



make such adjustments in the basis of allotment, as may be necessary, in consultation with SEBI/BgSE, so that the issue does not exceed 110% of 11,00,00,000 equity shares.

6. In the event of oversubscription, the allotment shall be made on a proportionate basis as is outlined elsewhere in this Offer Document. For more details, please refer to the para on Basis of Allotment on page 14.
7. Only permanent/ regular employees including Wholetime Directors of the Bank as on the cut-off date i.e. March 31, 2002 would be eligible to apply in this Issue under reservation for employees on competitive basis. The maximum number of shares that a single applicant in the category reserved for employees can apply for is 1,000 shares. The number of permanent/ regular employees of the Bank as on March 31, 2002 is 47,796.
8. The unsubscribed portion, if any, out of the equity shares reserved for the employees of the Bank as above, will be added back to the Net Offer to the Public under above.
9. In case of under-subscription in the Net Offer to the Public portion, the excess subscription, if any, in the reserved category would spill over to the public portion.
10. No single applicant in the Net Offer to the Public category can make an application for a number of equity shares, which exceeds the net offer to the public.
11. A minimum 50% of the Net Offer to the Public will be made available for allotment in favour of those individual applicants who have applied for 1,000 equity shares or less. This percentage may be increased in consultation with the BgSE depending on the extent of the response to the Issue from investors in this category. The balance of the Net Offer to the Public shall be made available for the allotment to the investors, including Corporate Bodies, Institutions and individual applicants who apply for more than 1,000 shares. The unsubscribed portion of the net Issue to any one of the above two categories shall be made available to the applicants in the other category, if so required and allotment made on a proportionate basis as per the relevant SEBI guidelines.
12. The GoI/Directors/Lead Managers have not entered into any buy-back and/or standby arrangements for the purchase of the equity shares of the Bank with any person.
13. The Bank has not availed of and shall not avail of any Bridge Loan against the proceeds of this Issue.
14. The Bank undertakes that it shall not make any further issue of capital whether by way of issue of bonus shares, preferential allotment, rights issue or public issue or in any other manner, during the period commencing from the submission of Offer Document to SEBI for the public issue till the securities referred to in the Offer Document have been listed or application monies refunded on account of failure of the issue. As of date, the Bank does not propose to alter the capital structure by way of split/consolidation of the denomination of shares or issue of shares on preferential basis, or issue of bonus or rights or further public issue of shares or any other securities within a period of six months from the date of the opening of the present Issue.
15. GoI has not undertaken any transaction in the equity shares of the Bank in the last six months.

III. TERMS OF THE PRESENT ISSUE

The Bank is offering for public subscription through this Offer Document 11,00,00,000 equity shares of Rs10 each at a premium of Rs25 per share aggregating Rs385 crore. The equity shares are being offered subject, inter alia, to the terms of this Offer Document, the Application Forms, the provisions for listing as specified in the guidelines issued by the BgSE, BSE, NSE and the GoI from time to time, the terms and conditions stated in the allotment letters/ share certificates to be issued, the provisions of the Bank Nationalisation Act, the Banking Regulation Act, 1949, to the extent applicable, the provisions of the Companies Act, 1956 to the extent applicable, the letter dated August 29, 2002 of GoI, Ministry of Finance, Department of Economic Affairs (Banking Division) approving the Issue, the guidelines for Disclosure and Investor Protection issued by SEBI and the provisions of the Depository Act, 1996, to the extent applicable.

Rights of the Equity Shareholders

- (a) Right to receive dividend, if declared.
- (b) Right to attend general meetings and exercise voting powers, subject to the provisions of the law.
- (c) Right to vote either personally or by proxy, subject to Section 3 (2E) of the Bank Nationalisation Act.

Face Value of equity shares

Each equity share being offered will have a face value of Rs10.

Share Premium

Each equity share is being offered at a premium of Rs25 per share.

Ranking of equity shares

The equity shares, now being offered shall rank *pari passu* with the existing equity shares of the Bank in all respects save and except the following:

- as provided in 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 in excess of one percent of the total voting rights of all the shareholders of the Bank".

The equity shares to be issued shall rank *pari passu* with the existing equity shares of the Bank including dividend.

The investors are requested to refer to Section 15(1) of the Banking Regulation Act, 1949. As per the above Section, "No Banking company shall pay any dividend on its shares until all its capitalised expenses (including preliminary expenses, organisational expenses, share selling commission, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off". The Bank has got an exemption vide letter ref. F. No. 11/10/2002-BOA dated August 29, 2002 from GoI, Ministry of Finance, Department of Economic Affairs (Banking Division) from the provisions of the said Section 15(1) relating to the payment of dividend upto 31.03.2004.

Terms of Payment

Applications should be for a minimum of 100 equity shares and



in multiples of 100 equity shares thereafter. The full Issue price of Rs35 per share is payable on application.

Interest in case of delay in allotment/refunds

- (a) As far as possible, the allotment of the equity shares offered to the public shall be made within 30 days of closure of the public issue.
- (b) The Bank shall pay interest @15% per annum on the entire amount if the allotment letters/refund orders have not been dispatched to the applicants within 30 days from the date of the closure of the Issue. This interest will be paid from the 31st day from the closure of the Issue until the actual date of allotment. However no interest will be paid to those applying through Stockinvests for the delay in the dispatch of refund orders.

Transfer of shares

As per Section 3(2D) of the Bank Nationalisation Act, 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 on any branch of such company whether resident outside India or not, shall at any time hold or acquire by transfer or otherwise shares of the corresponding new bank so that such investment in aggregate exceed the percentage, not being more than twenty per cent of the paid-up capital as may be specified by the Central Government by notification in the Official Gazette.

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

PROCEDURE FOR APPLICATION AND MODE OF PAYMENT

Availability of Offer Document and Application Form

The Memorandum Form 2A containing the salient features of the Offer Document together with application forms and copies of this Offer Document may be obtained from the Lead Managers to the Issue, Brokers, Bankers to the Issue named herein, the collection centres of the Bankers to the Issue mentioned in the Application Form, the Head Office, Zonal Offices, Regional Offices and all designated branches of the Bank. The investors are advised to retain the copy of the Offer Document/Memorandum in Form 2A (abridged prospectus) for their future reference.

Application may be made by:

- (a) Indian Nationals resident in India who are Adult Individuals in single name or joint names (not more than three)
- (b) Hindu Undivided Families through the Karta of the Hindu Undivided Family
- (c) Companies, Bodies Corporate and Societies registered under the applicable laws in India and authorised to invest in shares
- (d) Scientific and/or Industrial Research Organisations, which are authorised to invest in shares
- (e) Indian Mutual Funds registered with SEBI
- (f) Indian Financial Institutions and Banks

- (g) Trusts who are registered under the Societies Registration Act, 1860 or any other applicable trust law and are authorised under their constitution to hold and invest in shares subject to the provisions of Section 3A of the Bank Nationalisation Act
- (h) Commercial Banks and Regional Rural Banks. Co-operative Banks may also apply subject to the permission from the Reserve Bank of India
- (i) Permanent and Regular employees of the Bank
- (j) Non - Resident Indians (NRIs), Overseas Corporate Bodies (OCBs) on a non-repatriation basis (in the public portion)

Applications not to be made by:

- 1. Minors
- 2. Foreign Nationals
- 3. Partnership firms or their nominees
- 4. Trusts (except as stated above)
- 5. HUFs (except as stated above)
- 6. NRIs and OCBs (except as stated above)
- 7. Foreign Institutional Investors (FIIs)

A single application can be made only for the number of equity shares that are being offered to each respective category.

Joint Applications in case of Individuals

Applications may be made in single or joint names (not more than three). In case of Joint Applications, refund, pay orders, dividend warrants etc. if any, will be drawn in favour of the first applicant and all communications will be addressed to the first applicant at his address as stated in the application form.

Multiple Applications

The application form shall contain space for indicating number of shares subscribed for in demat and physical form or both. No separate applications for demat and physical shares can be made. If such an application is made, the application for physical shares will be treated as multiple applications and rejected accordingly. An applicant should submit only one application form (and not more than one) for the total number of equity shares applied for. Two or more applications in single or joint names will be deemed to be multiple applications if the sole and/ or the first applicant is one and the same.

In case of applications by Mutual Funds, a separate application must be made in respect of each scheme of an Indian Mutual Fund registered with SEBI and such applications will not be treated as multiple applications, provided that the application made by Asset Management Companies/ Trustees/ Custodian clearly indicate their intention as to the scheme for which the related application has been made.

The Bank reserves the right to accept or reject, in its absolute discretion, any or all-multiple applications.

Applications made by permanent/ regular employees of the Bank both under the reserved category for employees as well as in the net public offer shall not be treated as multiple applications. A separate single cheque/ draft/ stockinvest must accompany each application form.



Applications under Power of Attorney or by Limited Companies

In case of applications under Powers of Attorney, or by Companies, Bodies Corporate, Societies registered under the applicable laws, trustees of trusts, Provident Funds, Superannuation Funds, Gratuity Funds and Scientific and/ or Industrial Research Organisations, a certified copy of the Power of Attorney or the relevant authority, as the case may be, must be lodged separately at the office of the Registrar to the Issue simultaneously with the submission of the application form, indicating the serial number of the application form and the name of the Bank and the branch office where the application is submitted.

PAN/GIR Number

Where an application is for a total value of Rs50,000 or more, i.e., 1,500 shares (depending on the issue price) or more, the applicant, or, in case of applications in joint names, each of the applicants should mention his/ her/ their Permanent Account Number (PAN) allotted under Income Tax Act, 1961 or where the same has not been allotted, the GIR Number and the IT Circle/ Ward/ District. In case where neither the PAN nor the GIR Number has been allotted, or the applicant is not assessed to Income Tax, the appropriate box provided for the purpose in the application form must be ticked. Applications without this requirement will be considered incomplete and are liable to be rejected.

Signatures

Thumb impressions and signatures other than in English/Hindi or any other language specified in the Schedule VIII to the Constitution of India, must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under his/ her official seal.

Nomination Facility

As per Section 109A of the Companies Act, 1956, only individuals applying as Sole Applicant/ Joint Applicant can nominate, in the prescribed manner, a person to whom his share in the Bank shall vest in the event of his death. Non-individuals including society, trust, body corporate, Karta of HUF, holder of power of attorney cannot nominate.

Other Application Details

- Applications must be made only on the prescribed Application Form and should be completed in BLOCK LETTERS in ENGLISH in accordance with the instructions contained herein and in the application form, and are liable to be rejected if not so made. The prescribed application forms will have the following colours -

Category	Colour of form
Indian Public	White
Employees	Pink

- Payments should be made by cash, stockinvest, cheque or demand draft drawn on any bank (including a co-operative bank) which is situated at and is a member of or sub-member of the bankers' clearing house located at the centre where the Application Form is submitted. **Outstation cheques/bank drafts will not be accepted and**

applications accompanied by such cheques or bank drafts are liable to be rejected. Money orders/Postal orders will not be accepted.

- All application forms duly completed together with cash/ cheque/demand draft/stockinvest for the application money payable must be delivered before the close of the Subscription List to any of the Bankers to the Issue named herein or to any of their branches mentioned in the Application Form and not to the Lead Managers or the Registrar to the Issue (except in the circumstances described in clause 6 herein below).
- A separate cheque/bank draft/stockinvest must accompany each Application Form. No receipt will be issued for the application money. However, the Bankers to the Issue will issue an acknowledgement by stamping and returning to the applicant the acknowledgement slip attached to the application form. The acknowledgement slip given by the Bankers shall be valid and binding on the Bank and others connected with the Issue.
- All cheques/bank drafts accompanying the application should be crossed "A/c Payee Only" and made payable to the Bankers to the Issue and marked:

Category of Application	Cheques/Bank drafts favouring
Resident Indian Public/ NRI without repatriation	"Canara Bank - A/c Canara Bank - Public Issue"
Employees	"Canara Bank - A/c Canara Bank - Employees"

- 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 thereunto by Demand Draft to the Registrar to the Issue at their Hyderabad address, superscribing the envelope "Canara Bank - Public Issue", so as to reach the Registrars to the Issue on or before the closure of the Subscription List. Such demand drafts should be payable at Hyderabad only. The charges, if any, for purchase of demand drafts will have to be borne by the applicant.
- Section 269SS of the Income Tax Act, 1961
Having regard to the provisions of Section 269SS of the Income Tax Act, 1961, the payment against an application should not be effected in cash if the amount payable together with any earlier outstanding loan or deposit placed with Canara Bank by the applicant is Rs20,000 or more. In case payment is effected in contravention of this, the applications are liable to be rejected without interest.
- In case of partial allotment, allotment will be done in demat option for the shares sought in demat and balance, if any, will be allotted in physical shares.

Payment by Stockinvest

Applicants, being Individuals and Mutual Funds only, have the option of using the "Stockinvest" instrument for payment of application money in lieu of cash/cheque/demand draft. Applicants using Stockinvests should submit them along with the application form to any of the collecting centres/ Bankers to the



Issue mentioned in the application form. Stockinvests should be payable at par at all the branches of the issuing bank and as such outstation Stockinvests can be attached to the application forms. Applicants can approach the banks concerned for obtaining Stockinvest and detailed instructions for the same.

The applicant has to fill in the following particulars:

1. Title of the Account as mentioned in the Application Form.
2. Number of equity shares applied for.
3. The amount paid on the equity shares applied for.

The applicant should thereafter sign the instrument. It should also bear the stamp of the bank issuing the instrument and should be crossed "A/C Payee Only" and made payable only to "Canara Bank". Service charges, if any, for issuing the Stockinvest must be borne by the applicant. The applicant should not fill in the portion to be filled up by the Registrar to the Issue (right-hand portion of the instrument). The Registrar to the Issue will fill up the right-hand portion of the Stockinvest indicating the equity shares allotted to the applicants, calculated as follows:

- i. In case of full allotment, the number of equity shares on the right-hand side will be the same as that on the left-hand side of the instrument;
- ii. In case of partial allotment, the number filled up by the Registrar to the Issue on the right-hand side of the instrument will be less than the number filled up by the applicant on the left-hand side;
- iii. In case the allotment is nil, the number filled up by the Registrar to the Issue on the right-hand side of the instrument will be nil.

The Stockinvest should be used by the Purchaser and the name of the Purchaser/one of the Purchasers should be indicated as the first applicant in the Application Form. Thus, if the signature of the Purchaser/one of the Purchasers on the Stockinvest and the signature of the first applicant in the application form do not tally, the application and the Stockinvest are liable to be rejected.

The Stockinvest instrument should be used by the Purchaser within 10 days from the date of the issue of the instrument, failing which such applications are liable to be rejected. For the purpose of calculating the 10 days, the last date for use of the Stockinvest for submitting the Application Form to the Bank is indicated on the face of the Stockinvest with a notation "to be used before _____".

No refund order will be issued to the applicants using Stockinvest for payment of application money. In case of non-allotment of equity shares, the cancelled Stockinvest instruments will be returned to the applicant, within 10 weeks of closure of subscription list by Registered Post/Speed Post. The applicant will have to approach the issuing bank branch for lifting the lien. The Registrar to the Issue has been authorised by the Bank (through Resolution of the Board of Directors) to sign the Stockinvests on behalf of the Bank, to realise the proceeds of the Stockinvest from the issuing bank, or to affix non-allotment advice on the instrument, or to cancel the Stockinvest(s) of the non-allottee. Such cancelled Stockinvest(s) shall be sent back by the Registrar directly to the investors. The currency of the Stockinvest is four months.

Reserve Bank of India, by its circular DBOD No. FSC.BC.100/24.47.001/94 dated September 2, 1994, has restricted the use of Stockinvest(s) to individual investors and Mutual Funds only. Brokers, Corporate Bodies, Banks and Financial Institutions are not allowed to invest through Stockinvest(s). A ceiling of Rs50,000 per individual per Stockinvest by Banks has been imposed. The above ceiling is not applicable to Mutual Funds.

In the interest of the investors, to avoid rejection of applications on technical grounds, it is suggested that the applicant should ensure that

- The date of issue of the Stockinvest by the issuing bank is clearly mentioned on the instrument
- The instrument is duly signed by the authorised officer of the bank giving his code number
- The instrument bears the code number and the address of the issuing bank branch
- Any correction/ alteration in the date of issue, amount, the name of the issuer, etc. should be attested by an authorised officer of the issuing bank
- The applicant has clearly written the name of the issuer, the amount and signed the instrument
- Amount written in the application form to be deposited and the amount of the instrument accompanying the application form should be the same

Note: The above information is given for the benefit of investors and the Bank is not liable for any modification in the terms of the Stockinvest or procedure thereof by the issuing bank.

Particulars of Bank Account

All the applicants, including applicants with Stockinvest, should mention particulars relating to Savings Bank/Current Account number and the name of the bank and branch with whom such account is held in the appropriate place in the application form to enable the Registrar to print the said details in the refund orders after the name of the payee. **Please note that it is mandatory to provide the aforementioned details. Applications without these details would be treated as incomplete and applications are liable to be rejected.**

Note

Applicants are requested to write their names and application serial number on the reverse of the instruments by which the payments are being made to avoid misuse of instruments submitted along with the applications for equity shares.

Applications by NRIs/OCBs on non-repatriation basis can be made using the Form meant for the public out of the funds held in Non Resident (Ordinary) Account (NRO). The relevant bank certificate must accompany such forms. Such applications will be treated at par with the applications made by the public. For further instructions, please read the Application Form carefully.

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. No interest will be payable on the application money so refunded. 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 for amounts above Rs1,500 and by Certificate of Posting otherwise. Such refund orders 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.

OVERSUBSCRIPTION AND BASIS OF ALLOTMENT

In the event of the present Issue of equity shares being oversubscribed, the basis of allotment will be finalised by the Bank in consultation with BgSE in accordance with SEBI Guidelines.

If the proportionate allotment to an applicant works out to a number that is more than 100 but is not a multiple of 100 (which is the marketable lot), the number in excess of the multiple of 100 would be rounded off to the higher multiple of 100 if that number is 50 or higher. If that number is lower than 50, it would be rounded off to the lower multiple of 100. In the event of oversubscription, in the process of rounding off, to ensure marketable lots, the Bank will make adjustments in the basis of allotment as may be necessary in consultation with SEBI/BgSE, such that the Issue does not exceed 110% of 11,00,00,000 equity shares.

A minimum 50% of the net Issue to the Indian public will be made available for allotment in favour of those individual applicants who have applied for 1,000 equity shares or less. This percentage may be increased in consultation with the Regional Stock Exchange depending on the extent of response to the Issue from investors in this category. In case allotments are made to a lesser extent than 50% because of lower subscription in the above category, the balance equity shares would be added to the higher category and allotment made on a proportionate basis as per the relevant SEBI Guidelines.

INTEREST ON EXCESS APPLICATION MONEY

Payment of interest at the rate of 15% per annum on excess application money will be made to the applicants for the delayed period, if any, where allotment of equity shares and issuance of Refund Orders take place beyond 30 days from the date of closure of the Issue.

DISPUTES

Any disputes arising out of this Issue will be subject to the jurisdiction of appropriate court(s).

DEMATERIALISATION

The equity shares of the Bank have been admitted for dematerialisation by National Securities Depository Ltd. (NSDL), under a tripartite agreement dated September 23, 2002 signed between the Bank, NSDL and Karvy Consultants Ltd., the Registrar to the Issue, to enable all shareholders of the Bank to have their shareholding in electronic form. The Bank has also

entered into a tripartite agreement with Central Depository Services (India) Ltd. (CDSL) and Karvy Consultants Ltd., dated September 23, 2002, for dematerialisation of its shares.

- An applicant has the option of seeking allotment of Equity Shares in electronic or in physical mode.
- Separate applications for electronic and physical shares by the same applicant shall be considered as multiple applications.
- The applicant seeking allotment of shares in the electronic form must necessarily fill in the details (including the beneficiary account no. and Depository Participant's ID no.) appearing under the heading 'request for shares in electronic form'.
- An applicant who wishes to apply for shares in the electronic form must have at least one beneficiary account with any of the Depository Participants (DPs) i.e. of NSDL or of CDSL, registered with SEBI, prior to making the application.
- Shares allotted to an applicant in the electronic account will be credited directly to the respective beneficiary accounts (with the DP).
- For subscription in electronic form, names in the share application form should be identical to those appearing in the account details in the depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the depository.
- Non-transferable allotment letters/ refund orders will be directly sent to the applicant by the Registrar to this Issue.
- Incomplete/ incorrect details given under the heading 'Request for shares in electronic form' in the application form will be assumed as an application for shareholding in physical form.
- The applicant is responsible for the correctness of the applicant's demographic details given in the application form vis-à-vis those with his/ her DP.
- It may be noted that the electronic shares can be traded only on the Stock Exchanges having electronic connectivity with NSDL and CDSL.
- One time cost of dematerialisation of shares shall be borne by the Bank. The one time cost refers to demat charges for the shares opted for in this Issue by an investor in electronic form. Subsequent charges for dematerialisation of physical shares held by the investors shall be borne by the investor.
- In case of partial allotment, allotment will be done in demat option for the shares sought in demat form and balance, if any, will be allotted in physical form.



INVESTORS MAY NOTE THAT, AS PER EXISTANT SEBI GUIDELINES, TRADING IN THE SECURITIES SHALL BE IN DEMATERIALIZED FORM ONLY.

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 all stock exchanges where the securities are to be listed within 7 working days of finalisation of basis of allotment;
- c) to apply in advance for the listing of equities;
- d) that the funds required for despatch of refund orders/ allotment letters/ certificates by registered post shall be made available to the Registrar to the Issue by the Bank;
- e) that the certificates of the securities/refund orders to the applicants shall be despatched 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, undersubscription, etc.

UTILISATION OF ISSUE PROCEEDS

The Board of Directors undertakes that

- a) all monies received out of Issue of shares to public shall be transferred to separate bank accounts other than the bank account referred to in sub-section (3) of section 73 of the Companies Act, 1956;
- b) details of all monies utilised out of the Issue referred to in sub-item (a) shall be disclosed under an appropriate separate head in the Balance Sheet of the Bank indicating the purpose for which such monies had been utilised;
- c) details of all unutilised monies out of the Issue of shares, if any, referred to in sub-item (a) shall be disclosed under an appropriate separate head in the Balance Sheet of the Bank indicating the form in which such unutilised monies have been invested;
- d) the utilisation of monies received under reservations shall be disclosed under an appropriate head in the Balance Sheet of the Bank indicating the purpose for which such monies have been utilised;
- e) details of all unutilised monies out of funds received under reservations shall be disclosed under an appropriate separate head in the Balance Sheet of the Bank indicating the form in which such unutilised monies have been invested.

TAX BENEFITS

M/s. P. L. Mittal & Co, M/s. Suresh Chandra & Associates, M/s. R. G. N. Price & Co., M/s. N. Sankaran & Co., M/s. S. Bhandari & Co. and M/s. R. K. Kumar & Co., have advised vide their letter dated August 31, 2002 that under the current tax laws, the following tax benefits will be available to the Bank and prospective shareholders under direct tax laws.

Statement of Tax Benefits Available Under The Current Tax Laws

I. TO THE BANK

1. Under Section 10(23G) of the Income Tax Act, 1961 any income by way of dividends, 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 shares 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.

2. Under Section 36(1)(viii) 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% of the amount of such assets as appearing in the books of the Bank on the last day of previous year.

3. Apart from the deduction available under Section 36(1)(viii) 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 of such debt or part thereof, which exceeds the credit balance in the provision for bad and doubtful debts account made under Section 36(1)(viii) and subject to the compliance of provisions of Section 36(2)(v).

4. 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.



5. 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. In respect of long term capital gains arising from the transfer of listed securities or unit, tax shall be chargeable at 10% of the amount of capital gains plus applicable surcharge before giving effect to provisions of second proviso to Section 48 i.e., without indexing the cost of acquisition, if the Bank opts for.

6. 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.

7. 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 shares 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.

8. Under Section 80M of the Income Tax Act where the gross total income of the Bank in any previous year includes any income by way of dividends from a domestic company, there shall be allowed, in computing the total income of the Bank, a deduction of an amount equal to so much of the amount of income by way of dividends from another domestic company as does not exceed the amount of dividend distributed by the Bank on or before the due date of furnishing the return of income.

II. BENEFITS AVAILABLE TO THE SHAREHOLDERS OF THE BANK

1. Under Section 54EC of the Income Tax Act, exemption from capital gains tax is available in respect of long term capital gains arising on transfer of the shares 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.

2. As per Section 54ED of the Income Tax Act, long term capital gains arising from transfer of shares of the Bank on its shares being listed, is fully exempt from tax if the assessee invests within a period of six months from the date of transfer, the whole of the capital gains in acquiring equity shares 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 conditions specified in that Section.

3. 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 shares 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 80L of the Income Tax Act, where the gross total income of an individual or HUF includes income by way of dividends paid by the Bank, a deduction:

a. in a case where the amount of such income does not exceed in the aggregate nine thousand rupees, the whole of such amount;

b. in any other case, nine thousand rupees would be allowed in computing the Total Income.

5. Under Section 112 of the Income Tax Act, where the Total Income of any assessee includes any long term capital gains on transfer of shares of the Bank, same is subject to concessional rate of tax at 20% plus applicable surcharge 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 tax payable in respect of any such long term capital gains exceeds 10% of the amount of capital gains arrived at without indexing the cost, the capital gains is charged at 10% plus applicable surcharge.

6. No Wealth Tax is payable in respect of investments in shares of the Bank.

III. BENEFITS AVAILABLE TO NON-RESIDENT INDIAN SHAREHOLDERS OF THE BANK:

1. Under Section 48 of the Income Tax Act, capital gains arising on transfer of the shares of the Bank is computed by converting the Cost of Acquisition etc. and the full value of the consideration of the transfer of share into the same foreign currency as was initially utilized in the purchase of the shares and the capital gains so computed in such foreign currency shall be reconverted into Indian Currency. Further the aforesaid manner of computation of capital gains shall be applicable in respect of capital gains accruing or arising from every re-investment thereafter in, and sale of, shares in, or debentures of, an Indian company.

2. As per the provisions of Section 115I of the Income Tax Act, Non-Resident Indians have an option to be governed by the Chapter XIA of the Income Tax Act according to which :

a. Under Section 115E of the Income Tax Act, the long term capital gains on transfer of shares of the Bank acquired by the Non-Resident Indian out of convertible foreign exchange (without aggregating any other



taxable income earned in India which will be taxed separately) shall be taxed @ 10% plus applicable surcharge.

- b. Under Section 115F of the Income Tax Act, the long term capital gains on sale of shares acquired by the Non-Resident Indian out of the convertible foreign exchange shall be exempt from income tax entirely / proportionately, if the entire / part of the net consideration is invested for a period of three years in any savings certificates specified under Section 10(4B) or specified assets as defined in Section 115C within 6 months from the date of transfer.
 - c. Under Section 115G of the Income Tax Act, a Non-Resident Indian is not required to file a return of income under Section 139(1) of the Act, if his total income consisted only of investment income and / or long term capital gains arising from investment in the shares and tax deductible at source has been deducted there from.
 - d. Under Section 115H of the Income Tax Act, where the Non-Resident Indian becomes assessable as a Resident in India along with his return of income for that year, he may furnish a declaration in writing to the Assessing Officer under Section 139 of Income Tax to the effect that the provisions of the Chapter XIIA shall continue to apply to him in relation to income derived from shares of the Bank for that year and subsequent years until such assets are converted into money.
3. As per the provisions of Section 115I of Income Tax Act, a non-resident Indian may elect not to be governed by the provisions of Chapter XIIA for any assessment year by furnishing his return of income for that assessment year under Section 139 of the Act, declaring therein that the provisions of Chapter XIIA shall not apply to him for that assessment year and accordingly his total income for that assessment year will be computed in accordance with the other provisions of the Act.

IV. BENEFITS AVAILABLE TO FOREIGN COMPANIES AND FOREIGN INSTITUTIONAL INVESTORS (FII)

1. Under Section 48 of the Income Tax Act, capital gains arising on transfer of shares of the Bank will be exempt in such manner as set out in para (1) of part III above.
2. Under Section 54EC of the Income Tax Act, long term capital gains arising from transfer of shares of the Bank is exempt as set out in para (1) of part II above subject to the extent and conditions mentioned therein.
3. Under Section 115A of the Income Tax Act, where the total income of a foreign company includes dividend from Investments in shares of the Bank, the rate of Income tax shall be chargeable at 20% plus applicable surcharge.
4. Under Section 115AD of the Income Tax Act, where the total income of FIIs includes income by way of dividend from investments in shares of the Bank or income by way of short term or long term capital gains arising from transfer of such shares, Income Tax will be payable at 20% on dividend income, 30% on short term capital gains and 10% on long term capital gains plus applicable surcharge.

V. BENEFITS AVAILABLE TO MUTUAL FUNDS

As per the provisions of Section 10(23D) of the Act, dividend income from Investments in shares of the Bank or income by way of short term or long term capital gains arising from transfer of such shares earned by Mutual Funds registered under the Securities and Exchange Board of India Act, 1992 or Regulations made 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.