



**Private & Confidential
For Private Circulation Only**

INDIAN OVERSEAS BANK

Constituted under the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970
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PRIVATE PLACEMENT OF 7.40% UNSECURED REDEEMABLE NON-CONVERTIBLE SUBORDINATED BONDS (SERIES VIII) AGGREGATING TO RS. 200 CRORES

GENERAL RISKS

Investments in Unsecured Non-Convertible Subordinated Bonds 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 Unsecured Redeemable Non-Convertible Subordinated Bonds have not been recommended or approved by any Stock Exchange nor have any stock exchange guaranteed the accuracy or adequacy of this Information Memorandum. The attention of investors is drawn to the statement of Risk Factors mentioned elsewhere in this Information Memorandum.

ISSUER'S ABSOLUTE RESPONSIBILITY

The Issuer, having made all reasonable inquiries, accepts responsibility for, and confirms that this Information Memorandum 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 Information Memorandum is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

CREDIT RATING

CRISIL Limited (CRISIL) has assigned a 'AA+/Stable' (Double A Plus with stable outlook) rating to the captioned debt programme of the Bank aggregating to Rs. 200 crores. This rating indicates high degree of safety with regard to timely payment of interest and principal on the instrument.

Credit Analysis & Research Limited (CARE) has assigned a 'CARE AA+' (Double A Plus) rating to the Rs. 200 crores present issue of Bonds of the Bank. Instruments carrying this rating are judged to be of high quality by all standards. They are also classified as high investment grade.

The above ratings are not recommendation to buy, sell or hold securities and investors should take their own decision. The ratings may be subject to revision or withdrawal at any time by the assigning rating agencies and each rating should be evaluated independently of any other rating. The ratings obtained are subject to revision at any point of time in the future. The rating agencies have the right to suspend, withdraw the rating at any time on the basis of new information etc. For details, please refer to para on Credit Rating mentioned elsewhere in this Information Memorandum.

LISTING

The Unsecured, Redeemable, Non-Convertible, Subordinated Bonds (Series VIII) are proposed to be listed on the Wholesale Debt Market Segment of The National Stock Exchange of India Limited ('NSE') and on Bombay Stock Exchange Limited ('BSE').

REGISTRARS TO THE ISSUE

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ISSUE TIME TABLE

| | | |
|--------------------------|----------|--------------------|
| ISSUE OPENS ON | Thursday | September 15, 2005 |
| ISSUE CLOSES ON | Friday | September 16, 2005 |
| DEEMED DATE OF ALLOTMENT | | September 16, 2005 |



The Bank reserves the right to change the issue closing date and in such an event, the Deemed Date of Allotment for the Bonds may also be revised by the Bank at its sole and absolute discretion. In the event of any change in the above issue programme, the investors will be intimated about the revised issue programme by the Bank.

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ABBREVIATIONS

| | |
|----------|---|
| ALCO | Asset-Liability Management Committee |
| ALPM | Automated Ledger Posting Machine |
| ATM | Automated Teller Machine |
| BIS | Bank of International Settlements |
| BSE | Bombay Stock Exchange Limited |
| BTC | Bankers' Training College |
| CAGR | Compounded Annual Growth Rate |
| CAR | Capital Adequacy Ratio |
| CBDT | Central Board of Direct Taxes |
| CDSL | Central Depository Services (India) Ltd. |
| CMD | Chairman & Managing Director |
| CPPD | Computer Planning & Policy Department |
| CRISIL | CRISIL Limited |
| CRR | Cash Reserve Ratio |
| CVO | Chief Vigilance Officer |
| DDP | Double Deposit Plan |
| DICGC | Deposit Insurance and Credit Guarantee Corporation of India Limited |
| DP | Depository Participant |
| DRT | Debt Recovery Tribunal |
| ECGC | Export Credit Guarantee Corporation Of India Limited |
| ECS | Electronic Clearing Services |
| EFT | Electronic Funds Transfer |
| ELB | Exceptionally Large Branch |
| EPS | Earning Per Share |
| FCNR (B) | Foreign Currency Non Resident Account |
| FEDAI | Foreign Exchange Dealers Association of India |
| FIs | Financial Institutions |
| FIIIs | Foreign Institutional Investors |
| FRA | Forward Rate Agreement |
| FY | Financial Year |
| Gol | Government of India/Central Government |

| | |
|---|--|
| HUF | Hindu Undivided Family |
| ICD | Inter-Corporate Deposits |
| IDRBT | Institute for Development & Research in Banking Technology |
| INR | Indian National Rupee |
| IRS | Interest Rate Swap |
| IT | Information Technology |
| INFINET | Indian Financial Network |
| IRDA | Insurance Regulatory and Development Authority |
| KVIC | Khadi Village Industries Commission |
| KVP | Kisan Vikas Patra |
| L/C | Letter of Credit |
| LIC | Life Insurance Corporation Of India |
| MIDL | Modernisation & Institutional Development Loan |
| MP | Management Perception or Management Proposal to address risk |
| MRTTP | Monopoly & Restrictive Trade Practices Act |
| MSEB | Maharashtra State Electricity Board |
| NABARD | National Bank for Agricultural and Rural Development |
| NAV | Net Asset Value |
| NBFC | Non Banking Finance Company |
| NCST | National Centre for Software Technology |
| NHB | National Housing Bank |
| NI Act | Negotiable Instruments Act |
| NIBM | National Institute of Bank Management |
| NICL | National Insurance Company Limited |
| NPAs | Non- Performing Assets |
| NRE | Non Resident External |
| NRNR | Non Resident Non-Repatriable Account |
| NRO | Non Resident Ordinary |
| NRIs | Non Resident Indians |
| NSC | National Savings Certificate |
| NSDL | National Securities Depository Limited |
| NSE | National Stock Exchange of India Ltd. |
| OCBs | Overseas Corporate Bodies |
| PAN | Permanent Account Number |
| PD | Planning & Development |
| P/E | Price to Earnings Ratio |
| PLR | Prime Lending Rate |
| QCS | Quick Collection Service |
| QIB | Qualified Institutional Buyer, as defined in SEBI (DIP) Guidelines. |
| RBB | Retail Banking Boutique |
| RBI | Reserve Bank of India |
| RIDF | Rural Infrastructure Development Fund |
| RRB | Regional Rural Bank |
| SEBI | Securities and Exchange Board of India |
| SIDBI | Small Industries Development Bank of India |
| SLBC | State Level Bankers' Committee |
| SLR | Statutory Liquidity Ratio |
| SSI | Small Scale Industries |
| SWIFT | Society for Worldwide Inter Bank Financial Telecommunication |
| TBM | Total Branch Mechanisation |
| TDS | Tax Deducted at Source |
| the Bank/the Issuer/IOB/ the Issuer Company | Indian Overseas Bank |
| The Bank Nationalisation Act | The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 as amended in 1994, 1995 & 1996 |

| | |
|-------------------|--|
| The Board | The Board of Directors of the Bank |
| The BR Act | The Banking Regulation Act, 1949 as amended |
| The Companies Act | Companies Act, 1956 as amended |
| the Issue | Private Placement of Unsecured Redeemable Non-Convertible Subordinated Bonds (Series VIII) aggregating to Rs. 200 crores |
| The IT Act | Income-tax Act, 1961 as amended from time to time |
| USD | US Dollar |
| UTI | Unit Trust of India |
| VLB | Very Large Branch |
| VRS | Voluntary Retirement Scheme |
| VSAT | Very Small Aperture Terminal |

RISK FACTORS AND MANAGEMENT PROPOSALS THEREOF

The Investors should carefully consider the following risk factors as well as the other details and information contained in this Information Memorandum in evaluating the Bank and its business before investing the Bonds offered by this Information Memorandum.

INTERNAL RISKS

1. Contingent Liabilities

As on March 31, 2005 the contingent liabilities of Rs. 13951.49crores comprising claims against the Bank not acknowledged as debts (Rs.8.95. crores), liability on account of outstanding forward exchange contracts (Rs. 5601.84 crores), guarantees on behalf of constituents (Rs. 2431.17 crores), acceptances, endorsements and other obligations (Rs. 3499.59 crores) and others (Rs.2409.84 crores).

MP: The contingent liabilities have arisen in the normal course of business of the Bank and are according to the prudential norms prescribed by RBI.

2. Various proceedings against the Bank relating to Income Tax (included in the above contingent liabilities) amounting to Rs. 220.52 crores are pending in appeal with the Income Tax authorities as on March 31, 2005. The Bank has not made any provision in this regard and adverse ruling, if any, shall affect the financials of the Bank.

MP: Appeals filed by the bank in respect of the above are pending with various authorities. Based on expert opinion and various judicial pronouncements, bank has not made any provision in this regard.

3. Profits of the Bank

The growth in net profits of the Bank from Rs. 512.76 crore in FY 2004 to Rs. 651.36 crores in FY 2005 can be mainly attributed to treasury profits, which may not be sustainable in future. The Bank made a profit of Rs. 373.05 crores from sale of investments (treasury income) during FY 2005.

MP: It may be noted that operating profit of the Bank has come from diversified income streams comprising net interest income, profit on sale of securities and other income which account for 74.36%, 14.95% and 10.69% of the total operating profit respectively. Hence, a substantial part of the growth in operating profits is accounted for by net interest income.

4. Non Performing Assets (NPAs)

As on March 31, 2005, the net NPAs of the Bank stood at 1.27% of its net advances amounting to Rs. 319.20 crores in absolute terms. In the event of non-recovery of these assets, the Bank may have to provide for these NPAs in future, which might affect the profitability of the Bank in future. For details, investors are advised to refer to para 'Asset Classification, Income Recognition & Provisioning' mentioned elsewhere in this Information Memorandum.

MP: The Net NPAs of the Bank have consistently been declining in percentage terms, from 6.32% as on 31.03.2002 to 1.27% as on 31.03.2005 and the Bank has provided for its NPAs in conformity with RBI guidelines. The Bank is taking steps to reduce the proportion of non-performing assets through aggressive recovery drives combined with improved risk management practices. Further, there have been substantial changes in the legislative and operating environment enabling FIs and Banks to pursue recovery of overdues. Besides Debt Recovery Tribunal (DRT) set up for faster settlement of recovery litigation, GoI has enacted 'The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002' enabling FIs and Banks to securitise and reconstruct financial assets and enforce security more effectively. Reserve Bank of India has formulated detailed guidelines for operation of the scheme. The Bank has issued notices under the Act to 3698 parties/borrowers and recovered Rs. 155.66 crores from those borrowers. Thus, the Bank has been taking recourse to all the available methods to recover its over dues from the borrowers.

5. Decline in return ratios

Yield on Investment of the Bank (excluding profit on sale of investments) has shown a declining trend from 11.91% in FY 1999, 11.76% in FY2000, to 11.68% in FY2001, 10.95% in 2002, 9.88% in FY2003, 9.15% in FY2004 and 8.81% in FY 2005. The Yield on Advances of the Bank has decreased from 10.64% to % during the same period. Average rate of interest earned on interest earning assets has fallen from 10.69% in 2001 to 8.51% in 2005.

MP: Yield on Investments and average rate of interest earned has come down because of the interest rate coming down generally. The continuous downward trend in the interest rates over last one year has been the major reason for decline in Yield on Investment of the Bank. For example, the yield on 10 year Gov security, which was 11.20% as on 31.03.1999 has fallen to 5.15% on 31.03.2004 and rose to 6.69% on 31.03.2005. As compared to the point to point decline of 453 bps, the yield on investment (domestic) for the Bank has fallen by 310 bps.

6. Asset Concentration

The top 5 industries (non-food) account for 19.78% of the gross credit exposure of the Bank as on 31.03.2005. Also, the top ten borrowers of the Bank account for about 04.31% of the gross total advances of the Bank as on 31.03.2005. The borrower specific and industry specific behaviour may potentially affect the overall asset quality of the Bank. Any adverse global trends on these industries will have implications on the financials of the Bank.

MP: The Bank has put in place a credit monitoring mechanism to monitor the performance of its borrowers, regularly perform appraisal and do the requisite follow up. The top ten borrowers of the Bank as mentioned above are Standard Assets as on 31.03.2005. As regards the industry concentration, it has been the policy of the Bank to diversify the assistance over different industry/promoter groups with a prudential cap of 10% to a single industry. Investors are advised to refer to para 'Industry-wise Classification' mentioned elsewhere in this Information Memorandum.

7. Credit Risk

The Bank's main business of lending carries an inherent credit risk, which involves inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions.

MP: The Bank takes adequate care to minimise such risks by having a well-diversified loan portfolio. The Bank also follows a comprehensive project/credit appraisal system and lending norms, which govern industry/client exposure. The Bank has put in place a credit rating system under which the borrowal accounts of Rs 2.00 Lacs and above are rated on several parameters and the risk is priced with a suitable mark-up over PLR based on the credit rating. The Bank has also implemented an active Risk Management Policy aimed at mitigating various credit related risks. For other details on the credit risk management process in the Bank, the investors may refer to the para 'Risk Management' mentioned elsewhere in this Information Memorandum.

8. Outstanding Litigations against the Bank

As on March 31, 2005, there are 248 cases, "claims against the Bank not acknowledged as debt", with monitory relief amounting to Rs. 8.95 crores claimed therein against the Bank. There are also five other cases against the Bank as on 31.3.2005, which are not classified or included in the above list of claim against Bank not acknowledged as debt. For details, please refer to the para on Litigation mentioned elsewhere in this Information Memorandum.

9. Litigation against the Bank's subsidiaries and sponsored institutions

Cases Against Bharat Overseas Bank Ltd: There are 101 cases of claims/suits filed against the Bank and the amount involved as on 30.06.2005 is Rs.2.11 crores. For details, please refer to the para on Litigation mentioned elsewhere in this Information Memorandum.

10. Regional concentration of the Bank

IOB has a regional concentration in southern and eastern parts of the country accounting for approximately 73.52% of all branches in terms of numbers. The regional presence of the Bank may compromise its competitive position vis-à-vis its national level competitors.

MP: The regional presence of the Bank may not be a hindrance to its growth prospects. The Global deposits of the Bank have grown at a CAGR of 12.7% to Rs. 44241 crores and the Global Net advances have grown at a CAGR of 16.8 % to Rs. 25205 crores during the past 5 years ended March 31, 2005. The Bank has 1,496 branches and 252 extension counters as on 31.03.2005 with presence in all the states and also 5 branches and 1 Extension Counter, and 1 Limited Purpose outlet in overseas. The Bank is endeavouring to increase its presence in high potential centers of the country. Also, the Bank proposes to effectively utilise the technology to increase its reach and presence. For details of geographical distribution of branches, investors are advised to refer to para 'Geographical Distribution of Branches' mentioned elsewhere in this Information Memorandum.

11. Asset Liability Position

A large portion of the funding of the Bank is in the form of short and medium term deposits. The asset liability position of the Bank could be affected if the depositors do not roll over the deposits

MP: As per the normal behavioural pattern and past experience, a large portion of the deposits gets rolled over. The Bank feels that in the event of these deposits not being rolled over, the fresh accretion of deposits would take care of the Asset Liability mismatches. In addition, the Bank has the cushion of investments of Rs. 11961.36 crore in the long-term (over 5 years) category, which can be utilized to correct any medium term mismatches. Moreover, the Bank has an Asset Liability Management system in place to actively monitor and manage the duration and liquidity mismatches. For more details on the Asset Liability position refer to the para 'Asset Liability Management' mentioned elsewhere in this Information Memorandum.

12. RBI's Annual Financial Inspection Report

The Annual Inspection Report of RBI on the financial position of the Bank as on 31.03.2004 has identified certain weaknesses in the system, operational irregularities and other deficiencies in the internal controls. (The annual Financial Inspection for the year 31 03 2005 is just on)

MP: The Bank would like to clarify that the inspection of the Bank by RBI is a regular exercise and is carried out periodically by RBI for all the banks and financial institutions. The reports of RBI are strictly confidential and the Bank is in dialogue with RBI in respect of observations made by RBI in their report for previous years. RBI does not allow disclosure of its inspection report and that all the disclosures in this Information Memorandum are on the basis of management and audit reports of the Bank.

13. Contingent Liabilities of RRBs sponsored by the Bank

As on 31.03.2005, contingent liabilities of RRBs sponsored by the Bank aggregated Rs. 3.79 crores.

MP: The above contingent liabilities have arisen in the normal course of business of the RRBs.

14. Verma Committee Recommendations

The Verma Committee, which carried out a study of the banking sector in 1998 and 1999, had suggested seven parameters for assessing a bank's strength/weakness covering three major areas namely, solvency, earning capacity and profitability. Based on the above, Indian Overseas Bank was classified in the third category of banks, which complied with the Capital Adequacy requirement but did not meet five or six of the remaining parameters for the years 1998 and 1999. For an understanding of what the categorisation signifies, investors may refer to para 'Verma Committee Recommendations' mentioned elsewhere in this Information Memorandum.

MP: The Bank has put in place the required systems to bring the entire operations under the purview of Asset Liability Management. The Bank has stepped up the recovery efforts and the Net NPA as a % of Advances has come down to 1.27%. The Bank has Risk Management Department in addition to a Credit Risk Management Cell. The Bank does not envisage impairment to bank's solvency, earning capacity or profitability.

15. Export Credit Target

The Bank has not met export credit target (12% of net credit) for the last five years. For more details, refer to para 'Export Credit' mentioned elsewhere in this Information Memorandum.

MP: The non-achievement of this target has no negative impact on the working results of the Bank. RBI has not taken any punitive action against the Bank for non-achievement of the targets.

16. The interest outgo on account of unsecured loans taken by the Bank at high interest rates may adversely affect the Bank's future profitability.

MP: High cost borrowings could not be repaid as there is no foreclosure clause available. The percentage of high cost borrowings to total liabilities is less than 1% and as such its effect on future profitability would be minimal. Further, the Bank is also hedging its high cost liabilities through derivatives to reduce the cost thereof.

17. Risk in Overseas Operations

MP: The Bank has decades of experience overseas and has put in place systems, procedures and policies to streamline the operations of its overseas branches and to withstand any risk arising out of changes in policies of foreign governments, exchange rate fluctuations etc.

18. Utilisation of Funds

The utilisation of the funds proposed to be raised through the private placement are entirely at the discretion of the Bank and no monitoring agency has been appointed to monitor the deployment of funds.

MP: The funds raised through this private placement are not meant for any specific project and hence a monitoring agency may not be required. The Bank is managed by professionals under the supervision of its Board of Directors. Further, the Bank is subject to a number of regulatory checks and balances as stipulated in its regulatory environment. Therefore, the management believes that the funds raised via the public issue would be utilised only towards satisfactory fulfilment of the 'Objects of the Issue' mentioned elsewhere in this Information Memorandum.

EXTERNAL RISKS

1. Regulatory restrictions on the Bank and limitations of the powers of shareholders of the Bank

There are a number of restrictions as per the Bank Nationalisation Act and Banking Regulations Act, 1949(Amended), which impede flexibility of the Bank's operations and affect/restrict investors' right. These are as under:

- i. The Banks can carry on business/activities as specified in the Act. There is no flexibility to pursue profitable avenues if they arise, in contrast with companies under the Companies Act, where shareholders can amend the Objects Clause by a special resolution.
- ii. In terms of Rule 8 of The Banking Regulation Act, 1949, the Bank is prohibited from doing trading activity, which may act as an operational constraint.
- iii. In terms of Rule 17(1) of The Banking Regulation Act, 1949, every banking company shall create a Reserve Fund and shall, out of the balance of profit of each year as disclosed in the Profit & Loss a/c prepared under Section 29 and before any dividend is declared, transfer to the Reserve Fund a sum equivalent to not less than twenty five percent of such profit.
- iv. In terms of Rule 19 of The Banking Regulation Act, 1949 there are some restrictions on the banking companies regarding opening of subsidiaries which may deny the Bank from exploiting emerging business opportunities.
- v. In terms of Rule 23 of The Banking Regulation Act, 1949 there are certain restrictions on the banking companies regarding opening of new place of business and transfer of existing place of business, which may hamper the operational flexibility of the Bank.
- vi. In terms of Rule 25 of The Banking Regulation Act, 1949 each banking company has to maintain assets in India which is not less than 75% of its demand and time liabilities in India which in turn may prohibit the Bank from creating overseas assets and exploiting overseas business opportunities.
- vii. There are restrictions in the Banking Regulation Act regarding,
 - a) Management of a bank including appointment of directors.
 - b) Borrowings and creation of floating charge thereby hampering leverage.
 - c) Expansion of business, as the branches need to be licensed.
 - d) Disclosures in the profit & loss account and balance sheet.
 - e) Production of documents and availability of records for inspection by shareholders.
 - f) Reconstruction of banks through amalgamation.
 - g) Further issues of capital including issue of bonus shares/rights shares for which prior MoF approval is required.
- viii. The financial disclosures in this Information Memorandum may not be available to the investors after listing on a continuous basis.
- ix. Various rights/powers of shareholders available under the Companies Act in this behalf are not available to the shareholders of the banks. These rights include rights such as calling for general meetings, inspection of minutes and other material records, application for relief in cases of oppression and mismanagement, voluntary winding up, right to receive dividend within 42 days etc.
- x. As per Section 3 (2E) of the Bank Nationalisation Act, "no shareholder other than Central Government shall be entitled to exercise voting rights in respect of any equity shares held by him/her in excess of one per cent of the total voting rights of all the shareholders of the Bank".
No banking company shall pay any dividend on its shares until all its capitalised expenses (including preliminary, organisational expenses, share selling commission, brokerage, amounts of losses and any other item represented by tangible assets) have been completely written off. The Bank has received an exemption from Gol, Ministry of Finance, Department of Economic Affairs (Banking Division) vide gazette notification ref. F. No. 11/4/2003-BOA dated 22.07.2003 from the provisions of the said Section 15(1) relating to the payment of dividend, for a period of five years from the date of the notification.

2. Sensitivity to the economy and extraneous factors

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

3. Competition from existing and new commercial banks

Competition in the financial sector has increased with the entry of new players and is likely to increase further as a result of further deregulation in the financial sector. The Bank may face competition both in raising resources and in deploying them.

MP: The Bank has an established broad-based presence and has been taking steps to enhance customer satisfaction by upgrading skills, systems and technology to meet such challenges. The Bank is attempting to add quality assets on



competitive terms. The Bank is also taking steps to broad base its product bouquet with a special emphasis on enhancement in the non-fund based income.

On the resource-raising front, the Bank is actively endeavouring to broaden its reach and raise resources through its wide distribution network of 1,496 branches and 252 extension counters and 6 branches outside India. For more details on the business environment of the Bank, investors are advised to refer to the para on 'Management Discussion and Analysis of Financial Results' mentioned elsewhere in this Information Memorandum.

4. **Changes in regulatory Policies**

Major changes in Government/RBI policies relating to banking sector may have an impact on the operations of the Bank.

MP: The policy changes may provide both opportunities and challenges for the Bank. The Bank has a long presence in the banking sector, for more than 66 years and does not perceive policy changes to be a major threat.

5. **Disintermediation in the financial markets:**

Development of capital markets may result in disintermediation by current and potential borrowers whereby many companies may access the markets directly, thereby reducing their dependence on the banking system.

MP: The Bank has, in recent years, launched several retail lending schemes and value added products so as to broaden its borrower base. Further, disintermediation brings with it the opportunity for the Bank to expand its fee-based activities. The Bank has been endeavouring to develop a presence in several financial services to earn fee based income by focussing on businesses such as foreign exchange, treasury, investments, cash management, insurance, depository, debenture trustee etc., thus taking advantage of the disintermediation phenomenon.

6. **Forex risk**

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

MP: As per RBI guidelines, banks are not allowed to keep open position 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. Hence, the risk from exchange rate fluctuations is minimised. The Board of Directors of the Bank has also prescribed limits for gaps or mismatches in maturities of Bank's foreign currency assets and liabilities and forward transactions in foreign exchange. The Bank operates within the limits fixed for gaps or mismatches in maturities of Bank's foreign currency assets and liabilities and forward transactions in foreign exchange, thus minimising the risks of mismatches in maturities and interest rates.

7. **Interest rate risk**

Interest rate volatility exposes the Bank to an interest rate risk or market risk. Such interest rate risk has a potential impact on net interest income or net interest margin as well as on the market value of the fixed income securities held by the Bank in its investment portfolio.

MP: These risks are inherent in the banking business. However, the Bank has put in place a system of regular review of lending and deposit rates in order to minimise the interest rate risk. The Asset Liability Management Committees of the Bank reviews the risk on a regular basis. Continuous Risk Management measures are initiated depending upon the movement in the market interest rates. The movement in the interest rates is closely monitored for appropriate action. For more details on the Risk Management procedures, investors are advised to refer to para 'Risk Management' mentioned elsewhere in this Information Memorandum.

8. **Operational Risk**

Operational risk is a result of failure of operating system in a bank due to certain reasons like computer break-downs, power disruptions, fraudulent activities, natural disaster, human error or omission or sabotage.

MP: For managing operational risk, the Bank has laid down well-defined systems and procedures. The Bank has set up a separate department to improve the systems and procedures to suit the changing environment. The Bank has also in place a strong internal inspection and audit system. For managing IT related risks, the Information Systems Security Policy is in place. The Bank has an effective HRD department, which formulates and monitors delegation of duties and responsibilities at different levels.

9. **Financial Statements in the Information Memorandum**

The financial statements and derived ratios there from contained in the Information Memorandum are prepared/computed as per the permissible accounting practices. While due care has been taken to reflect the true economic reality regarding the financials of the Bank as far as possible, the investors may want to make their own adjustments to the same before arriving at an investment decision in the offer.



MP: The financial statements and the derived ratios have been prepared in conformity to the extant guidelines and the same have been certified by the statutory auditors of the Bank. The Bank is also governed by the prudential norms of RBI for income recognition, NPA provisioning etc.

NOTES TO RISK FACTORS

- Net worth (excluding revaluation reserves) of the Bank as on 31.03.2005 is Rs. 2433.37 crores.
- During FY 1996-97, the Bank had adjusted accumulated losses of Rs. 1,000.00 crores, from its paid-up capital as on 31.03.1997 by setting off the same against the paid-up capital of the Bank
- Section 3(2B)(c) of the Bank Nationalisation Act provides that the paid-up capital may, from time to time, be increased by such amounts as the Board of Directors of the Bank may, after consultation with the RBI and with the previous sanction of the Central Government, raise by Public Issue of equity shares as may be prescribed, so however, that the Central Government, at all times, holds not less than fifty-one per cent of the paid-up capital of each of the Corresponding New Bank. The Banking Companies (Acquisition & Transfer of Undertakings) and Financial Institutions' laws (Amendment Bill 2000) propose to reduce the minimum stake of the Government from 51% to 33%.
- The shareholders of the Bank do not have a right to receive dividend within 42 days as is available to companies under the Companies Act.
- For details of transactions between Indian Overseas Bank and the Regional Rural Banks (RRBs) sponsored by it, the investors are advised to refer to the para 'Regional Rural Banks' mentioned elsewhere in this Information Memorandum.
- The financial information as contained in PART II under para I to para IX including the notes to accounts, significant accounting policies as well as auditors' qualifications has been duly certified by the statutory auditors of the Bank. As far as possible, these audited numbers have been used for computation or derivation of other financial information contained in the Information Memorandum. However, such other financial information contained in the Information Memorandum except as contained in PART II under para I to para IX has been certified by the management of the Bank.
- In terms of recommendations of RBI Working Group on 'Consolidated Accounting and Other Quantitative Methods to Facilitate Consolidated Supervision' (December 2001), all banks, whether listed or unlisted, should prepare and disclose Consolidated Financial Statement (CFS) from the financial year commencing from 01.04.2002 in addition to solo financial statements at present.

HIGHLIGHTS

1. Bank with 68 years of existence.
2. The Bank is professionally managed with a track record of profitability
3. The Bank has a large network of branches spread throughout the country that may enable it to raise funds competitively. The domestic network of the Bank stood at 1754 offices as on 31.03.2005, which includes 1,496 branches and 252 extension counters. The Bank has 5 overseas branches, 1 extension counter and 1 Limited Purpose outlet also.
4. The Bank has also opened specialised branches to cater to the needs of industrial finance, trade finance, personal banking, international banking, NRIs and small-scale industries.
5. Capital Adequacy Ratio of 14.21% as on 31.03.2005 is above minimum of 9% prescribed by RBI.
6. The Bank's training infrastructure consists of a Staff College, 9 Staff Training centres and a Rural Banking Training Centre.
7. Product portfolio includes Trade Finance, Consumer Loans, Agri-Business Consultancy Services, Insurance Marketing Services, Demat Services, Credit Cards, Kisan Cards etc.
8. Consistent Deposits growth: Deposits have grown by a CAGR of 12.70% during the last 5 years.
9. Consistent Advances growth: Gross Advances have grown by a CAGR of 16.80% during the last 5 years.



INDIAN OVERSEAS BANK

Constituted under the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970
Central Office: 763, Anna Salai, Chennai 600 002
Tel: (044) 2851 9448/2841 5702 Fax: (044) 2852 3372 Website: www.iob.com
Email: investor @ iobnet.com

PRIVATE PLACEMENT OF UNSECURED, REDEEMABLE, NON-CONVERTIBLE, SUBORDINATED BONDS (SERIES VIII) AGGREGATING TO RS. 200 CRORES

PART I

I. GENERAL INFORMATION

Shri M.Ct.M. Chidambaram Chettiar, a forerunner in the areas of banking, insurance and industry founded the Indian Overseas Bank on 10.02.1937. The Bank initiated business immediately in Karaikudi, Chennai and Rangoon followed by a branch in Penang. By the year 1947, IOB had increased its domestic and international coverage, with 38 branches in India and 7 branches overseas. Subsequently, it has been constituted as a Corresponding New Bank under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

The Bank is privately placing Unsecured Redeemable Non-Convertible Subordinated Bonds (Series VIII) aggregating to Rs. 200 crores to the Qualified Institutional Buyers and High Net Worth Individuals and other eligible applicants as mentioned elsewhere in this Information Memorandum.

Authority for the Placement

This private placement of Bonds is being made pursuant to the resolutions passed by the Board of Directors of the Bank on 31.08.2005. The Board has empowered the Chairman and Managing Director/ Executive Director of the Bank severally to decide on the structure of the issue and take such other necessary action in this regard. No specific approval of Central Government is necessary in terms of their letter ref F.No.11/7/2003-BOA dated 24.11.2003.

It is to be distinctly understood that the sanction/approval of RBI should not, in any way, be deemed or construed that the Information Memorandum has been cleared or approved by them nor do they take any responsibility either for the financial soundness of the Bank or for the correctness of the statements made or opinions expressed in this Information Memorandum.

The Bank can carry on its existing activities and future activities planned by it in view of the existing approvals, and no further approvals from any Government authority are required by the Bank to carry on its said activities.

Objects for the Placement

The funds are being raised for further augmenting the Tier II capital, for improving the Capital Adequacy Ratio and for enhancing the long-term resources of the Bank. The Bank has achieved a strong growth in its asset base over the past few years and expects a higher trend of growth in future. In order to maintain the growth in its assets as also to meet the resultant Capital Adequacy Requirement, the Bank wishes to strengthen its capital base through the current issue of Bonds. The bonds would be eligible for inclusion to the Bank's Tier-II capital. However, the addition to Tier II Capital of the Bank would be subjected to progressive discount every year during the tenure of the Bond, as per prescribed Capital Adequacy guidelines of Reserve Bank of India.

DISCLAIMER CLAUSE OF THE ISSUER BANK

This Information Memorandum is neither a Prospectus nor a statement in lieu of Prospectus. It does not constitute an offer of an invitation to subscribe to the Bonds issued by Indian Overseas Bank. Apart from this Information Memorandum, no offering document or prospectus has been prepared in connection with the offering of this Bond issue and that no prospectus in relation to the Issuer or the Bonds relating to this Bond Issue has been delivered for registration nor will such a prospectus be registered under the applicable laws. This Information Memorandum is not intended to form the basis of evaluation for the prospective investors to whom it is addressed and who are willing and eligible to subscribe to these Bonds issued by Indian Overseas Bank. This Information Memorandum has been prepared to give general information regarding Indian Overseas Bank to investors proposing to invest in this issue of Bonds and it does not purport to contain all the information that any such party may require. Indian Overseas Bank do not undertake to update this Information

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Indian Overseas Bank

Memorandum to reflect subsequent events and thus it should not be relied upon without first confirming its accuracy with Indian Overseas Bank.

Prospective investors are required to make their own independent evaluation and judgment before making the investment and are believed to be experienced in investing in debt markets and are able to bear the economic risk of investing in the Bonds. It is the responsibility of prospective investors to have obtained all consents, approvals or authorizations required by them to make an offer to subscribe for, and purchase the Bonds. Prospective investors should not rely solely on any advice given by the Arrangers in connection with their offer to subscribe for, purchase the Bonds, and acknowledge that the Arrangers do not owe them any duty of care in respect of their offer to subscribe for and purchase of the Bonds. It is the responsibility of prospective investors that they will sell these Bonds in accordance with this Information Memorandum and other applicable laws, and ensure that the sale does not constitute an offer to public. Prospective investors should also consult their own tax advisors on the tax implications of the acquisitions, ownership, sale and redemption of Bonds and income arising thereon.

This Information Memorandum is not intended for distribution and is for the consideration of the person to whom it is addressed and should not be reproduced by the recipient. The securities mentioned are being issued on a private placement basis and this offer does not constitute a public offer/invitation.

This information Memorandum is issued by Indian Overseas Bank and signed by its authorized signatory.

Force Majeure

Indian Overseas Bank reserves the right to withdraw the issue prior to the date of closing in the event of any unforeseen development adversely affecting the economic and regulatory environment. In such an event, the issuer will refund the application money, if any, along with the interest payable on such application money, if any.

Listing Clause

It is proposed to be listed in The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. Mumbai

General Disclaimer

The Bank accepts no responsibility for statements made otherwise than in the Information Memorandum and that any one placing reliance on any other source of information would be doing so at his own risk.

Disclaimer Statement from the Arrangers

In light of SEBI circular no. SEBI/MRD/SE/AT/36/2003/30/09 dated September 30, 2003 and SEBI circular no. SEBI/MRD/SE/AT/46/2003 dated December 22, 2003, it is advised that the Issuer Company has exercised self due-diligence to ensure complete compliance of prescribed disclosure norms etc in this Information Memorandum. The role of the Arrangers in the assignment is confined to marketing and placement of the bonds on the basis of this Memorandum as prepared by the Issuer Company. The Arrangers have neither scrutinized or vetted nor have they done any due-diligence for verification of the contents of this Memorandum. The Arrangers shall use this Memorandum for the purpose of soliciting subscription(s) from qualified institutional investor(s) in the bonds to be issued by the Issuer Company on private placement basis. It is to be distinctly understood that the aforesaid use of this Memorandum by the Arrangers should not in any way be deemed or construed that the Memorandum has been prepared, cleared, approved or vetted by the Arrangers; nor do they in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Memorandum; nor do they take responsibility for the financial or other soundness of this Issuer, its promoters, its management or any scheme or project of the Issuer Company. The Arrangers or any of their directors, employees, affiliates or representatives do not accept any responsibility and/or liability for any loss or damage arising of whatever nature and extent in connection with the use of any of the information contained in this Memorandum.

Listing

Applications shall be made to the National Exchange of India Limited (NSE) and Bombay Stock Exchange Limited (BSE) to list the bonds of the Bank now being offered through this Information Memorandum and for permission to deal in such Bonds. If the permissions to deal in and for an official quotation of the Bonds is not granted by the Stock Exchanges, the Bank shall forthwith repay, without interest all such moneys received from the applicants in pursuance of this Information Memorandum. If such monies are not repaid within eight days after the Bank becomes liable to repay them (i.e. from the date of refusal or within 70 days from the date of the closing of the subscription list, whichever is earlier), then the Bank will be liable to repay the monies, with interest, as prescribed under Section 73 of the Companies Act, 1956.

Prohibition by SEBI

The Bank, its associates and companies with which the directors of the Bank are associated as directors or promoters are not prohibited from accessing the capital market / Corporate Debt Securities Market under any order or directions passed by SEBI.

Issue of Bonds in dematerialized form

The Bank will be issuing the Bonds in dematerialized form. The Bank will be opening the accounts with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for issuing these Bonds. Applicant should mention their Depository Participant's name, DP-ID and Beneficiary Account Number in the appropriate place in the Application Form. The Bank will take necessary steps to credit the Depository Account of the allottee(s) with the number of bonds allotted.

Impersonation

As a matter of abundant caution, the attention of the investor is drawn to the provision of Section 68A of the Companies Act, 1956, which is reproduced below:

"(1) Any person who

- (a) makes in a fictitious name an application to a company for acquiring, or subscribing for, any Bonds 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".

Letters of Allotment/ Bond Certificates

The demat account of the allottee(s) with NSDL/ CDSL/ Depository Participant will be credited by the number of bond(s) allotted within 15 (fifteen) days from the Deemed Date of Allotment. Such initial credit to the demat account would be akin to a Letter of Allotment. Subject to completion of all statutory/ legal formalities within 3 months from the Deemed Date of Allotment, or such extended period as may be approved by the appropriate authority(ies), initial credit akin to Letter of Allotment in the demat account of the investor(s) would be replaced with the number of bonds allotted which would be akin to a Bond Certificate. Bonds since issued in dematerialized form, shall be governed as per provisions of the Depository Act, 1996, Securities & Exchange Board of India (Depositories & Participants) Regulations 1996, rules notified by NSDL/ CDSL/ Depository Participant from time to time and applicable laws and rules notified in respect thereof.

Over subscription

In the event of the present issue of Bonds being over subscribed, the allotment will be on a proportionate basis.

Issue Programme

| | | |
|--------------------------|----------|--------------------|
| ISSUE OPENS ON | Thursday | SEPTEMBER 15, 2005 |
| ISSUE CLOSES ON | Friday | SEPTEMBER 16, 2005 |
| DEEMED DATE OF ALLOTMENT | Friday | SEPTEMBER 16, 2005 |

The Bank reserves the right to change the issue closing date and in such an event, the Deemed Date of Allotment for the Bonds may also be revised by the Bank at its sole and absolute discretion. In the event of any change in the above issue programme, the investors will be intimated about the revised issue programme by the Bank.

Shri Sivaram Swamy, General Manager, Indian Overseas Bank, has been designated by the Bank as the Compliance Officer for the Issue. In case of any pre-issue/ post-issue related problems such as non-receipt of letters of allotment/ bond certificate/ refund orders etc. the investors are requested to contact the Compliance Officer at:

Mr. Sivaram Swamy
 General Manager
 Indian Overseas Bank
 Central Office,
 763, Anna Salai,
 Chennai – 600 002.
 Tel: (044) 28519419, Fax: (044) 28523372
 E-mail: swamy@jobnet.co.in

Credit Rating

CRISIL Limited (CRISIL) has assigned a 'AA+/Stable' (Double A Plus with stable outlook) rating to the captioned debt programme of the Bank aggregating to Rs. 200 crores. This rating indicates high degree of safety with regard to timely payment of interest and principal on the instrument. A copy of letter from CRISIL assigning the credit rating of 'AA+/Stable' to the current Rs. 200 crores issue of bonds of the Bank is reproduced elsewhere in this Information Memorandum.

Credit Analysis & Research Limited (CARE) has assigned a 'CARE AA+' (Double A Plus) rating to the Rs. 200 crores present issue of Bonds of the Bank. Instruments carrying this rating are judged to be of high quality by all standards. They are also classified as high investment grade. A copy of letter from CARE assigning the credit rating of 'CARE AA+' to the current Rs. 200 crores issue of bonds of the Bank is reproduced elsewhere in this Information Memorandum.

The above ratings are not recommendation to buy, sell or hold securities and investors should take their own decision. The ratings may be subject to revision or withdrawal at any time by the assigning rating agencies and each rating should be evaluated independently of any other rating. The ratings obtained are subject to revision at any point of time in the future. The rating agencies have the right to suspend, withdraw the rating at any time on the basis of new information etc. For details, please refer to para on Credit Rating mentioned elsewhere in this Information Memorandum.

CORPORATE GOVERNANCE

The SEBI guidelines in respect of corporate governance, in line with the regulatory framework for public sector banks, are applicable to the Bank. In this regard, the Bank has already broad based its Board of Directors and also set up the necessary committees as per the requirements of the revised guidelines.

Board of Directors: In terms of section 7(2) of the Banking Companies (Acquisition and Transfer of Undertaking) Act 1970, the general superintendence, direction & management of the affairs and business of the Bank is vested with the Board of Directors.

The present strength of the Board of Directors is eleven comprising of two whole time directors (including CMD) and nine nonexecutive Directors, of which four directors represent shareholders, who are Independent Directors.

Committees of the Board: To facilitate the decision-making process, Board has constituted the following committees and delegated specific powers to them:

1. **Management Committee of the Board (MCB):** MCB is constituted as per the provisions of the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970. Some of the important delegated functions and duties of MCB are as under:
 - a) Sanction of credit proposals (fund based and non-fund based).
 - b) Loan Compromise/write off proposals.
 - c) Proposals for approval of capital and revenue expenditure.
 - d) Proposals relating to acquisition and hiring of premises including deviation from norms for acquisition and hiring of premises.
 - e) Filing of suits/appeals, defending them etc.
 - f) Investments in Government and other approved securities, shares and debentures of companies including underwriting.

2. **Audit Committee of the Board (ACB):** This committee is constituted by the Board of Directors as per instructions of the RBI. The main delegated functions and duties of the ACB are as under:
 - To provide direction to and to monitor the operation of the total audit function of the Bank including organisation, operationalisation, quality control of the internal audit, inspection within the Bank and follow up on the statutory/ external audit of the Bank and inspections of RBI.
 - To review the internal inspection/audit function in the Bank: the system, its quality and effectiveness in terms of follow-up and to review the inspection reports of the specialised and extra large branches and all the branches with unsatisfactory rating.

ACB also focusses on the follow up on Inter-Branch Adjustment Accounts, Un-reconciled long outstanding entries in Inter-Bank Accounts and Nostro Accounts, Arrears in balancing of books at various branches, Frauds and all other major areas of house-keeping.

3. **Shareholders Grievances Committee:** A non-executive director – the shareholder director heads the Shareholders Grievances Committee. The committee comprises of three members of which two are shareholder directors and the ED is another member of the committee. The committee is responsible for looking after the grievances of the shareholders.

4. **Share Transfer Committee:** Consequent to the amendments to our General regulations w.e.f., 27.11.2003, the Board in its meeting held on 23.12.2003 reconstituted the committee and has nominated a Board level committee Viz., 1 CMD, or in his absence ED., as Chairman 2.a Shareholder Director, and 3. another Director as members.

5. **Risk Management Committee:** The Committee was constituted on 24.03.2004 for reviewing the Risk Management Policies. As per directions of RBI, the committee was reconstituted w.e.f., from 23.12.2003 with following Directors as members of the committee. 1) CMD as chairman 2) ED 3)RBI nominee Director and 4) a Shareholder director.
6. **Other Committees:** There are various other committees like Asset Liability Management Committee, Investment Committee, Top Management Committee consisting of CMD, ED and GMs along with department executives, which have been constituted for day to day functioning, review and monitoring various aspects of business.
7. **Remuneration Committee:** The Board has not set up a remuneration committee to determine the remuneration payable to the executive directors as the remuneration to them is decided by the Central Government and the Bank does not pay any remuneration except sitting fees to non-executive directors

The Bank further undertakes that it shall take the necessary steps to comply with all the requirements of the guidelines on corporate governance as would be applicable to it from time to time.

REGISTRARS TO THE ISSUE

Cameo Corporate Services Limited
 "Subramanian Building" Vth Floor,
 1, Club House Road,
 Chennai – 600 002.
 Tel: (044) 28460390, 28460425.
 Fax: (044) 28460129.

TRUSTEES TO THE BONDHOLDERS

IDBI Trusteeship Services Limited
 Regd. Office, 10th Floor,
 Nariman Bhavan, 227, Vinay K. Shah Marg,
 Nariman Point, Mumbai – 400 021.
 Tel. (022) 56314499.
 Fax. (022) 56311776.

ARRANGERS TO THE ISSUE

A. K. Capital Services Limited
 135 & 136, 13th Floor, Free Press House,
 215, Free Press Journal Marg,
 Nariman Point, Mumbai – 400 021.
 Tel. (022) 56349300.
 Fax. (022) 56360977.

SPA Merchant Bankers Limited
 602, Embassy Centre,
 Nariman Point,
 Mumbai – 400021.
 Tel. (022) 56338880.
 Fax. (022) 22846318.

BANKERS TO THE ISSUE

Indian Overseas Bank
 Chennai House,
 6, Esplanade,
 Chennai – 600 108.

STATUTORY AUDITORS TO THE BANK

M/s. S R R K Sharma Associates, Chartered Accountants, Kolkata.
 M/s. S K Singhania & Co., Chartered Accountants, New Delhi.
 M/s. R S Sipayya & Co, Chartered Accountants, New Delhi.
 M/s. Amit Ray & Co, Chartered Accountants, Allahabad (U.P.)
 M/s. Ved & Co, Chartered Accountants, Gaziabad (U.P.)
 M/s. C. S. Hariharan & Co, Chartered Accountants, Chennai.

II. CAPITAL STRUCTURE OF THE BANK

CAPITAL STRUCTURE

| | (in Rs.) | As on 31.03.2005 |
|---|----------|------------------|
| A. Authorised Capital | | |
| 1,50,00,00,000 Equity Shares of Rs. 10/- each | | 15,00,00,00,000 |
| B. Issued, Subscribed and Paid-Up Capital | | |
| 54,48,00,000 Equity Shares of Rs. 10/- each | | 5,44,80,00,000* |
| C. Paid-Up Capital after the issue | | |
| 54,48,00,000 Equity Shares of Rs. 10/- each | | 5,44,80,00,000* |
| D. Share Premium Account | | |
| After the issue | | 1,40,00,00,000 |

*Note: (1) In September 2003, the Bank made a Public Issue of 10,00,00,000 shares of Rs 10/- each for cash at a premium of Rs.14/- at a price of Rs 24/- each, aggregating Rs 240 Crores and the shares were allotted on 07.10.2003. After the said issue, *the Government of India holds 61.23% of the equity capital of the Bank.

(2) This private placement of Bonds aggregating to Rs 200 Crore is being made pursuant to the resolution passed by the Board of Directors of the Bank on 31 08 2005 The Board has empowered the Chairman and Managing Director of the Bank to decide on the structure of the issue.

Capital Adequacy Position of the Bank

Summary of Capital adequacy position of the Bank for the last 5 years:

| As on March 31' | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------------------------|----------|----------|----------|----------|----------|
| Total Tier I Capital | 741.44 | 909.71 | 1023.89 | 1449.22 | 1832.22 |
| Total Tier II Capital | 565.25 | 685.31 | 959.25 | 1236.33 | 1832.22* |
| Total Capital fund | 1306.69 | 1595.02 | 1983.14 | 2685.55 | 3664.44 |
| Risk weighted Assets | 12753.80 | 14746.84 | 17553.56 | 21496.51 | 25785.83 |
| Capital Adequacy Ratio (%) | 10.24 | 10.82 | 11.30 | 12.49 | 14.21 |

*Actual Tier II Capital was Rs1854.63 crores but restricted to the extent of Tier I Capital

Requirement of capital enhancement

In the years to come, the Bank expects growth in its business activities and operations. Accordingly, risk weighted assets of the Bank are also expected to increase over the years. The key areas of focus for the Bank in this regard are retail advances, housing loans, loans to retail traders and self employed businessmen, SSI lending and agricultural advances. Increase in Tier I capital through retained earnings alone may not be enough to enable the Bank to maintain sufficient capital adequacy ratio. In view of the likely expansion of risk-weighted assets, the Bank proposes to augment its Net worth in order to sustain a healthy CAR.

Use of Issue Proceeds

The proceeds of this Issue will be utilised for the regular business activities of the Bank, in line with the estimated growth in risk weighted assets and accordingly to maintain an optimal Capital Adequacy Ratio. The issue expenses will be borne by the Bank. Moreover, listing of the aforesaid bonds will provide liquidity to the investors and will also provide a platform for trading.

It may be noted that the Bank raised additional Equity Capital by way of Public Issue of 10,00,00,000 Equity Shares of Rs 10/- each at a price of Rs 24/- each, aggregating to Rs 240 Crores through a Prospectus in September 2003.

The Bank, till date, has raised Tier II Capital by way of Private Placement of Unsecured Redeemable Non-Convertible Subordinated Bonds in the nature of Promissory Notes (Series I to VI) to augment capital adequacy as under:

| Series | Date of Allotment | Size (Rs in crores) | Tenor (In Months) | Credit Rating | Coupon (%) | Redemption Date |
|--------|-------------------|------------------------|----------------------|------------------|---------------|-----------------|
| i | 18.01.1999 | 150.00 | 60 | Unrated | 13.75 | 17.01.2004 |
| ii | 08.03.2001 | 125.00 | 67 | AA | 11.45 | 07.10.2006 |
| iii | 31.12.2001 | 150.00 | 67 | AA | 09.40 | 30.07.2007 |
| iv | 31.10.2002 | 175.00 | 78 | AA | 07.45 | 30.04.2009 |
| v | 01.03.2004 | 200.00 | 120 | CARE AA+ | 06.00 | 29.02.2014 |
| vi | 26.07.2004 | 200.00 | 120 | CARE AA+ | 06.40 | 25.07.2014 |
| vii | 08.01.2005 | 150.00 | 123 | CARE AA+ | 07.25 | 08.04.2015 |

Note: The bank has redeemed Series I aggregating to Rs. 150 crores on the due date.

(4) The Authorised Share Capital of the Bank is Rs. 1,500 crores as per sub-section 2A of section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, as amended from time to time.

(5) Under Section 3A of the Bank Nationalisation Act, no notice of any trust, express, implied or constructive, shall be entered on the register or be receivable by the Bank. In terms of this Section, while trusts could make investments in Securities of the Bank, this could be only in the name of the trustees and no details of the trust would be taken cognizance of by the Bank on its Register of Shareholders.

III. TERMS OF THE PRESENT ISSUE

The Bank is intending to raise an aggregate amount of Rs. 200 crores through the issue of Unsecured Redeemable Non-Convertible Subordinated Bonds of face value of Rs. 10 lakhs each for cash at par (hereinafter referred to as 'the Bonds') by way of private placement. The bonds will constitute direct unsecured and subordinated obligations of the Bank, subordinate to the claims of all other creditors and depositors of the Bank as regards repayment of principal and interest by the Bank out of its own funds.

Instrument at a Glance

| | |
|--------------------------------|--|
| Issue Size | Rs. 200 crores |
| Nature of Instrument | Unsecured Redeemable Non-Convertible Subordinated Bonds in the nature of Promissory Notes (Series VIII) |
| Instrument Form | Only in dematerialised form |
| Credit Rating | 'AA+/Stable' by CRISIL and 'CARE AA+' by CARE |
| Face Value per Bond | Rs. 10 lakhs |
| Minimum Application | One Bond and in multiples of One Bond thereafter |
| Tenor/ Maturity | 123 months |
| Redemption | At par on maturity |
| Coupon Rate* | 7.40% p.a. payable half-yearly |
| Coupon Payment | Semi-Annual |
| Interest on Application Money* | @ 7.40% p.a. from the date of realisation of cheque(s)/ demand draft(s) upto one day prior to the Deemed Date of Allotment |
| Trustees | The Bank has appointed IDBI Trusteeship Services Limited to act as Trustees to the Bondholder(s) |
| Listing | Proposed on the Bombay Stock Exchange Limited (BSE) |

* subject to deduction of tax at source, as applicable.

Unsecured Redeemable Non-Convertible Subordinated Bonds

The bonds will constitute direct, unsecured and subordinated obligations of the Bank, subordinate to the claims of all other creditors and depositors of the Bank as regards repayment of principal and interest by the Bank out of its own funds. The Bonds shall be negotiable instruments in the nature of Promissory Notes, transferable by endorsement and delivery.

Key Terms:

Tenor

The Bonds will mature on the expiry of 123months from the Deemed Date of Allotment.

Coupon

The investors will receive interest @ 7.40% p.a. payable semi-annually (subject to deduction of tax at source, as applicable).

Face Value Per Bond

Each Bond has a face value of Rs.10,00,000/- and are issued at par at Rs.10,00,000/-.

Minimum Application Size

The Minimum investment shall be 1(one) bond i.e. Rs.10,00,000/- and in multiples of 1(one) Bond i.e. Rs.10,00,000/- thereafter.

Security

The Bonds are unsecured in nature.

Redemption

The face value of the Bond will be redeemed at par, at the end of 123 months from the Deemed Date of Allotment. The Bond will not carry any obligation, for interest or otherwise, after the date of redemption. No Put/ Call option is available on the bonds. However, the bonds shall not be redeemable before maturity at the initiative of the holder or without the consent of the Reserve Bank of India in terms of the Capital Adequacy guidelines DBOD.BP.BC 5/21.01.002/98.99 dated 08.02.1999 as ammended.

Interest on Application Money

The interest on application money shall be paid to the applicants on all valid applications (including refunds) at the coupon rate (i.e. @ 7.40% p.a, payable semi-annually.) (subject to deduction of tax at source, as applicable) from the date of realization of the cheque(s)/ demand draft(s) upto one day prior to the Deemed Date of Allotment.

Coupon/ Interest Payment

Interest on Bond(s) shall be payable at the coupon rate (i.e. @ 7.40% p.a. payable semi-annually) (subject to deduction of tax at source, as applicable) on the outstanding face value of bonds till final redemption thereof. If any interest payment date falls on a day, which is not a business day ("business day", being a day on which Commercial Banks are open for business in the city of Chennai), then payment of interest will be made on the next business day but without liability for making payment of interest for the delayed period.

Rights of Bondholders

The Bondholder (s) will not be entitled to any rights and privileges of shareholders other than those available to them under the law. The Bond shall not confer upon the holders the right to receive notice, or to attend and vote at the general meetings of the Bank. The principal amount and interest, if any, on the Bond will be paid to the holder only, or in the case of joint-holders, to the person whose name stands first in the Register of Bondholders maintained by the Bank. The Bond shall be subject to other terms and conditions incorporated in the Bond certificate.

Modification of Rights

The rights, privileges, terms and conditions attached to the Bond may be varied, modified or abrogated with the consent, in writing, of those holders of the Bond who hold at least three fourth of the outstanding amount of the Bond or with the sanction accorded pursuant to a resolution passed at a meeting of the Bondholders, provided that nothing in such consent or resolution shall be operative against the Bank where such consent or resolution modifies or varies the terms and conditions of the Bond, if the same are not acceptable to the Bank.

Ranking of Bonds

The Subordinated Bonds being privately placed and unsecured, these Bonds does not qualify for any ranking.

Terms of Payment

Applications should be for a minimum of 1 Bond. All cheques/drafts should be in favour of "Indian Overseas Bank A/c – Bonds Issue Series –VIII" and crossed 'Account Payee Only'. The entire amount of Rs. 10 lakhs (Rs. Ten Lakhs only) per bond is payable on application.

Transfer of Bonds

The transfer of bonds in dematerialized form would be in accordance with the rules/procedures as prescribed by NSDL/ CDSL/ Depository Participant.

Procedure for Application and Mode of Payment

This being a Private Placement Offer, Investors who are established/Resident in India and who have been addressed through this communication directly only are eligible to apply.

Applications for the Bonds must be in the prescribed form (enclosed) and completed in BLOCK LETTERS in English and as per the instructions contained therein.

Applications complete in all respects (along with all necessary documents as detailed in the memorandum of information) must be submitted before the last date indicated in the issue time table or such extended time as decided by the Bank, at any of the designated collection centres, accompanied by the subscription amount by way of cheque(s)/draft(s) drawn on any bank including a co-operative bank which is situated at and is a member of the Bankers' clearing house located at a place where the application form is submitted. Outstation cheque(s)/Bank draft(s) drawn on Bank(s) not participating in the clearing process at the designated clearing centres will not be accepted. Money orders/postal orders will also not be accepted. The Bank assumes no responsibility for any applications/ cheques/ demand drafts lost in mail.

All cheques/ drafts should be in favour of "Indian Overseas Bank A/c – Bonds Issue Series VIII" and crossed 'Account Payee Only' payable at par at the centre where the same is deposited. The entire amount of Rs. 10 lakhs (Rs. Ten Lakhs only) per bond is payable on application.



No separate receipt will be issued for the Application money. However, the Bank's designated collection branches or arrangers receiving the duly completed Application Form will acknowledge receipt of the application by stamping and returning to the applicant the Acknowledgment Slip at the bottom of the each Application Form.

As a matter of precaution against possible fraudulent encashment of Interest Warrants/Cheques due to loss/misplacement, the applicant should furnish the full particulars of his or her bank account (i.e. Account Number, name of the bank and branch) at the appropriate place in the Application Form. Interest warrants will then be made out in favour of the bank for credit to his/her account so specified and despatched to the investors, who may deposit the same in the said bank.

Applications may be made by

- 1) Provident Funds, Superannuation /Pension Funds, Gratuity Funds,
- 2) Commercial Banks, Financial Institutions, Insurance Companies,
- 3) State/Central Co-operative Banks, Development Co-operative Banks, Land Development Banks, Regional Rural Banks and Primary Co-operative Banks,
- 4) Mutual Funds,
- 5) Trusts and Association of Persons, which are authorised to invest in bonds,
- 6) Bodies Corporate, Companies and Societies authorised to invest in bonds,
- 7) Individuals (excluding Minors and NRIs) to whom this Information Memorandum is specifically addressed,
- 8) Scientific and/or Industrial Research Organisation, authorised to invest in bonds,
- 9) Other Government/Non Government agencies/Boards/Institutions etc.

APPLICATION BY PROVIDENT FUNDS, SUPERANNUATION FUNDS AND GRATUITY FUNDS

The Government of India has, vide its Gazette notification dt.06.03.2003, in partial modification of notification no. F.11 (3-PD/98) dated March 31, 1999 has permitted Provident, Superannuation and Gratuity Funds to invest up to 30% of incremental accretions in the bonds/securities of “public sector companies” as defined under Section 2 (36-A) of the Income Tax Act, 1961. Also, an additional amount of 30% of the incremental accretions, can be invested at the discretion of the Board of Trustees in any of the remaining three prescribed categories of investments. The Bank is a “public sector company” within the meaning of the said section, and hence Provident Funds, Superannuation Funds and Gratuity Funds can invest in the Bonds.

The applications must be accompanied by certified true copies of (i) Trust Deed/Bye Laws/Resolutions, (ii) Resolution authorising investment and (iii) specimen signatures of the authorised signatories. Those desirous of claiming tax exemptions on interest on application money are compulsorily required to submit a certificate issued by the Income Tax Officer along with the Application Form. For subsequent interest payments, such certificates have to be submitted periodically.

APPLICATIONS BY COMMERCIAL BANKS

Investment by commercial banks in subordinated debt issues of other banks would attract 100% risk weights for the investing bank. The applications must be in conformity with extant RBI guidelines and accompanied by certified true copies of i) Board Resolution authorizing investment, ii) Power of Attorney and iii) specimen signatures of authorised signatories.

APPLICATION BY REGIONAL RURAL BANKS

Reserve Bank of India, vide circular No.RPCDNB.BC.98/03.05.34/94/95 dated January 2, 1995 and amended vide Circular No. RPCD.RRB.BC.882/03.05.34/96-97 dated December 13, 1996 has permitted RRBs to invest their surplus non-SLR funds in Bonds of public sector undertakings. However, the investments are subject to the prudential and single exposure norms of RBI.

The applications must be accompanied by certified true copies of (i) Government Notification/Certificate of Incorporation/Articles and Memorandum of Association/Other deed governing the constitution, (ii) resolution authorising investment, (iii) Power of Attorney (iv) specimen signatures of authorised signatories and (v) income tax recognition certificate/Form 15 AA.

APPLICATION BY PRIMARY/ DISTRICT/ STATE/CENTRAL CO-OPERATIVE BANKS

Any State Co-operative Bank (SCB)/District Central Co-operative Bank (DCCB)/Primary Co-operative Bank (PCB) in any State would be eligible to invest in these Bonds with necessary approval. Reserve Bank of India vide notification No. BR.CIR.72/16.20.00/93-94 dated 16th May 1994 have clarified that the primary co-operative banks can invest their surplus funds upto 10% of their deposits in Bonds of public sector undertakings, provided inter-alia that a provision exists for such investments in the respective state Co-operative Societies Act/Multi State Co-operative Societies Act and the Banks should take permission from the Registrar of Co-operative Societies of the State, for such investments. Further, Reserve Bank of India vide notification no. BR.12/16.20.00/95-96 dated Jan 6, 1996 has requested the Registrar of Co-operative Societies of all States to grant general permission to the primary co-operative banks for such investments, subject to their complying with other conditions and safety measures laid down by Reserve Bank of India from time to time.

As per RBI circular no. PPF.ROC.9/07.02.03/98-99 dated June 23, 1999; Central/ State Cooperative Banks can invest in PSU bonds an amount not exceeding 10% of their deposits and 5% of their average non-SLR surplus funds after obtaining requisite permission. The applications must be accompanied by certified true copies of i) Resolution authorizing investment/ Power of Attorney and ii) specimen signatures of authorised signatories.

APPLICATION BY TRUSTS

Trusts, whose Trust Deeds provide for investment in Bonds may apply to this issue of bonds, subject to the approval of the Charity Commissioner or other appropriate authority as the case may be. The application must be accompanied by certified true copies of i) Trust Deed/Bye Laws, ii) Certificate of Registration, iii) Resolution authorising investment and containing operating instructions, iv) Specimen signatures of authorised signatories and v) Income exemption certificate (including interest on application money).

APPLICATIONS BY CORPORATE BODIES/ COMPANIES/ FIs/ STATUTORY CORPORATIONS

The applications must be accompanied by certified true copies of (i) Memorandum and Articles of Association/ Constitution/ Byelaws, (ii) resolution authorising investment and containing operating instructions, (iii) specimen signatures of authorised signatories and (iv) Form 15 AA for claiming exemption from deduction of tax on the interest income (including interest on application money), if applicable.

APPLICATIONS UNDER POWER OF ATTORNEY

In case of applications under Power of Attorney by limited companies or other bodies corporates or commercial banks or regional rural banks/ primary/ district/ central co-operative banks or, individuals, a certified copy of Power of Attorney with a copy of the relevant authority/resolution (other than individuals) must be deposited along with the Application Form.

INDIVIDUALS

Individuals are also entitled to apply to the bond issue subject to the application qualifying for the minimum application amount and are valid in all other respects. Those desirous of claiming tax exemptions on interest on application money are compulsorily required to submit relevant declaration Form (as per I.T. Act 1961) along with the Application Form. For subsequent interest payments, such Forms have to be submitted periodically.

In the case of joint applications, the number of such applicants should not be more than three. All communications and cheques for interest/redemption will be addressed to the applicant whose name appears first, at the address stated in the application form/register of Bondholders.

PAN/GIR Number

All Applicants should mention their Permanent Account Number or the GIR Number allotted under Income Tax Act, 1961 and the Income Tax Circle / Ward / District. In case where neither the PAN nor the GIR Number has been allotted, the fact of such a non-allotment should be mentioned in the Application Form in the space provided.

Signatures

Signatures should be made in English and in any of the Indian Languages. Thumb impressions must be attested by an authorized official of a Bank or by a Magistrate/Notary Public under his/her official seal.

Nomination Facility

As per Section 109 A of the Companies Act, 1956, only individuals applying as sole applicant/Joint Applicant can nominate, in the Prescribed manner, a person to whom his Bonds shall vest in the event of his death. Non-individuals including holders of Power of Attorney can not nominate.

Disposal of Applications and Application Money

The Bank reserves, in its own, absolute and uncontrolled discretion and without assigning any reason, the right to accept in whole or in part or reject any application. If an application is rejected in full, the entire application money received will be refunded to the applicant. If the application is rejected in part, excess of the application money received will be refunded to the applicant within 30 (thirty) days from the date of closure of the Issue. Refund will be made by cheques or demand drafts drawn in favour of the sole / first applicant (including the details of his savings/ current account number and the name of the bank with whom the account is held) and will be despatched by Registered Post. Such refund orders D.D.s/ Cheques will be payable at par at specified centres. The Bank has undertaken to make adequate funds available to the Registrar to the Issue for complying with the requirements of despatch of Allotment Letters/ Refund Orders by Registered Post.

Disputes & Governing Law

The Bonds are governed by and shall be construed in accordance with the existing laws of India. Any dispute arising thereof will be subject to the jurisdiction of courts at Chennai.

Trading of Bonds

The trading of privately placed Debt securities would be permitted in standard denomination of Rs.10 lakhs in the anonymous, order driven system of the Stock Exchanges in a separate trading segment. The marketable lot would be Rs.10 lakhs. All class of investors would be permitted to trade subject to the standard denomination/marketable lot. The trades executed on spot basis shall be required to be reported to the Stock Exchange(s).

Payment of Interest

Payment of interest will be made (subject to deduction of tax at source at the rates prevailing from time to time under the provisions of the Income Tax Act, 1961, or any other statutory modifications or reenactment thereof), to the holders of the Bond whose name is registered in the Register of Bondholders, on the interest payment date. For this purpose, the Register of Bondholders would remain closed for a period of fifteen (15) days prior to and including the interest payment date. In the event of delay in the lodgment for transfer by the transferee(s), interest payment due, if any, shall be made to the holder whose name is registered in the register of Bondholders on the interest payment date. In such case, claims for the interest by the transferee(s) would need to be settled with the transferor(s) and not with the Bank.

Tax Deduction at Source

Those desirous of claiming exemption from deduction of income tax at source as per the Income Tax Act, 1961 on the interest on application money, are required to submit a certificate on form 15-H, in duplicate, along with the Application form in terms of Income Tax rules.

The interest payable subsequent to the deemed date of allotment will be treated as “Interest on Securities” as per Income Tax rules and those desirous of claiming exemption from deduction of income tax at source on the interest payable on Bonds will have to submit a certificate on form 15-F (if individuals) or Certificate issued by A.O., Income Tax Officer on Form 15AA (in the case of others) under Income Tax Rules, 1962, in duplicate, periodically so as to reach Cameo Corporate Services Limited, “Subramanian Building”, Vth Floor, 1, Club House Road, Chennai – 600 002 [Tel: (044) 28460390, 28460425; Fax: (044) 28460129] at least fifteen days before the due date for payment of interest.

Succession

In the event of the demise of the sole/first holder of the Bond(s) or the last survivor, in case of joint holders for the time being, the Bank will recognise the executor or administrator of the deceased Bondholder, or the holder of succession certificate or other legal representative as having title to the Bond(s). The Bank shall not be bound to recognise such executor or administrator, unless such executor or administrator obtains probate, wherever it is necessary, or letter of administration or such holder is the holder of succession certificate or other legal representation, as the case may be, from a Court in India having jurisdiction over the matter. The Bank may, in its absolute discretion, where it thinks fit, dispense with production of probate or letter of administration or succession certificate or other legal representation, in order to recognise such holder as being entitled to the Bond(s) standing in the name of the deceased Bondholder on production of sufficient documentary proof or indemnity.

Notices

The notices to the Bondholder(s) required to be given by the Bank shall be deemed to have been given if sent by ordinary post to the register holder of the bond (in case of joint holding, such notice will be sent to the holder whose name appears first in the Register of Bondholders). All notices to be given by the Bondholder(s) shall be sent by registered post or by hand, delivery to the Bank or to such persons at such address as may be notified by the Bank from time to time.

Future Borrowings

The Bank will be entitled to borrow/raise loans or avail finance in whatever form as also issue Bond/ bonds/ other securities in any manner having such ranking in priority, *pari passu* or otherwise and change the capital structure, including issue of shares of any class, on such terms and conditions as the Bank may think appropriate, without the consent of or intimation to the Bondholder(s) and/ or Trustees in this connection.

Miscellaneous

A Register of Bondholders shall be maintained at the Head Office of the Bank. Such Register shall be closed fifteen (15) business days prior to each interest payment date/ date of maturity. In case of dissolution/ bankruptcy/ insolvency/ winding



up of Bondholders, the Bond certificates shall be transmittable to the Legal Representative(s)/ Successor(s) or the Liquidator, in accordance with the law on such terms as may be deemed appropriate by the Bank.

UNDERTAKING BY THE BANK

The Bank undertakes

- a) to attend to the complaints received in respect of the Issue expeditiously and satisfactorily;
- b) to take all steps for completion of necessary formalities for listing and commencement of trading at the Stock Exchanges where the securities are to be listed.
- c) to apply in advance for the listing of the securities;
- d) that the funds required for despatch of refund orders/ allotment letters by registered post shall be made available.
- e) that the Allotment Letters/Refund Orders to the applicants shall be dispatched within specified time;
- f) that no further issue of securities shall be made till the securities offered through this Offer Document are listed or till the application monies are refunded on account of non- listing, under subscription, etc.
- g) to cooperate with the Credit Rating Agency in providing true and adequate information till the debt obligations in respect of the instrument are outstanding.

TAX BENEFITS

M/s C.S.Hariharan & Co., Chartered Accountants, Chennai vide their Tax Certificate dated 13.9.2005 advised the following Tax Benefits under the prevailing Tax Laws.

TO THE BANK UNDER THE INCOME TAX ACT

1. In terms of Section 10(15) of the Income Tax Act, 1961 interest on certain Securities / Bonds as notified by the Government of India is exempt from Tax.
2. Under Section 10(23G) of the Income Tax Act, 1961 any income by way of Dividends (other than Dividend referred to in Section 115-O), Interest or Long Term Capital Gains of the Bank arising from Investments made on or after the first day of June 1998, by way of Bonds/securities or long term finance in any enterprise wholly engaged in the business of:
 - i. developing or
 - ii. maintaining and operating or
 - iii. developing, maintaining and operating any infrastructure facility which has been approved by the Central Government and which satisfied the prescribed conditions as per rule 2E of the Income Tax Rules, 1962, is exempt from tax.

Provided that income by way of dividends (other than Dividend referred to in Section 115-O), interest or long term Capital Gains of an Infrastructure Company shall be taken into account in computing the book profit and income tax payable u/s. 115-JB.

3. Under Section 36(1)(vii a) of the Income Tax Act in respect of any provision made for bad and doubtful debts, the Bank is entitled to a deduction not exceeding:
 - i. 7.5% of the total income (computed before making any deductions under the said clause and Chapter VIA) and
 - ii. 10% of the aggregate average advances made by the rural branches of the Bank computed in the prescribed manner.

However, the Bank, at its option, instead of deduction referred to in para 2(i) and 2(ii) above, can claim in the assessment of any of the five consecutive years, commencing on or after 01-04-2000 and ending before 01-04-2005, a deduction in respect of any provision made by it for any assets classified as doubtful assets or loss assets in accordance with the guidelines issued by Reserve Bank of India in this behalf, of an amount not exceeding 10% (5% upto 31-03-2003) of the amount of such assets as appearing in the books of the Bank on the last day of previous year.

However, whichever option is claimed, the deduction under section 36(1)(VII a) shall not exceed the actual amount of provision for bad and doubtful debts made in the books.

Also the Bank can, at its option, with effect from 01-04-2004 claim a further deduction not exceeding the income derived from redemption of securities in accordance with a scheme framed by the Central Government provided such income has been disclosed in its return of income under the head "Profits and gains of business or profession".

4. Apart from the deduction available under Section 36(1)(viia) of the Income Tax Act, the Bank is entitled to claim a deduction under Section 36(1)(vii) of the Income Tax Act for the amount of bad debts written off in its books of account. The deduction is limited to the amount by which such debt or part thereof, which exceeds the credit balance in the provision for bad and doubtful debts account made under Section 36(1)(viia) and subject to the compliance of provisions of Section 36(2)(v).
5. As per Section 43D of the Income Tax Act interest income on certain categories of bad or doubtful debts as specified in Rule 6EA of the Income Tax Rules having regard to the guidelines issued by Reserve Bank of India in relation to such debts shall be chargeable to tax, only in the year in which it is actually received or the year in which it is credited to the Profit and Loss Account by the Bank, whichever is earlier.
6. Under Second Proviso to Section 48 of the Income Tax Act, the Long Term Capital Gains of the Bank arising on transfer of capital assets other than bonds and debentures (not being capital indexed bonds) will be computed after indexing the cost of acquisition, improvement and would be charged at a concessional rate of 20% plus applicable surcharge as per Section 112 of the Income Tax Act.

U/s. 10(38) of the Income Tax Act, 1961, in respect of Long Term Capital Gains arising to the Bank from transfer of Equity Shares in a Company or a unit of an equity oriented Mutual Fund will not be liable to Tax if,

- a) the transaction of such sale is entered into on or after 1st day of October 2004 and
- b) such transaction is chargeable to Securities Transaction Tax.

In case the above conditions are not satisfied, then the Bank is liable to pay tax @ 10% with applicable surcharge and cess without indexation benefits, if the Bank opts for.

Further, the following benefits are available to claim exemption.

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

Under Section 54ED of the Income Tax Act, Capital Gains arising from the transfer of investment held as long term capital asset, being listed securities or unit is exempt fully from tax if the Bank invests within a period six months from the date of such transfer, the whole of the capital gains in acquiring equity Bonds/securities forming part of an eligible issue of capital as defined in clause (i) to explanation in the above section. Where only a part of the capital gains is so invested then the exemption is proportionately available. The exemption is available subject to other conditions specified in that Section.

6. U/s. 111 A of the Income Tax Act and other relevant provisions of the Act, Short Term Capital Gains (shares held for a period of less than 12 months) arising on transfer of shares in the Company on a recognized stock exchange shall be taxed @ 10% (plus applicable surcharge and cess).
7. By virtue of Section 10(34) of the Income Tax Act, Dividend Income referred to in Section 115-O of the Act is exempt from tax in the hands of the Bank.
8. By virtue of Section 10(35) of the Income Tax Act, the following income shall be exempt in the hands of the Bank:
 - a) Income received in respect of the units of a Mutual Fund specified under clause (23D); or
 - b) income received in respect of units from the Administrator of the specified undertaking; or
 - c) income received in respect of units from the specified company; Provided that this exemption does not apply to any income arising from transfer of units of the Administrator of the specified undertaking or of the specified company or of a mutual fund, as the case may be.



9. By virtue of Section 10(36) of the Income Tax Act, any long term capital gain arising to the Bank from the transfer of a long term capital asset being an eligible equity share in a company purchased on or after 1st day of March 2003 and before 1st day of March 2004 and held for a period of 12 months or more would not be liable to tax in the hands of the Bank.
10. In accordance with and subject to the provisions of Section 35, the Bank would be entitled to deduction in respect of expenditure laid out or expended on Scientific Research.
11. Subject to the fulfilment of certain conditions specified in Section 72 A, in case of an amalgamation of Banking Company referred to in Section 5(1) of the Banking Regulation Act, 1949, with a specified Bank, the accumulated loss and unabsorbed depreciation of the amalgamating company shall be deemed to be the loss or depreciation allowance of the amalgamated company for the previous year in which amalgamation was effected and the provisions relating to set off and carry forward of loss and unabsorbed depreciation shall apply.

The benefit of carry forward and set off of unabsorbed losses and depreciation allowances is also available to the Bank u/s. 72 AA in the case of the scheme of amalgamation and banking company sanctioned and brought into force by the Central Government u/s. 45 (7) of the Banking Regulation Act, 1949.

II. TO THE RESIDENT BONDHOLDERS OF THE BANK:

1. Income earned by way of dividend from domestic companies is exempt u/s. 10(34) of the Income Tax Act, 1961.
2. In terms of section 10(38) of the Income Tax Act any Long Term Capital Gains arising to an investor from transfer of Long Term Capital assets being Equity shares of the Bank would not be liable to tax if the transaction of sale of such Equity share is entered into on or after 1st October 2004 and the transaction is chargeable to Securities Transaction Tax.
3. In case the transaction is not covered as per Para 2 above, then, as per Section 112 of the Income Tax Act, the Long Term Capital Gains on transfer of Bonds / Securities of the Bank, is subject to tax at 20% plus applicable surcharge and cess after indexing the cost as per the second proviso to Section 48 of the Income Tax Act. Alternatively, at the option of the assessee, where the benefit of indexation is not claimed, then the same shall be charged to tax @ 10% plus the applicable surcharge and cess.

Further the following benefits are also available:

- a. Under Section 54EC of the Income Tax Act, exemption from capital gain tax is available in respect of long term capital gains arising on transfer of the Bonds/securities of the Bank if the assessee at any time within a period of six months from the date of such transfer, invests the whole of the capital gains in certain notified bonds. If only a portion of capital gains is so invested, then the exemption is proportionately available.
 - b. Under section 54ED of the Income Tax Act, subject to conditions specified therein capital gains arising from the transfer of shares of the bank held as long term capital asset being listed securities is exempt from tax, if the individual invests within a period of six months after the date of such transfer in Equity shares forming part of an eligible issue of capital as defined in that section. If only a portion of capital gains is invested, then the exemption is proportionately available.
 - c. As per the provisions of Section 54F of the Income Tax Act, 1961, long term capital gains arising in the hands of an individual or HUF on transfer of Bonds/securities of the Bank shall be exempt if the net consideration is invested in purchase of residential house within a period of one year before or two years from the date of transfer or constructs a residential house within a period of three years from the date of transfer. The exemption is available proportionately if only a portion of the net consideration is invested as above. The exemption is subject to other conditions specified in that Section.
4. Under section 111 A of the Income Tax Act, short term capital gains arising on the transfer of shares in a recognized stock exchange shall be taxed at 10% plus applicable surcharge and cess provided the transaction is chargeable to securities transaction tax.

5. No Wealth Tax is payable in respect of investments in Bonds / Securities of the Bank.

BENEFITS AVAILABLE TO MUTUAL FUNDS

As per the provisions of Section 10(23D) of the Act, interest income from Investments in Bonds/securities of the Bank or income by way of short term or long term capital gains arising from transfer of such Bonds/securities earned by Mutual Funds registered under the Securities and Exchange Board of India Act, 1992 or Regulations made there under, mutual funds set up by the Public Sector Banks or Public Financial Institutions and Mutual Funds authorized 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.

Note:

1. All the above benefits are as per current tax laws as amended by the Finance Act 2005, and will be available only to the sole/first named holder in case the shares are held by joint holders.
2. In view of the individual nature of tax consequences, each investor is advised to consult his/her own tax advisor with respect to specific tax consequences of his/her participation in the scheme.

IV. PARTICULARS OF THE ISSUE

Objects of the Offer

The present Issue of Bonds is being made to

- Augment the long-term resources of the Bank
- Augment the capital base of the Bank to meet its future capital adequacy requirements
- List the Bonds of the Bank on Stock Exchanges.

Capital Adequacy position of the Bank

The Capital Adequacy Ratio (CAR) was 14.21% as on 31.03.2005 as against the stipulation of RBI of 9.00%. Summary of Capital adequacy position of the Bank for the last 5 years:

| As on March 31 [*] | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------------|----------|----------|----------|----------|----------|
| Total Tier I Capital | 741.44 | 909.71 | 1023.89 | 1449.22 | 1832.22 |
| Total Tier II Capital | 565.25 | 685.31 | 959.25 | 1236.33 | 1832.22* |
| Total Capital fund | 1306.69 | 1595.02 | 1983.14 | 2685.55 | 3664.44 |
| Risk weighted Assets | 12753.80 | 14746.84 | 17553.56 | 21496.51 | 25785.83 |
| Capital Adequacy Ratio (%) | 10.24 | 10.82 | 11.30 | 12.49 | 14.21 |

*Actual Tier II Capital was Rs1854.63 crores but restricted to the extent of Tier I Capital

Requirement of Capital Enhancement

In the years to come, the Bank expects growth in its business activities and operations. Accordingly, risk weighted assets of the Bank are also expected to increase over the years. The key areas of focus for the Bank in this regard are retail advances, housing loans, loans to retail traders and self employed businessmen, SSI lending and agricultural advances. Increase in Tier I capital through retained earnings alone may not be enough to enable the Bank to maintain sufficient capital adequacy ratio. In view of the likely expansion of risk-weighted assets, the Bank proposes to augment its Net worth in order to sustain a healthy CAR.

Use of Issue Proceeds

The proceeds of this Issue will be utilised for the regular business activities of the Bank, in line with the estimated growth in risk weighted assets and accordingly to maintain an optimal Capital Adequacy Ratio. The issue expenses will be borne by the Bank. Moreover, listing of the aforesaid bonds will provide liquidity to the investors and will also provide a platform for trading.

It may be noted that the Bank raised additional Equity Capital by way of Public Issue of 10,00,00,000 Equity Shares of Rs 10/- each at a price of Rs 24/- each, aggregating to Rs 240 Crores through a Prospectus in September 2003.

The Bank, till date, has raised Tier II Capital by way of Private Placement of Unsecured Redeemable Non-Convertible Subordinated Bonds in the nature of Promissory Notes (Series I toVII) to augment capital adequacy as under:

| Series | Date of Allotment | Size (Rs in crores) | Tenor (In Months) | Credit Rating | Coupon (%) | Redemption Date |
|--------|-------------------|------------------------|----------------------|------------------|---------------|-----------------|
| i | 18.01.1999 | 150.00 | 60 | Unrated | 13.75 | 17.01.2004 |
| ii | 08.03.2001 | 125.00 | 67 | AA | 11.45 | 07.10.2006 |
| iii | 31.12.2001 | 150.00 | 67 | AA | 09.40 | 30.07.2007 |
| iv | 31.10.2002 | 175.00 | 78 | AA | 07.45 | 30.04.2009 |
| v | 01.03.2004 | 200.00 | 120 | CARE AA+ | 06.00 | 29.02.2014 |
| vi | 26.07.2004 | 200.00 | 120 | CARE AA+ | 06.40 | 25.07.2014 |
| vii | 08.01.2005 | 150.00 | 123 | CARE AA+ | 07.25 | 08.04.2015 |

Note: The bank has redeemed Series I aggregating to Rs. 150 crores on the due date.

V. BANK AND MANAGEMENT

HISTORY OF THE BANK

The Bank was founded on 10.02.1937, simultaneously setting up domestic and overseas branches on the same day: a befitting description of the name of the Bank. Shri. M.Ct.M. Chidambaram Chettiar, a pioneer in industry, banking and insurance was the founder of the Bank.

At the time of India's independence in 1947, the Bank had 38 branches in India and 7 branches abroad. Deposits amounted to Rs.6.64 crores and Advances Rs.3.23 crores. During the 1960s Indian Banking witnessed strong wave of mergers of weak private sector banks with stronger institutions. IOB itself took five banks into its fold, which helped the Bank widen its reach.

The Bank has been attending to the needs of small industry and agriculture since long. Personal loans were given by the Bank right in the early 1950s when the concept was new to the banking industry. Customer service was given top priority by the Bank ever since inception. The Bank also gave importance to mechanisation for improving customer service as early as in the 1960s.

For 32 years, the Bank grew globally and by the end of 1969 it had Rs.146 crores of business transacted through 213 branches. The Bank was nationalised under the Banking Companies (Acquisition and Transfer of Undertaking) Act, 1970. During the period of nationalisation, the Bank made rapid strides in all the major business parameters. In the 1990s, consolidation has been receiving greater attention. The Bank is one among the first few banks that were accorded autonomous status in 1997. The Bank has sponsored three regional rural banks, viz. Pandyan Grama Bank in Tamil Nadu, Puri Gramya Bank and Dhenkanal Gramya Bank in Orissa. It also had a wholly owned subsidiary by the name of IOB Properties Pte., Singapore and same was dissolved and was vested with our Singapore branch. w.e.f. 28.02.2004. As on 31.03.2005, the Bank has 1,496 branches and 252 extension counters besides 5 branches and 1 Extension Counter, and 1 Limited Purpose outlet in overseas.

Present Status

As on 31.03.2005, the Bank had 1,496 branches in India, comprising 552 rural, 353 semi-urban, 318 urban and 219 metropolitan and 15 port town branches apart from 6 overseas branches. The branches include 11 specialised branches (i.e. 1 Commercial and Institutional Credit Branch, 1 Institutional Business branch, 1 Personal Banking Branch, 1 Hi Tech Agro Branch, 1 Industrial Finance Branch, 1 Large Advance Branch, 2 SSI Branches, 2 Asset Recovery Branch, and 1 Women Entrepreneurs Branch. Apart from above the bank had 11 Clearing Offices, 21 Currency Chests, and 14 Star centres (Quick Collection Branches) and 4 inspectorates. The Bank has 246 Extension Counters in India.

The Bank has been entrusted with State Level Bankers' Committee (SLBC) convenorship in Tamilnadu. The Bank is continuing its endeavour for economic upliftment of the state through its various developmental programmes. The Bank has lead responsibility in 12 districts in Tamil Nadu and one district in Kerala. As convenor of SLBC in Tamilnadu, the Bank had convened two meetings of the SLBC committee and one State Level meeting.. The Bank has also convened a Special SLBC meeting on financing of Commercial Captive Power Projects for Sagu & Starch Industries.

Branch computerisation

All the branches and extension counters of the Bank are computerised. As on 31.03.2005, 715 branches are fully computerised and 756 branches are partially computerised. Out of 251 Extension Counters, 62 have been fully computerised. Any Branch Banking (ABB) network has been expanded to 167 centres. ABB facility is now available in 548 branches.

The number of installed ATMs has increased from 165 as on March 2004 to 236 as on 31.03.2005; of these, 37 ATMs were set up in off-site locations for the convenience of customers. All the ATMs have been brought under the ABB network.

We have installed ATM switch at Central office in Chennai and all ATMs are connected to switch. Further we will be connecting to National Financial Switch sponsored by IDRBT and also to Cash Tree consortium where prominent members are Indian bank, bank of India, Dena Bank, Syndicate bank, Union bank and United Bank of India are members.

E-See Banking (Internet Banking) is implemented in 543 branches and extension counters.

388 branches are brought under Online Tax Accounting System (OLTAS) for collection of Direct Taxes under CBDT.



The Bank-level server for Real Time Gross Settlement has been installed in Chennai, and services like Structured Financial Messaging System, Centralised Funds Management System, Negotiated Dealing System and Public Debt Office will reside on the server, as required by Reserve Bank of India.

The software for branches and administrative offices are all developed and maintained in-house by the ISO 9001:2000 certified Computer Policy and Planning Department. To ensure the software meets the expected norms, critical software used in fully computerised branches, Funds Department, Foreign Exchange Department, Treasury and Depository branches have been externally validated.

The Information System Security Policy formulated with the consulting support of M/s CMC Ltd. is being implemented.

BANK AND MANAGEMENT

Main Object of the Bank

The main object and business of the Bank, as laid down in the Bank Nationalisation Act is as under:

The main object of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 under which the undertaking of the Bank was taken over by the Central Government is as under: "An Act to provide for the acquisition and transfer of the undertakings of certain Banking Companies, having regard to their size, resources, coverage and organisation, in order to control the heights of the economy and to meet progressively, and serve better, the needs of

the development of the economy, in conformity with national policy and objectives and for matters connected therewith or incidental thereto".

The Main Object of the Bank enables it to undertake the activities for which the funds are being raised and the activities, which it has been carrying on till date.

Business of the Bank

The Bank shall carry on and transact the business of Banking as defined in Clause (b) of Section 5 of the Banking Regulation Act, 1949, and may engage in one or more of the other forms of business specified in Sub-Section (1) of Section 6 of that Act.

Clause (b) of Section 5 of the Banking Regulation Act, 1949 defines Banking as "the accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise."

The Bank is also involved in Marketing, Sale and Distribution of Insurance products of Life Insurance Corporation of India (LIC) and National Insurance Company Ltd (NICL) as permitted by the GOI and Licensed by IRDA.

Other Business that the Bank may undertake Section 3 (7)

Sections 3 (7) of Chapter II of the Banking Companies (Acquisition) Act 1970 provides for the Bank to act as Agent of Reserve Bank (Section 3 (7))

The Bank shall, if so required by the Reserve Bank of India, act as agent of the Reserve Bank at all places in India where it has a branch for:

1. Paying, receiving, collecting and remitting money, bullion and securities on behalf of the Government of India
2. Undertaking and transacting any other business which the Reserve Bank may from time to time entrust to it

The terms and conditions on which any such agency business shall be carried on by the corresponding new Bank on behalf of the Reserve Bank shall be such as may be agreed upon

If no agreement can be reached on any matter referred to in Clause (2) above, or if a dispute arises between the corresponding new Bank and the Reserve Bank as to the interpretation of any agreement between them, the matter shall be referred to the Central Government and the decision of the Central Government, thereon, shall be final.

The corresponding new Bank may transact any business or perform any function entrusted to it under Clause (1) by itself or through any agent approved by the Reserve Bank.

Business and Activities of the Bank

Corporate Vision: To emerge as the most competitive bank in the industry

Corporate Mission: To become the most competitive bank in the industry in the country during the next two years. For being competitive, the Bank would need to be responsive to the challenges of the market force. In this process, it would also emerge as the most profitable bank by cutting the cost and increasing the revenue.

Corporate Focus: The Corporate focus of the Bank is maximisation of shareholders wealth, corporate excellence through sound corporate governance and achievement of Rs. 3 lacs profit per employee.

Competitive Strengths: Many new generation banks, both private and foreign, have entered the banking industry and offer new products at competitive rates. In this scenario, the Bank has defined its competitive advantage as:

- ◆ Vast branch network spread all over India and in certain overseas trading business centres to enable resources mobilisation at Low cost
- ◆ Advancement in technological up gradation
- ◆ Well trained personnel in key fields to handle specialised products

Corporate Strategy: In the years to come the profit margins would be under increasing pressure. To overcome such a trend the Bank's corporate strategy is:

- ❖ To build business volume through penetrating retail segments with innovative products
- ❖ To use technology for better customer comfort and satisfaction coupled with reduction in operating expenses
 1. To provide most efficient and speedy customer service
 2. Increased emphasis for fee and commission based products

DETAILS OF SOURCES OF FUNDS

| Deposits (Global) | | (Rs. in crores) | | | | |
|-------------------------------|----------|-----------------|----------|----------|----------|--|
| As on March 31 | 2001 | 2002 | 2003 | 2004 | 2005 | |
| Deposits (Global) | 27414.16 | 31808.48 | 36698.59 | 41482.58 | 44241.24 | |
| Annual Growth – Amount | 3096.41 | 4394.32 | 4890.11 | 4783.99 | 2758.66 | |
| - Percent | 12.73 | 16.03 | 15.37 | 13.04 | 6.65 | |
| Cost of Deposits (Global) (%) | 7.52 | 7.25 | 6.50 | 5.48 | 4.74 | |

| Category-wise break-up of total Global deposits | | (Rs. in crores) | | | | |
|---|-----------|-----------------|-----------|-----------|----------|--|
| Year ended March 31 | 2001 | 2002 | 2003 | 2004 | 2005 | |
| Current Deposits | 2,720.32 | 2,658.60 | 3,636.38 | 4,185.35 | 5011.47 | |
| Savings Bank Deposits | 5,931.04 | 6,878.37 | 8,162.75 | 10,071.61 | 12190.62 | |
| Term Deposits | 18,762.80 | 22,271.51 | 24,899.46 | 27,225.62 | 27039.15 | |
| Total | 27,414.16 | 31,808.48 | 36,698.59 | 41,482.58 | 44241.24 | |

| Maturity Profile of Term deposits (Global) | | (Rs. in crores) | | | | | |
|--|----------|-----------------|-----------|--------|----------|--------|--|
| Year ended March 31, | 2003 | | 2004 | | 2005 | | |
| | Amount | % | Amount | % | Amount | % | |
| Upto 1 Year | 4,536.61 | 18.22 | 17987.86 | 66.07 | 7191.21 | 16.25 | |
| 1 Year to 3 Years | 2,542.43 | 10.21 | 7287.23 | 26.77 | 4245.28 | 9.60 | |
| 3 Years to 5 Years | 246.04 | 0.99 | 1445.88 | 5.31 | 13876.74 | 31.37 | |
| over 5 Years | 17,574.4 | 70.58 | 504.65 | 1.85 | 18928.01 | 42.78 | |
| Total Term Deposits | 24,899.5 | 100.00 | 27,225.62 | 100.00 | 44241.24 | 100.00 | |

| Population group-wise break-up of aggregate Domestic deposits | | (Rs. in crores) | | | | | | | | | |
|---|--------|-----------------|--------|-------|--------|-------|--------|-------|--------|-------|--|
| Year Ended | 2001 | | 2002 | | 2003 | | 2004 | | 2005 | | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % | |
| Rural | 3044 | 11.40 | 3427 | 11.07 | 3850 | 10.77 | 4151 | 10.33 | 4357 | 10.19 | |
| Semi Urban | 4916 | 18.42 | 5684 | 18.37 | 6475 | 18.12 | 6972 | 17.35 | 7466 | 17.46 | |
| Urban | 6943 | 26.01 | 8003 | 25.86 | 9109 | 25.51 | 9883 | 24.59 | 11100 | 25.95 | |



| | | | | | | | | | | |
|-------|-------|--------|-------|--------|-------|--------|-------|--------|-------|--------|
| Metro | 11433 | 44.17 | 13452 | 44.70 | 15981 | 45.60 | 19179 | 47.73 | 19841 | 46.40 |
| Total | 26336 | 100.00 | 30566 | 100.00 | 35415 | 100.00 | 40185 | 100.00 | 42764 | 100.00 |

The figures given above represent Domestic Deposits and the same is inclusive of NRI deposits. The figures relating to overseas branches are not included in the above category. The total NRI deposits of the Bank as on 31.03.2005 were Rs.5491.74 crores.

Details of NRI Deposits

(Rs. in crores)

| As on March 31 | 2003 | 2004 | 2005 |
|----------------|----------|----------|---------|
| FCNR (B) | 1,395.50 | 1,246.56 | 1164.43 |
| NRE | 3,398.67 | 3,950.65 | 4029.11 |
| NRONR | 986.18 | 466.90 | 34.32 |
| Others | 6.59 | 10.83 | 263.88 |
| Total | 5,786.94 | 5,674.94 | 5491.74 |

DETAILS OF DEPLOYMENT OF FUNDS

ADVANCES

(as on 31st March)

(Rs. in crores)

| Gross Bank Credit | 2001 | 2002 | 2003 | 2004 | 2005 |
|-------------------|--------|--------|--------|-------|-------|
| In India | | | | | |
| Rural | 1,358 | 1,476 | 1,721 | 2006 | 3745 |
| Semi-Urban | 1,189 | 1,658 | 2,025 | 2511 | 3219 |
| Urban | 3,249 | 3,467 | 4,178 | 4995 | 5384 |
| Metropolitan | 6,699 | 7,925 | 9,014 | 10447 | 12183 |
| Sub Total | 12,495 | 14,526 | 16,938 | 19959 | 24532 |
| Outside India | 1,314 | 1,497 | 1,493 | 1334 | 1742 |
| Total | 13,809 | 16,023 | 18,431 | 21293 | 26274 |

ASSET CLASSIFICATION

Asset Classification of Performing and Non-Performing Assets

(Rs. in crores)

| As on March 31 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------|-------|-------|-------|-------|-------|
| Standard Assets | 12178 | 14204 | 16535 | 19717 | 24886 |
| Sub-Standard | 410 | 512 | 540 | 458 | 362 |
| Doubtful | 1102 | 1185 | 1267 | 1064 | 908 |
| Loss | 119 | 122 | 89 | 54 | 118 |
| Gross NPAs | 1631 | 1819 | 1896 | 1576 | 1388 |
| Gross Advances | 13809 | 16023 | 18431 | 21293 | 26274 |

Details of Gross and Net NPAs

(Rs. in crores)

| As on March 31 | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------------------------------|-------|-------|-------|-------|-------|
| Gross Advances | 13809 | 16023 | 18431 | 21293 | 26274 |
| Gross NPAs | 1631 | 1819 | 1896 | 1576 | 1388 |
| Gross NPAs to Gross Advances (%) | 11.81 | 11.35 | 10.29 | 7.40 | 5.28 |
| Net Advances | 13095 | 15162 | 17447 | 20295 | 25205 |
| Net NPAs | 917 | 957 | 912 | 578 | 319 |
| Net NPAs to Net Advances (%) | 7.01 | 6.32 | 5.23 | 2.85 | 1.27 |

NPA Management Strategy

The NPA cash recovery target for the year 2004-2005 was fixed at Rs. 300 crores, which has been achieved (Rs.303.70 crores). The Bank is utilising the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 as an effective tool. The Bank has also opened Asset recovery management branches to give necessary impetus to closely monitor recovery of suit filed cases at DRT and Civil courts. Senior level executives visit the Regions to take decisions on the spot for One Time Settlement (OTS)/Out-of-court Settlement (OCS). Second Level executives are allotted responsibility for NPA recovery.

PRIORITY SECTOR CREDIT

As per RBI norms, the Public Sector Banks' credit to the Priority Sector should be 40% of the Net Bank Credit and that for agriculture should be 18% of the Net Bank Credit. The policy of the Bank with regard to financing to the Priority Sector is



based upon the norms stipulated by Reserve Bank of India. As on March 2005, the Priority Sector credit stood at 43.47% of the Net Bank Credit and Agricultural credit stood at 18.06% of the Net Bank Credit.

Sector wise distribution of Gross Priority Sector Advances (Rs. in crores)

| Year ended March 31 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------------------------|---------|---------|---------|----------|----------|
| Agriculture | 1631.50 | 1995.93 | 2367.44 | 3366.53 | 4260.63 |
| Small Scale Industry | 1449.77 | 1616.24 | 1826.03 | 2208.90 | 2462.61 |
| Other Priority Sector Advances | 1213.57 | 1543.65 | 1990.87 | 2708.02* | 3530.48 |
| Gross Priority Sector Advances | 4294.84 | 5155.82 | 6184.34 | 8283.45* | 10253.72 |
| % to Net Bank Credit | 47.61 | 47.24 | 42.57 | 45.61 | 44.83 |
| Targets (%) | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 |

*Advances to other Priority Sector and Gross Priority Sector advances are after netting off Inter Bank Participation certificate amount of Rs. 100.00 crores. Gross Bank Credit represents Gross Advances of the Bank, Net Bank Credit is arrived at after deducting FCNR(B) and NRNR deposits as these are eligible for deductions while calculating the Net Bank Credit for the purpose of priority sector advances in line with RBI circular no. RPCD.BC 147/11.01.01/94-95 dated April 21, 1995.

Calculation of Net Domestic Bank Credit (as on March 31, 2005) (Rs. in crores)

| | |
|---------------------------------|-------|
| Gross Domestic Bank Credit | 24532 |
| Less NRNR deposits | 34 |
| Less FCNR Deposits | 1164 |
| Less Participation Certificates | 466 |
| Net Domestic Bank Credit | 22868 |

Lead Districts

As required by the GOI, RBI, the Bank has been assigned the role of lead bank in 13 districts in 2 states, which are Tamil Nadu (12 districts) and Kerala (1 district). The assigned lead bank responsibilities are discharged by maintaining inter-institutional coordination in the preparation and implementation of various development programmes in each district. The role functions of a Lead Bank are as under:

- Development of banking facilities particularly in Rural and Backward areas.
- Removal of unemployment and under employment through channelising banks' advances for Regional Development.
- Ensuring appreciable rise in the standard of living of the poorest sections of the population by providing credit for taking up self employment ventures by them and also for some of their basic needs.
- Bringing about greater understanding and cooperation between Banks and Government departments/agencies in implementing various programmes / schemes.
- Identifying major constraints impeding the development of the districts economy and inducing the appropriate agencies to take remedial measures.
- Formulation of Annual District Credit Plan and its implementation.
- Monitoring and review of the progress made by Banks as credit deployment in general and in Priority Sector advances in particular and under Government sponsored credit programmes.

Details of Branch Network, resources mobilised and advances made in the Lead Districts (Rs. in crores)

| State | No. of Lead Districts | No. of Branches | Total Deposits | Total Advances(A) | Advances to Priority Sector(B) | Percentage to Total Advances (B/A) |
|-----------|-----------------------|-----------------|----------------|-------------------|--------------------------------|------------------------------------|
| TamilNadu | 12 | 292 | 3461.77 | 2424.11 | 1461.86 | 60.31 |
| Kerala | 1 | 32 | 590.48 | 327.98 | 181.22 | 55.25 |
| Total | 13 | 324 | 4052.25 | 2752.09 | 1643.08 | 59.70 |

Asset Liability Management

Category-wise break-up of Domestic Deposits (as on March 31, 2005) (Rs. in crores)

| Maturity Bucket | Retail | Wholesale | Total |
|-----------------------|----------|-----------|----------|
| 1-14 Days | 1350.41 | 448.85 | 1799.26 |
| 15-28 Days | 455.47 | 265.43 | 720.90 |
| 29 Days – 3 Months | 873.48 | 99.75 | 973.23 |
| > 3 Months – 6 Months | 694.77 | 568.15 | 1262.92 |
| > 6 Months – 1 Year | 681.29 | 834.07 | 1515.36 |
| > 1 Year – 3 Years | 3556.43 | 425.05 | 3981.48 |
| > 3 Years – 5 Years | 13861.44 | 15.30 | 13876.74 |
| > 5 Years | 18880.16 | 48.00 | 18928.16 |
| Total | 40353.45 | 2704.60 | 43058.05 |

Maturity Profile of Global deposits (as on March 31 2005) (Rs. in crores)

| Residual Maturity | Amount |
|-----------------------|----------|
| 1-14 Days | 2236.40 |
| 15-28 Days | 871.30 |
| 29 Days – 3 Months | 1147.90 |
| > 3 Months – 6 Months | 1346.29 |
| > 6 Months – 1 Year | 1589.32 |
| > 1 Year – 3 Years | 4245.28 |
| > 3 Years – 5 Years | 13876.74 |
| > 5 Years | 18928.01 |
| Total | 44241.24 |

ALM Strategy of the Bank

ALM system of the Bank has been strengthened with full computerisation. During the FY 2005, the Bank could cover 100% of the Bank's business under ALM.

Financial Ratios and other Financial Information

| Year ended March 31 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|--------|--------|----------|---------|---------|
| Avg. Int. Earning Assets | 26,123 | 30,504 | 35,379 | 40885 | 46663 |
| Avg. Int rate for the above (%) | 10.69 | 10.40 | 9.85 | 9.18 | 8.51 |
| Int. Income | 2,793 | 3,171 | 3,486 | 3754 | 3951 |
| Avg. Int bearing liabilities | 25,174 | 29,762 | 34,342 | 39357 | 44276 |
| Avg. Int Rate for the above (%) | 7.60 | 7.40 | 6.59 | 5.47 | 4.73 |
| Total Int. expenses | 1,913 | 2,201 | 2,264 | 2155 | 2096 |
| Ratio of average int earning assets to average int. bearing liabilities | 1.04 | 1.02 | 1.03 | 1.04 | 1.05 |
| Int. expenses apportioned to Int. earning assets | 0.07 | 0.07 | 0.06 | 0.05 | 0.04 |
| Net Int Income | 880.75 | 970.07 | 1,221.47 | 1599.00 | 1855.52 |
| Net Int. margin (%) | 3.06 | 3.01 | 3.27 | 3.86 | 4.07 |
| Gross yield % | 10.69 | 10.40 | 9.85 | 9.24 | 8.51 |
| Avg. cost of funds (%) | 7.60 | 7.40 | 6.59 | 5.47 | 4.73 |
| Yield spread | 3.09 | 3.00 | 3.26 | 3.77 | 3.78 |
| Return on avg. Assets | 0.40 | 0.69 | 1.07 | 1.15 | 1.29 |
| Avg. Share capital, Reserves to av. Total assets | 0.03 | 0.03 | 0.03 | 0.04 | 0.04 |
| Cash EPS | 3.37 | 6.02 | 11.51 | 11.13 | 12.61 |

CAPITAL ADEQUACY RATIO

The RBI's guidelines on Capital Adequacy Ratios (CAR) generally conform to the guidelines adopted by the Committee on Banking Regulations and Supervisory Practices of the Bank of International Settlements ("BIS"). The RBI requires that assets, non-funded items and other off-balance sheet exposures be assigned weights according to prescribed risk weights and that each Bank must maintain capital levels equivalent to a prescribed ratio to such risk weighted assets. All financial ratios and capital adequacy ratios confirm to RBI norms.

Capital

For the purpose of calculating the CAR, capital of a Bank is divided into two classes i.e. Tier I capital and Tier II capital. Tier I capital, also known as core capital, represents amounts readily available to support the Bank against unexpected losses. Tier-I capital consists of paid up capital, statutory reserves and other disclosed free reserves. Tier-II capital comprises elements that are less permanent in nature and thus less readily available. Tier II capital consists of subordinated debt (with a minimum maturity of five years), undisclosed reserves, cumulative perpetual preference shares, revaluation reserves (to the extent of 45% of the total amount of revaluation reserves on the Bank's book), general provisions and hybrid capital. The total capital for the calculation of CAR is the sum of Tier I capital and Tier II capital and is taken, with the condition that the Tier II capital should not exceed Tier I capital. RBI vide its circular dated October 31, 1998 prescribed that banks should achieve a minimum CAR of 9% with effect from the year ending March 31, 2000. This is complied with.

Risk weighted assets

Each class of assets of the Bank (including off-balance sheet assets) is assigned a risk weight (following certain norms laid down by RBI). The value of risk weighted assets for each class of assets is obtained by multiplying the amount of each asset class by its risk weight. The total risk weighted assets are obtained by summing up the individual risk weighted assets.

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

Risk Management

General

The Bank recognises that management of risk is fundamental to the business of banking. The Bank's approach to risk management is proactive. The primary goal of risk management is not to avoid risks inherent in business but to steer them consciously and actively. The basic objective is to strike a balance between risk and returns. For promoting a balance between risk and returns, adoption of best practices in Banking system, the Bank has set up a separate department named 'Risk Management Department' to confront various types of financial & non-financial risks.

In consonance with RBI directives, the Bank has classified the risk into two categories:

Financial Risk (Credit and Investment)

Non-Financial Risk (Market and Operational)

The Bank has taken steps in right earnest to put in place Risk Management Systems.

Top Management Oversight

- At the apex level, a Board level Risk Management Committee headed by CMD is in place. ED, RBI nominee director and a share holder director are the other members of the committee. At the organisation level, a Risk Management Committee headed by CMD with ED, GM (CSSD), GM (Funds), GM (Forex), GM (Inspection) and GM (RMD) as members is also in place.
- Credit Policy Committee (CPC) headed by ED is in place. The committee formulates clear policies for presentation of credit proposals, financial covenants, rating standards and bench marks, asset concentration etc
- Asset Liability Management Committee (ALCO) headed by CMD is in place
- Operational Risk Management Committee (ORMC) headed by ED is in place

Credit Risk Management

- A loan policy document, which is being revised from time to time, containing, inter alia, prudential financial parameters for credit appraisal, well defined margin and security norms for granting advances, prudential exposure limits for single borrower & group borrower, different categories of industries and borrowers of different constitutions and credit rating and pricing systems for advances above Rs.2 lakhs.
- Country Risk management Policy and Counterparty Risk management Policy are in place.
- In conformity with RBI guidelines on Credit Risk Management, a multi-tiered credit approval system namely "Approval Grid" has been constituted both at Central Office level and Regional Office level. While fresh proposals over the powers



of SRM/CRM/GM (Heading the region) up to the powers of GMs' Committee have to be routed through Approval Grid at RO, all fresh domestic credit proposals above the powers of GMs' Committee and Overseas Credit proposals above the powers of GM overseas credit need to be routed through Approval Grid at CO. Proposals seeking enhancement above Rs 5 crore also need to be routed through Approval Grid. In addition to this a multi layered discretionary power structure /delegated powers (financial) is already in place.

- A risk analysis committee has been formed for risk assessment in fresh proposals falling under the power of Management Committee of the Board (MCB).
- A Business Group headed by CMD / ED has been set up at Central Office for giving in-principle approval / clearance in respect of all new proposals seeking credit limits above Rs.5 crore and existing accounts seeking enhancement above Rs.5 crore.
- For constantly evaluating the quality of Loan Book and to bring about qualitative improvement in credit administration, Loan Review Mechanism has been put in place. Loan Review Committees have been constituted both at Inspectorate and CO level to review the accounts over a cut off point.
- A sophisticated risk assessment model (RAM), developed by CRISIL, which takes into account diverse risk factors and rates credit proposals/accounts on a ten point scale is in place for risk rating the industrial borrowers with fund based limit of Rs. 1 crore and above. The Bank has also put to use risk assessment models for Small & Medium Enterprises (SME), Trade, Infrastructure (Road & Power) accounts. The models facilitate Facility risk rating to comply with two-dimensional rating requirements.
- Portfolio/Relationship managers have been appointed by territories for monitoring high value customers enjoying fund-based limit of Rs 20 crore and above.

Market Risk Management

- The Bank has in place Funds Management and Investment Policy indicating prudential norms for investment in single/group borrowers/investment in shares/tier II bonds etc, risk management measures like stop loss limits, maximum profit booking levels etc.
- ALM Policy which is revised from time to time is in place. Besides Rupee Interest Rate Derivative Policy is in place.
- For managing market risk in forex operations, the bank has put Risk Management Policy in place.
- For managing liquidity risk, the bank has adopted structural liquidity model prescribed by RBI. While the RBI have fixed minimum limit of 20% of the outflows for the negative gap for the short term maturity time band upto 28 days, the bank has fixed limits for other time bands also upto more than 5 years with the approval of the Board.
- In order to assess the liquidity under a market crisis or a crisis specific to the bank, the bank has devised a contingent liquidity model. Contingency funding policy is in place.
- For measuring interest rate risk, the bank has adopted the model prescribed in the RBI guidelines, which involves constructing a maturity or repricing schedule that distributes interest sensitive assets and liabilities and off balance sheet position into time bands according to their maturity or time remaining to their next pricing.
- A sophisticated VaR model outsourced from Credence Analytics India Ltd has been put in place which throws up 7 days VaR figures with a confidence level of 99% for "Held for Trading" segment of investments.
- For managing market (interest) risk in respect of forex positions the bank has in place the FEDAI VaR model. The individual gap limits and aggregate gap limits have been fixed currency wise.
- For managing liquidity in forex business, the bank has in general adopted the RBI guidelines for liquidity risk management in domestic currency.

OPERATIONAL RISK MANAGEMENT

- Operational Risk Management Policy to identify, measure, monitor and control operational risk has been formulated.
- Information Systems Security Policy has been formulated and made operational in the bank.
- For managing operational risk in forex operations, the bank has put Risk Management Policy in place.
- The Bank has got embodied, in its Book of Instructions, well-defined systems and procedures for various front office and back office operations. The Books of Instructions are being revised from time to time.
- The Bank has issued clear-cut guidelines as to the role functions of various levels of employees. Rules and authorities of individual employees have been clearly defined. A system of periodic job rotation has been clearly articulated.
- The bank has in place a proper human resources policy including transfer and promotions policies. A highly effective training system with provision for giving specialised training in credit and forex is in place.
- Conduct rules and service regulations for all the employees are in place.
- Various internal and external audit systems are in place to ensure that laid down systems and procedures are followed and initiate timely action for rectifying the deficiencies.
- The bank has issued detailed guidelines for handling computerised operations and a system of EDP audit is in place to ensure adherence to the laid down systems and procedures.
- An well-articulated Manual on Documentation is in place for execution of proper documents for various types of credit facilities.
- The bank has issued from time to time circulars on preventive vigilance measures for warding off frauds. A system of fraud sensitivity analysis by internal inspectors during the course of inspection is in force. The system rates the vulnerability of different areas of operations to frauds in percentage terms.
- The bank has a well-defined mechanism for prevention of money laundering.

Integrated Enterprise Wide Risk management (IEWRM) System

The bank has engaged the services of M/s. ICRA Ltd as a consultant for setting up an Integrated Enterprise Wide Risk Management (IEWRM) system in the bank. They have commenced the project on 22/3/2004 and have completed the "diagnostic phase" of the project and submitted various deliverables. Of these the Operational Risk Management Policy and Application form / Appraisal note for Industrial Credit, Trade Credit, Housing finance, Car loans have been finalized and approved for implementation. Other deliverables are discussed with consultants covering Credit Risk management Policy, Market Risk Management Policy, Integrated Risk Management Policy and various frameworks etc which shall be adopted in due course on approval.

Supervision & Preparedness

The Bank is strengthening its MIS to capture historical data for calculating probability of default (PD) and loss given default (LGD) and exposure at default (EAD) relating to credit risk management and data on loss events (LE) relating to operational risk management for moving to assess the capital adequacy under advance approaches of Basel-II framework. Knowledge and skill of risk management is being updated through in-house training system

Credit Risk Supervision & its Preparedness

The Bank is strengthening its MIS to capture historical data for calculating probability of default and loss given default and exposure at default towards implementation of risk based supervision as well as to assess the adequacy of provisions. The



Bank is also planning to introduce the revised inspection system based on degree of risk involved in the operation of branches and controlling offices. Knowledge and skill of risk management is being updated through in-house training system

2. Project Finance Procedure

Consequent upon deregulation and liberalisation, our Bank, in order to increase our Market share and profit, has been extending finance by way of term Loans and DPGs to large sized projects, infrastructure projects and other industrial projects. These term Loans/DPGs either wholly or partially are considered by us either as sole banker, or as a bank under multiple banking or as a consortium leader or member in a consortium of Banks.

2.1. Policies

Detailed policy has been spelt in Bank loan policy document on project financing. Medium term/long term loan/DPG will normally be considered with a maturity not exceeding 10 years including moratorium/holiday period and under specific circumstances, extended for longer periods up to 15 years. However to ensure there is no mismatch in our Asset & Liability it is decided to restrict our total Term Loan exposure limit to 35% of total Domestic advances.

2.2. Appraisal System

While appraising infrastructure projects, in addition to assessing industry scenario, experience, past performance of the promoters, it will be ensured that the projects financed by bank will have income generation capacity sufficient to repay the loan together with interest. Technical feasibility of the project, Economic feasibility, financial implications, managerial competence form major aspects of appraisal system. The desirable Debt Equity ratio will generally be in the ratio of 3.5:1 to 4:1 and relaxation can be given on case to case basis. Desirable DSCR is 2:1

2.3 Monitoring

Implementation and follow up of industrial projects involving term loans and DPGs with limit of Rs 2 crore and above from the bank are to be monitored through a progress report.

3. Corporate Finance procedures

Bank provides both long term and short-term financial requirements of the companies by way of Term Loans, working capital finance, Performance and financial guarantee.

3.1. Policies

The policy as laid down in Loan Policy document, Book Of Instructions and various circulars are adhered to. Loan Policy clear spells out various prudential norms like single borrower exposure limit, Group borrower limit, Substantial exposure limit and industry wise exposure limit.

3.2. Appraisal of Working Capital limit

Borrowers with working capital limit up to Rs 2 crore are assessed as per Nayak Committee recommendations (Turnover Method). Borrowers with Working limit of Rs 2 crore and above and up to Rs 10 crore are assessed as per the existing traditional method of arriving Maximum permissible Bank Finance (MPBF) calling for CMA data and for borrowers for limit above Rs 10 crore, option is available to be assessed either as per Cash budget method or as per MPBF method. Term Loans are granted based on the estimated project cost, margin requirement after ensuring the required Debt equity ratio and DSCR ratio.

4. Retail Loan Procedure

Bank continues to give thrust to increase advances under retail trade segment, which consist of. Trade Credit, Consumer Loan, Housing Loan, Education Loans, Liqui rent, Clean Loans etc. Detailed guidelines have been given by way of various circulars, Book of instruction highlighting the various policies, appraisal and monitoring aspects under retail credit.

5. Guarantees given by the Bank

The Bank gives guarantees to third parties in the normal course of business. Providing guarantees is a fee-based activity for the Bank. The guarantees issued by the Bank have been disclosed in this Information Memorandum under contingent liabilities. These guarantees represent contingent liabilities which are due and payable during the period of guarantees and the claim period, if any. The issuance of each guarantee is subject to detailed appraisal of the credit worthiness of the party on whose behalf guarantee is issued, the need for the guarantee from the view point of the party's business, the beneficiary of the guarantee, as also an examination of the text of the guarantee document in order to remove onerous clauses. Depending on the risk perception of the Bank with regard to the transaction, securities by way of cash margin/deposits/any other securities are taken. The issuance of letters of guarantee is subject to guidelines of Reserve Bank of India issued from time to time.

Risk Based Supervision By RBI: The Reserve Bank of India has announced its intention to switch over to Risk based Supervision (RBS) of banks. The Bank has been selected as one of the Banks for the pilot scheme being undertaken by Reserve Bank of India. Our bank has initiated necessary steps in this direction.

Internal Control System in the Bank

Internal Inspection

Branches/Offices of the Bank are subjected to Regular Inspection by internal inspecting Officials at periodical intervals of 12/18 months. The Inspection Reports of branches/offices under the jurisdiction of Regional Offices are scrutinised and the broad thrust areas are taken up with the R.O.s concerned for speedy rectification. In respect of Branches rated 'Unsatisfactory', a brief summary is placed before the higher authorities, and the observations of the higher authorities are taken up with the branches for compliance. Similar is the case with Special Reports, which the Inspecting Officials submit from the spot itself in case of some serious type of irregularity observed during the course of inspection, for which urgent remedial steps are warranted to protect the interest of the Bank. Moreover, the progress towards up gradation of 'Unsatisfactory Branches' is placed before the Audit Committee of executives and observations/suggestions are promptly taken up for implementation.

In order to strengthen the internal inspections, the Bank has set up 2 regional inspectorates in Delhi and Mumbai during the year 2002-2003. Further 2 more Regional inspectorates in Hyderabad and Calcutta were commenced during the FY 2004.

System Audit

All Branches are subjected to System Audit every year by the Regional Office concerned, to ensure that Bank's laid down systems and procedures in vital operational areas are duly followed. Internal Inspectors/Concurrent Auditors also point out if any deficiency is observed on this score during the course of their inspection of Branches/Offices, so that prompt remedial measures are taken.

Concurrent Audit

During the period ended 31.03.2005 the concurrent audit covered 264 branches accounting for 58.84% of deposit portfolio and 63.42% of advances portfolio as against RBI stipulation of 50% against each category. Apart from the above, Foreign Exchange Dept., Fund Dept., Printing & Stationery Dept., of Central Office are also subjected to Concurrent Audit.

Revenue Audit

During the period ended 31.03.2005 Revenue audit was carried out in 1000 branches, test check audit in 50 branches and stock audit in 173 accounts.

E.D.P. Audit

During the year 2004-05 inspection has been conducted in 1110 branches along with EDP Audit to ensure safety, security and integrity of data, so as to achieve the organisational goals effectively and efficiently. I S audit has been conducted for 38 RCCs and 46 E L branches.

Dealing room inspection: Dealing rooms are inspected each quarter to ensure that systems and procedures & risk management tools prescribed by the management are adhered to.

Other Special Investigation

Whenever warranted, Special Investigation is also conducted at the Branch/Office concerned, to unearth any fraud/forgery etc. and plug the loophole.

Vigilance Mechanism

The Bank has a well-organised vigilance set-up to take care of the vigilance issues efficiently and effectively. Vigilance mechanism pursued by the Bank to contain fraud/forgery and malpractices in the Bank has been quite effective. The guidelines issued by Central Vigilance Commission/RBI/GOI in respect of vigilance matters are promptly implemented and adhered to. Special emphasis is given to expeditious completion of disciplinary cases. Special emphasis is also laid on Preventive Vigilance and Educative Vigilance so as to ensure observance of the prescribed systems and procedures at field level and augment awareness about the need and implication of Preventive Vigilance among the rank and file. Training programmes for the employees on internal control and preventive vigilance are regularly held at the Bank's training centre. Periodicals on vigilance are brought out. Apart from routine inspection/audit, Surprise Vigilance Inspection of branches is conducted on an ongoing basis.

Housekeeping

Housekeeping, which includes Balancing of Books, is constantly monitored and is generally satisfactory. Inter-branch reconciliation was given focussed attention during the year and the lead-time was maintained at less than three months. The Bank has established systems and procedures for balancing of books of accounts for which specific guidelines have been provided to the field functionaries for proper house keeping. At present about 0.35% of the branches are carrying arrears in balancing of books for rectification measures are being taken. The Bank has centralised system of data processing and



reconciliation of inter-branch transaction. Now with the decentralised process, the data creation for inter-branch transaction is done at regional level. Matching reconciliation is done on a monthly/quarterly basis through IBR software at its Head Office.

SUBSIDIARIES AND REGIONAL RURAL BANKS SPONSORED BY IOB

a. SUBSIDIARY COMPANIES

As on March 31, 2005 the Bank has no subsidiary companies. However upto 29.02.2004, the Bank had one subsidiary company viz, IOB Properties Pte Limited, Singapore fully owned by the Bank. IOB Properties Pte Limited was not listed on any stock exchange.

IOB PROPERTIES PTE LIMITED

The Bank promoted a wholly owned subsidiary in the name of IOB Properties Pte Ltd. in Singapore. It was incorporated on 15.04.1983. The purpose was to bid for a parcel of land auctioned by Urban Redevelopment Authority, Singapore for constructing a building to house the Bank's branch as the local laws did not permit a foreign bank to own such properties in Singapore. Otherwise the subsidiary does not have any commercial activity. The wholly owned subsidiary by a "scheme of Arrangement", duly approved by shareholders of the company as well as by The High Court of Singapore, vested with IOB singapore branch w.e.f. from 29.02.2004. As on 31.03.2004 there were no subsidiary is in existence.

b. REGIONAL RURAL BANKS

The Bank has sponsored three Regional Rural Banks, viz. Pandyan Grama Bank in Tamil Nadu, Puri Gramya Bank and Dhenkanal Gramya Bank in Orissa. The RRBs together have 330 branches, deposits of Rs. 1461.91 crores and advances of Rs. 1280.74 crores as on 31.03.2005. During the financial year 2004-05, the growth of deposits and advances was 8.43% and 18.25% respectively. For the year ended March 31, 2005, RRBs sponsored by the Bank have posted combined profit of Rs.16.45crores (without adjusting for the combined accumulated losses). All the RRBs are covered under the restructuring programme of the Government of India.

Pandyan Grama Bank

Pandyan Grama Bank established on March 9, 1977 is having its Head office at Virudhunagar. The operational area of the bank covers six districts viz. Sivagangai, Ramanathapuram, Virudhunagar, Tirunelveli, Tuticorin and Madurai. The bank has a network of 165 branches with total staff strength of 873. The bank is making net profit since 1997-98. The audited financial position of Pandyan Grama Bank for the last five years is as under:

| | (Rs. in crores) | | | | |
|---------------------------|-----------------|---------|--------|---------|---------|
| | FY 2001 | FY 2002 | FY2003 | FY 2004 | FY 2005 |
| Capital | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Reserves & Surplus | 0.33 | 0.69 | 5.03 | 8.97 | 19.05 |
| Deposits | 417.45 | 493.73 | 568.29 | 636.94 | 677.56 |
| Advances | 260.95 | 339.79 | 433.60 | 546.32 | 663.46 |
| Priority Sector advances | 169.29 | 220.39 | 297.54 | 397.09 | 552.22 |
| Profit/(Loss) | 5.16 | 8.16 | 13.75 | 4.82 | 10.08 |
| Productivity Per Employee | 0.76 | 0.94 | 1.13 | 1.35 | 1.54 |

Transaction between Pandyan Grama Bank and IOB in the past three years

| | (Rs. in crores) | | |
|------------------------------|-----------------|-------|-------|
| Particulars (As on March 31) | 2003 | 2004 | 2005 |
| Deposit with IOB | 144.56 | 36.62 | 29.40 |
| Refinance outstanding | NIL | Nil | Nil |

Dhenkanal Gramya Bank

Dhenkanal Gramya Bank was established on 12.08.1981 with Head office at Dhenkanal in Orissa. The operational area of the bank covers two districts viz. Dhenkanal and Angul. The bank has a network of 52 branches with total staff strength of 214. The bank is making net profit since 1997-98. The audited financial position of Dhenkanal Gramya Bank for the last five years is as under:

(Rs. in crores)

| | FY 2001 | FY 2002 | FY2003 | FY 2004 | FY 2005 |
|---------------------------|---------|---------|--------|---------|---------|
| Capital | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Reserves & Surplus | - | - | 0.84 | 4.09 | 8.44 |
| Deposits | 156.16 | 197.71 | 234.25 | 271.42 | 298.72 |
| Advances | 112.89 | 152.89 | 174.86 | 208.05 | 249.33 |
| Profit/(Loss) | 2.81 | 3.00 | 2.88 | 3.25 | 4.35 |
| Accumulated Losses | 5.04 | 2.04 | - | - | NIL |
| Productivity Per Employee | 1.26 | 1.65 | 1.92 | 2.24 | 2.57 |

Transaction between Dhenkanal Gramya Bank and IOB in the past three years (Rs. in crores)

| Particulars (As on March 31) | 2003 | 2004 | 2005 |
|------------------------------|-------|-------|------|
| Deposit with IOB | 35.80 | 26.63 | 9.13 |
| Refinance outstanding | 4.42 | Nil | Nil |

Puri Gramya Bank

Puri Gramya Bank was established on 25.02.1976 with Head office at Pipli in Puri district in Orissa State. The operational area covers 3 districts viz. Puri, Khurda and Nayagarh. The bank has a network of 113 branches with total staff strength of 613. The audited financial position of Puri Gramya Bank for the last five years is as under:

(Rs. in crores)

| | FY 2001 | FY 2002 | FY2003 | FY 2004 | FY 2005 |
|---------------------------|---------|---------|--------|---------|---------|
| Capital | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Reserves & Surplus | - | - | - | - | -- |
| Deposits | 314.07 | 343.44 | 388.22 | 439.95 | 485.63 |
| Advances | 196.46 | 226.43 | 258.50 | 328.69 | 367.95 |
| Priority Sector Advances | 134.74 | 174.54 | 189.03 | 220.00 | 290.69 |
| Profit/(Loss) | (1.49) | 0.18 | 0.48 | 0.48 | 2.02 |
| Productivity Per Employee | 0.82 | 0.91 | 1.03 | 1.24 | 1.41 |

Transaction between Puri Gramya Bank and IOB in the past three years (Rs. in crores)

| Particulars (As on March 31) | 2003 | 2004 | 2005 |
|------------------------------|-------|-------|-------|
| Deposit with IOB | 51.08 | 43.43 | 24.02 |
| Refinance outstanding | 3.00 | - | -- |

Contingent liabilities of Regional Rural Banks

As on March 31 2005, the contingent liabilities of Regional Rural Banks aggregating Rs. 3.79 crores as given in the following table.

(Rs. in crores)

| Sl.No | Name of the Bank | Contingent Liability |
|-------|------------------------|----------------------|
| 1. | Pandyan Grama Bank | 2.10 |
| 2. | Dhenkanal Gramaya Bank | 1.65 |
| 3. | Puri Gramaya Bank | 0.04 |
| | Total | 3.79 |

As per the RRB Act, RRBs are exempted from payment of Income Tax. They have complied with the CRR and SLR requirements. The above contingencies have arisen in the normal course of the RRBs.

ASSOCIATE BANK OF IOB

Bharat Overseas Bank Ltd.

Bharat Overseas Bank Ltd. (BOBL) was established to take over from Indian Overseas Bank's Bangkok branch, in Thailand in 1973. BOBL was incorporated on 22.09.1973 and currently has 98 branches. It is the only private bank permitted by the Reserve bank of India to have a branch outside India. It has been jointly promoted by seven banks with stakes as follows: Indian Overseas Bank (30%), The Bank of Rajasthan Ltd. (16%), The ING Vysya Bank Ltd. (14.66%), The Federal Bank Ltd. (10.67%), The Karur Vysya Bank Ltd. (10.00%), The South Indian Bank Ltd. (10.00%) and The Karnataka Bank Ltd. (8.67%). The brief financial details of BOBL are given below:

(Rs. in crores)

| Year Ending as on March 31 | FY2003 | FY 2004 | FY 2005 |
|----------------------------|--------|---------|---------|
| Equity Share Capital | 15.75 | 15.75 | 15.75 |
| Reserves & Surplus | 124.55 | 156.43 | 182.64 |
| Total Income | 211.83 | 230.12 | 238.01 |
| PAT | 28.52 | 35.08 | 20.05 |
| Dividend (%) | 16.00 | 18.00 | 15 |
| Earnings Per Share (Rs.) | 181.00 | 223.00 | 127.00 |
| Net Asset Value (Rs.) | 890.82 | 1093.21 | 1170 |

Transaction between IOB with Bharat Overseas Bank in the past three years (Rs. in crores)

| Type of transactions | 2002-2003 | 2003-2004 | 2004-2005 |
|---|-----------|-----------|-----------|
| Sale of Securities | 50.00 | 210.00 | NIL |
| Purchase of Securities | 85.00 | 235.75 | NIL |
| Call Money/Term Money Lent | 0.00 | 115.00 | 205.00 |
| Interest Received on Call Money Lending | 0.02 | 0.03 | 0.06 |

Listed Ventures of Promoters

Since the Government of India is the promoter of the Bank, it is not possible to give details of previous issues of its listed ventures because of the large number of such undertakings.

ORGANISATION STRUCTURE & MANAGEMENT**Hierarchy and Responsibilities**

The Bank functions under the supervision of the Board of Directors consisting of 10 directors Viz., Chairman and Managing Director, the Executive Director and 4 Directors as nominated by the Government of India and 4 directors elected by shareholders. The Bank has a management structure comprising Head Office, the Regional Offices and the branches, covering major geographical areas.

Board of Directors (as on date)

| Sr. No. | Name, Age, Experience, and Qualification: | Date of Appointment | Date of Expiry of current term | Residential Address | Other Directorships |
|---------|--|---------------------|-------------------------------------|--|---------------------|
| 01 | Mr. T S Narayanasami Age: 56 years Exp: 36 years Qualification: B.Sc | 09 06 2005 | 31 05 2009 | Overseas House, 8, Sterling avenue Nungambakkam Chennai 600 034 | -- |
| 02 | Mr. AR Nagappan Age: 59 years Exp: 34 years Qualification: M Sc | 27 08 2004 | 30.4. 2006 | 118, Sterling Road, Nungambakkam Chennai 600 034 | - |
| 03 | Mr. Madhusudhan Prasad Age: 49 years Exp: 24 years Qualification: I A S Gol Nominee | 24 01 2005 | Until further orders from Govt., | D-1/79, Satya marg Chanakya Puri New Delhi-110021 | - |
| 04 | Mr. C S Murthy Age: 57 years Exp: 26 years Qualification: B Com., CAIB, DCAI RBI Nominee | 07 04 2005 | Until further orders from Govt., | B-2 "Dhanastra" RBI Senior Officers Quarters. 122, Nathalal Parekh marg COLABA Mumbai-400005 | - |

| | | | | | |
|----|---|------------|---|--|--|
| 05 | Mr. Sankaran Srinivasan Age: 53 years Exp: 30 years Qualification: B.Sc Employees (award) Nominee | 25.02.2003 | 24.02.2006 and thereafter until his successor is appointed or till he ceases to be a workman employee of IOB+ | NL 6 Type 20/4, sector 9, Nerul New Mumbai Maharashtra 400706 | - |
| 06 | Mr. K. Ananda Kumar Age: 49 years Exp: 23 years Qualification: B.com, CAIIB, A.C.A. Employees (Officer) Nominee | 14.05.2002 | 13.05.2005 and thereafter until his successor is appointed or till he ceases to be a employee of IOB | 2/2, First main Road, RA Puram Chennai 600 028 | - |
| 07 | DR. Harsh Mahajan Age: 45 years Exp: 16 years Qualification: MBBS, MD (Radiodiagnosis) Shareholders' Nominee | 08.12.2002 | 07.12.2005 | B 20, Safdarjung enclave, New Delhi 110 029 | Mahajan Imaging Pvt. Ltd., Doon MRI Pvt. Ltd., MRI Scans Pvt. Ltd. |
| 08 | Mr. Christopher Thomas Kurien Age: 73 years Exp: 32 years Qualification: M.A., Ph.D, Post Doctoral Research Shareholders' Nominee | 08.12.2002 | 07.12.2005 | D-404, Raheja residency. &th Cross, 3 rd Block Koramangala Bangalore-560034 | - |
| 09 | Mr. S.K. Sehgal Age: 64 years Exp: 40 years Qualification: B.Sc Shareholders' Nominee | 08.12.2002 | 07.12.2005 | M-1 F Green avenue Amritsar | - |
| 10 | Mr. M.N. Venkatesan Age: 48 years Exp: 19 years Qualification: B.Com, F.C.A. Shareholders' Nominee | 08.12.2002 | 07.12.2005 | 19/9, Krishnamachari Road Nungambakkam Chennai 600 004 | - |

As on March 31, 2005, the directors of the Bank together held 21900 shares in the Bank.

The Bank has taken initiatives in furthering corporate governance practices leading to greater transparency and better coordination between the Board and Management and the members of the organisation. The Bank has constituted various Committees of the Directors in keeping with the existing guidelines of the Govt. of India and RBI as follows:

The cumulative expenditure on travelling allowance (TA), hotel/halting expenses (HA) and fees for directors in the last one year is as follows:

| Year ended March 31, 2005 | Amount (Rs. In lacs) |
|--|----------------------|
| Remuneration (Sitting fees paid to Directors) | 6.48 |
| TA incurred/paid to Directors | 29.15 |
| Hotel Expenses & Halting Allowance Paid to Directors | 11.38 |
| Total | 47.01 |

Management Committee of the Board of Directors

The Committee exercises delegated authority for sanction of credit proposals, loan compromise/write-off proposals, major capital and revenue expenses and reviews exercise of delegated authority by the CMD and the Executive Director. The Committee also reviews the performance of key areas like investments portfolio, non-performing assets and other important management decisions referred to the Committee by the Board.

Audit Committee of the Board of Directors

The Audit Committee comprises the Executive Director of the Bank, 2 official directors (GOI, RBI Nominee), 2 non-official, non-executive directors, at least one of them being a Chartered accountant. The present members of the committee are Mr.



M N Venkatesan, Shareholder Director (Chairman of the committee), Mr. AR Nagappan (Executive Director), Mr. Madhusudan Prasad (Gol Nominee), Mr. C S Murthy (RBI Nominee), Mr. C T kurien (Director).

Management of the Bank

The overall supervision and control of the Bank's functions rests with the Board of Directors which consists of the Chairman & Managing Director and Executive Director, both appointed by the GOI, other Directors representing the Government, Reserve Bank of India, Shareholders, Employees and Officers of the Bank. The day-to-day affairs of the Bank are managed by the CMD, the ED, the Bank's General Managers, and Deputy General Managers who are assisted by a team of competent professionals.

Key Managerial Personnel (As on date)

| Name & Qualification | Date of Joining the Bank | Experience in the Industry | Position Held | Functional Responsibility |
|---|-----------------------------|----------------------------|--|--|
| Mr. T S Narayanasami B Sc | As CMD w.e.f. 09.06.2005 | 36 years | Chairman & Managing Director | Chairman & Managing Director |
| Mr.AR Nagappan M Sc | As ED on 27 08 2004 | 34 Years | Executive Director | Executive Director |
| Mr. AL. Chandramouli M.Sc. | 29.12.1967 | 36 Years | General Manager | Personnel, HRDD, IRD, Security, PRD, C Doc |
| Mr. V. Gomathinayagam M.Com., B.L, CAIIB, Ph.D. | 29.12.1967 | 36 Years | General Manager | Priority Credit, Lead bank, ABC services division, RRB cell, Women Entrepreneur cell |
| Mr. R. Krishnan M.A | 29.12.1967 | 36 Years | General Manager | Foreign Exchange,, Overseas credit, |
| Mr. J.K. Gupta B.A.(COM), CAIIB-I. | 26.08.1968 | 35 Years | General Manager | Northern Territory |
| Mr. G. Narayanamurthy B.Sc.(Agri), Prig. Mgt. of Agri. | 06.12.2000 | 39 Years | General Manager (Chief Vigilance Officer) | Vigilance., On Deputation From Canara Bank |
| Mr K E Venugopal | 01 12 1971 | 33 years | General manager | Legal dept., ARD |
| Mr. R.K. Agrawal M.Com., CAIIB | 03.11.1969 | 34 Years | General Manager | South Western Territory |
| Mr. M.K. Chaturvedi MA(Lit), MA(His) | 03.11.1969 | 34 Years | General Manager | Merchant Banking, Premises, BOD, Govt accounts, Printing and MBD, TMC |
| Mr. G.S. Matta B.Sc., CAIIB | 05.09.1968 | 35 Years | General Manager | On deputation to Punjab & Sind bank as Chief Vigilance Officer |
| Mr. Sivaram Swamy M.Sc., CAIIB., D-SA&DP | 07.09.1970 | 33 Years | General Manager | Funds, Accounts, DOS cell, Investors relation Cell |
| Mr. K.R. Nimbalkar M.Sc., M.Sc. (Tech), D-GER | 26.12.1968 | 35 Years | General Manager | CPPD, MSD, RMD, IBR |
| Mr. G.Gopinath B Com., CAIIB | 26.12.1968 | 35 Years | General Manager | Planning, Board Services, Costing cell , CSSD, CDR Cell, IARD |
| Mr A C Kher M Sc, PGD- BKM | 03 11 1969 | 35 years | General Manager | Western Territory |
| Mr R Shankar BE(Mech), C-CP | 01 12 1971 | 33years | General manager | Eastern Terrotiry |
| Mr K Purushotham B Sc(Agri) | 14 05 1970 | 35 years | General Manager | Regional Head, Hyderabad |
| Mr K P Munirathnam B Sc | 02 09 1968 | 36 years | General Manager | Incharge Singapore |
| Mr K Chandra sekhar B Com CAIIB | 28 12 1970 | 34 years | General Manager | Southern Territory |
| Mr B L Arora BA, LLB | 03 11 1969 | 35 years | General Manager | Inspection, RBS, RBIA |
| Mrs Asoka Chatterjee M Sc | 27 12 1972 | 32 years | General Manager | Marketing & development, Credit Card, OLD, Insurance, Mutual Fund distribution |

Note: Except CMD & ED, all key managerial personnel are working in the Bank since the start of their careers and are on the roll of the Bank as permanent employees.

The Key Managerial Personnel are entitled to the compensation & benefits as applicable to all the permanent employees of the Bank. All the Key Managerial Personnel are of the General Manager and higher grade and hence their compensation falls in the scale of Rs19340-420/2-21080-520/1-20700-600/1-21300 p.m. The other benefits include the festival loan, the housing loan, reimbursement of certain expenses etc. as per employees' service rules.

Changes in the Key Managerial Personnel during the last three years (from April 1, 2002) are as under -



| Name & Qualification | Position Held | Reason for change |
|-----------------------|-----------------------------|---|
| Mr. R. Natarajan | Executive Director | Earlier with IOB as GM. Appointed as ED by GOI w.e.f. 01.05.2001. Retired on completion of tenure on 30.06.2002 |
| Mr. Rohit M. Desai | Executive Director | Appointed as ED by the Govt. of India on 01.07.2002 |
| Mr. Rohit M. Desai | Executive Director | Retired as ED on completion of tenure on 31 07 2004 |
| Mr AR Nagappan, | Executive Director | Appointed as ED by the Govt. of India on 27 08 2004 |
| Mr. S.S. Madan | General Manager | Retired w.e.f. 30.04.2003 |
| Mr. V. Rajagopalan | General Manager | Retired w.e.f. 30.04.2003 |
| Mr. M. S. Kapur | General Manager (Vigilance) | Transferred to Punjab & Sind Bank |
| Mr. VR. Kumarappan | General Manager | Retired w.e.f 30.11.2003 |
| Mr. AL Alagappan | General Manager | Retired w.e.f 30 11 2004 |
| Mr. B B Patnaik | General Manager | Retired w.e.f 30.09 2004 |
| Mr. J Balasubramanian | General Manager | Retired w.e.f 30 09 2004 |
| Mr B S Swaminathan | General Manager | Ceased to be GM - _____ On his appointment as ED to Canara Bank |
| Mr S S Sharma | Gneral Manager | Wef 30 08 2005 on his retirement |
| Mr. S C Gupta | CMD | Ceased to be CMD - 31 05 2005 - on his appointment to PNB as CMD |
| Mr T S narayanasami | CMD | Appointed – CMD wef.09 06 2005 |
| Mr K Sridharan | General manager | Retired – Wef 31 08 2005. |

The total manpower of the Bank as on March 31, 2005 was 24,366 comprising 7,654 officers, 12,463 clerks and 4,249 substaff. The bank had recruited 21staff under officer/award staff categories during the year 2004-05.

The manpower position of the Bank for the last five years is as under:

| As on | Officer | Clerical Staff | Sub-Staff | Total Number of Employees |
|------------|---------|----------------|-----------|---------------------------|
| 31.03.2001 | 7,668 | 13,324 | 4,849 | 25,841 |
| 31.03.2002 | 6,942 | 12,665 | 4,899 | 24,506 |
| 31.03.2003 | 6,889 | 12,999 | 4,409 | 24,297 |
| 31.03.2004 | 7,453 | 12,313 | 4,459 | 24,225 |
| 31.03.2005 | 7,654 | 12,463 | 4,249 | 24,366 |

The business per employee of the Bank has been on the increasing trend. The position as on 31st March during the last five years is depicted in the table below:

| Year | 2001 | 2002 | 2003 | 2004 | 2005 |
|-------------------------|------|------|------|------|------|
| Business per Employee | 141 | 175 | 204 | 232 | 269 |
| Net Profit per Employee | 0.42 | 0.91 | 1.70 | 2.10 | 2.66 |

Voluntary Retirement Scheme

In order to bring about rightsizing the manpower, the Bank introduced the Voluntary Retirement Scheme in the year 2000. In response to the scheme altogether 3,992 applications were received, out of which 3,405 were accepted by the Bank. After this reduction of these employees, the operations and the performance of the Bank have not been affected.

Human Resources Development

The Bank has accorded high importance to top priority to the Human Resources Development and allied functions in order to upgrade the knowledge, skill and concept at every level in the context of the emerging realities.

In view of the new skills required at the changing market place, the Bank has strengthened its training plan, programmes and infrastructure and has resorted to two-fold strategies to expose its officers and employees of all strata to training and developmental programmes in an ongoing sequence through six internal training institutes and by availing of external erudition, skill and proficiency from within the country and overseas as well. During FY 2005, the bank had deputed 23 executives and 13 officers for overseas training apart from deputation of 78 executives and 620 officers were deputed to external institutions.

Training and HR Policy

The HR Policy of the Bank seeks to have the right kind and mix of people at the right place and to develop systems and create an environment/platform wherein the employees realise their potential for their own betterment and organisational effectiveness. The Bank helps the human resource development and sharpens their skills towards realising the individual and organisational objectives and also acquires specialised skills in banking. The staff is given training to acquire required job knowledge for effectively discharging their day-to-day duties and also mould them to shoulder higher responsibilities and meet future challenges.

Information Technology

The Bank has made optimal use of technology to improve customer satisfaction. The Bank is the first public sector bank to have computerized all the 1496 branches and 252 extension counters. For greater customer convenience the Bank has provided any time, anywhere banking through new delivery channels like ATMs, Mobile banking and Internet banking and Telebanking. In addition the Bank is providing remote login facility to above 600 corporate customers to view their accounts.

The treasury operations, HRDD and inspections have been fully computerized. The IOB net connects 606 branches and all 39 administrative offices. A wide number of applications are employed on the network like ABB, ATM, Mobile banking, Internet banking, E-mail, Corporate intranet and access to central data warehouse.

The Bank first introduced Any Branch Banking (ABB) in 1998 and Mobile banking in 2000. The information systems security policy for the Bank has been formulated and is being implemented. Audit software is being done by in-house CISA qualified personnel as well by external agencies.

I. STOCK MARKET DATA OF THE EQUITY SHARES OF THE BANK

The equity shares of the Bank are listed on Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE) and Madras Stock Exchange (MSE).

(i) The following table shows the high and low of daily closing share prices of the Bank on BSE and NSE for the periods indicated:

| Period | BSE | | | NSE | | |
|-------------|------------|-----------|-----------------|------------|-----------|-----------------|
| | High (Rs.) | Low (Rs.) | Average * (Rs.) | High (Rs.) | Low (Rs.) | Average * (Rs.) |
| 2003-2004 | 57.00 | 15.60 | 30.32 | 56.95 | 15.50 | 30.34 |
| 2004-2005 | 90.00 | 36.45 | 55.88 | 84.15 | 36.00 | 57.01 |
| April 2005 | 81.25 | 67.30 | 72.94 | 81.35 | 67.15 | 72.96 |
| May 2005 | 81.00 | 69.10 | 76.06 | 85.00 | 69.20 | 76.18 |
| June 2005 | 87.45 | 73.05 | 78.29 | 87.80 | 71.50 | 78.33 |
| July 2005 | 91.00 | 73.00 | 83.59 | 91.00 | 73.00 | 83.65 |
| August 2005 | 92.00 | 72.85 | 85.87 | 91.00 | 81.00 | 85.98 |

* Average of the daily closing share price.

(ii) The following table shows the number of shares traded on the days High and Low prices of the Bank's shares recorded on BSE and NSE for the periods indicated:

| Period | BSE | | | | NSE | | | |
|-------------|----------|-------------------------|----------|-------------------------|----------|-------------------------|----------|-------------------------|
| | High | | Low | | High | | Low | |
| | Date | Number of shares traded | Date | Number of shares traded | Date | Number of shares traded | Date | Number of shares traded |
| 2003-2004 | 31-03-04 | 369738 | 01-04-03 | 20010 | 31-03-04 | 979214 | 01-04-03 | 89776 |
| 2004-2005 | 11-03-05 | 2292484 | 17-05-04 | 1393613 | 11-03-05 | 2106609 | 09-07-04 | 508417 |
| April 2005 | 27-04-05 | 8407576 | 18-04-05 | 183447 | 27-04-05 | 6463976 | 15-04-05 | 983779 |
| May 2005 | 09-05-05 | 225436 | 02-05-05 | 280024 | 06-05-05 | 2038053 | 02-05-05 | 1575508 |
| June 2005 | 09-06-05 | 506582 | 29-06-05 | 141941 | 09-06-05 | 1607348 | 30-06-05 | 1469870 |
| July 2005 | 26-07-05 | 2675574 | 01-07-05 | 595898 | 26-07-05 | 4793709 | 01-07-05 | 1573167 |
| August 2005 | 18-08-05 | 340199 | 04-08-05 | 113652 | 17-08-05 | 2950301 | 09-08-05 | 792173 |

(iii) The market price of the share on 31 08 2005, the date of authorization of the issue by the Board of Directors, was Rs.88.80 on BSE and Rs. 88.90 on NSE (since this is an issue of pure debt, the share prices mentioned above would not be relevant).

(iv) The total volume of securities traded in each month on BSE and NSE during the last five months is as follows:

| Period | Total number of shares traded | |
|-------------|-------------------------------|----------|
| | BSE | NSE |
| April 2005 | 9437066 | 26233119 |
| May 2005 | 3849994 | 16359489 |
| June 2005 | 7646168 | 19761479 |
| July 2005 | 11622402 | 28940039 |
| August 2005 | 6893448 | 24393539 |

The equity shares of the Bank are actively traded at all the Stock Exchanges where they are listed.

VII. SIGNIFICANT REGULATORY MATTERS RELATED TO THE BANK

VERMA COMMITTEE RECOMENDATIONS

The Verma Committee was set up to identify weak and potentially weak banks in the country and for making recommendations for strengthening these banks and reducing systemic risk.

The Verma Committee has suggested seven parameters for assessing a bank's strength/weakness covering three major areas namely: 1. Solvency 2. Earning Capacity and 3. Profitability. These parameters are as follows:

| | |
|---------------------|---|
| Solvency | Capital Adequacy Ratio, Coverage Ratio |
| Earning Capacity | Return on Assets, Net Interest Margin |
| Profitability Ratio | Ratio of operating profit to average working funds, Ratio of cost to income, Ratio of staff cost to net interest income (NII) + all other income. |

The above ratios are well known parameters on which banks' performance and sustainability are judged. A study of these ratios in respect of a bank, historically or in comparison with its peers, gives a view of its growing strength or weakness over a period as also its ability to compete against others in the market. The working group observed that based on the above analysis, public sector banks could be classified in terms of their strengths or weakness under three broad categories:

1. Banks where none of the seven parameters are met
2. Banks where all the parameters are met
3. Banks where some of the seven parameters are not met

Indian Overseas Bank has been placed amongst six banks in the third category for compliance with CAR but non-compliance with five or six of the remaining efficiency parameters for financial year 1998 and financial year 1999.

The Working Group of the committee observed that Banks classified in this category functioned below the required levels of efficiency in both the years, typifying the persistence of causes that would eventually manifest in weakness. In the opinion of the group these banks showed strong signs of distress and ran a high risk of slipping into the category of weak banks. These banks were vulnerable to sudden changes that could arise in the external environment.

The Bank has put in place the required systems to bring the entire operations under the purview of Asset Liability Management. The Bank has stepped up the recovery efforts and the net NPA has come down to 1.27%. The Bank has Risk Management Department in addition to a Credit Risk Management Cell. The Bank does not envisage impairment to bank's solvency, earning capacity or profitability.

Regulatory Supervision of RBI over various aspects of the Bank

Reserve Bank of India (RBI) conducts inspection every year under Section 35 of the Banking Regulation Act, 1949. For the financial year ended 31.03.2004 the inspection was completed on 19.8.2004. For the financial year ending 31.03.2005 the inspection was commenced on 01.07.2005.

The following are the major aspects in which RBI concentrates:

- ❖ Changes in Management between last inspection and the present inspection
- ❖ The developments in the bank's affairs since the last report
- ❖ Assessment of the Capital to the Risk weighted assets ratio
- ❖ Review of the Loan Policy of the Bank that includes:
 - The Size and composition of the loan portfolio
 - The exercise of the discretionary power by various layer of authority
 - Credit appraisal
 - Credit supervision
 - Systems pertaining the Customer Rating and pricing of the Loans
 - Review and renewal of credit facilities
 - Dispersal of Risk
 - Asset classification and provisioning
 - Divergence in assessment of Loan Losses
 - Staff accountability

- ❖ Review of the Investments Loan Policy of the Bank including:
 - Size and Composition of the portfolio
 - Adherence to the investment policy
 - Compliance with the regulatory norms
 - Adherence to other regulatory and internal guidelines
 - Maturity patterns of the SLR investments and yield thereon
- ❖ Review of the Non Banking Assets of the Bank
- ❖ Review of the Management which includes
 - Working of the Board
 - Functioning of the Management And Audit Committee of the Board
 - Organizational structure and its effectiveness
- ❖ Earnings appraisal
- ❖ Review of the Expenditure Management
- ❖ Impact of Income from para banking activities and subsidiaries and Joint ventures
- ❖ Review of the Asset Liability Management which includes
 - Functioning of the Asset Liability Management Committee
 - Prudence in raising of the resources and their deployment
 - Maturity profile of deposits
 - Assessment of Liquidity Management
- ❖ Review of the Systems and Control which includes:
 - Internal Inspection Policy
 - Concurrent audit, Revenue Audit, Test Check Audit
 - Computerisation and EDP audit
 - Implementation of the various committees on inspection
 - House Keeping
 - Management
 - Information systems
- ❖ Review of Vigilance mechanisms, customer service and complaints
- ❖ Foreign Exchange Management including
 - Management of Nostro and Vostro
 - Working of foreign branches
- ❖ Analysis of the areas pertaining to the fee based income
- ❖ Compliance review such as maintenance of SLR, CRR, Exposure ceilings etc.,
- ❖ Working on the subsidiaries of the bank

Inspection by RBI

RBI conducts an annual inspection of the Bank based on the audited accounts. Simultaneously, RBI carries out inspection of branch/controlling offices on a selective basis. RBI also conducts offsite surveillance of the branches of the Bank on a quarterly basis. Discussions with the management of the Bank also form a part of the inspection and surveillance process.

An inspection of IOB under section 35 of the Banking Regulation Act, 1949 was conducted by the Reserve Bank of India with reference to its position as on 31.03.2004. The Annual Inspection Report of the Reserve Bank of India has identified certain weaknesses in the system, operational irregularities and other deficiencies in their internal controls. The inspection of the Bank by RBI is a regular exercise and is carried out periodically for all the banks and Financial Institutions. The reports of RBI are strictly confidential and the Bank has informed the RBI about the actions already taken and measures that are under implementation in respect of observations made by RBI. The issues raised by RBI in the aforesaid report have been replied to by the Bank.

SHAREHOLDING PATTERN

The share holding pattern as on June 30, 2005 was as under:

| Shareholder | Shareholding (%) |
|---------------------------|------------------|
| Government of India (Gol) | 61.23 |
| Resident Individuals | 17.78 |
| Corporate bodies | 2.19 |
| Non-Resident Indians | 1.10 |
| OCBs | 0.01 |
| FII | 10.99 |
| Fis | 3.47 |
| Bank | 0.21 |
| Mutual Fund | 3.02 |
| Total | 100.00 |

VIII. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE

Financial Highlights of the Bank for the last three financial years as per the audited balance sheets of the Bank are as given in the following table:

| Year ended March 31st | 2003 | 2004 | 2005 | % change from 2003 to 2004 | % change from 2004 to 2005 |
|--|---------|---------|---------|----------------------------|----------------------------|
| Total Income | 4005.81 | 4494.76 | 4590.85 | 12.21% | 2.14 |
| Interest Income | 3485.91 | 3754.10 | 3951.05 | 7.69% | 5.25 |
| Other Income | 519.90 | 740.66 | 639.80 | 42.46% | (13.62) |
| Expenditure | 3211.68 | 3169.57 | 3254.05 | (3.11%) | 2.67 |
| Interest Expenditure | 2264.44 | 2154.69 | 2095.53 | (4.85%) | (2.37) |
| Operating Expenditure | 947.24 | 1014.87 | 1158.53 | 7.14% | 14.16 |
| Profit before provisions & contingencies | 794.13 | 1325.19 | 1336.80 | 66.87% | 0.88 |
| Provisions & Contingencies | 378.03 | 812.44 | 685.44 | 114.91% | (15.63) |
| Net Profit | 416.10 | 512.76 | 651.36 | 23.23% | 27.00 |

Significant items of income and expenditure during 2004-05 (Comparison of financials for the year ended March 2005 with March 2004)

Net Profit: Net Profit of the Bank increased from Rs. 512.76 crore in 2003-04 to Rs. 651.36 crore in 2004-05 showing a growth of 27% as against the increase of 23.23% witnessed during 2003-04. This is on account of higher provisioning and contingencies.

Interest Income: Total interest income increased from Rs. 3,745.10 crore to Rs. 3,951.05 crore. Of the components of interest income, income on advances improved from Rs. 1,849.43 crore in 2003-04 to Rs. 2,092.31 crore in 2004-05. Global Net Advances of the Bank increased by 24.19% from Rs. 20,295.00 crores as on 31-03-2004 to Rs. 25,205.19 crores as on 31-03-2005.

Other Income: In view of increasing pressure on interest spread, the Bank considers income from non-fund/non interest business equally important for generating additional income to improve profitability. Other income of the Bank comprises income from commission, exchange and brokerage, income from investment trading and forex operations, dividend income and miscellaneous income. These incomes are earned in the normal course of business of the Bank.

Interest Expenses: Interest paid on deposits declined from Rs. 2,054.68 crores in 2003-04 to Rs. 1,990.94 crores in 2004-05 with the growth in global deposits from Rs. 41,483 crores as on 31-03-2004 to Rs. 44,241.00 crores as on 31-03-2005. This is despite the fact the Global Deposits have gone up by Rs. 2,758 crores along with other interest bearing liabilities.

Operating Expenses: The total staff cost increased only by Rs. 90.10 crores on account of increased contribution to pension and provision for wage arrears in the light of pending industry level settlement. The other operating Expenses have moved up from Rs. 261.51 crores to Rs. 315.07 crores mainly due to rise in Rent, Taxes and Lighting, Advertisement and Publicity, Audit fees, law charges, Insurance.

Total Income: Total income of the Bank went up by Rs. 96.09 crores from Rs. 4,494.76 crores in 2003-04 to Rs. 4,590.85 crores in 2004-05.

Total Expenditure: While the total income of the Bank went up by Rs. 96.09 crores, the total expenditure of the Bank also went up by Rs. 84.48 crores or from Rs. 3,169.57 crores to Rs. 3,254.05 crores.

Significant items of income and expenditure during 2003-04 (Comparison of financials for the year ended March 2004 with March 2003)

Net Profit: Net Profit of the Bank increased from Rs. 416.10 crores in 2002-03 to Rs. 512.76 crores in 2003-04 showing a growth of 23.23% as against the increase of 80.75% witnessed during 2002-03. This is on account of higher provisioning and contingencies.

Interest Income: Total interest income increased from Rs. 3,485.91 crores to Rs. 3,745.10 crores. Of the components of interest income, income on advances improved from Rs. 1,720.77 crores in 2002-03 to Rs. 1,849.43 crores in 2003-04. Global Net Advances of the Bank increased by 16.32% from Rs. 17,447.00 crores as on 31-03-2003 to Rs. 20,295.00 crore as on 31-03-2004.

Other Income: In view of increasing pressure on interest spread, the Bank considers income from non-fund/non interest business equally important for generating additional income to improve profitability. Other income of the Bank comprises income from commission, exchange and brokerage, income from investment trading and forex operations, dividend income and miscellaneous income. These incomes are earned in the normal course of business of the Bank. While the components of other income like commission and profit on exchange transactions showed rise, the total other income of the Bank



showed went up by 42.46% mainly due to increase in profit on sale of investments, Commission, and Miscellaneous Income during 2003-04.

Interest Expenses: Interest paid on deposits declined from Rs. 2,172.06 crore in 2002-03 to Rs. 2,054.68 crore in 2003-04 with the growth in global deposits from Rs 36,699 crores as on 31-03-2003 to Rs 41,483 crores as on 31-03-2004 This is despite the fact the Global Deposits have gone up by Rs. 4,783 crores alongwith other interest bearing liabilities.

Operating Expenses: The total staff cost increased only by Rs. 33.76 crore on account of increased contribution to pension and provision for wage arrears in the light of pending industry level settlement. The other operating Expenses have moved up from Rs. 227.65 crores to Rs. 261.51 crores mainly due to rise in Rent, Taxes and Lighting, Advertisement and Publicity, Audit fees, law charges, Insurance. The bank has also absorbed entire Second Public issue expenses of Rs. 6.80 crores.

Total Income: Total income of the Bank went up by Rs. 488.95 crores from Rs. 4,005.81 crores in 2002-03 to Rs. 4,494.76 crores in 2003-04.

Total Expenditure: While the total income of the Bank went up by Rs. 488.95 crores, the total expenditure of the Bank also reduced by Rs. 42.11 crores or from Rs. 3,211.68 crores to Rs. 3,169.57 crores.

Other matters relating to the Operations of the Bank

Unusual or infrequent events and transactions: No unusual or infrequent events and transactions occurred in the last three years.

Significant economic changes that materially affected or are likely to affect income from continuing operations: Changes in the interest rate structure that is any upward movement in interest rate, is going to reduce the value of the investment portfolio.

Future relationship between costs and revenue: While it is expected that costs and revenues as a percentage would come down simultaneously, the margin would be under pressure. The net margin may also be affected by increasing operating cost.

Extent of seasonality in the business: Bank's business is not likely to be affected by seasonality.

Non-dependence on a few customers: The Bank has a diversified credit portfolio to prevent any concentration in exposures both industry-wise and clientwise. The Bank has an adequately designed credit risk policy to ensure the prevention of excess exposure to few customers.

Competitive conditions: The Bank has 552 rural branches where it has monopoly in business. The large network of rural and semi-urban branches ensure that a huge captive business automatically flows in to the bank. In metro centres, the Bank faces a stiff competition from other Banks. But then, the Bank has been consistently achieving higher growth rates than the industry.

Servicing Behaviour: The Bank has been servicing all its principal and interest liabilities on time and there have been no defaults.

Material Developments: In the opinion of the Directors of the Bank, there have been no material developments after the date of the last financial statements as disclosed in the Information Memorandum, which would materially and adversely affect or are likely to affect the trading or profitability of the Bank or the value of its assets, or its ability to pay its liabilities within the next twelve months, other than what has been already set out elsewhere in this Information Memorandum.

Particulars Regarding Listed Companies: There is no other listed company under the same management.

IX. PREVIOUS ISSUE OF THE BANK DURING THE LAST THREE YEARS

1. IPO of Equity Shares:

The Bank made its maiden equity issue of 11,12,00,000 shares of Rs. 10/- each, for cash at par aggregating to Rs. 111.20 crores. The issue opened on 25.09.2000 and closed on 29.09.2000. The issue was oversubscribed by 1.87 times. The shares were allotted on 25.10.2000. The despatch of share certificates and refund orders was completed on 4.12.2000 and 28.10.2000 respectively. The shares have been listed at Madras Stock Exchange, Bombay Stock Exchange and National Stock Exchange on 04.12.2000, 05.12.2000 and 07.12.2000 respectively.

For the year ended 31.03.2001 the Bank declared a dividend of 10% and the shareholders were paid the same on a pro rata basis effective from the date of allotment. For the years ended 31.03.2002, 31.03.2003, 31.03.2004 and 31.03.2005, the Bank declared dividend of 12%, 16%, 20% and 24% respectively.

The Bank made its second equity issue of 10,00,00,000 shares of Rs. 10/- each, for cash at a premium of Rs 14/- at a price of Rs 24/- each aggregating Rs 240 crores. The issue opened on 05.09.2003 and closed on 12.09.2003. The issue was subscribed 6.14 times. The shares were allotted on 7.10.2003. The despatch of share certificates and refund orders was completed on 9.10.2003. The shares have been listed at Madras Stock Exchange, Bombay Stock Exchange and National Stock Exchange on 14.10.2003.

Issues for consideration other than for Cash

The Bank has not offered equity shares other than cash (after creation of the corresponding new bank through nationalisation on 19.07.1969) except as mentioned in the para 'Share Capital History' in the 'Notes to Capital Structure'.

2. Tier II Bonds Issues

The Bank has raised Tier II Capital by way of Private Placement of Unsecured Redeemable Subordinated Bonds in the nature of Promissory Notes to augment capital adequacy as under:

| Series | Date of Allotment | Size (Rs in crores) | Tenor (In Months) | Credit Rating | Coupon (%) | Redemption Date |
|--------|-------------------|------------------------|----------------------|------------------|---------------|-----------------|
| i | 18.01.1999 | 150.00 | 60 | Unrated | 13.75 | 17.01.2004 |
| ii | 08.03.2001 | 125.00 | 67 | AA | 11.45 | 07.10.2006 |
| iii | 31.12.2001 | 150.00 | 67 | AA | 09.40 | 30.07.2007 |
| iv | 31.10.2002 | 175.00 | 78 | AA | 07.45 | 30.04.2009 |
| v | 01.03.2004 | 200.00 | 120 | CARE AA+ | 06.00 | 29.02.2014 |
| vi | 26.07.2004 | 200.00 | 120 | CARE AA+ | 06.40 | 25.07.2014 |
| vii | 08.01.2005 | 150.00 | 123 | CARE AA+ | 07.25 | 08.04.2015 |

Note: The bank has redeemed Series I aggregating to Rs 150 crores on the due date i.e. 17.01.2004.

X. BASIS OF ISSUE PRICE

This issue is being a debt issue the price has been determined taking market rate and cost of funds involved.

XI. OUTSTANDING LITIGATION, DEFAULT AND MATERIAL DEVELOPMENTS

The litigation in which the Bank and or its subsidiaries and sponsored institutions involved are classified into 3 categories:

1. Cases filed against the bank

nstitutions

| DETAILS OF THE CASE | REMARKS |
|---|---|
| Branch : Defence Colony Uttam Singh Duggal & Company, June 1989; Case No. CS 517/91 Claimed amount Rs. 171.88 crores | The Suit was filed by the borrower to recover damages for non-sanction of additional credit facilities to them. The Bank has also filed recovery suit for Rs. 104.14 crores against the borrower on behalf of IOB, Exim Bank and United Bank of India on 01.10.1991. The trial of both these cases before DRT Kolkata has been ordered. Records have been transferred from High Court to DRT, Kolkata |
| Branch : Malda Kadambini Cycle Industries, August 1996 Case No. M.S.37 / 96, Amount involved :Rs.1.96 crores | The borrower filed counter suit for damages for non-sanction of required credit facilities by the Bank in retaliation to banks recovery suit filed before DRT, Kolkata on 04.04.1996 for Rs. 17.63 lakhs |
| Branch: Agartala BD Pipes: November 1997 Case No. MS 162/97 Amount Involved: Rs. 4.00 crores | The suit for damages for non-sanctioning of required credit facilities by the Bank has been filed by the borrower as a counter to the bank's recovery suit for Rs. 27.32 lakhs filed in July, 1996. The counter suit was dismissed on 20.01.03. The subjects have filed Appeal before High Court. The Appeal is pending |
| Branch Kalbadevi Road, Mumbai M/s. Weld Equip : 09.04.97 Case No. 1440 / 91 Claimed amount : Rs. 1.20 crores | Case for excess debits made in the account and certain credits not given in the account during 1976-1986. The Bank has filed W.S. in the suit and it is pending |
| Branch : Free School St., Kolkata MB Developers P Ltd July 1999 Case No. 45/99 Amount involved: Rs. 1.05 crores | The party has claimed damages for non-sanctioning of the required credit facility by the bank. The suit is pending. The Bank holds a recovery certificate issued by the DRT, Kolkata for recovery of its loan dues of Rs. 35.62 lakhs |

2. Cases filed against the Bank's Subsidiaries and Sponsored Institutions

Cases against Bharat Overseas Bank Ltd.

There are 101 cases of claims /suits filed against the bank and the amount involved as on 30.06.2005 is Rs. 2.11 crores. We certify that as per the information provided to us by BOB, there are no cases are above Rs. 1 crore.

REGIONAL RURAL BANKS

We certify that there are no cases involving Criminal offences, securities related offences, civil offences, statutory and other offences, and other litigations pending against the three RRBs as per the information received from them.

3. Disputed Tax Liability

Income Tax: As on March 31, 2005, the aggregate amount of tax involved in all cases filed against the Bank by the IT authorities relating to tax matter is Rs. 128.85crores. The major ground of appeal relates to the assessment years 1971-1972 to 1997-1998. The major ground of appeal relates to taxing/disallowance of appreciation on investments the tax impact of which is estimated at Rs.71.17crores.

The appeals mentioned above filed by the IT department against the Bank have been taken up for hearing on various dates and are pending with the IT tribunal at Chennai. Appeals filed by the Income Tax department for the assessment years 1971-1972 to 1979-1980 are pending before the High Court of Chennai for an amount of Rs. 0.55 crores which is included in the aggregate amount of Rs. 128.85 crores mentioned above. The Bank is of the view that only a limited liability may arise on this account.

Interest Tax: The aggregate amount of tax involved in all the appeals filed against the Bank by the Income Tax authorities relating to the Interest tax is Rs.16.77 crores. These appeals relate to assessments 1992-1993 to 2000-2001. The major ground of appeal relates to taxing of interest received on Government securities, the tax impact of which is estimated at Rs. 9.74 crores. The above mentioned appeals filed by the Income Tax department against the Bank have been taken up for hearing on various dates and are pending with the Income Tax Tribunal at Chennai.

Except as mentioned above:

No proceedings have been launched against the Bank for any of the offences under any enactment, irrespective of whether specified in Paragraph 1 of Part I of Schedule XIII to the Companies Act. No such litigation or disputes are pending as on today and there are no defaults or outstanding statutory dues.

There are no pending proceedings initiated for economic offences. There are no penalties imposed by authorities. No disciplinary action/ investigation has been taken by the Securities and Exchange Board of India/Stock Exchange against the Bank and its Directors.

The Bank has not defaulted in meeting statutory dues, Institutional dues and has made all payments/refunds on debentures/fixed deposits. It has not defaulted on dues to holders of other Debt Instruments and Preference Shareholders.

There are no Small-scale undertakings/creditors to which the Bank owes any sum exceeding one lakh where payment is outstanding for a period of more than 30 days.

Servicing Behaviour

There has been no default in meeting statutory dues, institutional dues and dues towards payment of interest or principal on due dates to holders of Bonds and Fixed Deposits.

AGAINST THE DIRECTORS OF THE BANK

There are no outstanding litigations, disputes or penalties against the Directors of the Bank, including tax liabilities, economic offences, criminal or civil prosecution for any offence, irrespective of whether specified under any enactment in Paragraph 1 of Part I of Schedule XIII, of the Companies Act, 1956 or any other liability in their personal capacities or as Director/Partner/Sole Proprietor in the Company or any other company/firm.

There are no litigations against the Directors involving violation of statutory regulations or criminal offences. No disciplinary action has ever been taken by the Securities and Exchange Board of India or Stock Exchanges and no penalty has been imposed by any authority. There is no suit pending against the Directors in capacity as director or partner or sole proprietor in any other company/firm.

Other than as stated above, there are no disputes/litigations towards tax liabilities or any criminal or civil prosecutions against the Bank for any offence – economic or otherwise. No criminal proceedings have been launched against the Bank under any of the enactment irrespective of whether or not specified in paragraph 1 of part I of Schedule XIII of the Companies Act.

Interest of Directors of the Bank

The Directors of the Bank are interested to the extent of shares held by them and/or by their friends and relatives or which may be subscribed by them and/or allotted to them by the Bank.

The Directors of the Bank are interested to the extent of fees, if any, payable to them for attending meetings of the Board or Committee and reimbursement of travelling and other incidental expenses, if any, for such attendance as per the Articles of Association of the Bank.

The Directors of the Bank are not interested in the appointment of or acting as Arrangers, Registrars, Trustees and Bankers to the Issue or any such intermediary registered with SEBI.

The Directors of the Bank are not interested in any property acquired by the Bank within two years of the date of this Information Memorandum or proposed to be acquired by it.

Save as stated above, no amount or benefit has been paid or given to the Bank's Directors or Officers since its incorporation nor is intended to be paid or given to any Directors or Officers of the Bank except the normal remuneration and/or disbursement for services as Directors, Officers or Employees of the Bank.

XII. INVESTOR GRIEVANCE & REDRESSAL SYSTEM

The Bank has set up a Shareholders Grievances Redressal Committee comprising of 3 directors of which a non executive independent Director (Mr. M N Venkatesan) is the Chairman. The terms of reference of Shareholders'/ Investor Grievances Committee are to redress the shareholders compliant in respect of matters like non receipt of refund order, share certificate etc, and redress each of such complaint with due care in a time bound manner and to the satisfaction of the complainant.

The Bank has also constituted a Share Transfer Committee comprising of 3 directors with the Chairman and Managing Director/ the Executive Director as the Chairman. The committee has been constituted with a view to approve and effect speedy transfer/ transmission of Bank's share including approval on request for issuance of duplicate share in lieu of originals lost/ misplaced/ stolen. It also ensures that all such requests for transfer and transmission are completed within the period stipulated from the date of submission of the request for transfer etc.

Share transfers, dividend payment and all other investor related activities are attended to and processed at the office of the Registrar & Transfer Agent, Cameo Corporate Services Limited, "Subramanian Building" Vth Floor, 1, Club House Road, Chennai – 600 002 [Tel: (044) 28460390, 28460425; Fax: (044) 28460129]. The Bank has also put in place the Investor Relations Cell at its Head Office to look after the services needed by the shareholders. Any communication, documents, complaints can also be sent to the following address for redressal: Investor Relations Cell, Indian Overseas Bank, Central Office, 763, Anna Salai, Chennai – 600 002. No shareholders' complaint has been pending against the Bank for more than 60 days.

With respect to the current issue of bonds, the Bank has designated a Compliance Officer, who can be contacted by the investors in case of any pre-issue/ post-issue related problems such as non-credit of letter(s) of allotment/ bond certificate(s) in the demat account, non-receipt of refund order(s), interest warrant(s)/ cheque(s) etc. The details of the Compliance Officer of the Bank are as follows:

Mr. Sivaram Swamy
General Manager
Indian Overseas Bank
Central Office,
763, Anna Salai,
Chennai – 600 002.
Tel: (044) 28519419, Fax: (044) 28523372.
E-mail: swamy@jobnet.co.in

The investors can also contact the Registrars to the Issue, Cameo Corporate Services Limited, "Subramanian Building" Vth Floor, 1, Club House Road, Chennai – 600 002 [Tel: (044) 28460390, 28460425; Fax: (044) 28460129] in case of queries/ complaints, if any, regarding this issue.

A. FINANCIAL INFORMATION**AUDITOR'S REPORT**

The Board of Directors,
 Indian Overseas Bank,
 No. 763, Anna Salai,
 Chennai – 600 002.

Dear Sirs,

In terms of our appointment for the purpose of certification of the statement of accounts to be incorporated in the Information Memorandum proposed to be issued by the Bank in connection with the issue of Unsecured Redeemable Non Convertible Subordinated Bonds (Series VIII) in the nature of Promissory Note aggregating to Rs.200 Crores, we state as follows:-

We have relied upon the Audited accounts of the Bank for the five consecutive financial years ended on 31-03-2005 being the last date up to which the accounts of the Bank have been made up and audited by the Auditors of the Bank of those respective years.

1. We further report as follows:-
 - a) The statement of Profit & Loss Account of the Bank for the five consecutive financial years ended on 31-03-2005 is as set out in Part I.
 - b) The statement of Assets and Liabilities of the Bank for the five consecutive financial years as on 31-03-2001, 31-03-2002, 31-03-2003, 31-03-2004 and 31-03-2005 are as set out in Part II.
 - c) The aforesaid Statement of Profit & Loss and Assets & Liabilities
 - i) read together with Significant Accounting Policies and Significant Changes in Accounting Policies as set out in Part III, Material Notes on Accounts and Notes on Adjustments as set out in Part IV and subject to Auditors' qualification for which no adjustment could be carried out as consequential effects could not be ascertained as set out in Part V, have been drawn up after giving effect to adjustments and regrouping as and where, in our opinion, considered appropriate and
 - ii) have been prepared by the Bank in accordance with the guidelines issued by Reserve Bank of India from time to time and subject to the limitations of disclosures required under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.
2. The following was the subsidiary company of the bank upto 28-02-2004 and after that date it was vested with the Singapore Branch of the Bank.

| Name of the subsidiary | Bank's Holding (%) |
|-------------------------------|---------------------------|
| IOB Properties Pvt. Ltd. | 100% |

3. We further report that in respect of the five consecutive financial years ended 31st March 2005, the amount of dividend paid / declared to the shareholders is given in Part VI.

4. We have also examined the accompanying statement of Key Accounting Ratios set out in Part VII for the five consecutive financial years ended 31st March 2005, Tax Shelter and Contingent Liability as set out in Part IX and report that in our opinion they have been correctly computed subject to consequential effect for non adjustment of qualifications as detailed in Part V.

For and on behalf of

C.S. HARIHARAN & CO.,

CHARTERED ACCOUNTANTS

Place : CHENNAI

(C.H. SUBRAMANIAN)

Date : 13-09-2005

Partner.

PART I

STATEMENT OF PROFIT AND LOSS

(Rs. In crores)

| | Particulars (For the Year/ Quarter ended) | March 31, 2001 | March 31, 2002 | March 31, 2003 | March 31, 2004 | March 31, 2005 |
|-----|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| 1 | Income | | | | | |
| | Interest Earned | | | | | |
| 1.1 | Interest and Discount on Advances | 1350.53 | 1534.01 | 1720.77 | 1849.43 | 2092.31 |
| 1.2 | Income on Investments | 1232.78 | 1468.63 | 1654.63 | 1819.13 | 1771.98 |
| 1.3 | Interest on Balances with RBI and other inter-bank lending | 195.82 | 153.76 | 98.88 | 85.54 | 81.25 |
| 1.4 | Interest on income tax | NIL | NIL | 2.51 | NIL | Nil |
| 1.5 | Others | NIL | NIL | NIL | NIL | 5.50 |
| 2 | Other Income | | | | | |
| 2.1 | Commission, Exchange & Brokerage | 178.47 | 191.23 | 209.61 | 239.18 | 280.16 |
| 2.2 | Profit on Exchange Transactions (Net) | 42.41 | 51.96 | 55.40 | 55.97 | 71.91 |
| 2.3 | Profit on Sale of Investments | 53.10 | 257.38 | 244.32 | 481.24 | 373.05 |
| 2.4 | Profit on Sale of Land, Building & Other Assets (Net) | 0.45 | 0.70 | 1.40 | 1.69 | 5.57 |
| 2.5 | Profit/Loss on revaluation of investments | 0.74 | -0.46 | -23.55 | -79.30 | -159.75 |
| 2.6 | Income from Dividends | 14.29 | 14.28 | 9.12 | 8.41 | 15.99 |
| 2.7 | Income from Bullion trading | 2.99 | 2.84 | 0.96 | 1.25 | 0.69 |
| 2.8 | Miscellaneous Income | 24.25 | 27.15 | 31.76 | 32.22 | 52.19 |
| | Total Income | 3095.83 | 3701.48 | 4005.81 | 4494.76 | 4590.85 |
| 1 | Expenditure | | | | | |
| | Interest Expended | | | | | |
| 1.1 | On Deposits | 1855.70 | 2116.44 | 2172.06 | 2054.68 | 1990.94 |
| 1.2 | On RBI/Inter-Bank Borrowings | 16.97 | 17.51 | 23.78 | 29.33 | 29.15 |
| 1.3 | On Others | 40.00 | 66.67 | 68.60 | 70.68 | 75.43 |
| | Operating Expenses | | | | | |
| 2 | Payments to and Provisions for employees | 631.09 | 590.35 | 650.28 | 684.06 | 774.17 |
| 3 | Amortisation of VRS expenditure | 38.05 | 69.30 | 69.30 | 69.30 | 69.29 |
| 4 | Rent, Taxes & Lighting | 60.11 | 62.43 | 65.65 | 71.65 | 88.08 |
| 5 | Insurance | 14.92 | 17.75 | 20.02 | 23.17 | 37.94 |
| 6 | Printing & Stationery | 8.51 | 8.57 | 8.89 | 9.43 | 10.11 |
| 7 | Advertisement | 1.99 | 1.38 | 1.80 | 3.84 | 2.86 |
| 8 | Postage, Telegrams, Telephones etc. | 5.79 | 4.30 | 0.62 | 1.13 | 0.89 |
| 9 | Repairs & Maintenance | 3.00 | 3.99 | 4.23 | 4.06 | 4.28 |
| 10 | Law Charges | 0.74 | 0.90 | 0.63 | 4.83 | 4.18 |
| 11 | Directors' Fees, Allowances, Expenses | 0.05 | 0.13 | 0.27 | 0.48 | 0.30 |
| 12 | Auditors Fees & Expenses (Including Branch Auditors) | 4.09 | 6.36 | 5.98 | 8.33 | 9.75 |



| | | | | | | |
|----|--|---------|---------|---------|---------|---------|
| 13 | Other Expenditure | 67.27 | 74.80 | 79.28 | 94.87 | 109.94 |
| 14 | Depreciation on Bank's Properties | 40.95 | 44.24 | 40.29 | 39.73 | 46.74 |
| | Total Expenditure | 2789.23 | 3085.12 | 3211.68 | 3169.57 | 3254.05 |
| | Gross Profit before prov. for tax & extraordinary items | 306.60 | 616.36 | 794.13 | 1325.19 | 1336.80 |
| | Less: | | | | | |
| | Extraordinary items | NIL | NIL | NIL | NIL | Nil |
| | Gross Profit before provision for tax | 306.60 | 616.36 | 794.13 | 1325.19 | 1336.80 |
| | Provisions and Contingencies ** | 190.67 | 386.15 | 378.03 | 812.43 | 685.44 |
| | Net Profit for the year | 115.93 | 230.21 | 416.10 | 512.76 | 651.36 |
| | Balance of Profit/(Loss) Brought forward | NIL | NIL | NIL | NIL | Nil |
| | Less: Loss Adjusted against Bank's Capital (in terms of Govt. of India approval) | NIL | NIL | NIL | NIL | NIL |
| | Prior Period Adjustment | NIL | NIL | NIL | NIL | NIL |
| | Profit Available for Appropriations | 115.93 | 230.21 | 416.10 | 512.76 | 651.36 |
| | APPROPRIATIONS | | | | | |
| | Transfer to Statutory Reserve | 34.78 | 59.85 | 124.83 | 129.00 | 195.41 |
| | Transfer to Revenue & Other Reserve | 39.08 | 1.60 | NIL | 5.90 | 166.42 |
| | Transfer to Capital Reserve | NIL | 79.88 | 8.78 | 14.94 | 6.17 |
| | Transfer to/from Investment Fluctuation Reserve | NIL | 35.50 | 202.20 | 225.00 | 120.00 |
| | Transfer to Special Reserve | NIL | NIL | NIL | 15.00 | 15.00 |
| | Dividends to Central Govt. | 33.36 | 40.03 | 53.38 | 66.72 | 80.06 |
| | Dividends to Public | 4.82 | 13.35 | 17.79 | 42.24 | 50.69 |
| | Dividend Tax | 3.89 | NIL | 9.12 | 13.96 | 17.61 |
| | Balance carried to Balance Sheet | NIL | NIL | NIL | NIL | Nil |

**Details of Provisions & Contingencies

(Rs. in crores)

| | Particulars (For the Year/ Quarter ended) | March 31, 2001 | March 31, 2002 | March 31, 2003 | March 31, 2004 | March 31, 2005 |
|----|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| 1 | Bad & Doubtful Debts | 155.77 | 264.51 | 235.33 | 512.85 | 294.94 |
| 2 | Depreciation on Investment/(Written Back) | 14.97 | 14.44 | 52.59 | -4.55 | 21.88 |
| 3 | Gratuity | NIL | NIL | NIL | NIL | |
| 4 | Legal Expenses | NIL | NIL | NIL | NIL | |
| 5 | Stationery Wastage | NIL | NIL | NIL | NIL | |
| 6 | Fraud & Forgery | 7.17 | 5.81 | 8.61 | NIL | |
| 7 | Wealth Tax | 0.01 | 0.05 | 0.05 | NIL | |
| 8 | Intangible Assets | NIL | NIL | NIL | NIL | |
| 9 | Debit Note Receivable | NIL | NIL | NIL | NIL | |
| 10 | Pension | NIL | NIL | NIL | NIL | |
| 11 | Interest Tax | -3.22 | NIL | 1.02 | NIL | |
| 12 | Income Tax | 9.91 | 19.42 | 48.43 | 220.52 | 335.63 |
| 13 | Deferred Tax Asset | NIL | NIL | -30.42 | NIL | |
| 14 | Deferred Tax Liability | NIL | 35.79 | NIL | 58.50 | -15.17 |
| 15 | Revenue Suspense | NIL | NIL | NIL | NIL | |
| 16 | Standard Advances | 4.40 | 4.94 | 9.01 | 4.30 | 18.00 |
| 17 | Staggered provision on Standard assets | NIL | 9.05 | 10.00 | NIL | |
| 18 | Staff Welfare Fund | 1.00 | 2.40 | 5.00 | 9.00 | 10.00 |
| 19 | General Provisions | NIL | NIL | NIL | NIL | |
| 20 | Other assets | 0.66 | 22.03 | 25.74 | NIL | |
| 21 | R & D Fund | NIL | 0.50 | 0.50 | 0.50 | 0.50 |
| 22 | Wage Arrears | NIL | NIL | 12.00 | NIL | |
| 23 | Restructured accounts | NIL | 7.21 | 0.17 | 11.31 | 19.12 |
| 24 | Restructured Investments | | | | | 0.54 |
| 25 | Loss on revaluation of inv. And Amortisation of HTM | | | | | |
| | Total: | 190.67 | 386.15 | 378.03 | 812.43 | 685.44 |



PART II

STATEMENT OF ASSETS AND LIABILITIES

(Rs. in crores)

| | As on | March 31, 2001 | March 31, 2002 | March 31, 2003 | March 31, 2004 | March 31, 2005 |
|-----------|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| A | ASSETS | | | | | |
| 1 | Cash in hand | 235.44 | 288.05 | 309.84 | 237.35 | 295.98 |
| 2 | Balances with RBI | 2105.40 | 1924.49 | 2378.10 | 4094.87 | 3879.45 |
| 3 | Balances with Bank in India | 858.08 | 304.33 | 188.60 | 347.77 | 460.88 |
| | Money at Call & Short Notice in India | 120.00 | 348.00 | 300.00 | NIL | NIL |
| | Balances with Bank outside India | 760.92 | 746.05 | 410.90 | 557.42 | 304.80 |
| 4 | Money at Call & Short Notice outside India | 6.41 | 13.70 | 6.70 | 7.68 | 12.84 |
| 5 | Investments in India | 11495.06 | 14737.08 | 18166.01 | 19771.40 | 18605.60 |
| | Investments outside India | 275.60 | 332.09 | 437.00 | 400.24 | 409.12 |
| | Total Investments | 11770.66 | 15069.17 | 18603.01 | 20171.64 | 19014.72 |
| 6 | Advances | | | | | |
| | Advances in India | 11857.43 | 13786.94 | 16068.11 | 18789.58 | 23485.03 |
| | Advances outside India | 1238.08 | 1375.40 | 1378.89 | 1505.28 | 1720.16 |
| | Total Advances | 13095.51 | 15162.34 | 17447.00 | 20294.86 | 25205.19 |
| 7 | Fixed Assets Less Depreciation i.e Net Block | 289.97 | 296.61 | 292.51 | 404.03 | 452.34 |
| | Less : Revaluation Reserve | 170.74 | 167.91 | 159.06 | 150.72 | 141.82 |
| | Fixed Assets : Net Block after adj. for Revaluation | 119.23 | 128.70 | 133.45 | 253.31 | 310.52 |
| 8 | Other Assets | 1052.10 | 1288.38 | 1218.05 | 1206.40 | 1188.83 |
| | Total (A) | 30123.75 | 35273.21 | 40995.65 | 47171.30 | 50673.21 |
| B. | LIABILITIES | | | | | |
| 1 | Demand Deposits | | | | | |
| | From Banks | 74.18 | 52.90 | 90.57 | 50.17 | 70.48 |
| | From Others | 2646.14 | 2605.70 | 3545.81 | 4135.19 | 4940.99 |
| 2 | Savings Deposits | 5931.04 | 6878.37 | 8162.75 | 10071.61 | 12190.62 |
| 3 | Term Deposits | | | | | |
| | From Banks | 278.50 | 341.38 | 239.71 | 216.84 | 289.27 |
| | From Others | 18484.30 | 21930.13 | 24659.75 | 27008.77 | 26749.87 |
| | Total Deposits (1+2+3) | 27414.16 | 31808.48 | 36698.59 | 41482.58 | 44241.24 |
| 4 | Borrowings | | | | | |
| | In India | 128.93 | 130.73 | 314.07 | 370.76 | 87.54 |
| | Outside India | 16.96 | 20.18 | 41.90 | 358.71 | 503.14 |
| | Total Borrowings | 145.89 | 150.91 | 355.97 | 729.47 | 590.68 |
| 5 | Other Liabilities & Provisions | | | | | |
| | Other Liabilities & Prov. | 1393.94 | 1791.36 | 1907.83 | 2246.14 | 2275.19 |
| | Subordinate Debts | 407.74 | 557.74 | 732.74 | 782.74 | 1132.74 |
| | Sub-total | 1801.68 | 2349.10 | 2640.57 | 3028.88 | 3407.93 |
| | Total (B) | 29361.73 | 34308.49 | 39695.13 | 45240.93 | 48239.85 |
| C. | Net Assets (C = A - B) | 762.02 | 964.72 | 1300.52 | 1930.37 | 2433.36 |
| | Represented by : | | | | | |
| | Capital (D) | 444.80 | 444.80 | 444.80 | 544.80 | 544.80 |
| E. | Reserves & Surplus | | | | | |
| 1. | Statutory Reserve | 113.76 | 173.61 | 298.44 | 427.45 | 622.85 |
| 2. | Capital Reserve | 0.36 | 80.24 | 89.02 | 103.96 | 110.13 |
| 3. | Revaluation Reserves | 170.74 | 167.91 | 159.06 | 150.72 | 141.82 |
| 4. | Investment Fluctuationn Reserve | 18.45 | 53.95 | 256.14 | 481.14 | 601.14 |
| 5. | Revenue & Other Reserves | 184.65 | 212.12 | 212.12 | 233.02 | 414.44 |
| 6. | Share Premium | NIL | NIL | NIL | 140.00 | 140.00 |
| 7. | Balance of Profit & Loss A/C (Adjusted) | NIL | NIL | NIL | NIL | NIL |
| | Total Reserves | 487.96 | 687.83 | 1014.78 | 1536.28 | 2030.38 |
| | Less : Revaluation Reserve | 170.74 | 167.91 | 159.06 | 150.72 | 141.82 |
| | Total (E) | 317.22 | 519.92 | 855.72 | 1385.56 | 1888.56 |
| F. | Total (D + E) | 762.02 | 964.72 | 1300.52 | 1930.37 | 2433.36 |
| G. | Contingent Liabilities | | | | | |
| | Claims against the Bank not Acknowledge as Debts | 8.99 | 9.00 | 7.36 | 6.56 | 8.95 |
| | Disputed IT demand under appeal/references etc | 79.55 | 121.84 | 138.11 | 136.24 | 220.52 |
| | Liability for partly paid Investments | 0.12 | 0.12 | 0.12 | 0.12 | 0.12 |
| | Liability on account of outstanding | | | | | |
| | Forward Exchange Contracts | 2238.62 | 1993.08 | 2612.30 | 4848.96 | 5601.84 |
| | Guarantees given on behalf of constituents | 1469.38 | 1516.84 | 1782.74 | 2180.12 | 2431.17 |
| | Acceptance, endorsements | 1272.32 | 1720.73 | 2329.61 | 4078.39 | 3499.59 |
| | And other obligations | | | | | |
| | Other items for which the Bank is contingently liable | 22.11 | 25.20 | 131.05 | 110.80 | 2189.30 |
| | Total (G) | 5091.09 | 5386.81 | 7001.29 | 11361.21 | 13951.49 |
| | BILLS FOR COLLECTION | 1309.88 | 1152.43 | 1357.13 | 1681.27 | 1768.84 |

PART III

SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR 2004 -05

1. General

The financial statements have been prepared on historical cost basis unless otherwise stated and further on the assumption of going concern concept.

2. Revenue Recognition

- 2.1 Income is recognised on accrual basis on performing assets and on realisation basis in respect of non-performing assets as per the prudential norms prescribed by RBI. Recovery in NPAs is first appropriated towards interest and the balance, if any, towards principal, except in the case of Suit Filed Accounts.
- 2.2 Interest on bills purchased/Mortgage backed securities, commission (except on Letters of Guarantee/Government business), exchange, Locker rent and dividend are accounted for on realisation basis.
- 2.3 Income from consignment sale of precious metals is accounted for as Other Income after the sale is complete.
- 2.4 Expenditure is accounted for on accrual basis.
- 2.5 In case of Matured Term Deposits, interest is accounted for as and when deposits are renewed.
- 2.6 Legal expenses in respect of Suit Filed Accounts is charged to Profit and Loss Account. Such amount when recovered is treated as income.
- 2.7 In respect of foreign branches, Income & Expenditure are recognized / accounted for as per local laws of the respective countries.

3. Foreign exchange Transactions of Indian Operations

- 3.1 Balances in NOSTRO and ACU Dollar accounts are stated at closing rate. FCNR/EEFC/RFC/FCA (all foreign currency deposits including interest accrued thereon) and PCFC/WCFC/TLFC/FCL (all foreign currency lendings) are stated at notional rates determined by the Management from time to time. Other Assets, Liabilities and Outstanding Forward Contracts denominated in foreign currencies are stated at the rates on the date of transaction. Profit/Loss on valuation of all assets, liabilities and outstanding forward exchange contracts at year-end exchange rates advised by FEDAI is taken to revenue with corresponding net adjustments retained in "Other Liabilities and Provisions" / "Other Assets Account" except in case of NOSTRO and ACU Dollar accounts where the accounts stand adjusted at the closing rate.
- 3.2 Acceptances, Endorsements and other obligations including guarantees of Indian operations denominated in foreign currencies are stated at the rates on the date of transaction.
- 3.3 Income and Expenditure items are translated at the exchange rate ruling on the date of incorporating the transaction in the books of account.

4. Translation of the Financial Statements of Foreign Branches

Assets and Liabilities of Foreign branches are translated in compliance with Accounting Standard 11.

5. Investments

- 5.1 Investments in India are classified into "Held for Trading", Available for Sale" and "Held to Maturity" categories in line with the guidelines from Reserve Bank of India. Valuation and disclosures of Investments are made under six classifications viz.,
 - a) Govt. securities (including State Govt. securities),
 - b) Other Approved securities,
 - c) Shares,
 - d) Bonds & Debentures,
 - e) Subsidiaries / Joint ventures,
 - f) Units of Mutual Funds and Others.
- 5.2 Interest on investments, where interest/principal is in arrears for more than 90 days, is recognised on cash basis as per prudential norms.
- 5.3 Valuation of Investments is done in accordance with the guidelines issued by Reserve Bank of India as under:-

5.3.1. "Held for Trading":- Individual scrips under this category are held at original cost. The same is valued at monthly intervals at market rates, wherever available, or as per the prices declared by FIMMDA and in respect of each classification under this category, net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored.

5.3.2. "Available for Sale":- Individual securities under this category are marked to market at quarterly intervals. Central Govt. securities are valued at market rates declared by FIMMDA. State Government, other Approved securities and Debentures / bonds are valued as per the yield curve, credit spread rating-wise and other methodologies suggested by FIMMDA. Quoted equity shares are valued at market rates, while Unquoted equity shares are valued at book value ascertained from the latest available balance sheet and in case the latest balance sheet is not available, the same is valued at Re.1/- per company. Treasury bills and commercial papers held in this category are valued at



carrying cost. Units held in Mutual fund schemes are valued at market rate or Repurchase price or Net Asset value in that order depending on their availability.

Preference shares are valued by applying the appropriate YTM and then discounting the coupon as well as the terminal redemption.

Based on the above valuations under each sub-category

- a) the figure results in appreciation, the same is ignored;
- b) the figure results in depreciation, the same is charged to revenue.
- c) the book value of individual securities do not undergo any change due to valuation

5.3.3. "Held to Maturity":- Such investments are carried at acquisition cost.. The excess of acquisition cost, if any, over the face value of each security is amortized over the remaining period of maturity. Investments in subsidiaries, associates and sponsored institutions are valued at carrying cost. Permanent diminution in value of sponsored institutions is fully provided for.

- 5.4 Investments are subject to appropriate provisioning / de-recognition of income, in line with the prudential norms for NPA classification. Debentures / bonds in the nature of advances are subjected to usual prudential norms and accordingly provided for, wherever appropriate. Securities with guarantee of Central/State Government where such guarantees are not invoked and repudiated are treated as Standard Assets, notwithstanding arrears of principal and/or interest.
- 5.5 Profit / Loss on sale of Investments in any category is taken to Profit and Loss account. However, in case of profit on sale of investments in "Held to Maturity" category, an equivalent amount is appropriated to "Capital Reserve Account".
- 5.6 Incentive / Front-end fees, etc. received on subscription to securities are taken to Profit and Loss account.

6. ADVANCES

- 6.1. Advances have been classified as 'Standard', 'Sub-standard', 'Doubtful' and 'Loss assets' and provisions for possible losses on such advances are made as per prudential norms issued by Reserve Bank of India and also as per the directions of RBI from time to time.
- 6.2 The Bank holds floating provision for non performing advances over and above the prudential norms. Such floating provisions built over different periods would not be used for any profit or dividend equalisation across accounting periods.
- 6.3 A General provision @ 0.25% is made on Standard Advances. These provisions are shown under "Other Liabilities" as per RBI guidelines.
- 6.4 Advances are stated net of Provisions except General provisions for standard advances.

7. Transactions in Gold

Transactions in Gold are accounted at notional rate.

8. Derivatives

In respect of Interest Swaps, while the net amount receivable is recognised on accrual basis, gains or losses on termination of swaps are deferred and recognised over the remaining contractual life of the swaps or the remaining life of the assets/liabilities, whichever is earlier. Such swaps taken only for hedging purpose are not marked to market.

9. Fixed Assets

9.1 Fixed Assets except revalued premises are stated at historical cost.

9.2 Depreciation is provided on straight line method at the rates considered appropriate by the Management as under:

| | |
|--|---------|
| Premises | 2.5% |
| Furniture | 10% |
| Electric Installations, Vehicles and Office Equipments | 20% |
| Computers | 33 1/3% |
| Fire Extinguishers | 100% |

Depreciation on revalued portion of the fixed assets is withdrawn from revaluation reserve.

- 9.3 Depreciation is provided for the full year irrespective of the date of acquisition.
- 9.4 Depreciation is provided on Land and Building as a whole where separate costs are not ascertainable.
- 9.5 In respect of leasehold properties, premium is amortised over the period of lease.
- 9.6 Depreciation on Fixed Assets of foreign branches is provided as per the applicable laws of the respective countries

10. Staff Benefits

10.1 Provision for gratuity and pension liability is made on actuarial basis and contributed to approved Gratuity and Pension Fund. Provision for encashment of accumulated leave payable on retirement is made on actuarial valuation at the year end, in compliance with Accounting Standard 15.

10.2 In respect of Overseas branches gratuity is accounted for as per laws prevailing in the respective countries.

10.3 In accordance with the guidelines issued by Reserve Bank of India, the expenditure incurred under Voluntary Retirement Scheme including gratuity and pension payable has been treated as Deferred Revenue Expenditure to be written off over a period of five years starting from the year it is incurred.

11. Net Profit / Loss

Net Profit / Loss disclosed in the Profit and Loss Account is after:

- i) Provision for taxes on income and wealth
- ii) Provision for non-performing advance and general provision for Standard Advances
- iii) Depreciation / provision on investments
- iv) Other usual and necessary provisions

12 Provision for Taxation:

Provision for Taxes has been made on the basis of estimated tax liability which includes adjustments for Deferred Tax in compliance with Accounting Standard 22.

Changes in Significant Accounting Policies between April 1, 2000 and March 31, 2005

1. Investments

Investments were bifurcated as Permanent and Current categories upto 1999-2000. With effect from 2000-01, the bifurcation is “Held-for-Trading”, “Available-for-sale” and “Held-to-maturity” categories in line with the guidelines from Reserve Bank of India. The valuation of investments is done in line with Reserve Bank of India guidelines issued from time to time.

In respect of investments in Subsidiaries and Associates, the same were valued at carrying cost till 1999-2000. With effect from 2000-01, the same are valued as per revised RBI guidelines and any diminution other than temporary nature is provided for.

2. Advances

Bank has been following guidelines issued by Reserve Bank of India in respect of classification and provisioning for NPAs. From 1999-2000, the Bank has been making general provision of 0.25% on standard advances which is shown under “Other Liabilities” in terms of RBI guidelines.

3. Fixed Assets

Depreciation is charged on Fixed Assets excluding computers on Straight Line Method as per the rates determined by the Management on the estimated useful life of the respective Asset. As per the guidelines of RBI, depreciation is charged on computers @ 33.33% on Straight Line Method with effect from the year 2000-01. In respect of Leasehold properties, depreciation was charged @ 2.5%. However, with effect from 2002-03, premium on leasehold property is amortised over the period of lease.

4. Leave Encashment Benefit

Leave encashment benefit on retirement which were recognized on “Pay as you go” method till 2001-2002 is accounted with effect from 2002-03 on actuarial valuation method.

PART IV

NOTES ON ACCOUNTS forming part of the accounts for the year ended 31st March, 2005.

1. Reconciliation

Reconciliation of inter-bank and inter-branch transactions has been completed up to 31st March 2005. Steps for elimination of outstanding entries are in progress. Since the outstanding entries to be eliminated are insignificant, no material consequential effect is anticipated.

2. Investments:-

- 2.1 In respect of securities held under “Held to Maturity” category, premium of Rs.93.86 crores (previous year Rs.73.61 crores) has been amortized during the year.
- 2.2 In respect of securities held under “Available for Sale” category, an amount of Rs.4.08 crores (previous year Rs.2.18 crores) has been debited to “Provisions and Contingencies” Account towards depreciation.
- 2.3 In respect of non performing investments, an amount of Rs18.52 crores (previous year Rs 0.81 crores) has been debited to “Provisions and Contingencies”, which includes Rs.6.59 crores (previous year Rs.0.20 crores) and Rs.11.93 crores (previous year Rs.0.61 crores) in “ Available for sale” and “ Held to Maturity “ categories respectively,
- 2.4 In addition to the above, an amount of Rs1.25 crores has been debited to “ Provisions and Contingencies” in respect of non-performing securities matured for payment, which is included under other assets.
- 2.5 The Bank has marked 61.33% (previous year 84.53%) of the total investments to market as at the end of March 2005. The securities under “Held to Maturity” category accounted for 16.64% of Demand and Time liabilities as at the end of March 2005 as against the permitted ceiling of 25% stipulated by RBI.
- 2.6 Securities of face value of Rs.28 crores (previous year Rs.28 crores) towards initial margin money required under the Settlement Guarantee Fund and securities of face value of Rs510 crores (previous year nil) towards initial margin for borrowings under Collateralised Borrowing and Lending Operations have been kept with Clearing Corporation of India Ltd.
- 2.7 Investments amounting to Rs.802.80 crores (previous year Rs. 66.56 crores) were shifted from “Held to Maturity” category to “Available for Sale” category and Rs.3521.08 crores (previous year Rs.1052.63 crores) were shifted from “Available for Sale” category to “Held to Maturity” category.

The shifting from “Available for sale” category to “ Held to Maturity” category includes an amount of Rs 2095.95 crores, which was done as a one time exercise pursuant to RBI circular dated 2nd September 2004. In shifting such securities, marked to market revaluation loss of Rs60.77 crores was charged to the revenue account.

- 2.8 During the year the Bank has transferred a sum of Rs 120 crores to Investment Fluctuation Reserve taking the balance to Rs 601.14 crore. This is 5.26% of Investments held under “Available for sale” and “Held for trading” segments, as against the requirement of 5% to be achieved as on 31.3.2006.
- 2.9 An amount of Rs.3.10 crores has been written back during the year, out of provisions held as of the end of previous year amounting to Rs.7.34 crores, in respect of investments outside India,
- 2.10 Depreciation on investments include Rs.0.13 crores (previous year Rs.0.13 crores) held in India on behalf of Overseas branches.

3. Advances

- a) For provisioning requirements, claims pending settlement as well as claims yet to be lodged with Guarantee Institutions identified by the branches have been considered on the basis that such claims are valid and recoverable.



- b) In assessing the realisability of certain advances, the estimated value of security, Government guarantees and subsequent conduct have been considered for the purpose of asset classification and income recognition.
- c) The classification of advances, as certified by the Branch Managers has been incorporated, in respect of unaudited branches.
- d) Floating provision of Rs 277.27 crores (previous year Rs330 crores) is held in respect of gross non-performing advances, over and above the minimum prescribed by RBI. These provisions are netted off from advances.

4. Fixed Assets

Pending completion of certain legal and other formalities, title deeds have not been executed / registered in favour of the Bank in respect of nine premises amounting to Rs. 18.54 Crores (previous year Rs.108.06 crores).

5. Other Assets

Out of a total amount of Rs.80.48 crores (previous year Rs.80.48 crores) towards short claim under FCNR (A) Scheme, the Bank is holding a provision of Rs.44.24 crores as on 31.3.2005 (previous year Rs.44.24 crores). The balance amount of Rs.36.24 crores has been shown under "Other Assets – Others", pursuant to the bank accepting Rs.36.97 crores towards settlement of the above claim as indicated by the Government of India.

6. Rupee Interest Rate Swap:

An amount of Rs3.73 crores is kept in deferred income on account of gains on termination of Rupee Interest Rate Swaps, which will be recognised over the remaining contractual life of the swap or the remaining life of the assets/liabilities, whichever is earlier.

7. Capital

The Bank has raised a sum of Rs.350 crores (Series VI and VII) (previous year Rs 200 crores) by way of

Unsecured, Redeemable, Non-Convertible Subordinated Bonds in the nature of Promissory Notes, during the year in order to augment its Tier II Capital.

8. Taxes

No provision has been considered necessary in respect of disputed demands of income tax amounting to Rs. 220.52 crores (previous year Rs136.24 crores) after due consideration of decisions of Appellate Authorities, judicial pronouncements and the opinion of tax experts.

9. Profit and Loss Account

a) Staff :

- i) An amount of Rs.69.29 crores(previous year Rs.69.29 crores) has been amortized towards special Voluntary Retirement scheme and the balance to be amortized is Rs31.26 crores(previous year Rs.100.55 crores).
 - ii) Provision for wage arrears: An adhoc provision of Rs.105.50 crores (previous year Rs.48 crores) has been made during the year towards wage arrears, pending wage settlement at industry level. The total cumulative provision held under this head is Rs.165.50 crores(previous year Rs.60 crores).
- b) Prior period items : There were no material prior period items of income/expenditure requiring disclosure as per Accounting Standard 5.

10. Additional Disclosures

In accordance with the guidelines issued by Reserve Bank of India, the following additional disclosures are made

(a) Capital Adequacy:

| S.No. | Particulars | (Rs in crores) | |
|-------|---------------------------------|----------------|---------------|
| | | March 31, 2005 | March31, 2004 |
| i | Capital Adequacy Ratio | 14.21% | 12.49% |
| ii | Capital Adequacy Tier I Capital | 7.10% | 6.74% |



| | | | |
|-----|---|---------|--------|
| iii | Capital Adequacy Tier II Capital | 7.10% | 5.75% |
| iv | Amount of Subordinated Debt raised as Tier II Capital | 1132.74 | 782.74 |
| v | Percentage of shareholding of Government of India | 61.23% | 61.23% |

(b) Investments:**(Rs. in crores)**

| | March 31 2005 | March 31 2004 |
|----------------------------|---------------|---------------|
| Gross Value of Investments | | |
| (i) In India | 18639.77 | 19791.71 |
| (ii) Outside India | 413.36 | 407.58 |
| LESS Depreciation | | |
| (i) In India | 34.17 | 20.31 |
| (ii) Outside India | 4.24 | 7.34 |
| Net Value of Investments | | |
| (i) In India | 18605.60 | 19771.40 |
| (ii) Outside India | 409.12 | 400.24 |

(c) Movement of Non Performing Assets (NPAs)**(Rs. in crores)**

| | March 31, 2005 | March 31, 2004 |
|---|----------------|----------------|
| Gross NPA at the beginning of the year | 1575.85 | 1896.48 |
| Additions during the year | 507.92 | 492.41 |
| | ----- | ----- |
| | 2083.77 | 2388.89 |
| LESS Upgradation | 147.54 | 114.30 |
| LESS Recovery | 303.70 | 229.65 |
| LESS Write Off | 244.38 | 469.09 |
| Gross NPA at the close of the year | 1388.15 | 1575.85 |
| LESS Provisions | 997.88 | 947.28 |
| LESS Interest Suspense | 69.88 | 49.38 |
| LESS DICGC/ECGC Claims received And Other margins held | 1.19 | 1.67 |
| Net NPA at the close of the year | 319.20 | 577.52 |
| Gross NPA to Gross Advance | 5.28% | 7.40% |
| Net NPA to Net Advance | 1.27% | 2.85% |

**d) Provisions and Contingencies charged to Profit and Loss Account
comprised the following:****(Rs.in crores)**

| S.No. | Particulars | March 31, 2005 | March 31, 2004 |
|-------|--|----------------|----------------|
| i | Provision towards Non Performing Assets made during the year | 294.93 | 512.85 |
| ii | Provision/Depreciation on Investments | 21.88 | (-)4.54 |
| iii | Provision for Income Tax / Wealth Tax | 335.63 | 220.52 |
| iv | Provision for Standard Advances | 18.00 | 4.30 |
| v | Deferred Tax Asset / Liability | -15.17 | 58.50 |
| vii | All Others | 30.17 | 20.81 |

e) Maturity pattern of Assets and Liabilities as on March 31, 2005

(Rs in crores)

| | 1-14 days | 15-28 days | 29 days – 3 mths | >3 mths – 6 mths | >6mth – 12 mths | >1 yr – 3 yrs | >3 yrs - 5 yrs | >5 yrs | Total |
|------------------------------|-----------|------------|------------------|------------------|-----------------|---------------|----------------|----------|----------|
| Deposits | 2236.40 | 871.30 | 1147.90 | 1346.29 | 1589.32 | 4245.28 | 13876.74 | 18928.01 | 44241.24 |
| Gross Advances | 2895.08 | 870.46 | 1835.48 | 1709.80 | 2751.27 | 8500.84 | 4233.75 | 3477.45 | 26274.13 |
| Gross Investment | 30.36 | 57.02 | 248.35 | 248.35 | 300.76 | 1823.68 | 4383.25 | 11961.36 | 19053.13 |
| Borrowings | 53.78 | 87.49 | 88.16 | 102.03 | 62.60 | 42.21 | 10.59 | 143.82 | 590.68 |
| Foreign Currency Assets | 916.21 | 172.75 | 970.38 | 694.08 | 444.12 | 658.33 | 168.12 | 225.21 | 4249.20 |
| Foreign Currency Liabilities | 899.22 | 277.19 | 585.53 | 406.54 | 798.69 | 774.49 | 14.96 | 379.19 | 4135.81 |

f) Information on loans to industrial units subjected to restructuring etc during the year.

(Rs. in crores)

| | 2004-05 | 2003-04 |
|---|---------|---------|
| Total Amount of loans subjected to restructuring | 361.84 | 285.17 |
| Total amount of Standard Assets subjected to Restructuring | 350.46 | 207.10 |
| Total amount of substandard Assets subjected to Restructuring | 10.39 | 50.16 |
| Total Amount of Doubtful Assets subjected to restructuring | 1.00 | 27.91 |

g) Information on Corporate Debt Restructuring undertaken during the year

(Rs. in crores)

| | 2004-05 | 2003-04 |
|---|---------|---------|
| (1) Total amount of loan assets/ Investments subjected to corporate restructuring | 308.85 | 176.51 |
| (2) Total amount of Standard Assets subjected to restructuring | 308.85 | 109.62 |
| (3) Total amount of Sub Standard Assets subjected to restructuring | 0.00 | 18.84 |
| (4) Total Amount of Doubtful Assets subjected to restructuring | 0.00 | 48.05 |

h) Information on Agricultural Loans subjected to Restructuring etc. during the year

(Rs. in crores)

| | 2004 -05 |
|---|----------|
| i) Total amount of loans subjected to Restructuring | 126.08 |
| ii) Total amount of Standard Assets subjected to Restructuring | 88.09 |
| iii) Total amount of Sub Standard Assets subjected to Restructuring | 26.49 |
| iv) Total amount of Doubtful Assets subjected to Restructuring | 11.50 |

i) **Information on others Advances (other than Industrial and Agricultural Advances) subjected to Restructuring etc. during the year**

(Rs. In crores)

2004 – 05

| | |
|---|-------|
| i) Total amount of loans subjected to Restructuring | 62.70 |
| ii) Total amount of Standard Assets subjected to Restructuring | 62.56 |
| iii) Total amount of Sub Standard Assets subjected to Restructuring | 0.14 |
| iv) Total amount of Doubtful Assets subjected to Restructuring | NIL |

j) **Exposure to Sensitive Sectors as on March 31, 2005**

Capital Market Sector:

(Rs. in crores)

| S.No. | Type of Exposure | 31/3/2005 | | 31/3/2004 | |
|-------|--|--------------|--------------|--------------|--------------|
| | | Fund-based | Guarantees | Fund-based | Guarantees |
| i | Individuals | 2.78 | NIL | 1.73 | NIL |
| ii | Share & Stock Brokers | 0.00 | 36.11 | 0.61 | 25.25 |
| iii | Market Makers | 0.01 | NIL | NIL | NIL |
| iv | IPO Financing | 3.02 | NIL | 1.93 | NIL |
| v | All other borrowers against the security of shares | 7.44 | NIL | 7.52 | 6.57 |
| vi | Total Exposure | 13.25 | 36.11 | 11.79 | 31.82 |

Real Estate Sector

(Rs. in crores)

| | | 31.3.2005 | 31.3.2004 |
|-----|--|----------------|---------------|
| i | Commercial Property | 206.29 | 147.54 |
| ii | Land and Building Developers | 498.95 | 201.35 |
| iii | Mortgage other than individual housing loans | 67.28 | 76.72 |
| iv | Others | 333.91 | 201.25 |
| | TOTAL EXPOSURE | 1106.43 | 626.86 |

Commodities Sector

(Rs. in crores)

| | | 31.3.2005 | 31.3.2004 |
|-----|-----------------------------|---------------|---------------|
| i | Cash Crops | 42.24 | 43.46 |
| ii | Edible Oils | 99.50 | 64.56 |
| iii | Agricultural Produce | 124.90 | 168.77 |
| iv | Paddy & Rice | 55.34 | 19.81 |
| v | Sugar (excluding khansari) | 119.43 | 141.30 |
| vi | Cotton & Kapas | 175.22 | 118.37 |
| vii | Other Sensitive Commodities | 87.30 | 42.90 |
| | TOTAL EXPOSURE | 703.93 | 599.17 |

Exposure to Equity, Convertible Debentures and Equity Oriented Mutual Funds

| | | (Rs. in crores) | |
|-----|---|-----------------|-----------|
| | | 31.3.2005 | 31.3.2004 |
| i) | Investments in | | |
| | -Shares | 227.87 | 174.97 |
| | -Convertible Debentures | 0.00 | 0.00 |
| | -Equity Oriented Mutual Funds | 133.00 | 13.97 |
| ii) | Total Advances against Shares/ debentures/ equity oriented mutual funds | 49.36 | 11.79 |

The Bank has not extended any finance for Margin Trading during the year.

k) Details of Assets sold to Securitisation Company / Reconstruction Company, if any :

NIL

l) Details of Credit Exposures where the Bank had exceeded the prudential exposure during the year:

| (Rs. In crores) | | | | | | | |
|-----------------|----------------------|------------------|------------------|------------------------------------|---|------------------------------|---------------------------------------|
| 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 | Position as on 31.03.2005 Outstanding |
| 1. | PEC Ltd | 402.83 | 482.00* | January 2004-March 2005 | 449.82 | MCB sanction dated 21.08.04 | NIL |
| 2. | MSTC Ltd. | 333.47 | 984.50** | 1.4.2004 to 31.3.2005 | 912.86 | MCB sanction dated 14.2.2004 | 593.09 |

* RBI vide their letter no. DBOD.BP.NO. 1287/21.03.054 / 2003 -04 dated 05.02.2004 gave approval for exceeding the prudential limit, valid up to 31st December 2004.

** Applied to Reserve Bank of India and obtained their approval for having an exposure to the account upto Rs.984.50 crores for a period upto 31.3.2005.

m) Business Ratios

| S.No. | Particulars | March 31, 2005 | March 31, 2004 |
|-------|---|----------------|----------------|
| 1 | Interest Income as a percentage of Average Working Funds | 7.77% | 8.31% |
| 2 | Non Interest Income as a percentage of Average Working Funds | 1.26% | 1.64% |
| 3 | Operating Profits as a percentage of Average Working Funds | 2.63% | 2.93% |
| 4 | Return on Assets | 1.28% | 1.08% |
| 5 | Business per Employee (fortnightly average of deposits and advances) (Rs. in 000s) | 26948 | 23251 |
| 6 | Profit per employee (Rs. in 000s) | 266 | 210 |

n) Movement of Provision for Non Performing Assets**(Rs. in crores)**

| | |
|--|-----------------------|
| Opening balance as on April 1, 2004 (Previous year figures in bracket) | 947.28(854.85) |
| Add | |
| 1.Provisions made during the year | 294.93(512.85) |
| 2. Transfers | 2.19 (31.99) |
| Less Write off, Write back of excess provision during the year | 246.52 (452.41) |
| Closing balance as on March 31, 2005 | 997.88(947.28) |

**o) Movement of Provision for Depreciation / Non Performing Investments
(including Securities matured for payment)****(Rs. in crores)**

| | Performing Investments | Non-performing Investments |
|---|------------------------|----------------------------|
| Opening Balance as on April 1, 2004 | 8.16 | 19.50 |
| ADD Provisions made during the year | 8.73 | 23.22 |
| LESS Write off, Write Back of excess provisions during the year | 7.20 | 5.31 |
| Closing Balance as on March 31, 2005 | 9.69 | 37.41 |

p) Issuer Composition of Non SLR Investments:**(Rs. In crores)**

| No. | Type of 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 |
| | | | % of Col 3 | % of Col 3 | % of Col 3 | % of Col 3 |
| a) | Public Sector Undertakings | 1129.01 | 93.09 | 32.63 | 20.76 | 47.97 |
| b) | Financial Institutions | 565.90 | 86.56 | 6.00 | 6.00 | 7.76 |
| c) | Banks | 180.46 | 91.99 | 7.20 | 6.65 | 24.94 |
| d) | Private Corporates | 578.16 | 75.39 | 5.12 | 5.12 | 9.50 |
| e) | Subsidiaries / Joint Ventures | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| f) | Others | 1480.92 | 1.48 | 0.00 | 0.00 | 0.00 |
| | TOTAL | 3934.45 | 55.01 | 11.31 | 7.88 | 17.42 |

**q) Non Performing Non SLR Investments
(including securities matured for payment)**

(Rs. in crores)

| | |
|---|-------|
| Opening Balance as on 1 st April 2004 | 27.51 |
| Additions during the year | 5.49 |
| Reductions during the above period | 11.26 |
| Closing Balance as on 31 st March 2005 | 21.74 |
| Total Provisions held | 10.37 |

r) Particulars of Repo transactions including those with RBI under LAF:

(Rs in crores)

| Particulars | Outstanding during the year | | | As on 31.3.2005 |
|---|-----------------------------|---------|---------------|-----------------|
| | Minimum | Maximum | Daily average | |
| Securities sold under Repos | 30.00 | 612.00 | 27.19 | 0.00 |
| Securities Purchased under reverse repo | 20.01 | 2625.00 | 707.93 | 1470.00 |

(s) Details of Derivatives done :

(Rs. in crores)

| Sl | Particulars | Currency Derivatives | Interest rate derivatives |
|----|--|----------------------|-----------------------------------|
| 1 | Derivatives (Notional Principal Amount) | | |
| | a) For hedging – Total outstanding | 198.90 | 1446.40 |
| | b) For Trading | NIL | NIL |
| 2 | Marked to Market Positions (1) | | |
| | a) Assets (+) | 0.045 | 2.52 |
| | b) Liability (-) | | (-) 23.10 |
| 3 | Credit Exposure (2) | 13.03 | 35.64 |
| 4 | Likely impact of one percentage change in interest rate (100*PV01) | | |
| | a) on hedging derivatives | 3.06 | 26.23 |
| | b) on trading derivatives | NIL | NIL |
| 5 | Maximum and Minimum of 100*PV01 observed during the year | | |
| | a) on hedging | 3.04 3.07 | Maximum – 24.93 Minimum - 8.58 |
| | b) on trading | NIL | NIL |

The IRS were undertaken with banks as counterparty and well within the exposure norms approved by the Board of the Bank.

Swap transactions have been entered with only banks and not with any other entity for which either party has not insisted on any collateral. There will not be any loss on account of failure of counterparty as on date of balance sheet.

t) Effects of changes in Foreign Exchange Rates (AS11 – Revised 2003) :

- a) An amount of Rs.71.91 crores being profit on exchange gain has been taken to profit for 2004-05.
b) An amount of Rs. 18.74 crores being Foreign Currency translation reserve as on 31.3.2005 has been included in 'Other Liabilities'.

u)Segment Reporting -

| | | | (Rs. in crores) |
|-------------------------------------|-------------------|---------------------------------|-------------------|
| Part A - Business segments | | | |
| Particulars | Treasury | Other Banking Operations | Total |
| | 31.03.2005 | 31.03.2005 | 31.03.2005 |
| Revenue | 2,156.34 | 2,423.43 | 4,579.77 |
| Result | 628.70 | 697.02 | 1,325.72 |
| Unallocated Income | | | 11.08 |
| Operating Profit/Loss | | | 1,336.80 |
| Income Taxes | | | 335.64 |
| Provisions & Contingencies | | | 349.80 |
| Net Profit | | | 651.36 |
| OTHER INFORMATION | | | |
| Segment Assets | 25,113.86 | 25,939.07 | 51,052.93 |
| Unallocated Assets | | | 225.96 |
| Total assets | | | 51,278.89 |
| Segment Liabilities | 23,138.57 | 25,311.03 | 48,449.60 |
| Unallocated Liabilities | | | 2,829.29 |
| Total Liabilities | | | 51,278.89 |
| Part B - Geographic segments | | | |
| | Domestic | Overseas | Total |
| Revenue | 4,452.04 | 127.73 | 4,579.77 |
| Assets | 48,873.22 | 2,405.67 | 51,278.89 |

v)Country Risk Exposure

| Category Code | Category | (Rs. In crores) | | | | | |
|---------------|-----------------------------|---------------------------|---------------------------|-----------------------|---------------------|----------------------|------------------------------|
| | | Net Funded Maturity > 179 | Net Funded Maturity < 180 | Total Funded Exposure | Non-funded Exposure | Total Gross Exposure | Percentage of Total Exposure |
| A 1 | Insignificant Risk Category | 431.00 | 697.68 | 1128.68 | 752.67 | 1881.35 | 58.34 |
| A 2 | Low Risk Category | 257.10 | 551.32 | 808.42 | 463.58 | 1272.00 | 39.44 |
| B 1 | Moderate Risk Category | 18.94 | 20.31 | 39.25 | 8.42 | 47.67 | 1.48 |
| B 2 | High Risk Category | 20.64 | 2.66 | 23.30 | 0.31 | 23.61 | 0.73 |
| C 1 | Very High Risk Category | 0.00 | 0.02 | 0.02 | 0.00 | 0.02 | 0.00 |
| C 2 | Restricted Category | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| D | Off Credit Category | 0.00 | 0.13 | 0.13 | 0.00 | 0.13 | 0.01 |
| | Grand Total | 727.68 | 1272.12 | 1999.80 | 1224.98 | 3224.78 | 100.00 |



In as much as the exposure to any of the country has not exceeded 2% of our Bank's total assets, no provision is required to be made.

w) Related Party Disclosures as per Accounting Standard 18

In compliance of Reserve Bank of India guidelines in respect of Accounting Standard 18 issued by the Institute of Chartered Accountants of India, there is no subsidiary of the Bank as on 31.3.2005.

Names of the related parties and their relationship with the bank

| | | | | | | |
|---|---------------------------|--|-------------|-------------------------------------|-----------------------|------------------|
| 1 | Parent | Indian Overseas Bank | | | | |
| 2 | Associates | Bharat Overseas Bank Ltd Dhenkanal Gramya Bank Puri Gramya Bank Pandyan Gramya Bank | | | | |
| 3 | Jointly controlled entity | None | | | | |
| 4 | Key Management Personnel | | | | | |
| | Sl. No. | Name | Designation | Item | Period | Amount (Rs.) |
| | 1 | Shri S C Gupta | CMD | Salary & Emoluments as per IT Rules | 01.04.04– 31.03.05 | 6,07,418.75 |
| | 2 | Shri AR. Nagappan | ED | - do - | 27.08.04 31.03.05 | – 3,69,548.76 |

x) Earnings per Share

Basic & Diluted earning per share : Rs.11.96 (previous year Rs 10.40)

y) Consolidated Financial Statements (AS 21)

As there is no subsidiary, (with the dissolution of IOB Properties Pte Ltd.), no consolidated financial statement is considered necessary

z) Accounting for taxes on Income

The Bank has accounted for net Deferred Tax Liability of Rs.62.38 crores for the year 2004-05 (previous year- net deferred tax liability of Rs 105.93 crores). The tax impact of Rs.15.17 crores has been credited to profit and loss account. The major components of DTA/DTL are given as under:

(Rs. In Crores)

| | 31.3.2005 | | 31.3.2004 | |
|--------------------------------|---------------|---------------|---------------|---------------|
| | DTA | DTL | DTA | DTL |
| Depreciation in Investments | | 209.82 | | 220.88 |
| VRS Expenditure | | 10.10 | | 27.57 |
| Provision for loan losses | Nil | | Nil | |
| Provision for leave Encashment | 99.60 | | 74.73 | |
| Others | 67.94 | 10.00 | 67.79 | |
| Total | 167.54 | 229.92 | 142.52 | 248.45 |
| Net DTA/ DTL | | 62.38 | | 105.93 |

11. The application software in use in the bank has been developed in-house and has evolved over a period of time. Hence, the cost of software is essentially part of bank's operational expenses like wages etc. and as such are charged to the respective heads of expenditure in the profit and loss account.

12. Fixed Assets possessed by the Bank are treated as "Corporate Assets" and are not "Cash Generating Units" as defined by AS 28 issued by ICAI. In the opinion of the Management there is no impairment of any of the Fixed Assets of the Bank.

13. The Bank has appropriated Rs.15.00 crores towards Special Reserve in terms of Sec 36(1) (viii) of the Income Tax Act.

14. Comparative figures

Previous years figures have been regrouped / rearranged wherever necessary.

MATERIAL NOTES ON ACCOUNTS

INVESTMENTS

1.1 In respect of securities held under "Held to Maturity" category, premium of Rs.93.86 crores (previous year Rs.73.61 crores) has been amortized during the year.

1.2 In respect of securities held under "Available for Sale" category, an amount of Rs.4.08 crores (previous year Rs.2.18 crores) has been debited to "Provisions and Contingencies" Account towards depreciation.

1.3 In respect of non performing investments, an amount of Rs18.52 crores (previous year Rs 0.81 crores) has been debited to "Provisions and Contingencies", which includes Rs.6.59 crores (previous year Rs.0.20 crores) and Rs.11.93 crores (previous year Rs.0.61 crores) in " Available for sale" and " Held to Maturity " categories respectively,

1.4 In addition to the above, an amount of Rs1.25 crores has been debited to " Provisions and Contingencies" in respect of non-performing securities matured for payment, which is included under other assets.

2. Investments amounting to Rs.802.80 crores (previous year Rs. 66.56 crores) were shifted from "Held to Maturity" category to "Available for Sale" category and Rs.3521.08 crores (previous year Rs.1052.63 crores) were shifted from "Available for Sale" category to "Held to Maturity" category. The shifting from "Available for sale" category to " Held to Maturity" category includes an amount of Rs 2095.95 crores, which was done as a one time exercise pursuant to RBI circular dated 2nd September 2004. In shifting such securities, marked to market revaluation loss of Rs. 60.77 crores was charged to the revenue account.

3. An amount of Rs.3.10 crores has been written back during the year, out of provisions held as of the end of previous year amounting to Rs.7.34 crores, in respect of investments outside India.

1. ADVANCES

Floating provision of Rs.277.27 crores (previous year Rs.330 crores) is held in respect of Gross Non Performing Advances, over and above the minimum prescribed by RBI. These provisions are netted off from advances.

FIXED ASSETS

Pending completion of certain legal and other formalities, title deeds have not been executed/registered in favour of the Bank, in respect of 9 premises amounting to Rs 18.54 crores.

FCNR(A) CLAIM

Out of a total amount of Rs 80.48 crores towards short claim under the FCNR(A) scheme, the bank is holding a provision of Rs. 44.24 crores as on 31.03.2005. The balance amount of Rs.36..24 crores has been shown under "Other Assets-others", pursuant to the bank accepting Rs.36.97 crores towards the settlement of the above claim as indicated by Government of India.

Capital

The Bank has raised a sum of Rs.350 crores Series VI & VII (previous year Rs.200 crores) by way of unsecured Redeemable, Non Convertible Subordinated Bonds in the nature of Promissory Notes, during the year in order to augment its Tier II Capital.

6. TAXES

No provision has been considered necessary in respect of disputed demands of income tax amounting to Rs. 220.52 crores (previous year Rs. 136.24 crores) after due consideration of decisions of Appellate Authorities, judicial pronouncements and the opinion of tax experts.

7. VRS EXPENDITURE

An amount of Rs.69.29 crores (previous year Rs.69.29 crores) has been amortised towards special voluntary retirement scheme and the balance to be amortised is Rs.31.26 crores (previous year 100.55 crores).

8. Wage Arrears

An Adhoc provision of Rs.105.50 crores (previous year Rs.48 crores) has been made during the year towards wage arrears pending wage settlement at industry level. The total cumulative provision held under this head is Rs.165.50 crores (previous year Rs.60 crores).

9. ACCOUNTING FOR TAXES ON INCOME

Accounting Standard (AS) 22, issued by the Institute of Chartered Accountants of India in respect of Accounting for taxes on income came into effect from the accounting periods commencing on or after 01.04.2001. In terms of transitional provisions in para 33 of the standard necessary adjustment on account of Deferred Tax Asset was made by corresponding credit to Reserves and Surplus during the year 2001-02. Subsequent adjustment for Deferred Tax Asset/ Liability has been carried out in the Profit and loss account of the relative year. However no adjustment is made for the same on the accounts for the periods prior to 01.04.2001.

10. Consolidated Financial Statements (AS 21)

As there is no subsidiary, (with the dissolution of IOB Properties Pte Ltd.), no consolidated financial statement is considered necessary

11. In-House Software

The application software in use in the bank has been developed in-house and has evolved over a period of time. Hence, the cost of software is essentially part of bank's operational expenses like wages etc. and as such are charged to the respective heads of expenditure in the profit and loss account.

12. AS 28

Fixed Assets possessed by the Bank are treated as "Corporate Assets" and are not "Cash Generating Units" as defined by AS 28 issued by ICAI. In the opinion of the Management there is no impairment of any of the Fixed Assets of the Bank.

B. NOTES ON ADJUSTMENTS

Adjustment for qualification in the Auditors' report on leave encashment benefit on retirement has been made in the adjusted financial statements for the five consecutive years ended 31st March 2005.

Adjustments resulting from Audit Qualifications, Material Amounts relating to adjustments for previous years and changes in Accounting Policies

| Particulars year ended 31 st March (Rs. in crores) | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|--------|--------|--------|--------|--------|
| Net Profit/(Loss) as per Audited Accounts | 115.93 | 230.21 | 416.10 | 512.76 | 651.36 |
| Adjustments for: | | | | | |
| Leave Encashment on retirement | -7.02 | -6.75 | +20.19 | NIL | -NIL- |
| Leave Encashment on retirement upto 31.3.1999 debited to Profit & Loss Account in 2002-03 | NIL | NIL | +35.46 | NIL | NIL |
| Adjusted Profit/(Loss) | 108.91 | 223.46 | 471.75 | 512.76 | 651.36 |
| Appropriations | | | | | |
| Transfer to Statutory Reserve | 34.78 | 59.85 | 124.83 | 129.00 | 195.41 |
| Transfer to Revenue & Other Reserves | 39.08 | 1.60 | 0.00 | 5.90 | 166.42 |
| Transfer to Capital Reserve | 0.00 | 79.88 | 8.78 | 14.94 | 6.17 |
| Transfer to Investment Fluctuation Reserve | 0.00 | 35.50 | 202.20 | 225.00 | 120.00 |
| Transfer to Special Reserve | NIL | NIL | NIL | 15.00 | 15.00 |
| Dividends (incl. Dividend tax) | 42.07 | 53.38 | 80.29 | 122.92 | 148.36 |
| Total | 115.93 | 230.21 | 416.10 | 512.76 | 651.36 |
| Impact on Reserves & Surplus | -7.02 | -6.75 | +55.65 | NIL | NIL |
| Adjusted Profit/(Loss) | 108.91 | 223.46 | 471.75 | 512.76 | 651.36 |

Increase/Decrease in Assets & Liabilities (Cumulative)

| Nature of Adjustments (Year Ended 31 st March) | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|--------|--------|--------|------|------|
| Assets | | | | | |
| Increase/decrease in Assets | NIL | NIL | NIL | NIL | NIL |
| Liabilities | | | | | |
| Increase / decrease in liabilities | | | | | |
| Provision for Leave Encashment | 13.44 | 20.19 | -35.46 | NIL | NIL |
| Reserves & Surplus | -13.44 | -20.19 | 35.46 | NIL | NIL |

PART V

AUDITORS' QUALIFICATIONS FOR WHICH NO ADJUSTMENTS COULD BE CARRIED OUT

1) RECONCILIATION

Reconciliation of inter-bank and inter-branch transactions has been completed up to 31st March 2005. Steps for elimination of outstanding entries are in progress. Since the outstanding entries to be eliminated are insignificant, no material consequential effect is anticipated.

2) ADVANCES

For provisioning requirements, claims pending settlement as well as claims yet to be lodged with Guarantee Institutions (except DICGC) identified by the branches have been considered. The impact, if any, of the above on the accounts with respect to recoverability is not ascertainable.

3) OTHER ASSETS

Out of a total amount of Rs.80.48 crores towards short claim under the FCNR(A) Scheme, a provision of Rs.44.24 crores has been made upto March 31, 2005, pending final settlement of the matter by Government of India and RBI. The balance amount, Rs.36.24 crores has been shown under "Other Assets - Others". We are unable to express an opinion as to the realisability of the amount.

4) RECOGNITION OF INCOME AND EXPENDITURE:

- l) Recognition of Income by way of Commission, Exchange, Locker Rent, Interest on Bills purchased is not in accordance with AS 9 Issued by ICAI.
- m) Interest is accounted for as and when matured Term Deposits are renewed.
- n) In respect of foreign branches income and expenditure are recognised/accounted for as per local laws of the respective countries.

The impact of the above, on the accounts has not been ascertained.

5) TAXES

The taxable income has been computed after considering various judicial decisions relating to earlier years and adequate provisions have been made accordingly. No provision has been made for disputed tax liability of Rs.220.52 crores based on decisions of various appellate authorities / opinion of tax experts. Pending disposal of appeals at various appellate layers, the impact on accounts, if any, in respect of above is not ascertainable.

6) WAGE ARREARS

An adhoc provision of Rs.165.50 Crores has been made towards wage arrears, pending wage settlement at industry level. As the adequacy of the same could not be arrived at, the consequential impact, if any, on the accounts is not ascertainable.

7) FINANCIAL RATIOS

The capital adequacy ratio and other key ratios are subject to the effect of our observations in para 1 to 5 above.

PART VI**STATEMENT OF DIVIDEND PAID FOR THE LAST FIVE YEARS ON EQUITY SHARES** (Rs. In crores)

| For the year ended | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|----------------------------|---------|---------|---------|---------|---------|
| Dividend to the Government | 33.36 | 40.03 | 53.38 | 66.72 | 80.06 |
| Dividend to the public | 4.82 | 13.35 | 17.79 | 42.44 | 50.69 |
| Dividend Tax | 3.89 | 0.00 | 9.12 | 13.76 | 17.61 |
| Total | 42.07 | 53.38 | 80.29 | 122.92 | 148.36 |
| Dividend rate | 10%** | 12% | 16% | 20% | 24% |

** The initial Public Issue has been made on 25.10.2000 and the Dividend paid to the new shareholders is on pro-rata basis.

PART VII**KEY ACCOUNTING RATIOS**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|-------|-------|-------|-------|-------|
| Earnings per Share (EPS) (Rs.) | 2.45 | 5.02 | 10.61 | 10.40 | 11.96 |
| Cash Earnings per Share (Rs.) | 3.37 | 6.02 | 11.51 | 11.20 | 12.81 |
| Return on Networth (%) | 16.66 | 26.60 | 41.98 | 31.94 | 29.85 |
| Net Asset Value per Share | 16.70 | 21.08 | 29.44 | 35.43 | 44.66 |
| OTHER RATIOS | | | | | |
| Net NPA to Net Advances ratio (%) | 7.01 | 6.32 | 5.23 | 2.85 | 1.27 |
| Interest Income/ Working Fund (%) | 9.47 | 9.14 | 8.74 | 8.31 | 7.77 |
| Non-Interest Income/ Working Fund (%) | 1.03 | 1.53 | 1.30 | 1.64 | 1.26 |
| Return on Assets (%) | 0.38 | 0.67 | 1.22 | 1.08 | 1.28 |
| Net Profit/ Working Funds (%) | 0.38 | 0.67 | 1.22 | 1.08 | 1.29 |
| Business per Employee (Rs. In crs.) | 1.41 | 1.75 | 2.04 | 2.33 | 2.69 |
| Net Profit per Employee (Rs. In lacs) | 0.42 | 0.91 | 1.93 | 2.10 | 2.66 |
| Capital Adequacy Ratio (%) | | | | | |
| Tier I | 5.81 | 6.17 | 5.83 | 6.74 | 7.10 |
| Tier II | 4.43 | 4.65 | 5.47 | 5.75 | 7.10 |
| Credit/Deposit Ratio (%) (net) | 47.77 | 47.67 | 47.54 | 48.92 | 56.97 |
| Interest Spread /Average Working Fund (%) | 3.06 | 2.90 | 3.15 | 3.54 | 3.67 |
| Gross operating profit/Average Working Fund (%) | 1.07 | 1.84 | 2.05 | 2.93 | 2.65 |
| Yield on Advances (%) | 11.03 | 10.64 | 10.13 | 9.52 | 8.72 |
| Yield on Investments (%) | 11.68 | 10.95 | 9.88 | 9.15 | 8.80 |
| Cost of Deposits (%) | 7.52 | 7.25 | 6.50 | 5.47 | 4.74 |
| Cost of Borrowings (%) * | 8.75 | 11.52 | 8.49 | 7.21 | 7.71 |
| Gross Profit per Employee (Rs. in lacs) | 1.18 | 2.50 | 3.24 | 5.44 | 5.45 |
| Business per Branch (Rs. in Crores) | 28.22 | 32.46 | 37.78 | 42.94 | 46.98 |
| Gross Profit per Branch (Rs. in lacs) | 21.36 | 42.60 | 55.42 | 90.64 | 89.06 |

* Weighted average of cost of borrowings

Definitions of Key Ratios

| | |
|---|---|
| Earnings per Share (EPS) (Rs.) | PAT/No. of equity shares |
| Cash Earnings per Share (Rs.) | (PAT + Depreciation)/No. of equity shares |
| Return on Net worth (%) | Net profit/Average Equity |
| Net Asset Value per Share (Rs.) | Net worth at year-end/No. of equity shares |
| Other Ratios | |
| Net NPA to Net Advances ratio (%) | Net NPA/Net Advances |
| Interest income/working fund (%) | Interest Income/Average Working Funds |
| Non-Interest income/working fund (%) | Non-interest Income/Average Working funds |
| Return on Assets (%) | Net Profit/Average Total Assets |
| Net Profit/working funds (%) | Net Profit/Average Working Funds |
| Business per Employee (Rs. In crs.) | (Deposits + Advances)/No. of employees |
| Net profit per Employee (Rs. In lacs) | Net profit/No. of employees |
| Capital Adequacy Ratio (%) | |
| Tier I | Tier I Capital/Risk weighted assets |
| Tier II | Tier II Capital/Risk weighted assets |
| Credit/Deposit Ratio (%) (net) | Net advances/Deposits |
| Interest spread /Average Working Fund (%) | Interest spread/Average Working Funds |
| Gross profit/Average Working Fund (%) | Gross Profit/Average Working Funds |
| Yield on Advances (%) | Interest Income/Average Advances |
| Yield on Investments (%) | Income earned on investments/Average investment |
| Cost of Deposits (%) | Interest paid on deposits/Average deposits |
| Cost of Borrowings (%) | Interest paid on borrowings/Average borrowings |
| Gross Profit per Employee (Rs. in lacs) | Gross profit/No. of employees |
| Business per Branch (Rs. in Crores) | (Deposits + Advances)/No. of branches |
| Gross Profit per Branch (Rs. in lacs) | Gross profit/No. of branches |

- EPS represents basic earnings per share calculated as Net Profit After Tax before extraordinary items (PAT) divided by number of equity shares at the end of the fiscal year.
- Cash EPS represents PAT for the year plus non-cash charges divided by the number of equity shares at the end of the fiscal year. Non-cash charges comprise depreciation, amortisation of business development expenses, loss on sale of fixed assets and loss on sale of investments.
- Return on Net Worth is arrived at by dividing PAT by total shareholders' funds (Net Worth) at the end of the year.
- Net Asset value per share, computed as per net equity method, is arrived at as Equity net worth at the end of the year minus miscellaneous expenses not written off and divided by the number of equity shares at the end of the fiscal year.

PART VIII**CONTINGENT LIABILITIES**

1. The Company has following contingent liabilities for which no provisions have been made in the books of accounts of the Company for the year ended as at 31st March 2005.

| Sr. No | Particulars | Amount (Rs in crores) |
|--------|---|-----------------------|
| 1 | Claims against the Bank not acknowledged as debts | 8.95 |
| 2 | Liability for partly paid investments | 0.12 |
| 3 | Outstanding forward exchange contracts | 5601.84 |
| 4 | Guarantees given on behalf of constituents | |
| | In India | 2341.51 |
| | Outside India | 89.66 |
| 5 | Acceptances, Endorsements and Other Obligations | 3499.59 |
| 6 | Estimated amounts of contracts remaining to be executed on capital accounts | 3.58 |
| 7 | Disputed Income Tax Liabilities | 220.52 |
| 8 | Others | 2185.72 |
| | Total | 13951.49 |

**TAX SHELTER STATEMENT**

| Year ending March 31 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--|----------------|--------------|--------------|--------------|---------------------|
| Tax Rate | 35% + 13% s.c. | 35% + 2% s.c | 35% + 5% s.c | 35%+2.5% s.c | 35%+2.5% sc+2%EC |
| Gross Profit | 306.60 | 616.36 | 794.13 | 1325.19 | 1336.80 |
| Tax at actual rate of profit | 121.26 | 220.04 | 291.84 | 475.41 | 489.17 |
| Adjustments | | | | | |
| Permanent Differences: | | | | | |
| i) Interest on tax free bonds | -2.75 | -2.73 | -2.52 | -10.77 | -13.25 |
| ii) Dividends (exempt from tax) | -14.29 | -14.28 | -9.12 | -8.41 | -15.99 |
| iii) Profit on sale of fixed assets | -0.45 | -0.70 | -0.50 | -1.69 | -5.57 |
| iv) Loss on Revaluation of Investments | 0.00 | 0.00 | 23.55 | 79.30 | 159.75 |
| iv) Others | 0.55 | 0.17 | -1.27 | -56.31 | -18.00 |
| Timing Differences: | | | | | |
| i) Diff. Between book depreciation and IT depreciation on Fixed Assets | 6.30 | 4.69 | -0.69 | -10.82 | -10.00 |
| ii) Bad debts written off | -175.06 | -106.12 | -163.64 | -447.46 | -244.38 |
| iii) Provision for bad debts – deduction u/s 36(1) (viiia) | -141.38 | -155.70 | -205.61 | -296.62 | -286.00 |
| iv) Exemption u/s 10(23G) | -21.87 | -12.65 | -15.74 | -55.82 | -67.15 |
| v) VRS | -29.10 | -33.44 | 17.46 | 17.46 | 17.46 |
| vi) FCNR(A) | 0.00 | -80.48 | 0.00 | 0.00 | 0.00 |
| vii) Provision for leave encashment | 0.00 | 0.00 | 62.73 | 12.00 | 29.00 |
| vi) Other adjustments | -0.21 | -2.35 | -7.57 | -70.20 | -18.00 |
| Net Adjustments | -378.26 | -403.59 | -303.84 | -849.34 | -472.13 |
| Tax Shelter | -149.60 | -144.08 | -111.66 | -304.70 | -172.76 |
| Total Taxation | -28.34 | 75.96 | 180.18 | 170.71 | 316.40 |

Note: Figures for the four financial years ended upto March 31, 2003 have been computed as per the returns filed with the Income Tax department. For the year ended March 31, 2004, pending filing of return of income, figures are calculated on an estimated basis.

| INDIAN OVERSEAS BANK | | | | |
|---|--|--|--|--|
| CENTRAL OFFICE, 763 ANNA SALAI, CHENNAI - 600 002. | | | | |
| UNAUDITED FINANCIAL RESULTS (REVIEWED) FOR THE QUARTER ENDED 30th JUNE, 2005 | | | | |
| (Rs. in Lakhs) | | | | |
| SL.NO | Particulars | 1 Quarter ended 30.06.2005 (Reviewed) | 2 Quarter ended 30.06.2004 (Reviewed) | 3 Year ended 31.03.2005 (Audited) |
| 1 | Interest Earned (a) + (b) +(c)+ (d) | 102540.11 | 97071.17 | 395104.76 |
| | (a) Interest/discount on advances/bills | 59254.39 | 48219.03 | 209230.92 |
| | (b) Income on Investments | 41087.02 | 47075.01 | 177197.96 |
| | (c) Interest on Balances with Reserve Bank of India and Inter Bank Funds | 2198.70 | 1777.13 | 8125.40 |
| | (d) Others | 0.00 | 0.00 | 550.48 |
| 2 | Other Income | 18144.30 | 25843.20 | 79955.71 |
| | A. TOTAL INCOME (1+2) | 120684.41 | 122914.37 | 475060.47 |
| 3 | Interest Expended | 54226.10 | 53363.18 | 209552.63 |
| 4 | Operating Expenses (e) + (f) | 29134.14 | 31772.10 | 115852.60 |
| | (e) Payments to and provisions for employees | 21005.42 | 25382.92 | 84345.86 |
| | (f) Other Operating Expenses | 8128.72 | 6389.18 | 31506.74 |
| | B. TOTAL EXPENDITURE (3) + (4) (excluding Provisions & Contingencies) | 83360.24 | 85135.28 | 325405.23 |
| | C. OPERATING PROFIT (A-B) (Profit before Provisions & Contingencies) | 37324.17 | 37779.09 | 149655.24 |
| | D. Other Provisions & Contingencies | 14154.22 | 11295.44 | 52472.94 |
| | of which provisions for Non Performing Assets | 4780.33 | 7029.52 | 29493.39 |
| | E. Provision for Taxes | 4850.66 | 9023.75 | 32046.36 |
| | F. Net Profit (C-D-E) | 18319.29 | 17459.90 | 65135.94 |
| 5 | Paid-up Equity share capital (Face Value Rs.10/-) | 54480.00 | 54480.00 | 54480.00 |
| 6 | Reserves excluding revaluation reserves (as per balance sheet of previous accounting year) | 188856.61 | 138556.74 | 188856.61 |
| 7 | Analytical Ratios | | | |
| | (i) Percentage of shares held by Govt. of India | 61.23 | 61.23 | 61.23 |
| | (ii) Capital Adequacy Ratio (%) | 14.06 | 12.70 | 14.21 |
| | (iii) Earning per share (Rs.) | 3.36 * | 3.20 * | 11.96 |



| | | | | |
|---|---|---------------------------|---|--------------|
| | iv) a) Amount of Gross Non Performing Assets | 138563 | 157289 | 138815 |
| | b) Amount of Net Non Performing Assets | 26248 | 50579 | 31920 |
| | c) % of Gross NPAs | 5.08 | 7.03 | 5.28 |
| | d) % of Net NPAs | 1.00 | 2.37 | 1.27 |
| | v) Return on Assets (Annualised) | 1.38 | 1.47 | 1.28 |
| | | | | |
| 8 | Aggregate of non - Promoter holdings | | | |
| | - No. of Shares | 21 12 00 000 | 21 12 00 000 | 21 12 00 000 |
| | - Percentage of share holding | 38.77 | 38.77 | 38.77 |
| | * Not Annualised | | | |
| | Notes : | | | |
| | | | | |
| 1 | The working results for the quarter ended 30th June, 2005 have been arrived at after considering VRS expenses to the extent of Rs.7.82 crores (proportionate charge to P&L A/c) and provisions for Non Performing Assets, Standard Assets, Taxation (including deferred tax as per AS - 22 - "Taxes on Income") and other necessary provisions on an estimated basis and is subject to adjustment at the year end. | | | |
| 2 | Reserves do not include profit for the quarter ended 30th June, 2005. | | | |
| 3 | Reconciliation of inter branch items and balancing / reconciliation of accounts relating to deposits, drafts are in progress and the overall impact is not likely to be significant. | | | |
| 4 | Against a claim of Rs.80.48 crores on account of FCNR (A), the bank has agreed to accept an amount of Rs.36.97 crores in full and final settlement and the Bank holds a provision of Rs.44.24 crores. | | | |
| 5 | The amortisation of 'Held to maturity investments' amounting to Rs.1930.76 lacs (previous corresponding quarter Rs.2004.49 lacs and previous year ended 31.3.2005 Rs.9386.01 lacs) and depreciation on inter-segmental transfers amounting to Rs. 7268.12 lacs (Previous corresponding quarter Rs.541.48 lacs ; Previous year ended 31.3.2005 Rs. 6589.37 lacs) is shown under Provisions and Contingencies during the current quarter and the figures relating to the corresponding previous quarter and previous year have been re-grouped accordingly. | | | |
| 6 | The above results have been taken on record by the Board of Directors of the Bank at its meeting held on 29.07.2005 at Chennai. | | | |
| 7 | The financial results for the quarter ended 30th June, 2005 have been subjected to Limited Review by the Statutory Central Auditors in line with the guidelines issued by RBI and as per the requirement of the Listing Agreement. | | | |
| 8 | The information on Investors' Complaints for the Quarter ended 30.06.2005 is as under: Pending complaints at the beginning of the Quarter - 7 Complaints received during the Quarter - 1044 Complaints redressed during the Quarter - 1038 Closing balance at the end of the Quarter - 13 | | | |
| | sd/- | sd/- | | |
| | | | | |
| | | | | |
| | | | | |
| | PLACE : CHENNAI | AR. NAGAPPAN | T.S. NARAYANASAMI | |
| | Date : 29.07.2005 | EXECUTIVE DIRECTOR | CHAIRMAN & MANAGING DIRECTOR | |
| | | | | |

B. STATUTORY AND OTHER INFORMATION

Offer otherwise than for cash:

There has not been any issues for consideration other than cash.

Previous commission and brokerage:

Commission and brokerage has been paid by the bank for earlier issues as per guidelines and within the stipulated limit.

PREVIOUS ISSUES BY THE BANK

The Bank went for its maiden equity issue of 11,12,00,000 shares of Rs. 10/- each, for cash at par aggregating to Rs. 111.20 crores. The issue opened on 25.09.2000 and closed on 29.09.2000. The issue was oversubscribed by 1.87 times. The shares were allotted on 25.10.2000. The despatch of share certificates and refund orders was completed on 4.12.2000 and 28.10.2000 respectively. The shares have been listed at Madras Stock Exchange, Bombay Stock Exchange and National Stock Exchange on 04.12.2000, 05.12.2000 and 07.12.2000 respectively.

For the year ended 31.03.2001 the Bank declared a dividend of 10% and the shareholders were paid the same on a prorata basis effective from the date of allotment. For the years ended 31.03.2002, 31.03.2003, 31.03.2004 and 31.03.2005, the Bank declared dividend of 12%, 16%, 20% and 24% respectively.

The Bank went for its second equity issue of 10,00,00,000 shares of Rs. 10/- each, for cash at a premium of Rs 14/- at a price of Rs 24/- each aggregating Rs 240 crores. The issue opened on 05.09.2003 and closed on 12.09.2003. The issue was subscribed 6.14 times. The shares were allotted on 7.10.2003. The despatch of share certificates and refund orders was completed on 9.10.2003. The shares have been listed at Madras Stock Exchange, Bombay Stock Exchange and National Stock Exchange on 14.10.2003.

The bank declared an interim dividend of 14% and a Final dividend of 10 % aggregating to 20%.

The Bank has raised Tier II Capital by way of Private Placement of unsecured, redeemable bonds in the nature of Promissory Notes to augment capital adequacy as under:

| Series | Date of Allotment | Size (Rs in crores) | Tenor (In Months) | Credit Rating | Coupon (%) | Redemption Date |
|--------|-------------------|------------------------|----------------------|------------------|---------------|-----------------|
| i | 18.01.1999 | 150.00 | 60 | Unrated | 13.75 | 17.01.2004 |
| ii | 08.03.2001 | 125.00 | 67 | AA | 11.45 | 07.10.2006 |
| iii | 31.12.2001 | 150.00 | 67 | AA | 09.40 | 30.07.2007 |
| iv | 31.10.2002 | 175.00 | 78 | AA | 07.45 | 30.04.2009 |
| v | 01.03.2004 | 200.00 | 120 | CARE AA+ | 06.00 | 29.02.2014 |
| vi | 26.07.2004 | 200.00 | 120 | CARE AA+ | 06.40 | 25.07.2014 |
| vii | 08.01.2005 | 150.00 | 123 | CARE AA+ | 07.25 | 08.04.2015 |

Note: The bank has redeemed Series I aggregating to Rs. 150 crores on the due date i.e. on 17.01.2004

PURCHASE OF PROPERTY

There is no property which the Bank has purchased or acquired or proposes to purchase or acquire, which is to be paid for, wholly or partly, out of the proceeds of the present Issue or the purchase or acquisition of which has not been completed on the date of issue of this Information Memorandum, other than:

the contracts for the purchase or acquisition whereof were entered into, or may be entered into, in the ordinary course of the Company's business, such contracts not being made in contemplation of the Issue or in consequence of the contract; or property in respect of which the amount of the purchase consideration is not material.

The Bank has not purchased any property in which any of its directors had or have any direct or indirect interest or in respect of any payment thereof. The Bank has no plans, at present, to acquire any running business out of the proceeds of the Issue.

TERMS OF APPOINTMENT OF CHAIRMAN AND MANAGING DIRECTOR

In exercise of the powers conferred by clause (a) of sub-section (3) of section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, read with sub-clause (1) of clause 3, clause 6, clause 7 and sub-clause (1) of clause 8 of the Nationalised Banks (Management and Miscellaneous Provisions) Scheme 1970, the Central Government, after consultation with RBI, has appointed Mr. T S Narayanasami, as Chairman and Managing Director of the Bank upto 31 05 2009 vide notification no. F.No20/17/2000-BOI dated 11th July 2005. His compensation details are as follows:

Salary: Rs. 26,000/- per month in the scale of Rs. 24,050-650-26000/- with effect from 9.6.2005.

Other benefits: Allowances and Perquisites as per Government of India guidelines such as dearness allowance, city compensatory allowance, housing, Leave Travel Allowance, Contribution to Provident Fund, Gratuity, Superannuation, Reimbursement of medical expenses, entertainment expenses and others.

TERMS OF APPOINTMENT OF WHOLETIME DIRECTORS

In exercise of the powers conferred by clause (a) of sub-section (3) of section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, read with sub-clause (1) of clause 3 and sub-clause (1) of clause 8 of the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, the Central Government, after consultation with RBI, has appointed ShriAR Nagappan, as Whole time Director (designated as Executive Director) of the Bank upto 30 04 2006 vide notification no. 20/6/2004-BOI dated 21 09 2004. His compensation details are as follows:

Salary: Rs. 22050/- per month in the scale of Rs. 22050-500-24050/- with effect from 27 08 2004.

Other benefits: Perquisites as per Government of India guidelines such as housing, Leave Travel Allowance, Contribution to Provident Fund, Gratuity, Superannuation, Reimbursement of medical expenses, entertainment expenses and others.

PAYMENT OR BENEFIT TO THE DIRECTORS AND OFFICERS OF THE BANK

Except the benefits as provided under the relevant rules framed by the Government of India from time to time, the directors of the Bank are not eligible to any additional benefits upon termination of employment.

The Key Managerial Personnel are entitled to the Compensation & benefits as applicable to all the permanent employees of the Bank. All the Key Managerial Personnel, except the CMD and ED, are of General Manager and higher grade and hence their compensation falls in the scale of Rs. 29340-680/2-30700-900/1-31600-1000/1-32600 per month. The other benefit includes the festival loan housing loan reimbursement of certain expenses etc. as per employees' service rules.

NATURE AND INTEREST OF DIRECTORS

No Director of the Bank is interested in the appointment of any of the Managers, Registrars and Bankers to the Issue. No Director of the Bank is interested in any property acquired by the Bank within two years of the date of the Information Memorandum or proposed to be acquired by it.

The Directors are not interested in any loan or advance given by the Bank to any person(s)/Company (ies) nor is any beneficiary of such loan or advance related to any of the Directors of the Bank.

CAPITALISATION OF RESERVES OR PROFITS:

The details of capitalisation of Reserves, since nationalisation of the Bank on July 19, 1969 are furnished below:

| YEAR | AMOUNT (Rs. In crores) |
|------|------------------------|
| 1972 | 1 |
| 1976 | 2 |
| 1977 | 2 |
| 1979 | 2 |
| 1980 | 2 |
| 1982 | 3 |

REVALUATION OF ASSETS

The Bank revalued certain immovable properties in India in 1993-1994 in order to augment its Tier II capital. The amount of revision made was Rs.191.88 crores and the same was credited to Revaluation Reserve Account. As per the Bank's policy, depreciation is provided to the extent of revaluation, which is then set off against the revaluation reserve account. As on 31.03.2005, the revaluation reserve account stood at Rs. 141.82 crores. Apart from this, there has been no other revaluation of assets in the last 5 years.

| Year | Amount (Rs. In crores) |
|---------|------------------------|
| 1993-94 | 191.88 |

B. STATUTORY AND OTHER INFORMATION

MAIN PROVISIONS OF THE BANK NATIONALISATION ACT

Relevant provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 as amended by the Banking Companies (Acquisition and Transfer of Undertakings) Amendment Act, 1994 and Banking Companies (Acquisition and Transfer of Undertakings) Amendment Act, 1995 hereinafter collectively referred to as the Bank Nationalisation Act are:

Authorised Capital

As per the provisions of Section 3 (Sub-section 2A) of the Banking Companies (Acquisition) Act, 1970 the Authorised Capital of the Bank shall be Rupees One Thousand and Five Hundred crores to be divided into One Hundred and Fifty crores of fully paid-up equity shares of Rs.10/- each. Provided that the Central Government may, after consultation with the Reserve Bank of India and by notification in the Official Gazette, increase or reduce the authorised capital as it thinks fit, so however that after such increase or reduction, the authorised capital shall not exceed Rs. Three Thousand crores, or be less than Rs. One Thousand and Five Hundred Crores.

Issued Capital

Section 3 (Sub-Section 2B) of the Banking Companies (Acquisition) Act, 1970 provides that the paid-up capital may from time to time be increased by

- a) Such amounts as the Board of Directors of the corresponding new Bank may, after consultation with the Reserve Bank of India and with the previous sanction of the Central Government transfer from the reserve fund established by such Bank to such paid-up capital;
- b) Such amounts as the Central Government may, after consultation with the Reserve Bank, contribute to such paid-up capital;
- c) Such amounts as the Board of Directors of the corresponding new Bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, raise by Public Issue of shares as may be prescribed, so however, that the Central Government shall at all times hold not less than 51% of the paid-up capital of each corresponding new Bank.

The entire paid-up capital of the corresponding new Bank, except the paid-up capital raised by public Issue under clause (c) of Sub-Section 2B shall stand vested in, and allotted to, the Central Government.

Section 3 (2BB) of Banking Companies (Acquisition) Act, 1970 provides that “notwithstanding anything contained in subsection (2), the paid capital of a corresponding new Bank constituted under subsection (1) may from time to time and before any paid up capital is raised by Public Issue under clause (c) of sub section (2B) be reduced by

- a) the Central Government after consultation with the Reserve Bank by cancelling any paid up capital which is lost, or is unrepresented by available assets;
- b) the board of directors, after consultation with Reserve Bank and with the previous sanction of the Central Government, by paying off any paid up capital which is in excess of the wants of the corresponding new Bank.....”

(2-BBA) (a) A corresponding new bank may, from time to time and after any paid-up capital has been raised by public issue under CL. (c) of sub-section (2-B), by resolution passed at an annual general meeting of the shareholders entitled to vote, voting in person or where proxies are allowed, by proxy, and the votes cast in favour of the resolution are not less than three times the number of the votes, if any, cast against the resolution by the shareholders so entitled and voting, reduce its paid-up capital in any way.

(b) Without prejudice to the generality of the foregoing power, the paid-up capital may be reduced by-

- i) extinguishing or reducing the liability on any of its shares in respect of share capital not paid up;
- ii) either with or without extinguishing or reducing liability on any of its paid-up shares, cancelling any paid-up capital which is lost, or is unrepresented by available assets; or
- iii) either with or without extinguishing or reducing liability on any of its paid-up shares, paying off any paid-up share capital which is in excess of the wants of the wants of the corresponding new bank.

(2BBB) “Notwithstanding anything contained in sub section (2BB) or sub-sub section (2BBA), the paid up capital of a corresponding new Bank shall not be reduced at any time so as to render it below twenty five percent of the paid up capital of that Bank as on date of commencement of the Banking Companies (Acquisition and Transfer of Undertakings) Amendment Act, 1995.”

Rights of Equity Shareholders

As to Dividend

Section 10(7): After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and Superannuation funds and all other matters for which provision is necessary under any law, or which are usually provided for by Banking companies, a corresponding new Bank may, out of its net profits, declare a dividend and retain the surplus, if any.

Voting Rights

Section 3(2E): No shareholder of the corresponding new bank, other than the Central Government, shall be entitled to exercise voting rights in respect of any shares held by him in excess of one per cent of the total voting rights of all the shareholders of the corresponding new Bank.

Meeting of Shareholders

Section 10A: A General Meeting (in this Act referred to as an annual general meeting) of every corresponding new Bank which has issued capital under clause (c) of sub-section (2B) of Section 3 shall be held at the place of the head office of the Bank in each year at such time as shall from time to time be specified by the Board of Directors:

Provided that such annual general meeting shall be held before the expiry of six weeks from the date on which the balance sheet together with the profit and loss account and auditors' report is under sub-section (7A) of section 10, forwarded to the Central Government or to the Reserve Bank, whichever date is earlier.

The shareholders present at an annual general meeting shall be entitled to discuss the balance sheet and the profit and loss account of the corresponding new Bank made up to the previous 31st day of March, the report of the Board of Directors on the working and activities of the corresponding new Bank for the period covered by the accounts and the Auditor's Report on the balance sheet and account.

Transfer of Shares and Share Registers

Section 3 (2D): The shares of every corresponding new Bank not held by the Central Government shall be freely transferable.

Provided that no individual or company resident outside India or any company incorporated under any law not in force in India or any branch of such company whether resident outside India or not, shall at any time hold or acquire by transfer or otherwise shares of the corresponding new bank so that such investment in aggregate exceed the percentage, not being more than 20% of the paid up capital as may be specified by the central government by notification in the official gazette.

Explanation: For the purposes of this clause, "company" means any body corporate and includes a firm or other association of individuals.

Section 3 (2F): Every corresponding new Bank shall keep at its head office a register, in one or more books, of the shareholders (in this Act referred to as the Register) and shall enter therein the following particulars:

- i) the names, addresses and occupations, if any, of the shareholders and a statement of the shares held by each shareholder, distinguishing each share by its denoting number;
- ii) the date on which each person is so entered as a shareholder;
- iii) the date on which any person ceases to be a shareholder and
- iv) such other particulars as may be prescribed

Section 3(2G): Notwithstanding anything contained in sub-section (2F), it shall be lawful for every, corresponding new Bank to keep the register in computer floppies or diskettes subject to such safeguards as may be prescribed.

Section 3 (3): Notwithstanding anything contained in the Indian Evidence Act, 1872, a copy of, or extract from, the Register, certified to be a true copy under the hand of an officer of the corresponding new Bank authorised in this behalf by it, shall in all legal proceedings, be admissible in evidence.

Section 3A: Notwithstanding anything contained in sub-section (2F) of Section 3, no notice of any trust, express, implied or constructive, shall be entered on the register, or be receivable, by the corresponding new Bank.

Board of Directors and their Powers

Constitutions of the Board of Directors:

Section 9 (3): Every Board of Directors of a corresponding new Bank, constituted under any scheme made under Section (1), shall include:

- i) not more than two whole-time directors to be appointed by the Central Government after consultation with the Reserve Bank;
- ii) one director who is an official of the Central Government to be nominated by the Central Government provided that no such Director will be a Director of any other corresponding new Bank as in terms of the Banking Companies (Acquisition) Act, 1970;
- iii) one director who is an officer of the Reserve Bank to be nominated by the Central Government on the recommendation of the Reserve Bank.

Explanation: For the purpose of this clause "an officer of the Reserve Bank" includes an officer of the Reserve Bank who is deputed by the Bank under Section 54AA of the Reserve Bank of India Act, 1934 to any institution referred to therein.

- i) Not more than 2 directors to be nominated by the Central Government from amongst SEBI established under Section (3) of SEBI Act 1992 (15 of 1992), the National Bank for Agriculture & Rural Development established under section (3) NABARD Act 1981 (61 of 1981), Public financial institutions as specified in subsection (1) or notified from time to time under Sub-Section (2) of Section (4A) of Companies Act 1956 (1 of 1956) and other institutions established or constituted by or under any Central Act or incorporated under the Companies Act 1956 and having not less than 51% of the paid-up share capital held or controlled by the Central Government.
- ii) one director, from among such of the employees of the corresponding new Bank who are workmen under clause (s) of Section 2 of the Industrial Disputes Act, 1947 to be nominated by the Central Government in such manner as may be specified in a scheme made under this section;
- iii) one director, from among the employees of the corresponding new Bank, who are not workmen under clause (S) of Section 2 of the Industrial Disputes Act, 1947, to be nominated by the Central Government after consultation with Reserve Bank;
- iv) one director who has been a Chartered Accountant for not less than 15 years to be nominated by the Central Government after consultation with the Reserve Bank; subject to the provisions of clause (i), not more than six directors, to be nominated by the Central Government;
- v) where the capital issued under clause (c) of sub-section (2B) of Section 3 is -

not more than twenty per cent, of the total paid up capital, not more than two directors.

more than twenty per cent but not more than forty per cent, of the total paid-up capital, not more than four directors. more than forty per cent, of the total paid-up capital, not more than six directors

to be elected by the shareholders other than the Central Government, from amongst themselves.

Provided that on the assumption of charge after election of any such directors under this clause, equal number of directors nominated under clause (h) shall retire in such manner as may be specified in the scheme.

(3A): The directors to be nominated under clause (h) or to be elected under clause (i) of Sub-Section 3 shall -

- a) have special knowledge or practical experience in respect of one or more of the following matters, namely: agricultural and rural economy, banking, co-operation, economics, finance, law, small scale industry, any other matter the special knowledge of, and practical experience in which would in the opinion of the Reserve Bank, be useful to the corresponding new Bank;
- b) represent the interest of depositors; or represent the interests of farmers, workers and artisans.

Removal of Directors

Section 9 (3B): Where the Reserve Bank is of the opinion that any director of a corresponding new Bank elected under clause (i) of Sub-section (3) does not fulfil the requirements of the Sub- Section (3A), it may, after giving to such director and the Bank a reasonable opportunity of being heard, by an order remove such director and on such removal, the Board of Directors shall co-opt any other person fulfilling the requirements of sub-section 3(A) in place of the person so removed till a Director is duly elected by the shareholders of the corresponding new Bank in the next Annual General Meeting and the person so co-opted shall be deemed to have been duly elected by the shareholders of the corresponding new Bank as a director.

Powers of Board of Directors

Section 19: The Board of Directors of a corresponding new Bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government by notification in the Official Gazette make the regulations, not inconsistent



with the provisions of this Act or any scheme made thereunder, to provide for all matters for which provision is expedient for the purpose of giving effect to the provisions of this Act.

- 4) In particular, and without prejudice to the generality of the foregoing power, the regulations may provide for all or any of the following matters, namely:
- a) the powers, functions and duties of local boards and restrictions, conditions or limitations, if any, subject to which they may be exercised or performed, the formation and constitution of local committees and committees of local boards (including the number of members of any such committee) the powers, functions and duties of such committees, the holding of meetings of local committees and committees of local boards and the conduct of business there at;
 - b) the manner in which the business of the local boards shall be transacted and the procedure in connection therewith;
 - b(a) the nature of shares of the corresponding new Bank, the manner in which and the conditions subject to which shares may be held and transferred and generally all matters relating to the rights and duties of shareholders.
 - b(b) the maintenance of register, and the particulars to be entered in the register in addition to those specified in sub-section (2F) of Section 3, the safeguards to be observed in the maintenance of register on computer, floppies or diskettes, inspection and closure of the register and all other matters connected therewith.
 - b(c) the manner in which general meetings shall be convened, the procedure to be followed thereat and the manner in which voting rights may be exercised.
 - b(d) the holding of meetings of shareholders and the business to be transacted thereat.
 - b(e) the manner in which notices may be served on behalf of the corresponding new Bank upon shareholders or other persons.
 - b(f) the manner in which the directors nominated under clause (g) of sub-section (3) of Section 9 shall retire.
 - c) the delegation of powers and functions of the Board of Directors of a corresponding new Bank to the general manager, director, or other employee of that Bank.
 - d) the conditions or limitations subject to which the corresponding new Bank may appoint advisors, officers or other employees and fix their remuneration and other terms and conditions of service.
 - e) the duties and conduct of advisors, officers or other employees of the corresponding new Bank.
 - f) the establishment and maintenance of Superannuation, pension, provident or other funds for the benefit of officers or other employees of the corresponding new Bank or of the dependants of such officers or other employees and the granting of Superannuation allowances, annuities and pensions payable out of such funds.
 - g) the conduct and defence of legal proceedings by or against the corresponding new Bank and the manner of signing and pleadings.
 - h) the provision of a seal for the corresponding new Bank and the manner and effect of its use.
 - i) the form and manner in which contracts binding on the corresponding new Bank may be executed.
 - j) the conditions and the requirements subject to which loans or advances may be made or bills may be discounted or purchased by the corresponding new Bank.
 - k) the persons or authorities who shall administer any pension, provident or other fund constituted for the benefit of officers or other employees of the corresponding new Bank or their dependants.
 - l) the preparation and submission of statements of programmes of activities and financial statements of the corresponding new Bank and the period for which and the time within which such statements and estimates are to be prepared and submitted and generally for the efficient conduct of the affairs of the corresponding new Bank.

C. MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The agreements/consent letters/certificates in relation to the Issue entered by the Bank are available at the Head Office of the Bank .

PART III

DECLARATION

All the relevant provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 as amended from time to time and the guidelines issued by the Government have been complied with and no statement made in this Information Memorandum is contrary to the provisions of the said Acts/Regulations/Guidelines and rules thereunder.

(-----)
(CHAIRMAN & MANAGING DIRECTOR)

Place : CHENNAI
Date :September 14, 2005.

COPY OF RATING LETTER FROM CRISIL

COPY OF RATING LETTER FROM CARE

COPY OF TRUSTEES CONSENT LETTER



INDIAN OVERSEAS BANK

Central Office: 763, Anna Salai, Chennai – 600 002.
Tel.: (044) 2851 9448/2841 5702 Fax.: 91-44-2852 3372.
E-Mail : investor@jobnet.com Website : www.iob.com

Application Form No. _____

APPLICATION FORM FOR UNSECURED REDEEMABLE NON-CONVERTIBLE SUBORDINATED BONDS (SERIES-VIII)

The Board of Directors, Indian Overseas Bank, Central Office: 763, Anna Salai, Chennai – 600 002.

Dear Sirs,

Having read, understood and agreed to the contents and terms and conditions of IOB's Information Memorandum dated September 14-, 2005, I/We hereby apply for allotment to me/us, of the under mentioned Bonds (hereinafter referred to as "Bonds"), out of the Private Placement Issue. I/We irrevocably give my/ our authority and consent to IDBI Trusteeship Services Limited (ITSL), to act as my/our Trustees and for doing such acts and signing such documents as are necessary to carry out their duties in such capacity. The amount payable on application as shown below is remitted herewith. I/We not that the Board of Directors are entitled in their absolute discretion to accept or reject this application in whole or in part without assigning any reason whatsoever.

I/We confirm that I/we have not received and will not receive any commission or brokerage or any other incentive in any form, directly or indirectly, for subscribing to the Issue.

APPLICANT'S DETAILS

| | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|--|--|--|--|--|--|--|--|--|--|--------------------------------|--|--|--|-----|--|--|--|----------|--|--|--|
| SOLE/FIRST APPLICANT'S NAME IN FULL | | | | | | | | | | | | SIGNATORY/AUTHORISED SIGNATORY | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | |
| SECOND APPLICANT'S NAME | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | |
| THIRD APPLICANT'S NAME | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | |
| ADDRESS (Do not repeat name) (Post Box No. alone is not sufficient) | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | TEL | | | | FAX | | | | PIN CODE | | | |
| | | | | | | | | | | | | | | | | | | | | | | | |

SOLE/ FIRST APPLICANT CATEGORY (Tick one)

- Scheduled Commercial Bank
- Financial Institution
- Insurance Company
- Primary/ State/ District/ Central Co-operative Bank
- Provident/ Gratuity/ Superannuation/ Pension Fund
- Regional Rural Bank
- Mutual Fund
- Company/ Body Corporate
- Others (please specify) –

INVESTMENT DETAILS

| | |
|--|---|
| Face Value/ Issue Price | Rs. 10,00,000/- (Rupees Ten Lacs Only) per Bond |
| Minimum Application | 1 Bond and in multiples of 1 Bond thereafter |
| Tenure | 115 Months |
| Coupon Rate | 7.40% p.a. |
| Interest Payment | Semi-Annually |
| Amount payable per Bond (i) | Rs. 10,00,000/- |
| No. of Bonds Applied For (ii) | |
| Total Amount Payable (Rs.) (in fig) (i) x (ii) | |

PAYMENT DETAILS

| | |
|----------------------|----------------|
| Total Amount Payable | |
| (Rs. in figures) | (Rs. in words) |
| | |

| | |
|--------------------------|--|
| Cheque/ Demand Draft No. | |
| Dated | |
| Drawn on | |
| Branch | |

SOLE/ FIRST APPLICANT'S BANK DETAILS (Ref. Instructions)

| | |
|-----------------|---|
| Bank Name | |
| Branch | |
| City | |
| Account Number | |
| Type of Account | <input type="checkbox"/> Savings <input type="checkbox"/> Current <input type="checkbox"/> Others |

INCOME TAX DETAILS (Ref. Instructions)

| | | | |
|---------------------------------|-----------------------|------------------|-----------------|
| P.A.N./ G.I.R. NO. | Sole/ First Applicant | Second Applicant | Third Applicant |
| | | | |
| I.T. Circle/ Ward/ District No. | | | |
| | | | |

TO BE FILLED IN ONLY IF THE APPLICANT IS AN INSTITUTION

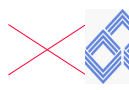
| Name of the Authorised Signatory(ies) | Designation | Signature |
|---------------------------------------|-------------|-----------|
| 1. | 1. | |
| 2. | 2. | |
| 3. | 3. | |
| 4. | 4. | |

DETAILS FOR ISSUE OF BONDS IN ELECTRONIC/ DEMATERIALIZED FORM

| | | |
|-------------------------------|-------------------------------|-------------------------------|
| Depository Name (please tick) | <input type="checkbox"/> NSDL | <input type="checkbox"/> CDSL |
| Depository Participant Name | | |
| DP-ID Number | | |
| Client-ID | | |
| Beneficiary Account Number | | |
| Name of the Applicant | | |

APPLICANT'S SIGNATURE(S)

| | |
|-----------------------|--|
| Sole/ First Applicant | |
| Second Applicant | |
| Third Applicant | |



INDIAN OVERSEAS BANK

Central Office: 763, Anna Salai, Chennai – 600 002.
Tel.: (044) 2851 9448/2841 5702 Fax.: 91-44-2852 3372.

(To be filled in by the Applicant)

Received from _____
Address _____
an application for _____ Bonds vide Cheque/ Demand Draft No. _____
Drawn on _____ Dated _____
amounting to Rs. _____

Note: Cheque(s) are subject to realisation.

ACKNOWLEDGEMENT SLIP

Application Form No. _____

All future communication in connection with this application should be addressed to the Registrars, Cameo Corporate Services Limited, "Subramanian Building" Vth Floor, 1, Club House Road, Chennai – 600 002 [Tel: (044) 28460390, 28460425; Fax: (044) 28460129] quoting full name of Sole/ First Applicant, Application No., Number of Bonds applied for, Date, Bank and Branch where the application was submitted and Cheque/ Demand Draft Number and Issuing Bank.

INSTRUCTIONS

1. Application forms must be completed in full in BLOCK LETTERS IN ENGLISH. A blank space must be left between two or more parts of the name.

| | | | | | | | | | | | | |
|---|---|---|---|---|--|---|---|---|---|---|---|---|
| A | B | C | D | E | | L | I | M | I | T | E | D |
|---|---|---|---|---|--|---|---|---|---|---|---|---|

2. Signatures should be made in English or in any of the Indian languages. Thumb impressions must be attested by an authorized official of a Bank or by a Magistrate / Notary Public under his/her official seal.
3. Application forms duly completed in all respects must be lodged at the Collection Centres mentioned here, before the closing of the subscription. Cheques(s) / Demand Draft(s) should be drawn in favour of **Indian Overseas Bank A/c Bond Issue – Series VIII** and crossed "A/c Payee" only. Cheques(s) / Demand draft(s) may be 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 centers indicated below.
4. Cash, outstation cheques, money orders, postal orders and stock invest will NOT be accepted.
5. As a matter of precaution against possible fraudulent encashment of interest warrants due to loss/misplacement, applicants are requested to mention the full particulars of their bank account, as specified in the Application Form. Interest warrants will then be made out in favour of the bank for credit to the applicant's account. In case the full particulars are not given, cheques/DDs will be issued in the name of the applicant at his/her risk.
6. Receipt of applications will be acknowledged by the Bank in the "Acknowledgment Slip", appearing below the Application Form. No separate receipt will be issued.
7. All applicants should mention their Permanent Account Number or the GIR number allotted under Income-Tax Act, 1961 and the Income –Tax Circle/Ward/District. In case where neither the PAN nor GIR number has been allotted, the fact of non-allotment should be mentioned in the application form in the space provided.
8. The application would be accepted as per the terms of the Scheme outlined in the Memorandum of Private Placement dated September 14, 2005.
9. The Bank, at all its branches will issue DEMAND DRAFTS, AT PAR, to the subscribers of the issue.
10. All communications will be addressed to the applicant whose name appears first in the application form.
11. Those desirous of claiming tax exemptions on interest on application money are compulsorily required to submit a certificate issued by the Income Tax Officer/relevant declaration forms (as per I.T.Act, 1961) along with the Application Form. In case the above documents are not enclosed with the application form, TDS will be deducted on interest on application money. For subsequent interest payments, such certificates have to be submitted periodically.
12. Applicant desirous of receiving bonds in dematerialized form should mention their Depository Participant's name, DP-ID and Beneficiary Account Number in the appropriate place in the Application Form. The Bank will take necessary steps to credit the Depository Account of the allottee(s) with the number of bonds allotted.
13. Applicants residing at places where no collection centres have been opened may submit/mail their applications at their sole risk along with the Application money due there unto by Demand Draft drawn on Chennai to be sent to Indian Overseas Bank, Investor relations Department, Central Office, 763, Anna Salai, Chennai – 600002 by super scribing the Cover, "Indian Overseas Bank -Tier II Bonds Issue. The Charges, if any, for purchase of Demand Drafts will have to be borne by the Applicant.
14. The applications can be submitted at the following designated branches of Indian Overseas Bank:

| Centre | Address of the Designated Branches of the Collecting Bankers | Tel Nos. |
|-----------|--|----------|
| New Delhi | Parliament Street Branch, Jeewan Deep Building, 10, Parliament Street, New Delhi – 110 001 | 23341421 |
| Mumbai | Nariman Point Branch, Bhaktawar, Nariman Point, Mumbai – 400 021 | 22040019 |
| Kolkata | International Business Branch, No. 2, Wood Street, Kolkata – 700 016 | 22801177 |
| Chennai | C & IC Branch, No. 98-A, Dr. Radhakrishnan Salai, Mylapore, Chennai – 600 004 | 28478633 |
| Hyderabad | Hyderabad Main Branch, 4-3-389 to 392 Bank Street, Sultan Bazar, Hyderabad – 500 001 | 24755324 |
| Bangalore | Bangalore City Branch, Sri Sailam, No. 7, Main Road, Gandhi Nagar, Bangalore – 560 009 | 22950228 |
| Ahmedabad | Ashram Road Branch, Opp. Handloom House, Ashram Road, Ahmedabad – 380 009 | 6589242 |