit and Loss account every year.

5.3 Depreciation on fixed assets other than computers is provided for on the diminishing balance method at the rates specified in schedule XIV of the Companies Act 1956. Depreciation on computers acquired on or before 31.3.2000 is provided at 33.33% of the Book value as on that date and on those acquired thereafter at 33.33% on straight-line method in line with RBI guidelines. Application software is capitalized as intangible asset and depreciated over three years.

5.4 Fixed Assets costing less than Rs 5000/- each are depreciated full cost in the year of purchase.

5.5 Property purchased along with land for consolidated value is bifurcated on the basis of valuation report.

6. STAFF RETIREMENT BENEFITS

6.1 Provision for the liability accrued in respect of staff pension, gratuity and leave encashment are made for the current period under audit as per revised AS 15 issued by ICAI, on an estimated basis.

7. REVENUE RECOGNITION

7.1 Items of income and expenditure are generally accounted for on accrual basis unless otherwise stated

7.2 Income on Non-performing assets (NPA) is recognized as per the prudential norms prescribed by the RBI.

7.3 In respect of accounts covered under OTS, the recoveries are adjusted against book balance and the net balance is written off.

7.4 Income accounted for in the preceding year and remaining unrealized is de-recognised in respect of advances classified as NPA during the year.

7.5 Commission earned, rent on safe deposit lockers, dividends, commission from insurance and depository participant business etc are accounted for on cash basis except dividends on units of mutual funds and preference shares which are accounted when the right to receive dividend has accrued. Discount on bills are recognized upfront except where the tenor exceeds one year.

7.6 Interest on income tax refund is accounted in the year in which the same is determined.

8. NET PROFIT

Net profit is arrived at after accounting the following under “Provisions and contingencies”.

- a) Provision for Taxes made after due consideration of decisions of the appellate authorities and advice of counsels
- b) Provision for doubtful debts
- c) Depreciation on investments as per prudential norms of RBI
- d) Other usual or necessary provisions

For the year ended March 31, 2007

1. GENERAL

The financial statements have been prepared on the basis of going concern concept based on historical cost convention and conform to statutory provisions and practices prevailing in the country unless otherwise stated.

2. TRANSACTIONS INVOLVING FOREIGN EXCHANGE

2.1 Monetary assets and liabilities have been translated at the exchange rates prevailing at the close of the year as advised by FEDAI and the resulting net gain/loss is recognized in the revenue account.

2.2 Profit or loss on outstanding forward foreign currency contracts has been accounted for at the exchange rates prevailing at the close of the year as per FEDAI/ RBI guidelines.

2.3 Income and expenditure items have been accounted at the exchange rates ruling on the date of transaction.

2.4 Contingent liabilities in respect of outstanding forward foreign currency exchange contracts, guarantees and letters of credit is stated at the exchange rates prevailing at the close of the year.

2.5 Premium /discount on hedge swaps are recognized as interest income/expenses and are recognized/ amortised over the period of the transactions

3. INVESTMENTS

3.1 Investments in Government and other approved securities are categorized into (a) Held to Maturity (b) Held for Trading and (c) Available for Sale in terms of RBI guidelines.

3.2 Brokerage, incentive and broken period interest are treated as revenue

3.3 For the purpose of valuation, the RBI rates/stock exchange quotations, where available, are taken as market rates. Investments for which such rates / quotations are not available are valued as per norms laid down by RBI, as under

Central Government Securities	Prices published by PDAI/ FIMMDA
State Government Securities	At YTM published by PDAI/FIMMDA
Other Approved Securities	YTM published by PDAI/FIMMDA duly adjusted as per RBI guidelines
Bonds, Debentures and Preference Shares	As per rates / methodologies prescribed by FIMMDA.
Equity Shares	Valued at book value as per the latest Balance Sheet. Where Balance Sheets are not available, at Re 1/- per Company.
Units of Mutual Fund	Re-purchase price / NAV declared by the Mutual Fund as at the close of the year.

3.4 The premium (acquisition cost over the face value), if any, is amortised over the remaining period of maturity in respect of securities held under Held to Maturity category based on "Constant Yield Method". Profit on redemption / sale of securities in Held to Maturity category is transferred to Capital Reserve.

3.5 The shifting of securities from one category to another is done with the approval of the Board as per RBI guidelines. The shifting is effected at acquisition cost/book /market value on the date of transfers which ever is least and the depreciation if any at the time of shifting is fully provided for.

4. ADVANCES

4.1 Advances are classified as Standard, Sub-standard, Doubtful, or Loss assets, and provisions required for possible losses on such advances are made as per the guidelines of the Reserve Bank of India (RBI) on matters relating to prudential norms.

4.2 Advances shown in the Balance Sheet are net of:

- (i) Bills rediscounted,
- (ii) Provisions made in accordance with the prudential norms prescribed by RBI from time to time.

5. FIXED ASSETS

5.1 Premises, except those revalued, and other fixed assets have been stated at their historical cost. Premises which were revalued are stated at such values on revaluation and the appreciation credited to Capital Reserve.

5.2 Fixed assets costing less than Rs 5000/- each are depreciated full cost in the year of purchase.

5.3 Property purchased along with land for consolidated value is bifurcated on the basis of valuation report / documents.

6. STAFF RETIREMENT BENEFITS

6.1 The contribution to the Gratuity Fund and Pension Fund are based on actuarial valuation as at the end of each year and is charged to the Profit and Loss account.

6.2 Liability towards leave encashment on retirement of employees is provided on as per actuarial valuation at the year end.

6.3 The liability if any on Voluntary Retirement Scheme is charged off full in the year in which it is incurred.

7. REVENUE RECOGNITION

7.1 Items of income and expenditure are accounted for on accrual basis, except as stated hereunder:

Interest on loans and advances is recognized on accrual basis other than on those stipulated in RBI's prudential norms on income recognition, asset classification and provisioning relating to NPAs, where the income is recognized on realization.

7.2 In respect of accounts covered under OTS, the recoveries are adjusted against book balance and the net balance is written off.

7.3 Income accounted for in the preceding year and remaining unrealized is de-recognised in respect of advances classified as NPA during the year.

7.4 Commission earned, rent on safe deposit lockers, dividends, commission from insurance and depository participant business etc are accounted for on cash basis except dividends on units of mutual

funds and preference shares which are accounted when the right to receive dividend has accrued. Discount on bills are recognized upfront except where the tenor exceeds one year.

7.5 Interest on income tax refund is accounted in the year in which the same is determined.

8. NET PROFIT

The net profit disclosed in the profit and loss account is after:

- (a) provision for taxes;
- (b) provision for possible losses on Standard Assets, NPAs, and other contingencies;
- (c) depreciation on investments; and
- (d) other usual and necessary provisions.

For the year ended March 31, 2006

1. GENERAL

The financial statements have been prepared on the basis of going concern concept based on historical cost convention and conform to statutory provisions and practices prevailing in the country unless otherwise stated.

2. TRANSACTIONS INVOLVING FOREIGN EXCHANGE

2.1 Monetary assets and liabilities have been translated at the exchange rates prevailing at the close of the year as advised by FEDAI and the resulting net gain/loss is recognized in the revenue account.

2.2 Profit or loss on outstanding forward foreign currency contracts has been accounted for at the exchange rates prevailing at the close of the year as per FEDAI/ RBI guidelines.

2.3 Income and expenditure items have been accounted at the exchange rates ruling on the date of transaction.

2.4 Contingent Liability in respect of outstanding forward foreign currency exchange contracts, guarantees and letters of credit is stated at the exchange rates prevailing at the close of the year.

2.5 Premium /discount on hedge swaps are recognized as interest income/expenses and are recognized/ amortised over the period of the transactions

3. INVESTMENTS

3.1 Investments in Government and other approved securities are categorized into (a) Held to Maturity (b) Held for Trading and (c) Available for Sale in terms of RBI guidelines.

3.2 Brokerage, incentive and broken period interest are treated as revenue

3.3 For the purpose of valuation, the RBI rates/stock exchange quotations, where available, are taken as market rates. Investments for which such rates / quotations are not available are valued as per norms laid down by RBI, as under

Central Government Securities	Prices published by PDAI/ FIMMDA
State Government Securities	At YTM published by PDAI/FIMMDA
Other Approved Securities	YTM published by PDAI/FIMMDA duly adjusted as per RBI guidelines
Bonds, Debentures and Preference Shares	As per rates / methodologies prescribed by FIMMDA.
Equity Shares	Valued at book value as per the latest Balance Sheet. Where Balance Sheets are not available, at Re 1/- per Company.
Units of Mutual Fund	Re-purchase price / NAV declared by the Mutual Fund as at the close of the year.

3.4 The premium (acquisition cost over the face value), if any, is amortised over the remaining period of maturity in respect of securities held under Held to Maturity category based on "Constant Yield Method". Profit on redemption / sale of securities in Held to Maturity category is transferred to Capital Reserve.

3.5 The shifting of securities from one category to another is done with the approval of the Board as per RBI guidelines. The shifting is effected at acquisition cost/book /market values on the date of transfer which ever is least and the depreciation if any at the time of shifting is fully provided for.

4. ADVANCES

4.1 Advances are stated in the Balance Sheet net of provisions made for non-performing assets in accordance with the norms prescribed by RBI from time to time and other provisions.

4.2 Provisions are deducted from advances except provision on standard assets, which is grouped under Other Liabilities. Unrealised income of the previous year in respect of advances classified as NPA for the first time during the current year has been reversed as per RBI guidelines.

4.3 Provision for Non-performing advances is deducted from gross advances under various categories, on a proportionate basis.

4.4 A general provision on standard assets on global portfolio basis is made as per Reserve Bank of India guidelines.

4.5 Advances given to units which have become sick including those under nursing and certain suit filed cases are considered secured on the basis of estimated realizable value of securities/Government/ ECGC guarantees considered adequate by the Management.

4.6 As per Reserve Bank of India Guidelines effective 1.4.2003, litigation expenses of Non-performing advances are debited to the Profit and Loss account in year of incurrence and the recovery if any is credited to the Profit and Loss account in the year of recovery.

5. FIXED ASSETS

5.1 Premises and other fixed assets are accounted at historical cost except revalued premises which are accounted at the value determined on the basis of such revaluation.

5.2 Premises including land were revalued during 2005-06 by professional valuers and the incremental value was credited to Capital Reserve. An amount equal to the depreciation on enhanced value is transferred from Capital Reserve to Profit and Loss account every year.

5.3 Depreciation on fixed assets other than computers is provided for on the diminishing balance method at the rates specified in schedule XIV of the Companies Act 1956. Depreciation on computers acquired on or before 31.3.2000 is provided at 33.33% of the Book value as on that date and on those acquired thereafter at 33.33% on straight line method in line with RBI guidelines. Application software is capitalized as intangible asset and depreciated over three years.

5.4 Fixed Assets costing less than Rs 5000/- each are depreciated full cost in the year of purchase.

5.5 Property purchased along with land for consolidated value is bifurcated on the basis of valuation report.

6. STAFF RETIREMENT BENEFITS

6.1 The contribution to the Gratuity Fund and Pension Fund are based on actuarial valuation as at the end of each year is charged to the Profit and Loss account.

6.2 Liability towards leave encashment on retirement of employees is provided on as per actuarial valuation at the year end.

6.4 The liability if any on Voluntary Retirement Scheme is charged off full in the year in which it is incurred.

7. REVENUE RECOGNITION

7.1 Items of income and expenditure are generally accounted for on accrual basis unless otherwise stated

7.2 Income on Non-performing assets (NPA) is recognized as per the prudential norms prescribed by the RBI.

7.3 In respect of accounts covered under OTS, the recoveries are adjusted against book balance and the net balance is written off.

7.4 Income accounted for in the preceding year and remaining unrealized is de-recognised in respect of advances classified as NPA during the year.

7.5 Commission earned, rent on safe deposit lockers, dividends, commission from insurance and depository participant business etc are accounted for on cash basis except dividends on units of mutual funds and preference shares which are accounted when the right to receive dividend has accrued. Discount on bills are recognized upfront except where the tenor exceeds one year.

7.6 Interest on income tax refund is accounted in the year in which the same is determined.

8. NET PROFIT

Net profit is arrived at after accounting the following under "Provisions and contingencies".

- a) Provision for Taxes made after due consideration of decisions of the appellate authorities and advice of counsels
- b) Provision for doubtful debts
- c) Depreciation on investments as per prudential norms of RBI
- d) Other usual or necessary provisions

For the year ended March 31, 2005

1. GENERAL

The financial statements have been prepared on the basis of going concern concept based on historical cost convention and conform to statutory provisions and practices prevailing in the country unless otherwise stated.

2. TRANSACTIONS INVOLVING FOREIGN EXCHANGE

2.1 Monetary assets and liabilities have been translated at the exchange rates prevailing at the close of the year as advised by FEDAI and the resulting net gain/loss is recognized in the revenue account.

2.2 Profit or loss on outstanding forward foreign currency contracts has been accounted for at the exchange rates prevailing at the close of the year as per FEDAI/ RBI guidelines.

2.3 Income and expenditure items have been accounted at the exchange rates ruling on the date of transaction.

2.4 Contingent Liability in respect of outstanding forward foreign currency exchange contracts, guarantees and letters of credit is stated at the exchange rates prevailing at the close of the year.

2.5 Premium /discount on hedge swaps are recognized as interest income/expenses and are recognized/ amortised over the period of the transactions

2.6 In respect of foreign exchange transactions the Bank is consistently following Foreign Exchange Dealers Association of India (FEDAI)/ Reserve Bank of India guidelines, which are mandatory.

3. INVESTMENTS

3.1 Investments in Government and other approved securities are categorized into (a) Held to Maturity (b) Held for Trading and (c) Available for Sale in terms of RBI guidelines.

3.2 Brokerage, incentive, broken period interest are treated as revenue

3.3 For the purpose of valuation, the RBI rates/stock exchange quotations, where available, are taken as market rates. Investments for which such rates / quotations are not available are valued as per norms laid down by RBI, as under

Central Government Securities	Prices published by PDAI/ FIMMDA
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Other Approved Securities	YTM published by PDAI/FIMMDA duly adjusted as per RBI guidelines
Bonds, Debentures and Preference Shares	As per rates / methodologies prescribed by FIMMDA.
Equity Shares	Valued at book value as per latest Balance Sheet. Where Balance Sheets are not available, at Re 1 per Company.
Units of Mutual Fund	Re-purchase price / NAV declared by the Mutual Fund as at the close of the year.

3.4 The acquisition cost over the face value, if any, is amortised over the remaining period of maturity in respect of securities held under Held to Maturity category. Profit on redemption / sale of securities in Held to Maturity category is transferred to Capital Reserve.

3.5 The shifting of securities from one category to another is done with the approval of the Board as per RBI guidelines. The shifting is effected at acquisition cost/book /market values on the date of transfer which ever is least and the depreciation if any at the time of shifting is fully provided for.

4. ADVANCES

4.1 Advances are stated in the Balance Sheet net of provisions made for non-performing assets in accordance with the norms prescribed by RBI from time to time and other provisions.

4.2 Provisions are deducted from advances except provision on standard assets, which is grouped under Current Liabilities. Unrealised income of the previous year in respect of advances classified as NPA for the first time during the current year has been reversed as per RBI guidelines.

4.3 Provision for Non-performing advances is deducted from gross advances under various categories, on a proportionate basis.

4.4 A general provision on standard assets on global portfolio basis is made as per Reserve Bank of India guidelines.

4.5 Advances given to units which have become sick including those under nursing and certain suit filed cases are considered secured on the basis of estimated realizable value of securities/Government/ ECGC guarantees considered adequate by the Management.

4.6 As per Reserve Bank of India Guidelines effective 1.4.2003, litigation expenses of Non-performing advances are debited to the Profit and Loss account in year of incurrence and the recovery if any is credited to the Profit and Loss account in the year of recovery.

5. FIXED ASSETS

5.1 Premises and other fixed assets are accounted at historical cost except revalued premises which are accounted at the value determined on the basis of such revaluation.

5.2 Premises were revalued during 1995-96 by professional valuers and the incremental value was credited to Capital Reserve. An amount equal to the depreciation on enhanced value is transferred from Capital Reserve to Profit and Loss account every year.

5.3 Depreciation on fixed assets other than computers is provided for on the diminishing balance method at the rates specified in schedule XIV of the Companies Act 1956. Depreciation on computers acquired on or before 31.3.2000 is provided at 33.33% of the Book value as on that date and on those acquired thereafter at 33.33% on straight line method in line with RBI guidelines. Application software is capitalized as intangible asset and depreciated over three years.

5.4 Fixed Assets costing less than Rs 5000/- each are depreciated full cost in the year of purchase.

5.5 Property purchased along with land for consolidated value is bifurcated on the basis of valuation report.

6. STAFF RETIREMENT BENEFITS

6.1 The contribution to the Gratuity Fund based on actuarial valuation as at the end of each year is charged to the Profit and Loss account.

6.2 Liability towards leave encashment on retirement of employees is provided on as per actuarial valuation at the year end.

6.5 The liability if any on Voluntary Retirement Scheme is charged of full in the year in which it is incurred.

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7.1 Items of income and expenditure are generally accounted for on accrual basis unless otherwise stated

7.2 Income on Non-performing assets (NPA) is recognized as per the prudential norms prescribed by the RBI.

7.3 In respect of accounts covered under OTS, the recoveries are adjusted against book balance and the net balance is written off.

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7.5 Commission earned, rent on safe deposit lockers, dividends, commission from insurance and depository participant business etc are accounted for on cash basis except dividends on units of mutual funds and preference shares which are accounted when the right to receive dividend has accrued. Discount on bills are recognized upfront except where the tenor exceeds one year.

7.6 Interest on income tax refund is accounted in the year in which the same is determined.

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Net profit is arrived at after accounting the following under "Provisions and contingencies".

- a) Provision for Taxes made after due consideration of decisions of the appellate authorities and advice of counsels
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For the year ended March 31, 2004

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2.2 Profit or loss on outstanding forward foreign currency contracts has been accounted for at the exchange rates prevailing at the close of the year as per FEDAI/ RBI guidelines.

2.3 Income and expenditure items have been accounted at the exchange rates ruling on the date of transaction.

2.4 Contingent Liability in respect of outstanding forward foreign currency exchange contracts, guarantees and letters of credit is stated at the exchange rates prevailing at the close of the year.

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Units of Mutual Fund	Re-purchase price / NAV declared by the Mutual Fund as at the close of the year.

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5.4 Fixed Assets costing less than Rs 5000/- each are depreciated full cost in the year of purchase.

5.5 Property purchased along with land for consolidated value is bifurcated on the basis of valuation report.

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6.1 The contribution to the Gratuity Fund based on actuarial valuation as at the end of each year is charged to the Profit and Loss account.

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7.4 Income accounted for in the preceding year and remaining unrealized is de-recognised in respect of advances classified as NPA during the year.

7.5 Commission earned, rent on safe deposit lockers, dividends, commission from insurance and depository participant business etc are accounted for on cash basis except dividends on units of mutual funds and preference shares which are accounted when the right to receive dividend has accrued. Discount on bills are recognized upfront except where the tenor exceeds one year.

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8. NET PROFIT

Net profit is arrived at after accounting the following under “Provisions and contingencies”.

- e) Provision for Taxes made after due consideration of decisions of the appellate authorities and advice of counsels
- f) Provision for doubtful debts
- g) Depreciation on investments as per prudential norms of RBI
- h) Other usual or necessary provisions

For the year ended March 31, 2003

1. GENERAL

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2. TRANSACTIONS INVOLVING FOREIGN EXCHANGE

2.1 Monetary assets and liabilities have been translated at the exchange rates prevailing at the close of the year as advised by FEDAI and the resulting net gain/loss is recognized in the revenue account.

2.2 Profit or loss on outstanding forward foreign currency contracts has been accounted for at the exchange rates prevailing at the close of the year as per FEDAI/ RBI guidelines.

2.3 Income and expenditure items have been accounted at the exchange rates ruling on the date of transaction.

2.4 Contingent Liability in respect of outstanding forward foreign currency exchange contracts, guarantees and letters of credit is stated at the exchange rates prevailing at the close of the year.

2.5 Premium /discount on hedge swaps are recognized as interest income/expenses and are recognized/ amortised over the period of the transactions

2.6 In respect of foreign exchange transactions the Bank is consistently following Foreign Exchange Dealers Association of India (FEDAI)/ Reserve Bank of India guidelines, which are mandatory.

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3.1 Investments in Government and other approved securities are categorized into a) Held to Maturity (b) Held for Trading and (c) Available for Sale in terms of RBI guidelines.

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3.3 For the purpose of valuation, the RBI rates/stock exchange quotations, where available, are taken as market rates. Investments for which such rates / quotations are not available are valued as per norms laid down by RBI, as under

Central Government Securities	Prices published by PDAI/ FIMMDA
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Other Approved Securities	YTM published by PDAI/FIMMDA duly adjusted as per RBI guidelines
Bonds, Debentures and Preference Shares	As per rates / methodologies prescribed by FIMMDA.
Equity Shares	Valued at book value as per latest Balance Sheet. Where Balance Sheets are not available, at Re 1 per Company.
Units of Mutual Fund	Re-purchase price / NAV declared by the Mutual Fund.

3.4 The acquisition cost over the face value, if any, is amortised over the remaining period of maturity in respect of securities held under Held to Maturity category. Profit on redemption / sale of securities in Held to Maturity category is transferred to Capital Reserve.

4. ADVANCES

4.1 Advances are stated in the Balance Sheet net of provisions made for non-performing assets in accordance with the norms prescribed by RBI from time to time and other provisions.

4.2 Provisions are deducted from advances except provision on standard assets, which is grouped under Current Liabilities. Unrealised income of the previous year in respect of advances classified as NPA for the first time during the current year has been reversed as per RBI guidelines.

4.3 Provision for Non-performing advances is deducted from gross advances under various categories, on a proportionate basis.

4.4A general provision on standard assets on global portfolio basis is made as per Reserve Bank of India guidelines. Additional provision as prescribed by Reserve Bank of India is made to fall in line with the 90 days norm becoming operational from 31.3.2004.

4.5 Advances given to units which have become sick including those under nursing and certain suit filed cases are considered secured on the basis of estimated realizable value of securities/Government/ ECGC guarantees considered adequate by the Management.

5. FIXED ASSETS

5.1 Premises and other fixed assets are accounted at historical cost except revalued premises which are accounted at the value determined on the basis of such revaluation.

5.2 Premises were revalued during 1995-96 by professional valuers and the incremental value was credited to Capital Reserve. An amount equal to the depreciation on enhanced value is transferred from Capital Reserve to Profit and Loss account every year.

5.3 Depreciation on fixed assets other than computers is provided for on the diminishing balance method at the rates specified in schedule XIV of the Companies Act 1956. Depreciation on computers acquired on or before 31.3.2000 is provided at 33.33% of the Book value as on that date and on those acquired thereafter at 33.33% on straight line method in line with RBI guidelines.

5.4 Fixed Assets costing less than Rs 5000/- are depreciated at their full cost in the year of purchase leaving a balance of Re 1/- asset for identification purpose. The same was depreciated on the diminishing balance method at the rates specified in schedule XIV of the Companies Act 1956 in the earlier years.

5.5 Property purchased along with land for consolidated value is bifurcated on the basis of valuation report.

6. PROVISIONS AND CONTINGENCIES

6.1 Provision for Income Tax is arrived at after due consideration of decisions of the appellate authorities and advice of counsels

7. STAFF RETIREMENT BENEFITS

7.1 The additional contribution to the Gratuity Fund on the basis of actuarial valuation as on 31.3.1999 are being funded over a period of 5 years from 1998-99 and this together with the incremental net liability if any based on actuarial valuation as at the end of each year is charged to the Profit and Loss account.

7.2 Liability towards leave encashment on retirement of employees is provided on as per actuarial valuation at the year end.

7.3 The liability in respect of employees relieved under Voluntary Retirement Scheme is funded in three years from 31.3.2001 in the ratio of 25:40:35 in accordance with the scheme.

8. REVENUE RECOGNITION

8.1 Items of income and expenditure are generally accounted for on accrual basis unless otherwise stated

8.2 Income on Non-performing assets (NPA) is recognized as per the prudential norms prescribed by the RBI.

8.3 Income accounted for in the preceding year and remaining unrealized is de-recognised in respect of advances classified as NPA during the year.

8.4 Commission earned, rent on safe deposit lockers, dividends are accounted for on cash basis except dividends on units of mutual funds and preference shares which are accounted when the right to receive dividend has accrued. Discount on bills are recognized upfront except where the tenor exceeds one year.

8.5 Interest on income tax refund is accounted in the year in which the same is determined.

9. NET PROFIT

Net profit is arrived at after accounting the following under “Provisions and contingencies”.

- a) Provision for Taxes
- b) Provision for doubtful debts
- c) Depreciation on investments
- d) Other usual or necessary provisions

**NOTES ATTACHED TO AND FORMING PART OF THE PROFIT & LOSS ACCOUNT
AND BALANCE SHEET**

For the six months ended September 30, 2007

1. Reconciliation is in progress in respect of:-

- (a) pending items in inter-branch transactions, inter-offices account, drafts payable and draft paid without advice accounts with other banks including foreign banks, clearing accounts, fixed assets and other items.
(b) some accounts, which have not been tallied with the subsidiary ledgers in a few branches.

The effect of reconciliation of these pending items on the Profit and Loss account and the Balance Sheet is not ascertainable at this stage.

2. Provisions and contingencies

	Rs in lakhs
Provision towards	30.09.2007
Non Performing Assets (including write off)	299
Standard Assets	72
Income Tax (including deferred tax/FBT)	661
Depreciation/amortisation /provision on Investments (net)	122
TOTAL	1154

3. Payment to and provision for employees:

Provision has been made for employee retirement benefits in accordance with the revised AS-15 for the period under audit on an estimated basis as follows:

	(Rs. In lakhs)
Items	30.09.2007
i) Pension	115
ii) Gratuity	87
iii) Leave encashment	132
Total	334

The provision for the transitional liability accrued as at 31st March 2007 as per the revised AS-15 has not been considered pending the receipt of actuarial valuation and Reserve Bank of India guidelines and the same will be reckoned at the year-end.

4. Capital

	30.09.2007
Items	
1. CRAR (%)	9.43
2. CRAR - Tier I capital (%)	6.66
3. CRAR - Tier II Capital (%)	2.77
4. Amount of subordinated debt raised as Tier-II capital (Rs in crores)	82.00

5. Investments

(Rs. In lakhs)

Items	30.09.2007
(1) Value of Investments	
(i) Gross Value of Investments	104998
(a) In India	Nil
(b) Outside India,	
(ii) Provisions for Depreciation	2322
(a) In India	Nil
(b) Outside India,	
(iii) Net Value of Investments	102676
(a) In India	Nil
(b) Outside India.	
(2) Movement of provisions held towards depreciation on investments.	
i. Opening Balance	1910
ii. Add: Provisions made during the period	452
iii. Less: (Write-off/write-back of excess provisions during the period)	(40)
iv. Closing Balance	2322

6. Repo Transactions

(Rs. In lakhs)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As on September 30, 2007
Securities sold under repos	2500	4500	221	NIL
Securities purchased under reverse repos	105	10500	1028	NIL

7. Non-SLR Investment Portfolio

i) Issuer composition of Non SLR investments

(Rs. in lakhs)

No.	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
(i)	PSU's	122	122	40	40	40
(ii)	FIs	590	-	325	265	590
(iii)	Banks	1360	1360	1160	210	210
(iv)	Private Corporate	175	64	-	4	60
(v)	Subsidiaries/ Joint Ventures					
(vi)	Others					
(vii)	Provision held towards depreciation					
	Total	2247	2136	1525	519	900

ii) Non performing Non-SLR investments Rs. in lakhs

Particulars	30.09.2007
Opening balance	396
Additions during the year since 1st April	---
Reductions during the above period	18
Closing balance	378
Total provisions held	375@

@ Includes Rs 265 lakhs being the IFCI preference shares due for redemption on 01.04.2008 and 01.04.2009 in equal installments.

8. Proposed dividend including dividend tax amounting to Rs 3,65,56,000/ for the financial year 2006-07 has been reversed in the current period to the Profit and Loss Appropriation Account, as the proposed dividend was not approved by RBI.

9. Derivatives

During the year the Bank has not dealt in derivatives. Hence, qualitative and quantitative disclosures under RBI guidelines with respect to derivative transactions are not required.

10. Asset Quality

i) Non-Performing Asset

(Rs. in lakhs)

Items	30.09.2007
(i) Net NPAs to Net Advances (%)	1.23%
(ii) Movement of NPAs (Gross)	
(b) Opening balance	9629
(c) Additions during the year	657
(d) Reductions during the year	1363
(e) Closing balance	8923
(iii) Movement of Net NPAs	
(a) Opening balance	3224
(b) Additions during the year	560
(c) Reductions during the year	1465
(d) Closing balance	2319
(iv) Movement of provisions for NPAs (excluding provisions on standard assets)	
(a) Opening balance	6339
(b) Provisions made during the year	481
(c) Write-off/ write-back of excess provisions	281
(d) Closing balance	6539

ii) Details of Loan Assets subjected to restructuring (Rs. in lakhs)

Item	30.09.2007
(i) Total amount of loan assets subjected to restructuring, rescheduling, renegotiation; of which under CDR	1329
(ii) The amount of Standard assets subjected to restructuring, rescheduling, renegotiation; of which under CDR	493
(iii) The amount of Sub-Standard assets subjected to restructuring, rescheduling, renegotiation; of which under CDR	294
(iv) The amount of Doubtful assets subjected to restructuring, rescheduling, renegotiation; - of which under CDR	542
-	
Note: [(i) = (ii)+(iii)+(iv)]	433

iii) Details of financial assets sold to Securitisation / Reconstruction Company for Asset Reconstruction

Item	30.09.2007
(i) No. of accounts	NIL
(ii) Aggregate value (net of provisions) of accounts sold to SC/RC	NIL
(iii) Aggregate consideration	NIL
(iv) Additional consideration realized in respect of accounts transferred in earlier years	NIL
(v) Aggregate gain/loss over net book value.	NIL

iv) Provision on Standard Assets

(Rs. in lakhs)

Item	30.09.2007
Provision towards Standard Assets	1004

* Provision has been made as prescribed by Reserve Bank of India based on the figures as per the sectoral classification certified by the management.

11. Business Ratios

Items	30.09.2007
(i) Interest Income as a percentage to Working Funds	4.32
(ii) Non-interest income as a percentage to Working Funds	0.41
(iii) Operating Profit as a percentage to Working Funds	0.69
(iv) Return on Assets (average) - Annualised	0.79
(v) Business (Deposits plus advances) per employee – Rs in Lakhs	380.60
(vi) Profit/(Loss) per employee - Rs in Lakhs	98.34

12. Maturity Pattern of certain items of assets and liabilities

Rs in lakhs

Due within	Advances	Investments	Foreign currency		Deposits	Borrowings
			Assets	Liabilities		
1 to 14 days	17302	1305	1190	658	24569	--
15 to 28 days	6705	NIL	637	106	16133	--
29 days up to 3 months	11872	2982	5984	1368	28801	--
Over 3 months and up to 6 months	9494	4313	270	1055	20128	--
Over 6 months and up to 1 year	12750	26145		1840	74796	--
Over 1 year and up to 3 years	73911	2794		863	147647	--
Over 3 years and up to 5 years	25713	11857		110	10705	--
Over 5 years	30918	56602			1952	--
Total	188666	104998	8081	6000	324730	--

13. Lending to Sensitive Sector

i) Exposure to Real Estate Sector

Rs in lakhs

Category	30.09.2007
<i>a) Direct exposure</i>	
(i) Residential Mortgages –	15356
of which housing Loans up to Rs 15 Lakhs	10187
(ii) Commercial Real Estate –	11630
(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –	
a. Residential,	Nil
b. Commercial Real Estate.	Nil
<i>b) Indirect Exposure</i>	
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	Nil

ii) Exposure to Capital Market

Rs in lakhs

Items	30.09.2007
(i) investments made in equity shares,	440
(ii) investments in bonds/ convertible debentures	447
(iii) investments in units of equity-oriented mutual funds	38
(iv) advances against shares to individuals for investment in equity shares (including IPOs/ESOPS), bonds and debentures, units of equity oriented mutual funds	
(v) secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers:	1282
Total Exposure to Capital Market (i+ii+iii+iv+v)	2207
(vi) Of (v) above, the total finance extended to stockbrokers for margin trading.	Nil

14. Details of single borrower limit, group borrower limit exceeded by the Bank

Rs in lakhs

Sl No	Name of the Borrower	Exposure Ceiling	Limit Sanctioned	Period during which limit exceeded	Amount outstanding during the period limit exceeded	Board sanction details	Balance outstanding as on 30.09.2007
1	Malayalam Communication	2900	3633	2007-08	3102	D-158 17.09.07	*2957
2	Amrutha Enterprises (P) Ltd	2900	3295	2007-08	3295	D-126 26.02.07	3096
3	Kalyan Silks	2900	3895	2007-08	3895	D-80 22.06.07	3780
4	Leadage Alloys India Ltd	2900	3900	2007-08	3820	D-170 17.09.07	3583
5	Apollo Tyres Ltd	2900	3900	2007-08	3900	D-116 28.07.07	3812
6	Malabar Institute of Medical Science	3900	3973	2007-08	3973	D-121 11.08.07	2472

*Balance excluding deposit coverage

15. Risk Category wise Country Exposure

Rs in lakhs

Risk Category	Exposure (net) as at 30.09.2007	Provision held as at 30.09.2007
Insignificant	554	Nil
Low	Nil	Nil
Moderate	Nil	Nil
High	Nil	Nil
Very High	Nil	Nil
Restricted	Nil	Nil
Off-credit	Nil	Nil
Total	554	--

Information in respect of item 10,11,12,13,14 and 15 above have been compiled by the Management and relied on by the Auditors

16. Amount of Provisions made for Income tax during the year

Rs in lakhs

	30.09.2007
Provision for Income Tax	
(i) Income Tax	650
(ii) Wealth Tax	Nil
(iii) Fringe Benefit Tax	11
(iv) Deferred Tax	Nil

17 Segment reporting (Accounting Standard-17)**Part A Business segments**

Rs in lakhs

	Treasury	Insurance	Other Banking Operations	Total
Segment Revenue	4647	281	12145	17073
Less: Inter Segment Revenue				0
Income from Operations				17073
Segment Results	759	281	2432	3472
Less: (i) Interest				0
(ii) Unallocated Expenses net off				1472
(iii) Unallocable Income				0
Profit before Tax				2000
Capital Employed	3013	--	13440	16453

Part B Geographical segments

Since the Bank is having domestic operations only, no reporting is necessary under this segment.

18. Particulars of related party transactions in terms of Accounting Standard (AS-18)

	30.09.07
a) Key Management personnel	
	A.D. Navaneethan Part time Chairman
	P.S. Prasad MD & CEO
b) Nature of transaction	
Remuneration (including perquisites)	Rs
A.D. Navaneethan	3,09,300
P.S. Prasad	9,57,996

19. Earnings per share (Accounting Standard- 20)

Particulars	30.09.2007
Net Profit after tax available for equity share holders	
(Rs in crores)	13.50
Number of equity shares	32057800
Earnings per share (basic and diluted) (in Rs)	4.21*

* Not annualised

20. Accounting for taxes on income (Accounting Standard- 22)

Deferred Tax Asset/Liability is not created for the half year ended 30th September 2007 and the same, if any, will be reckoned at the year-end.

21. Impairment of assets (Accounting Standard- 28)

The Bank has identified that there is no material impairment of Fixed Assets of the Bank and as such no provision is required as per AS 28 issued by Institute of Chartered Accountants of India.

22. Provisions, Contingent Liabilities and Contingent Assets (Accounting Standard- 29)

Movement in significant provisions has been disclosed at the appropriate places in the Notes forming part of accounts.

23. The figures for the Half Year ended 30-09-2006 are unaudited, but subjected to limited review.

For the year ended March 31, 2007

1. Reconciliation is in progress in respect of:-

- (a) Pending items in inter-branch transactions, inter-offices account, drafts payable and draft paid without advice accounts with other banks including foreign banks, clearing accounts, fixed assets and other items.
- (b) Some accounts, which have not been tallied with the subsidiary ledgers in a few branches.

The effect of reconciliation of the pending items on the Profit and Loss account and the Balance Sheet is not ascertainable at this stage.

2. Provisions and contingencies

Rs in lakhs

Provision towards	31.03.2007	31.03.2006
Non Performing Assets (including write off)	806	533
Standard Assets	312	283
Income Tax (including deferred tax/FBT)	1122	605
Depreciation/provision on Investments (net)	10	(63)
TOTAL	2250	1358

3. Bank has raised Rs. 17.00 crores (Previous Year-Rs 10.00 crores)) as Subordinate Bonds during the year to augment Tier II Capital

4. Payment to and provision for employees include:

- a) Incremental liability at the year end towards pension fund as actuarially determined amounting to Rs. 186.99 Lakhs (Rs. 456.40 Lakhs).
- b) Incremental liability at the year end towards gratuity, as actuarially determined amounting to Rs. 132.22 lakhs (Rs. 265.94 lakhs)
- c) Incremental liability at the year end towards leave encashment as actuarially determined amounting to Rs. 214.56 lakhs (Rs. 127.75 lakhs)

5. Capital

Items	31.03.2007	31.03.2006
iv) CRAR (%)	9.77	9.75
v) CRAR - Tier I capital (%)	6.29	6.21
vi) CRAR - Tier II Capital (%)	3.48	3.54
vii) Amount of subordinated debt raised as Tier-II capital (Rs in lakhs)	8200	7058

6. Investments

(Rs. In lakhs)

Items	31.03.2007	31.03.2006
(1) Value of Investments		
(iv) Gross Value of Investments	88429	79250
(a) In India	Nil	Nil
(b) Outside India,		
(v) Provisions for Depreciation	1910	1353
(a) In India	Nil	Nil
(b) Outside India,		
(vi) Net Value of Investments	86519	77897
(a) In India	Nil	Nil
(b) Outside India.		
(2) Movement of provisions held towards depreciation on investments.		
(i) Opening balance	1353	946
(ii) Add: Provisions made during the year	737	563
(iii) Less: (Write-off/write-back of excess provisions during the year)	180	156
(iv) Closing Balance	1910	1353

7. Repo Transactions

(Rs. In lakhs)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As on March 31,2007
Securities sold under repos	Nil	Nil	Nil	Nil
Securities purchased under reverse repos	200	7500	371	Nil

8. Non-SLR Investment Portfolio

i) Issuer composition of Non SLR investments

(Rs. in lakhs)

No.	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
(i)	PSU's	122	122	40	40	40
(ii)	FIs	590	590	325	265	590
(iii)	Banks	1170	1170	970	320	320
(iv)	Private Corporate	267	96	--	4	60
(v)	Subsidiaries/ Joint Ventures	--	--	--	--	--
(vi)	Others	--	--	--	--	--
(vii)	Provision held towards depreciation	377				
	Total	2004	1978	1335	629	1010

Preference shares of Rs. 100 lakhs held by the Bank in Industrial Investment Bank of India (IIBI) remain adjusted against redemption of Tier II Bonds, pending receipt of confirmation from IIBI.

ii) Non performing Non-SLR investments

Rs. in lakhs

Particulars	31.03.2007	31.03.2006
Opening balance	855	1442
Additions during the year	--	143
Reductions during the year	459	730
Closing balance	396	855
Total provisions held	231	425

9. Consequent to reduction of dividends proposed for the financial year 2005-06 from 7% to 5 % as directed by RBI, the excess amount appropriated including Dividend Tax during the year ended 31.03.2006 amounting to Rs. 73.09 lakhs has been written back to the Profit and Loss Appropriation Account.

10. Derivatives

During the year the Bank has not dealt with in derivatives. Accordingly, qualitative and quantitative disclosures under RBI guidelines with respect to derivative transactions do not arise

11. Asset Quality

i) Non-Performing Asset

(Rs. in Lakhs)

Items	31.03.2007	31.03.2006
(i) Net NPAs to Net Advances (%)	175	282
(ii) Movement of NPAs (Gross)		
(f) Opening balance	11138	12558
(g) Additions during the year	2637	2453
(h) Reductions during the year	4146	3873
(i) Closing balance	9629	11138
(iii) Movement of Net NPAs		
(e) Opening balance	4489	5843
(f) Additions during the year	2262	2188
(g) Reductions during the year	3461	3432
(h) ECGC Collection	66	110
(i) Closing balance	3224	4489
(iv) Movement of provisions for NPAs (excluding provisions on standard assets)		
(e) Opening balance	6539	6539
(f) Provisions made during the year	1692	1789
(g) Write-off/ write-back of excess provisions	1892	1789
(h) Closing balance	6339	6539

* Total amount recovered from SC/ST borrowers is Rs. 26.52 lakhs

ii) Details of Loan Assets subjected to Restructuring

(Rs. in lakhs)

Item	31.03.2007	31.03.2006
(i) Total amount of loan assets subjected to restructuring, rescheduling, renegotiation; of which under CDR	5290 507	3375 571
(ii) The amount of Standard assets subjected to restructuring, rescheduling, renegotiation; of which under CDR	3697 --	2103 571
(iii) The amount of Sub-Standard assets subjected to restructuring, rescheduling, renegotiation; of which under CDR	1009 507	385 --
(iv) The amount of Doubtful assets subjected to restructuring, rescheduling, renegotiation; - of which under CDR	584 --	887 --
Note: [(i) = (ii)+(iii)+(iv)]		

iii) Details of financial assets sold to Securitisation / Reconstruction Company for Asset Reconstruction

Item	31.03.2007	31.03.2006
(vi) No. of accounts	--	--
(vii) Aggregate value (net of provisions) of accounts sold to SC/RC	--	--
(viii) Aggregate consideration	--	--
(ix) Additional consideration realized in respect of accounts transferred in earlier years	--	--
(x) Aggregate gain/loss over net book value.	--	--

iv) Provisions on Standard Assets

(Rs. in lakhs)

Item	31.03.2007	31.03.2006
Provisions towards Standard Assets	932 *	620 *

* Provision has been made as per rates prescribed by Reserve Bank of India based on the figures as per the sectoral classification certified by the management.

12. Business Ratios

Items	31.03.2007	31.03.2006
(vii) Interest Income as a percentage to Working Funds (%)	7.95	7.63
(viii) Non-interest income as a percentage to Working Funds (%)	1.13	0.96
(ix) Operating Profit as a percentage to Working Funds (%)	1.42	1.02
(x) Return on Assets (%)	0.47	0.33
(xi) Business (Deposits plus advances) per employee – Rs in Lakhs	366.68	311.71
(xii) Profit/(Loss) per employee - Rs in Lakhs	1.18	0.72

13. Asset Liability Management

Maturity Pattern of certain items of assets and liabilities

Rs in lakhs

Due within	Advances	Investments	Foreign currency		Deposits	Borrowings
			Assets	Liabilities		
1 to 14 days	14330	2014	4043	832	36150	450
15 to 28 days	9598	969	1876	115	16253	--
29 days up to 3 months	9273	1048	2068	674	33622	--
Over 3 months and up to 6 months	8904	12951	378	990	27591	--
Over 6 months and up to 1 year	10268	1865	13	2661	46239	--
Over 1 year and up to 3 years	71973	3643	--	1199	134411	--
Over 3 years and up to 5 years	26505	7743	--	108	12688	--
Over 5 years	33099	56286	--	--	1842	--
Total	183950	86519	8378	6579	308796	450

14. Lending to Sensitive Sector

i) Exposure to Real Estate Sector

Rs in lakhs

Category	31.03.2007	31.03.2006
a) Direct exposure		
(i) Residential Mortgages –		
Lendings fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented;	13187	10188
(of which individual housing loans up to Rs. 15 lakh)	10355	7594
(ii) Commercial Real Estate –		
Lendings secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits;	14749	13942
(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –	--	--
a. Residential,	--	--
b. Commercial Real Estate.	--	--
b) Indirect Exposure		
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	--	--

ii) Exposure to Capital Market

Rs in lakhs

Items	31.03.2007	31.03.2006
(vii) investments made in equity shares,	533	220
(viii) investments in bonds/ convertible debentures	--	--
(ix) investments in units of equity-oriented mutual funds	--	--
(x) advances against shares to individuals for investment in equity shares (including IPOs/ESOPS), bonds and debentures, units of equity oriented mutual funds	120	14
(xi) secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers:	914	855
Total Exposure to Capital Market (i+ii+iii+iv+v)	1567	1089
(xii) Of (v) above, the total finance extended to stockbrokers for margin trading.	--	--

15. Details of single borrower limit, group borrower limit exceeded by the Bank

Rs in lakhs

Sl No	Name of the Borrower	Limit Sanctioned (Excluding deposit coverage)	Balance o/s as on 31.03.2007
1	Malayalam Communications Ltd.	2961	*2444
2	Amrita Enterprises (P) Ltd.	3295	3037
3	Kalyan Silks (Thrissur) Pvt. Ltd.	2967	2912
4	Different SNDP Unions	3300	2760
5	Bhima Jewellery, Nagercoil & Trivandrum	2686	814

* Balance excluding deposit coverage

16. Risk Category wise Country Exposure

The net funded exposure of the bank in respect of foreign exchange transactions with all countries is less than 1 % of the assets of the Bank and hence no disclosure and provision is required as per RBI guidelines.

Rs in lakhs

Risk Category	Exposure (net) as at 31.03.2007	Provision held as at 31.03.2007	Exposure (net) as at 31.03.2006	Provision held as at 31.03.2006
Insignificant	4465	Nil	622	Nil
Low	--	Nil	219	Nil
Moderate	--	Nil	315	Nil
High	--	Nil	-	Nil
Very High	--	Nil	-	Nil
Restricted	--	Nil	-	Nil
Off-credit	--	Nil	-	Nil
Total	4465	Nil	1156	Nil

Information in respect of item 11, 12, 13, 14, 15 and 16 above have been compiled by the Management and relied on by the Auditors

17. Amount of Provisions made for tax during the year

Rs in lakhs

	31.03.2007	31.03.2006
Provision for Tax		
(v) Income Tax	430	25
(vi) Wealth Tax	4	10
(vii) Fringe Benefit Tax	31	80
(viii) Deferred Tax	657	490

18. Segment reporting (Accounting Standard-17)

Part A Business segments

Rs in lakhs

	Treasury		Insurance		Other Banking Operations		Total	
	31.03.07	31.03.06	31.03.07	31.03.06	31.03.07	31.03.06	31.03.07	31.03.06
Segment Revenue	6187	5315	767	335	20662	17530	27616	23180
Less: Inter Segment Revenue							0	0
Income from Operations							27616	23180
Segment Results	(432)	1040	767	335	6126	2097	6461	3472
Less: (i) Interest							0	0
(ii) Unallocated Expenses net off							4413	2485
(iii) Unallocable Income							0	0
Profit before Tax							2048	987
Capital Employed	2479	2298	0	0	12259	11142	14738	13440

Part B Geographical segments

Since the Bank is having domestic operations only, no reporting does arise under this segment.

19. Particulars of related party transactions in terms of Accounting Standard (AS-18)

	31.03.07	31.03.06
a) Key Management personnel	Sri.A.D.Navaneethan Part time Chairman Sri.P.S.Prasad MD & CEO	Sri.A.D.Navaneethan Part time Chairman Sri.T.R.Madhavan # MD & CEO Sri.P.S.Prasad # MD & CEO # Part of the year
b) Nature of transaction Remuneration(including perquisites)		
Sri. A.D.Navaneethan	Rs. 6,18,600.00	Rs.6,18,850
Sri. P.S.Prasad	Rs.17,93,859.00	Rs.5,66,228
Sri. T.R.Madhavan	Nil	Rs.6,21,856

20. Earnings per share (Accounting Standard- 20)

Particulars	31.03.2007	31.03.2006
Net Profit after tax available for equity share holders (Rs in crore)	16.14	9.51
Number of equity shares	32057800	32057800
Earnings per share (basic and diluted)	Rs.5.03	Rs.2.97

21. Accounting for taxes on income (Accounting Standard- 22)

The major components of Deferred Tax are as follows:

	Deferred tax asset		Deferred tax liability	
	31.03.07	31.03.06	31.03.07	31.03.06
Depreciation on Assets	-	--	144.14	225.94
Provision for Loan losses	56.03	280.35		--
VRS expenditure	48.76	90.51		--
Leave Encashment	392.61	316.66		--
Carry Forward Loss	--	548.12		--
Total	497.40	1235.64	144.14	225.94
Net balance	353.26	1009.70		

22. Impairment of assets (Accounting Standard- 28)

Bank has identified that there is no material impairment of Fixed Assets of the Bank and as such no provision is required as per AS 28 issued by Institute of Chartered Accountants of India.

23. Provisions, Contingent Liabilities and Contingent Assets (Accounting Standard- 29)

Movements in significant provisions have been disclosed at the appropriate places in the Notes forming part of accounts.

24. The declaration of dividend is subject to RBI approval.

25. Previous Years figures are regrouped / rearranged wherever necessary to conform to current year's classification.

For the year ended March 31, 2006

1. Reconciliation of pending items (including old items) in inter-branch transactions, inter-offices account, drafts payable and draft paid without advice accounts with other banks including foreign banks, clearing accounts and other items are in progress. In a few branches, balances in some accounts have not been tallied with the subsidiary ledgers and registers. Steps have already been taken to reconcile the differences. The effect of reconciliation of these pending items on the Profit and Loss account and the Balance Sheet is not ascertainable at this stage.

2. Provisions and contingencies

Rs in lakhs

Provision towards	31.03.2006	31.03.2005
Non Performing Assets (including write off)	533	1047
Standard Assets	283	72
Income Tax (including deferred tax/FBT)	605	(908)
Depreciation/amortisation /provision on Investments (net)	(63)	3391
TOTAL	1358	3602

3. The Bank had revalued its premises including land during the year 2005-06 based on valuation reports of approved valuers and the resultant increase of Rs.1347.93 lakhs has been credited to Capital Reserve.

4. Bank has raised Rs 10.00 crores (Previous Year-Rs 20.00 crores)) as Subordinate Bonds during the year to augment Tier II Capital

5. In terms with RBI guidelines, the Bank has transferred the balance in Investment Fluctuation Reserve amounting to Rs 856.19 Lakhs as at the year end to Profit and Loss Account “below the line” and thereafter appropriated to “Revenue and Other Reserves”

6. Hitherto the premium /discount on Investments in HTM (Held to Maturity) category were being amortised over the remaining period of maturity by adopting “Straight Line Method”. From the current year the Bank has switched over to the "Constant Yield Method". Consequently the amortisation expenses are lower and profit before tax is higher by Rs.215.69 Lakhs

7. Payment to and provision for employees include:

a) Incremental liability at the year end towards pension fund as actuarially determined amounting to Rs 456.40 Lakhs (Rs 80 Lakhs).

b) Incremental liability at the year end towards gratuity, as actuarially determined amounting to Rs. 265.94 lakhs (Rs. 228 lakhs)

c) Incremental liability at the year end towards leave encashment as actuarially determined amounting to Rs.127.75 lakhs (Rs. 123.42 lakhs)

d) Provision of Rs Nil (Rs 760.00 Lakhs) towards estimated liability on account of wage revision as per 8th bipartite settlement.

8. Capital

Items	31.03.2006	31.03.2005
viii) CRAR (%)	9.75	10.16
ix) CRAR - Tier I capital (%)	6.21	6.12
x) CRAR - Tier II Capital (%)	3.54	4.04
xi) Percentage of the shareholding of the Government of India in nationalized banks	Nil	Nil
xii) Amount of subordinated debt raised as Tier-II capital (Rs in lakhs) (Rs 10 crores subordinated debts were raised during the year)	7058	7242

During the year Bank has increased the authorized capital from Rs 50 crores to Rs 100 crores

9. Investments

(Rs. In lakhs)

Items	31.03.2006	31.03.2005
(1) Value of Investments		
(vii) Gross Value of Investments	72313	71745
(a) In India	Nil	Nil
(b) Outside India,		
(viii) Provisions for Depreciation	1353	946
(a) In India	Nil	Nil
(b) Outside India,		
(ix) Net Value of Investments	70960	70799
(a) In India	Nil	Nil
(b) Outside India.		
(2) Movement of provisions held towards depreciation on investments.		
Opening balance (a)	946	367
Add:	Nil	Nil

i. Provision for deprn on AFS category	143	279
ii. Provision for Non Performing Investments	420	390
iii. Provision for amortization of premium on HTM category	563	669
Sub Total (b) (i to iii)		
Less:	39	90
i. Write back on account reduction in deprn on AFS category	72	Nil
ii. Write back in Non Performing Investments	45	Nil
iii. Write back of amortization of premium on HTM category	156	90
Sub Total (c) (i to iii)	1353	946
Closing balance (a + b - c)		

10. Repo Transactions

(Rs. In lakhs)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As on March 31,2006
Securities sold under repos	Nil	6000	263	Nil
Securities purchased under reverse repos	Nil	10500	1279	Nil

11. Non-SLR Investment Portfolio

i) Issuer composition of Non SLR investments

(Rs. in lakhs)

No.	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
(i)	PSU's	1336	1269		320	585
(ii)	FIs	1392	1392	325	365	690
(iii)	Banks	1220	1220	--	370	370
(iv)	Private Corporate	704	519	--	300	535
(v)	Subsidiaries/ Joint Ventures	--	--	--	--	--
(vi)	Others	--	--	--	--	--
(vii)	Provision held towards depreciation	515				
	Total	4137	4400	325	1355	2180

ii) Non performing Non-SLR investments

Rs. in lakhs

Particulars	31.03.2006	31.03.2005
Opening balance	1442	387
Additions during the year since 1st April	143	1055
Reductions during the above period	730	--
Closing balance	855	1442
Total provisions held	425	354

12. Derivatives

During the year the Bank has not dealt with in derivatives. Accordingly, qualitative and quantitative disclosures under RBI guidelines with respect to derivative transactions are not required.

13. Asset Quality

i) Non-Performing Asset

(Rs. in lakhs)

Items	31.03.2006	31.03.2005
(i) Net NPAs to Net Advances (%)	244	392
(ii) Movement of NPAs (Gross)		
(j) Opening balance	12558	13655

Items	31.03.2006	31.03.2005
(k) Additions during the year	2453	1480
(l) Reductions during the year	3873	2577
(m) Closing balance	11138	12558
(iii) Movement of Net NPAs		
(j) Opening balance	6019	8006
(k) Additions during the year	664	2213
(l) Reductions during the year	2084	4200
(m) Closing balance	4599	6019
(iv) Movement of provisions for NPAs (excluding provisions on standard assets)		
(i) Opening balance	6539	5649
(j) Provisions made during the year	1789	1811
(k) Write-off/ write-back of excess provisions	1789	921
(l) Closing balance	6539	6539

ii) Details of Loan Assets subjected to Restructuring

(Rs. in lakhs)

Item	31.03.2006	31.03.2005
(i) Total amount of loan assets subjected to restructuring, rescheduling, renegotiation;	2103	4189
of which under CDR	571	--
(ii) The amount of Standard assets subjected to restructuring, rescheduling, renegotiation;	2103	3612
of which under CDR	571	--
(iii) The amount of Sub-Standard assets subjected to restructuring, rescheduling, renegotiation;	--	577
of which under CDR	--	--
(iv) The amount of Doubtful assets subjected to restructuring, rescheduling, renegotiation;	--	--
- of which under CDR	--	--
Note: [(i) = (ii)+(iii)+(iv)]		

iii) Details of financial assets sold to Securitisation / Reconstruction Company for Asset Reconstruction

Item	31.03.2006	31.03.2005
(xi) No. of accounts	--	--
(xii) Aggregate value (net of provisions) of accounts sold to SC/RC	--	--
(xiii) Aggregate consideration	--	--
(xiv) Additional consideration realized in respect of accounts transferred in earlier years	--	--
(xv) Aggregate gain/loss over net book value.	--	--

iv) Provisions on Standard Assets

(Rs. in lakhs)

Item	31.03.2006	31.03.2005
Provisions towards Standard Assets	620 *	337

* Provision has been made as per enhanced rates prescribed by Reserve Bank of India

14. Business Ratios

Items	31.03.2006	31.03.2005
(Xiii) Interest Income as a percentage to Working Funds	7.63	7.58
(Xiv) Non-interest income as a percentage to Working Funds	0.96	0.58
(Xv) Operating Profit as a percentage to Working Funds	1.02	0.73
(Xvi) Return on Assets	0.33	(0.83)
(Xvii) Business (Deposits plus advances) per employee – Rs in Lakhs	311.71	292.70
(Xviii) Profit/(Loss) per employee - Rs in Lakhs	0.72	(1.65)

15. Maturity Pattern of certain items of assets and liabilities

Rs in lakhs

Due within	Advances	Investments	Foreign currency		Deposits	Borrowings
			Assets	Liabilities		
						--
1 to 14 days	13900	26	7018	5296	34834	
15 to 28 days	7677	--	2463	3120	10492	
29 days up to 3 months	7249	39	5143	3215	25150	
Over 3 months and up to 6 months	8102	5642	6464	5658	21414	
Over 6 months and up to 1 year	10004	2798	6246	8336	46248	
Over 1 year and up to 3 years	61631	5041	13	1713	107546	19
Over 3 years and up to 5 years	25018	2738	--	--	6908	
Over 5 years	25853	56029	--	--	675	
Total	159434	72313	27347	27338	253267	19

16. Lending to Sensitive Sector

i) Exposure to Real Estate Sector

Rs in lakhs

Category	31.03.2006	31.03.2005
<i>a) Direct exposure</i>		
(i) Residential Mortgages – Housing Loans up to Rs 15 Lakhs – Rs 75.94 cr (Previous Year –Rs 47.65 cr)	10188	5325
(ii) Commercial Real Estate –	13942	6134
(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		

a. Residential,	--	--
b. Commercial Real Estate.	--	--
<i>b) Indirect Exposure</i>		
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	--	--

ii) Exposure to Capital Market

Rs in lakhs

Items	31.03.2006	31.03.2005
(xiii) investments made in equity shares,	220	189
(xiv) investments in bonds/ convertible debentures	--	--
(xv) investments in units of equity-oriented mutual funds	--	--
(xvi) advances against shares to individuals for investment in equity shares (including IPOs/ESOPS), bonds and debentures, units of equity oriented mutual funds	14	16
(xvii) secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers:	855	769
Total Exposure to Capital Market (i+ii+iii+iv+v)	1089	974
(xviii) Of (v) above, the total finance extended to stockbrokers for margin trading.	--	--

17. Details of single borrower limit, group borrower limit exceeded by the Bank

(Rs in lakhs)

Sl No	Name of the Borrower	Exposure Ceiling	Limit Sanctioned	Period during which limit exceeded	Amount outstanding during the period limit exceeded	Board sanction details	Balance outstanding as on 31.03.2006
1	Kerala State Electricity Board	2800	3300	2005-06	3300	Item No D-51 dated 29.07.05	3
2	Amritha Enterprises	2100	2500	2005-06	2500	-do-	2497
3	Apar Industries	2100	2175	2005-06	2175	-do-	1917
4	Kalyan Silks	2100	2789	2005-06	2789	-do-	2318

18. Risk Category wise Country Exposure

(Rs in lakhs)

Risk Category	Exposure (net) as at 31.03.2006	Provision held as at 31.03.2006	Exposure (net) as at 31.03.2005	Provision held as at 31.03.2005
Insignificant	622	Nil	323	Nil
Low	219	Nil	105	Nil
Moderate	315	Nil	100	Nil
High	-	Nil	-	Nil
Very High	-	Nil	-	Nil
Restricted	-	Nil	-	Nil
Off-credit	-	Nil	-	Nil
Total	1156	Nil	528	Nil

Information in respect of item 14,15,16,17 & 18 above have been compiled by the Management and relied on by the Auditors

19. Amount of Provisions made for Income-tax during the year

Rs in lakhs

	31.03.2006	31.03.2005
Provision for Income Tax		
(ix) Income Tax	25	--
(x) Wealth Tax	10	4
(xi) Fringe Benefit Tax	80	--
(xii) Deferred Tax	490	(912)

20 Segment reporting (Accounting Standard-17)

Part A Business segments

(Rs in lakhs)

	Treasury		Insurance		Other Banking Operations		Total	
	31.03.06	31.03.05	31.03.06	31.03.05	31.03.06	31.03.05	31.03.06	31.03.05
Segment Revenue	5315	5669	335	68	17530	14547	23180	20284
Less: Inter Segment Revenue							0	0
Income from Operations							23180	20284
Segment Results	1040	(3182)	335	68	2097	3130	3472	16
Less: (i) Interest							0	0
(ii) Unallocated Expenses net off							2485	2172
(iii) Unallocable Income							0	0
Profit before Tax							987	(2156)
Capital Employed	2298	2154	0	0	11142	9257	13440	11411

Part B Geographical segments

Since the Bank is having domestic operations only, no reporting is necessary under this segment.

21. Particulars of related party transactions in terms of Accounting Standard (AS-18)

	31.03.06	31.03.05
a) Key Management personnel	A.D.Navaneethan Part time Chairman T.R.Madhavan # MD & CEO	A.D.Navaneethan # Part time Chairman T.R.Madhavan MD & CEO

# part of the year	P.S.Prasad # MD & CEO	
b) Nature of transaction		
Remuneration(including perquisites)	Rs	Rs
A.D.Navaneethan		
T.R.Madhavan	6,18,850	3,226
P.S.Prasad	6,21,856	19,23,425
	5,66,228	--

22. Earnings per share (Accounting Standard- 20)

Particulars	31.03.2006	31.03.2005
Net Profit after tax available for equity share holders		
(Rs in crores)	9.51	(21.60)
Number of equity shares	32057800	32057800
Earnings per share (basic and diluted) (in Rs)	2.97	(6.74)

23. Accounting for taxes on income (Accounting Standard- 22)

The major components of Deferred Tax are as follows:

Rs in lakhs

	Deferred tax asset		Deferred tax liability	
	31.03.06	31.03.05	31.03.06	31.03.05
Depreciation on Assets	--	--	226	154
Provision for Loan losses	280	323	--	--
VRS expenditure	90	161	--	--
Leave Encashment	317	273	--	--
Carry Forward Loss	548	896	--	-
Total	1235	1653	226	154
Net balance	1009	1499		

24. Impairment of assets (Accounting Standard- 28)

Bank has identified that there is no material impairment of Fixed Assets of the Bank and as such no provision is required as per AS 28 issued by Institute of Chartered Accountants of India.

25. Provisions, Contingent Liabilities and Contingent Assets (Accounting Standard- 29)

Movements in significant provisions have been disclosed at the appropriate places in the Notes forming part of accounts.

26. Previous Years figures are regrouped / rearranged wherever necessary to conform to current year's classification.

For the year ended March 31, 2005

1. Reconciliation of pending items (including old items) in inter-branch transactions, inter-offices account, drafts payable and draft paid without advice accounts with other banks including foreign banks, clearing accounts and other items are in progress. In a few branches, balances in some accounts have not been tallied with the subsidiary ledgers and registers. Steps have already been taken to reconcile the differences. The effect

of reconciliation of these pending items on the Profit and Loss account and the Balance Sheet is not ascertainable at this stage.

2. Provisions and contingencies

Rs in lakhs

Provision towards	31 March 2005	31 March 2004
Non Performing Assets (including write off)	1047	3756
Floating Provision- NPA	-	70
Standard Assets	72	-
Income Tax	4	1275
Deferred Tax Asset	(912)	(90)
Provision for Depreciation on Investments (net)	3112	(68)
Other Provisions	279	4
TOTAL	3602	4947

3. Capital Reduction:

The 72nd Annual General Meeting of the Bank held on 9 August,1999 had passed a resolution to reduce the subscribed capital from 1,69,78,845 equity shares of Rs.10/- each to 1,37,41,065 equity shares of Rs.10/ each by canceling the called-up and unpaid capital, converting 47,34,900 equity shares of Rs.10/-each partly paid-up into 14,97,155 equity shares of Rs.10, each fully paid-up. The Hon'ble High Court of Kerala approved the said scheme on 31 July, 2000. Accordingly, the paid-up capital was reduced to the extent of Rs.92,50,800/-. A sum of Rs 92,50,800/- representing the premium was transferred to Share Premium Account.

4. The Bank had revalued its premises in the year 1995-96 based on valuation reports of approved valuers and the resultant increase of Rs.559.30 lakhs was credited to Capital Reserve.

5. Pursuant to Reserve Bank of India circular No.DBOD.No.BP.BC.37/21.04.141/2004 dated September 2, 2004, the Bank has transferred SLR Securities aggregating to Rs 457.74 crores from 'Available for Sale' category to 'Held to Maturity' category. The marked to market depreciation of Rs 32.14 crores has been debited to Profit & Loss Account.

6. As permitted by Reserve Bank of India vide their letter DBOD.No.PSBD.407/16.01.061/2004-05 dated 23 June 2005; the Bank has transferred the balance in the Investment Fluctuation Reserve in excess of 5% of the investments in Available for Sale and Held for Trading Categories, amounting to Rs.8.44 crores to the Profit and Loss account below the line.

7. Bank has raised Rs 20.00 crores (Previous Year-Rs 35.00 crores)) as Subordinate Bonds during the year to augment Tier II Capital

8. Payment to and provision for employees include:

a) Incremental liability at the year end towards pension fund as actuarially determined amounting to Rs 80 Lakhs (Rs 375 Lakhs).

b) Incremental liability at the year end towards gratuity, as actuarially determined amounting to Rs.228 lakhs (Rs. 155 lakhs)

c) Incremental liability at the year end towards leave encashment as actuarially determined amounting to Rs.123.42 lakhs (Rs.88.97 lakhs)

d) Voluntary Retirement Scheme Exgratia payment Rs Nil (Rs 367.21 Lakhs)

e) Provision of Rs 760.00 Lakhs (Nil) towards estimated liability on account of wage revision as per 8th bipartite settlement.

9. Consequent to reduction of dividends proposed for the financial year 2003-04 from 10 % to 5 % as directed by RBI , the excess amount appropriated during the year ended 31.03.2004 amounting to Rs 180.83 Lakhs has been written back to the Profit and Loss Appropriation Account.

10. Capital Adequacy Ratio

	31.3.2005	31.3.2004
a) The capital to Risk weighted Assets Ratio(CRAR)	10.16	13.56
b) The Tier I capital to Risk weighted Assets ratio	6.12	8.63
c) The Tier II capital to Risk weighted Assets ratio	4.04	4.93

11. Additional disclosures

	As on 31.3.2005	As on 31.3.2004
A Percentage of shareholding of Govt of India	Nil	Nil
B Net NPA's as percentage to Net Advances	3.92	6.68
C Sub-ordinated debt raised for Tier II capital (Rupees in Crores)	72.42	52.91
D Business ratios		
i) Interest income as a percentage to average working funds	7.58	8.33
ii) Non-interest income as a percentage to average working funds	0.58	2.54
iii) Operating Profit as a percentage to average working funds	0.73	2.92
iv) Return on assets	-0.83	0.71
v) Business (Deposits + Advances) per employee (Rs in lakhs)	292.70	248.63
vi) Profit per employee (Rs in lakhs)	(1.65)	1.32
E Earnings Per share		
Earnings per share (Basic and diluted) Rs	(6.74)	5.45
Net profit as per profit and loss account considered as numerator for computing EPS (Rs. In lakhs)	(2160.09)	1747.55
Equity shares used as denominator (previous year weighted average shares)	32057800	32057800
Nominal value of shares- Rs	10/-	10/-

12. Maturity Pattern

Due within	Loans & advances	Investments	Foreign currency		Rs in Lakhs	
			Assets	Liabilities	Deposits	Borrowings
						--
1 to 14 days	10223.91	33.54	3762.88	1542.01	18070.06	84.71
15 to 28 days	6657.15	13.33	1762.03	132.05	15756.94	--
29 days up to 3 months	8353.88	3020.36	2881.02	3055.37	27531.69	430.00
Over 3 months and up to 6 months	6989.29	3954.18	2131.60	1911.64	24495.28	--
Over 6 months and up to 1 year	10783.47	1596.42	812.37	1608.57	37863.32	67.93
Over 1 year and up to 3 years	60194.76	3883.02	--	3114.35	99762.73	--

Due within	Loans & advances	Investments	Foreign currency		Deposits	Borrowings
Over 3 years and up to 5 years	17738.68	4853.89	--	--	9083.11	--
Over 5 years	20073.78	54390.84	--	--	1320.42	--
Total	141014.92	71745.58	11349.90	11363.99	233883.55	582.64

13. Investments (Gross)

Rs in lakhs

	31.03.05	31.03.04
Equity Shares	189.01	311.92
Preference shares	1319.99	1369.99
Convertible debentures	Nil	Nil
Equity oriented mutual funds	Nil	Nil
Aggregate advances against shares	1484.40	1303.58

14. Lending to Sensitive Sectors

Rs. in Lakhs

Advances to capital Market sector	31.03.05	31.03.04
i) Individuals	16.19	19.24
ii) Shares and stock brokers	244.10	266.10
iii) All other borrowers against security of shares	1224.11	1018.24
Total Advances against security/collateral of shares	1484.40	1303.58
Advances to Real Estate sector		
i) Commercial property	1377.54	2445.94
ii) Land /Building Developers	2295.89	3136.23
iii) Mortgages other than individual Housing Loan	1422.11	986.07
iv) Others – Premises	1038.12	481.43
Total exposure to Real Estate Sector	6133.66	7049.67
Advances to commodity sector		
i) Cash Crop	465.46	123.92
ii) Edible Oil	538.67	260.80
iii) Agricultural Produce	2460.39	943.33
iv) Other sensitive commodities	661.42	1229.49
Total Exposure to Commodity Sector	4125.94	2557.54

15. Restructured Loans

Rs in lakhs

		31.3.2005	31.3.2004
I	Total amount of loan assets subjected to restructuring	4188.68	4162.88
II	Total amount of standard assets subjected to restructuring	3611.61	3995.72
III	Total amount of sub-standard assets subjected to restructuring	577.07	167.16

16. Details of facilities extended to customers over and above exposure ceiling

Rs in lakhs

Sl No	Name of the Borrower	Exposure Ceiling	Limit Sanctioned	Period during which limit exceeded	Amount outstanding during the period limit exceeded	Board sanction details	Balance outstanding as on 31.03.2005
	Kerala State Electricity Board	2500.00	3300.00	2004-05	3311.07	BD/53/2004-05 dt 31.07.04	3311.07
	NRI Academy of Medical Sciences	2500.00	2506.88	2004-05	2527.32	C-6 dt 30.04.05	2527.32

Information in respect of item 11,12,13,14,15 & 16 above have been compiled by the Management and relied on by the Auditors

17. Movement of NPA (advances)

Rs in lakhs

	31.3.05 Gross NPA	31.3.04 Gross NPA	31.3.05 Net NPA	31.3.04 Net NPA
Opening balance	13655	14815	8006	10496
Add additions during the year	1480	4080	2213	2037
	15135	18895	10219	12533
Less: Reductions during the year	2577	5240	4200	4527
Closing balance	12558	13655	6019	8006

18. Movement of provision towards NPA (advances)

Rs in lakhs

	31.3.05	31.3.04
Opening balance	5649	4319
Add additions during the year	1811	2043
	7460	6362
Less: Reductions during the year	921	713
Closing balance	6539	5649

19. Movement in provision for depreciation on investments:

Rs in lakhs

	31.3.2005 Depreciation and Amortisation	31.3.2005 Provision	31.3.2004 Depreciation and Amortisation	31.3.2004 Provision
Opening Balance	291.86	74.76	531.14	70.77
Add: Provision made during the year	300.55	278.90	170.79	3.99
Less: Write off, write-back of excess provisions during the year	--	--	410.07	Nil
Closing balance	592.41	353.66	291.86	74.76

20. Issuer Composition of Non SLR Investments

Rs in lakhs

No	Issuer	Amount	Extent of Private placement	Extent of below investment grade securities	Extent of unrated securities	Extent of unlisted securities
1	2	3	4	5	6	7
1	PSU's	2281.82	1808.33	100.00	658.33	1681.82
2	FI'S	1791.73	1791.73	325.00	665.28	725.00
3	Banks	1180.00	1180.00		530.00	530.00
4	Private Corporates	1965.42	1965.42		1143.72	1195.00
5	Subsidiaries/Joint ventures	--	--	--	--	--
6	Others	--	--	--	--	--
7	Provision held towards depreciation & NPI	(339.80)				
	Total	6879.17	6745.48	425.00	2997.33	4131.82

21. Non-Performing Non SLR Investments

Particulars	Rs in Lakhs	
	31.3.05	31.3.04
Opening Balance	386.98	386.98
Additions during the year	1054.71	--
Reduction during the year	--	--
Closing Balance	1441.69	386.98
Total Provision held	353.66	74.76

22. Repo Transactions during the year

		Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	Outstanding as on March 31, 2005
Securities sold under Repo	Normal	Nil	2500.00	13.70	Nil
	LAF	Nil	3675.00	49.35	Nil
Securities purchased under Repo	Normal	Nil	Nil	Nil	Nil
	LAF	Nil	11025.00	1169.70	Nil

23. Segment reporting (AS-17)

Part A Business segments

(Rs. in Lakhs)

	Treasury		Insurance		Other Banking Operations		Total	
	31.03.05	31.03.04	31.03.05	31.03.04	31.03.05	31.03.04	31.03.05	31.03.04
Segment Revenue	5669	11341	68	21	14547	13563	20284	24925
Less: Inter Segment Revenue							0	0
Income from Operations							20284	24925
Segment Results	(3182)	4202	68	21	3130	982	16	5205
Less: (i) Interest							0	0
(ii) Unallocated Expenses net off							2172	2182
(iii) Unallocable Income							0	0
Profit before Tax							(2156)	3023
Capital Employed	2154	2014	0	0	9257	11393	11411	13407

Part B Geographical segments

Since the Bank is having domestic operations only, no reporting is necessary under this segment.

24. Particulars of related party transactions in terms of Accounting Standard (AS-18)

	31.03.05	31.03.04
a) Key Management personnel	A.D.Navaneethan, Part time Chairman #	B.Muthuswamy MD & CEO #
	T.R.Madhavan MD & CEO	T.R.Madhavan MD & CEO #

Part of the year

b).Nature of transaction :	Rs	Rs
Remuneration (including perquisites)		
Sri A.D.Navaneethan	3,226	----
Sri.T.R.Madhavan	19,23,425	1,93,957
Sri.B.Muthuswamy	-----	11,99,914

Reserve Bank of India has approved the appointment and terms and conditions of Sri A.D.Navaneethan as Part Time Chairman of the Bank with effect from 30.03.2005. This requires approval of share holders in General Meeting.

25. The major components of Deferred Tax Asset are as follows: Rs in Lakhs

	Deferred tax asset		Deferred tax liability	
	31.03.05	31.03.04	31.03.05	31.03.04
Depreciation on Assets			154.47	212.10
Provision for Loan losses	323.28	272.56		
VRS expenditure	161.03	248.27		
Leave Encashment	273.58	279.22		
Carry Forward Loss	896.14			
Total	1654.03	800.05	154.47	212.10
Net deferred tax asset	1499.56	587.95		

26. Bank has identified that there is no material impairment of Fixed Assets of the Bank and as such no provision is required as per AS 28 issued by Institute of Chartered Accountants of India.

27. The net funded exposure of the Bank in respect of foreign exchange transactions with all countries is less than 1 % of the assets of the Bank and hence no disclosure and provision is required as per RBI guidelines.

28. Previous Years figures are regrouped / rearranged wherever necessary to conform to current year's classification.

For the year ended March 31, 2004

1. Reconciliation of pending items (including old items) in inter-branch transactions, inter-offices account, drafts payable and draft paid without advice accounts with other banks including foreign banks, clearing accounts and other items are in progress. In a few branches, balances in some accounts have not been tallied with the subsidiary ledgers and registers. Steps have already been taken to reconcile the differences. The effect of reconciliation of these pending items on the Profit and Loss account and the Balance Sheet is not ascertainable at this stage.

2. Provisions and contingencies Rs in lakhs

Provision towards	31 March 2004	31 March 2003
Non Performing Assets (including write off)	3756	3632
Floating Provision- NPA	70	50
Standard Assets	-	118
Income Tax	1275	980
Deferred Tax Asset	(90)	(54)
Provision for Depreciation on Investments (net)	(68)	-
Other Provisions	4	124
TOTAL	4947	4850

3. Capital Reduction:

The 72nd Annual General Meeting of the Bank held on 9 August,1999 had passed a resolution to reduce the subscribed capital from 1,69,78,845 equity shares of Rs.10/- each to 1,37,41,065 equity shares of Rs.10/ each by canceling the called-up and unpaid capital, converting 47,34,900 equity shares of Rs.10/-each partly paid-up into 14,97,155 equity shares of Rs.10, each fully paid-up. The Hon'ble High Court of Kerala approved the said scheme on 31 July, 2000. Accordingly, the paid-up capital was reduced to the extent of Rs.92,50,800/-. A sum of Rs 92,50,800/- representing the premium was transferred to Share Premium Account.

4. The Bank had revalued its premises in the year 1995-96 based on valuation reports of approved valuers and the resultant increase of Rs.559.30 lakhs was credited to Capital Reserve.

5. Payment to and provision for employees include:

- d) Balance of initial contribution Nil (Rs. 330 Lakhs) and incremental liability at the year end towards pension fund, as actuarially determined, amounting to Rs.375 lakhs (Rs. 328 lakhs)
- e) Balance of initial contribution Nil (Rs. 231 Lakhs) and incremental liability at the year end towards gratuity, as actuarially determined, amounting to Rs.155 lakhs (Rs. 158 lakhs)
- f) Incremental liability at the year end towards leave encashment, as actuarially determined, amounting to Rs.88.97 lakhs (Rs. 53.74 lakhs)
- g) Bank has introduced another Voluntary Retirement Scheme (VRS) during the year. 87 employees have opted for VRS under the scheme. The liability of the Bank on account of VRS Exgratia payment amounting to Rs. 367.21 lakhs has been charged to Profit and Loss account.

6. Capital Adequacy Ratio

	31.3.2004	31.3.2003
a) The capital to Risk weighted Assets Ratio(CRAR)	13.56	10.45
b) The Tier I capital to Risk weighted Assets ratio	8.63	8.63
c) The Tier II capital to Risk weighted Assets ratio	4.93	1.82

7. Additional disclosures

		As on 31.3.2004	As on 31.3.2003
A	Percentage of shareholding of Govt of India	Nil	Nil
B	Net NPA's as percentage to Net Advances	6.68	9.25
C	Sub-ordinated debt raised for Tier II capital (Rupees in Crores)	52.91	28.47
D	Business ratios		
	i) Interest income as a percentage to average working funds	8.33	9.23
	ii) Non-interest income as a percentage to average working funds	2.54	3.42
	iii) Operating Profit as a percentage to average working funds	2.92	3.10
	iv) Return on assets	0.71	0.71
	v) Business (Deposits + Advances) per employee (Rs in lakhs)	248.63	222.06
	vi) Profit per employee (Rs in lakhs)	1.32	1.15
E	Earnings Per share		
	Earnings per share (Basic and diluted) Rs	5.45	6.34
	Net profit as per profit and loss account considered as numerator for computing EPS (Rs. In lakhs)	1747.55	1501.51
	Equity shares used as denominator (previous year weighted average shares)	32057800	23675635
	Nominal value of shares- Rs	10/-	10/-

8. Maturity Pattern

Rs in lakhs

Due within	Loans & advances	Investments	Foreign currency		Deposits	Borrowings
			Assets	Liabilities		
1 to 14 days	8210.20	125.00	92.59	-	14090.56	392.08
15 to 28 days	5650.15	1138.00	-	-	14098.61	-
29 days up to 3 months	6803.02	685.00	-	-	23288.05	-
Over 3 months and up to 6 months	5365.50	400.00	-	-	17760.87	-
Over 6 months and up to 1 year	11839.83	849.00	-	-	35251.56	-
Over 1 year and up to 3 years	48373.01	4404.00	-	-	94781.89	-
Over 3 years and up to 5 years	16025.84	8137.00	-	-	14737.48	-
Over 5 years	11591.58	73747.71	92.00	-	1568.34	-
Total	113859.13	89485.71	184.59	-	215577.36	392.08

9. Investments (Gross)

Rs in lakhs

	31.03.04	31.03.03
Equity Shares	311.92	299.38
Preference shares	1369.99	415.28
Convertible debentures	Nil	Nil
Equity oriented mutual funds	Nil	624.13
Aggregate advances against shares	1303.58	489.39

10. Lending to Sensitive Sectors

Rs. in Lakhs

Advances to capital Market sector	31.03.04	31.03.03
i) Individuals	19.24	49.96
ii) Shares and stock brokers	266.10	414.82
iii) All other borrowers against security of shares	1018.24	24.61
Total Advances against security/collateral of shares	1303.58	489.39
Advances to Real Estate sector		
i) Commercial property	2445.94	1929.03
ii) Land /Building Developers	3136.23	2673.50
iii) Mortgages other than individual Housing Loan	986.07	1182.68
iv) Others – Premises	481.43	1050.70
Total exposure to Real Estate Sector	7049.67	6835.91
Advances to commodity sector		
i) Cash Crop	123.92	60.30
ii) Edible Oil	260.80	275.10
iii) Agricultural Produce	943.33	658.88
iv) Other sensitive commodities	1229.49	1069.88
Total Exposure to Commodity Sector	2557.54	2064.16

11. Restructured Loan

		Rs in lakhs	
		31.3.2004	31.3.2003
I	Total amount of loan assets subjected to restructuring	4162.88	2361.94
II	Total amount of standard assets subjected to restructuring	3995.72	2361.94
III	Total amount of sub-standard assets subjected to restructuring	167.16	NIL

Information in respect of item 8,9,10 and 11 above have been compiled by the Management and relied on by the Auditors

12. Movement of NPA (advances)

		Rs in lakhs			
	31.3.04 Gross NPA	31.3.03 Gross NPA	31.3.04 Net NPA	31.3.03 Net NPA	
Opening balance	14815	14586	10496	10955	
Add additions during the year	4080	6726	2037	5298	
	18895	21312	12533	16253	
Less: Reductions during the year	5240	6497	4527	5757	
Closing balance	13655	14815	8006	10496	

13. Movement of provision towards NPA (advances)

		Rs in lakhs	
	31.3.04	31.3.03	
Opening balance	4319	3631	
Add additions during the year	2043	1428	
	6362	5059	
Less: Reductions during the year	713	740	
Closing balance	5649	4319	

14. Movement in provision for depreciation on investments:

	31.3.2004 Depreciation and Amortisation	31.3.2004 Provision	31.3.2003 Depreciation and Amortisation	31.3.2003 Provision
Rs in lakhs				
Opening Balance	531.14	70.77	531.14	17.14
Add: Provision made during the year	170.79	3.99	Nil	53.63
Less: Write off, write-back of excess provisions during the year	410.07	Nil	Nil	Nil
Closing balance	291.86	74.76	531.14	70.77

15. Issuer Composition of Non SLR Investments

		Rs in lakhs				
No	Issuer	Amount	Extent of Private placement	Extent of below investment grade securities	Extent of unrated securities	Extent of unlisted securities
1	2	3	4	5	6	7
1	PSU's	4780.16	4711.67	650.00	1386.67	3457.00
2	FI'S	3226.45	2826.45	325.00	300.00	1125.00
3	Banks	1030.00	1030.00	--	580.00	580.00
4	Private Corporates	2513.14	2543.24	--	1242.96	1514.69

No	Issuer	Amount	Extent of Private placement	Extent of below investment grade securities	Extent of unrated securities	Extent of unlisted securities
1	2	3	4	5	6	7
5	Subsidiaries/Joint ventures	--	--	--	--	--
6	Others	903.53	738.25	--	--	858.15
7	Provision held towards depreciation	296.65	--	--	--	--
	Total	12453.28	11849.61	975.00	3509.63	7534.84

16. Non-Performing Non SLR Investments

Particulars	Rs in Lakhs
Opening Balance	386.98
Additions during the year	--
Reduction during the year	--
Closing Balance	386.98
Total Provision held	74.76

17. Segment reporting (AS-17)

Part A Business segments

(Rs. in Lakhs)

	Treasury		Insurance		Other Banking Operations		Total	
	31.03.04	31.03.03	31.03.04	31.03.03	31.03.04	31.03.03	31.03.04	31.03.03
Segment Revenue	11341	12962	21	7	13563	12969	24925	25938
Less: Inter Segment Revenue							0	0
Income from Operations							24925	25938
Segment Results	4202	5241	21	7	982	(589)	5205	4659
Less: (i) Interest							0	0
(ii) Unallocated Expenses net off							2182	2177
(iii) Unallocable Income							0	0
Profit before Tax							3023	2482
Capital Employed	2014	1991	0	0	11393	10047	13407	12038

Part B Geographical segments

Since the Bank is having domestic operations only, no reporting is necessary under this segment.

18. Particulars of related party transactions in terms of Accounting Standard (AS-18)

1. Key Management personnel:	31.03.04 Shri. B.MuthuswamyShri. MD & CEO**	31.03.03 T.M.Venkataraman Chairman*
	T.R.Madhavan MD & CEO***	

* Part of the year

** From 09.04.2003 to 15.11.2003

*** From 23.02.2004

2. Nature of transaction : Remuneration (including perquisites)

Sri.T.M.Venkataraman	NA	9,17,867
Sri.B.Muthuswamy	11,99,914	NA
Sri.T.R.Madhavan	1,93,957	NA

19. The major components of Deferred Tax Asset are as follows:

Rs in Lakhs

	Deferred tax asset		Deferred tax liability	
	31.03.04	31.03.03	31.03.04	31.03.03
Depreciation on Assets			212.10	115.38
Provision for Loan losses	272.56	188.29		
VRS expenditure	248.27	171.67		
Leave Encashment	279.22	253.34		
Total	800.05	613.30	212.10	115.38
Net deferred tax asset	587.95	497.92		

20. The net funded exposure of the Bank in respect of foreign exchange transactions with all countries is less than 2% of the assets of the bank and hence no disclosure and provision is required as per RBI guidelines.

21. Previous Years figures are regrouped / rearranged wherever necessary to conform to current year's classification.

For the year ended March 31, 2003

1) Reconciliation of pending items (including old items) in inter-branch transactions, inter-offices account, drafts payable and draft paid without advice accounts with other banks including foreign banks, clearing accounts and other items are in progress. In a few branches, balances in some accounts have not been tallied with the subsidiary ledgers and registers. Steps have already been taken to reconcile the differences. The effect of reconciliation of these pending items on the Profit and Loss account and the Balance Sheet is not ascertainable at this stage.

2. Provisions and contingencies

Rupees in lakhs

Provision towards	31 March 2003	31 March 2002
Non Performing Assets (including write off)	3632	3339
Floating Provision- NPA	50	--
Standard Assets	118	83
Income Tax	980	640
Deferred Tax Asset	(54)	(42)
Other Provisions	124	31
TOTAL	4850	4052

3. Capital Reduction:

The 72nd Annual General Meeting of the Bank held on 9 August,1999 had passed a resolution to reduce the subscribed capital from 1,69,78,845 equity shares of Rs.10/- each to 1,37,41,065 equity shares of Rs.10/ each by canceling the called-up and unpaid capital, converting 47,34,900 equity shares of Rs.10/-each partly paid-up into 14,97,155 equity shares of Rs.10, each fully paid-up. The Hon'ble High Court of Kerala approved the said scheme on 31 July, 2000. Accordingly, the paid-up capital was reduced to the extent of Rs.92,50,800/- . A sum of Rs.92,50,800/- representing the premium was transferred to Share Premium Account.

4. The Bank had revalued its premises in the year 1995-96 based on valuation reports of approved valuers and the resultant increase of Rs.559.30 lakhs was credited to Capital Reserve.

5.1) Payment to and provision for employees include:

- a) Balance of initial contribution and incremental liability at the year end towards pension fund as actuarially determined amounting to Rs 658 Lakhs.
- b) One-fifth of the initial contribution and incremental liability at the year end towards gratuity, as actuarially determined amounting to Rs.378 lakhs (Rs. 230 lakhs). The balance amount yet to be funded amounts to Rs. Nil (Rs. 231 lakhs).
- c) Leave encashment paid to employees who have opted for VRS Rs 1.35 lakhs (Rs. 65.59 lakhs).
- d) Exgratia to employees who have opted for VRS: Rs. 263.08 lakhs (Rs. 342.70 lakhs)

5.2) Leave encashment

The liability for leave encashment to employees was hitherto accounted for on “pay-as-you-go” basis. To fall in line with accounting standards (AS-15) prescribed by ICAI, during the year, the said liability for the period up to March 31.2002 determined at Rs 635.62 Lakhs on actuarial basis has been charged to Revenue Reserve Account as per RBI guide lines. The incremental liability for the year amounting to Rs 53.74 Lakhs determined on actuarial basis has been charged to Profit and Loss Account. Consequent to change in accounting policy, the profit for the year and the reserves and surplus is lower by the same amount.

5.3) The final installment of expenditure on VRS amounting to Rs.264.43 lakhs (Rs.408.29 lakhs) is charged to Profit and Loss account.

5.4) The initial contribution to the Pension Fund on the basis of actuarial valuation as on 31.03.1998 was being funded over a period of ten years from 1997-98 together with incremental liability for each year. Accordingly, only one tenth of initial contribution had been charged to Profit and Loss Account each year up to 2001-02. However, the Bank has, during the year, fully funded the balance initial contribution and incremental liability based on actuarial valuation. Consequent to the change in accounting policy the charge to Profit and Loss Account is higher by Rs 215.77 Lakhs and the Profit for the year is less to the same extent.

6) Capital Adequacy Ratio

	Current Year	Previous Year
a) The capital to Risk weighted Assets Ratio(CRAR)	10.45	11.23*
b) The Tier I capital to Risk weighted Assets ratio	8.63	9.36*
c) The Tier II capital to Risk weighted Assets ratio	1.82	1.87

* Capital includes share application money pending allotment.

7. Additional disclosures

		As on 31.3.2003	As on 31.3.2002
A	Percentage of shareholding of Govt of India	Nil	Nil
B	Net NPA's as percentage to Net Advances	9.25	11.66
C	Sub-ordinated debt eligible for Tier II capital (Rupees in Crores)	8.08	13.78
D	Business ratios		
	i) Interest income as a percentage to average working funds	9.23	9.85
	ii) Non-interest income as a percentage to average working funds	3.42	3.20
	iii) Operating Profit as a percentage to average working funds	3.10	2.75
	iv) Return on assets	0.71	0.53
	v) Business (Deposits + Advances) per employee (Rs in lakhs)	222.06	199.24
	vi) Profit per employee (Rs in lakhs)	1.15	0.78
E	Earnings Per share		
	Earnings per share (Basic and diluted) -Rs	6.34	7.07

	As on 31.3.2003	As on 31.3.2002
Net profit as per profit and loss account considered as numerator for computing EPS (Rs. In lakhs)	1501.51	1007.06
Weighted average number of equity shares used as denominator (including shares pending allotment) #	23675635	# 14247732
Nominal value of shares- Rs	10/-	10/-

8. Maturity Pattern

Rs in lakhs

Due within	Loans & advances	Investments securities	Foreign currency		Deposits	Borrowings
			Assets	Liabilities		
1 to 14 days	14484.38	2.00			12911.70	3250.00
15 to 28 days	6567.61	-	2934.27	2846.67	12024.32	-
29 days up to 3 months	39298.89	1128.23	473.33	1726.97	18139.35	-
Over 3 months and up to 6 months	7917.97	1430.00	10910.12	9234.72	16497.63	-
Over 6 months and up to 1 year	5607.79	2503.53	3388.07	1580.09	28331.71	104.83
Over 1 year and up to 3 years	9288.99	5423.52	2987.50	2823.08	84005.74	-
Over 3 years and up to 5 years	16595.34	8566.58	-	2422.62	11099.74	-
Over 5 years	8287.93	48452.63	-	-	778.78	-
Total	108048.90	67506.49	20693.29	20634.15	183788.97	3354.83

9. Investments (Gross)

Rs in lakhs

	31.03.03	31.03.02
Equity Shares	299.38	299.38
Preference shares	415.28	765.28
Convertible debentures	Nil	Nil
Equity oriented mutual funds	624.13	674.13
Aggregate advances against shares	489.39	566.25

10. Lending to Sensitive Sectors

Rs in Lakhs

Advances to capital Market sector	31.03.03	31.03.02
i) Individuals	49.96	87.66
ii) Shares and stock brokers	414.82	422.48
iii) Market makers	-	-
iv) All other borrowers against security of shares	24.61	56.11
Total Advances against security/collateral of shares	489.39	566.25
Advances to Real Estate sector		
i) Commercial property	1929.03	1440.77
ii) Land /Building Developers	2673.50	1010.33
iii) Mortgages other than individual Housing Loan	1182.68	960.71
iv) Others – Premises	1050.70	2077.65
Total exposure to Real Estate Sector	6835.91	5489.46
Advances to commodity sector		
i) Cash Crop	60.30	82.93
ii) Edible Oil	275.10	200.95
iii) Agricultural Produce	658.88	266.62

Advances to capital Market sector	31.03.03	31.03.02
iv) Other sensitive commodities	1069.88	1439.35
Total Exposure to Commodity Sector	2064.16	1989.85

11. Restructured Loan

Rs in lakhs

		31.3.2003	31.3.2002
I	Total amount of loan assets subjected to restructuring	2361.94	1300.66
II	Total amount of standard assets subjected to restructuring	2361.94	1300.66
III	Total amount of sub-standard assets subjected to restructuring	NIL	NIL

Information in respect of item 8,9,10 and 11 above have been compiled by the Management and relied on by the Auditors

12. Movement of NPA (advances)

	31.3.03 Gross NPA	31.3.02 Gross NPA	31.3.03 Net NPA	31.3.02 Net NPA
Opening balance	14586	13489	10955	10167
Add additions during the year	6726	5546	5298	4159
	21312	19035	16253	14326
Less: Reductions during the period	6497	4449	5757	3371
Closing balance	14815	14586	10496	10955

13. Movement of provision towards NPA (advances)

Rs in lakhs

	31.3.03	31.3.02
Opening balance	3631	3322
Add additions during the year	1428	1387
	5059	4709
Less: Reductions during the period	740	1078
Closing balance	4319	3631

14. Movement in provision for depreciation on investments:

	31.3.2003 Rs lakhs Depreciation and Amortisation	31.3.2003 Rs lakhs Provision	31.3.2002 Rs lakhs Depreciation and Amortisation	31.3.2002 Rs lakhs Provision
Opening Balance	531.14	17.14	513.58	3.20
Add: Provision made during the year	Nil	53.63	17.56	13.94
Less: Write off, write back of excess provisions during the year	Nil	Nil	Nil	Nil
Closing balance	531.14	70.77	531.14	17.14

15. Segment reporting (AS-17)

Part A Business segments

Rs in lakhs

	Treasury	Insurance	Other Banking Operations	Total
Segment Revenue	12962	7	12969	25938
Less: Inter Segment Revenue				0
Income from Operations				25938
Segment Results	5241	7	(589)	4659
Less: (i) Interest				0
(ii) Unallocated Expenses net off				2177
(iii) Unallocable Income				0
Profit before Tax				2482
Capital Employed	1991	--	10047	12038

Previous year figures are not furnished as this reporting commences from the year ended 31.03.03 as per RBI guidelines

Part B Geographical segments

Since the Bank is having domestic operations only, no reporting is necessary under this segment.

16. Particulars of related party transactions in terms of Accounting Standard (AS-18)

Key Management personnel : Sri.T.M.Venkataraman, Chairman

Nature of transaction: Remuneration (including perquisites): Rs* 9,17,867/- (Rs 7,95,953/-)

*Part of the year

17. Deferred Tax Asset in respect of provision for Leave Encashment up to 31.03.2002 amounting to Rs 233.59 Lakhs is credited to Revenue Reserve. Deferred Tax asset of Rs 53.94 Lakhs (Rs 41.70 Lakhs) relating to the current year is credited to Profit and Loss Account. The major components of Deferred Tax Asset are as follow

Rs in Lakhs

	Deferred tax asset		Deferred tax liability	
	31.03.03	31.03.02	31.03.03	31.03.02
Depreciation on Assets			115.38	104.91
Provision for Loan losses	188.29	188.29		
VRS expenditure	171.67	127.01		
Leave Encashment	253.34	--		
Total	613.30	315.30	115.38	104.91
Net deferred tax asset	497.92	210.39		

18. Sundry assets include a sum of Rs 232.89 lakhs (Rs 338.46 Lakhs) being legal expenses incurred by the bank in respect of non performing advances. The Bank has, after identifying individual accounts made adequate provision as per prudential norms.

19. Additions to Fixed Assets costing less than Rs 5000/- during the year are depreciated at the full cost leaving a balance of Re.1/- per asset for identification purpose. Consequent to change in accounting policy the depreciation charge for the year is higher by Rs 7.24 Lakhs.

20. The Bank during the previous year had appropriated Rs 1.50 per Equity share towards dividend for both the existing shares and the rights shares pending allotment and the appropriation made in respect of the rights shares pending allotment was Rs 274.81 Lakhs. The shares were allotted after the closure of the Register of Members for the purpose of declaration of dividend and so dividend appropriated as mentioned above was not paid. Hence an amount of Rs 274.81 Lakhs has been credited to the Profit and Loss Account.

21. The Bank had during the previous year offered on rights basis 18320300 Equity Shares to the existing shareholders in March 2002. The issue closed on 30th March 2002. The shares were allotted on 14th September 2002 after approval from Reserve Bank of India and SEBI. The Bank has, as directed by SEBI and based on legal opinion, paid a sum of Rs 154.38 Lakhs as interest to all the applicants for delayed dispatch of allotment letters/refund orders.

22. The Bank had allotted 18320300 Equity shares on rights basis on 14th September 2002. As SEBI has not allotted a separate ISIN number for the fresh shares, the Bank is not in a position to distinguish between equity shares before the rights offer and those allotted in the rights offer. In view of the above, the Bank has proposed to pay dividend on all the shares for the full year. The appropriation made in respect of rights shares is Rs 274.81 Lakhs.

23. The net funded exposure of the Bank in respect of foreign exchange transactions with all countries is less than 2 % of the assets of the Bank and hence no disclosure and provision is required as per RBI guidelines.

24. Previous Years figures are regrouped / rearranged wherever necessary to conform to current year's classification.

ADJUSTMENTS NOT CARRIED OUT IN THE STATEMENT OF PROFIT & LOSS AND ASSETS & LIABILITIES

A. Change in Accounting Policies:

Reserve Bank of India (RBI) has issued various guidelines on Income recognition, asset classification and provisioning in respect of non-performing advances, valuation of/depreciation on investments. The Bank has carried out necessary amendments in its accounting policies in the relevant years to be in conformity with the said RBI guidelines.

During the year 2005-06 the Bank has revised its Accounting Policy on amortization of premium (acquisition cost over the face value) paid, in respect of securities held under “Held to maturity” category from “Straight Line Method” to “Constant Yield Method”. The change in the method has resulted in the net profit of the Bank being higher by Rs.215.69 lakhs in 2005-06. However, the effect of this change in accounting policy is not given effect in the previous years as the same is not ascertainable.

B. Auditors’ Qualifications:

1. Inter Branch/Bank Adjustments :(for the years 2002-03 to 2006-07 and for half year ended 30 September 2007)

The effect of adjustments arising from reconciliation/adjustment/clearance of outstanding items in Inter Branch/Bank accounts/other accounts could not be carried out, the consequential impact of which is not ascertainable.

2. Revised Accounting Standard (AS) 15 (for the half year ended 30 September 2007)

The liability under revised Accounting Standard 15 in respect of employee retirement benefits is provided on an estimated basis for the half year ended 30 September 2007 and transitional liability accrued as on 31 March 2007 is not provided in the accounts pending the receipt of actuarial valuation and Reserve bank of India guidelines, the effect of which could not be ascertained

ANNEXURE A - IX

RELATED PARTY TRANSACTIONS:

(Rs. in lakhs)

Name of the Party & Designation	Remuneration					
	2002-03	2003-04	2004-05	2005-06	2006-07	Half year ended 30 September 2007
Mr. T.M. Venkataraman Chairman	9.18	Nil	Nil	Nil	Nil	Nil
Mr. B. Muthuswamy MD&CEO	Nil	11.99	Nil	Nil	Nil	Nil
Mr. T.R. Madhavan MD&CEO	Nil	1.94	19.23	6.22	Nil	Nil
Mr. A.D. Navaneethan Part time Chairman	Nil	Nil	0.03	6.19	6.19	3.09
Mr. P.S. Prasad MD&CEO	Nil	Nil	Nil	5.66	17.94	9.58

ANNEXURE A -X

STATEMENT OF RESTATED SEGMENT REPORTING**Part A – Business Segments**

(Rs in lakhs)

Sl. No.	Particulars	31.03.2003	31.03.2004	31.03.2005	31.03.2006	31.03.2007	30.09.2007
1.	Segment Revenue						
	(a) Treasury Operations	12962	11341	5669	5315	6187	4647
	(b) Other Banking Operations	12969	13563	14547	17530	20662	12145
	(c) Others	7	21	68	335	767	281
	Total	25938	24925	20284	23180	27616	17073
	Less: Inter Segment Revenue	0	0	0	0	0	0
	Income from Operations	25938	24925	20284	23180	27616	17073
2.	Segment Results (Profit (+)/Loss (-) before tax and after interest from each segment)						
	(a) Treasury Operations	5241	4202	(3182)	1040	(432)	759
	(b) Other Banking Operations	(589)	982	3130	2097	6126	2432
	(c) Others	7	21	68	335	767	281
	Total	4659	5205	16	3472	6461	3472
	Less: (i) Interest	0	0	0	0	0	0
	(ii) Unallocated expenditure net off	2177	2182	2172	2485	4413	1472
	(iii) Unallocable Income	0	0	0	0	0	0
	Profit before Tax	2482	3023	(2156)	987	2048	2000
3.	Capital Employed						
	(a) Treasury Operations	1991	2014	2154	2298	2479	3013
	(b) Other Banking Operations	10047	11393	9257	11142	12259	13440
	Total	12038	13407	11411	13440	14738	16453

Part B Geographical segments

Since the Bank is having domestic operations only, no reporting does arise under this segment.

ANNEXURE B
CAPITALISATION STATEMENT AS AT 30.09.2007

Particulars	(Rs. in Lakhs)	
	Pre-issue	Post Issue**
Long Term Debt (A)	8200	
Short Term Debt	0	
Total Debt	8200	
<u>Share Holders Funds (Equity)</u>		
Equity Share Capital	3206	
Reserves & Surplus (Excluding Revaluation Reserve)	11533	
Total Share Holders Funds (Equity) (B)	14739	
Long term Debt to Equity Ratio (A/B)	1: 1.80	

** Will be decided after finalisation of issue price.

Note: Long Term Debt are loans repayable beyond one year and do not include deposits with the bank.

ANNEXURE C
STATEMENT OF DIVIDENDS PAID BY THE BANK

Year Ended	Equity Capital (Rs. in lakhs)	Rate of Dividend (%)	Amount of Dividend (Rs. in lakhs)
31.03.2003	3205.78	15	480.87
31.03.2004	3205.78	5	160.29
31.03.2005	3205.78	NIL	NIL
31.03.2006	3205.78	5	160.29
31.03.2007	3205.78	NIL	NIL

ANNEXURE D

SUMMARY OF ACCOUNTING RATIOS

	Year Ended					Six Months ended *
	31.03.2003	31.03.2004	31.03.2005	31.03.2006	31.03.2007	30.09.2007
Interest Income/ Average Working Funds(AWF)	9.23	8.33	7.58	7.60	5.86	4.32
Interest Expenses/ AWF	6.63	5.30	4.70	4.60	3.56	2.80
Interest Spread / AWF	2.60	3.02	2.88	3.00	3.20	1.52
Non-Interest Income/ AWF	3.42	2.54	0.58	0.98	0.70	0.41
Operating Expenses/ AWF	2.92	2.64	2.74	2.96	2.08	1.24
Cost Income Ratio	48.53	47.52	82.79	77.98	69.43	64.11
Gross(operating) Profit/ AWF	3.10	2.92	0.57	0.84	0.92	0.69
Net Profit/ AWF	0.73	0.76	(0.85)	0.34	0.38	0.37
Return on Net Worth	12.94	13.45	(19.62)	8.89	12.39	9.16
Return on Assets	0.71	0.71	(0.82)	0.33	0.46	0.37
Return on Average Assets	0.75	0.76	(0.85)	0.34	0.59	0.40
Yield on Advances	10.46	10.34	9.32	9.44	10.27	11.38
Cost of Deposits	7.43	6.01	5.33	5.19	5.41	6.19
Dividend Payout Ratio (including Corporate Dividend Tax)	36.13	10.94	---	26.89	NIL	NIL
Credit- Deposit Ratio	59.47	57.10	60.50	65.93	65.37	62.33
Credit +Non SLR Investment(excluding Investments in Subsidiaries)- Deposit Ratio	67.75	62.98	66.18	67.65	69.76	66.54
Capital Adequacy Ratio	10.45	13.56	10.16	9.75	9.77	9.43
Tier - I	8.63	8.63	6.12	6.21	6.29	6.66
Tier - II	1.82	4.93	4.04	3.54	3.48	2.77
Business per Branch (Rs. in Lakhs)	1835.46	2052.59	2192.17	2307.90	2771.76	2887.08
Gross Profit per Branch (Rs. in Lakhs)	39.95	40.57	10.60	15.86	21.35	13.83
Net Profit per Branch (Rs. in Lakhs)	9.44	10.59	(12.41)	5.34	8.92	7.45
E P S (Rupees)	6.34	5.45	(6.74)	2.97	5.03	4.21
Book Value per share (Rs) (NAV)	34.63	38.67	29.65	33.35	39.52	45.98

* Not Annualised

Definitions of Key ratios:

Average Working Funds (AWF):	Fortnightly average of total assets
Average Deposits:	Fortnightly average of total deposits
Average Advances:	Fortnightly average of total advances
Average Business:	Total of Average Deposits & Average Advances
Average Investments:	Fortnightly average of total investments
Interest Income / AWF:	Total Interest Income Divided by AWF
Interest expenses / AWF:	Total Interest Expenses divided by AWF
Operating Expenses:	Total expenses minus Interest Expenses
Operating Expenses / AWF:	Operating Expenses Divided by AWF
Cost Income Ratio:	Operating Expenses Divided by (Non Interest Income plus Interest Spread)
Gross (operating) Profit / AWF:	Operating profit divided by AWF
Net profit / AWF:	Net Profit divided by AWF
Return on Net Worth:	Net profit divided by Net Worth (Excluding revaluation reserves)
Return on Assets:	Net Profit Divided by Total Assets
Return on Average Assets:	Net Profit Divided by Average Assets (Average of two years' outstanding figures)
Yield on Advances:	Interest earned on Advances Divided by Average Advances
Cost of Deposits:	Interest paid on deposit Divided by average Deposits
Dividend payout Ratio (including Corporate Dividend Tax):	Dividend including corporate Dividend Tax Divided by Net Profit
Credit-Deposit Ratio:	Total Advances Divided by Customer Deposits (i.e. Total Deposits minus Inter Bank Deposits)
Credit + Non SLR Investments (Excluding investments in Subsidiaries) – Deposit Ratio:	(Total Advances plus Non-SLR Investments minus Investments in subsidiaries) Divided by Customer Deposits.
Business per Branch:	Total deposits plus Total Advances Divided by No. of Branches
Gross Profit per Branch:	Gross Profit Divided by No. of Branches
Net Profit per Branch:	Net Profit Divided by No. of Branches
Earnings per Share:	Net Profit Divided by weighted average number of equity shares outstanding at the end of each fiscal year
Book Value per Share:	Net Worth (excluding revaluation reserves and deferred tax asset) divided by number of equity shares outstanding at the end of each fiscal year.

ANNEXURE - E

STATEMENT OF TAX SHELTER

(Rs. in lakhs)

	31 March 2003	31 March 2004	31 March 2005	31 March 2006	31 March 2007	30 Sept. 2007
Tax rate	36.75%	35.88%	36.59%	33.66%	33.66%	33.99%
Tax at notional rates (A)	912	1085	0	332	689	680
MAT				33	(33)	
Adjustments						
Permanent Differences						
Dividend Income	42	---	---	----	----	-----
Profit / Loss on sale of Fixed Assets	20	3	32	0	3	0
Interest on staff welfare						
Sale of securities/Interest on Bonds/Donations etc	(74)	(345)	(215)	(47)	31	0
Interest on Govt. Securities	202	198	98	47	15	4
Others provisions-	(296)	(4)	(474)	(562)	(305)	(99)
Total of Adjustments (B)	(106)	(148)	(559)	(562)	(256)	(95)
Timing Difference						
Difference between Tax & Book depreciation	28	14	62	134	(91)	(77)
Net Provision for Bad & doubtful debts	0	(246)	(201)	0	0	0
Others	322	502	1069	(15)	(560)	0
Deduction u/s 35 DD & 35 DDA in respect of preliminary expenses & VRS expenditure	(105)	(209)	230	193	125	36
Total of Timing difference (C)	245	61	1160	312	(526)	(41)
Adjustments (D)=(B) + (C)	139	(87)	601	(250)	(782)	(139)
Tax saving / (liability) thereon	51	(31)	220	(84)	(263)	(47)
Unabsorbed loss (F)	0	0	0	1236	850	0
Unabsorbed depreciation(G)	0	0	0		670	0
Total H= F+G				1236	1520	
Tax saving / (liability) thereon				416	512	
Total Tax saving / (liability)	51	(31)	220	332	249	(47)
Income Tax liability as per return	861	1116	0	33	408	NA
Taxation on extra ordinary items	0.00	0.00	0.00	0.00	0.00	0.00
Tax on profits before extra ordinary items	861	1116	0.00	33	408	727*
Total Taxation	861	1116	0.00	33	408	727

* Based on provisional computation for the half year ended 30-09-2007

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Shareholders should read the following discussion of Bank's financial condition and results of operations together with restated audited financial statements which appear in the section titled "Auditors Report" in this Letter of Offer. The following discussion is based on restated financial statements for financial year 2005, 2006 and 2007. The Bank's financial year ends on March 31 of each year, so all references to a particular fiscal are to the twelve month period ended March 31 of that year. Unless otherwise indicated, all financial and statistical data relating to the banking industry in the following discussion are derived from various industry reports.

Overview

We were incorporated by a group of residents of Thrissur in 1927 as a limited company under the Indian Companies Act, 1913 with an authorized capital of Rs. 20,000. Over the period with growth in size, we expanded to various parts of the country. In 1977, we became a scheduled commercial bank. We expanded our network beyond Kerala by opening branches in the States of Tamil Nadu, Andhra Pradesh, Karnataka, Maharashtra, Gujarat, Delhi and West Bengal.

As December 31, 2007, we had 181 branches (including 2 satellite branches and 5 service branches), 26 Extension Counters and 6 Administrative Offices spread over 8 States. Our total employee strength as on December 31, 2007 was 1419.

As at March 31, 2007, we had an asset base of Rs. 342727 lakhs and net worth of Rs. 12671 lakhs. Our deposits and net advances have recorded a growth of 68.02% and 70.25% respectively during the period from March 31, 2003 to March 31, 2007. As at September 30, 2007, we had an asset base of Rs. 361334 lakhs and net worth of Rs. 14386 lakhs.

We provide a range of retail banking and commercial banking products to our customers. Our retail banking product portfolio includes housing loans, gold loans, auto loans, educational loans and other personal loans. We offer deposit services like savings, demand and time deposit to our customers. On commercial banking, our product offering among others includes agricultural loans, industrial advances trade advances, and import / export facilities.

With a view to making available value-added services to the NRIs, we have also established in eight of our branches, NRI Boutiques (Exclusive Relationship Centres to cater to NRIs) in Kerala and one in Chennai. We also offer a wide range of general banking services to our customers, including debit cards and cash management services. Our Cash Management System (CMS) provides speedier cheque collection through 60 branches. We distribute life insurance products of M/s. MetLife India Insurance Company Private Limited and non-life insurance products of M/s. IFFCO TOKIO as their corporate agent. We are an active depository participant of NSDL (National Security Depository Limited) offering Demat services through our selected branches. As at December 31, 2007, we had 890 active depository accounts.

As at December 31, 2007, we have deployed Centralised Banking Solutions (CBS) on the Flexcube Platform for extending Anywhere/Anytime banking at 154 branches covering 96% of the total business.

As at December 31, 2007, we have extended tele-banking facility in 72 branches and Internet banking facility in 109 branches. We propose to cover all our branches with these facilities in a phased manner.

The following table gives the break up of growth of deposits, advances and branch network as of March 31, 2006, March 31, 2007 and September 30, 2007.

(Rs. in lakhs)

As on March 31, 2006			As on March 31, 2007			As on September 30, 2007		
Number of Branches	Deposits	Advances	Number of Branches	Deposits	Advances	Number of Branches	Deposits	Advances
178	253,268	159434	181	308,796	183950	181	324,730	188666

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 discount on bills) and income on investments. Income on investments consists of interest and dividend from securities and other investments. We also earn interest income from deposits that we keep with the RBI and other banks, including foreign banks in various currencies. Our securities portfolio consists primarily of Government and state government securities. We meet SLR 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 and expense is primarily affected by fluctuations in interest rates as well as the volume of activity and to a lesser extent by fluctuations in exchange rates.

Our other income consists principally of fee-based income, such as commission, exchange and brokerage income, net profit on sale of investments and gains or losses on foreign exchange transactions, income from sale of insurance products and miscellaneous income, including recovery of bad debts previously written off, incidental charges and sundry charges. Fee-based income includes charges for services, such as cash management services and credit-related transactional services, 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 income from our treasury activities, service charges on debit cards, and commission on Demat services and distribution of insurance, and turnover commission on Government and state government transactions.

Expenses

Our interest expense consists of the interest on deposits as well as borrowings. Our interest expense is affected by increases or decreases in interest rates, deposit mix and volumes.

Our non-interest expense consists principally of operating expenses, including expenses for wages and employee benefits, rent and related expenses, such as electricity charges paid on premises, depreciation on fixed assets, insurance, repairs and maintenance, printing and stationery, advertising and publicity, directors' fees and expenses, auditors' fees and expenses, insurance, postage and telecommunications and other expenses, including consultants' fees and expenses. Our provisioning for non-performing assets, depreciation and provision on investments and income tax are included in our expenses for provisions and contingencies.

Factors Affecting our Results of Operations

The Indian Economy

Our financial condition and results of operations are influenced largely by general economic conditions prevailing in India. The Indian economy has grown steadily over the past three fiscal years. GDP growth was 7.5% in Fiscal 2005, 9.0% in Fiscal 2006 and 9.4% in Fiscal 2007. The real GDP growth in Fiscal 2007 was contributed to by sustained accelerated growth in the industry and services sector notwithstanding slow growth in the agriculture sector.

In its Annual Policy Statement for 2007-2008, the RBI forecast GDP growth at around 8.50% for Fiscal 2008 and has given an inflation rate forecast of 5.00%.

The average exchange rate of the Indian Rupee to one U.S. dollar was Rs. 44.89 in Fiscal 2005, Rs. 44.31 in Fiscal 2006 and Rs. 46.07 for Fiscal 2007. The Indian Rupee has been recently appreciating against the U.S. dollar and as at December 31, 2007 the exchange rate was Rs. 39.41, as per the RBI. The foreign exchange reserves were U.S.\$199.2 billion as at March 30, 2007 and U.S.\$203.10 billion as at April 13, 2007.

Our business is affected by seasonal trends in the Indian economy that affect the overall banking industry. The period from October to March is the busy period in India for economic activity and, accordingly, we generally experience higher volumes of business during this period. From April to September, when economic activity typically decreases, our business volumes experience a corresponding decrease.

Interest Rates

The following table sets forth the bank rate, repo rate, reverse repo rate and the prime lending rates for five major banks as at the dates indicated.

As at rate	Bank	Repo rate	Reverse Repo rate	(As percentages) Prime Lending rates for 5 major banks
March 31, 2005	6.00	6.00	4.75	10.25-10.75
March 31, 2006	6.00	6.50	5.50	10.25-10.75
<u>March 31, 2007</u>	<u>6.00</u>	<u>7.75</u>	<u>6.00</u>	<u>12.25-12.50</u>

Source: Reserve Bank of India statistical data.

Laws, Rules, Regulations, Guidelines and Norms Applicable to the Banking Industry

Banks in India are subject to detailed supervision and regulation by the RBI. In addition, banks are subject generally to changes in Indian law, as well as to changes in regulation and government policies and accounting principles. Any change in the laws, rules, regulations, guidelines or norms applicable to the banking industry could materially and adversely affect our business, results of operations and financial condition.

The more material regulations that have an influence on our financial condition and results of operations are given in the section "Regulations and Policies".

Changes in Accounting Policies

Amortization of premium on investments

Reserve Bank of India (RBI) has issued various guidelines on Income recognition, asset classification and provisioning in respect of non-performing advances, valuation of/depreciation on investments. The Bank has carried out necessary amendments in its accounting policies in the relevant years to be in conformity with the said RBI guidelines.

During the year 2005-06, the Bank has revised its Accounting Policy on amortization of premium (acquisition cost over the face value) paid, in respect of securities held under "Held to maturity" category from "Straight Line Method" to "Constant Yield Method". The change in the method has resulted in the net profit of the Bank being higher by Rs.215.69 lakhs in 2005-06. However, the effect of this change in accounting policy is not given effect in the previous years as the same is not ascertainable.

Implementation of AS-15 Relating to Accounting of Staff Pension and Gratuity

Though the Accounting Standard (AS) 15 which deals with employee benefits became effective from 1st April, 2007, pending Reserve Bank of India guidelines, the Bank has made provision for employee benefits, viz., pension, gratuity, leave encashment, etc., on an estimated basis.

SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2007

1. GENERAL

The financial statements have been prepared on the basis of going concern concept based on historical cost convention and conform to statutory provisions and practices prevailing in the country unless otherwise stated.

2. TRANSACTIONS INVOLVING FOREIGN EXCHANGE

2.1 Monetary assets and liabilities have been translated at the exchange rates prevailing at the close of the year as advised by FEDAI and the resulting net gain/loss is recognized in the revenue account.

2.2 Profit or loss on outstanding forward foreign currency contracts has been accounted for at the exchange rates prevailing at the close of the year as per FEDAI/ RBI guidelines.

2.3 Income and expenditure items have been accounted at the exchange rates ruling on the date of transaction.

2.4 Contingent liabilities in respect of outstanding forward foreign currency exchange contracts, guarantees and letters of credit is stated at the exchange rates prevailing at the close of the year.

2.5 Premium /discount on hedge swaps are recognized as interest income/expenses and are recognized/amortised over the period of the transactions

3. INVESTMENTS

3.1 Investments in Government and other approved securities are categorized into (a) Held to Maturity (b) Held for Trading and (c) Available for Sale in terms of RBI guidelines.

3.2 Brokerage, incentive and broken period interest are treated as revenue

3.3 For the purpose of valuation, the RBI rates/stock exchange quotations, where available, are taken as market rates. Investments for which such rates / quotations are not available are valued as per norms laid down by RBI, as under

Central Government Securities	Prices published by PDAI/ FIMMDA
State Government Securities	At YTM published by PDAI/FIMMDA
Other Approved Securities	YTM published by PDAI/FIMMDA duly adjusted as per RBI guidelines
Bonds, Debentures and Preference Shares	As per rates / methodologies prescribed by FIMMDA.
Equity Shares	Valued at book value as per the latest Balance Sheet. Where Balance Sheets are not available, at Re 1/- per Company.
Units of Mutual Fund	Re-purchase price / NAV declared by the Mutual Fund as at the close of the year.

3.4 The premium (acquisition cost over the face value), if any, is amortised over the remaining period of maturity in respect of securities held under Held to Maturity category based on "Constant Yield Method". Profit on redemption / sale of securities in Held to Maturity category is transferred to Capital Reserve.

3.5 The shifting of securities from one category to another is done with the approval of the Board as per RBI guidelines. The shifting is effected at acquisition cost/book /market value on the date of transfers which ever is least and the depreciation if any at the time of shifting is fully provided for.

4. ADVANCES

4.1 Advances are classified as Standard, Sub-standard, Doubtful, or Loss assets, and provisions required for possible losses on such advances are made as per the guidelines of the Reserve Bank of India (RBI) on matters relating to prudential norms.

4.2 Advances shown in the Balance Sheet are net of:

- (i) Bills rediscounted,
- (ii) Provisions made in accordance with the prudential norms prescribed by RBI from time to time.

5. FIXED ASSETS

5.1 Premises, except those revalued, and other fixed assets have been stated at their historical cost. Premises, which were revalued, are stated at such values on revaluation and the appreciation credited to Capital Reserve.

5.2 Fixed assets costing less than Rs 5000/- each are depreciated full cost in the year of purchase.

5.3 Property purchased along with land for consolidated value is bifurcated on the basis of valuation report / documents.

6. STAFF RETIREMENT BENEFITS

6.1 The contribution to the Gratuity Fund and Pension Fund are based on actuarial valuation as at the end of each year and is charged to the Profit and Loss account.

6.2 Liability towards leave encashment on retirement of employees is provided on as per actuarial valuation at the year-end.

6.3 The liability if any on Voluntary Retirement Scheme is charged off full in the year in which it is incurred.

7. REVENUE RECOGNITION

7.1 Items of income and expenditure are accounted for on accrual basis, except as stated hereunder:

Interest on loans and advances is recognized on accrual basis other than on those stipulated in RBI's prudential norms on income recognition, asset classification and provisioning relating to NPAs, where the income is recognized on realization.

7.2 In respect of accounts covered under OTS, the recoveries are adjusted against book balance and the net balance is written off.

7.3 Income accounted for in the preceding year and remaining unrealized is de-recognised in respect of advances classified as NPA during the year.

7.4 Commission earned, rent on safe deposit lockers, dividends, commission from insurance and depository participant business etc are accounted for on cash basis except dividends on units of mutual funds and preference shares which are accounted when the right to receive dividend has accrued. Discount on bills are recognized upfront except where the tenor exceeds one year.

7.5 Interest on income tax refunds is accounted in the year in which the same is determined.

8. NET PROFIT

The net profit disclosed in the profit and loss account is after:

- Provision for taxes;
- Provision for possible losses on Standard Assets, NPAs, and other contingencies
- Depreciation on investments; and
- Other usual and necessary provisions.

Segment Reporting

(Rs. In lakhs)

Sl. No.	Particulars	31.03.2005	31.03.2006	31.03.2007	30.09.2007
1.	Segment Revenue				
	(a) Treasury Operations	5669	5315	6187	4647
	(b) Other Banking Operations	14547	17530	20662	12145
	(c) Others	68	335	767	281
	Total	20284	23180	27616	17073
	Less: Inter Segment Revenue	0	0	0	0
	Income from Operations	20284	23180	27616	17073
2.	Segment Results (Profit (+)/Loss (-)				

Sl. No.	Particulars	31.03.2005	31.03.2006	31.03.2007	30.09.2007
) before tax and after interest from each segment)				
	(a) Treasury Operations	(3182)	1040	(432)	759
	(b) Other Banking Operations	3130	2097	6126	2432
	(c) Others	68	335	767	281
	Total	16	3472	6461	3472
	Less: (i) Interest	0	0	0	0
	(ii) Unallocated expenditure net off	2172	2485	4413	1472
	(iii) Unallocable Income	0	0	0	0
	Profit before Tax	(2156)	987	2048	2000
3.	Capital Employed				
	(a) Treasury Operations	2154	2298	2479	3013
	(b) Other Banking Operations	9257	11142	12259	13440
	Total	11411	13440	14738	16453

RESULTS OF OPERATIONS

(Rs. In lakhs)

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Sep 30, 2007
INCOME				
Interest Earned				
Interest and discount on advance/bills	12343	14455	17690	10794
Income from investments	6289	5375	5578	3370
Interest on balance with RBI & other inter bank funds	584	727	1299	1426
Others	0	432	86	0
Other Income				
Commission, Exchange and Brokerage	936	943	909	581
Profit on sale of investments (net)	(694)	(90)	(24)	140
Profit on revaluation of investments	(403)	(514)	(546)	(290)
Profit on sale of land, buildings & other assets (net)	32	0	3	1
Profit on Exchange transactions (net)	205	230	279	217
Income from Insurance	68	335	767	281
Miscellaneous Income	924	1287	1575	553
Total Income	20284	23180	27616	17073
EXPENDITURE				
Interest Expended				
Interest on deposits	11404	12079	14200	9607
Interest on RBI/Inter-bank borrowings	14	40	157	149
Others	488	570	620	340
Operating Expenses				
Payment to and provision to employees	4176	4182	4371	2396
Rent, taxes & lighting	808	1003	1107	580
Printing & Stationery	113	125	95	54
Advertising & Publicity	95	77	64	20
Depreciation on bank's property	609	715	882	311
Directors fees, allowances & expenses	27	24	18	5
Auditors fees & expenses (including branch auditors)	23	27	32	4
Law charges	77	90	27	34

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Sep 30, 2007
Postage, Telegrams & Telephones	205	274	155	132
Repairs and Maintenance	58	200	184	60
Insurance	169	231	250	147
Other expenditure	576	1233	1590	730
Total expenditure	18842	20870	23752	14569
Operating Profit	1442	2310	3864	2504
Provisions and Contingencies:				
Write off of certain non performing advances	158	533	1005	99
Deferred Tax and FBT	-912	570	688	11
Provision of NPA	889	0	-200	200
Provision for Depreciation on investments	3112	-134	205	-23
Provision for NPI	279	71	-194	145
Others	0	0	0	0
Provision for Standard assets	72	283	312	72
Net Profit/(loss) before Tax	-2156	987	2048	2000
Provision for Income tax	4	35	434	650
Net Profit/(loss) after Tax	-2160	952	1614	1350

Year ended March 31, 2007 compared with the Year ended March 31, 2006

Income

Our total income increased by 19.14 % from Rs. 23180 lakhs in Fiscal 2006 to Rs. 27616 lakhs in Fiscal 2007 and our total expenditure increased by 13.81 % from Rs. 20870 lakhs in Fiscal 2006 to Rs. 23752 lakhs in Fiscal 2007. Our operating profit increased by 67.27% from Rs. 2310 lakhs in Fiscal 2006 to Rs.3864 lakhs in Fiscal 2007. Our net profit after tax increased by 69.54%, from Rs. 952 lakhs in Fiscal 2006 to Rs. 1614 lakhs in Fiscal 2007.

Our total income was higher in Fiscal 2007 mainly on account of a 22.38% increase in interest earned on advances (including discount on bills) from Rs. 14455 lakhs in Fiscal 2006 to Rs. 17690 lakhs in Fiscal 2007.

Interest Income

Our interest income increased by 17.46% from Rs. 20989 lakhs in Fiscal 2006 to Rs. 24653 lakhs in Fiscal 2007.

Interest on advances and discount on bills increased by 22.38%, from Rs. 14455 lakhs in Fiscal 2006 to Rs. 17690 lakhs in Fiscal 2007, reflecting a 12.49 % increase in average advances from Rs. 153125 lakhs in Fiscal 2006 to Rs.172249 lakhs in Fiscal 2007. This was augmented by an increase in the average yield on advances from 9.44 % in Fiscal 2006 to 10.27 % in Fiscal 2007.

Income from investments increased marginally by 3.78% from Rs.5375 lakhs in Fiscal 2006 to Rs.5578 lakhs in Fiscal 2007. Our average volume of investments increased by 8.47% from Rs. 72632 lakhs in Fiscal 2006 to Rs. 78781 lakhs in Fiscal 2007. The average yield on our investments decreased from 7.40% in Fiscal 2006 to 7.08% in Fiscal 2007, principally due to reduction of interest rates.

Interest on balances with RBI is the interest paid on our required cash reserve ratio balance. Interest on other inter-bank lending includes interest on call and term lending and interest on repo lending. Interest on balances with the RBI and other inter-bank lending increased by 78.68%, from Rs. 727 lakhs in Fiscal 2006 to Rs. 1299 lakhs in Fiscal 2007. This increase was principally due to a 156.48% increase in Inter Bank Deposits placed, from Rs. 10971 lakhs in Fiscal 2006 to Rs. 28138 lakhs in Fiscal 2007.

Interest Expense

Our interest expense increased by 18.03%, from Rs. 12689 lakhs in Fiscal 2006 to Rs. 14977 lakhs in Fiscal 2007.

This was principally due to an increase of 17.56% in interest on Deposits from Rs 12079 lakhs in Fiscal 2006 to Rs 14200 lakhs in Fiscal 2007, which resulted in an increase in the cost of deposits from 5.19 % in Fiscal 2006 to 5.41% in Fiscal 2007. Our average deposits increased by 12.78% from Rs. 232736 lakhs in Fiscal 2006 to Rs. 262477 lakhs in Fiscal 2007.

Our interest expense on RBI and other borrowings increased by 292.50% from Rs. 40 lakhs in Fiscal 2006 to Rs. 157 lakhs in Fiscal 2007 primarily due to 394.35% increase in interest paid on CBLO borrowings from Rs. 28.33 lakhs in fiscal 2006 to Rs.140.05 lakhs in fiscal 2007.

Our other interest expense, which consists mainly of interest on Tier II Bonds, increased by 8.77%, from Rs. 570 lakhs in Fiscal 2006 to Rs. 620 lakhs in Fiscal 2007. This increase was mainly due to 9.86% increase in interest on Tier II Bonds due to a Rs.1700 lakhs increase in the amount of Tier II bonds in fiscal 2007.

Other Income

Comparative position of other income for the fiscal 2006 & 2007 is furnished below

(Rs. In lakhs)

Particulars	31 March 2007	31 March 2006
Commission, Exchange and Brokerage	909	943
Profit/(Loss) on sale of investments (Net)	(24)	(90)
Profit on Revaluation of investments	(546)	(514)
Profit on sale of land, building and other assets (Net)	3	0230
Profit on exchange transactions (Net)	279	335
Income from insurance	767	1287
Miscellaneous income	1575	
TOTAL	2963	2191

Our other income increased by 35.24%, from Rs. 2191 lakhs in Fiscal 2006 to Rs. 2963 lakhs in Fiscal 2007 due to increased income from insurance business. Income from insurance increased by 128.96% from Rs.335 lakhs to Rs.767 lakhs

Income from commission, exchange and brokerage decreased by 3.61% from Rs. 943 lakhs in Fiscal 2006 to Rs. 909 lakhs in Fiscal 2007. Net profit on exchange transactions increased by 21.30%, from Rs. 230 lakhs in Fiscal 2006 to Rs. 279 lakhs in Fiscal 2007. This increase was due to more foreign exchange arbitrage. Miscellaneous income includes service charges on SB, CD and loans, processing charges and locker rent. Our miscellaneous income increased by 22.38% from Rs. 1287 lakhs in Fiscal 2006 to Rs. 1575 lakhs in Fiscal 2007. This increase was primarily due to increase in total business.

Expenditure

Operating Expenses

Total operating expenses increased by 7.26 % from Rs. 8181 lakhs in Fiscal 2006 to Rs. 8775 lakhs in Fiscal 2007. As a percentage of our total income, operating expenses decreased to 31.78 % in Fiscal 2007 compared with 35.29 % in Fiscal 2006.

The primary component of our operating expenses was payment and provisions to employees, which increased by 4.52%, from Rs. 4182 lakhs in Fiscal 2006 to Rs. 4371 lakhs in Fiscal 2007.

Depreciation expenses on our property increased by 23.36% from Rs. 715 lakhs in Fiscal 2006 to Rs. 882 lakhs in Fiscal 2007.

Repairs and Maintenance expenses decreased by 8.00%, from Rs.200 lakhs in Fiscal 2006 to Rs.184 lakhs in Fiscal 2007.

Insurance expenses increased by 8.23% from Rs. 231 lakhs in Fiscal 2006 to Rs. 250 lakhs in Fiscal 2007, mainly due to increase in deposits accepted resulting in higher amount of premium to DIC.

Other expenditure increased by 28.95 % from Rs. 1233 lakhs in Fiscal 2006 to Rs. 1590 lakhs in Fiscal 2007. This increase was mainly due to increase in expenses towards ATM charges and business development.

Operating Profit

As a result of the foregoing factors, our operating profit before provisions and contingencies increased by 67.27 %, from Rs. 2310 lakhs in Fiscal 2006 to Rs.3864 lakhs in Fiscal 2007. As a percentage of total income, our operating profit increased from 9.97 % in Fiscal 2006 to 13.99 % in Fiscal 2007.

Provisions and Contingencies

Provisions and contingencies made in Fiscal 2007 increased by 65.68 % from Rs. 1358 lakhs in Fiscal 2006 to Rs. 2250 lakhs in Fiscal 2007.

Provision towards	(Amount in lakhs)	
	31 March 2007	31 March 2006
Non Performing Assets (including write off)	806	533
Standard Assets	312	283
Income Tax (Including deferred tax/FBT)	1122	605
Depreciation/provision on Investments (net)	10	(63)
TOTAL	2250	1358

Our required provisioning in respect of non-performing advances decreased by 5.42% from Rs.1789 lakhs in Fiscal 2006 to Rs. 1692 lakhs in Fiscal 2007. This was due to a decrease in gross NPAs from Rs. 11138 lakhs in Fiscal 2006 to Rs. 9629 lakhs in Fiscal 2007.

Our provision for standard advances increased by 10.25 % from Rs.283 lakhs in Fiscal 2006 to Rs. 312 lakhs in Fiscal 2007. This increase was primarily due to the additional provisioning requirement prescribed by RBI.

Income Tax

Our provision for income tax was Rs.35 lakhs in Fiscal 2006 and was Rs.434 lakhs in Fiscal 2007. This increase was primarily due to increase in taxable income.

Net Profit

As a result of the foregoing factors, our net profit after tax increased by 69.54 % from Rs. 952 lakhs in Fiscal 2006 to Rs. 1614 lakhs in Fiscal 2007. As a percentage of total income, our net profit after tax increased from 4.11 % in Fiscal 2006 to 5.84 % in Fiscal 2007.

Year ended March 31, 2006 Compared with the Year ended March 31, 2005

Income

Our total income increased by 14.27 % from Rs. 20284 lakhs in Fiscal 2005 to Rs. 23180 lakhs in Fiscal 2006 and our total expenditure increased by 10.76% from Rs. 18842 lakhs in Fiscal 2005 to Rs. 20870 lakhs in Fiscal 2006. Our operating profit increased by 60.19% from Rs. 1442 lakhs in Fiscal 2005 to Rs.2310 lakhs in Fiscal 2006. Our net profit after tax increased from Rs. (2160) lakhs in Fiscal 2005 to Rs. 952 lakhs in Fiscal 2006.

Our total income was higher in Fiscal 2006 mainly on account of a 17.11% increase in interest earned on advances (including discounts on bills) from Rs. 12343 lakhs in Fiscal 2005 to Rs. 14455 lakhs in Fiscal 2006 and 105.15 % increase in other income from Rs. 1068 lakhs in Fiscal 2005 to Rs. 2191 lakhs in Fiscal 2006

Interest Income

Our Interest Income increased by 9.23% from Rs.19216 lakhs in Fiscal 2005 to Rs.20989 lakhs in Fiscal 2006.

Interest on advances and discount on bills increased by 17.11%, from Rs.12343 lakhs in Fiscal 2005 to Rs.14455 lakhs in Fiscal 2006, reflecting a 15.62 % increase in average advances from Rs.132436 lakhs in Fiscal 2005 to Rs.153125 lakhs in Fiscal 2006. This was augmented by an increase in the average yield on advances from 9.32% in Fiscal 2005 to 9.44% in Fiscal 2006.

Income from investments decreased by 14.53% from Rs.6289 lakhs in Fiscal 2005 to Rs.5375 lakhs in Fiscal 2006.

Interest on balances with RBI is the interest paid on our required cash reserve ratio balance. Interest on other inter-bank lending includes interest on call and term lending and interest on repo lending. Interest on balances with the RBI and other inter-bank lending increased by 24.49%, from Rs. 584 lakhs in Fiscal 2005 to Rs. 727 lakhs in Fiscal 2006.

Interest Expense

Our interest expense increased marginally by 6.58%, from Rs.11906 lakhs in Fiscal 2005 to Rs.12689 lakhs in Fiscal 2006.

Our cost of deposits decreased from 5.33% in Fiscal 2005 to 5.19% in Fiscal 2006. Our average deposits increased from Rs. 213958 lakhs in Fiscal 2005 to Rs. 232736 lakhs in Fiscal 2006.

Our interest expense on RBI and other borrowings increased by 185.71% from Rs. 14 lakhs in Fiscal 2005 to Rs. 40 lakhs in Fiscal 2006.

Our other interest expense, which consists mainly of interest on Tier II Bonds, increased by 16.80%, from Rs. 488 lakhs in Fiscal 2005 to Rs. 570 lakhs in Fiscal 2006. This increase was mainly due to 15.77% increase in interest on Tier II Bonds due to a Rs.1000 lakhs increase in the amount of Tier II bonds in fiscal 2006.

Other Income

Comparative position of other income for the fiscal 2005 & 2006 is furnished below

(Amount in lakhs)

Particulars	31 March 2006	31 March 2005
Commission, Exchange and Brokerage	943	936
Profit/(Loss) on sale of investments (Net)	(90)	(694)
Profit on Revaluation of investments	(514)	(403)
Profit on sale of land, building and other assets (Net)	0230	32
Profit on exchange transactions (Net)	335	205
Income from insurance	1287	68
Miscellaneous income		924
TOTAL	2191	1068

Our other income increased by 105.15%, from Rs. 1068 lakhs in Fiscal 2005 to Rs. 2191 lakhs in Fiscal 2006. Income from insurance increased by 392.65%, from Rs. 68 lakhs in Fiscal 2005 to Rs. 335 lakhs in Fiscal 2006. Miscellaneous income includes service charges on SB, CD and loans, processing charges and locker

rent. Our miscellaneous income increased by 39.29% from Rs. 924 lakhs in Fiscal 2005 to Rs. 1287 lakhs in Fiscal 2006. This increase was primarily due to increase in total business.

Expenditure

Operating Expenses

Total operating expenses increased by 17.95 % from Rs. 6936 lakhs in Fiscal 2005 to Rs. 8181 lakhs in Fiscal 2006.

Depreciation expenses on our property increased by 17.41% from Rs. 609 lakhs in Fiscal 2005 to Rs. 715 lakhs in Fiscal 2006.

Repairs and maintenance expenses increased by 244.83%, from Rs.58 lakhs in Fiscal 2005 to Rs. 200 lakhs in Fiscal 2006.

Insurance expenses increased by 36.69% from Rs. 169 lakhs in Fiscal 2005 to Rs. 231 lakhs in Fiscal 2006 due to higher premium paid to DIC.

Other expenditure increased by 114.06 % from Rs. 576 lakhs in Fiscal 2005 to Rs. 1233 lakhs in Fiscal 2006.

Operating Profit

As a result of the foregoing factors, our operating profit before provisions and contingencies increased by 60.19 %, from Rs. 1442 lakhs in Fiscal 2005 to Rs.2310 lakhs in Fiscal 2006. As a percentage of total income, our operating profit increased from 7.11 % in Fiscal 2005 to 9.97 % in Fiscal 2006.

Provisions and Contingencies

Provisions and contingencies made in Fiscal 2006 decreased by 62.30 % from Rs. 3602 lakhs in Fiscal 2005 to Rs. 1358 lakhs in Fiscal 2006.

The details of provisions and contingencies for the fiscal 2005 and 2006 are given under.

Provision towards	(Amount in lakhs)	
	31 March 2006	31 March 2005
Write off of certain Non Performing Assets	533	158
Deferred Tax and FBT	570	(912)
Provision for NPA	0	889
Provision for Depreciation on investments	(134)	3112
Provision for NPI	71	279
Standard Assets	283	72
Provision for Income Tax	35	4
TOTAL	1358	3602

Our provision for standard advances increased by 293 % from Rs.72 lakhs in Fiscal 2005 to Rs. 283 lakhs in Fiscal 2006. This increase was primarily due to the additional provisioning requirement prescribed by RBI.

Income Tax

Our provision for income tax was Rs. 4 lakhs in Fiscal 2005 and was Rs. 35 lakhs in Fiscal 2006. This increase was primarily due to increase in taxable income.

Net Profit

As a result of the foregoing factors, our net profit after tax increased from Rs. (2160) lakhs in Fiscal 2005 to Rs. 952 lakhs in Fiscal 2006.

Cash Flows

(Amount in lakhs)

	<i>Year ended 31.03.2005</i>	<i>Year ended 31.03.2006</i>	<i>Year ended 31.03.2007</i>
Cash flows from Operating Activities	6239	(1805)	29192
Cash flows from Investing Activities	(1164)	(1147)	(522)
Cash flows from Financing Activities	1971	(184)	959
Cash & Bank balances at the beginning of the year	26967	34013	30878
Cash & Bank balances at the end of the year	34013	30878	60506

Cash Flow from Operations

Our net cash flow from operating activities reflects interest received during the period from advances and investments, 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.

Our net cash received from operating activities was Rs. 6239 lakhs in Fiscal 2005 and Rs. 29192 lakhs in Fiscal 2007. Net cash used in operating activities was Rs. 1805 lakhs in Fiscal 2006.

Cash Flow from Investing Activities

Our net cash used in investing activities reflects the expenses towards purchase of fixed Assets. Net cash used in investing activities was Rs.1164 lakhs in Fiscal 2005, 1147 lakhs in Fiscal 2006 and Rs.522 lakhs in Fiscal 2007. The purchase of fixed assets was Rs. 1185 lakhs in Fiscal 2005, Rs. 1150 lakhs in Fiscal 2006 and Rs. 527 lakhs in Fiscal 2007. This was partially offset by sale of old fixed assets.

Cash Flows from Financing Activities

Our net cash from financing activities reflects proceeds / redemptions of our Tier II Bonds, interest paid on our Tier II Bonds and dividends paid including taxes paid thereon. Our net cash received from financing activities was Rs. 1971 lakhs in Fiscal 2005, comprising of Rs. 2000 lakhs being the amount of Tier II bonds raised. Our net cash used in financing activities was Rs. 184 lakhs in Fiscal 2006, reflecting Rs. 1184 lakhs redemption of Tier II Bonds, offset by Rs.1000 lakhs being the amount of Tier II bonds raised. Our net cash from financing activities was Rs.959 lakhs in fiscal 2007 comprising of issuance of Rs.1700 lakhs of Tier II Bonds and redumption of Rs.558 lakhs of Tier II Bonds..

Capital

We are subject to the capital adequacy requirements of the RBI, which are primarily based on the capital adequacy accord reached by the Basel Committee of the Bank of International Settlements. We are required to maintain a minimum 9% capital to risk weighted assets, at least half of which must be Tier I capital. Our regulatory capital and capital adequacy ratios, based on our restated financial statements, are as follows:

(Amount in lakhs)

	Fiscal 2005	Fiscal 2006	Fiscal 2007	September 30, 2007
Tier I capital	8650	10692	12671	14386
Tier II capital	5701	6102	7003	5975
Total capital	14351	16794	19674	20361
Total risk weighted assets and contingents	141204	172262	201418	215715
Capital adequacy ratios:				
Tier I	6.12 %	6.21 %	6.29 %	6.66%
Tier II	4.04 %	3.54 %	3.48 %	2.77%
Total capital adequacy ratio	10.16 %	9.75 %	9.77 %	9.43%
Minimum capital ratio required by the RBI	9.00 %	9.00 %	9.00 %	9.00%

Liabilities

Our total liabilities increased by 7.27 % from Rs. 253,036 lakhs as at March 31, 2005 to Rs. 271,433 lakhs as at March 31, 2006 and further increased by 21.60 % to Rs. 330,056 lakhs as at March 31, 2007. Other liabilities and provisions include bills payable, interest accrued on deposits and borrowings, inter-office adjustments, provisions for standard advances, deferred tax liability and other provisions. Subordinate debts are our Tier II Bonds. As at September 30, 2007 our liabilities stood at Rs.346,948 Lakhs.

Our total deposits increased by 8.29 % from Rs. 233,884 lakhs as at March 31, 2005 to Rs. 253,268 lakhs as at March 31, 2006, and further increased by 21.92 % to Rs. 308,796 lakhs as at March 31, 2007. As at September 30, 2007 our total deposits stood at Rs.324,730 Lakhs. Demand (current) deposits grew by 2.80 % from Rs. 27,140 lakhs as at March 31, 2005 to Rs. 27,899 lakhs as at March 31, 2006 and further increased by 25.59 % to Rs. 35,038 lakhs as at March 31, 2007. As at September 30, 2007 our demand deposits stood at Rs.38,890 Lakhs. Term deposits grew by 5.26% from Rs.17,103 lakhs as at March 31, 2005 to Rs.18,027 lakhs as at March 31, 2006, and further increased by 22.87 % to Rs. 22,123 lakhs as at March 31, 2007. As at September 30, 2007 our term deposits stood at Rs.22,810 Lakhs. Savings deposits grew by 26.99 % from Rs. 35,706 lakhs as at March 31, 2005 to Rs. 45,342 lakhs as at March 31, 2006 and further increased by 15.91 % to Rs. 52,555 lakhs as at March 31, 2007. As at September 30, 2007 our savings deposits stood at Rs.57,737 Lakhs

Contingent Liabilities

Contingent liabilities increased by 89.53% from Rs. 23,683 lakhs as at March 31, 2005 to Rs. 44,887 lakhs as at March 31, 2006 and decreased by 15.35 %, to Rs. 37,998 lakhs as at March 31, 2007; further the contingent liabilities came down to Rs.37,301 Lakhs as on September 30, 2007.

The variation in contingent liabilities was mainly due to the changes in liabilities on account of outstanding forward exchange contracts.

Foreign Exchange Transactions

Our foreign exchange contracts arise out of spot and forward foreign exchange transactions with corporate and non-corporate customers and inter-bank counter parties. We earn profit on inter-bank and customer transactions by way of a spread between the purchase rate and the sale rate. Income from foreign exchange transactions is recorded as income from exchange transactions and income from the proprietary book is recorded as trading income.

The aggregate notional principal amount of our forward foreign exchange contracts was Rs. 10,301.47 lakhs as at March 31, 2005, Rs. 32,758.37 lakhs as at March 31, 2006, Rs. 25,166.30 lakhs as at March 31, 2007 and Rs.23,550.07 Lakhs as at September 30, 2007. Since these contracts are marked to market, their fair value as at those dates was the same as their notional value.

Unusual or Infrequent Events or Transactions

To our knowledge there have been no unusual or infrequent events or transactions that have taken place during the last three years, except as disclosed as extraordinary items in this section.

Significant economic changes that materially affected or are likely to affect income from continuing operations.

The Indian economy continues its growth trajectory with GDP growing at 9.4% during the financial year ended March 2007. The robust macroeconomic environment continues to bolster the financial performance of the banks, which are faced with a broad-based credit demand, corporate sector showing increased credit appetite on account of the buoyancy in the manufacturing sector and the robust growth in retail loans.

The surge in retail loans diversifies the Banks' retail portfolios, traditionally dominated by credit to the industrial sector.

Driven by buoyant economic conditions, there has been significant increase in credit off take. This will positively impact the profitability of operations.

Asset quality and solvency indicators of Banks have improved considerably. Banks are relatively less vulnerable to rise in interest rates than before. Improved risk management practices, improved legal environment with the operationalisation of Credit Information Bureau, SARFAESI, Asset Recovery Companies and the general improvement in the operating environment will have a salutary effect on the profitability of operations.

The recent hike in CRR is not likely to impact the liquidity of banks substantially. Strong liquidity on the back of stringent prudential norms will stand it in good stead.

The Sub prime crisis and the emerging interest rate scenario in the USA are not likely to affect Indian banks. India's strong domestic demand and diversified export markets will shield it from a feared and possible slowdown in the US. The share of US in India's export is 13% of GDP, down from 23.1% in FY 2000. Indian banks are relatively less vulnerable to rise in interest rates than before.

The focus being given to financial inclusion and customer service will further improve the business prospects of Indian banks.

Other positive features for the Indian banking system include the strong liquidity across the system on the back of stringent prudential norms as well as improved credit risk profile with a declining level of non-performing assets.

The requirement for fresh capital to meet Basel II norms, adoption of revised AS 15 and for increasing the asset portfolio may increase the cost of capital.

The Indian banking industry is not operating under an insulated economic environment. The banks, which are facing the challenges of managing risks such as credit risk, interest rate risk, liquidity risk and operational risk, will have to introduce their own risk management systems.

There is mounting competition in the Indian banking system stemming from the more dynamic private sector banks. The need for ongoing technological transformation remains a challenge.

Banks have to take effective measures relating to customer orientation, market focus, greater use of multiple channels like ATMs, Internet, Mobile Banking, efficient credit dispensation and monitoring, sharing of ATMs, swapping of branches, co-branding of products, besides building up sound financials. Increasing focus has to be paid on spread, high operating cost, stiff competition, transformed economic environment and new prudential regulations. Technology to be integrated with business to significantly raise productivity bar to foster innovation and strategic differentiation leading to higher value-added products and services and creation of a competitive advantage.

Known Trends or Uncertainties

Our business has been impacted and we expect will continue to be impacted by the trends identified above in "Factors Affecting our Results of Operations" and the uncertainties described in the section titled "Risk Factors" beginning on page vi of this Letter of Offer. To our knowledge, except as we have described in this Letter of Offer, there are no known factors, which we expect to have a material adverse impact on our revenues from continuing operations.

Future Relationship between Expenditure and Revenues

Except as described in "Risk Factors", "Our Business" and this section, to the best of our knowledge, there is no future relationship between expenditure and income that will have a material adverse impact on the operations and finances of the Bank.

Extent to which material increases in revenue is due to introduction of new products or services or increased charges.

Eight products launched by the Bank during the last 2 years have a combined deposit base of Rs. 678.50 crores, accounting for 19.70% of total deposits as on the December 31, 2007.

Status of any publicly announced new products or business segment.

After closure of FY 2007, our Bank has not announced any new products or business segment.

Seasonality of Business

Although our business is not seasonal in nature, our business is affected by seasonal trends in the Indian economy that affect the overall banking industry. The period from October to March is the busy period in India for economic activity and, accordingly, we generally experience higher volumes of business during this period. From April to September, when economic activity typically decreases, our business volumes experience a corresponding decrease

Competitive Conditions

We expect competition to increase due to, among other things, an increase in regulatory reforms in the banking sector. For further details, see the section titled “Risk Factors–External Risk Factors” and “Our Business–Competition” beginning on pages vi and 31, respectively, of this Letter of Offer.

Significant Developments after September 30, 2007

Except as stated otherwise in this Letter of Offer, in the opinion of our Directors no circumstances have arisen since September 30, 2007, the date of the last financial statements as disclosed in this Letter of Offer, which materially and adversely affect or are likely to affect, the trading and profitability of the Bank or the value of our assets or our ability to pay our liabilities within the next twelve months

STOCK MARKET DATA FOR SHARES OF THE BANK

Our Equity Shares are listed on the BSE, NSE and CSE. As our shares are actively traded on the BSE and NSE, our stock market data have been given separately for each of these Stock Exchanges.

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

BSE

Period	Date	Min. price	Volume	Date	Max. price	Volume
2004 –05	23.08.04	15.10	7535	04.01.05	36.95	43709
2005 – 06	04.05.05	24.05	8835	15.07.05	46.50	549739
2006-07	24.07.06	20.55	15946	22.01.07	79.00	68299
January 2007	02.01.07	53.50	103551	22.01.07	79.00	68299
February 2007	28.02.07	56.50	17208	08.02.07	76.00	77459
March 2007	28.03.07	54.60	21709	01.03.07	62.85	14555
April 2007	02.04.07	53.80	14426	10.04.07	70.50	75031
May 2007	10.05.07	57.70	20457	15.05.07	64.95	26058
June 2007	07.06.07	56.90	5996	25.06.07	63.90	9492
July 2007	03.07.07	58.00	10481	17.07.07	82.15	162850
August 2007	22.08.07	67.50	38347	10.08.07	85.95	1209545
September 2007	26.09.07	65	678033	12.09.07	83.85	54892
October 2007	22.10.07	67.2	11968	05.10.07	84.4	52666
November 2007	07.11.07	67.25	13848	30.11.07	76.9	47890
December 2007	03.12.07	73.5	101380	31.12.07	108	78661

[Source: BSE]

NSE

Period	Date	Min. price	Volume	Date	Max. price	Volume
2004 –05	25.08.04	16.20	13788	03.01.05	37.20	249488
2005 – 06	21.04.05	24.00	16574	15.07.06	46.75	1161346
2006-07	15.07.07	21.00	5767	22.01.07	79.50	89539
January 2007	02.01.07	53.00	113165	22.01.07	79.50	89539
February 2007	23.02.07	56.10	69475	06.02.07	72.50	92436
March 2007	05.03.07	54.30	155790	22.03.07	62.55	22145
April 2007	03.04.07	54.00	9156	10.04.07	72.30	132914
May 2007	08.05.07	57.10	62787	14.05.07	64.35	109423
June 2007	07.06.07	56.80	12110	27.06.07	62.60	35212
July 2007	04.07.07	59.20	75536	17.07.07	81.45	138859
August 2007	22.08.07	67.95	27687	10.08.07	85.00	135111
September 2007	26.09.07	66.25	28080	05.09.07	83.85	34644
October 2007	22.10.07	65.55	17825	05.10.07	85.7	57137
November 2007	07.11.07	65.9	5630	30.11.07	77	49298
December 2007	03.12.07	75	90231	31.12.07	108.95	87526

[Source: NSE]

CSE

There has been no trading of the Equity Shares of the Bank listed on the CSE for the last three years

The high and low closing prices and volume of Equity shares traded on the respective dates during the last six months are as follows –

BSE last 6 months

Year	Date	Minimum price	Volume	Date	Maximum price	Volume
July 2007	03.07.07	58.00	10481	17.07.07	82.15	162850
August 2007	22.08.07	67.50	38347	10.08.07	85.95	1209545
September 2007	26.09.07	65	678033	12.09.07	83.85	54892
October 2007	22.10.07	67.2	11968	05.10.07	84.4	52666
November 2007	07.11.07	67.25	13848	30.11.07	76.9	47890
December 2007	03.12.07	73.5	101380	31.12.07	108	78661

NSE last 6 months

Year	Date	Minimum price	Volume	Date	Maximum price	Volume
July 2007	04.07.07	59.20	75536	17.07.07	81.45	138859
August 2007	22.08.07	67.95	27687	10.08.07	85.00	135111
September 2007	26.09.07	66.25	28080	05.09.07	83.85	34644
October 2007	22.10.07	65.55	17825	05.10.07	85.7	57137
November 2007	07.11.07	65.9	5630	30.11.07	77	49298
December 2007	03.12.07	75	90231	31.12.07	108.95	87526

CSE last 6 months

There has been no trading of the Equity Shares of the Bank listed on the CSE for the last three years

The closing market price was Rs. 62.60 on BSE, and Rs. 62.70 on NSE on April 17, 2007, the trading day immediately following the day on which Board meeting was held to approve the Issue.

**INFORMATION AS REQUIRED BY GOVERNMENT OF INDIA, MINISTRY OF FINANCE
CIRCULAR NO. F2/5/SE/76 DATED FEBRUARY 5, 1977 AS AMENDED VIDE CIRCULAR OF
EVEN NO DATED MARCH 8, 1997**

1. The working results of the Company for the six months ended September 30, 2007 during the current Financial Year:

Description	Value (Rs. lakhs)
Interest Earned	
Operating Income	15590
Interest on Advance	10794
Income on Investment	3370
Interest on Balances	1426
Others Interests	-
Other Income	1483
Total Income	17073
Interest Expended	-10096
Operating Expenses	-4473
Payment/Provisions for Employees	-2396
Other Operating Expenses	-2077
Total Expenditure for Banks	-14569
Operating Profit	2504
Profit before Tax	2000
Tax	-650
Provisions and Contingencies	-504
Profit after Tax	1350
Net Profit	1350
Equity Capital	3206
Reserves	11180
Capital Adequacy Ratio in Percent	9.43
EPS	4.21

2. Except as disclosed in this Letter of Offer, there is no material change or commitments likely to affect the financial position of the Bank since the last date upto which audited information is incorporated in the Letter of Offer.

3. **Information in relation to Equity Shares:**

- a) Week end prices of Equity Shares of the Company for the last four weeks on BSE is as below

Period	Closing price (in Rs)	Volume	
		No. of shares	No. of trades
31 st December , 2007 to 04 January, 2008	131.25	24507	113
07 January to 11 th January , 2008	123.8	39087	244
14 January to 18 th January , 2008	155.50	551423	1170
21 January to 25 th January, 2008	92.15	106863	386

- b) Week end prices of Equity Shares of the Company for the last four weeks on NSE is as below:

Period	Closing price (in Rs)	Volume	
		No. of shares	No. of trades
31 st December , 2007 to 04 January, 2008	131.25	24507	113
07 January to 11 th January , 2008	123.8	39087	244
14 January to 18 th January , 2008	155.50	551423	1170
21 January to 25 th January, 2008	92.15	106863	386

Week end prices of Equity Shares of the Company for the last four weeks on CSE:

There has been no trading in the Equity Shares listed on the CSE

- c) Closing ex-rights market price of Equity Shares of face value of Rs.10 of the Company on BSE and NSE as on January 23, 2008 was Rs. 96.15 and Rs. 96.65 respectively.
- d) Highest and Lowest Price of the Equity Share of the Company of face value of Rs. 10 each on BSE during the period April 01, 2005 to December 31, 2007:

FY	HIGH	High Date	High Price Day Volume	Low	Low Price Date	Low Price Day Volume
2006	46.5	15.07.05	549739	24.05	04.05.05	549739
2007	79	22.01.07	68299	20.55	24.07.06	68299
Jan-07	79	22.01.07	68299	53.5	02.01.07	68299
Feb-07	76	08.02.07	77459	56.5	28.02.07	77459
Mar-07	62.85	01.03.07	14555	54.6	28.03.07	14555
Apr-07	70.5	10.04.07	75031	53.8	02.04.07	75031
May-07	64.95	15.05.07	26058	57.7	10.05.07	26058
Jun-07	63.9	25.06.07	9492	56.9	07.06.07	9492
Jul-07	82.15	17.07.07	162850	58	03.07.07	162850
Aug-07	85.95	10.08.07	1209545	67.5	22.08.07	1209545
Sept-07	83.85	12.09.07	54892	65	26.09.07	678033
Oct-07	84.4	05.10.07	52666	67.2	22.10.07	11968
Nov-07	76.9	30.11.07	47890	67.25	07.11.07	13848
Dec-07	108	31.12.07	78661	73.5	03.12.07	101380

- e) Highest and Lowest Price of the Equity Share of the Company of face value of Rs.10 each on NSE during the period April 01, 2005 to December 31, 2007:

FY	High	High Date	High Price Day Volume	Low	Low Price Date	Low Price Day Volume
2006	46.75	15.07.06	1161346	24	21.04.05	1161346
2007	79.5	22.01.07	89539	21	15.07.07	89539
Jan-07	79.5	22.01.07	89539	53	02.01.07	89539
Feb-07	72.5	06.02.07	92436	56.1	23.02.07	92436

Mar-07	62.55	22.03.07	22145	54.3	05.03.07	22145
Apr-07	72.3	10.04.07	132914	54	03.04.07	132914
May-07	64.35	14.05.07	109423	57.1	08.05.07	109423
Jun-07	62.6	27.06.07	35212	56.8	07.06.07	35212
Jul-07	81.45	17.07.07	138859	59.2	04.07.07	138859
Aug-07	85	10.08.07	135111	67.95	22.08.07	135111
Sept-07	83.85	05.09.07	34644	66.25	26.09.07	28080
Oct-07	85.7	05.10.07	57137	65.55	22.10.07	17825
Nov-07	77	30.11.07	49298	65.9	07.11.07	5630
Dec-07	108.95	31.12.07	87526	75	03.12.07	90231

- f) Highest and Lowest Price of the Equity Share of the Company of face value of Rs.10 each on CSE during the period April 01, 2005 to December 31, 2007:

There has been no trading in the Equity Shares listed on the CSE.

LICENSES AND APPROVALS

We have received all material necessary consents, licenses, permissions and approvals from the government and various governmental agencies necessary for conducting our business and this Issue:

The Bank has obtained the following approvals/licenses/permissions:

1. Reserve Bank of India has issued Banking License License No. TRI/ 11 dated 25.11.1977 under section 22(1) of the Banking Regulation Act, 1949, to the Bank to enable it to carry on banking business in India. It must be distinctly understood, however, that in issuing the license, the RBI does not undertake any responsibility for the financial soundness of the Bank or for correctness of any of the statements made or opinion expressed in this connection.
2. Permissions under Sec. 23 of the Banking Regulation Act, 1949 (Act 10 of 1949) issued by the Department of Banking Operations and Development, Reserve Bank of India to operate 181 Branches and 26 Extension Counters under the categories Metro, Urban, Semi Urban and Rural together with Extra Large, Very Large, Medium and Small.
3. General Permission under Sec. 23 of the Banking Regulation Act, 1949 vide Circular No. DBOD No. BP.BC. 152/21.3.051-94 dated 29.12.1994 issued by the Department of Banking Operations & Development, Reserve Bank of India, wherein the Bank is generally permitted to install on site Automated Teller Machines at branches which have been licensed by the Reserve Bank of India.
4. Permissions under Sec. 23 of the Banking Regulation Act, 1949 (Act 10 of 1949) for installation of 13 of our off site Automated Teller Machine.
5. Permanent Account Number AABCT0019J dated 25.04.2000.
6. Tax deduction Account CHNT00777A.
7. Permission for Centralised Service Tax Registration was granted vide letter no. 29/ST/TCR/V/2001/BFS dated 08.08.2001.
8. The Bank holds a license dated March 29, 2001 issued by the RBI to deal in foreign exchange in India. The said license has been issued under the provisions of the Foreign Exchange Management Act, 1999 and bears license No. EC.CHN.FMID.1/97.
9. The Bank holds licence no. 1322305 issued on June 30, 2006 issued by the Insurance Regulatory & Development Authority (IRDA) to act as a corporate agent for a period of three years from July 31, 2006 for procuring or soliciting insurance business of both life insurance and general insurance.
10. The Bank holds a certificate of registration as a participant under the SEBI (Depositories and Participants) Regulations, 1996 and the Depositories Act, 1996. The certificate bearing registration number IN-DP-NSDL-225-2002, has been issued by the SEBI and is valid for the period February 1, 2007 to January 31, 2012.
11. The Bank holds a certificate of registration as a banker to an issue bearing registration number INB100000025. The certificate has been issued on dated August 1, 2007 and is valid till November 30, 2009.
12. Rupee Drawing Arrangement Approval vide letter bearing ref No. EC.CO.DRD/797/17.03.04(18)/98-99 dated April 23, 1999 for the Agreement with Redha Al Ansari Exchange Establishment, Dubai.
13. Rupee Drawing Arrangement Approval vide letter bearing ref No. EC.CO.FMD/428/17.03.04(18)/2002-03 dated October 4, 2002 for the Agreement with UAE Exchange Centre, WLL, Kuwait.

14. Rupee Drawing Arrangement Approval vide letter bearing ref No. EC.CO.FMD/505/17.03.04(18)/2002-03 dated October 23, 2002 for the Agreement with UAE Exchange Centre, LLC, Abu Dhabi
15. Rupee Drawing Arrangement Approval vide letter bearing ref No. EC.CO.FMD/540/17.03.04(14)/2004-05 dated October 6, 2004 for the Agreement with Al Ahalia Money Exchange Bureau, Abu Dhabi
16. Rupee Drawing Arrangement Approval vide letter bearing ref No. EC.CO.FMD/539/17.03.04(14)/2004-05 dated October 6, 2004 for the Agreement with Oman and UAE Exchange Centre and Co, LLC, Oman
17. Rupee Drawing Arrangement Approval vide letter bearing ref No. EC.CO.FMD/1620/17.03.04(18)/2004-05 dated June 10, 2005 for the Agreement with Al Fardan Exchange Abu Dhabi
18. Rupee Drawing Arrangement Approval vide letter bearing ref No. EC.CO.FMD/1469/17.03.04(18)/2004-05 dated May 5, 2005 for the Agreement with Thomas Cook Al Rostamani International Exchange Dubai, UAE
19. Rupee Drawing Arrangement Approval vide letter bearing ref. No. FE.CO,FMD 14857/17.03.04(18)/2006-07 dated January 09, 2007 with Kuwait Bahrain International Exchange Co., Safat, Kuwait.

Licenses applied for and not granted:

We had previously submitted an application to the Reserve Bank Of India dated May 31, 2006 seeking approval for the opening of 24 branches including 7 extension counters and 2 seasonal branches.. The Reserve Bank of India has declined to accord its approval for the same.

LEGAL AND OTHER INFORMATION

Except as described below, there are no outstanding litigations, suits or criminal or civil prosecutions, proceedings or tax liabilities against us, or our directors that would have a material adverse effect on our business and there are no defaults, non payment or over dues of statutory dues, Institutional/bank dues and dues payable to holders of any debentures, bonds and fixed deposits that would have a material adverse effect on our business.

In view of the Bank and Lead Manager, all outstanding civil, labour, consumer and tax related litigations and disputes of value more than 100 lakhs are material to the Bank. As of 31.12.2007 the Bank had the following litigation, suits, cases pending before various courts, fora and authorities involving monetary claims. The claims under the same amount to Rs. **1, 992, 703, 000/-**.

Sl. No.	Brief Description	No. of Cases	Amount Involved (Rs. in Lakhs)
1.	Suits filed by the Bank against defaulting borrowers	6062	17317.18
2.	Appeals filed by the Bank on disputed Income tax	15	2408.11
3.	Suits against the Bank which are not acknowledged as debts	26	201.74
4.	Suits against the Bank which are not acknowledged as debts (no liability involved)	13	Nil

Claims/Disputes (by and against the bank) (inclusive of tax claims) which have a value of more than Rs.100 Lakhs and less than Rs.100 Lakhs

Sl. No.	Brief Description	No. of Cases	Amount Involved (Rs. In Lakhs)
1.	Disputes having a value of 100 lacs or more.	32	10, 740.99
2.	Disputes having a value of less than 100 lacs.	6071	9186.04

A. SUITS/CLAIMS AGAINST THE BANK NOT ACKNOWLEDGED AS DEBT AS ON 31.12.07

(i) Civil Cases

Sl. No	Court/ Forum	Name of the party who filed suit/claim against the bank	Brief History/Present Position.
1	District Court Palakkad	CAK Textiles OS No 35/99	CAK Textiles had alleged that the Bank failed to renew the insurance of the goods under its charge. The claim pertains to a fire accident and damages caused. The suit was decreed against the Bank for an amount of Rs.1, 53, 000/-. Aggrieved by the order of the lower court, the Bank has filed an appeal before the Hon'ble High Court of Kerala. The Hon'ble High Court was please to grant Interim stay granted. The matter is pending adjudication. The High Court is yet to post a date for hearing.
2	Munsiff Court, Irinjalakuda	Madhusoodhan Menon OS 1853/99 AS 212/00 Appeal before the sub court	The Brother of the plaintiff maintained a deposit account with the Thottippal branch of the Bank with due nomination. After the death of the depositor the amount was paid to the nominee. The plaintiff has subsequently filed a suit claiming the balance outstanding in the A/c of the deceased, and the same was dismissed. Thereafter, the plaintiff filed an appeal before the Sub Court, Irinjalakuda and has also moved a writ

Sl. No	<u>Court/ Forum</u>	<u>Name of the party who filed suit/claim against the bank</u>	<u>Brief History/Present Position.</u>
		Irinjalakauda	petition before the Hon'ble High Court for staying all further proceedings in the Sub Court and the same was also dismissed. The matter is pending adjudication.
3	Court of Civil Judge Senior Division, Ludhiana	Shoban Singla	The suit was filed before Court of Civil Judge Senior Division, Ludhiana and the Bank is the 1 st defendant. The defendant No.2 M/s Garments India Exports Ltd has purchased certain goods from the plaintiff and two bills were sent to our bank for collection along with documents of title to the goods with instructions to release the goods only on realisation of the bills. It is alleged that even though the bills were paid in time by Defendant 2, there was inordinate delay on the part. Hence, plaintiff prayed that the bank should pay interest at 18% pa for the period of delay in realisation which aggregates to Rs 47303/- and D1 is liable to give Form No. 'H' and on failure to furnish the same they are liable to pay Rs 1.51 lakhs. The matter is pending adjudication and the next date of hearing being 26/02/2008.
5	Sub Court ,Thrissur	P G Muraleedharan OS 357/2001	The Suit was filed before Sub Court, Thrissur claiming compensation for Rs 12, 19, 140/- plus 12% interest (Rs.1,60,520/-) for alleged wrongful dismissal of the plaintiff from the service of the bank .Our application for marking the disciplinary proceedings register as document not allowed by the court.Against the order, the Bank filed a CRP before the High Court of Kerala for staying the proceedings in the Sub Court and the same was granted The matter is pending adjudication.
6	Sub Court, Thrissur	C K Balasubramanian OS 388/2003	The suit was filed by Mr. C K Balasubramanian praying for reinstatement in service with full back wages and compensation to the tune of Rs. 10 lacs. The matter is pending adjudication and is posted for pre trial steps on 28/02/2008.
7	Civil court before the Senior Civil Judge – II, L.B. Nagar	State Bank of Hyderabad Vs Sivaraj M OS 642/06.	It is alleged that the Bankers cheque issued by State Bank of Hyderabad to defendant No 1 against his housing loan application for two installments was collected and credited to the account of Defendant No 4.The allegation is that the Bank has not complied with the provisions of KYC Norms and caused loss to SBH. SBH claimed Rs 2, 14, 066/- as compensation from our bank with cost. Our bank is the 6th defendant. We have filed our written statement in the above case. The case stands posted to 24/02/2008. The matter is pending adjudication.
8	Civil court before the Senior Civil Judge – II, L.B. Nagar	State Bank of Hyderabad Vs Paramata Reddy OS 643/06	It is alleged that the Bankers cheque issued by State Bank of Hyderabad to defendant No 1 against his housing loan was collected and credited to the account of Defendant No 4.It is alleged that the Bank has not complied with the provisions of KYC Norms and caused loss to SBH. SBH claimed Rs1, 07041.50/- as compensation from our bank with cost The matter is pending adjudication. The next date of hearing is on 24/02/2008.
9	Civil court before the Senior Civil Judge – II, L.B. Nagar	State Bank of Hyderabad Vs M.Rajeswara Rao OS 645/06	It is alleged that the Bankers cheque issued by State Bank of Hyderabad to defendant No 1 against his housing loan.The allegation is that the Bank has not complied with the provisions of KYC Norms and caused loss to SBH. SBH claimed Rs 1.80 lakhs as compensation from our bank with cost. Our bank is the 6th defendant. The matter is pending adjudication. The next date of hearing is on 24/02/2008.
10	Civil court before the Senior Civil Judge – II,	State Bank of Hyderabad Vs Ch.Nagaiah OS 646/06	It is alleged that the Bankers cheque issued by State Bank of Hyderabad to defendant No 1 against his housing loan. The allegation is that the Bank has not complied with the provisions of KYC Norms and caused loss to SBH. SBH claimed Rs 1, 82, 132/- as compensation from our bank with cost. Our bank is the 6th defendant. The matter is pending

Sl. No	Court/ Forum	Name of the party who filed suit/claim against the bank	Brief History/Present Position.
	L.B. Nagar		adjudication. The next date of hearing is on 24/02/2008.
11	Court of Principal Senior Civil Judge, L.B. Nagar.	State Bank of Hyderabad Vs Ahmed Navaz OS 647/06	It is alleged that the Bankers cheque issued by State Bank of Hyderabad to defendant No 1 against his housing loan. The allegation is that the Bank has not complied with the provisions of KYC Norms and caused loss to SBH. SBH claimed Rs 21,446/- as compensation from our bank with cost. The matter is pending adjudication. The next date of hearing is on 24/02/2008.
12	Civil Court, New Delhi	Navneet Kapoor & Neeru Kapoor OS 131/05	The complainants approached the bank for a housing loan. The plaintiff had given Rs 75, 000/- as earnest money to the flat owners. The plaintiff alleged that since the bank failed to sanction the housing loan to the plaintiff as per the assurance given, they were not able to give the balance amount of the purchase money to the flat owners before the stipulated time and hence they lost the advance amount given to the flat owners. The plaintiff prayed for a decree of Rs 77, 200/- along with future interest @ 24%pa and costs. The matter is pending adjudication. The next date of hearing is on 15/02/2008 and is posted for evidence of the plaintiff.
13	Small Causes Court, Mumbai	Mumbai Municipal Corporation Mis Appln No 313/04	The Mumbai Municipal Corporation has issued a notice to the bank informing that the rateable value of the building portion occupied by the bank in respect of our Matunga Branch has been increased effective from 01.04.00 and accordingly the bank was directed to pay the building tax arrears due from 01.04.2000 to 30.09.01 amounting to Rs. 28, 19, 198/-. The bank paid the tax of Rs8, 19, 620/- and further contested that the rate fixed was exorbitant and unreasonable. The Municipal Corporation, after hearing the Bank issued another notice thus fixing the rateable value of the premises occupied by the Bank at Rs. 2, 97, 755/- with effect from 01/04/2000. Aggrieved by the order passed by the Municipal Corporation, the Bank has filed appeal before the competent Authority of Mumbai Municipal Corporation. The matter is pending adjudication.
14	High Court, Kerala	Travancore Aluminum Fabricators OS 63/89 Appeal No. 737/96, HC, Kerala	The Plaintiffs had filed suit OS 63/89 against the bank for losses and damages of Rs.1, 15, 000/- on account of freezing the current account and stopping cheque discount facility sanctioned to him. The suit was dismissed with cost on 12.4.96 against which the party has filed appeal before the High Court. The matter is pending before the High Court. The matter is pending adjudication.
15	District Court, Ernakulam	Ananth Oil Extractions OS No 163/03 Appeal No. 347/05 (High Court of Kerala)	The company has instituted the suit against the bank for realisation of a sum of Rs 7, 44, 791/- with interest @22.75%. The plaintiff alleged that the demand by the bank to pay Rs 5 lacs to settle the account was unreasonable and was paid under coercion. Decree passed in favour of plaintiff on 06.01.05. Bank filed appeal before the High Court, Kerala and stay obtained. The matter is pending adjudication.
16	Sub Court, Trivandrum	Silver Stone Rubber India OS 190/07	It was alleged that the Bank charged the plaintiff Rs 2,73,623/- as penalty for non filing of quarterly information system(QIS) return and Rs 68,466/- as short charging of DD commission and Rs 6,984/- as service tax and that the same was recovered illegally. The plaintiff has claimed the said amounts with 12% interest. The earlier complaint filed

Sl. No	<u>Court/ Forum</u>	<u>Name of the party who filed suit/claim against the bank</u>	<u>Brief History/Present Position.</u>
			by the plaintiff before the Hon'ble Banking Ombudsman was dismissed. The matter is pending adjudication. The suit is posted on 07/02/2008 for filing of written statement.
17	District Court, Coimbatore	Sakura Exports OS No 430/05	Plaintiff M/s Sakura Exports alleged that they have entrusted certain bills for collection with our bank. The goods were allegedly collected by the 1 st defendant but the sum due under the bill has not been credited to the plaintiff's A/c till date. Plaintiff prayed for passing a decree directing our bank to pay a sum of Rs 25 lakhs with interest and cost. We have filed the written statement and are awaiting service of summons. The matter is pending adjudication. The next date of hearing is on 25/01/2008 and the same is posted for rejoinder.
18	Debt Recovery Tribunal, Chennai	Mr. Abraham, Proprietor of Premier Marine Products (first defendant), Bank of India OA No. 269/07	The first defendant forged demand Drafts of the plaintiff and send for collection through the account maintained with us. The amounts were credited in the account and the first defendant utilised the same. The first defendant was arrested while trying to repeat the same fraud. The allegation against the bank is that the bank was negligent while opening the account. Suit stands posted to 07.2.07 for filing written statement.

(ii) Consumer Cases

Sl. No	<u>Court/ Forum</u>	<u>Name of the party who filed suit/claim against the bank</u>	<u>Brief History/Present Position.</u>
1.	Consumer Disputes Redressal Forum, Trivandrum	M.Sivasankaran OP No 225/02, CDRF, Palakkad Appeal 88/04 before Consumer State Commission, Trivandrum	M. Sivasankaran filed a petition before the Consumer Disputes Redressal Forum, Palakkad against the gold auction conducted without proper notice. The Consumer Disputes Redressal Forum, Palakkad directed the Bank to pay the complainant a sum of Rs. 10,000/- together with the compensation of Rs. 1000/-+ Rs.250/- as cost. The Bank has filed an appeal before the State Commission Trivandrum, as appeal no 88/04. The Commission has passed an interim stay order against the execution of the order in OP 225/02 and ordered the Bank to deposit a sum of Rs. 5625/- in the lower court within a month. The Bank has deposited the said amount on 10.03.04. The matter is pending adjudication and is posted to 16.3.2008 for hearing.
2.	Consumer Disputes Redressal Forum, Palakkad	P. Subramanian OP No 95/02 CDRF, Palakkad	The party had filed a consumer complaint against the Bank before the Consumer Disputes Redressal Forum, alleging defamation by the Bank as the Bank has filed a case against him in respect of his dues inspite of him remitting the dues. The matter is pending adjudication and the same is posted for 22/01/08.

3.	Consumer Disputes Redressal Forum, Thrissur	Komalavally OP 429/03 of CDRF, Thrissur Appeal 979/03	Mr. Kunjunnya, maintained a gold loan account with the Bank. Upon his death Mrs. Komalavally and Mr. Deepak claimed to be the legal heirs claimed the gold ornaments and balance in the SB A/c of the deceased. The claim was not considered as the claimants have not produced death certificate and legal heirship certificate. They filed the above case, in order to procure delivery of the gold ornaments & award the cost amounting to Rs.55000/-. The forum allowed the petition directing the Bank to deliver the gold ornaments and pay Rs 3000/- towards compensation and Rs 700/- as cost. The Bank has filed an appeal against this order before State Consumer Redressal Commission and got interim stay against the lower court order. The matter is pending adjudication. Appeal is listed for final hearing on 18.01.08.
4.	Consumer Disputes Redressal Forum, Munnar	S.Bagyaraj CRDF OP No 194/02 Appeal No. 882/03 (State Commission)	The Party availed a vehicle loan from the Munnar branch of the Bank. When the account turned NPA, the branch seized the vehicle and the party closed the account. The party has now approached Consumer Redressal Forum alleging that the branch did not give intimation regarding seizure and the seizure charges debited by the branch are high. The Consumer Forum passed orders against the Bank to pay a sum of Rs.44, 000/- . The Bank filed appeal before Kerala State Consumer Redressal Commission, Trivandrum. Appeal is admitted and stay granted in favour of the Bank. The matter is pending adjudication.
5.	Consumer Disputes Redressal Forum, Kottayam	P.V. George CC 45/07	The party had deposited a cheque of Rs 25,000/- for collection and the cheque was returned by Lord Krishna Bank as the cheque was outdated and funds insufficient in the account. It is alleged that there is deficiency of service on the part of bank officials in not sending the cheque within expiry date. The party has claimed Rs 25000/-with interest @12% pa from the date of dishonour of the cheque till date of payment and Rs 50000/- as damages. The matter is pending adjudication.
6.	Consumer Dispute Redressal Forum, Surat	Abhishek B Toshniwal OP 335/07	Three cheques drawn on Punjab National Bank were sent for collection through regular clearing. Due to technical faults, the Punjab National Bank was not able to clear the same. However, the cheques were not returned on the same date as per clearing house practice. Credit was given to account. Punjab National Bank delayed in returning the cheques and the same was not accepted by us. The amount, as such was not disbursed on request of Punjab National Bank. Complaint filed for release of amount. The matter is pending adjudication.
7.	National Commission, New Delhi	R.Latha Appeal No 130/05	Smt.Latha is a rubber dealer having an overdraft limit of Rs 3.50 lacs from our Vadakkencherry Branch against the security of the stock in trade being rubber and spices. Due to fire accident the entire stock was destroyed. Smt Latha submitted insurance claim, however the same was declined. Thereafter, Smt. Latha filed OP 31/99 before the Consumer Dispute Redressal Forum against the insurance Co and the bank (3rd respondent) claiming Rs 16.75 lacs as compensation from the respondents. The matter was dismissed vide order dt. 31.12.04 OP was dismissed with cost. Subsequently, Smt Latha has filed the appeal before National Commission, New Delhi. The matter is pending adjudication.

(iii) Labour cases

Sl. No	Court/ Forum	Name of the party who filed suit/claim against the bank	Brief History/Present Position.
1.	Labour	Lakshmi –	Smt. Lakshmi filed petition for getting the benefits envisaged and

Sl. No	<u>Court/ Forum</u>	<u>Name of the party who filed suit/claim against the bank</u>	<u>Brief History/Present Position.</u>
	Court, Ernakulam	CP 5 & 13/93 OP 12928/1997 OP 24883/2000	payable under All India Awards & Bipartite Settlements. The Industrial Tribunal, Alleppey, passed an Award on 24.02.97 holding that Smt. Lakshmi is a worker and her termination without fulfilling the conditions stipulated therein is not valid. The Bank has filed a Writ Petition in the High Court challenging the award. The matter is pending adjudication.
2.	Labour Court, Ernakulam	Saraswathi – CP No.8/93 OP 24848/2000	Smt. Saraswathi filed a petition before the Labour Court at EKM, for getting the benefits envisaged and payable under All India Awards & Bi-Partite Settlement. The court held that the claimant is entitled to the benefits as claimed. An appeal was filed and stay obtained from the High Court. The matter is pending adjudication.

(iv) Claims against Company wherein no suit has been instituted

Sl. No	<u>Court/ Forum</u>	<u>Name of the party who filed suit/claim against the bank</u>	<u>Brief History/Present Position.</u>
1		M/s. DNA Consulting (India) Pvt. Ltd.	Bank has appointed DNA Consulting (India) Pvt. Ltd as consultant for Interior Design and Project Management for the proposed corporate office at Ernakulam. The contract was terminated because DNA failed to attend the request for appointing site engineer throughout the duration of the project. DNA has sent a letter dated July 24, 2006 to the Bank claiming a sum of Rs. 7, 49, 038/- for the effort they have spend on the project. The matter is presently under negotiations amongst the parties.
2		Euronet Services India Pvt. Ltd. (ATM Vendor)	This is with respect to the payment for services rendered by Euronet for our ATM network including its security arrangements. The claim amount is Rs. 1, 29, 45, 788 as against the bank's admitted payment of Rs 1, 03, 23, 161 resulting in a difference of Rs. 26, 22, 627. The matter is presently under negotiations amongst the parties.

B. SUIT/CLAIMS WHICH ARE TERMED AS CONTINGENT LIABILITIES AGAINST THE BANK BUT NOT ACKNOWLEDGED AS DEBT AS ON 31.12.07(With no liability involved)**(i) Civil Suits**

Sl. No	<u>Court/ Forum</u>	<u>Name of the party who filed suit/claim against the bank</u>	<u>Brief History/Present Position.</u>
1	Sub Court, Thrissur	T.R.Saseendranath OS 3640/ 03 IA 10445/ 03	While working as Chief Manager of Shanmugham Road branch, Shri Saseendranath valued immovable properties for a total limit of Rs 360 lakhs. He took VRS on 31.03.01. Later valuation showed that the value of the property is only Rs .5 lacs .He was charge sheeted for inflating the valuation of the property and thereby causing huge financial loss to the bank. On the basis of enquiry report his pension was stopped and the last installment of the VRS lump sum amounting to Rs 2,45,441/-

Sl. No	Court/ Forum	Name of the party who filed suit/claim against the bank	Brief History/Present Position.
			was withheld. Against this Shri Saseendranath filed a suit before the Principal Munsiff Court, Thrissur praying for declaring that the disciplinary proceedings initiated against him as biased, unlawful and without authority and jurisdiction. He also prayed to restore his pension and to disburse him the withheld amount of Rs. 2, 45, 441/- being the last installment of VRS lumpsum. The court dismissed the suit. Against this, Shri. Saseendranath filed an appeal before the District Court, Thrissur. The case stands posted for return of notice from the respondents other than Bank.
2	Munsiff Court, Palakkad	V.K.Venugopalan OS No 3/2001	The Bank is impleaded as a formal party and no relief is claimed against the bank. The matter is pending adjudication.
3	Sub Court Thrissur	K.Sreekala OS 1165/05	Suit has been filed before Sub court, Thrissur. The bank dismissed the plaintiff's husband, Mr.Chandran from the service of the bank. When he was in service he availed a housing loan and as a collateral security he deposited the title deeds of plaintiff's property. They alleged that even though they are ready to pay the dues towards housing loan, the branch manager did not agree to release the title deeds. The prayer in the suit is for release of the title deeds mortgaged to the bank.
4	Munsiff Court, Chavakkad	Sabair OS No 66/07	Suit has been filed before Munsiff court, Chavakkad. The father of the plaintiff had joint deposit A/cs with our Guruvayur Branch and is now deceased. The plaintiff claims to be eligible to receive 1/5 th share of the deposit amt. The matter is pending adjudication.
5	Civil court, Chennai	Hemavathy Oils OS 25/02	Bank issued two Bank guarantees for Rs 2 lacs each respectively at the request of the plaintiff favouring Ist respondent Allahabad Canning Co. The said guarantees were to expire on 22.12.02 and 25.03.03. Suit was filed by the plaintiff for restraining the Bank from paying the guarantee amount. The matter is pending adjudication.
6	Munsiff Court, North Parur	Shaijan Jose POP 19/99	Shri Shaijan Jose has filed an application to treat him as an indigent person as he has no means to pay the Court Fee for the suit which he has filed against M/s.Oriental Insurance Co. and the Bank. Shri Shaijan Jose was granted a loan of Rs.35, 000/- by our branch. In a fire accident the hypothecated assets purchased out of our Bank finance was destroyed and the Insurance Company has repudiated his claim and hence the suit. The matter is pending adjudication.
7	Sub Court, Irianjalakuda	KK Rajan EP 185/97	In OS 50/84 filed against Mr. K.A. Kesavan, the bank bid the property in court auction. Mr. K.K.Rajan who claimed to be a licensee of the property has filed the case for setting aside the sale.The court has not allowed the commission application filed by the plaintiff. On 08.03.07 stay has been vacated. Licensee filed Civil revision petition in High court of Kerala, and matter stayed.
8	High Court Kerala	B.P.Agarwal WP 12661/04	The writ petition has been filed by the complainant impleading our bank as the first respondent ,DGM, Cochin as 2 nd respondent and CBI as 3 RD respondent seeking inter alia detailed investigation in respect of the hypothecation loan alleged to have been availed by the petitioner and his wife from the bank and also an investigation in respect of the harassment of the Sales Tax Authorities against the business establishment of the petitioner and the involvement of Mr.Padmanabhan ,the former DGP and others. The case is not listed for hearing
9	High	B.S.Girija	The complainant purchased six Indira Vikas Patras and deposited the

Sl. No	<u>Court/ Forum</u>	<u>Name of the party who filed suit/claim against the bank</u>	<u>Brief History/Present Position.</u>
	Court, Kerala	WP 29392/04	certificates with our Sreenivasapuram Branch locker hired by her for safe custody. Afterwards, when she opened the locker it was found that white ants have destroyed the two certificates completely and the remaining partially .Thereafter petitioner approached the Post Office authorities for issuing duplicate certificates. Despite of her reminders, the PO authorities did not respond for the same. Bank is the 4 th defendant in the suit and no specific relief is claimed against our bank .Bank has filed counter affidavit.

(ii) Labour Cases

Sl. No	<u>Court/ Forum</u>	<u>Name of the party who filed suit/claim against the bank</u>	<u>Brief History/Present Position.</u>
1	Industrial Tribunal, Alleppey	CV Francis MP 8/94 Labour Court	The petitioner filed a case before the Industrial Tribunal, Alleppey, against the Disciplinary Action taken against him. The Tribunal upheld the Disciplinary Action taken. He also filed a petition before the High Court of Kerala praying for stay of the operation of the order of the Tribunal. The matter is remanded back to the Tribunal, Alappuzha for considering the domestic enquiry. The matter is pending adjudication.
2.	Labour Court, Ernakulam	K.R. Unnikrishnan ID 16/95 OP 25899/01	Petitioner has filed an application before the ALC(C), Cochin, for reinstatement with back wages, continuity of service and for other benefits. The Labour Court EKM has directed us to reinstate him in service .Against this order we filed appeal vide petition 42/117/2001 in OP 25899/01 dt 24.08.01& interim stay obtained from High Court against the Labour court award. We have effected payment of Rs 5000/- mentioned in the stay order to Shri K R Unnikrishnan. The stay is still in force.
3.	Dy. Labour Commissioner, Thrissur	Nandan V. SAC AS No 719/92	Sri Nandan filed a petition for subsistence allowance before the DLC and it was allowed after condonation of delay. The matter was argued. The case is pending orders before the Deputy Labour Commissioner.
4.	Industrial Tribunal, Thrissur	K. Chandran ID No. 60/05	Sri. K. Chandran filed a suit praying for reinstatement in service with all back wages and other benefits. He was dismissed from the service of the bank due to certain grave irregularities committed by him. The matter is pending adjudication. The suit stands posted on 13.3.08

C. SUITS BY THE BANK WITH BALANCE OF RS 1 CRORE AND ABOVE (Including Written off)

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

#	PARTY	DATE OF FILING	PLAINT AMT (LAKHS)
1	BGM EXPORTERS	03.03.2000	124.69
2	SHREE GOURAVI PLASTICS LTD	01.06.1998	104.61

#	PARTY	DATE OF FILING	PLAINT AMT (LAKHS)
3	BELLARY STEELS & ALLOYS LTD	17.11.2003	2138
4	INDIANA DIARY SPECIALITIES LTD.	19.06.1998	127
5	JYOMON BUILDERS PVT. LTD.	18.01.1999	186
6	LEAFIN INDIA LTD.	20.01.2000	127
7	PENNAR PATTERSON LTD.	19.01.2000	225
8	VASAVI FLOREX & INDUSTRIES LTD	12.09.2003	291
9	ZEN GLOBAL FINANCE LTD.	14.01.1999	313
10	IBIL TECH.LTD	18.08.2000	218
11	WESTERN INDIA FINANCIAL SERVICES	09.05.1997	138
12	DCL FINANCE	30.04.2001	357
13	VINAYCHEM PHARMA	22.06.1998	165
14	ALPIC FINANCE	31.10.2001	385
15	PLATINUM FINANCE LTD	22.12.1998	320
16	LLOYDS FINANCE	21.11.2001	627
17	S N FINANCE	22.03.2002	113
18	MAK AGRO COMMODITIES TRADING COMPANY PVT LTD	22.01.1997	167
19	MODI RUBBER-BASHEER TRADERS	09.09.2002	163
20	R C PARK RESTURANT	30.10.2002	113
21	SILKY COTTON KNITS (I) LTD	20.11.2003	237
22	ROOFIT INDUSTRIES LTD	11.12.2003	409
23	KUNNAMKULAM OFFSET PRINTERS	27.01.2004	215
24	PENTASOFT TECHNOLOGIES	20.03.2005	1080
25	RSL INDUSTRIES	17.01.2003	238
26	BAMMO POLYMERS	24.11.2006	142

D. DISPUTED TAX CLAIMS

The following are the brief particulars of the tax disputed claims of the Bank having a value of Rs. 1 crore or more:

SN o	Matter	Amount (In Rs. Lakhs)	Brief particulars
1.	Bad debts written off – High Court of Kerala	248.28	<p>The amount is written off in the Profit & Loss Account by way of provision by the Bank even though the individual Advance Accounts are not wiped off. The bank has been claiming these amounts in the Assessments following the judicial pronouncements of various Courts.</p> <p>Income Tax Appellate Tribunal has vide their order dated 11-08-2006 upheld the un favourable decision of the AO for the AYs 1997-98. The amount disallowed has already been appropriated by the IT Dept. For AY 2000-01 also the ITAT decided against the Bank vide order dated 28-07-2006 for AY 200-01. The Bank has filed appeal before the High Court.</p>
2.	Claim on Rural Branches – Assessing Officer	545.83	<p>Under Section 36(1)(viiia) of IT Act banks are eligible to claim provision for bad and doubtful debts, an amount not exceeding five percent of the total income and ten percent of the aggregate average advances made by the rural branches. Some of the rural branches claimed by us has been treated as non rural branches by the department.</p> <p>Matter has already been decided in favour of the Bank for the Assessment</p>

SN o	Matter	Amount (In Rs. Lakhs)	Brief particulars
			Year 1998-99, by CIT (Appeals) vide order in ITA-15/JC/CIT-V/2000-01 dated 10.09.2004. ITAT vide their order dated 20-02-2007 has upheld the decision of the CIT (A) in respect of AY1998-99. For other assessment years wherever final hearing is over matter stands decided in favor of the Bank. Assessing Officer is yet to give effect to the order for refunding the tax amount. The AO in his revision order dated 15-03-2007 for AY 1999-2000 has allowed the appeal.
3.	Disallowance u/s 14A- Expenditure in relation to income from Tax Free Bonds/Shares/Mutual Funds CIT (Appeals)	792.6	Assessing Officer has disallowed proportionate expenditure incurred to earn exempted income by applying Section 14A. Bank has disputed the disallowance. It is the established principle of law that where the assessee carried on one indivisible business and a part of the income was either excluded or was exempt under any provisions of the Act it is not permissible to disallow the proportionate part of the expenditure attributable to such excluded or exempt income. For this proposition reliance is placed on the ruling of Supreme Court in CIT vs. Indian Bank Ltd. 56 ITR 77 (SC) . For AY 1999-00 CIT (A) decided in favour of the Bank vide order dated 31-08-2006.
4.	Payment of Pension – CIT (Appeals)	161.83	Department has disallowed the pension payments debited by the Bank in Profit and Loss Account. Matter has already been decided in favour of the Bank for the Assessment Year 2003-04, by CIT (Appeals) vide order in ITA-67/RI/TCR/CIT-V/05-06 dated 17.03.2006 For AY 1999-00 & 2000-01 decided in Bank's favour.
5.	Appreciation in Securities – Income Tax Appellate Tribunal	124.47	The amount pertains to appreciation in the value of securities in respect of which the depreciation is claimed by the Bank in income tax assessments. Bank holds full provision for the amount. The ITAT has ruled in favour of the Bank vide their order dated 29-12-2006 for AY 1997-98.
6.	Amortization on HTM category – Assessment Officer	144.68	The Assessing Officer has vide its order dated 17/12/2007 disallowed the provision for amortisation on HTM category of securities for the Assessment year 2005-06. Bank is in the process of filing appeal to CIT (Appeals)

F. NOTICES FROM REGULATORY/ STATUTORY AUTHORITIES

The Bank has received a letter dated May 28, 2007 from the Securities and Exchange Board of India seeking certain details pertaining to inter alia, the shareholding pattern and stock exchange filings made by the Bank. The Bank has subsequently replied to the said letter furnishing the information requested. There has been no further correspondence on the matter.

H. DETAILS OF LITIGATIONS AGAINST THE DIRECTORS OF THE BANK

Nil

STATUTORY AND OTHER INFORMATION

Authority for the Issue

Pursuant to the resolution passed by the Board of Directors of the Bank at its meetings held on April 16, 2007 and January 14, 2008 and the meeting of the Capital Augmentation Committee held on September 24, 2007, it has been decided to make this offer to the Equity Shareholders of the Bank with a right to renounce.

Prohibition by SEBI

Neither we nor our Directors, or companies with which our Directors are associated with as directors or promoters, have been prohibited from accessing or operating in the capital markets under any order or direction passed by SEBI.

Neither we, our Directors have been declared as wilful defaulters by RBI or any other governmental authority and there have been no violations of securities laws committed by them in the past or no such proceedings are pending against them for violation of securities laws.

The listing of any securities of the Issuer has never been refused at anytime by any of the Stock Exchange in India.

Eligibility for the Issue

The Dhanalakshmi Bank Limited is an existing Company registered under the Companies Act and the Equity Shares are listed on BSE, NSE and CSE. It is eligible to offer this Issue in terms of Clause 2.4.1(iv) of the SEBI DIP Guidelines.

Disclaimer Clause

AS REQUIRED, A COPY OF THIS DRAFT LETTER OF OFFER HAS BEEN SUBMITTED TO THE SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI). IT IS TO BE DISTINCTLY UNDERSTOOD THAT THE SUBMISSION OF THIS DRAFT LETTER OF OFFER TO SEBI SHOULD NOT, IN ANY WAY BE DEEMED/CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THIS LETTER OF OFFER. THE LEAD MANAGER ENAM SECURITIES PRIVATE LIMITED HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THE LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI GUIDELINES FOR DISCLOSURE AND INVESTOR PROTECTION IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE.

IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE DRAFT LETTER OF OFFER, THE LEAD MANAGER ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE BANK DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE THE LEAD MANAGER ENAM SECURITIES PRIVATE LIMITED HAVE FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED SEPTEMBER 27, 2007 WHICH READS AS FOLLOWS:

- 1. WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, DISPUTES WITH COLLABORATORS, ETC. AND OTHER MATERIALS MORE PARTICULARLY REFERRED TO IN THE ANNEXURE HERETO IN CONNECTION WITH THE FINALISATION OF THE DRAFT LETTER OF OFFER PERTAINING TO THE SAID ISSUE:**

2. **ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE BANK, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE BANK, WE CONFIRM THAT:**
- A. THE DRAFT LETTER OF OFFER FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;**
 - B. ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE AS ALSO THE GUIDELINES, INSTRUCTIONS ETC., ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH;**
 - C. THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO INVESTMENT IN THE PROPOSED ISSUE;**
 - D. BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE DRAFT LETTER OF OFFER ARE REGISTERED WITH SEBI AND TILL DATE SUCH REGISTRATION IS VALID;**
 - E. IF UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS – NOT APPLICABLE**

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

The Board of Directors declare and confirm that no information/material likely to have a bearing on the decision of investors in respect of the shares offered in terms of this Letter of Offer has been suppressed/withheld and/or incorporated in the manner that would amount to mis-statement/ mis-representation and in the event of its transpiring at any point of time, allotment/refund, as the case may be, that any information/material has been suppressed/withheld and/or amounts to mis-statement/mis-representation, the Directors undertake to refund the entire application monies to all subscribers within 7 days thereafter without prejudice to the provisions of Section 63 of the Companies Act, 1956.

Caution

The Bank and the Lead Manager accept no responsibility for statements made otherwise than in this Letter of Offer or in any advertisement or other material issued by the Bank or by any other persons at the instance of the Bank including website of the Bank, www.dhanbank.com and anyone placing reliance on any other source of information would be doing so at his/her/their own risk.

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

Disclaimer with respect to jurisdiction

This Letter of Offer has been prepared under the provisions of Indian Laws and the applicable rules and regulations thereunder. Any disputes arising out of this Issue will be subject to the jurisdiction of the appropriate court(s) in Thrissur, India only.

No action has been or will be taken to permit this Issue in any jurisdiction where action would be required for that purpose, except that this Letter of Offer has been filed with SEBI for observations and SEBI has given its observations. Accordingly, the Equity Shares represented thereby may not be offered or sold, directly or

indirectly, and this Letter of Offer may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Letter of Offer nor any sale hereunder, shall under any circumstances create any implication that there has been no change in our affairs from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

The Draft Letter of Offer has been filed with SEBI at Corporation Finance Department, Plot No. C4-A, "G" Block, Bandra Kurla Complex, Bandra (East), Mumbai 400 051, for its observations and SEBI has given its observations vide its letter dated January 03, 2008 bearing no. CFD/DIL/NB/NB/112473/2008 and the final Letter of Offer has been filed with the Stock Exchanges as per the provisions of the Companies Act..

United States Restrictions

NEITHER THE RIGHTS ENTITLEMENTS NOR THE EQUITY SHARES THAT MAY BE PURCHASED PURSUANT THERETO HAVE BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY U.S. STATE SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OF AMERICA OR THE TERRITORIES OR POSSESSIONS THEREOF (THE "UNITED STATES" OR THE "U.S.") OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, "US PERSONS" (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT ("REGULATIONS")), EXCEPT IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE RIGHTS REFERRED TO IN THIS LETTER OF OFFER ARE BEING OFFERED IN INDIA, BUT NOT IN THE UNITED STATES. THE OFFERING TO WHICH THIS LETTER OF OFFER RELATES IS NOT, AND UNDER NO CIRCUMSTANCES IS TO BE CONSTRUED AS, AN OFFERING OF ANY SHARES OR RIGHTS FOR SALE IN THE UNITED STATES OR AS A SOLICITATION THEREIN OF AN OFFER TO BUY ANY OF THE SAID SHARES OR RIGHTS. ACCORDINGLY, THIS LETTER OF OFFER SHOULD NOT BE FORWARDED TO OR TRANSMITTED IN OR INTO THE UNITED STATES AT ANY TIME, EXCEPT IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. NEITHER THE BANK NOR ANY PERSON ACTING ON BEHALF OF THE BANK WILL ACCEPT SUBSCRIPTIONS FROM ANY PERSON, OR THE AGENT OF ANY PERSON, WHO APPEARS TO BE, OR WHO THE BANK OR ANY PERSON ACTING ON BEHALF OF THE BANK HAS REASON TO BELIEVE IS, A RESIDENT OF THE UNITED STATES AND TO WHOM AN OFFER, IF MADE, WOULD RESULT IN REQUIRING REGISTRATION OF THIS LETTER OF OFFER WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION. THE BANK IS INFORMED THAT THERE IS NO OBJECTION TO A UNITED STATES SHAREHOLDER SELLING ITS RIGHTS IN INDIA. RIGHTS MAY NOT BE TRANSFERRED OR SOLD TO ANY U.S. PERSON.

Disclaimer Clause of BSE

As required, a copy of this Draft Letter of Offer has been submitted to Bombay Stock Exchange Limited. BSE has given vide its letter dated October 17, 2007 permission to the Issuer to use the Exchange's name in this Letter of Offer as one of the Stock Exchanges on which this Issuer's securities are proposed to be listed. The Exchange has scrutinized the Draft Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Issuer. The Exchange does not in any manner: (i) warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; or (ii) warrant that this Issuer's securities will be listed or will continue to be listed on the Exchange; or (iii) take any responsibility for the financial or other soundness of this Issuer, its Promoters, its management or any scheme or project of this Issuer; and it should not for any reason be deemed or construed that this Letter of Offer has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

Disclaimer Clause of NSE

As required, a copy of this Letter of Offer has been submitted to National Stock Exchange of India Limited. NSE has given vide its letter Ref. No. NSE/LIST/59195-S dated October 26, 2007 permission to the Issuer to use the Exchange's name in this Letter of Offer as one of the Stock Exchanges on which this Issuer's securities

are proposed to be listed. The Exchange has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Issuer. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the Letter of Offer has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; nor does it warrant that the Issuer's securities will be listed or will continue to be listed on the Exchange; nor does it take any responsibility for the financial or other soundness of this Issuer, its Promoters, its management or any scheme or project of this Issuer.

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

Disclaimer Clause of the Cochin Stock Exchange

As required, a copy of this Letter of Offer has been submitted to CSE. CSE has given vide its letter dated November 02, 2007, permission to the Bank to use CSE's name in the Letter of Offer as one of the stock exchanges on which our further securities are proposed to be listed. CSE has scrutinised the Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to us. CSE does not in any manner: (1) Warrant, certify or endorse the correctness or completeness of any of the contents of the Letter of Offer; or (2) Warrant that this Bank's securities will be listed or will continue to be listed on CSE; 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 the Letter of Offer has been cleared or approved by CSE. 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 CSE 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 RBI

A license authorising the Bank to carry on banking business has been obtained from the Reserve Bank of India in terms of Section 22 of the Banking Regulation Act, 1949. It must be distinctly understood, however, that in issuing the license the Reserve Bank of India does not undertake any responsibility for the financial soundness of the Bank or for the correctness of any of the statements made or opinion expressed in this connection

Filing

This Letter of Offer is filed with SEBI, Plot No. C4-A, "G" Block, Bandra Kurla Complex, Bandra (East), Mumbai 400 051. All the legal requirements applicable till the date of filing the Letter of Offer with the Stock Exchanges shall be complied with.

Listing

The existing Equity Shares are listed on the BSE, NSE and CSE. The Bank has made applications to the BSE, NSE and CSE for permission to deal in and for an official quotation in respect of the Equity Shares being offered in terms of this Letter of Offer. The Bank has received in-principle approvals from BSE, NSE and CSE by letters dated October 17, 2007, October 26, 2007 and November 02, 2007 respectively. The Bank will apply to the BSE, NSE and CSE for listing of the Equity Shares to be issued pursuant to this Issue.

If the permission to deal in and for an official quotation of the securities is not granted by the Stock Exchanges mentioned above, within 42 days from the Issue Closing Date, the Bank shall forthwith repay, without interest, all monies received from applicants in pursuance of this Letter of Offer. If such money is not paid within eight days after the Bank becomes liable to repay it, then the Bank and every Director of the Bank who is an officer in default shall, on and from expiry of eight days, be jointly and severally liable to repay the money with interest as prescribed under the Section 73 of the Act.

Impersonation

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

“Any person who:

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

Consents

Consents in writing of the Lead Manager, Registrar to the Issue, the Directors, the Compliance Officer, the Auditors and the Legal Advisors to act in their respective capacities have been obtained and filed with Stock Exchanges, along with a copy of the Letter of Offer and such consents have not been withdrawn up to the time of delivery of this Letter of Offer for registration with the stock exchanges.

The Auditors of the Bank have given their written consent for the inclusion of their Reports in the form and content as appearing in this Letter of Offer and such consents and reports have not been withdrawn up to the time of delivery of this Letter of Offer for registration to the Stock Exchanges.

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

Expert Opinion, if any

Save and except as stated in this Letter of Offer, we have not obtained any expert opinions.

Expenses of the Issue

The expenses of the Issue payable by the Bank including brokerage, fees and reimbursement to the Lead Manager, Registrar, printing and distribution expenses, publicity, listing fees, stamp duty and other expenses are estimated at Rs. 402 lakhs (about 2.02% of the total Issue size) and will be met out of the proceeds of the Issue.

Fees payable to the Lead Manager to the Issue

The fees payable to the Lead Manager to the Issue are set out in the Memorandum of Understanding entered into by the Bank with Enam, copies of which are available for inspection at the Registered Office of the Bank.

Fees payable to the Registrar to the Issue

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

Date of listing on the Stock Exchange

The Equity Shares of the Bank were first listed on the BSE, NSE and CSE on December 10, 1997, March 26, 2004 and June 05, 1996. Thereafter the equity shares of the Bank were delisted from the Madras Stock Exchange with effect from September 7, 2004

Promise vs. performance

The Bank made a Rights Offer in March 2002. No projections were made in the offer document relating to the rights offer. The main object of the issue was to augment the net worth for meeting the Capital to Risk weighted

Assets Ratio (CRAR) norms in future as may be prescribed by the RBI from time to time. The Bank has met the objects.

Capital Structure

Issues for consideration other than cash

Except as stated in the Capital Structure on page 7 of this Letter of Offer, the Bank has not issued Equity Shares for consideration other than cash or out of revaluation reserves within the two years preceding the date of this Letter of Offer.

Underwriting

This Issue is not underwritten and the Bank has not entered into any underwriting arrangements.

Option to Subscribe

Other than the present rights Issue, the Bank has not given any person any option to subscribe to the shares of the Bank.

Stock market data for Equity Shares of the Bank

Please refer to page 174 of the Letter of Offer for further information pertaining to stock market data for the Equity Shares of the Bank.

Government Approvals

Our Bank was incorporated on November 14, 1927 under the Indian Companies Act, 1913. We have obtained all necessary approvals to undertake our activities and we do not propose to enter into any new activities through this Issue, for which further approvals may be required to be obtained, except as may be required to be obtained in the normal course of our business and for intended use of Objects of the Issue. For further details, please refer to the section on "Licenses and Approvals" on page 179 of this Letter of Offer.

Important

- This Issue is pursuant to the resolution passed by the Board of Directors at its meeting held on April 16, 2007.
- This Issue is applicable to those Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the shares held in the electronic form and on the Register of Members of the Bank at the close of business hours on the Record Date i.e. January 30, 2008.
- Your attention is drawn to the section titled 'Risk Factors' appearing on Page vi of this Letter of Offer.
- Please ensure that you have received the Composite Application Form ("CAF") with this Letter of Offer.
- Please read the Letter of Offer and the instructions contained herein and in the CAF carefully before filling in the CAF. The instructions contained in the CAF are an integral part of this Letter of Offer and must be carefully followed. An application is liable to be rejected for any non-compliance of the provisions contained in the Letter of Offer or the CAF.
- All enquiries in connection with this Letter of Offer or CAF should be addressed to the Registrar to the Issue, quoting the Registered Folio number/ DP and Client ID number and the CAF numbers as mentioned in the CAF.
- All information shall be made available to the Investors by the Lead Manager and the Issuer, and no selective or additional information would be available by them for any section of the Investors in any manner whatsoever including at road shows, presentations, in research or sales reports, etc.

- The Lead Manager and the Bank shall update this Letter of Offer and keep the public informed of any material changes till the listing and trading commences.

Issue Schedule

Issue Opening Date:	February 19, 2008
Last date for receiving requests for split forms:	March 04, 2008
Issue Closing Date:	March 19, 2008

Allotment Letters / Refund Orders

The Bank will issue and dispatch letters of allotment/ share certificates/ demat credit and/ or letters of regret along with refund order or credit the allotted securities to the respective beneficiary accounts, if any, within a period of 30 days from the Issue Closing Date. Such refund orders, in the form of MICR warrants/cheque/pay order, marked "A/c payee only" would be drawn in the name of a sole/first applicant and will be payable at par at all the centers where the applications were originally accepted, risk, except for those who have opted to receive refunds through the ECS facility or RTGS or Direct Credit. If such money is not repaid within eight days from the day the Bank becomes liable to pay it, the Bank shall pay that money with interest at the rate of 15% p.a. as stipulated under Section 73 of the Act. Letter(s) of Allotment/Refund Order(s) above the value of will be dispatched by Registered Post to the sole/first applicant's address. However, Refund Orders for values not exceeding Rs.1,500 shall be sent to the applicants under Certificate of Posting at the applicant's sole risk at his address. The Bank would make adequate funds available to the Registrar to the Issue for this purpose. Adequate funds would be made available to the Registrar to the Issue for dispatch of the letters of allotment/ share certificates/ demat credit/ refund orders.

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

Investor grievances and redressal system

The Bank has adequate arrangements for redressal of Investor complaints. Well-arranged correspondence system developed for letters of routine nature. The share transfer and dematerialization for the Bank is being handled by Karvy Computershare Private Limited, Registrar to the Bank. Letters are filed category wise after having attended to. Redressal norm for response time for all correspondence including shareholders complaints is ten days. However, the Bank endeavours to redress all the complaints within five days of the receipt of complaint.

A Shareholders/Investors Grievances Committee was constituted on April 17, 1998. The Committee presently consists of directors Mr. A.D. Navaneethan, Mr. P.S. Prasad and Mr. V.K. Sharma. Mr. V.K. Sharma is the Chairman of the Committee. Ravindran K. Warriar, Company Secretary is the compliance officer of the Bank. All investor grievances received by the Bank have been handled by the Registrar to the Bank in consultation with the Company Secretary.

Status of Complaints

Total number of complaints received during the Financial Year 2006-07: 129

Status of the complaints pending as at the end of the Financial Year 2006-07: Nil

No. of Complaints received and attended during April 1, 2007 to December 31, 2007: 106

No. of shareholders complaints pending redressal as of December 31, 2007: Nil

Time normally taken for disposal of various types of investor grievances: by the Registrar and Transfer Agent: 30 days

Investor grievances arising out of this Issue

The Bank's investor grievances arising out of the Issue will be handled by Ravindran K. Warriar, Company Secretary & Compliance Officer and Karvy Computershare Private Limited, Registrar to the Issue. The Registrar will have a separate team of personnel handling only our post Issue correspondence. Investor grievances are settled expeditiously and satisfactorily by us. The agreement between us and the Registrar will provide for retention of records with the Registrar for a period of at least one year from the last date of dispatch of Letter of Allotment/ share certificate / warrant/ refund order to enable the Registrar to redress grievances of Investors.

All grievances relating to the Issue may be addressed to the Registrar to the Issue giving full details such as folio no., name and address of the first applicant, number and type of shares applied for, Application Form serial number, amount paid on application and the name of the bank and the branch where the application was deposited, along with a photocopy of the acknowledgement slip. In case of renunciation, the same details of the renouncee should be furnished.

The average time taken by the Registrar for attending to routine grievances will be 30 days from the date of receipt. In case of non-routine grievances where verification at other agencies is involved, it would be the endeavour of the Registrar to attend to them as expeditiously as possible. We undertake to resolve the Investor grievances in a time bound manner.

Investors may contact the Company Secretary and Compliance Officer in case of any pre-Issue/ post -Issue related problems such as non-receipt of letters of allotment/share certificates/demat credit/refund orders etc.

Changes in Auditors during the last three years

The Auditors Report in the Draft Letter of Offer filed with SEBI as on September 27, 2007, depicted financial statements for the five fiscal years ended on March 31, 2007 and was certified by joint-statutory auditors namely M/s. R Subramanian & Co. And M/s. P B Vijayaraghavan & Co. The Letter of Offer has been updated with the financials of the six months period ended September 30, 2007 and the revised auditor's report dated December 15, 2007 has been certified by M/s. P B Vijayaraghavan & Co.

Following are the changes in our Statutory Auditors in the last three years:

Name	Year of appointment / cessation	Reason
M/s. R G N Price & Co.	2004-05	Term Over
M/s. Ford Rhodes & Parks & Co.	2005-06	Term Over
M/s. P B Vijayaraghavan & Co.	2005-06	Appointment
M/s. R Subramanian & Co.	2005-06	Appointment
M/s. R Subramanian & Co.	2006-07	Term Over

Capitalisation of reserves or profits

The Bank has not capitalized any of its reserves or profits for the last five years.

Minimum Subscription

If the Bank does not receive minimum subscription of 90% of the issued amount on the date of closure of the Issue or the subscription level falls below 90% after the closure of the Issue on account of cheques having being returned unpaid or withdrawal of applications, the Bank shall forthwith refund the entire subscription amount received. If there is a delay in the refund of subscription by more than eight days after the Bank becomes liable to repay the subscription amount, i.e. forty-two days after closure of the Issue, the Bank will pay interest for the delayed period, at the rates prescribed in sub-sections (2) and (2A) of Section 73 of the Companies Act.

TERMS OF THE ISSUE

The Equity Shares, now being offered, are subject to the terms and conditions contained in this Letter of Offer, the enclosed Composite Application Form (“CAF”), the Memorandum and Articles of Association of the Bank, approvals from the RBI, the provisions of the Companies Act, 1956, guidelines issued by SEBI, guidelines, notifications and regulations for issue of capital and for listing of securities issued by Government of India and/or other statutory authorities and bodies from time to time, terms and conditions as stipulated in the allotment advice or letter of allotment or security certificate and rules as may be applicable and introduced from time to time.

Authority for the Issue

This Issue is being made pursuant to the resolution passed by the Board of Directors of the Bank under Section 81(1) of Companies Act at its meetings held on April 16, 2007 and January 14, 2008 and our capital augmentation committee meeting held on September 24, 2007.

Basis for the Issue

The Equity Shares are being offered for subscription for cash to those existing Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the shares held in the electronic form and on the Register of Members of the Bank in respect of shares held in the physical form at the close of business hours on the Record Date, i.e. January 30, 2008 fixed in consultation with the Designated Stock Exchange.

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

Nomination facility

In terms of Section 109A of the Companies Act, 1956, nomination facility is available in case of Equity Shares. A sole Equity Shareholder or first Equity Shareholder, along with other joint Equity Shareholders being individual(s) may nominate any person(s) who, in the event of the death of the sole holder or all the joint-holders, as the case may be, shall become entitled to the Equity Shares. A person, being a nominee, becoming entitled to the Equity Shares by reason of the death of the original Equity Shareholder(s), shall be entitled to the same advantages to which he would be entitled if he were the registered holder of the Equity Shares. Where the nominee is a minor, the Equity Shareholder(s) may also make a nomination to appoint, in the prescribed manner, any person to become entitled to the Equity Share(s), in the event of death of the said holder, during the minority of the nominee. A nomination shall stand rescinded upon the sale of the Equity Share by the person nominating. A transferee will be entitled to make a fresh nomination in the manner prescribed. When the Equity Share is held by two or more persons, the nominee shall become entitled to receive the amount only on the demise of all the holders. Fresh nominations can be made only in the prescribed form available on request at the registered office of the Bank or such other person at such addresses as may be notified by the Bank. The applicant can make the nomination by filling in the relevant portion of the CAF.

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

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

Joint-Holders

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

Offer to Non-Resident Equity Shareholders/Applicants

Applications received from NRIs and non-residents for allotment of Equity Shares shall be inter alia, subject to the conditions imposed from time to time by the RBI under the Foreign Exchange Management Act, 2000 (FEMA) in the matter of refund of application moneys, allotment of Equity Shares, issue of letter of allotment/share certificates, payment of interest, dividends, etc. General permission has been granted to any person resident outside India to purchase shares offered on rights basis by an Indian Company in terms of FEMA and regulation 6 of notification No. FEMA 20/200-RB dated May 03, 2000. The Board of Directors may at its absolute discretion, agree to such terms and conditions as may be stipulated by RBI while approving the allotment of Equity Shares, payment of dividend etc. to the non-resident shareholders. The rights shares purchased by non-residents shall be subject to the same conditions including restrictions in regard to the repatriability as are applicable to the original shares against which rights shares are issued.

By virtue of Circular No. 14 dated September 16, 2003 issued by the RBI, overseas corporate bodies (“OCBs”) have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies (OCBs)) Regulations, 2003. The circular stipulates that an OCB shall not be eligible to purchase equity or preference shares or convertible debentures offered on right basis by an Indian company, and no Indian company shall offer equity or preference shares or convertible debentures on right basis to an OCB. Accordingly, OCBs shall not be eligible to subscribe to the Equity Shares. The RBI has however clarified in its circular, A.P. (DIR Series) Circular No. 44, dated December 8, 2003 that OCBs which are incorporated and are not under the adverse notice of the RBI are permitted to undertake fresh investments as incorporated non-resident entities in terms of Regulation 5(1) of RBI Notification No.20/2000-RB dated May 3, 2000 under FDI Scheme with the prior approval of Government if the investment is through Government Route and with the prior approval of RBI if the investment is through Automatic Route on case by case basis. Thus, OCBs desiring to participate in this Issue must obtain prior approval from the RBI. On providing such approval to the Bank at its registered office, the OCB shall receive the Letter of Offer and the CAF.

Applications received from the non-resident Equity Shareholders for the allotment of Equity Shares shall, among other things, be subject to conditions as may be imposed, from time to time, by the RBI, in the matter of refund of application moneys, allotment of Equity Shares, issue of letters of allotment/ certificates/ payment of dividends etc.

In case of change of status of holders i.e. from resident to non-resident, a new demat account shall be opened for the purpose. DETAILS OF SEPARATE COLLECTING CENTRES FOR NON-RESIDENT APPLICATIONS SHALL BE PRINTED ON THE CAF.

The Letter of Offer and CAF shall only be dispatched to non-resident Equity Shareholders with registered addresses in India.

No Offer in the United States

The rights and the shares of the Bank have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or any U.S. state securities laws and may not be offered, sold, resold or otherwise transferred within the United States or to, or for the account or benefit of, “U.S. Persons” (as defined in Regulation S under the Securities Act), except in a transaction exempt from the registration requirements of the Securities Act. The rights referred to in this Letter of Offer are being offered in India but not in the United States of America. The offering to which this Letter of Offer relates is not, and under no circumstances is to be construed as, an offering of any shares or rights for sale in the United States of America, or the territories or possessions thereof, or as a solicitation therein of an offer to buy any of the said shares or rights. Accordingly, this Letter of Offer should not be forwarded to or transmitted in or into the United States of America at any time except in a transaction exempt from the registration requirements of the Securities Act. Neither the Bank nor any person acting on behalf of the Bank will accept subscriptions from any person, or the agent of any person, who appears to be, or who the Bank or any person acting on behalf of the Bank has reason

to believe is, a resident of the United States of America and to whom an offer, if made, would result in requiring registration of this Letter of Offer with the United States Securities and Exchange Commission. The Bank is informed that there is no objection to a United States shareholder selling its rights in India. Rights may not be transferred or sold to any U.S. Person (as defined in Regulation S under the Securities Act).

Principal Terms and Conditions of the Issue

The Equity Shares, now being issued are subject to the provisions of the Act, terms and conditions contained in this Letter of Offer, the enclosed Composite Application Form (“CAF”), the Memorandum and Articles of Association of the Bank, guidelines issued by SEBI, Foreign Exchange Management Act 1999 (“FEMA”), guidelines, notifications and regulations for issue of capital and for listing of securities issued by RBI or by Government of India and/or other statutory authorities and bodies from time to time, terms and conditions as stipulated in the allotment advice or letter of allotment or security certificate and rules as may be applicable and introduced from time to time.

Equity Shares

Face value

Each Equity Share shall have the face value of Rs. 10/- each.

Issue Price

Each Equity Share is being offered at a price of Rs. 62/- (including a premium of Rs. 52/-)

Rights Entitlement Ratio

The Equity Shares are being offered on rights basis to the existing Equity Shareholders of the Bank in the ratio of One Equity shares Shares of Rs. 10/- each for every One Equity Shares of Rs. 10/- each held as on the Record Date.

Market lot

The securities Equity Shares of the Bank are tradable only in a dematerialised form. The market lot for the Equity Shares in dematerialised mode is one. In case of physical certificates, the Bank would issue one certificate for the Equity Shares allotted to one folio. (“Consolidated Certificate”). In respect of the Consolidated Certificate, the Bank will, upon receipt of a request from the equity shareholder, split such Consolidated Certificate into smaller denomination within one week’s time from the request of the equity shareholder. The Bank shall not charge any fee for the splitting of the Consolidated Certificate.

Minimum Subscription

- i. If the Bank does not receive the minimum subscription of 90% of the Issue of Rights Shares (excluding the amounts on the rights entitlement on the Equity Shares held in abeyance) the entire subscription shall be refunded to the applicants within forty-two days from the date of closure of the Issue.
- ii. If there is a delay in the refund of subscription by more than eight days after the Bank becomes liable to repay the subscription amount, i.e. forty-two days after closure of the Issue, the Bank will pay interest for the delayed period, at the rates prescribed in sub-sections (2) and (2A) of Section 73 of the Companies Act.

RELEVANT RBI PROVISIONS

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

- 1) In terms of RBI Circular DBOD.No.PSBS.BC.79/16.13.100 /2001-2002 dated March 20, 2002, listed as well as unlisted private sector banks are not required to obtain approval of RBI for Rights Issue.
- 2) While reviewing the following issues have emerged with reference to percentage of holding at the time of rights issue:-
 - a) When some shareholders (individuals/ entities / groups) pick up unsubscribed shares which would result in his / its holding going up as a percentage of total paid up capital of the bank.

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

The above matter has been examined from the point of view of applicability of RBI Circular DBOD. NO.PSBS. BC. 64/ 16.13.100/ 2003-04 dated February 3, 2004 on acknowledgement of transfer/ allotment of shares in private sector banks and DBOD. NO. BP.BC.71/ 21.01.01/ 2004-05 dated February 28, 2005 on ownership and governance and also the regulatory limits such as the cap for the aggregate FDI/FII/NRI holdings and the 5% limit for a bank's investment in equity of another bank.

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

- i. Subscription to rights other than own entitlement will not be permitted if such subscription would result in breach of any statutory / regulatory ceilings
- ii. any acquisition of shares that will take the shareholding of any entity/ group of entities to 5% or more of the paid up capital of the bank would require acknowledgement of RBI in terms of the criteria laid down in the RBI guidelines contained in the Circular DBOD. NO.PSBS. BC. 64/ 16.13.100/ 2003-04 dated February 3, 2004. Further, in terms of the guidelines on ownership and governance issued on February 28, 2005 any acquisition that will take the shareholding of any entity/ group, directly or indirectly, to 10% or more of the paid-up capital of the bank will require the prior approval of RBI
- iii. If the holding of any shareholder breaches any statutory / regulatory ceilings as a result of non-subscription of rights by other shareholders, the shareholder concerned will not be able to acquire any further shares till his/ its shareholding is brought within the stipulated ceilings.

In case the permission to deal in and for an official quotation of the Equity Shares is not granted by the Stock Exchanges, our Bank shall forthwith repay without interest, all monies received from the applicants in pursuance of this Letter of Offer and if such money is not repaid within eight days after the day from which our Bank is liable to repay it, i.e. forty-two days after closure of the Issue, we shall pay interest as prescribed under Section 73 (2) / 73 (2A) of the Companies Act 1956.

The above is subject to the terms mentioned under the section titled "Basis of Allotment" on page 209 of this Letter of Offer.

Fractional entitlements

There will be no fractional entitlement, as shares in the Rights Issue are being offered in a 1:1 Ratio

Arrangements for Disposal of Odd Lots

The Bank's shares will be traded in dematerialized form only and therefore the marketable lot is 1 (ONE) share. Therefore, there is no possibility of any odd lots.

Restriction on Transfer of Equity Shares

As per RBI Circular No. DBOD. PSBS.BC.64/16.13.100/2003-04 dated February 3, 2004 any acquisition of shares by a person or group which would take his or its holding to a level of 5 percent or more of the total paid up capital of the Bank (or such percentage as may be prescribed by the RBI from time to time) should be with the prior approval of RBI.

Terms of payment

Payment should be made in cash (not more than Rs. 20,000) or by cheque/demand draft/drawn on any bank (including a co-operative bank), which is situated at and is a member or sub-member of the banker's clearing house located at the center where CAF is accepted. A separate cheque/draft must accompany each CAF. Outstation cheques/drafts will not be accepted and application(s) accompanied by such cheques/drafts will be rejected.

When an applicant has applied for additional shares and is allotted lesser number of shares than applied for, the excess application money shall be refunded. The monies would be refunded within 30 days from the closure of

the Issue, and if there is a delay beyond 8 days from the stipulated period, the Bank will pay interest on the monies in terms of sub section (2) and (2A) of section 73 of the Companies Act, 1956.

Ranking of the Equity Shares

The Equity Shares shall be subject to the Memorandum and Articles of Association of the Bank. The Equity Shares allotted in this Issue shall rank pari passu in all respects including dividends with the existing Equity Shares of the Bank.

Rights of Equity Shareholders

Subject to applicable laws, Equity Shareholders shall have the following rights:

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting power, unless prohibited by law;
- Right to vote on poll, either in person or proxy;
- Right to receive offer for right shares and be allotted bonus shares if announced;
- Right to receive surplus on liquidation;
- Right of free transferability of share; and
- Such other rights as may be available to a shareholder of a listed public company under the Companies Act, 1956.

For more details please refer to section titled “Main Provisions of Our Articles of Association” beginning on page 218 of this Letter of Offer.

Mode of Payment of Dividend

We shall pay dividend to our shareholders as per the provisions of the Companies Act, 1956.

Option available to the Equity Shareholders

The Composite Application Form clearly indicates the number of Equity Shares that the Equity Shareholder is entitled to.

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

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

As per the notification issued by RBI under FEMA, existing non-resident shareholders may apply for issue of additional equity shares over and above the rights entitlements and the Bank may allot the same subject to condition that overall issue of shares to non-resident in the total paid up capital of the Bank does not exceed the sectoral cap. The Board of Directors shall agree to such terms and conditions as may be stipulated by RBI while approving the allotment of Equity Shares, subject to the same conditions including restrictions in regard to the reparability as are applicable to the original shares against which Rights shares are issued. Where the number of Equity Shares applied for exceeds the number available for allotment, the allotment of shares would be made in consultation with the Designated Stock Exchange.

Renounees for Equity Shares can apply for the Equity Shares renounced to them and also apply for additional Equity Shares.

Utilisation of Issue Proceeds

The Board of Directors declares that:

- (i) All monies received out of issue of shares to public shall be transferred to separate bank account other than the bank account referred to in sub-section (3) of section 73 of the Companies Act, 1956;
- (ii) Details of all monies utilised out of the Issue referred to in sub-item(i) shall be disclosed under an appropriate separate head in the balance sheet of the Bank indicating the purpose for which such monies had been utilised; and
- (iii) Details of all such unutilised monies out of the Issue of shares, if any, referred to in sub-item (i) shall be disclosed under an appropriate separate head in the balance sheet of the Bank indicating the form in which such unutilised funds have been invested.

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

Undertakings by the Bank

The Bank undertakes:

1. that the complaints received in respect of the Issue shall be attended to by the Bank expeditiously and satisfactorily.
2. that all steps for completion of the necessary formalities for listing and commencement of trading at all Stock Exchanges where the securities are to be listed will be taken within seven working days of finalization of basis of allotment.
3. that the funds required for making dispatch of refunds to unsuccessful applicants as per the mode(s) disclosed shall be made available to the Registrar to the issue by the Bank orders/ allotment letters/ certificates by registered post shall be made available to the Registrar to the Issue.
4. that where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicant within 30 days or 15 days of closure of the issue, as the case may be, giving details of the bank where refunds shall be credited along with amount and expected date of electronic credit of refund.
5. that the certificates of the securities/ refund orders to the non-resident Indians shall be dispatched within the specified time.
6. that no further issue of securities affecting equity capital of the Bank shall be made till the securities issued/offered through the Letter of Offer Issue are listed or till the application money are refunded on account of non-listing, under-subscription etc.

The Bank accepts full responsibility for the accuracy of information given in this Letter of Offer and confirms that to best of its knowledge and belief, there are no other facts the omission of which makes any statement made in this Letter of Offer misleading and further confirms that it has made all reasonable enquiries to ascertain such facts.

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

Notices

All notices to the Equity Shareholder(s) required to be given by the Bank shall be published in one English national daily with wide circulation, one Hindi national daily with wide circulation and one regional language daily newspaper in Thrissur with wide circulation and/or, will be sent by ordinary post/ to the registered holders of the Equity Share(s) from time to time.

How to Apply

Resident Equity Shareholders

Applications should be made only on the enclosed CAF provided by the Bank. The enclosed CAF should be completed in all respects, as explained in the instructions indicated in the CAF. Applications will not be accepted by the Lead Manager or by the Registrar to the Issue or by the Bank at any offices except in the case of postal applications as per instructions given in this Letter of Offer.

Non-resident Equity Shareholders

Applications received from the Non-Resident Equity Shareholders for the allotment of Equity Shares shall, inter alia, be subject to the conditions as may be imposed from time to time by the RBI, in the matter of refund of application moneys, allotment of Equity Shares, issue of letters of allotment/ certificates/ payment of dividends etc.

The CAF consists of four parts:

- Part A: Form for accepting the Equity Shares offered and for applying for additional Equity Shares
- Part B: Form for renunciation
- Part C: Form for application for renounees
- Part D: Form for request for split application forms

Non-resident Equity Shareholders will be required to represent, inter alia, that they are not excluded U.S. Persons as such term is defined in Regulation S under the U.S. Securities Act of 1933, as amended.

Acceptance of the Issue

You may accept the Issue and apply for the Equity Shares offered, either in full or in part by filling Block III of Part A of the enclosed CAF and submit the same along with the application money payable to the Bank or any of the branches as mentioned on the reverse of the CAF before the close of the banking hours on or before the Issue Closing Date or such extended time as may be specified by the Board thereof in this regard. Applicants at centers not covered by the branches of collecting banks can send their CAF together with the cheque drawn on a local bank at Hyderabad /demand draft payable at Hyderabad to the Registrar to the Issue by registered post. Such applications sent to anyone other than the Registrar to the Issue are liable to be rejected.

Renunciation

As an Equity Shareholder, you have the right to renounce your entitlement for the Equity Shares in full or in part in favour of one or more person(s). Your attention is drawn to the fact that the Bank shall not allot and/or register any Equity Shares in favour of:

- More than three persons including joint holders
- Partnership firm(s) or their nominee(s)
- Minors
- Hindu Undivided Family
- Any Trust or Society (unless the same is registered under the Societies Registration Act, 1860 or any other applicable Trust laws and is authorized under its Constitutions to hold Equity Shares of a Company)

Any renunciation from Resident Indian Shareholder(s) to Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to another Non-Resident Indian or from Non-Resident Indian Shareholder(s) to Resident Indian(s) is subject to the renounce(s)/renounce(s) obtaining the approval of the FIPB and/or necessary permissions of the RBI under the Foreign Exchange Management Act, 1999 (FEMA) and other applicable laws and such permissions to be attached with the CAF. Applications not accompanied by the aforesaid approvals are liable to be rejected.

The right of renunciation is subject to the express condition that the Board/duly authorized committee of Board shall be entitled in its absolute discretion to reject the request for allotment to renouncee(s) without assigning any reason thereof.

Procedure for renunciation

To renounce the whole offer in favour of one renouncee

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

To renounce in part/or renounce the whole to more than one person(s)

If you wish to either accept this offer in part and renounce the balance or renounce the entire offer in favour of two or more renouncees, the CAF must be first split into requisite number of forms.

Please indicate your requirement of split forms in the space provided for this purpose in Part D of the CAF and return the entire CAF to the Registrar to the Issue so as to reach them latest by the close of business hours on the last date of receiving requests for split forms. On receipt of the required number of split forms from the Registrar, the procedure as mentioned in paragraph above shall have to be followed.

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

Renouncee(s)

The person(s) in whose favour the Equity Shares are renounced should fill in and sign Part C of the Application Form and submit the entire Application Form to the Bankers to the Issue on or before the Issue Closing Date along with the application money.

Change and/ or introduction of additional holders

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

However, this right of renunciation is subject to the express condition that the Board of Directors of the Bank shall be entitled in its absolute discretion to reject the request for allotment from the renouncee(s) without assigning any reason thereof.

SPLITTING OF APPLICATION FORMS

Request for split forms should be received by the Registrar to the Issue, Karvy Computershare Private Limited, before the closure of business hours on or before March 04, 2008 by filling in part D of the CAF along with entire CAF. Split forms cannot be re-split. The renouncee(s) shall not be entitled to split form(s). The split form shall be sent to the applicant by post at the applicant's risk.

Please note that:

- Part A of the CAF must not be used by any person(s) other than those in whose favour this Offer has been made. If used, this will render the application invalid.
- Request for split form should be made for a minimum of 100 Equity Shares or in multiples thereof and one Split Application Form for the balance Equity Shares, if any.
- Only the person to whom this Letter of Offer has been addressed to and not the renouncee(s) shall be entitled to renounce and to apply for Split Application Forms. Forms once split cannot be split again.

- Split form(s) will be sent to the applicant(s) by post at the applicant's risk.

Additional Equity Shares

You are eligible to apply for additional Equity Shares over and above the number of Equity Shares you are entitled to, provided that you have applied for all the Equity Shares offered without renouncing them in whole or in part in favour of any other person(s). If you desire to apply for additional Equity Shares, please indicate your requirement in Block IV of Part 'A' of the CAF. As per the notification issued by RBI under FEMA, existing non-resident shareholders may apply for issue of additional equity shares over and above the rights entitlements and the Bank may allot the same subject to condition that overall issue of shares to non -resident in the total paid up capital of the Bank does not exceed the sectoral cap. The Board of Directors may at its absolute discretion, agree to such terms and conditions as may be stipulated by RBI while approving the allotment of Equity Shares, subject to the same conditions including restrictions in regard to the repatriability as are applicable to the original shares against which Rights shares are issued. Where the number of Equity Shares applied for exceeds the number available for allotment, the allotment of shares would be made in consultation with the Designated Stock Exchange.

Applications for additional Equity Shares shall be considered and allotment shall be in the manner prescribed under the section titled "Basis of Allotment" on page 209 of this Letter of Offer. The renounees applying for all the Equity Shares renounced in their favour may also apply for additional Equity Shares.

The summary of options available to the equity shareholder is presented below. You may exercise any of the following options with regard to the Equity Shares offered, using the enclosed CAF:

PART	Option Available	Action Required
A	Accept whole or part of your entitlement without renouncing the balance.	Fill in and sign Part A (<i>All joint holders must sign</i>)
B	Accept your entitlement in full and apply for additional Equity Shares	Fill in and sign Part A including Block III relating to the acceptance of entitlement and Block IV relating to additional Equity Shares (<i>All joint holders must sign</i>)
C	Renounce your entitlement in full to one person (Joint renounees are considered as one)	Fill in and sign Part B (<i>all joint holders must sign</i>) indicating the number of Equity Shares renounced and hand it over to the renounee. The renounees must fill in and sign Part C (<i>All joint renounees must sign</i>)
D	Accept a part of your entitlement and renounce the balance to one or more renounee(s) OR Renounce your entitlement to all the Equity Shares offered to you to more than one renounee	Fill in and sign Part D (<i>all joint holders must sign</i>) requesting for Split Application Forms. Send the CAF to the Registrar to the Issue so as to reach them on or before the last date for receiving requests for Split Forms. Splitting will be permitted only once. On receipt of the Split Form take action as indicated below. For the Equity Shares you wish to accept, if any, fill in and sign Part A. For the Equity Shares you wish to renounce, fill in and sign Part B indicating the number of Equity Shares renounced and hand it over to the renounees. Each of the renounees should fill in and sign Part C for the Equity Shares accepted by them.

PART	Option Available	Action Required
E	Introduce a joint holder or change the sequence of joint holders	This will be treated as a renunciation. Fill in and sign Part B and the renounees must fill in and sign Part C.

Availability of duplicate CAF

In case the original CAF is not received, or is misplaced by the applicant, the Registrar to the Issue will issue a duplicate CAF on the request of the applicant who should furnish the registered folio number/ DP and Client ID number and his/ her full name and address to the Registrar to the Issue. Please note that those who are making the application in the duplicate form should not utilize the original CAF for any purpose including renunciation, even if it is received/ found subsequently. If the applicant violates any of these requirements, he / she shall face the risk of rejection of both the applications.

Application on plain paper

An Equity Shareholder who has neither received the original CAF nor is in a position to obtain the duplicate CAF may make an application to subscribe to the Issue on plain paper, along with an Account payee cheque drawn on a local bank at Hyderabad / Demand Draft payable at Hyderabad which should be drawn in favour of the Bank and send the same by registered post directly to the Registrar to the Issue.

A non-resident Equity Shareholder, who is not an excluded U.S. Person as defined in Regulation S under the U.S. Securities Act of 1933, as amended, (a "U.S. Person"), applying on a repatriation basis who has neither received the original CAF nor is in a position to obtain the duplicate CAF may make an application to subscribe to the Issue on plain paper, along with an Account payee cheque drawn on a local bank at Hyderabad or Demand Draft payable at Hyderabad in favour of the Bank, crossed 'A/c payee only' and marked "The Dhanalakshmi Bank Limited - Rights Issue A/c - NR" and send the same by registered post directly to the Registrar to the Issue.

The application on plain paper, duly signed by the applicants including joint holders, in the same order as per specimen recorded with the Bank, must reach the office of the Registrar to the Issue before the Issue Closing Date and should contain the following particulars:

- Name of Issuer, being The Dhanalakshmi Bank Limited;
- Name and address of the Equity Shareholder including joint holders;
- Registered Folio Number/ DP and Client ID no.;
- Certificate numbers and distinctive numbers, if held in physical form;
- Number of shares held as on Record Date;
- Number of Rights Equity Shares entitled;
- Number of Rights Equity Shares applied for;
- Number of additional Equity Shares applied for, if any;
- Total number of Equity Shares applied for;
- Total amount paid at the rate of Rs. 62/- per Equity Share;
- Particulars of cheque/draft;
- Savings/Current Account Number and name and address of the bank where the Equity Shareholder will be depositing the refund order. In case of Equity Shares allotted in the demat mode, the bank account details shall be obtained from the information available with the depositories.
- PAN for the applicant and for each applicant in case of joint names, and
- Include the representation in writing that "I/We understand that the Rights entitlements and the Equity Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or any United States state securities laws and may not be offered, sold, resold or otherwise transferred 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 (a "U.S. Person")), except in a transaction exempt from the registration requirements of the U.S. Securities Act, and I/we confirm that I/we am/are not a U.S. Person and am/are not applying for these Equity Shares for the account or benefit of a U.S. Person. There are no restrictions under the laws of my/our local jurisdiction that prevent or prohibit me/us from applying for the Equity Shares.";

- In case of Non-resident shareholders, NRE/FCNR/NRO account no., Name and address of the Bank and branch;and
- Signature of Equity Shareholders to appear in the same sequence and order as they appear in the records of the Bank

Payments in such cases should be through a cheque/ demand draft payable at Hyderabad be drawn in favour of the Bank crossed 'A/c payee only' and marked "The **Dhanalakshmi Bank Limited Rights Issue A/c**". Payment in case of non-resident shareholders holding on repatriable basis shall be drawn in favour of the "**The Dhanalakshmi Bank Limited Rights Issue A/c - NR**"and the crossed "**A/c payee only**". The envelope should be superscribed "**The Dhanalakshmi Bank Limited - Rights Issue**"

Please note that those who are making the application otherwise than on original CAF shall not be entitled to renounce their rights and should not utilize the original CAF for any purpose including renunciation even if it is received subsequently. If the applicant violates any of these requirements, he/she shall face the risk of rejection of both the applications. The Company shall refund such application amount to the applicant without any interest thereon.

Last date of Application

The last date for submission of the duly filled in CAF is March 19, 2008. The Board or duly authorised committee of Directors thereof will have the right to extend the said date for such period as it may determine from time to time but not exceeding 60 (sixty) days from the Issue Opening Date.

If the CAF together with the amount payable is not received by the Banker to the Issue/ Registrar to the Issue on or before the close of banking hours on the aforesaid last date or such date as may be extended by the Board/ duly authorised committee of Directors, the offer contained in this Letter of Offer shall be deemed to have been declined and the Board/ duly authorised committee of Directors shall be at liberty to dispose off the Equity Shares hereby offered, as provided under the section titled "Basis of Allotment".

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

Basis of Allotment

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

- (a) Full allotment to the Equity Shareholders who have applied for their rights entitlement either in full or in part and also to the renounee(s) who has/ have applied for Equity Shares renounced in their favour, either in full or in part.
- (b) Allotment to the Equity Shareholders who having applied for all the Equity Shares offered to them as part of the Issue and have also applied for additional Equity Shares the allotment of such additional Equity Shares will be made as far as possible on an equitable basis having due regard to the number of Equity Shares held by them on the Record Date, provided there is an under-subscribed portion after making full allotment in (a) above. The allotment of such additional shares will be made with reference to the number of equity shares held by those shareholders on the Record Date within the overall size of the Rights Issue in consultation with the Designated Stock Exchange, as a part of the Rights Issue and not as a preferential allotment
- (c) Allotment to the renounees who having applied for the Equity Shares renounced in their favour have also applied for additional Equity Shares, provided there is an under-subscribed portion after making full allotment in (a) and (b) above. The allotment of such additional Equity Shares will be made on a proportionate basis at the sole discretion of the Board/ duly authorised Committee of Directors but in

consultation with the Designated Stock Exchange, as a part of the Issue and not as a preferential allotment.

After taking into account allotment to be made under (a), (b) and (c) above, if there is still any under subscription, the unsubscribed portion, shall be disposed off by the Board/Committee of Directors upon such terms and conditions and to such person/persons and in such manner as the Board/Committee of Directors may in its absolute discretion deem fit.

Acquisition of additional Equity Shares, if allotted shall be in terms of proviso to regulation 3(1)(b)(ii) of the Takeover Code and will be exempt from the applicability of Regulation 11 and 12 of Takeover Code. This disclosure is made in terms of the requirement of Regulation 3(1) (b) (ii) of the Takeover Code. Further this acquisition will not result in change of control of management of the Bank.

The Bank expects to complete the allotment of Equity Shares within a period of 30 days from the date of closure of the Issue in accordance with the listing agreement with the BSE. In case of delay in allotment the Bank shall, as stipulated under Section 73(2A) of the Act, be required to pay interest on the same at a rate of 15 per cent p.a.

Underwriting

The present Issue is not underwritten.

Allotment/Refund

All the pay orders/refund orders and Letter(s) of Allotment/Share Certificates will be dispatched to the first named/sole applicant at his/her own risk. The Refund Orders will be payable at par in India at all the centers where the applications were originally accepted. The instruments will be marked "A/c payee only" and in the name of the sole/first applicant. Bank charges, if any, for encashing such refund orders/pay orders will be payable by the applicants. The Bank undertakes that the requisite funds will be made available to the Registrar for complying with the requirement of dispatch of refund orders/allotment letters. The Bank shall ensure dispatch of refund orders of value over Rs.1,500 by Registered Post only and adequate funds will be made available to the Registrar.

For Equity Shares allotted in physical form, the share certificates will be kept ready within three months from the date of allotment or such extended time as may be approved by the Company Law Board under Section 113 of the Companies Act, 1956 or other applicable provisions, if any. Allottees are requested to preserve such Letter of Allotment, which would be exchanged later for the security certificates.

Mode of making refunds

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

1. ECS – Payment of refund would be done through ECS for applicants having an account at any of the following fifteen centres: Ahmedabad, Bangalore, Bhubaneshwar, Kolkata, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram. This mode of payment of refunds would be subject to availability of complete bank account details including the MICR code as appearing on a cheque leaf, from the Depositories. The payment of refunds is mandatory for applicants having a bank account at any of the abovementioned fifteen centres, except where the applicant, being eligible, opts to receive refund through NEFT, direct credit or RTGS.

2. NEFT (National Electronic Fund Transfer) – Payment of refund shall be undertaken through NEFT wherever the applicants' bank has been assigned the Indian Financial System Code (IFSC), which can be linked to a Magnetic Ink Character Recognition (MICR), if any, available to that particular bank branch. IFSC Code will be obtained from the website of RBI as on a date immediately prior to the date of payment of refund, duly mapped with MICR numbers. Wherever the applicants have registered their nine digit MICR number and their bank account number while opening and operating the demat account, the same will be duly mapped with the IFSC Code of that particular bank branch and the payment of refund will be made to the applicants through this method.

3. Direct Credit – Applicants having bank accounts with the Refund Banker(s) shall be eligible to receive refunds through direct credit. Charges, if any, levied by the Refund Bank(s) for the same would be borne by the Bank.

4. RTGS – Applicants having a bank account at any of the abovementioned fifteen centres and whose refund amount exceeds Rs. 10 lakhs, have the option to receive refund through RTGS. Such eligible applicants who indicate their preference to receive refund through RTGS are required to provide the IFSC code in the Bid-cum-application Form.

In the event the same is not provided, refund shall be made through ECS. Charges, if any, levied by the Refund Bank(s) for the same would be borne by the Bank. Charges, if any, levied by the applicant's bank receiving the credit would be borne by the applicant.

5. For all the other applicants, the refund orders would be dispatched "Under Certificate of Posting" for refund orders less than Rs. 1500 and through Speed Post/ Registered Post for refund orders exceeding Rs. 1500.

Interest in case of delay on Allotment/Dispatch

The Bank will issue and dispatch letters of allotment/ share certificates/ demat credit and/ or letters of regret along with refund order or credit the allotted securities to the respective beneficiary accounts, if any, within a period of 30 days from the Issue Closing Date. Such refund orders, in the form of MICR warrants/cheque/pay order, marked "A/c payee only" would be drawn in the name of a sole/first applicant and will be payable at par at all the centers where the applications were originally accepted, risk, except for those who have opted to receive refunds through the ECS, NEFT facility or RTGS or Direct Credit. If such money is not repaid within eight days from the day the Bank becomes liable to pay it, the Bank shall pay that money with interest at the rate of 15% p.a. as stipulated under Section 73 of the Act. Letter(s) of Allotment/Refund Order(s) above the value of will be dispatched by Registered Post to the sole/first applicant's address. However, Refund Orders for values not exceeding Rs.1,500 shall be sent to the applicants under Certificate of Posting at the applicant's sole risk at his address. The Bank would make adequate funds available to the Registrar to the Issue for this purpose.

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

In case the Bank issues letters of allotment, the corresponding share certificates will be kept ready within three months from the date of allotment thereof or such extended time as may be approved by the Company Law Board under Section 113 of the Companies Act or other applicable provisions, if any. Allottees are requested to preserve such letters of allotment, which would be exchanged later for the share certificates.

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

In case of non-residents, who remit their application monies from funds held in NRE/ FCNR accounts, refunds and/ or payment of interest/ dividend and other disbursement, if any, shall be credited to such accounts, details of which should be furnished in the CAF. Subject to the approval of the RBI, in case of non-residents, who remit their application monies through Indian Rupee draft purchased from abroad, refund and/ or payment of dividend/ interest and any other disbursement, shall be credited to such accounts (details of which should be furnished in the CAF) and will be made net of bank charges/ commission in US Dollars, at the rate of exchange prevailing at such time. The Bank will not be responsible for any loss on account of exchange fluctuations for converting the Indian Rupee amount into US Dollars. The share certificate(s) will be sent by registered post at the Indian address of the non-resident applicant.

Shareholder's Depository Account and Bank details

Shareholder's applying for shares in demat mode should note that on the basis of the name of the shareholder(s), Depository Participant's Name, Depository Participant's Identification Number and Beneficiary Account Number provided by them in the CAF, the Registrar to the Issue will obtain from the Depository the demographic details including the address, Shareholders bank account details, MICR code and occupation (hereinafter referred to as 'Demographic Details'). These bank account details would be used for giving refunds to the shareholder(s). Hence, the shareholder(s) are requested to immediately update their bank account details

as appearing in the records of the Depository Participant. Please note that failure to do so could result in delays in dispatch / credit of refunds to the shareholder(s) at the shareholder(s) sole risk and neither the Lead Manager or the Registrar or the Bankers to the issue nor the Bank shall have any responsibility and undertake any liability for the same.

These demographic details would be used for all correspondences with the shareholder(s) including mailing of allotment advice and printing of bank particulars on the refund order or for refunds through electronic transfer of funds, as applicable. By signing the Composite Application Form, the shareholder(s) would be deemed to have authorized the depositories to provide, upon request, to the Registrar to the Issue, the required Demographic Details as available in its records. In case of shareholder(s) receiving refunds through electronic transfer of funds, delivery of refund orders/allocation advice gets delayed if the same once sent to the address obtained from the depositories are returned undelivered.

Option to receive Equity Shares in Dematerialized Form

Applicants to the Equity Shares of the Bank issued through this Issue shall be allotted the securities in dematerialised (electronic) form at the option of the applicant. The Bank has signed tripartite agreements with National Securities Depository Limited (NSDL) and Karvy Computershare Private Limited on March 26, 2001 and with Central Depository Services (India) Limited and Karvy Computershare Private Limited on March 26, 2001 which enables the Investors to hold and trade in securities in a dematerialised form, instead of holding the securities in the form of physical certificates.

In this Issue, the allottees who have opted for Equity Shares in dematerialised form will receive their Equity Shares in the form of an electronic credit to their beneficiary account with a depository participant. Investor will have to give the relevant particulars for this purpose in the appropriate place in the CAF. Applications, which do not accurately contain this information, will be given the securities in physical form. No separate applications for securities in physical and/or dematerialized form should be made. If such applications are made, the application for physical securities will be treated as multiple applications and is liable to be rejected. In case of partial allotment, allotment will be done in demat option for the shares sought in demat and balance, if any, will be allotted in physical shares.

The Equity Shares of the Bank will be listed on the BSE, NSE and CSE.

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

- Open a beneficiary account with any depository participant (care should be taken that the beneficiary account should carry the name of the holder in the same manner as is exhibited in the records of the Bank. In the case of joint holding, the beneficiary account should be opened carrying the names of the holders in the same order as with the Bank). In case of Investors having various folios in the Bank with different joint holders, the Investors will have to open separate accounts for such holdings. *Those equity shareholders who have already opened such Beneficiary Account (s) need not adhere to this step.*
- For equity shareholders already holding Equity Shares of the Bank in dematerialized form as on the Record Date, the beneficial account number shall be printed on the CAF. For those who open accounts later or those who change their accounts and wish to receive their Equity Shares pursuant to this Offer by way of credit to such account, the necessary details of their beneficiary account should be filled in the space provided in the CAF. It may be noted that the allotment of securities arising out of this Issue may be made in dematerialized form even if the original Equity Shares of the Bank are not dematerialized. Nonetheless, it should be ensured that the Depository Account is in the name(s) of the Equity Shareholders and the names are in the same order as in the records of the Bank.

Responsibility for correctness of information (including applicant's age and other details) filled in the CAF vis-à-vis such information with the applicant's depository participant, would rest with the applicant. Applicants should ensure that the names of the applicants and the order in which they appear in CAF should be the same as registered with the applicant's depository participant.

If incomplete / incorrect beneficiary account details are given in the CAF, the applicant will get Equity Shares in physical form.

The Rights Shares pursuant to this Issue allotted to Investors opting for dematerialized form would be directly credited to the beneficiary account as given in the CAF after verification. Allotment advice, refund order (if any) would be sent directly to the applicant by the Registrar to the Issue but the applicant's depository participant will provide to him the confirmation of the credit of such Equity Shares to the applicant's depository account.

Renouncees will also have to provide the necessary details about their beneficiary account for allotment of securities in this Issue. In case these details are incomplete or incorrect, the application is liable to be rejected.

Payment by Stockinvest

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

Issue Period

Issue opens on	February 19, 2008
Last date for receiving split application forms	March 04, 2008
Issue closes on	March 19, 2008

General instructions for applicants

- a) Please read the instructions printed on the enclosed CAF carefully.
- b) Application should be made on the printed CAF, provided by the Bank and should be completed in all respects. The CAF found incomplete with regard to any of the particulars required to be given therein, and/ or which are not completed in conformity with the terms of this Letter of Offer are liable to be rejected and the money paid, if any, in respect thereof will be refunded without interest and after deduction of bank commission and other charges, if any. The CAF must be filled in English and the names of all the applicants, details of occupation, address, and father's / husband's name must be filled in block letters.
- c) The CAF together with cheque / demand draft should be sent to the Bankers to the Issue or to the Registrar to the Issue and not to the Bank or Lead Manager to the Issue. Applicants residing at places other than cities where the branches of the Bankers to the Issue have been authorised by the Bank for collecting applications, will have to make payment by Demand Draft (net of bank charges/ commission and postal charges) payable at Hyderabad and send their application forms to the Registrar to the Issue by REGISTERED POST. If any portion of the CAF is / are detached or separated, such application is liable to be rejected.
- d) Applicant or in the case of application in joint names, each of the applicant, should mention his/ her PAN number allotted under the Income-Tax Act, 1961. **CAFs without this PAN will be considered incomplete and are liable to be rejected.**
- e) Applicants are advised to provide information as to their savings/current account number and the name of the Bank with whom such account is held in the CAF to enable the Registrar to the Issue to print the said details in the refund orders, if any, after the names of the payees. Application not containing such details is liable to be rejected.
- f) The payment against the application should not be effected in cash if the amount to be paid is Rs. 20,000 or more. In case payment is effected in contravention of this, the application may be deemed invalid and the application money will be refunded and no interest will be paid thereon. Payment against the application if made in cash, subject to conditions as mentioned above, should be made only to the Bankers to the Issue.
- g) Signatures should be either in English or Hindi or in any other language specified in the Eight Schedule to the Constitution of India. Signatures other than in English or Hindi and thumb impression must be

attested by a Notary Public or a Special Executive Magistrate under his/ her official seal. The Equity Shareholders must sign the CAF as per the specimen signature recorded with the Bank.

- h) In case of an application under power of attorney or by a body corporate or by a society, a certified true copy of the relevant power of attorney or relevant resolution or authority to the signatory to make the relevant investment under this Offer and to sign the application and a copy of the Memorandum and Articles of Association and / or bye laws of such body corporate or society must be lodged with the Registrar to the Issue giving reference of the serial number of the CAF. In case these papers are sent to any other entity besides the Registrar to the Issue or are sent after the Issue Closing Date, then the application is liable to be rejected.
- i) In case of joint holders, all joint holders must sign the relevant part of the CAF in the same order and as per the specimen signature(s) recorded with the Bank. Further, in case of joint applicants who are renounees, the number of applicants should not exceed three. In case of joint applicants, reference, if any, will be made in the first applicant's name and all communication will be addressed to the first applicant.
- j) Application(s) received from Non-Resident/NRIs, or persons of Indian origin residing abroad for allotment of Equity Shares shall, inter alia, be subject to conditions, as may be imposed from time to time by the RBI under FEMA in the matter of refund of application money, allotment of Equity Shares, subsequent issue and allotment of Equity Shares, interest, export of share certificates, etc. In case a Non-Resident or NRI Equity Shareholder has specific approval from the RBI, in connection with his shareholding, he should enclose a copy of such approval with the CAF.
- k) All communication in connection with application for the Equity Shares, including any change in address of the Equity Shareholders should be addressed to the Registrar to the Issue prior to the date of allotment in this Issue quoting the name of the first / sole applicant Equity Shareholder, folio numbers and CAF number. Please note that any intimation for change of address of Equity Shareholders, after the date of allotment, should be sent to the Registrar and Transfer Agents of the Bank in the case of Equity Shares held in physical form and to the respective depository participant, in case of Equity Shares held in dematerialized form.
- l) Split forms cannot be re-split.
- m) Only the person or persons to whom Equity Shares have been offered and not renounee(s) shall be entitled to obtain split forms.
- n) Applicants must write their CAF number at the back of the cheque / demand draft.
- o) Only one mode of payment per application should be used. The payment must be either in cash or by cheque / demand draft drawn on any of the banks, including a co-operative bank, which is situated at and is a member or a sub member of the Bankers Clearing House located at the centre indicated on the reverse of the CAF where the application is to be submitted.
- p) A separate cheque / draft must accompany each CAF. Outstation cheques / demand drafts or post-dated cheques and postal / money orders will not be accepted and applications accompanied by such cheques / demand drafts / money orders or postal orders will be rejected. The Registrar will not accept payment against application if made in cash. (For payment against application in cash please refer point (f) above)
- q) No receipt will be issued for application money received. The Bankers to the Issue / Collecting Bank/ Registrar will acknowledge receipt of the same by stamping and returning the acknowledgment slip at the bottom of the CAF.

Grounds for technical rejections

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

- Amount paid does not tally with the amount payable for;

- Bank account details (for refund) are not given;
- Age of First Applicant not given;
- PAN not given;
- In case of Application under power of attorney or by limited companies, corporate, trust, etc., relevant documents are not submitted;
- If the signature of the existing shareholder does not match with the one given on the Application Form and for renounees if the signature does not match with the records available with their depositories;
- If the Applicant desires to have shares in electronic form, but the Application Form does not have the Applicant's depository account details;
- Application Forms are not submitted by the Applicants within the time prescribed as per the Application Form and the Letter of Offer;
- Applications not duly signed by the sole/joint Applicants;
- Applications by OCBs unless accompanied by specific approval from the RBI permitting the OCBs to invest in the Issue;
- In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Applicants (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity;
- Applications by US persons;
- Applications by ineligible Non-residents (including on account of restriction or prohibition under applicable local laws) and where last available address in India has not been provided.

Mode of payment for Resident Equity Shareholders/ Applicants

- All cheques / drafts accompanying the CAF should be drawn in favour of the Bank, crossed '**A/c payee only**' and marked '**The Dhanalakshmi Bank Limited Rights Issue A/c**'
- Applicants residing at places other than places where the bank collection centres have been opened by the Bank for collecting applications, are requested to send their applications together with Demand Draft (Net of Bank charges/ commission and postal charges) for the full application amount favouring the Bank, crossed '**A/c payee only**' and marked '**The Dhanalakshmi Bank Limited Rights Issue A/c**' payable at Hyderabad directly to the Registrar to the Issue by registered post so as to reach them on or before the Issue Closing Date. The Bank, Lead Manager or the Registrar to the Issue will not be responsible for postal delays or loss of applications in transit, if any.

Mode of payment for Non-Resident Equity Shareholders/ Applicants

As regards the application by non-resident equity shareholders, the following further conditions shall apply:

Payment by non-residents must be made by demand draft / cheque payable net of bank and postal charges at Hyderabad or funds remitted from abroad in any of the following ways:

Application with repatriation benefits

By Indian Rupee drafts purchased from abroad and payable at Hyderabad or funds remitted from abroad (submitted along with Foreign Inward Remittance Certificate); or

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

By Rupee draft purchased by debit to NRE/ FCNR Account maintained elsewhere in India and payable in Hyderabad; or FIIs registered with SEBI must remit funds from special non-resident rupee deposit account.

Application without repatriation benefits

As far as non-residents holding shares on non-repatriation basis is concerned, in addition to the modes specified above, payment may also be made by way of cheque drawn on Non-Resident (Ordinary) Account maintained in Hyderabad or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at Hyderabad. In such cases, the allotment of Equity Shares will be on non-repatriation basis.

All cheques/drafts submitted by non-residents should be drawn in favour of the Bank and marked '**The Dhanalakshmi Bank Limited Rights Issue A/c – NR**' payable at Hyderabad and must be crossed '**A/c payee only**' for the amount payable. The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on or before the Issue Closing Date. A separate cheque or bank draft must accompany each CAF.

Applicants may note that where payment is made by drafts purchased from NRE/ FCNR/ NRO accounts as the case may be, an Account Debit Certificate from the bank issuing the draft confirming that the draft has been issued by debiting the NRE/ FCNR/ NRO account should be enclosed with the CAF. Otherwise the application shall be considered incomplete and is liable to be rejected.

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

Note:

- In case where repatriation benefit is available, interest, dividend, sales proceeds derived from the investment in Equity Shares can be remitted outside India, subject to tax, as applicable according to Income Tax Act, 1961.
- In case Equity Shares are allotted on non-repatriation basis, the dividend and sale proceeds of the Equity Shares cannot be remitted outside India.
- The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on or before the Issue Closing Date. A separate cheque or bank draft must accompany each CAF.
- In case of an application received from non-residents, allotment, refunds and other distribution, if any, will be made in accordance with the guidelines/ rules prescribed by RBI as applicable at the time of making such allotment, remittance and subject to necessary approvals.

Disposal of application and application money

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

The Board reserves its full, unqualified and absolute right to accept or reject any application, in whole or in part, and in either case without assigning any reason thereto.

In case an application is rejected in full, the whole of the application money received will be refunded. Wherever an application is rejected in part, the balance of application money, if any, after adjusting any money due on Equity Shares allotted, will be refunded to the applicant within 30 days from the close of the Issue.

For further instruction, please read the Composite Application Form (CAF) carefully.

Important

- Please read this Letter of Offer carefully before taking any action. The instructions contained in the accompanying Composite Application Form (CAF) are an integral part of the conditions of this Letter of Offer and must be carefully followed; otherwise the application is liable to be rejected.
- All enquiries in connection with this Letter of Offer or accompanying CAF and requests for Split Application Forms must be addressed (quoting the Registered Folio Number/ DP and Client ID number, the CAF number and the name of the first Equity Shareholder as mentioned on the CAF and super scribed 'The Dhanalakshmi Bank Limited - Rights Issue' on the envelope) to the Registrar to the Issue at the following address:

Karvy Computershare Private Limited
Plot No. 17 - 24 , Vittal Rao Nagar, Madhapur
Hyderabad 500 081
Tel: +91-40-2342 0815 - 24320824
Fax: +91-40-2342 0814
Email: dlb.rights@karvy.com
Contact Person: Mr. M. Murli Krishna

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

The Issue will not be kept open for more than 30 days unless extended, in which case it will be kept open for a maximum of 60 days.

The Equity Shares, now being issued, are subject to the terms and conditions contained in this Letter of Offer

MAIN PROVISIONS OF OUR ARTICLES OF ASSOCIATION

The main provisions of our Articles of Association as amended till date are as under:

5A. i) **Dematerialisation of Securities**

Notwithstanding anything contained in these Articles, the Company shall be entitled to dematerialise its securities and to offer securities in a dematerialised form pursuant to the Depositories Act, 1996.

ii) **Options for Investors**

Every person subscribing to securities offered by the Company shall have the option to receive security certificates or to hold the securities with a depository. Such a person who is the beneficial owner of the Securities can at any time opt out of a depository, if permitted by the law, in respect of any security in the manner provided by the Depositories Act, and the Company shall, in the manner and within the time prescribed issue to the beneficial owner the required Certificates of Securities. If a person opts to hold his security with a depository, the Company shall intimate such depository the details of allotment of the security, and on receipt of the information, the depository shall enter in its record the name of the allottee as the beneficial owner of the security.

iv) **Rights of Depositories and Beneficial Owners**

Subject to the provisions of the Depositories Act, 1996, a depository shall be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of a beneficial owner. But the depository as a registered owner shall not have any voting rights in respect of securities held by it and only the beneficial owner shall be entitled to all the rights and benefits and be subjected to all the liabilities in respect of his securities held by a depository.

v) **Service of Documents**

Notwithstanding anything in the Act, or these Articles to the contrary, where securities are held in a depository, the records of the beneficial ownership may be served by such depository on the Company by means of electronic mode or by delivery of floppies or discs.

vi) **Furnishing of details of Allotment of Securities**

Notwithstanding anything to the contrary contained in the Act, or these Articles where a person opts to hold his securities with a depository, the Company shall intimate the details of allotments thereof to the Depository.

vii) **Register and Index of Beneficial Owners**

The Register and Index of Beneficial Owners maintained by a depository under the Depositories Act, 1996, shall be deemed to be the Register and Index of Members and security holders for the purpose of these Articles.

6. If a share certificate is defaced, lost or destroyed then upon proof thereof to the satisfaction of the Directors issue new certificate in lieu thereof on such terms, if any as to evidence and indemnity and the payment of out-of-pocket expenses incurred by the Company in investigating evidence, as the Directors think fit.

Lien

7. The Company shall have the first and, paramount lien upon all the shares (other than fully paid up shares) registered in the name of each, member (whether solely or jointly with others) and upon the proceeds of the sale thereof for all moneys (whether presently payable or not) called or payable at a fixed time in respect of such shares and no equitable interest in any share shall be created except upon the footing and condition that this article will have full effect and such lien shall extend to all dividends and bonus from time to time declared in respect of such shares. Unless otherwise agreed the registration of shares shall operate as a waiver of the Company's lien, if any, on such shares. The Directors may at any time declare any shares wholly or in part to be exempt from the provisions of this clause. **

8. The Company may sell, in such manner as the Board think fit, any shares on which the Company has a lien.

Provided that no sale shall be made.

- a) Unless a sum in respect of which the lien exists is presently payable, or
- b) Until 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.
9. i) To give effect to any such sale, the Board may authorize some person to transfer the shares sold to the purchaser thereof.
- ii) The purchaser shall be registered as the holder of the shares comprised in any such transfer.
- iii) The purchaser shall not be bound to see to the application of the purchase money; nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.
10. i) The proceeds of the sale shall be received by the Company and applied in payment of such part of the amount in respect of which the lien exists as is presently payable.
- ii) The residue, if any, shall, subject to a like lien for sums not presently payable as existed upon the shares at the date of the sale.

Transfer of Shares

11. i) The instrument of transfer of any share in the Company shall be executed by or on behalf of both the transferor and transferee.
- ii) The Transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the register of members in respect thereof.
- iii) Nothing contained in Section 108 of the Act or these Articles shall apply to a transfer of securities effected by a transferor and a transferee both of whom are entered as beneficial owner in the records of a depository.
12. Shares in the Company shall be transferred in any usual or common form which the Board shall approve.

13. The Board may, subject to the right of appeal conferred by the Act, decline to register the transfer of shares, not being a fully paid up share, to a person of whom they do not approve.
- 13A. The Board shall not refuse registration of transfer on the ground of the transferor being either alone or jointly with any other person or persons indebted to the Bank on any account whatsoever.
14. The Board may also decline to recognize any instrument of transfer unless -
 - a) The instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; and
 - b) The instrument of transfer is in respect of only one class of shares.
- 14A. The transfer of shares which results in acquisition of shares by a person/group which would take his/its holding to a level of 5% or more of the total issued capital of the Company (or such other percentage as may be prescribed by the Reserve Bank of India from time to time) shall be with the prior approval of Reserve Bank of India.
15. The registration of transfers may be suspended at such times and for such periods as the Board may from time to time determine.
16. The Company shall charge no fee on registration of every probate, Letters of administration, certificate of death or marriage, power of attorney, or other instrument.
17. On the death of a member, the survivor or the survivors, where the member was a joint holder, and his legal representatives where he was a sole holder, shall be the only persons recognized by the Company as having any title to his interest in the shares.
18.
 - i) Any person becoming entitled to a share in consequence of the death or insolvency of a member may, upon such evidence being produced as may from time to time properly be required by the Board and subject as here in after provided; elect either.
 - a) To be registered himself as holder of the share or
 - b) To make such transfer of the share as the deceased or insolvent member could have made.
 - ii) The Board shall, in either case, have the same right to decline or suspend registration as it would have had, if the deceased or insolvent members had transferred the share before his death or insolvency.
19.
 - i) If the person so becoming entitled shall elect to be registered as holder of the share himself, he shall deliver or send to the company a notice in writing signed by him stating that he so elects.
 - ii) If the person aforesaid shall elect to transfer the share he shall testify his election by executing a transfer of the share.
 - iii) All the limitations, restrictions and provisions of these articles relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as aforesaid as if the death or insolvency of the member had not occurred and the notice or transfer were a transfer signed by that member.
20. A person becoming entitled to a share by reason of the death or insolvency of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company.

Provided that the Board may, at any time, give notice requiring any such person to elect either to be registered himself or to transfer the share, and if the notice is not complied with within ninety days, the

Board may thereafter withhold payment of all dividends, bonuses, or other moneys payable in respect of the share, until the requirements of the notice have been complied with.

Forfeiture of Shares

21. If a member fails to pay any call, or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued.
22. The notice aforesaid shall -
 - a) name a further day (not being earlier than the expiry of fourteen days from the date of service of the notice) on or before which the payment named, the shares in respect of which the call was made will be liable to be forfeited.
23. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect.
24.
 - i) A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the Board thinks fit.
 - ii) At any time before sale or disposal as aforesaid, the Board may cancel the forfeiture on such terms as it thinks fit.
25.
 - i) A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which, at the date of forfeiture, were presently payable by him to the Company in respect of the shares.
 - ii) The liability of such person shall cease if and when the company shall have received payment in full of all such moneys in respect of the shares.
26.
 - i) A duly verified declaration in writing that the declarant is a director, the managing agent, the secretaries and treasurers, the manager or the secretary of the company, and that a share in the company has been duly forfeited on a date stated in the declaration shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share.
 - ii) The company may receive the consideration, if any, given for the share on any sale or disposal thereof and may execute a transfer of the share in favour of the person to whom the share is transferred.
 - iii) The transferee shall thereupon be registered as the holder of the share.
 - iv) The transferee shall not be bound to see to the application of the purchase money, 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 or disposal of the share.
27. The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium as if the same had been payable by virtue of a call duly made and notified.
28.
 - a) The Board of Directors may from time to time increase the share capital not exceeding the Authorised Capital.

- b) While exercising the power of allotment of shares, the Board of Directors shall also have the right to refuse to allot shares to the renounees either in part or in full.
 - c) Option or right to call of shares shall not be given to any person except with the sanction of the Bank in general meeting.
29. The Company may by ordinary resolution:
- a) Consolidate and divide all or any or its share capital into shares of larger amount than its existing shares.
 - b) Subdivide its existing shares or any of them into shares of smaller amount than is fixed by the memorandum, subject, nevertheless to the provisions of the Act.
 - c) Cancel any shares which, at the date of the passing of the provision, have not been taken or agreed to be taken by any persons.
30. The Company may, by special resolution, reduce in any manner and with, and subject to any incident authorized and consent required, by law:
- a) its share capital.
 - b) any capital redemption reserve fund or
 - c) any share premium account.
- 30A. The Board of Directors may permit the holder (hereinafter 'the original holder') of shares/debentures to nominate any person, to whom the shares/debentures held by the original holder in the Company shall vest in the event of the death of the original holder and the Board, may in addition to the manner prescribed under the provisions of the Act, consider framing of such procedure as may be necessary for regulating the nomination of shares / debentures of the Company under the provisions of the Act.

General Meetings

31. All General meetings other than annual meetings shall be called extraordinary general meetings. The annual general meetings shall be held not later than six months from the close of the financial year of the company or within such extended time subject to the provisions of the Act.
32. The Board may whenever it thinks fit, call an extraordinary general meeting.
33. i) No business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business.
- ii) The quorum for the general meeting shall be ten members present in person.
34. The Chairman, either part-time or whole-time, if any, of the Board shall preside as Chairman at every general meeting of the company.
35. If there is no such Chairman or if he is not present within fifteen minutes after the time appointed for holding the meeting or is unwilling to act as Chairman of the meeting, the Managing Director if present, shall preside as Chairman of the meeting. If the Managing Director is also not then present or is unwilling to act as Chairman of the meeting, the Directors present shall elect one of their number to be Chairman of the meeting. *
36. If at any meeting no Director is willing to act as Chairman or if no Director is present within fifteen minutes after the time appointed for holding the meeting, the members present shall choose one of their number to be Chairman of the meeting.

37. i) The Chairman may, with the consent of any meeting at which quorum is present and shall, if so directed by the meeting, adjourn the meeting from time to time and from place to place.
- ii) No business shall be transacted at any meeting other than the business left unfinished at the meeting from which the adjournment took place.
- iii) When a meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting.
- iv) Save as aforesaid, it shall not be necessary to give any notice of an adjourned or of the business to be transacted at an adjourned meeting.
38. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second casting vote.
39. Any business other than upon which a poll has been demanded may be proceeded with pending the taking of the poll.

Votes of Members

40. a) On a show of hands every member present in person shall have one vote and
- b) On a poll, every member shall have one vote for every share held by him subject to the provisions of Section 87 of the Act and the provision of the Banking Regulation Act, 1949 as in force.
41. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders.
- For this purpose seniority shall be determined by the order in which the names stand in the register of members.
42. A member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee or other legal guardian and any such committee or guardian may, on a poll vote by proxy.
43. No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the company have been paid.
44. i) No objection shall be raised to the qualification of any voter except at the meeting or adjourned meeting at which the vote objected to, is given or tendered; and every vote, not disallowed at such meeting shall be valid for all purpose.
- ii) Any such objection made in due time shall be referred to the Chairman of the meeting whose decision shall be final and conclusive.
45. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or notarially certified copy of that power or authority, shall be deposited at the registered office of the company not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote, or in the case of a poll, not less than 24 hours before the time appointed for the taking of the poll; and in default the instrument of proxy shall not be treated as valid.
46. An instrument appointing a proxy shall be in either of the forms in schedule IX to the Act or a form as near thereto as circumstances admit.

47. A vote given in accordance with the terms of an instrument of proxy shall be valid, notwithstanding the previous death or insanity of the principal or the revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given provided that no intimation in writing of such death, insanity, revocation or transfer shall have been received by the company at its office before the commencement of the meeting or adjourned meeting at which the proxy is used.

Directors

48. Until otherwise determined by the General Meeting, the number of Directors shall not be less than 3 and more than 11.
49. The qualification of a director, other than the Whole-time Chairman and Chief Executive Officer shall be the holding of shares in his own right of the nominal value of Rs.2000/-.
50. At every annual general meeting of the Bank, one-third of the directors for the time being or if their number is not 3 or multiples of 3, then the number nearest to one-third shall retire from office. The directors so retiring shall also be eligible for re-election.
- i) Two-thirds of the total number of Directors shall be persons whose period of office is liable to determination by the retirement of Directors by rotation and shall be appointed by the Company in General Meeting.
 - ii) The remaining one third of the Directors shall be appointed by the Board of Directors and shall not be liable to retirement by rotation nor taken into consideration in determining the retirement of Directors by rotation. The Directors so appointed by the Board shall be persons who possess one or more of the qualifications specified in Section 10a(2) of the Banking Regulation Act, 1949. Their period of office shall be determined by the Board.
 - iii) The Chairman and/or Managing Director shall not retire by rotation and shall be within one-third of the Directors to be appointed by the Board of Directors under Clause 50 (ii) **
51. The Directors to retire in every year shall be those who have been longest in office since their last election, but as between person who become Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.
52. The sitting fees payable to a Director for attendance at a Board/Committee Meeting attended by him shall be such amount as may be fixed by the Board with the approval of Reserve Bank of India from time to time in accordance with the provisions of the Banking Regulation Act and such other applicable laws. **
53. With the consent of the Company in General Meeting, and subject to the Provisions of the Act and the Banking Regulation Act, 1949, the Chairman of the Board of Directors if any, or any Director as the case may be, may be remunerated by a fixed sum or by way of monthly salary for the discharge of such special functions in the interest of the Bank, as may be assigned to be discharged by him.
54. The remuneration of the Directors shall in so far as it consists of a monthly payment be deemed to accrue from day to day.
55. In addition to the sitting fee payable to them the Directors may be paid all travelling, hotel and other expenses properly incurred by them.
- a) in attending and returning from the meetings of the Board of Directors or any committee thereof, or
 - b) In connection with the business of the Company.
56. The Directors are hereby empowered to manage the affairs of the company in all details and respects and do everything for the attainment of the several objects set forth in the Memorandum of Association

and for the proper conduct of the business of the Company, including arrangement of finance by borrowing.

57. All cheques, promissory notes, drafts, hundies, bills of exchange and other negotiable instruments and all receipts and all receipts for moneys paid to the company shall be signed, drawn, accepted, endorsed, or otherwise executed as the case may be, by the Whole-time Chairman or Managing Director or Chief Executive Officer or other person or persons as the Board shall from time to time by resolution determine. *
58. Every Director present at any meeting of the Board or of a committee thereof shall sign his name in a book to be kept for that purpose.
59. a) The Board shall have power at any time, and from time to time, to appoint a person as an additional Director provided the number of the Directors and additional Directors together shall not at any time exceed the maximum strength fixed for the Board by the articles.
- b) Such person shall hold office only upto the date of the next annual general meeting of the Company, but shall be eligible for appointment by the Company as a Director at that meeting subject to the Provisions of the Act.
- c) The Board may, subject to the provisions of Section 313 of the Act, appoint any person to act as an Alternate Director to any Director.

Proceedings of Directors

60. a) The Board of Directors may meet for the despatch of business adjourn and otherwise regulate its meetings, as it thinks fit.
- b) A Director may, and the Chairman or Managing Director or Chief Executive Officer by whatever name called, on the requisition of a Director shall, at any time summon a meeting of the Board. *
61. The quorum for a meeting of the Board of Directors shall be one-third of its total strength (any fraction contained in that one-third being rounded off as one) or two Directors, whichever is higher.

Provided where at any time the number of interested Directors exceeds or is equal to two thirds of the total strength the number of remaining Directors, that is to say the number of Directors who are not interested present at the meeting being not less than two shall be the quorum during such time.

62. i) Save as otherwise expressly provided in the Act, questions arising at any meeting of the Board shall be decided by a majority of votes.
- ii) In the case of an equality of votes, the Chairman of the Board shall have a second or casting vote.
63. The continuing directors may act notwithstanding any vacancy in the Board, but if and so long as their number is reduced below the quorum fixed for a meeting of the Board, the continuing Director or Directors may act for the purpose of increasing the number of directors to that fixed for the quorum or of summoning a general meeting of the company, but for no other purpose.
64. i) The Board may elect, subject to the provisions of the Banking Regulation Act, 1949 a Chairman and determine the period for which he is to hold office. *
- ii) The Chairman shall normally preside as Chairman at every meeting of the Board.
- iii) If at any meeting the Chairman is not present within fifteen minutes after the time appointed for holding the meeting the Managing Director, if any, shall preside as Chairman at the said

meeting and in the absence of the Managing Director the Directors present may choose one of their number to be Chairman of the meeting.

65. i) The Board, may subject to the provision of the Act, delegate any of its powers to committees consisting of such member or members of its body as it thinks fit.
- ii) Any Committee so formed shall, in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the Board.
66. i) A committee may elect a chairman of its meetings.
- ii) If no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the meeting, the member present may choose one of their number to be chairman of the meeting.
67. i) A committee of the Board may meet and adjourn as it thinks proper.
- ii) Questions arising at any meeting of a committee shall be determined by a majority of votes of the members present and in case of an equality of votes, the chairman shall have a second or casting vote.
68. All acts done by any meeting of the Board or of a committee thereof or by any person acting as a director, shall, notwithstanding that it may be afterwards discovered that there was some defect in the appointment of any one or more such directors or of any person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such director or such person had been duly appointed and was qualified to be director.
69. Save as otherwise expressly provided in the Act a resolution in writing signed by all the members of the Board or of a committee thereof for the time being entitled to receive notice of a meeting of the Board or committee shall be as valid and effectual as if it had been passed at a meeting of the Board or Committee, duly convened and held.

Chief Executive Officer

70. i) Subject to the Provisions of the Act and the Banking Regulation Act, 1949, the Whole-time Chairman or Managing Director or Chief Executive Officer, by whatever name called, may be appointed by the Board for such term, at such remuneration and upon such conditions as it may think fit, and the Whole-time Chairman or Managing Director or Chief Executive Officer by virtue of his office is empowered to exercise general superintendence and management of the affairs and business of the Co., subject to the supervision of the Directors, to enter into all negotiable instruments, to reassign or vary all such contracts, to institute, conduct and defend in legal proceedings by or against the Co., concerning the affairs of the Co. allow time for payment or satisfaction of any debts due and of any claims or demands by or against the Company, and to do and execute all acts, matters and deeds and other things for and on behalf of the Co., as may be usual, necessary or desirable in or about the management of the business of the Co., or carrying out its objects.
- ii) A director may be appointed as Whole-time Chairman or Managing Director for a term not exceeding five years or such remuneration and upon such conditions as the Board may fix and a Director so appointed as a Whole-time Chairman or Managing Director shall function as the Chief Executive officer of the Bank.
71. A provision of the Act, or these articles requiring or authorizing a thing to be done by or to a director and the Whole-time Chairman or Managing Director or Chief Executive officer shall not be satisfied by

its being done by or at the same person acting both as director and as, or in place of the Manager or Secretary.

Dividends and Reserves

73. i) Subject to the provisions of Banking Regulation Act, 1949, the Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Board.
- ii) The Board may, from time to time, pay to the members such interim dividends as appear to it to be justified by the profits of the Company.
74. i) The Board may before recommending any dividend set aside out of the profits of the Company, such sums as are prescribed under the Banking Regulation Act, 1949, and such sums as it thinks proper as reserve or reserves which shall at the discretion of the Board be applicable for any purpose to which the profits of the Company may be properly applied including provision for meeting contingencies or for equalizing dividends and pending such application, may, at the like direction, either be employed in the business of the Company, or be invested in such investments (other than shares of the Company) as the Board may, from time to time, think fit.
- ii) Subject to the provisions of the Act, and the Banking Regulations Act, 1949, the Board may also carry forward any profits which it may think prudent not to divide or otherwise appropriate.
75. The Board may deduct from any dividend payable to any member all sums of money, if any, presently payable by him to the Company on account of calls or otherwise in relation to the shares of the Company.
76. i) Any dividend, interest or other money payable in cash in respect of shares, may be paid by cheque or warrant sent through the post directed to the registered address of the holder or in the case of joint holders, to the registered address of that one of the joint holders who is first named on the register of members, or to such person and to such address as the holder or joint holders may in writing direct.
- ii) Every Cheque or warrant shall be made payable to the order of the person to whom it is sent.
77. Any one of two or more joint holders of a share may give effectual receipts for any dividends, bonuses or other moneys payable in respect of such share.
78. Notice of any dividend that may have been declared shall be given to the persons entitled to share therein in the manner mentioned in the Act
79. No Dividend shall bear interest against the Company.
- 79A. Any amount paid up in advance of calls on any share may carry interest but shall not in respect thereof confer a right to dividend or to participate in profits.
- 79B. There shall be no forfeiture of unclaimed dividends before the claim becomes barred by law.

Accounts

80. i) The Board shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them shall be open to the inspection of members not being directors.

- ii) No member (not being a director) shall have any right of inspecting any account or book or document of the Company except as conferred by law or authorized by the Board or by the Company in General meeting.

Capitalization of Profits

81. i) The Company in General Meeting may, upon the recommendation of the board, resolve -
- a) that it is desirable to capitalize any part of the amount for the time being standing to the credit of any of the Company's reserve accounts, or to the credit of the profit and loss account, or otherwise available for distribution; and
 - b) that such a sum be accordingly set free for distribution in the manner specified in clause (ii) amongst the members who would have been entitled thereto if distributed by way of dividend and in the same proportions.
- ii) The sum aforesaid shall not be paid in cash but shall; be applied subject to the provision contained in clause (iii) either in or towards.
- 1) paying up any amounts for the time being unpaid on any shares held by such members respectively;
 - 2) paying up in full, unissued shares or debentures of the Company to be allotted and distributed, credited as fully paid-up, to and amongst such members in the proportions aforesaid; or
 - 3) Partly in the way specified in sub clause (1) and partly in that specified in sub clause (2).
- iii) A share premium account and a capital redemption reserve fund may, for the purposes of this regulation, only be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares.
- iv) The Board shall give effect to the resolution passed by the company in pursuance of this regulation.
82. i) Whenever such a resolution as aforesaid shall have been passed, the Board shall,
- a) make all appropriation and applications of the undivided profits resolved to be capitalized thereby, and all allotments and issues of fully paid shares or debentures, if any and,
 - b) generally do all acts and things required to give effect thereto.
- ii) The Board shall have full power.
- a) to make such provisions, by the issue of fractional certificates or by payment in cash or otherwise as thinks fit for the case of shares or debentures becoming distributable in fractions;
 - b) to authorise any person to enter on behalf of all the members entitled thereto, into an agreement with the Company providing for the allotment to them respectively credited as fully paid-up of any further shares to which they may be entitled upon such capitalisation or (as the case may require) for the payment by the company on their behalf, by the application thereto of their respective proportions or the profits resolved to be capitalized, of the amounts or any part of the amounts remaining unpaid on their existing shares.
- iii) Any agreement made under such authority shall be effective and binding on all such members.

Winding Up

83. i) If the company shall be wound up, the liquidator may, with the sanction of a special resolution of the company and any other sanction required by the Act and the Banking Regulation Act divide amongst the members, in specie or kind, the whole or any part of the assets of the company whether they shall consists of property of the same kind or not.
- ii) For the purpose aforesaid, the liquidator may set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members.
- iii) The liquidator may with the like sanction, vest the whole or any part of such assets trustees upon such trusts for the benefit of the contributories as the liquidators, with the like sanction shall think fit, so that no member shall be compelled to accept any shares of other securities whereupon there is any liability.

Indemnity

84. Every Officer or agent for the time being of the Company shall be indemnified out of the assets of the company against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgement is given in his favour or in which, he is acquitted or in connection with any application under Section 633 in which relief is granted to him by the court.

MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The contracts referred to below (not being contracts entered into in the ordinary course of business carried on by the Bank or entered into more than two years prior to the date of the Letter of Offer) which are or may be deemed material have been entered into by the Bank or to be entered into by the Bank. Copies of these contracts, together with the copies of the documents referred to below, may be inspected at the Registered and Head Office of the Bank between 10.00 A.M. and 3.00 p.m. on any working day of the Bank from the date of the Letter of Offer until the date of closing of the subscription list.

A) Material contracts

1. Engagement Letter from our Bank to the Enam Securities Private Limited appointing them as the Lead Manager.
2. Memorandum of Understanding between the Bank and Enam Securities Private Limited dated September 25, 2007.
3. Memorandum of Understanding between the Bank and Karvy Computershare Private Limited dated July 23, 2007.

B) Documents

1. Our Memorandum and Articles of Association as amended from time to time.
2. Our certificate of incorporation.
3. Board resolutions in relation to the Issue.
4. Shareholders' resolution in relation to the Issue.
5. RBI notification dated November 25, 1977 for including our Bank in the second schedule to the RBI Act 1934
6. RBI License No. TRI 11 dated November 25, 1977 to carry on banking business
7. RBI letter no. DBOD No. 388/08.37.001/2005-06 dated November 25, 2005 granting approval for appointment of Mr. P.S. Prasad as Managing Director of the Bank.
8. Consents of Lead Manager, Registrar to the Issue, Legal Advisor to the Issue, Auditors, Directors of the Bank, Compliance Officer, as referred to, in their respective capacities.
9. Annual reports of the Bank for last five years
10. Reports of the Auditors dated December 15, 2007 in relation to the restated financials of the Bank for the last five Financial Years and half year ended September 30, 2007
11. Statement of Tax Benefits dated December 15, 2007.
12. Initial listing applications for this Rights Issue dated September 28, 2007, September 28, 2007 and November 01, 2007 filed with BSE, NSE and CSE respectively.
13. In-principle listing approval dated October 17, 2007, October 26, 2007 and November 02, 2007 filed with BSE, NSE and CSE respectively
14. Tripartite Agreement between NSDL, our Bank and the Registrar to the Issue dated March 26, 2001
15. Tripartite Agreement between CDSL, our Bank and the Registrar to the Issue dated March 26, 2001
16. Due diligence certificate dated September 27, 2007 to SEBI from the Lead Manager
17. SEBI observation letter bearing no, CFD/DIL/NB/NB/112473/2008 dated January 03, 2008

Any of the contracts or documents mentioned in this Letter of Offer may be amended or modified at any time if so required in the interest of the Bank or if required by the other parties, without reference to the shareholders subject to compliance of the applicable laws.

DECLARATION

No statement made in this Letter of Offer contravenes any of the provisions of the Companies Act, 1956 and the rules made thereunder. All the legal requirements connected with the said issue as also the guidelines, instructions etc. issued by SEBI, Government and any other competent authority in this behalf have been duly complied with.

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

A.D. Navaneethan
Chairman

P.S.Prasad
Managing Director & CEO

Nandini Rangaswamy
Director

D. Lakshminarayanan
Director

Vidyadhara Rao Chalasani
Director

V. Jagannathan
Director

Suresh Balasubramaniam
Director

Ghyanendra Nath Bajpai
Director

Kadapala Srikanth Reddy
Director

N. Raghu Mohan
AGM Accounts & CFO

Date: January 31, 2008

Place: Thrissur

Enclosure: Composite Application Form ("CAF")