



PROSPECTUS

# CANARA BANK

(Wholly owned by Government of India)

Constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970

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**Public Issue of 11,00,00,000 equity shares of Rs10 each for cash at a premium of Rs25 per share  
(at an issue price of Rs35 per share) aggregating Rs385 crore**

## RISKS IN RELATION TO FIRST ISSUE

This being the first issue of equity shares of Canara Bank, there has been no formal market for the equity shares of the Bank. The Issue Price (as has been determined and justified by the Lead Managers and the Issuer as stated under "Basis of Issue Price" paragraph page 51 should not be taken to be indicative of the market price of the equity shares after the equity shares are listed. No assurance can be given regarding an active or sustained trading in the equity shares of the Bank or regarding the price at which the equity shares will be traded after listing.

## GENERAL RISKS

Investments in equity and equity related securities involve a degree of risk and investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Issuer and the Issue including the risks involved. The securities have not been recommended or approved by Securities and Exchange Board of India (SEBI) nor does SEBI guarantee the accuracy or adequacy of this Document.

The attention of investors is drawn to the statement of Risk Factors appearing on page (i) of the Offer Document.

## ISSUER'S ABSOLUTE RESPONSIBILITY

The Issuer, having made all reasonable inquiries, accepts responsibility for, and confirms that this Offer Document 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 Offer Document 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.

## LISTING

The equity shares are proposed to be listed on the Bangalore Stock Exchange, ('BgSE' or the 'Regional Stock Exchange'), the Stock Exchange, Mumbai ('BSE') and the National Stock Exchange of India Ltd. ('NSE'). The 'in-principle' approvals for listing from the BgSE, BSE and NSE have been received on September 11, 2002, September 19, 2002 and September 19, 2002 respectively.

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## DEFINITIONS/ABBREVIATIONS

ALCO	Asset-Liability Management Committee
AS	Accounting Standard
BKL	Bank of Karad Ltd.
BgSE/Regional Stock Exchange	The Bangalore Stock Exchange Ltd.
BIS	Bank for International Settlements
BSE	The Stock Exchange, Mumbai
CAGR	Compounded Annual Growth Rate
CANFINA	Canbank Financial Services Ltd.
CAR	Capital Adequacy Ratio
CBDT	Central Board of Direct Taxes
CCSL	Canbank Computer Services Ltd.
CDSL	Central Depository Services (India) Ltd.
CIMS	Canbank Investment Management Services Ltd.
CMD	Chairman & Managing Director
CRAR	Capital to Risk Assets Ratio
CRISIL	The Credit Rating Information Services of India Ltd.
CRR	Cash Reserve Ratio
CVCFL	Canbank Venture Capital Fund Ltd.
DP	Depository Participant
ECGC	Export Credit Guarantee Corporation of India Ltd.
FBG	Foreign Bank Guarantee
FCNR (B)	Foreign Currency Non Resident (Banks)
FEDAI	Foreign Exchange Dealers Association of India
FIMMDA	Fixed Income, Money Markets and Derivatives Association
FLC	Foreign Letter of Credit
FY	Financial Year
GoI	Government of India/ Central Government
GSTCL	Gilt Securities Trading Corporation Ltd.
ICRA	ICRA Ltd.
Issue/Offer	Public Issue of 11,00,00,000 equity shares of Rs10 each for cash at a premium of Rs25 per share aggregating Rs385 crore
LIBOR	London Inter Bank Offered Rate
MoF	Ministry of Finance
NDTL	Net Demand and Time Liabilities
NPA	Non-Performing Assets
NRI	Non Resident Indians
NSDL	National Securities Depository Ltd.
NSE	The National Stock Exchange of India Ltd.
OCBs	Overseas Corporate Bodies
Offer Document/Prospectus	This Prospectus dated September 27, 2002
PDAI	Primary Dealers Association of India
PwC	PriceWaterhouse Coopers
RBI	Reserve Bank of India
RRBs	Regional Rural Banks
SCBs	Scheduled Commercial Banks
SEBI	Securities and Exchange Board of India
SLR	Statutory Liquidity Ratio
SWIFT	Society for Worldwide Interbank Financial Telecommunications
The Bank	Canara Bank
The Bank	The Banking Companies (Acquisition
Nationalisation Act	and Transfer of Undertakings) Act, 1970 as amended from time to time
The Board	The Board of Directors of the Bank
The BR Act	The Banking Regulation Act, 1949 as amended from time to time
The Companies Act	The Companies Act, 1956
The IT Act	The Income Tax Act, 1961
USD/\$	United States Dollar – currency of the USA
YOY	Year-on-year
YTM	Yield-to-maturity

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## RISK FACTORS AND MANAGEMENT PERCEPTION THEREOF

The investors should carefully consider the following risk factors as well as the other details and information contained in this Offer Document in evaluating the Bank and its business before investing in the shares offered by this Offer Document.

### Internal to the Bank

1. The Janakiraman Committee ('JRC') / Joint Parliamentary Committee ('JPC') Reports had highlighted the various irregularities committed by banks and financial institutions etc., in their securities transactions in the six reports submitted during the period May 1992 to December 1993. One of the subsidiary companies viz. Canbank Financial Services Ltd. ('CANFINA') and Canbank Mutual Fund ('CMF') have been commented upon in the JRC / JPC Reports, on account of certain transactions which they had entered into and certain irregularities noticed in their functioning. The Reports include observations of the Committees in respect of transactions undertaken and irregularities observed in the functioning of Canara Bank, CANFINA and CMF. In respect of CANFINA's operations, the Committees noted that CANFINA had violated RBI guidelines in relation to its Portfolio Management Services ('PMS') / Corporate Investment Advisory Services ('CIAS') operations. The Committees also witnessed a lack of monitoring and internal control system in CANFINA. In respect of CMF, the Committees have indicated that CMF had violated guidelines issued by RBI and Controller of Capital Issues relating to secondary and money market operations, investments in the primary market and arms length relationship between sponsors, subsidiaries and the mutual fund. It was also noted that a majority of secondary market operations of CMF had been carried out through a few brokers. For further details, please refer to page 44 of the Offer Document.

### Management Perception

Litigation involving CANFINA / CMF and others mentioned in JRC / JPC Reports is at various stages before Courts awaiting final decision.

2. There are no disputes / claims against Canara Bank in respect of the findings of the JPC/JRC Reports even though the Bank figures in the JPC / JRC Reports. However, Canara Bank has been

impleaded as one of the defendants in the petition filed by State Bank of Saurashtra ('SBS') in respect of collection of bankers cheque issued by SBS representing the payment of Rs79.7 crore payable to CANFINA and collected by the Bank as per regular arrangement. The case is pending in the Special Court. The claim amount in respect of this case is Rs137.04 crore.

### Management Perception

Canara Bank has filed a written statement explaining its position.

- 3 As on March 31, 2002, the net NPAs of the Bank stood at 3.89% of Net Advances. The absolute amount of the net NPAs as at the end of March, 2002 stood at Rs1,288.39 crores. For more details, please refer to para on Recovery Management on page 28.

### Management Perception

The Bank has successfully reduced its net NPAs from 7.52% in FY1998 to 3.89% in FY2002. At 3.89%, the Bank has one of the lowest NPA levels in the domestic banking industry. Steps are taken on a continuous basis to control the level of NPAs and ensure recovery of the existing bad loans. The Bank has formulated a Recovery Policy with built in mechanism to settle NPAs by compromise as well. The Bank has a set up a Recovery Wing at its Head Office headed by a general manager and nominated executives at circle offices and regional offices for continuous monitoring of the accounts and accelerating recovery process.

- 4 On 13.01.2000, Canbank Mutual Fund was referred to adjudication for making inadequate disclosure in abridged offer document of Canpep'93 (converted) scheme. In the adjudication order (dated 10/11/2000) passed by the Adjudication Officer, a penalty of Rs.3,00,000/- was levied against the AMC of Canbank Mutual Fund, Canbank Investment Management Services Ltd. Warning and deficiency letters were issued on 16.06.1999 and 12.12.2000 to the fund on the basis of the inspection report for the years 1996-97, 1997-98 and 1998-99. The Mutual Fund has also been issued a warning letter for violating the advertisement code for its Canpep'93 scheme on 31.01.2000.

### Management Perception

The Company has paid the penalty of Rs3.00 lakh on May 3, 2001.





- 5 Contingent liabilities of the Bank as at March 31, 2002 aggregated to Rs36,024.26 crores which includes Rs445.57 crores pertaining to claims against the Bank not acknowledged as debt, Rs26,894.73 crores pertaining to outstanding Forward Exchange contracts and Rs5,471.46 crore pertaining to Guarantees given by the Bank on behalf of its constituents.

#### **Management Perception**

The contingent liabilities have arisen in the ordinary course of business of the Bank.

- 6 Contingent liabilities of the Bank include disputed income tax and interest tax demands against the Bank under appeals, references, etc. amounting to Rs187.35 crore, which have not been provided for. For more details, please refer to the para on 'Outstanding litigation, default and material developments on page 53.

#### **Management Perception**

The Bank has contested the above mentioned claims. The Bank has disclosed the disputed amount as contingent liability and has not provided for the same as legally advised.

- 7 The Bank has an Asset Liability mismatch as on March 31, 2002. The maturity mismatch exists for the term of 1 to 3 years and over 5 years to the tune of 35.61% and 1.90% involving a total outflow of Rs7,281.57 crore and Rs383.17 crore respectively. The funding of the Bank is primarily short term and medium term deposits and as such if the depositors do not roll over the funds upon maturity, the business of the Bank could be affected. For more details kindly refer to para on Asset Liability management on page 31.

#### **Management Perception**

As on March 31, 2002, 65.25% of Bank deposit liabilities consisted of Term deposits. 41.17% of the term deposits mature within 1 to 3 years and 50.02% of the term deposits have a maturity period of upto 1 year. The Bank has put in place a two-tier Asset-Liability Management system comprising the 'ALCO Main Committee' and the 'ALCO Subcommittee' which periodically aggregate and review the maturity profiles of the assets and liabilities through the Bank's ALM Information system.

- 8 The increase in net profits of the Bank in the FY2002 from Rs285 crore to Rs741 crore (a growth

of 260%) is largely due to growth in profit on sale of investments from Rs201 crore in FY2001 to Rs663 crore (a growth of 330%), which may not be sustainable in future years.

#### **Management Perception**

Apart from profit on sale of investments, which are derived from active market operations and sustainability depending on market conditions, the Bank has also embarked on its strategy to diversify its income streams through new products and services. The Bank has identified retail lending as a key growth area to maintain its growth trend in advances and augment income. The Bank also proposes to increase its non-interest income through a greater focus on areas such as forex trading, retailing in Government securities and distribution of insurance products (when permitted under the applicable laws) in addition to sustaining the normal growth in its advances portfolio.

- 9 The Annual Financial Inspection ('AFI') Report of Reserve Bank of India on the position of the Bank as on March 31, 2001 has pointed out certain deficiencies in credit appraisal, credit risk rating, credit supervision, income recognition, provisioning as well as other operational matters.

#### **Management Perception**

The Bank has appraised RBI of the remedial measures taken, systems introduced and those under implementation. There are no material deficiencies in respect to the Bank in the AFI Report for FY2001.

- 10 (A) Outstanding litigation/disputes against Canara Bank:
- (i) As on March 31, 2002 there are 734 cases of litigation/disputes outstanding against the Bank with the monetary claims totaling to Rs270.04 crore in respect of securities laws, cases under criminal laws, with statutory authorities, civil suits, cases in consumer courts, writ petitions, complaints to Banking Ombudsman.
  - (ii) As on March 31, 2002 there were 486 cases involving litigation filed by employees/ex-employees before various Courts/Tribunals/Authorities. The Bank has not made any provision in this regard.





(B) There are cases of civil suits, criminal cases and cases in consumer courts outstanding against Canara Bank' subsidiaries and co-promoted/sponsored institutions:

- (a) CANFINA
- (b) Canbank Investment Management Services Ltd. ('CIMS')
- (c) Canbank Mutual Fund
- (i) Canstar, a close-ended scheme, floated in August, 1990, provided for repurchase facility at minimum specified repurchase price on completion of 3 years from date of allotment. However, the fund faced problem in meeting the repurchase commitment and from the 6<sup>th</sup> year (1997), the trustees suspended the repurchase of Canstar units. Canara bank, the sponsors of the fund came out with an offer and acquired most of the units at Rs23 per unit leaving only 3.78% units to other unit holders. A writ petition on the subject was filed by some investors/investor association before the High Court of Allahabad. Further, trustees have decided to terminate Canstar scheme on completion of 10 years and paid the unit holders the minimum repurchase price of Rs40 per unit on surrender of units as promised in the offer document.
- (ii) A criminal complaint has been filled by one Mr. Kiran Chand Lunawat on November 8, 1995 in the Court of the Metropolitan Magistrate, Calcutta against the then trustees of the Mutual Fund and the Managing Director, Executive Director of CIMS, the AMC, concerning repurchase facility of Canstar units and the same is pending. At the instance of the Fund, the proceedings have been stayed by the Hon'ble Calcutta High Court.
- (iii) Two civil suits are pending before the City Civil Court, Bangalore claiming Rs22,461.0 as compensation and interest in Canstar scheme, offered by Canbank Mutual Fund. Cases are also pending before various consumer fora alleging deficiency of services by Canbank Investment Management Services Ltd., the RTA

agents, and also concerning suspension of repurchase facility under Canstar scheme. These cases are at various stages of hearing/appeal.

- (iv) The Cantriple scheme of Canbank Mutual Fund was launched in 1991 indicating a minimum return of 3 times of the face value at the end of 90 months from the date of allotment (June 1999). However, Canbank Mutual Fund has taken a stance that there was no commitment of paying 3 times of the face value and there was only an indication in the offer document in this regard. The scheme was converted into an open ended scheme in June 1999. One investor has moved the Honourable High Court of Mumbai (petition no. 1401 of 1999) on the issue and the decision is awaited. However, SEBI has directed Canbank Mutual Fund to write to the unit holders of the scheme, giving them an option to choose between conversion or redemption of their units. Canbank Mutual Fund has also been directed to mention clearly in the letter to the unit holders that the decision of the court in the matter of pricing would be final.
- (v) Canbank Mutual Fund is involved in 4 cases before the Special Court for the claims arising out of the scam provided transactions.
- (vi) One of the employees of Canbank Investment Management Services Ltd. has been held guilty of contempt of court by the Special Court constituted under the Special Court (Trial of Offences Relating to Transactions in Securities) Act, 1992 at Mumbai, during the course of evidence in the case filed against Canbank Mutual Fund in Canstar scheme. The matter is pending in the Supreme Court.
- (vii) As per the inspection report of SEBI for the period October 1, 2001 to March 31, 2002, in Canexpo Scheme, investment was made in Infosys Technologies Ltd. in excess of the 10% limit prescribed under Clause 10 of the seventh schedule to the SEBI (Mutual Funds) Regulations, 1996 for which a warning letter has been issued.





For further details please refer to the para on 'Outstanding litigation, default and material developments' on page 53.

#### **Management Perception**

The Bank/subsidiaries/associate companies as applicable have taken steps as legally advised. The Bank has been legally advised that the outcome of the litigation/disputes against the Bank as stated above will not have a material impact on the Bank.

- 11 The Bank faces credit risk, which involves inability or unwillingness of a customer or counter part to meet the commitments in relation to lending, trading, hedging, settlement, and other financial transactions.

#### **Management Perception**

The Bank has constituted a separate Risk Management Wing to manage the various risks involved in the banking business including credit risk. The Bank has also engaged the services of PriceWaterhouse Coopers, consultants to assist the Bank for implementation of Integrated Risk Management System. The Bank has also adopted a Credit Risk Rating Model developed by CRISIL to risk rate high value credits. For full details, please refer to page 24 on 'Loan Policy and Lending Activities'.

- 12 The Securities Exchange Board of India (SEBI) has awarded two penalty points against the Bank for certain discrepancies observed in connection with Bank's Merchant Banking Activities in the year 1995. For more details, please refer to the para on 'Outstanding litigation, defaults and material developments' on page 53.

#### **Management Perception**

One penalty point each was imposed on the Bank for delay in filing the copies of Prospectus/Letter of Offer with SEBI in the case of two public issues in 1995. The Bank has taken measures to streamline the merchant banking activities.

- 13 Two Branches of the Bank were deauthorised by SEBI to act as collecting Bankers for Public/Rights issues for three months during the year 2000 for violation of Bankers to the Issue guidelines of SEBI. For more details please refer to the para on 'Outstanding litigation, defaults and material developments' on page 53.

#### **Management Perception**

The de-authorisation of two branches from acting as Bankers to Public Issues has expired in June 2000. The Bank has taken measures to streamline the working of branches as Bankers to Public Issues.

- 14 The Verma Committee, which carried out a study on the banking sector, 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, Canara Bank was classified in 'Category 3', indicating compliance with CAR and non-compliance with one or two of the remaining parameters for the year 1999. The Bank did not comply with the benchmark for Return on Assets. For additional details please refer page 49.

#### **Management Perception**

The report pertained to years 1998 and 1999. The Bank has shown an improvement in performance in 1999 over 1998 as per the classification. Additionally, the Committee has commented that the Bank is fairly well placed to identify weaknesses through internal strategies. The Bank has since improved its 'Return on Assets' ratio to 1.03% for the year 2002 (0.47% for the year 1999).

- 15 The Bank could not achieve the stipulation of the export target of 12% of net bank credit as per RBI directives for FY2002.

#### **Management Perception**

The Bank has met 92.93% of the export target for FY2002. RBI has not taken any action, levied any penalty or given any adverse remark.

- 16 Servicing obligations of CANFINA include principal and interest repayments in respect of settlements reached with three PSU companies – HUDCO, IRFC and NPC. The Bank envisages a shortfall to the tune of Rs638.66 crore on part of CANFINA in servicing such obligations over the period FY2002-06. For full details, please refer to page 44 under the heading "Canara Bank's Support to CANFINA".

#### **Management Perception**

The Bank has already made a provision of Rs432 crore as at March 31, 2002 for meeting the envisaged shortfall in servicing the dues of three PSUs. As per the settlement terms, the balance





short fall of Rs 219.41 crore will be provided over a period of 4 years upto FY2006 in line with the repayment terms as agreed upon.

- 17 CANFINA has incurred a net loss of Rs48.23 crore for FY2002 and has accumulated losses of Rs720.84 crore as at the end of FY2002. The Networth of CANFINA has turned negative and was Rs690.84 crore for FY2002. The auditors of CANFINA have expressed doubts regarding the 'going concern status' of the company in their audit report for FY2002.

#### **Management Perception**

The Bank has made 100% provision against its equity investment of Rs20.0 crore in CANFINA. The negative networth of Rs690.84 crore is represented by Asset Deficit Account amounting to Rs243.08 crore and Profit & loss account of Rs477.76 crore (less share capital of Rs30 crore) of which Rs432 crore has been provided. The balance provision of Rs258.84 crore, as per the terms of the settlement, will be made to meet the shortfall in the next four years.

- 18 Securities purchased by Canara Bank from CANFINA include bonds of two PSUs – MTNL and PGCIL, where the Bank is not in possession of the securities and disputes between CANFINA and the two PSUs are unresolved. The book value of the securities is Rs194.35 crore. For full details, please refer page 44 under the heading "Canara Bank's Support to CANFINA".

#### **Management Perception**

The Bank holds other securities of CANFINA whose value, as at March 31, 2002 was Rs176.85 crore. These securities are either registered in the name of the Bank or are held under a lien. The Bank has provided fully for the balance shortfall of Rs17.50 crores. The Bank is pursuing with the two PSUs for recovery of the amount relating to the Bonds issued by the said PSUs.

- 19 As part of CANFINA's involvement in the 1992 securities scam, charges were imposed against the company and its then officials, against whom action is taken/ charge sheet is filed by CBI. In two such charge sheets, two officials have been convicted and sentenced.

#### **Management Perception**

CANFINA had dismissed the two officials after holding departmental enquiries.

- 20 Contingent liabilities of the Bank's subsidiary CANFINA aggregated at Rs283.31 crore as at March 31, 2002, comprising claims of Rs282.81 crore not acknowledged as debt and outstanding letters of credit and guarantees of Rs.5.0 crore.

#### **Management Perception**

CANFINA has also filed 23 claims against others for recovery of Rs1,246.09 crore which are pending before Special Courts/ High Courts/Receiver and other Civil Courts. One of the petitions filed has been decreed in favour of CANFINA for Rs61.76 crore and the amount has been deposited by one of the judgement debtors as per the directions of the court pending disposal of appeal.

- 21 Canbank Computer Services Ltd., a subsidiary of Canara Bank, has accumulated losses of Rs2.22 crores as at the end of financial year 2002.

#### **Management Perception**

The Bank has made a provision for Rs1.57 crores as at the end of FY2002 against its total equity investment of Rs2.04 crores. The Company has made a net profit (after tax) of Rs0.14 crores during FY2002.

- 22 Canfin Homes Ltd., the Housing Finance Company sponsored by Canara Bank, has a disputed income / interest tax liability of Rs4.90 crores in its books of accounts.

#### **Management Perception**

The matter is under various stages of appeal and as a measure of prudence Canfin Homes Ltd. has made a provision of Rs3 crores.

- 23 One of the Regional Rural Banks (RRBs) sponsored by Canara Bank, Chitradurga Grameena Bank has accumulated losses aggregating to Rs3.21crores as on March 31, 2002.

#### **Management Perception**

Canara Bank has sponsored the RRBs in association with the Central Government and the respective State Governments. The Central Government, the respective State Government and Canara Bank have contributed 50%, 15% and 35% of the equity capital of the RRBs respectively. Chitradurga Grameena Bank has made a profit of Rs5.40 crores for the FY2002 and thereby reduced the accumulated losses.

- 24 Tier I capital of the Bank as a portion of the total capital has come down over the last few years.





### Management Perception

The Bank has raised Tier II capital over the last few years in the form of subordinated debt to maintain its capital adequacy thus reducing the portion of Tier I capital as a proportion of overall capital. The current issue would enable the Bank to enhance its Tier I capital.

- 25 The rate of growth in deposits of the Bank was lower than the rate of growth in advances. This may deter further business growth and may propel liquidity crisis.

### Management Perception

The Bank is actively managing its assets and liabilities to minimise cost, maintain margins and minimise mismatches.

- 26 In respect of the Bank's credit exposure to Engineering and Petroleum industries, the exposure is heavily concentrated in favour of the top 10 borrowers.

### Management Perception

The credit exposure is within the prudential limits approved by the Bank's board of directors and that specified/approved by the RBI.

- 27 Interest cost for the Bank has grown by 21.82% in FY2002 compared to 9.39% in FY2001.

### Management Perception

The higher growth in interest cost for FY2002 is due to the increase in deposits by Rs4,960 crore in FY2002.

### External to the Bank

The present Issue of equity shares carries the following normal business risks associated with the activities of public sector commercial banks.

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

- a) Setting up of subsidiaries by a bank
  - b) Management of the bank including appointment of directors
  - c) Borrowings and creation of floating charge thereby hampering leverage. Banks may have to resort to unsecured debt instruments for borrowings
  - d) Expansion of business as branches need to be licensed
  - e) Opening of new place of business and transfer of existing place of business
  - f) Disclosures in the Profit & Loss account and Balance Sheet
  - g) Production of documents and availability of records for inspection by shareholders
  - h) Reconstruction of banks through amalgamation etc.
  - i) Further issues of capital including issue of bonus shares/ rights shares for which prior MoF/RBI approval is needed
  - j) Undertaking trading activity in goods as per Section 8, which may act as an operational constraint
  - k) Requirement for maintaining assets in India which would be not less than 75% of the Bank's demand and time liabilities in India, which in turn may prohibit the bank from creating overseas assets and exploiting overseas business opportunities
- iii. Every banking company is required to create a Reserve Fund by transfer of a sum equivalent to not less than twenty percent of profit as disclosed in the Profit & Loss account before any dividend is declared
  - iv. Every banking company has to maintain assets in India which would be not less than 75% of the Bank's demand and time liabilities in India, which in turn may prohibit the bank from creating overseas assets and exploiting overseas business opportunities.
  - v. The financial disclosures in the Offer Document may not be available to investors after listing, on a continuous basis.
  - vi. Various rights/powers of shareholders available under the Companies Act in this behalf are not available to shareholders of banks as the



provisions of the Companies Act are not applicable to the Banks. Rights like calling for general meetings, inspection of minutes and other material records, application by members for investigation of affairs of a company, application for relief in cases of oppression and mismanagement, voluntary winding up are not available to shareholders of a bank.

vii. No person holding shares in the bank in respect of any shares held by him, can exercise voting rights on poll in excess of 1% of the total voting rights of all the shareholders of the bank.

viii. No banking company shall pay dividend on its shares until all its capitalised expenses (including preliminary, organisational expenses, share selling commission, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off. The Bank has received an exemption from GoI, vide letter ref. F. No. 11/10/2002-BOA dated August 29, 2002 from this provision relating to the payment of dividend up to 31.03.2004.

2 Increase in regional hostilities, terrorist attacks and other acts of violence and war could adversely affect the country's economic growth and development thereby the financial markets including the Bank's business and its future financial performance.

3 The performance, quality and growth of the assets of the Bank are dependent on the health of the overall Indian economy. Slowdown in economic growth in India could affect the business of the Bank.

#### **Management perception**

The Bank is expanding its product and service offerings to diversify its income stream. The Bank's thrust on retail products is envisaged to provide growth. Risk management systems, credit supervision, special emphasis on recovery of NPAs and close monitoring will enable the Bank to closely monitor the health of its credit portfolio. The slowdown witnessed in the Indian and global economy in the past few years has not materially affected the Bank's profitability.

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

#### **Management Perception**

The changes occurring in the policy environment as a result of various reform measures have brought in various opportunities for growth as well as challenges. The Bank is backed by professional management and has over 96 years of experience in managing the impact of similar changes.

5 Competition from existing and new commercial banks - The Bank faces strong competition in all areas of its business from other larger banks, regional, old and new private sector banks and foreign banks. Also mutual funds, with various innovative product offerings are depriving banks of low cost deposits.

#### **Management Perception**

The Bank is backed by over 96 years of banking experience.

6 Interest rate risks - Banking operations are greatly dependent upon its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities.

#### **Management Perception**

These risks are inherent in the banking business. The Bank has put in place adequate risk control measures to manage such risks.

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

#### **Management Perception**

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

8 Disintermediation risk - With the increasing trend towards disintermediation in the financial markets, many companies may access the markets directly, thereby reducing their dependence on the banking system.





### Management Perception

With gradual integration of the various segments of the financial markets and financial innovations, disintermediation is bound to increase. The Bank recognises this aspect and is focussing on increasing non-fund-based business and income therefrom.

- 9 The Bank has increased the spread of its business covered under computerised environment. This may increase the Bank's vulnerability to power disruptions, system failures and accessibility to frauds thus affecting its performance.

### Management perception

The Bank has constituted a Computer Policy and Planning Department, headed by a General Manager to monitor its IT activities and ensure uninterrupted functioning in case of exigencies.

### NOTE

1. Owned Funds of the Bank as on March 31, 2002 are Rs3,471.48 crore.
2. The Issue size is Rs385 crore.
3. The Net Asset Value of the Bank as on March 31, 2002 is Rs57.84 per share.
4. The cost of shares to Government of India is Rs10 per share.
5. Canara Bank would like to clarify that inspection by RBI is a regular exercise and is carried out periodically by RBI for all banks and financial institutions. The reports of RBI are strictly confidential. The Bank has informed the RBI the actions already taken and measures that are under implementation in respect of observations made by RBI.
6. Section 3(2E) of the Bank Nationalisation Act provides that 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.
7. 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, hold not less than fifty-one per cent of the paid-up capital of each of the Corresponding New Bank. The Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Bill, 2000 proposes to reduce the minimum stake of the Government from 51% to 33%.

8. 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.
9. As per the provisions of Section 15(1) of the Banking Regulation Act, 1949 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 received an exemption from Gol, Ministry of Finance, Department of Economic Affairs (Banking Division) vide letter ref. F. No. 11/10/2002-BOA dated August 29, 2002 from the provisions of the said Section 15(1) relating to the payment of dividend upto 31.03.2004.
10. No person holding shares in the Bank in respect of any shares held by him/her can exercise voting rights on a poll in excess of 1% of the total voting rights of all the shareholders of the Bank.
11. Transactions between Canara Bank and subsidiaries:
  - a. Transactions between Canara Bank and Canbank Computer Services Ltd.  
Canbank Computer Services Ltd. was incorporated on August 31, 1994. The subsidiary is promoted by Canara Bank (62.97%), Bank of Baroda (12.35%), Vijaya Bank (6.17%), The Vysya Bank Ltd. (6.17%), The Karur Vysya Bank Ltd. (6.17%) and the Lakshmi Vilas Bank Ltd. (6.17%). The subsidiary is engaged in Software Development, Consultancy, Training, Data Processing, and Registrar & Transfer work.



The company is availing following limits from Canara Bank.

Particulars	Limit Rs crore	Outstanding Rs crore as on 31.03.2002
Fund Based	0.50	0.35
Non Fund Based	Nil	Nil

Charges paid to the Bank by Canbank Computer Services Ltd. are as follows:

(Rs crore)

Year Ended March 31	2000	2001	2002
Interest	Nil	0.015	0.035
Rent	0.126	0.164	0.315
Total	0.126	0.179	0.350

b. Transactions between Canara Bank and Canbank Factors Ltd.

Canbank Factors Ltd. was incorporated on May 10, 1991. The holdings of the promoters are Canara Bank 70%, SIDBI 20% and Andhra Bank 10%. The main business of the subsidiary is Factoring.

The company is availing the following limits from Canara Bank:

Particulars	Limit Rs crore	Outstanding Rs crore as on 31.03.2002
Fund Based	60.00	13.43
Non-Fund Based	Nil	Nil

Charges paid to the Bank by Canbank Factors Ltd. are as follows:

(Rs crore)

Year Ended March 31	2000	2001	2002
Interest	0.56	0.89	0.63
Rent	0.11	0.17	0.17
Commission	0.03	0.01	0.01
Others (IP Commission)	0.02	0.07	0.13
Total	0.72	1.14	0.94

c. Transactions between Canara Bank and Canbank Financial Services Ltd.

Canbank Financial Services Ltd. is a wholly owned subsidiary of Canara Bank, incorporated on June 1, 1987. The subsidiary is engaged in

leasing, hire purchase, merchant banking, portfolio management services and other services.

The subsidiary has not availed of any limits with Canara Bank.

Charges paid to the Bank by Canbank Financial Services Ltd. are as follows:

(Rs crore)

Year Ended March 31	2000	2001	2002
Rent	0.67	0.32	0.22

d. Transaction between Canara Bank and Canbank Investment Management Services Ltd.

Canbank Investment Management Services Ltd. is a wholly owned subsidiary of Canara Bank incorporated on March 2, 1993 as an Asset Management Company ('AMC') of Canbank Mutual Fund.

The subsidiary has not availed of any limits with Canara Bank.

Charges paid to the Bank by Canbank Investment Management Services Ltd. are as follows:

(Rs crore)

Year Ended March 31	2000	2001	2002
Rent	2.11	2.11	1.55
Others (Property Tax)	0.56	0.60	0.44
Total	2.67	2.71	1.99

e. Transactions between Canara Bank and Canbank Venture Capital Fund Ltd.

The Subsidiary incorporated on February 22, 1995 is a wholly owned subsidiary of Canara Bank and is engaged in managing Venture Capital Funds.

The subsidiary has not availed of any limits with Canara Bank.

Charges paid to the Bank by Canbank Venture Capital Fund Ltd. are as follows:

(Rs crore)

Year Ended March 31	2000	2001	2002
Rent	0.036	0.036	0.036
Dividend	0.063	0.038	0.063
Total	0.099	0.074	0.099





- f. Transactions between Canara Bank and Gilt Securities Trading Corporation Ltd.

The subsidiary, promoted by Canara Bank (51%) in association with Bank of Baroda (29%) and Corporation Bank (20%), was incorporated on March 1, 1996. The subsidiary is a Primary Dealer in Government Securities.

The subsidiary has not availed of any limits with Canara Bank.

The subsidiary has not paid any charges to the Bank.

- g. Transactions between Canara Bank and Indo-Hong Kong International Finance Ltd.

The wholly owned subsidiary of Canara Bank was incorporated on May 11, 1984. The overseas subsidiary is engaged in Banking (Trade Finance).

The company is availing following limits from Canara Bank.

Particulars	Limit USDmn	Outstanding USDmn as on 31.03.2002
Fund Based	10.00	7.00
Non Fund Based	Nil	Nil

Charges paid to the Bank by Indo-Hong Kong International Finance Ltd. are as follows:

(USDmn)

As at	31.12.1999	31.03.2001	31.03.2002
Interest	0.071	0.196	0.068
Others	0.015	0.019	0.015
Total	0.086	0.215	0.083

12. Investors are advised to refer to the paragraph on "Basis of Issue Price" on page 51 in the Offer Document before making an investment decision in this Issue.





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## HIGHLIGHTS

1. The Bank has a consistent track record of profitability since inception.
2. The Bank is a professionally managed organisation with a track record of operations of over 96 years.
3. The Bank offers a wide range of banking services, which include corporate and personal banking, industrial finance, agricultural finance, trade financing and international banking.
4. The Bank is one of the large banks in India with total business size (advances plus deposits) of Rs97,157 crore as on March 31, 2002.
5. The Net Asset Value of the Bank as on March 31, 2002 is Rs57.84 per share
6. The Bank has a large network of branches spread throughout the country providing access to cheaper funds. The network of the Bank stood at 2,409 branches inclusive of its branch at London besides 218 Extension Counters. The Bank has also opened specialised branches to cater to the needs of corporate and industrial finance, Non Resident Indians, hi-tech agricultural finance and small-scale industries.
7. Foreign Business Turnover, an area of strength for the Bank, aggregated to Rs59,333 crore for the financial year 2001-02.
8. The Banks Capital Adequacy Ratio ('CAR') is 11.88% as on March 31, 2002 against the RBI prescribed minimum of 9%.
9. A low net NPA level of 3.89%.
10. The Bank has achieved a high level of automation covering 65% of the branch network and 81% of the Bank's business. ATM Strength of the Bank stands at 103 as at the end of FY2002.



# CANARA BANK

(Wholly owned by Government of India)

Constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970

Head Office: 112, J C Road, P B No. 6648, Bangalore – 560 002

Telephone: (080) 2221581; Fax: (080) 2222704

Email: canbank@blr.vsnl.net.in; Website: <http://www.canbankindia.com>

## PART 1

### I. GENERAL INFORMATION

Canara Bank (hereinafter also referred to as 'the Bank') has been constituted as a Corresponding New Bank in relation to the then Canara Bank Ltd. under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (hereinafter referred to as the Bank Nationalisation Act). The Bank is offering to the Public for subscription equity shares for cash as under:

11,00,00,000 equity shares of Rs10 each for cash at a premium of Rs25 per share aggregating Rs385 crore (including reservation for the working directors and employees of 1,10,00,000 equity shares of Rs10 each for cash at a premium of Rs25 per share aggregating Rs38.5 crore)

#### Authority for the Present Issue

The Issue of equity shares is being made after obtaining the approval of the Government of India (GoI) under Section 3(2B)(c) of the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970 as amended from time to time, vide its letter dated August 29, 2002 and the resolution of the Board of Directors of the Bank, passed at its meeting held on May 31, 2002.

It is to be distinctly understood that the sanction/approval of the GoI and the RBI should not, in any way, be deemed or construed that the Offer Document 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 the Offer Document.

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.

#### Disclaimer Clause

AS REQUIRED, A COPY OF THIS OFFER DOCUMENT HAS BEEN SUBMITTED TO THE SECURITIES AND EXCHANGE BOARD OF INDIA (HEREINAFTER REFERRED TO AS SEBI). IT IS TO BE DISTINCTLY UNDERSTOOD THAT THE SUBMISSION OF THE OFFER DOCUMENT TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF THE BANK OR THE OBJECTS FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR

FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE OFFER DOCUMENT. THE LEAD MANAGER, ICICI SECURITIES AND FINANCE COMPANY LIMITED, (HEREINAFTER REFERRED TO AS THE LEAD MANAGER), HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE OFFER DOCUMENT ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER BANK IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE OFFER DOCUMENT, THE LEAD MANAGER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE BANK DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE LEAD MANAGER, ICICI SECURITIES AND FINANCE COMPANY LIMITED, HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED SEPTEMBER 2, 2002 IN ACCORDANCE WITH SEBI (MERCHANT BANKERS) REGULATIONS, 1992, WHICH READS AS FOLLOWS :

- "(1) WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, DISPUTES WITH EMPLOYEES/ EX-EMPLOYEES ETC., AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE DRAFT OFFER DOCUMENT PERTAINING TO THE SAID ISSUE;
- (2) ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE BANK, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE BANK,

WE CONFIRM THAT:

- (A) THE DRAFT OFFER DOCUMENT FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;





- (B) ALL LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH; AND
- (C) THE DISCLOSURES MADE IN THE OFFER DOCUMENT ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE.
- (3) WE CONFIRM THAT BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE OFFER DOCUMENT ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATION IS VALID.

FILING OF THE OFFER DOCUMENT WITH SEBI DOES NOT, HOWEVER ABSOLVE THE BANK FROM ANY LIABILITIES UNDER SECTION 63 OR 68 OF THE COMPANIES ACT OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY OR OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSES OF THE PROPOSED ISSUE. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP, AT ANY POINT OF TIME, WITH THE LEAD MANAGER(S) ANY IRREGULARITIES OR LAPSES IN THE OFFER DOCUMENT".

The Lead Manager has issued a fresh due diligence certificate dated September 27, 2002 which reiterates the statements made in the above referred certificate and states that all observations made by SEBI vide PMD/SNB/18739/2002 dated September 24, 2002, have been incorporated in the Offer Document.

#### **Disclaimer Clause of the Bangalore Stock Exchange**

The Bangalore Stock Exchange (hereinafter referred to as 'BgSE' or 'The Regional Stock Exchange') has given vide letter no. 03/2002/1043 dated September 11, 2002 permission to the Bank to use the name of the Exchange in this Offer Document as one of the stock exchanges on which the Bank's securities i.e. the existing and also the new equity shares are proposed to be listed. BgSE has scrutinised this Offer Document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Bank.

#### **BgSE does not in any manner:**

1. warrant, certify or endorse the correctness or completeness of any of the contents of this Offer Document; or
2. warrant that the Bank's securities will be listed or will continue to be listed on BgSE; or
3. take any responsibility for the financial or other soundness of the Bank, its promoters, its management or any scheme or project of the Bank;

and it should not for any reason be deemed or construed that this Offer Document has been cleared or approved by BgSE. Every person who desires to apply for or otherwise acquires any securities of this Bank may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against BgSE whatsoever, by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/

acquisition whether by reason of anything stated in the offer document or any other reason whatsoever.

#### **Disclaimer Clause of the Stock Exchange, Mumbai**

The Stock Exchange, Mumbai (hereinafter referred to as 'BSE') has given its permission vide letter no. List/psr/ss/2002 dated September 19, 2002 to the Bank to use the Exchange's name in this Offer Document as one of the stock exchanges on which the Bank's securities i.e. the existing and also the new equity shares are proposed to be listed. BSE has scrutinised this Offer Document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Bank.

#### **BSE does not in any manner:**

1. warrant, certify or endorse the correctness or completeness of any of the contents of this Offer Document; or
2. warrant that the Bank's securities will be listed or will continue to be listed on the exchange; or
3. take any responsibility for the financial or other soundness of the Bank, its promoters, its management or any scheme or project of the Bank;

and it should not for any reason be deemed or construed that this Offer Document has been cleared or approved by BSE. Every person who desires to apply for or otherwise acquire any securities of the Bank may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against BSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/ acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

#### **Disclaimer Clause of the National Stock Exchange of India Ltd.**

As required, a copy of this Offer Document has been submitted to The National Stock Exchange of India Ltd. (hereinafter referred to as 'NSE'). NSE has by its letter no. NSE/LIST/26724 dated September 19, 2002 given permission to the Bank to use the Exchange's name in this Offer Document as one of the stock exchanges on which this Bank's securities are proposed to be listed. NSE has scrutinised this Offer Document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Bank. It is to be distinctly understood that the matter of granting the aforesaid permission given by NSE should not in any way be deemed or construed that the Offer Document has been cleared or approved by NSE.

#### **NSE does not in any manner:**

1. warrant, certify or endorse the correctness or completeness of any of the contents of this Offer Document; or
2. warrant that the Bank's securities will be listed or will continue to be listed on the Exchange; or
3. take any responsibility for the financial or other soundness of the Bank, its promoters, its management or any scheme or project of the Bank;

Every person who desires to apply for or otherwise acquire any securities of the Bank may do so pursuant to independent inquiry, investigation and analysis and shall not





have any claim against NSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/ acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

The delivery of this Offer Document hereunder shall not under any circumstances create any implication that there has been no change in the affairs of the Bank since the date thereof or that the information contained herein is correct as of any time subsequent to this date.

#### **Disclaimer in Respect of Jurisdiction**

This offer is made in India to persons resident in India and to NRIs/OCBs on a non-repatriation basis. This Offer Document does not, however, constitute an offer to sell or an invitation to subscribe to shares offered hereby in any other jurisdiction to any person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any person into whose possession this Offer Document comes is required to inform himself about and to observe any such restrictions. Disputes arising out of this Issue shall be subject to the jurisdiction of appropriate Court(s).

#### **General Disclaimer**

The Bank accepts no responsibility for statements made otherwise than in the Offer Document or in the advertisements or any other material issued by or at the instance of the Bank and that anyone placing reliance on any other source of information would be doing so at his own risk.

#### **Filing**

The draft Offer Document was filed with SEBI, Mittal Court, Nariman Point, Mumbai for its observations and SEBI has given its observations. A copy of this Offer Document along with the documents referred under the head "Material Contracts and Documents" in the Offer Document, has been delivered for registration to BgSE. A complete set of the documents shall be kept open at the Head Office of the Bank for public and investors at large and no selective or additional information would be available for a section of investors in any manner whatsoever. Further, in addition to the Lead Manager, the Bank is also obliged to update the Offer Document and keep the public informed of any material changes till the listing and trading of the shares.

#### **Listing**

Applications shall be made to The Bangalore Stock Exchange, The Stock Exchange, Mumbai and the National Stock Exchange of India Ltd. to list the existing shares of the Bank and also the new equity shares now being offered through this Offer Document and for permission to deal in such shares.

If the permissions to deal in and for an official quotation of the equity shares are not granted by any of the aforesaid three stock exchanges, the Bank shall forthwith repay, without interest all such moneys received from the applicants in pursuance of this Offer Document. 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.

#### **Eligibility of the Bank to Come Out With the Issue**

The SEBI (Disclosure and Investor Protection) Guidelines, 2000 prescribe eligibility norms for a company to list its equity shares. Clause 2.2.1 of the Guidelines specifies the eligibility requirements for Public Issue by an unlisted company. Clause 2.4.1, however, exempts a banking company from these requirements. Hence in terms of Clause 2.4.1, the Bank is eligible to come out with the present Public Issue.

#### **Filing of the Offer Document**

The Bank has filed the draft Offer Document with SEBI at least 21 days prior to the filing of the Offer Document with the aforesaid three stock exchanges where the shares are proposed to be listed. The Bank has also incorporated the comments given by SEBI before filing the Offer Document with the said stock exchanges.

#### **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 under any order or directions passed by SEBI.

#### **Issue of Shares in Dematerialised Format**

The Bank has entered into agreements with NSDL and CDSL for dematerialisation of shares for the existing and the proposed shareholders. The Bank has also given an option to the subscribers / shareholders / investors to receive the share certificates in physical form or in the demat form.

#### **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 shares therein, or**
  - (b) otherwise induces a company to allot, or register any transfer of, shares therein to him, or any other person in a fictitious name,**
- shall be punishable with imprisonment for a term which may extend to five years”.**

#### **Minimum Subscription**

If the Bank does not receive the minimum subscription of 90% of the issued amount, on the date of closure of the Issue, or if the subscription level falls below 90% after the closure of the Issue on account of cheques having been returned unpaid or withdrawal of applications, the Bank shall forthwith refund the entire subscription amount. If there is delay beyond 8 days after the Bank becomes liable to pay the amount, the Bank shall pay interest as per Section 73 of the Companies Act, 1956.

#### **Letters of Allotment / Share Certificates / Refund Orders**

Letters of Allotment / Share Certificates or Refund Orders, as the case may be, will be despatched by Registered Post or as per extant postal rules at the sole risk of the applicants to the sole / first applicant within ten weeks from the date of the closing of the subscription list. In accordance with the extant postal rules





the Bank will ensure the despatch of the refund orders of the value up to Rs1,500 under Certificate of Posting and refund orders of value above Rs1,500 by Registered Post only. Further,

- as far as possible, the allotment of the equity shares shall be made within 30 days of the closure of the Issue; and
- the Bank shall pay interest at the rate of 15% per annum (except to the applicants applying through Stockinvest) if the allotment has not been made and / or the Letters of Allotment / Refund Orders have not been despatched to the Investors within 30 days from the day of the closure of the Issue, for the delayed period beyond 30 days.

The Bank will provide adequate funds to the Registrars to the Issue, for the purpose of despatch of Letter(s) of Allotment / Share Certificate(s) / Letter(s) of Regret / Cancelled Stockinvest(s) / Refund Order(s). Despatch of share certificates/ refund orders/cancelled stockinvests and demat credit would be completed and the allotment and listing documents would be submitted to the Stock Exchanges within 2 working days of the finalisation of the basis of the allotment. The listing and trading of the securities offered through this Offer Document shall commence at the aforesaid three stock exchanges where they are proposed to be listed within 7 working days of the date of the finalisation of the basis of the allotment.

#### Denomination of Shares

The Bank undertakes that at any given time, there shall be only one denomination for the shares of the Bank and that the Bank shall comply with such disclosures and accounting norms specified by SEBI from time to time.

#### Oversubscription

In the event of the present Issue of equity shares being oversubscribed, the allotment will be on a proportionate basis and the basis of allotment will be finalised in consultation with the BgSE (Regional Stock Exchange) in accordance with the SEBI Guidelines.

#### Issue Programme

THE SUBSCRIPTION LIST FOR THE ISSUE WILL OPEN AT THE COMMENCEMENT OF BANKING HOURS ON AND WILL CLOSE AT THE CLOSE OF BANKING HOURS ON THE DATES MENTIONED BELOW:

<b>Issue Opens on</b>	<b>:</b>	<b>November 18, 2002</b>
<b>Issue closes on</b>	<b>:</b>	<b>November 27, 2002</b>

#### LEAD MANAGERS TO THE ISSUE

##### ICICI Securities and Finance Company Ltd.

41/ 44, Minoo Desai Marg  
Colaba,  
Mumbai – 400 005  
Tel: (022) 288 2460  
Fax: (022) 283 7045  
E-mail: canarabankipo@isecltd.com

##### SBI Capital Markets Ltd.

6<sup>th</sup> Floor, Almas Centre  
No.87, M.G.Road  
Bangalore - 560 001  
Tel: (080) 558 5471 / 558 5472  
Fax: (080) 558 5478  
E-mail: canarabankipo@sbicaps.com

##### Kotak Mahindra Capital Company Limited

Bakhtawar, 1<sup>st</sup> floor  
229, Nariman Point  
Mumbai - 400 021  
Tel: (022) 234 1100  
Fax: (022) 282 6632  
E-mail: canarabankipo@kotak.com

##### JM Morgan Stanley Private Ltd.

141, Maker Chambers III  
Nariman Point,  
Mumbai - 400 021  
Tel: (022) 230 3030  
Fax: (022) 230 1694  
E-mail: canbankipo@jmmorganstanley.com

##### DSP Merrill Lynch Ltd.

213-214, Prestige Centre Point  
7, Edward Road  
Bangalore - 560 052  
Tel: (080) 226 4114, 226 4115, 225 2406  
Fax: (080) 226 4116  
E-mail: canarabankipo@in.ml.com

#### CO-MANAGERS TO THE ISSUE

##### BoB Capital Market Ltd.

Ground Floor, Noble Chambers,  
Vatsa House, 20-C/D,  
S. A. Brevli Road, Fort,  
Mumbai - 400 001  
Tel: (022) 284 4955  
Fax: (022) 284 5208  
Email: bobcaps@boi.net.in

##### A. K. Capital Services Ltd.

No. 711, 7<sup>th</sup> Floor, Brigade Tower,  
No. 135, Brigade Road,  
Bangalore - 560 025  
Tel: (080) 227 0715  
Fax: (080) 229 2770  
Email: akcapital@mantraonline.com

**Centrum Finance Ltd.**

128, Silver Lake Terrace,  
167, Richmond Road,  
Bangalore - 560 025  
Tel: (080) 558 2541  
Fax: (080) 558 1669  
Email: bangalore@centrumfinance.com

**Allianz Securities Ltd.**

C-2, Green Park Extension,  
New Delhi - 110 016  
Tel: (011) 656 2970  
Fax: (011) 656 2693  
Email: allianzdelhi@infrastructureindia.com

**R. R. Financial Consultants Ltd.**

S 111, Manipal Centre, South Block,  
47, Dickenson Road,  
Bangalore - 560 042  
Tel: (080) 558 1514  
Fax: (080) 559 3664  
Email: feedback@rrfcl.com

**REGISTRAR TO THE ISSUE****Karvy Consultants Ltd.**

Karvy House, 46, Avenue IV,  
Street No. 1, Banjara Hills,  
Hyderabad - 500 034  
Tel: (040) 331 2454  
Fax: (040) 331 1968  
Email: mailmanager@karvy.com

**LEGAL ADVISORS TO THE ISSUE****DSK Legal**

Advocates and Solicitors  
66, Maker Towers F  
Cuffe Parade, Mumbai- 400 005  
Tel: (022) 216 0300  
Fax: (022) 216 0400

**BANKERS TO THE ISSUE****Canara Bank**

Town Hall Branch  
51, Stock Exchange Towers  
1<sup>st</sup> cross, J C Road  
Bangalore - 560 027  
Tel: (080) 222 6170 / 223 8186 / 2238187  
Fax: (080) 223 9631  
Email: fcsbth@canbank.wipro.net.in

**AUDITORS TO THE ISSUE****M/s R. G. N. Price & Co**

Chartered Accountants  
Simpsons Building  
861, Mount Road  
Chennai-600 002.  
Tel: (044) 853 6129 / 853 3633  
Fax: (044) 854 4569

**M/s. N. Sankaran & Co**

Chartered Accountants  
1-A, Raja Annamalai Building, II Floor  
19, Marshall Road, Egmore  
Chennai-600 008.  
Tel: (044) 855 5009 / 855 4090 / 855 4197  
Fax: (044) 855 4190

**M/s.R.K.Kumar & Co**

Chartered Accountants  
Room No.101 to 106, II Floor  
Congress Building, 573, Mount Road  
Chennai-600 006  
Tel: (044) 434 9867 / 434 9556  
Fax: (044) 434 9857

**M/s Suresh Chandra & Associates**

Chartered Accountants  
No.610, New Delhi House  
No.27 Barakhamba Road  
New Delhi-110 001.  
Tel: (011) 335 8597 / 335 8598 / 335 2998  
Fax: (011) 335 2997

**M/s P.L.Mittal & Co**

Chartered Accountants  
No.3050, Power House Road  
Bhatinda-131 001. Punjab.  
Tel: (0164) 211 633 / 211 634  
Fax: (0164) 214 633

**M/s S.Bhandari & Co**

Chartered Accountants  
P-7, Tilak Marg  
Ashok Nagar, C-Scheme  
Jaipur-302 005.  
Tel: (0141) 380 412 / 384 503  
Fax: (0141) 381 641 / 367 760

**OFFICES OF CANARA BANK****HEAD OFFICE**

112, J C Road, P B No 6648,  
Bangalore - 560 002  
Telephone: (080) 222 1581; Fax: (080) 222 2704  
Email: canbank@blr.vsnl.net.in;  
Website: <http://www.canbankindia.com>

**CIRCLE OFFICES****BANGALORE**

Canara Bank  
Circle Office, Spencer Towers  
No.86, M G Road  
Bangalore - 560 001, Karnataka  
Tel: (080) 558 8641 / 558 6838  
Fax: (080) 558 6074  
E-mail: co.blr@canbank.wipro.net.in



**KOLKATA**

Canara Bank  
Circle Office  
21 Camac Street  
Kolkata – 700 016  
West Bengal  
Tel: (033) 247 4881 / 247 4882  
Fax: (033) 240 0382  
E-mail: co.cal@canbank.wipro.net.in

**CHANDIGARH**

Canara Bank  
Circle Office  
Plot No.1  
Sector 34 A, P B No.20  
Chandigarh – 160 022  
U T Chandigarh  
Tel: (0172) 600 008 / 602 151  
Fax: (0172) 604 268  
E-mail: co.chd@canbank.wipro.net.in

**CHENNAI**

Canara Bank  
Circle Office  
P B NO.1078, 563/1  
Anna Salai  
Teynampet  
Chennai – 600 018  
Tamilnadu  
Tel: (044) 434 6038 / 434 5795  
Fax: (044) 432 3722  
E-mail: co.chn@canbank.wipro.net.in

**DELHI**

Canara Bank  
Circle Office  
38, Nehru Place  
New Delhi – 110 019  
U T Delhi  
Tel: (011) 629 3209, 629 3210  
Fax: (011) 628 6075  
E-mail: co.ndl@canbank.wipro.net.in

**HYDERABAD**

Circle Office  
P B NO.1008  
No.3-5-879, Ruby House  
Opp. MLA Quarters  
Himayatnagar, Post Box No.1008  
Hyderabad – 500 029  
Andhra Pradesh  
Tel: (040) 322 5324 / 322 5325  
Fax: (040) 322 2709  
E-mail: co.hyd@canbank.wipro.net.in

**LUCKNOW**

Canara Bank  
Circle Office  
Canara Bank Building  
Vipin Khand, Gomti Nagar  
Lucknow – 226 010  
Uttar Pradesh  
Tel: (0522) 302 611  
Fax: (0522) 302 506  
E-mail: co.lkw@canbank.wipro.net.in

**MADURAI**

Circle Office  
P B No.243  
St. Mary's Campus  
East Veli Street  
Madurai – 625 001  
Tamilnadu  
Tel: (0452) 30335 to 30339  
Fax: (0452) 452345  
E-mail: co.mdu@canbank.wipro.net.in

**MANGALORE**

Circle Office  
P B No.227  
Light House Hill  
Balmatta Road  
Mangalore – 575 001  
Karnataka  
Tel: (0824) 422 475 / 424 471  
Fax: (0824) 421 787  
E-mail: co.mng@canbank.wipro.net.in

**MUMBAI CITY**

Circle Office  
13<sup>th</sup> & 14<sup>th</sup> floor, Maker Tower "E"  
85, Cuffe Parade, Colaba  
Post Box No.16055  
Mumbai - 400 005  
Maharashtra  
Tel: (022) 218 5241 to 218 5247  
Fax: (022) 218 0200  
E-mail: co.mcity@canbank.wipro.net.in

**MUMBAI NORTH**

Circle Office,  
Sion Garage Building  
112, Sion Koliwada Road  
Sion, Mumbai - 400 022  
Maharashtra  
Tel: (022) 407 1530 / 407 1555  
Fax: (022) 409 0400  
E-mail: co.mnorth@canbank.wipro.net.in

**PATNA**

Circle Office  
P B No.195, Lav Kush Towers  
3<sup>rd</sup> and 4<sup>th</sup> floor  
Exhibition Road  
Patna - 800 001  
Bihar  
Tel: (0612) 662 109  
Fax: (0612) 662 572  
E-mail: co.ptn@canbank.wipro.net.in

**TRIVANDRUM**

Circle Office  
T c 26/173 (1)  
M G Road  
P B 5604  
Trivandrum – 695 039  
Kerala  
Tel: (0471) 331 051  
Fax: (0471) 331 355  
E-mail: co.tvm@canbank.wipro.net.in

**COMPLIANCE OFFICER TO THE ISSUE**

Mr. T. Y. Prabhu, Deputy General Manager, Treasury & International Operations ('T & IO') Wing, Canara 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/ share certificates/ refund orders/ cancelled stockinvests, etc. the investors are requested to contact the Compliance Officer at:

**Mr. T.Y. Prabhu**

Deputy General Manager  
Canara bank  
T & IO Wing, Head Office  
112, J C Road, P B No. 6648  
Bangalore – 560 002  
Tel : (080) 223 8185  
Fax : (080) 223 3573  
E-mail: cmbd@vsnl.net

In terms of the Listing Agreement, the Bank will appoint a Company Secretary as Compliance Officer of the Bank before the finalization of the Basis of Allotment.

**Credit Rating / Debenture Trustees**

Since the present issue is of equity shares, no credit rating or appointment of trustees is required.

**Underwriting**

The present Issue of equity shares is not underwritten.

**Corporate Governance**

The SEBI guidelines in respect of corporate governance, in line with the regulatory framework for Public Sector Banks, shall be applicable to the Bank immediately on the listing of shares on the various stock exchanges. The Bank 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 at the time of listing of its shares as well as any requirements of the stock exchanges with regard to corporate governance before grant of listing permission by the stock exchanges. The Bank also confirms that it shall comply with the requirements of the stock exchanges to their satisfaction. In this regard, the Bank is taking steps to further broaden its Board of Directors and also set up the necessary committees as per the requirements of the revised guidelines.





## II. CAPITAL STRUCTURE OF THE BANK (AS ON MARCH 31, 2002)

No. of Shares		Face Value (Rs)	Issue Value(Rs)
<b>(A) Authorised Capital</b>			
150,00,00,000	Equity shares of Rs10 each	1500,00,00,000	
<b>(B) Issued, Subscribed and Paid-Up Capital</b>			
57,78,68,100	Equity shares of Rs10 each	577,86,81,000	
<b>(C) Present Issue through this Offer Document</b>			
11,00,00,000	Equity shares of Rs10 each for cash at a premium of Rs25 per share	110,00,00,000	385,00,00,000
Out of which 1,10,00,000	Equity shares of Rs10 each for cash at a premium of Rs25 per share are reserved for allotment to the permanent/ confirmed employees (including Wholetime Directors) on a proportionate basis	11,00,00,000	38,50,00,000
<b>(D) Net Offer to Indian Public</b>			
9,90,00,000	Equity shares of Rs10 each for cash at a premium of Rs25 per equity share	99,00,00,000	346,50,00,000
<b>(E) Paid Up Capital After the Issue</b>			
41,00,00,000*	Equity shares of Rs10 each	410,00,00,000*	
<b>(F) Share Premium Account</b>			
	Before the Offer		Nil
	After the Offer		275,00,00,000

\*The Bank has received approval for return of capital amounting to Rs277.87 crore from the Government of India, Ministry of Finance, Department of Economic Affairs (Banking Division) by their letter no. F.No. 11/10/2002-BOA dated August 29, 2002. The post-issue paid-up capital has been calculated after giving effect to the proposed return of equity capital to the Government of India. The Bank will complete the formalities related to the return of capital before the Opening of the Issue. The return of capital does not adversely affect the capital adequacy position of the Bank, further the funds raised through the Public Issue will help the Bank to maintain the capital adequacy ratio. The pre-issue capital after completing the return of capital but before opening of the Issue is Rs300 crore.

The entire equity capital of the Bank is presently held by the Government of India (Gol). The Gol, Ministry of Finance, Department of Economic Affairs (Banking Division) by its letter dated August 29, 2002 have given its approval for the present Issue. After the Issue, the shareholding of the Gol will be 73.17%.

The Gol, Ministry of Finance, Department of Economic Affairs (Banking Division) has given its approval for lock-in of 20% of the post-issue capital for a period of three years from the date of allotment in the Issue and the remaining capital held by it for a period of one year from the date of allotment in this issue.



## NOTES

1. Share Capital history (since nationalisation on July 19, 1969) is given below-

Period ended	Increase/(Decrease) in Capital (Rs crore)	Mode	Paid Up capital (Rs crore)
31.12.1976		Opening Balance	1.75
31.12.1978	3.25	Capitalisation of Reserves	5.00
31.12.1983	2.00	Contribution from Government	7.00
31.12.1985	22.50	Contribution from Government	29.50
31.12.1986	12.00	Contribution from Government	41.50
31.12.1988	3.00	Contribution from Government	44.50
31.03.1989	4.45	World Bank aid towards IEP Scheme*	48.95
31.03.1990	8.96	World Bank aid towards IEP Scheme*	57.91
31.03.1991	17.32	World Bank aid towards IEP Scheme*	
	0.01	Share Capital from Ministry of Finance	75.24
31.03.1992	39.00	World Bank aid towards IEP Scheme*	114.24
31.03.1993	18.67	World Bank aid towards IEP Scheme*	
	75.00	Capital Contribution from Government	207.91
31.03.1994	15.88	World Bank aid towards IEP Scheme*	
	365.00	Capital Contribution from Government	588.79
31.03.1995	1.36	World Bank aid towards IEP Scheme*	590.15
31.03.1996	0.35	World Bank aid towards IEP Scheme*	
	(105.68)	Transferred to Capital Reserve	484.82
31.03.1998	600.00	Additional Capital received from Government of India in the form of 'Recapitalisation Bonds'	
	(507.10)	Write-off of capital (towards Canstar Scheme of Canbank Mutual Fund)	577.72
31.03.1999	0.15	World Bank Line of credit	577.87
	(277.87)	Return of capital to Government of India; simultaneous redemption of equal amount of Recapitalisation Bonds	300.00

\* IEP Scheme – Industrial Export Promotion Scheme

2. The authorised share capital of the Bank is Rs1,500 crore 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.
3. 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 equity shares of the Bank, this could be only in the name of the trustees and no details of the trust would be taken cognisance of by the Bank on its Register of Shareholders.
4. i) Section 3(2E) of the Bank Nationalisation Act provides that 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.  
ii) Section 3(2B)(b) of Bank Nationalisation Act provides that the paid up capital of every corresponding new bank from time to time be increased by such amounts as the Central Government may, after consultation with the Reserve Bank of India, contribute to such paid-up capital.
- iii) Section 3(2B)(c) of Bank Nationalisation Act provides that the paid up capital of every Corresponding New Bank may from time to time be increased by such amounts as the Board of Directors of the Bank may, after consultation with the Reserve Bank of India 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 fifty-one percent of the paid-up capital of each corresponding new bank. The Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Bill, 2000 proposes to reduce the minimum stake of the Government from 51% to 33%.
5. In the event of over subscription, in the process of rounding off to ensure allotment in marketable lots, the Bank may





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 Gol/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. Gol 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 Gol 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 Gol, 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 Gol, 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 EXTANT SEBI GUIDELINES, TRADING IN THE SECURITIES SHALL BE IN DEMATERIALISED 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 operatingany 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)(viiia) 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)(viiia) 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)(viiia) 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 XIIA 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.





#### IV. PARTICULARS OF THE ISSUE

##### Objects of the Offer

The present Issue of equity shares 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 shares of the Bank on Stock Exchanges
- Meet the expenses of the Issue

##### Capital adequacy position of the Bank

The Capital Adequacy Ratio ('CAR') of the Bank as on March 31, 2002 was 11.88%, as against the RBI stipulation of 9.00%. Details of capital vis-à-vis risk weighted assets are as under -

(Rs crore)

Year ended March 31	1998	1999	2000	2001	2002
Eligible Tier I Capital	1,954	2,133	2,319	2,538	3,036
Eligible Tier II Capital	162	594	555	879	1,434
Total Capital	2,116	2,727	2,874	3,417	4,470
Total Risk-Adjusted Assets	22,180	24,880	29,832	34,729	37,634
Capital Adequacy Ratio (%)	9.54%	10.96%	9.64%	9.84%	11.88%

##### 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 network 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 met out of the proceeds.

Moreover, listing will provide the Bank an opportunity to establish its presence in the capital market and an opportunity to raise funds in the future subject to fulfilling the statutory requirements

The Bank has not made any issue of Equity Shares / Debentures / Preference shares by way of Public / Rights Issue through an Offer Document. However, 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:

Issue	Year of Placement	Size (Rs crore)	Tenor (months)	Credit Rating	Coupon (% p.a.)	Redemption date
1	1998-99	500	Opt-I 63 Opt-II 87	—	13.85 14.20	22.04.2004 22.04.2006
2	2000-01	300	76	—	11.95	14.04.2006
3	2001-02	376	67	AA+ by CRISIL	9.70	12.04.2006
4	2001-02	74	63	AA+ by CRISIL	9.40	12.04.2006
<b>Total</b>		<b>1,250</b>				



## V. BANK AND MANAGEMENT

### History and Development

Canara Bank was founded on July 1, 1906 in the town of Mangalore in Karnataka by Shri Ammembai Subbarao Pai, an eminent lawyer, educationist and social reformer. Backed by a team of professionals, committed staff and extended clientele base, the Bank has, over the last 96 years, achieved many a milestone in the fields of commercial and social banking. The Bank also has been able to register profits every year since inception.

The Bank began operations as the Canara Hindu Permanent Fund and was later reconstituted as Canara Bank Ltd. in 1910. From a small beginning, Canara Bank has grown into one of the largest banks in India with a wide branch network and client base. Acquisitions have also enabled the Bank to achieve growth. Prior to nationalisation in 1969, the Bank took over a number of banks starting with the Bank of Kerala Ltd. in 1961 and ending with the Pungal Nayak Bank Ltd. in 1968. Subsequently in 1985, it took over Laxmi Commercial Bank Ltd. In its 96 years of operations, the Bank has grown into 2,409 branches with a total business size of over Rs97,000 crore and currently employs over 47,500 people.

The growth profile of the Bank over its history is given below –

Year	Deposits (Rs crore)	Net Advances (Rs crore)	No. Of Branches
1907	0.004	0.008	1
1910	0.026	0.045	1
1926	0.250	0.300	4
1928	0.374	0.385	7
1929	0.467	0.394	8
1930	0.572	0.499	11
1932	0.555	0.368	13
1940	0.867	0.472	26
1945	3.504	1.569	35
1947	5.26	2.03	39
1956	14.32	7.73	53
1969	185.24	125.47	368
1980	2,099.06	1,172.29	1,284
1990	10,922.67	6,498.48	2,006
1990-1991	12,368.32	7,073.05	2,020
1991-1992	14,238.15	7,999.85	2,026
1992-1993	16,466.07	8,042.15	2,048
1993-1994	19,538.94	8,284.99	2,089
1994-1995	22,475.11	10,878.26	2,136
1995-1996	26,243.24	13,095.84	2,192
1996-1997	31,445.01	14,412.83	2,262
1997-1998	38,045.00	16,825.00	2,312
1998-1999	41,959.00	19,530.00	2,379
1999-2000	48,001.00	23,547.00	2,397
2000-2001	59,070.00	27,832.00	2,405
2001-2002	64,030.00	33,127.00	2,409

### Share of domestic banking industry

Distribution of deposits, advances and income among the various categories of banks in India for FY2001 is outlined below:

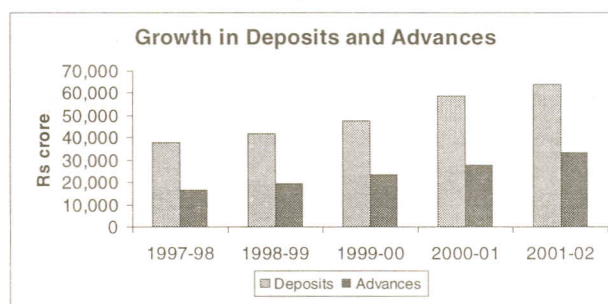
	Deposits	Advances	Income
Public Sector banks	40.7%	39.4%	39.2%
Private Sector banks	6.5%	6.5%	6.3%
Foreign banks	2.8%	4.1%	4.5%
Cooperative banks	50.0%	50.0%	50.0%
Total	100.0%	100.0%	100.0%

(Source: RBI; Figures for FY2001)

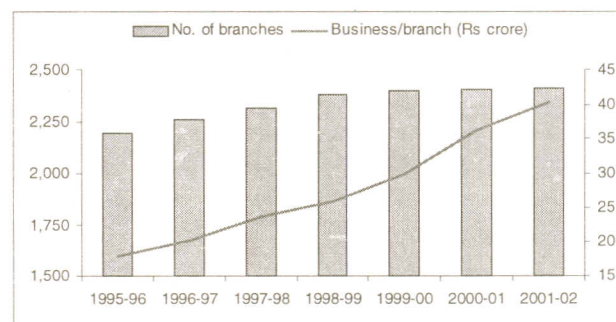
Canara Bank's share of deposits, advances and income for FY2001 is indicated below:

	Deposits	Advances	Income
As a % of Public Sector banks	7.45%	7.99%	7.54%
As a % of all banks	3.03%	3.15%	2.95%

The chart below explains the growth in resource mobilisation and advances in the last five years:



The Bank has thus seen a steady and consistent growth in both its deposits and advances. In the last five years, the deposits and advances of the Bank have grown at a compounded annual growth rate of 13.9% and 18.5% respectively. The Bank has also witnessed an improvement in its operating efficiency with the business size per branch growing at a compounded annual growth rate of 14.4% over the last 7 years. The following graph indicates the trend:



The Bank expanded into international markets with the opening of its London branch as early as 1983. Currently, the Bank's international operations are represented by its presence in London and Moscow and by a wide network of correspondent banking arrangements. The Bank also has a wholly owned foreign subsidiary Indo Hong Kong International Finance Ltd., head-quartered in Hong Kong, which accepts deposits and undertakes trade financing activities. Over the years foreign





business has emerged as an important component of the Bank's business, contributing Rs59,333 crore to the Bank's turnover for FY2002. To further its foreign business initiative, the Bank has recently entered into an agreement with State Bank of India for setting up a joint venture bank in Moscow under the name 'Commercial Bank of India'. The Bank already operates in Moscow through a representative office.

The Bank has, over the years, differentiated itself from other banks through its Information Technology ('IT') initiatives. Currently the Bank has 1,564 computerised branches, besides providing Tele-Banking, Anywhere-Banking and Remote Access Terminal facilities to its customers. As on March 31, 2002, 81% of the total business of the Bank has been covered through computerisation.

The Bank has also diversified into other banking related areas through its various subsidiaries and sponsored companies:

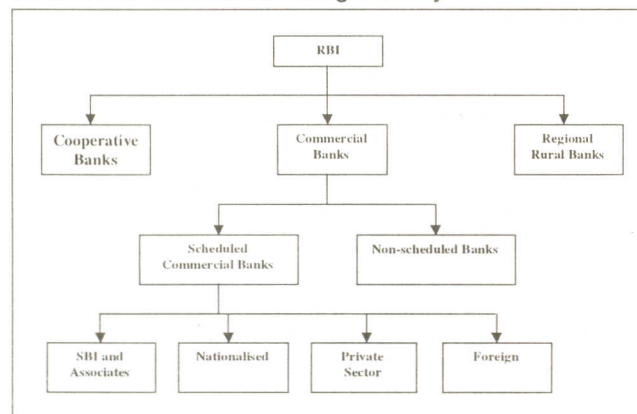
- Canbank Computer Services Ltd.
- Canbank Factors Ltd.
- Canbank Financial Services Ltd.
- Canbank Investment Management Services Ltd.
- Canbank Venture Capital Fund Ltd.
- Gilt Securities Trading Corporation Ltd.
- Indo Hong Kong International Finance Ltd.
- Canfin Homes Ltd.

With the help of its subsidiaries and sponsored companies, the Bank currently offers a suite of financial products and services to its customers.

## OVERVIEW OF THE BANKING ENVIRONMENT

(The information presented in this section has been extracted from publicly available documents, which have not been prepared or independently verified by the Bank, the Lead Managers or any other respective affiliates or advisors)

### Structure of the Indian Banking Industry



## Recent Trends

In the recent years, the Indian Banking industry has been undergoing rapid changes reflecting a number of underlying changes. Liberalisation and deregulation witnessed in the Indian markets in the 1990s have resulted in a spurt in banking activity

in India. Significant advances in communication have enabled banks to expand their reach, both in terms of geography covered as well as new products introduced. With increased competition in wholesale banking due to the entry of foreign banks and new private sector banks, the sector has witnessed a squeeze in margins. This has led to banks increasing their focus on retail banking so as to obtain access to low cost funds and to expand into relatively untapped, potential growth areas. Banks and financial institutions are thus continuously exploring new avenues for increasing their footprint and safeguarding their margins.

## Retail Assets as Growth Drivers

Competition from multinational banks and entry of new private sector banks has rewritten the rules of the retail lending business in India. Slow growth in corporate lending, pressure on corporate spreads due to competition and concerns over asset quality have induced public sector banks to follow the private sector banks in placing emphasis on growth through expansion of retail portfolio. Public sector banks also have the inherent advantage of control over more than 80% of the retail deposits in India providing superior access to retail customers. The Indian retail lending market is relatively unexplored with the per-capita usage of retail product offerings such as housing finance, credit cards, auto loans, consumer finance, etc. lower as compared to Asian peers. Also the relative size of the Indian market, backed by factors such as a growing population of bankable households, low penetration rate for retail finance products and the increased propensity of the urban populace to take credit, offers scope for expansion.

## Universal Banking

Universal banking refers to the combination of commercial banking (including wholesale banking and retail banking) and investment banking services. In certain countries, universal banks offer insurance services, in addition to commercial banking and investment banking services. Universal banking primarily provides the benefits of scale of operations. With deregulation and liberalisation, Indian financial sector has also been witnessing the phenomenon of universal banking, essentially with competition from integrated foreign banks. Financial institutions have expanded their scope of services to include commercial banking and retail finance either under the same institution or by way of a banking subsidiary.

## Technology as a Differentiator

Advancements in technology have helped aggregation of information as well as effective dissemination of financial activity, apart from rationalisation of cost structures. Banks are increasingly adopting technology as a platform for their product offerings so as to differentiate themselves from competition. Technology has revolutionized the delivery chain for financial products and services with ATMs, Home banking and Telephone banking taking the place of banking at bank branches.

## Mergers and Acquisitions

The domestic banking sector has started witnessing mergers and acquisitions (M&A) activities. While private players have access to the latest technology, they lack the reach and low cost funds of public sector banks. M&A thus offer these banks an effective route to face competition and increase their reach and





presence. Mergers and acquisition may also provide the international banks and financial institutions an opportunity to expand their businesses in India.

#### Major Policy Changes Effectuated in Financial Year 2001-02

Financial year 2001-02 has witnessed a steep reduction in interest rates, effected by RBI through its policy instruments of bank rate, cash reserve ratio (CRR) and repo rate.

Some of the major policy changes initiated by RBI during the financial year 2001-02 are listed below:

- Reduction in bank rate by 0.50% from 7.0% to 6.5%, the lowest since the year 1973
- Reduction in CRR by 200 basis points from 7.5% to 5.5%
- Foreign Direct Investment limits in private sector banks increased from 20% to 49%
- Rate of interest on eligible CRR was made flexible and increased to 6.50% from 6.0%
- Banks advised to gradually move to international best practice of 90 days for classifying troubled assets from the current 180 days
- Banks advised to move over to charge interest at monthly intervals
- Negotiated Dealing System introduced to facilitate electronic bidding in auctions and secondary market transactions in Government securities and to provide dissemination of information on trading on a real time basis
- 5% of profits earned through investments to be set aside as 'Investment Fluctuation Reserve' for a period of five years beginning financial year 2001-02

#### MAIN OBJECT AND BUSINESS OF THE BANK

##### Main object

The main object of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 under which the Bank was constituted by the Central Government as a Corresponding New Bank 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 further to control the heights of the economy, to meet progressively, and serve better, the needs of the development of the economy and to promote the welfare of the people, in conformity with the policy of the State towards securing the principles laid down in clause (b) and (c) of Article 39 of the Constitution of India and for matters connected therewith or incidental therein."

##### Business of the Bank

The Banking Regulation Act, 1949 which is the governing act for the Bank enables the Bank to carry on and transact the business of banking as defined in clause (b) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), and also engage in one or more of the other forms of business specified in sub-section (1) of section 6 of that Act.

According to clause (b) of Section 5 of the Banking Regulation Act, 1949 "Banking means the accepting for the purpose of lending or investment, of deposits of money from the public,

repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise."

The Other Business that the Bank can undertake:

Section 3 (7) permits the Bank to act as an agent of Reserve Bank. It states as under -

- "(h) The bank shall, if so required by the Reserve Bank, act as agent of the Reserve Bank at all places in India where it has a branch for:
- (a) paying, receiving, collecting and remitting money, bullion and securities on behalf of Government of India; and
  - (b) undertaking and transacting any other business which the Reserve Bank may from time to time entrust to it.
- (ii) The terms and conditions on which any such agency business shall be carried on by the corresponding new bank on behalf of the Reserve Bank shall be such as may be agreed upon.
- (iii) If no agreement can be reached on any matter referred to in clause (ii), or if a dispute arises between the corresponding new bank and the Reserve Bank as to the interpretation of any agreement between them, the matter shall be referred to the Central Government and the decisions of the Central Government thereon shall be final.
- (iv) The corresponding new bank may transact any business or perform any functions entrusted to it under clause (i) by itself or through any agent approved by the Reserve Bank."

#### OVERVIEW OF THE BANK'S BUSINESSES AND ACTIVITIES

##### Corporate Vision

The Bank's Corporate Vision in the medium term is to be a 'World Class and World Sized Bank'. The Bank believes that its efforts in respect of IT initiatives, focus on customer centric measures and thrust on profitability would enable it to fulfill its vision.

##### Corporate Mission

The Corporate Mission of the Bank for the year FY2003 is to achieve 'Profitability, Efficiency and Productivity'.

##### Competitive Strengths

- One of the largest banks in India, with total business (advances plus deposits) exceeding Rs97,000 crore
- Continuous track record of profitability since inception
- Low net NPA level of 3.89%
- Vast domestic branch network spread across the country
- Wide-ranging portfolio of financial services provided through various subsidiaries of the Bank
- Technological edge with 81% of the Bank's business being computerised
- Technological backbone enables the Bank to undertake product innovation and adopt a customer centric approach
- Strong presence in credit cards with an ISO 9000 certification for the operations
- Efficient operations with business per branch of Rs40.3 crore as at the end of FY2002





## Quality Upgradation

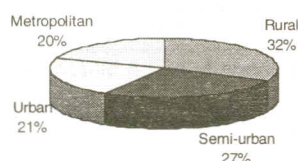
Canara Bank is among the first few banks in India to have one of its branches obtain an ISO certification. The Bank also has ISO 9002 certification for Cancard-the Bank's credit card. Continuous quality upgradation program of the Bank over the years has ensured ISO 9001 certification for 122 branches, two administrative offices and one regional office. With over 1000 active Quality Circles functioning in the various branches and offices of the Bank, the Bank is focusing on implementing Quality in all aspects of its business.

## PRESENT BANKING ACTIVITIES

### Branch and Office Network

The Bank has 13 Circle Offices and 32 Regional Offices. The branch network consists of 2,408 domestic branches, one international branch and 218 extension counters as on March 31, 2002. The break up of branches is as follows:

Branches	No.
Domestic branches	2,408
Rural branches	766
Semi-urban branches	644
Urban branches	515
Metropolitan branches	483
International branch	1
<b>Total</b>	<b>2,409</b>



The statewise distribution of branches of the Bank is as shown below:

Domestic branches State/Union Territory	No of Branches
Andaman & Nicobar Islands	1
Andhra Pradesh	169
Assam	16
Bihar	75
Chandigarh	11
Chattisgarh	9
Dadra & Nagar Haveli	1
Delhi	82
Goa	21
Gujarat	37
Haryana	52
Himachal Pradesh	11
Jammu & Kashmir	7
Jharkhand	38
Karnataka	519
Kerala	237

Madhya Pradesh	40
Maharashtra	189
Meghalaya	2
Orissa	39
Pondicherry (U.T.)	3
Punjab	100
Rajasthan	22
Sikkim	1
Tamilnadu	452
Tripura	1
Uttar Pradesh	179
Uttaranchal	23
West Bengal	71
<b>Total</b>	<b>2,408</b>
<b>International branches</b>	
London Branch	1
<b>Grand Total</b>	<b>2,409</b>

### Specialised Branches

In order to cater to various niche markets in domestic business and in order to impart required focus to the specialised activities, the Bank has given a thrust to services offered through specialised branches. The Bank has 164 specialised branches as on March 31, 2002 spanning wholesale banking, retail banking as well as trade finance. As many as 53 branches out of the Bank's specialised branch network are specialised savings branches engaged in furthering the Bank's initiative to broad base its retail deposits and reduce cost of funds. The break up of the specialised branches as on March 31, 2002 is given below-

Specialised Branches	No.
Special savings branches	53
Non-Resident Indian	13
Small scale industry	37
Overseas	19
International finance	9
Corporate services	4
Professional services	1
Consumer finance	2
Hi-tech Agricultural Finance branches	11
Stock exchange branches	5
Capital Market branches	4
Asset Recovery Management branches	5
Mahila banking branch	1
<b>Total</b>	<b>164</b>

### Rural and Semi-Urban Branches

The Bank realizes the future growth potential offered by the relatively untapped rural and semi-rural branches in the wake of fierce competitive pressure in metro/urban centres. To take advantage of the turnaround in the agriculture and agro-allied segments and possible benefits of WTO negotiations, and to make rural banking profitable, the Bank is concentrating on the following strategies:



- Active participation of the Bank in new sunrise segments such as biotechnology, horticulture, sericulture and aquaculture
- Expanding the scope of retail operations to encash the opportunities related to growth of consumerism in rural areas and the rise in rural incomes
- Popularisation of micro-credit and promotion of entrepreneur developments in rural and semi-urban locations
- Identifying higher number of Non Government Organisations (NGOs) and Self Help Groups (SHGs) to enlarge assistance to rural masses

### Deposits

Canara Bank offers a host of deposit schemes to both resident and non-resident Indians. The Bank's business strategy to maximise its deposits is as follows:

- To intensify the efforts to net more low cost deposits viz. current and savings bank deposits to ensure a better and more judicious deposit mix
- To aim at a core deposit level around 90-92% and restricting deposits taken at preferential rate to around 6-8% of the Bank's aggregate deposits

As on March 31, 2002 the total deposits of the Bank stood at Rs64,030 crore against Rs59,070 crore on March 31, 2001, representing a growth of 8.40%. The Bank had a base of around 2.3 crore depositors as on March 31, 2002 resulting in an average deposit size in excess of Rs27,800 per depositor. The deposits per branch as on March 31, 2002 stood at Rs26.58 crore. The region-wise (as per RBI's region wise classification) distribution of deposits as a percentage to aggregate deposits of the Bank is given below:

As on March 31	1998	1999	2000	2001	2002
Southern region	41.78	41.74	42.21	38.66	40.50
Northern region	22.11	21.50	21.23	23.21	24.47
Western region	19.93	19.89	19.37	22.11	18.63
Eastern region	8.20	8.32	8.34	7.95	8.27
Central region	7.26	7.86	7.95	7.28	7.39
North east region	0.72	0.70	0.90	0.79	0.73
Total	100.00	100.00	100.00	100.00	100.00

The population-wise break-up of the deposits during the last 5 years is as follows:

As on March 31	1998	1999	2000	2001	2002
Rural	8.92	9.33	9.51	8.78	8.95
Semi urban	17.39	18.45	19.24	17.56	18.23
Urban	22.63	23.12	23.32	21.65	22.40
Metro	51.06	49.10	47.92	52.00	50.42
Total	100.00	100.00	100.00	100.00	100.00

The category-wise break-up of total deposits during the last 5 years is as follows:

(Rs crore)

As on March 31	1998	1999	2000	2001	2002
Current Deposits	6,283	5,897	7,104	7,847	7,148
Savings Deposits	8,077	9,543	11,129	12,786	14,511
Term Deposits	23,686	26,518	29,768	38,436	42,370
Total Deposits	38,045	41,959	48,001	59,070	64,030

The average cost of deposits for the Bank is provided below:

(%)

As on March 31	1998	1999	2000	2001	2002
Current Deposits	0.16	0.04	0.21	0.05	0.14
Savings Deposits	3.82	3.76	3.84	3.46	3.45
Term Deposits	11.44	11.33	10.33	9.87	9.71
Total Deposits	7.91	7.86	7.35	7.05	7.22

### Non-Resident Deposits

The total NRI deposits of the Bank as of March 31, 2002 were Rs11,358 crore. This represents about 17.74% of the Bank's aggregate deposits. Details of NRI deposits during the last 3 years are as under:

(Rs crore)

As on March 31	2000	2001	2002
NRE	2,792	3,162	4,029
FCNR(B)	2,862	3,214	3,673
NRNR	3,264	3,501	3,656
Total	8,918	9,877	11,358

### Maturity Profile of deposits as on March 31, 2002

(Rs crore)

Residual Maturity	Amount
1 to 14 Days	4,857.67
15 to 28 Days	1,777.61
29 Days and upto 3 months	4,073.01
Over 3 Months and upto 6 months	4,211.64
Over 6 months and upto 12 months	8,011.48
Over 1 year and upto 3 years	20,042.58
Over 3 years and upto 5 years	5,115.80
Over 5 years	14,396.21
Total	62,486.00

### Floating Rate Liabilities

There were no floating rate liabilities for the Bank as on March 31, 2002.

### Borrowings

As on March 31, 2002, the Borrowings of the Bank are as follows:

Particulars of Borrowings from	Amount (Rs crore)
Institutions & Agencies	267.40
Unsecured Redeemable Bonds	1,250.00
Borrowings Outside India	76.23
Total	1,593.63





Details of all unsecured borrowings outstanding as on March 31, 2002

Borrowings	Outstanding Balance (Rs. crore)	Affiliate / Associate	Date of Borrowing	Due Date	Int. Rate (%)	Repayment terms
IDBI Refinance	19.94	No	Ongoing	Ongoing	10.81% to 14.0%	Ongoing
SIDBI Refinance	39.73	No	Ongoing	Ongoing	8.5% to 17.0%	Ongoing
NABARD Refinance	203.40	No	Ongoing	Ongoing	8.5%	Ongoing
EXIM Bank Refinance	2.56	No	Ongoing	Ongoing	14.0%	Ongoing
Call Borrowings and Others	1.77	No	Ongoing	Ongoing	At market rates	Ongoing
<b>Total</b>	<b>267.40</b>					

#### Important covenants relating to the above-mentioned borrowings

IDBI – IDBI provides refinance to banks against term lending to large Industrial Borrowers etc. Eligibility for claiming refinance at different rates is prescribed by IDBI and according to the repayment schedule the monies are collected from the bank.

SIDBI – SIDBI provides refinance to banks against term lending to SSI sector etc. Eligibility for claiming refinance at different rates is prescribed by SIDBI and according to the repayment schedule the monies are collected from the bank.

NABARD – NABARD provides refinance to banks against term lending to agriculture, etc. Eligibility for claiming refinance at different rates is prescribed by NABARD and according to the repayment schedule the monies are collected from the Bank.

EXIM Bank – EXIM Bank provides refinance to banks against lending to Export/Import Borrowers etc. Eligibility for claiming refinance at different rates is prescribed by EXIM bank and according to the repayment schedule the monies are collected from the bank.

#### Servicing Behaviour

The Bank has been servicing all its principal and interest liabilities on time and there have been no defaults at any time.

#### Loan Policy and Lending Activities

The Bank has a well documented loan policy, following the broad guidelines set by RBI, set with the objective of broadbasing its credit portfolio for sustained growth and optimal use of resources without compromise on asset quality. The loan policy exhaustively covers guidelines for enhancing credit and a system of risk evaluation and credit rating, exposure norms, pricing, appraisal, credit rating and prudential norms. The policy document also encapsulates the credit monitory policy and continuous loan review systems adopted by the Bank.

The guidelines for lending are established within the broad credit policy framework adopted by the Bank. The guidelines are monitored and revised from time to time, based on the various industry level and economy level studies conducted internally to assess the market potential and prevailing national and global trends.

The main objectives of the loan policy document are to:

- Ensure credit growth, both quantitatively and qualitatively, and to augment interest and non- interest income
- Ensure balanced sectoral and diversified growth of credit so as to enable to have a proper risk spectrum

- Evolve a well defined system to identify, measure, monitor and control various risks attached to credit portfolio of the Bank
- Review delegation of loaning powers to various functionaries in the Bank with an in-built flexibility to facilitate quicker decision making
- Adhere to the lending norms prescribed by the Bank, the RBI and Government from time to time
- On-going review of norms and guidelines for effective monitoring and follow-up

As an effective risk management tool and in order to avoid portfolio/concentration risk, the Bank has set exposure ceiling on various industries / activities and reviews the same on an ongoing basis, based on analytical study of industry / market trends.

The Bank has a well-laid down credit review and monitoring mechanism to effectively monitor the borrowal accounts to ensure its health. In order to quickly identify incipient NPAs as also to initiate timely remedial measures to prevent the credit becoming NPAs, the Bank categorizes its credit assets under 'watch' and 'special watch' list.

#### Lending Powers/ Delegation

Within the limits permissible by RBI and in line with the Loan Policy framework, the Bank has put in place a well-defined system of delegation of credit sanctioning powers duly approved by the Board of Directors. The duly documented system extends to the various credit facilities extended by the Bank including its overseas operations. Proposals for project finance from prospective as well as existing clients are subjected to technical feasibility and economic viability studies, which also include sensitivity analysis. The loaning policy of the Bank also incorporates exposure ceiling on various industries/activities. The lending powers also cater to credit requirements in respect of specialized services offered by the Bank.

#### Key Areas

The Bank has identified certain key areas for focus given below and has developed focussed strategy for these areas:

1. Retail Lending with focus on Housing Finance
2. SSI Lending
3. Financing of retail traders and self employed businessmen
4. Agriculture

#### Retail Lending

The Bank offers a host of products and services geared to meet the credit requirements of a wide range of retail customers. A few of the loan services offered by the Bank are tabulated below:



1	CANCASH	To provide a loan of upto a maximum of Rs5 lakh against approved shares, bonds and debentures held by the clients
2	CANCARRY	Loan is provided up to 80% of the invoice value, to creditworthy individuals, professionals and salaried class for buying consumer durable and household articles
3	CANMOBILE	Auto finance is provided for four wheelers and two wheelers up to 90% of the invoice value
4	Housing Loan	Housing finance is provided for repairs / renovation of existing house property and take over of the housing loan liability with other recognised housing finance companies
5	Loans to Traders/ Business Enterprises	Finance is provided up to Rs50 lakh to traders and business enterprises for smooth flow of business activities
6	Loans for Senior Citizens	Loans are offered for senior citizens for meeting cost of medical expenses and other needs of pensioners of Central / State Governments and their undertakings
7	CANBUDGET	To provide personal loan to the employees of corporate and non-corporate clients of the Bank
8	Teachers Loan Scheme	To provide personal loans to teaching and non-teaching staff of schools and colleges
9	Vidyasagar Education Loan Scheme	The scheme provides financial assistance to the needy and meritorious students for pursuing all types of studies (professional/ general) in India and abroad
10	CANRENT and CANMORTGAGE	CANRENT provides loans to property holders wherever the property is leased / rented out to Public Sector Units (PSUs), reputed corporate and Multinational Corporations (MNCs). CANMORTGAGE scheme is designed to meet the financial requirements against security of equitable mortgage of property (land and building) to professionals, businessmen, salaried persons and individuals.
11	CANPENSION	Loan is provided to pensioners to a maximum of Rs50,000 or 6 months pension amount whichever is less to meet their medical expenses and genuine personal needs

#### Credit Portfolio

Summary of the Gross Advances for the last 5 years (as on last reporting Friday) are as follows:

As on last Friday of the Year	Gross Advances (Rs crore)	Annual increase (%)
1998	18,119	17.59
1999	20,399	12.58
2000	24,750	21.33
2001	28,563	15.41
2002	33,130	15.99

The following table provides a summary of the total sanctions and disbursements for the last five years:

(Rs crore)

As on March 31	1998	1999	2000	2001	2002
Sanctions	9,709.70	12,922.11	21,518.32	21,485.54	25,177.68
Net Disbursements	7,297.85	10,216.79	17,501.32	16,210.54	19,882.68

#### Credit Exposures

The Bank has an extensive presence in the South, which has resulted in the largest proportion of its advances being in the southern region (38%) followed by the western (27%) and the northern (25%) regions.

Region-wise credit exposure as on March 31, 2002

Region	Gross Amount (Rs crore)	% of Gross Advances
Central	1,280.12	3.8%
Eastern	1,830.13	5.4%
Northern	8,425.55	24.8%
Southern	12,777.23	37.6%
Western	8,912.53	26.2%
Total (Domestic)	33,225.56	97.8%
London	740.75	2.2%
Total (Global)	33,966.31	100.0%

The sector wise credit portfolio of the Bank as on March 2002 is given below:

(Rs crore)

Item	Amount	% of total
Gross Advances	33,966.31	100.00%
Food Credit	3,511.00	10.34%
Non Food Credit	30,455.31	89.66%
of which		
Priority Sector	10,536.00	31.02%
of which SSI	3,366.00	9.91%
Industry (Large & medium)	10,971.00	32.30%
Wholesale trade	4,402.00	12.97%
Other Sectors	4,546.31	13.39%

The Bank has a well-diversified industry-wise credit portfolio since exposure limits are kept in view while providing advances to various industries. This is illustrated below as at the last reporting Friday of March 2002:

(Rs crore)

Industry	Fund Based	Non-Fund Based	Total	% of Total
Total of Small Scale, Medium and Large Scale				
Industrial Advances	14,337	5,817	20,154	100.00
Coal	8	40	48	0.24
Mining	131	6	137	0.68
Iron and Steel	948	398	1346	6.68
Other Metal and Metal products	223	130	353	1.75
All Engineering	1,236	1,194	2,430	12.06
of which Electronics	309	197	506	2.51





Electricity (Generation & Transmission)	439	735	1174	5.83	ii. Petrochemicals	192	19	211	1.05
Cotton Textiles	648	119	767	3.81	iii. Drugs & Pharmaceuticals	369	158	527	2.61
Jute Textiles	11	20	31	0.15	Cement	169	20	189	0.94
Other Textiles	1,017	173	1,190	5.90	Leather & Leather Products	344	35	379	1.88
Sugar	191	3	194	0.96	Gems & Jewellery	340	51	391	1.94
Tea	33	—	33	0.16	Construction	186	614	800	3.97
Food Processing					Petroleum	2,008	240	2,248	11.15
(including Vegetable oils)	367	148	515	2.55	Automobiles including Trucks	392	117	509	2.53
Tobacco & Tobacco Products	38	10	48	0.24	Computer Software	132	46	178	0.88
Paper & Paper Products	114	30	144	0.71	Infrastructure; of which	1,343	471	1,814	9.00
Rubber & Rubber Products	113	34	147	0.73	i. Power	1,184	287	1,471	7.30
Chemicals, Dyes, Paints, Drugs & Pharmaceuticals; of which	1,326	278	1,604	7.96	ii. Telecommunications	45	167	212	1.05
i. Fertilisers	306	56	362	1.80	iii. Roads & Ports	114	17	131	0.65
					Other Industries	2,580	905	3,485	17.29

#### Industry-wise Credit Exposure to Top 10 Industries by the Bank as on March 31, 2002

S. No.	Industry name	Total exposure (Rs crore)	% of total indl. exposure	Outstanding to the top 10 borrowers in the industry as a % of the total outstanding to the industry
1.	All Engineering	2,430	12.06	83.70
2.	Petroleum	2,248	11.15	99.13
3.	Infrastructure	1,814	9.00	38.20
4.	Chemical, Drugs, etc.	1,604	7.96	29.25
5.	Iron & Steel	1,346	6.68	74.19
6.	Textiles (Other than Jute & Cotton)	1,190	5.90	9.06
7.	Electricity (Generation & Transmission)	1,174	5.83	96.76
8.	Construction	800	3.97	73.34
9.	Cotton Textiles	767	3.81	28.60
10.	Automobiles	509	2.53	46.27

#### Credit Exposure of Top 10 Companies by the Bank as On March 31, 2002

Name of the Borrower	Industry	Outstanding (Rs crore)	Average rate of interest	% to Total Advances	Asset Quality
Borrower A	Food	3,511.00	Running PLR	10.34%	Standard
Borrower B	Mfg-Petroleum	1,638.31	LIBOR + 37 bp	4.82%	Standard
Borrower C	Mfg-Heavy Engg. Electrical Machinery	677.03	PLR + 1.75%	1.99%	Standard
Borrower D	Mfg-Heavy Engineering, other than Electrical Machinery.	414.23	PLR(11.5%)	1.22%	Standard
Borrower E	Financial Development Institution	560.00	LIBOR + 0.50%	1.65%	Standard
Borrower F	Electricity Generation & Distribution	194.31	14% p.a.	0.57%	Standard
Borrower G	Financial & Development Institutions	517.30	11.50% p.a., 6 Months LIBOR +0.75%	1.52%	Standard
Borrower H	Electricity Distribution & Generation	417.98	10.70% p.a.	1.23%	Standard
Borrower I	Financial & Development Institutions	450.00	9.75% p.a.	1.32%	Standard
Borrower J	Mfg-Petrochemicals	450.72	W.C – PLR+1.25%, Term Loan - MTLR, FCLR- 3Months LIBOR + 1%	1.33%	Standard
Total		8,830.88			

Note: PLR – Prime lending rate of the Bank – 11.5%  
 MTLR/PTLR – Medium term/Prime term  
 TL – Term loan lending rate of the Bank – 1.5% above PLR  
 WC – Working Capital limits  
 FCLR – Foreign Currency loans



Exposure to the top 25 operative borrowers constitutes only 32.96% of total advances as on March 31, 2002.

There have been no defaults/ compromise write-offs in any of the above top 10 borrowers in the year 2001-02.

#### Credit Exposure to Top five business groups as on March 31, 2002

(Rs crore)

Name of the Borrower	Credit exposure limit	Outstanding Amount	% of Total Advances
Group A	1,215.39	148.13	0.45%
Group B	1,076.30	423.33	1.28%
Group C	800.90	414.23	1.25%
Group D	495.00	450.72	1.36%
Group E	438.15	69.81	0.21%
<b>Total</b>	<b>4,025.74</b>	<b>1,506.22</b>	

#### Priority Sector and Lead Bank Division

Government of India/Reserve Bank of India has prescribed benchmark i.e. minimum lending of 40% of net bank credit to the priority sector by the public sector banks and the Bank has achieved the same. The share of priority sector in net bank credit and distribution sub-sector wise for 5 years (as on last reporting Friday of the respective years) are given as under -

(Rs crore)

Year Ended March 31	1998	1999	2000	2001	2002
Agriculture	2,827	2,853	2,986	3,476	3,888
Small Scale Industries	2,575	2,789	2,798	2,964	3,366
Other Priority Sectors	1,333	1,392	1,883	2,698	3,282
Total Priority Sector	6,735	7,034	7,667	9,138	10,536
Net Bank Credit (NBC)	13,587	15,132	18,420	21,742	25,748
Priority Sector as % to NBC	49.57%	46.48%	41.63%	42.03%	40.92%

During the year ending March 2002, credit to the priority sector lending has increased by Rs1,398 crore representing a growth of 15.3% over the previous year.

The Bank has implemented innovative ideas to further its priority lending initiative such as Self Help Groups, Kisan credit cards, Agri-Clinics and Agri-Business centres and providing agricultural consultancy, which are the first of their kind in the domestic banking industry. Canara Bank has also initiated various innovative programmes for the development of rural poor under the aegis of its Canara Bank Platinum Jubilee Rural Development Trust. The Bank, in association with Syndicate Bank and Sri Dharmasthala Manjunatheshwara Trust has established 18 Rural Development & Self-employment Training Institutes (RUDSETIs) all over India, which are also engaged in imparting free training to the poor rural youth.

#### Specialised SSI Branches

The Bank has continued to meet requirements of SSI sector in accordance with the Nayak Committee norms and Kapur Committee's recommendations. The Bank has 37 Specialised SSI branches catering exclusively to SSIs spread across different states in India which together have an outstanding credit of Rs3,366 crore which is 9.91% of the Bank's total credit.

#### Lead Districts

As required by Government of India/RBI, the Bank has been assigned the role of the Lead Bank in 23 districts in 5 States i.e. Karnataka, Tamilnadu, Kerala, Uttar Pradesh and Bihar to undertake and supervise inter-institutional co-ordination, preparation and implementation of annual action plan, branch expansion, resource mobilisation and development of area and implementation of development programmes involving all other banks in the Lead districts. The details are as follow:

(Rs crore)

State	No. of Districts	No. of Branches	Total Deposits	Total Advances
Karnataka	7	168	1,260.97	877.26
Tamilnadu	6	172	2,050.46	1,453.71
Kerala	5	138	2,764.64	865.37
Uttar Pradesh	4	74	1,363.52	435.18
Bihar	1	3	15.47	2.08
<b>Total</b>	<b>23</b>	<b>555</b>	<b>7,455.06</b>	<b>3,633.60</b>

#### Export Credit

The Bank has played a significant role in extending export credit both in rupee terms as well as in foreign currency. The Bank's outstanding export credit as on March 31, 2002 stands at Rs3,672 crore, which was 10.81% of the Bank's total credit. The Bank is making efforts to increase the advances to this sector by providing various fund based and non-based facilities to exporters.

#### Foreign Currency Loans

Details of the Foreign Currency Loans portfolio for the last five years is as under:

As on March 31	1998	1999	2000	2001	2002
Foreign Currency Loans (USD mn)	139.52	222.86	499.88	664.32	734.07
Foreign Currency Loans (EURO mn)				1.73	1.87

(Rs crore)

As on March 31	1998	1999	2000	2001	2002
Foreign Currency Loans	674.42	1,077.32	2,416.40	3,219.64	3,557.46

Based on the exchange rate as on Friday, July 26, 2002 (Source: The Economic Times dated July 26, 2002)

#### Project Finance

The Bank's project finance infrastructure comprises the Project Finance Department co-operating out of the Bank's head office and Project Appraisal Cells located at the circle offices. The Project Finance Department undertakes techno-economic appraisal of large projects seeking term loan assistance from the Bank. During FY2002, the Project Finance Department has appraised 22 projects. The department also reviews and appraises any project proposals submitted by the circle offices for further review. Besides, the department also evaluates the progress of assisted projects under implementation on obtaining periodical progress reports. The Bank further intends to bring debt syndication under the scope of activities of the Project Finance Department.





## Recovery Management

### Asset Classification

From the financial year 1992-93, the RBI has introduced prudential norms for income recognition, asset classification and provisioning. Under the prudential norms, loan assets are broadly classified into two categories viz. "performing" and "non-performing". A loan asset is treated as a non-performing asset when it ceases to generate income for the Bank in the normal course. A borrowal account is classified as a non-performing asset (NPA) when the interest and /or principal dues remain overdue or out of order for a period of more than 180 days.

NPAs are further categorised into three groups i.e. Substandard, Doubtful and Loss depending upon the period of delinquency and availability of tangible security. The table below gives the criteria for asset classification viz. standard, sub-standard, doubtful and loss asset:

Category	Classification
<b>1. Performing</b>	
Standard assets	An asset which does not disclose any problem and which does not carry more than the normal business risks
<b>2. Non-Performing</b>	
a) Sub-standard assets	An asset which has been non-performing for a period less than or equal to eighteen months
b) Doubtful assets	An asset which has been non-performing for a period exceeding eighteen months
c) Loss assets	Assets where loss has been identified by the Bank or auditors/RBI but the amount has not been written off completely

Once an account is classified as an NPA, interest already debited to the account is derecognised and further interest is recognised on cash basis and not on accrual basis.

The classification of the Bank's advances into various categories is as under:

As on March 31	1998	1999	2000	2001	2002
Gross NPAs	2,460.9	2,643.3	2,596.1	2,242.9	2,112.0
Standard	15,579.2	18,160.8	22,318.2	26,502.8	31,854.0
Sub-Standard	852.6	735.6	733.2	615.4	677.3
Doubtful	1,351.4	1,632.2	1,687.8	1,490.7	1,335.0
Loss	256.9	275.5	175.1	136.7	100.3
Gross Advances	18,040.1	20,804.1	24,914.2	28,745.7	33,966.0

## Provisioning

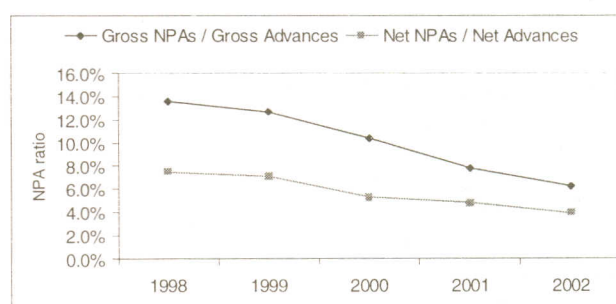
Banks are required to make provisions in respect of NPAs as per RBI Guidelines depending upon their classification which are indicated as under:

Standard	0.25% on the aggregate outstanding amount
Sub-standard	10% of the outstanding amount
Doubtful	a) 100% of the unsecured portion of advance which are not covered by realisable value of security; and b) 20%/ 30%/ 50% of the secured portion of the debt taking into consideration the number of years for which the account has been classified as doubtful upto one, one to three or more than three years respectively
Loss	100% of the loan outstanding

Reduction in the level of Non Performing Assets (NPAs) has been one of the areas of focus for the Bank. The gross and net NPAs have shown a considerable decline with the net NPA percentage as on March 31, 2002 at 3.89%. The following table and chart provide the movement of the Bank's gross and net NPAs percentages for the last five years.

(Rs crore)

As on March 31	1998	1999	2000	2001	2002
Gross NPAs	2,460.9	2,643.3	2,596.1	2,242.9	2,112.0
Gross Advances	18,040.1	20,804.1	24,914.2	28,745.7	33,966.0
Gross NPAs / Gross Advances (%)	13.64%	12.71%	10.42%	7.80%	6.22%
Net NPAs	1,265.3	1,384.1	1,243.8	1,346.0	1,288.0
Net Advances	16,824.7	19,530.1	23,546.7	27,831.8	33,127.0
Net NPAs / Net Advances (%)	7.52%	7.09%	5.28%	4.84%	3.89%





# Sector Wise NPAs during the Last Three Years

(Rs crore)

	1999-2000			2000-2001			2001-2002		
	Gross Advances	Gross NPAs	NPAs as % to gross advances to the Sector	Gross Advances	Gross NPAs	NPAs as % to gross advances to the Sector	Gross Advances	Gross NPAs as	NPAs as % to gross advances to the Sector
A Agriculture	2,849.8	339.1	11.90%	3,476.1	366.2	10.53%	3,888.1	426.0	10.96%
B SSI	2,659.3	459.0	17.26%	2,964.1	703.6	23.74%	3,365.9	475.2	14.12%
C Other Priority Sector	1,870.5	301.9	16.14%	2,698.4	264.7	9.81%	3,282.3	160.0	4.87%
I Total Priority Sector	7,379.6	1,100.0	14.91%	9,138.5	1,334.5	14.60%	10,536.3	1,061.3	10.07%
II Public Sector	-	-	-	6,538.0	68.6	1.05%	6,681.7	44.7	0.67%
III Non-Priority Sector	17,534.6	1,496.1	8.53%	13,069.3	839.8	6.43%	16,748.3	1,006.5	6.01%
IV Total (I+II+III)	24,914.2	2,596.1	10.42%	28,745.7	2,242.9	7.80%	33,966.3	2,112.4	6.22%

Top 10 NPA accounts as on March 31, 2002

(Rs crore)

Name of Borrower	Industry	Outstanding as on March 31, 2002	Loss provided for as on March 31, 2002	Asset Quality as on March 31, 2002
Borrower A	Tiles	109.47	109.47	Loss
Borrower B	Synthetic Yarn	54.57	51.27	Doubtful
Borrower C	Mining	56.68	44.60	Doubtful
Borrower D	Petroleum Products	46.35	21.00	Doubtful
Borrower E	Construction	39.67	31.16	Doubtful
Borrower F	Fire Extinguishers	30.21	20.59	Doubtful
Borrower G	Pharmaceuticals	34.37	26.51	Doubtful
Borrower H	Wireless Cables	27.14	23.18	Doubtful
Borrower I	Mfg. Cotton Yarn Textile	25.15	15.94	Doubtful
Borrower J	Steel	21.88	2.18	Sub-standard
	Total	445.49	345.90	

Industry wise top 10 NPAs on March 31, 2002

Industry	NPA Amount (Rs crore)	% to advances given to the industry
Textiles	36.77	4.05%
Leather & Leather Products	36.41	10.52%
Chemicals, Dyes, Paints etc.	30.73	2.36%
Infrastructure	28.67	2.19%
Food Processing	27.52	8.52%
Iron & Steel	26.22	2.76%
Metal & Metal Products	25.12	11.85%
Cotton Textiles	22.48	3.63%
Gems & Jewellery	7.51	2.27%
Computer Software	7.49	6.14%
Total	248.92	





Position regarding the number and details of the NPA accounts as on March 31, 2002 is indicated below:

(Rs crore)

Particulars	No. of accounts	Amount
NPAs below Rs25,000	218,673	239.50
NPAs over Rs25,000	107,482	1,872.94
Total	326,155	2,112.44
Interest de-recognised		175.27

The classification of the above NPA position is categorised as under:

(Rs crore)

Substandard	677.31
Doubtful	1,334.79
Loss	100.34
Total	2,112.44

The coverage of NPAs through provisions has been stepped up from 60.44% to 63.73%. The Bank has been making provisions on the NPAs as per the RBI requirements.

#### NPA Management Strategy

Canara Bank's efforts towards reduction in NPAs have yielded positive results. The Bank lays emphasis on settling NPAs by compromise in accordance with the specified guidelines rather than adopting the long drawn and expensive legal proceedings route to settle non-performing assets. The Bank has established a recovery infrastructure comprising a 'Recovery Wing' at the Bank's head office, 'Recovery Executives' for the various circles and 'Asset Recovery Branches' focussing on review and follow up of assets classified as NPAs. The Recovery Wing steers the Bank's recovery efforts while senior executives of the Bank, nominated as Recovery Executives work closely with the Asset Recovery Branches in meeting with the defaulting parties and reaching a settlement through compromise. The Bank also constitutes special task forces from time to time integrating circle offices and branches for identification and recovery of NPAs.

The Bank realises the significance of a lower NPA level and places importance on the requirement of an effective monitoring mechanism and persuasive recovery methods. The Bank has in place a Management Information System (MIS) which provides for effective monitoring of accounts on a monthly basis. The MIS system not only serves as a continuous watch on the accounts under slippage but also enables the branch offices in arresting the slippage by early identification.

The Bank has taken the following steps to minimise the occurrence of fresh NPAs:

- Annual 'Action Plan' designed for each circle for early identification and action for probable NPA cases
- Monthly MIS in place comprising NPA statements, progress reports on key accounts and minutes of recovery meetings for continuous performance evaluation of accounts

- Classification of standard assets into 'Watch' and 'Special Watch' categories for focussed attention for recovery of 'critical amount' to avoid slippage of these accounts into NPAs

- Maintenance of a diverse portfolio in credit without major concentration in any one industry

#### Investments

Investment decisions at the Bank are taken by an 'Investment Committee', which is chaired by the Chairman and Managing Director of the Bank. The investment portfolio of the Bank is monitored keeping in view the following objectives:

- Ensuring adequate liquidity to the investment portfolio
- Maximising yields on investments, with thrust on non-SLR category
- Improving the overall average yield on the portfolio with active portfolio management
- Managing interest rate risk / market risk of the portfolio with appropriate risk management tools / systems
- Compliance with Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) as per Banking Regulations Act, 1949 and Reserve Bank of India Act, 1934

#### Details of Investments as on March 31, 2002

(Rs crore)

As on 31.03.2002	Domestic Investments
Government Securities	16,572.03
Other Approved Securities	1,246.44
Shares	236.46
Debentures and Bonds	4,214.60
Subsidiaries and/or Joint Ventures	132.24
Others:	
a. Unit Trust of India	42.61
b. Canbank Mutual Fund	179.80
c. Canbank Venture Capital Fund	20.45
d. Commercial Paper	48.83
Total	22,693.46

The above value of investments is net of a provision of Rs75.90 crore towards non-performing investments.

The break-up of the Bank's investments as per RBI prescribed format is given below. Investments were earlier classified as Permanent and Current Investments. Effective September 20, 2000, in terms of RBI guidelines, Investments are now classified into 3 categories viz. 'Held Till Maturity', 'Available For Sale' and 'Held For Trading'. As per RBI guidelines, recapitalisation bonds issued by the GoI amounting to Rs1,077.5 crore are not considered for arriving at the effective percentage of 'Held Till Maturity' securities to Total Investments.



(Rs crore)

As on March 31	1998	1999	2000	2001	2002
Gross Investments	15,940.45	17,121.35	19,620.94	20,966.81	22,714.55
Provision for Depreciation	-	65.05	-	20.64	21.09
SLR investments	10,125.43	10,561.15	12,323.76	14,920.85	16,740.97
Held Till Maturity	3,578.29	3,547.67	3,486.47	6,137.29	6,767.13
Available For Sale	12,362.16	13,508.63	15,900.67	14,682.25	15,225.30
Held For Trading	-	-	233.80	126.63	701.03
% of Held Till Maturity securities to Total Investments	22.45%	20.80%	17.77%	29.30%	29.82%

Note: Held to Maturity includes "Others" for the years 1998 and 1999

The Bank has an active trading desk for managing its Investments portfolio. The Bank made net profits of Rs201.39 crore and Rs662.81 crore in trading activity in securities during the years ended March 31, 2001 and March 31, 2002 respectively.

The yield on investments (%) for the last five years is given below:

As on March 31	1998	1999	2000	2001	2002
Yield excluding profit on sale of investments	10.75%	10.78%	11.21%	11.05%	10.94%
Yield including profit on sale of investments	11.46%	11.16%	11.93%	12.04%	13.91%

### Floating Rate Assets

The advances of the Bank are largely on a floating rate basis. However, investments made by the Bank are on a fixed rate basis.

### Asset – Liability Management

Asset Liability Management for a bank requires conscious decision making with regard to the asset-liability structure in order to maximise interest earnings within the framework of perceived risk. The Asset-Liability Management team in any Bank addresses the key issues of quantification of risk, optimal size of the balance sheet and net interest margin ('NIM'). Thus, it calls for an integrated approach towards financial management conditioned to simultaneous decision making with regard to types and size of financial assets and liabilities, their mix and volumes so as to insulate the spread from moving in an adverse direction. The Bank has put in place a two-tier Asset-Liability Management system comprising the 'ALCO Main Committee' consisting of top executives of the Bank, headed by the CMD of the Bank as Chairman of the Committee and the 'ALCO Sub-committee' consisting of senior management personnel. The two committees periodically aggregate and review information on the maturity profiles of assets and liabilities through the ALM Information system, in addition to the inputs received from the Bank's existing branch-level MIS system, for taking decisions on the asset-liability balance. Currently, nearly 99% of all the Bank's assets and liabilities are under coverage.

Maturity Profile of the Assets and Liabilities as on March 31, 2000

(Rs crore)

	1-14 days	15-28 days	29 days to 3 mths	>3 to 6 mths	>6 to 12 mths	>1 to 3 years	>3 to 5 years	Over 5 years	Total
<b>Outflows</b>									
Capital	-	-	-	-	-	-	-	577.86	577.86
Reserves & Surplus	-	-	-	-	-	-	-	2,018.01	2,018.01
Deposits	2,998.76	1,074.95	2,838.70	3,375.65	4,734.35	13,268.69	4,092.93	10,959.63	43,343.66
Borrowings	570.36	40.66	35.66	65.92	58.40	150.31	291.37	319.56	1,532.24
Other Liabilities & Provisions	72.00	72.00	159.00	300.58	138.00	998.68	-	1,930.82	3,671.08
A: Total Outflows	3,641	1,188	3,033	3,742	4,931	14,418	4,384	15,806	51,143
B: Cumulative Outflows	3,641	4,829	7,862	11,604	16,535	30,953	35,337	51,143	
<b>Inflows</b>									
Cash	321.35	0	0	0	0	0	0	0	321.35
Balances with RBI	0	269.44	96.52	255.48	303.8	426.09	749.32	1428.91	3529.56
Balances with other Banks	622.05	20	65	50	75	0	0	0	832.05
Investments	56.35	6.17	595.03	1733.92	408.44	3818.91	3353.76	9673.51	19646.09
Advances performing	2727.15	1616.64	2884.66	1455.07	1971.05	4447.58	3228.47	4016.24	22346.86
NPAs	0	0	0	0	0	0	632	612	1244
Fixed Assets	0	0	0	0	0	0	0	559.67	559.67





Other Assets	1359.47	0	68.28	564.16	2.83	8.26	1.83	1488.56	3493.39
C: Total Inflows	5,086	1,912	3,709	4,059	2,761	8,701	7,965	17,779	51,973
D: Mismatch (C-A)	1,445	725	676	316	(2,170)	(5,717)	3,581	1,973	830
E: % Mismatch (D as a % of A)	39.69%	61.02%	22.29%	8.46%	-44.00%	-39.65%	81.68%	12.48%	1.62%
F: Cum. Mismatch	1,445	2,170	2,846	3,163	993	(4,724)	(1,143)	830	
G: % Cum. Mismatch (F as % of B)	39.69%	44.94%	36.20%	27.25%	6.00%	-15.26%	-3.23%	1.62%	

Maturity Profile of the Assets and Liabilities as on March 31, 2001

(Rs crore)

	1-14 days	15-28 days	29 days to 3 mths	>3 to 6 mths	>6 to 12 mths	>1 to 3 years	>3 to 5 years	Over 5 years	Total
<b>Outflows</b>									
Capital	-	-	-	-	-	-	-	577.86	577.86
Reserves & Surplus	-	-	-	-	-	-	-	2,141.10	2,141.10
Deposits	3,721.66	1,615.90	4,024.65	4,667.50	8,567.15	17,457.94	4,848.33	12,463.91	57,367.04
Borrowings	451.64	21.64	18.12	43.55	39.02	96.48	246.32	620.68	1,537.45
Other Liabilities & Provisions	72	135	201	186	96	224.09	500	1,430.82	2,844.91
A: Total Outflows	4,245	1,773	4,244	4,897	8,702	17,779	5,595	17,234	64,468
B: Cumulative Outflows	4,245	6,018	10,262	15,159	23,861	41,639	47,234	64,468	
<b>Inflows</b>									
Cash	409.31	-	-	-	-	-	-	-	409.31
Balances with RBI	297.73	129.27	321.97	373.40	685.37	1,148.46	387.87	127.91	3,471.98
Balances with other Banks	360.21	-	-	-	-	-	-	-	360.21
Investments	51.74	-	304.34	574.09	1,031.57	3,157.91	3,967.66	11,907.43	20,994.74
Advances performing	3,415.21	2,050.44	3,705.95	2,040.19	4,885.73	4,374.00	2,432.78	4,046.68	26,950.98
NPAs	-	-	-	-	-	-	622.00	622.00	1,244.00
Fixed Assets	-	-	-	-	-	-	-	566.67	566.67
Other Assets	2,932.55	91.23	5,402.52	959.60	364.93	547.40	-	274.14	10,572.37
C: Total Inflows	7,467	2,271	9,735	3,947	6,968	9,228	7,410	17,545	64,570
D: Mismatch (C-A)	3,221	561	5,533	(1,013)	(1,777)	(8,551)	2,316	(190)	102
E: % Mismatch (D as a % of A)	75.88%	32.84%	131.68%	-20.42%	-20.32%	-48.10%	45.45%	-1.07%	0.16%
F: Cum. Mismatch	3,221	3,783	9,316	8,303	6,527	(2,024)	291	102	
G: % Cum. Mismatch (F as % of B)	75.88%	63.53%	91.72%	54.93%	27.35%	-4.86%	0.62%	0.16%	

Maturity Profile of the Assets and Liabilities as on March 31, 2002

(Rs crore)

	1-14 days	15-28 days	29 days to 3 mths	>3 to 6 mths	>6 to 12 mths	>1 to 3 years	>3 to 5 years	Over 5 years	Total
<b>Outflows</b>									
Capital	-	-	-	-	-	-	-	577.87	577.87
Reserves & Surplus	-	-	-	-	-	-	-	2,893.63	2,893.63
Deposits	4,857.67	1,777.61	4,073.01	4,211.64	8,011.48	20,042.58	5,115.80	14,396.21	62,486.00
Borrowings	11.44	11.45	9.26	29.60	22.85	242.82	32.87	1,068.57	1,428.86
Other Liabilities & Provisions	90.00	90.00	196.50	267.50	191.00	160.07	-	1,269.84	2,264.91
A: Total Outflows	4,959.11	1,879.06	4,278.77	4,508.74	8,225.33	20,445.47	5,148.67	20,206.12	69,651.27
B: Cumulative Outflows	4,959.11	6,838.17	11,116.94	15,625.68	23,851.01	44,296.48	49,445.15	69,651.27	225,783.81
<b>Inflows</b>									
Cash	491.81	-	-	-	-	-	-	-	491.81
Balances with RBI	419.81	321.68	737.06	762.14	1,449.77	3,037.50	270.03	379.96	7,377.95
Balances with other Banks	949.02	-	-	-	-	-	-	-	949.02



Investments	269.64	20.56	1,308.69	459.68	928.06	2,945.64	2,802.90	14,004.64	22,739.81
Advances performing	3,774.05	2,020.30	4,195.52	2,327.76	7,086.82	6,693.41	2,658.22	3,662.34	32,418.42
NPAs	-	-	-	-	-	-	1,039.00	1,040.00	2,079.00
Fixed Assets	-	-	-	-	-	-	-	659.01	659.01
Other Assets	610.24	225.10	1,915.42	1,077.66	421.20	487.35	-	77.00	4,813.97
C: Total Inflows	6,514.57	2,587.64	8,156.69	4,627.24	9,885.85	13,163.90	6,770.15	19,822.95	71,528.99
D: Mismatch (C-A)	1,555.46	708.58	3,877.92	118.50	1,660.52	(7,281.57)	1,621.48	(383.17)	1,877.72
E: % Mismatch (D as a % of A)	31.37%	37.71%	90.63%	2.63%	20.19%	-35.61%	31.49%	-1.90%	2.70%
F: Cum. Mismatch	1,555	2,264	6,142	6,260	7,921	639	2,261	1,878	
G: % Cum. Mismatch (F as % of B)	31.37%	33.11%	55.25%	40.07%	33.21%	1.44%	4.57%	2.70%	

### Foreign Exchange and NRI Business

Foreign business is a key focus area for Canara Bank and has contributed Rs59,333 crore to the total turnover of the Bank as at March 2002. Turnover under exports, imports and remittances were of the order of Rs18,382 crore, Rs18,068 crore and Rs22,883 crore respectively. The forex business of the Bank is serviced through foreign departments, overseas branch and other forex designated branches. The Bank has 16 'A' category branches, 122 'B' category branches, 1 Vostro branch, 13 NRI branches and one international branch. Bank's outstanding advances to the export sector, as at March 2002, reached Rs3,672 crore, up from Rs3,517 crore at the end of the preceding financial.

During the year 2001-02, the Bank has given a major thrust to the trading and exchange business. Earnings under trading activities were to the tune of Rs36 crore whereas exchange profits amounted to Rs93 crore. To give a fillip to proprietary trading in major currencies, the Bank commenced its Night Desk operations at its International Division, Mumbai with effect from August 2001.

In a bid to further expand its international presence, the Bank has entered into an agreement with State Bank of India for opening a Joint Venture Bank at Moscow, under the name 'Commercial Bank of India'. The new venture is expected to be commissioned during the current year.

During the year 2001-02, the Bank's London branch posted improvement in its performance, including arrangement of External Commercial Borrowings to corporates in India. The branch registered significant growth in deposits, advances, investments and inter-bank deposits. Advances level of the branch crossed GBP100 million mark to reach 106.52 million as at March 2002. The branch posted a net profit of GBP1.56 million for the year ended March 2002.

The bank has 13 specialised NRI Branches spread across 12 cities in India to service NRI customers and 2,160 NRI cells attached to certain strategic branches having NRI business, apart from its international branch located in London.

### Correspondent Relations

The Bank has a network of 619 correspondent Banks spread over 98 countries facilitating international business of the Bank's customers through wide ranging services offered. The correspondent banks are selected to ensure that the Bank's

customers get access to wide ranging services at competitive rates.

The main activities with the correspondent banks are:

1. Issuing guarantees on behalf of their clients against their counter guarantee and vice versa.
2. To help Indian expatriates in these countries to remit funds to India.
3. Advising and adding confirmation to LCs issued by correspondent banks and vice versa.
4. Collection of Export / Import documents, clean instruments etc.

In addition, the Bank has Rupee Drawing Arrangements with 17 Exchange Houses in the Middle East towards providing remittance facilities for expatriate Indians. Out of these, two Exchange Houses are under the Bank's direct supervision. They are Ruwi Exchange Company, Ruwi, Oman and Eastern Exchange Establishment, Doha, Qatar.

In addition, the Bank manages Al Razouki International Exchange Company LLC, Dubai with 8 branches under a secondment agreement entered into with the Exchange House. The bank also has 'Speed Cash' and 'Safe Draft' arrangements with Saudi American Bank-Riyadh, Saudi Arabia, for expeditious remittance facilities.

### Treasury operations

The Bank has a main dealing room in its International Division Mumbai and other dealing centres at Chennai, Bangalore, Kolkata and Delhi.

The total non-interest income earned out of the forex operations (representing fees, commissions, etc.) is:

(Rs crore)

As on March 31	1998	1999	2000	2001	2002
Non-interest Forex Income	102.39	101.85	107.91	138.50	143.56

Exchange income from Merchant Business and Trading earned out of forex operations over the last five years in as under:

(Rs crore)

As on March 31	1998	1999	2000	2001	2002
Exchange Income	91.66	91.66	95.97	122.93	128.36





The total turnover in the various forex operations for the last five years is as under:

(Rs crore)

As on March 31	1998	1999	2000	2001	2002
Exports	11,978	13,447	14,154	17,603	18,382
Imports	8,391	9,615	20,985	21,923	18,068
Remittance	13,800	16,976	18,495	21,543	22,883

#### Merchant Banking

The Bank is registered with SEBI for acting as Merchant Banker, Underwriter, Bankers to Issue and Debentures Trustee.

During FY2002, the Bank acted as Lead Arranger / Arranger to seven debt private placement issues including Tier II issuances of the Bank, amounting to Rs1,995 crore and as co-manager to one public issue with an issue size of Rs74.5 crore. The Bank also acted as an Advisor to one issue with a total issue size of Rs350 crore. The Bank also served in the capacity of Banker to the Issue for two public issues, one rights issue and 13 debt private placement issues amounting to Rs55 crore, Rs18.96 crore and Rs1,335 crore respectively.

#### Industrial Advisory Division

The Bank houses an Internal Advisory Division for providing services to the credit department. More specifically, the division undertakes credit risk rating for the Bank's credit portfolio, offers techno-economic and commercial feasibility review services on new credit proposals, viability studies for specific companies assisted by the Bank and evaluation of various industries to provide decision support to the credit department. During FY2002, the Internal Advisory Division has undertaken credit rating of 332 major accounts and handled operating agency assignments for 41 companies. In addition, the Division has conducted special investigative audit for 9 companies on behalf of BIFR and has undertaken viability studies for 9 companies.

#### Agricultural Consultancy Services (ACS)

ACS was established in 1988 and is the first ever Consultancy cell for Agriculture and Allied Activities in the banking sector in India. The division consists of professionally qualified personnel for appraising agro-based projects and to provide consultancy. The ACS Cell of the Bank handled 38 assignments during FY2002, involving an aggregate outlay of Rs93.3 crore. Important assignments handled by the ACS Cell during the year include appraisal/viability studies of Cold Storage, Food Processing, Anaerobic Composting, Poultry, Dairy, Plantation Projects, Vanilla, Floriculture, Composite Horticulture, etc. The ACS Cell also conducted training programmes for other banks during the year.

#### Credit Cards

Canara Bank is one of the earliest public sector banks to establish presence in the credit card business with its first credit card offering in 1987. Continuous growth over the years has provided the Bank a loyal customer base of 115,454 as at the end of the FY2002. The credit card business has registered a total turnover of Rs391.60 crore for the year FY2002. Cancard was also among the first to be awarded ISO 9002 certification among credit cards in India.

The following table provides the key product launches by the Bank in the credit card business:

(Rs crore)

Type of card	Date of launch	Card base	Total turnover
Cancard Proprietary	14.08.1987	35,721	15.0
Cancard Visa	31.10.1994	72,319	283.0
Cancard Master	31.01.1996	6,822	88.8
Visa international	29.07.1995	592	4.8
Total		115,454	391.6

The Bank's credit card operation comprises an extensive network of 24 'Cancard' service centres and more than 11,000 merchant outlets spread across the country. The Bank has also achieved 100% computerisation of its credit card operations. Affiliations with other domestic banks have provided additional 19,382 customers to customer base of Canara Bank.

#### NEW BUSINESS INITIATIVES

##### AnyWhere Banking

'AnyWhere Banking' ('AWB') was launched by the Bank in the current financial year (2002-03) with both intra-city and inter-city connectivity linking 5 metros covering 180 branches. This facility enables the customers to transact beyond the geographical boundaries of their base branch. Multifarious customer convenient features of AWB include transactions such as cash withdrawal and remittance, transfer of funds, balance enquiry, issue of mini-statements and deposit of local cheques. This facility is of immense benefit to corporate clients, mobile businessmen, frequent travelling customers as well as the salaried class. By March 2003, the Bank proposes to extend AWB to 370 branches, covering other major cities as well.

##### Automated Teller Machines ('ATM')

The ATM facility was introduced by the Bank in the year 1994-95. The Bank currently has an ATM network of 119 ATMs at 22 centres. The Bank was the first Nationalised Bank in the country to introduce the concept of networked ATMs. The Bank also provides 'TeleBanking' facility at 77 branches. Additionally, 2,648 Remote Access Terminals have been provided for customer convenience.

##### Corporate Cash Management Services ('CCMS')

CCMS was launched in July 1999, with an intention of offering fast collection of cheques to corporate clients. Presently the facility is availed by 228 corporate at 93 cities covering 209 branches, facilitating expeditious funds transfer.

##### Insurance Business

The Bank has decided to enter the Insurance business as a Corporate Agent for distribution of insurance products without assuming any risk, and has applied for permission from RBI. The Bank entered into a Letter of intent (LOI) with Dabur CGU, on June 11, 2002 for distribution of their Life Insurance products. Initially the Bank will be distributing Life Insurance products and on gaining sufficient experience will consider distribution of non-life products.

In the first phase the Bank has proposed to commence insurance business in 50 identified branches staffed with trained personnel. These branches would offer the following products:

1. Regular Premium products with various options
2. Single Premium products





### 3. Creditor products

### 4. A product for the rural & social sector

Thereafter the Bank proposes to introduce insurance linked deposit and advances products.

## OTHER INCOME AND FINANCIAL RATIOS

### Other Income

Other Income of the Bank exceeds 10% of the total income. The Other Income is recurring in nature subject to the variations in the amount of income. The details of the other income are given in Part II of the Offer Document as part of the audited profit and

loss statement. The Bank plans to increase non-interest income through the adoption of the following strategies:

- The treasury-trading portfolio is being utilised for gains in trading profits
- The forex-trading portfolio is being strengthened
- Retailing in Government Securities has been identified as a key focus area
- Issuance of letters of guarantee and letters of credit is being emphasised as part of the non-fund based business activity
- Expansion of Demat Services to all branches in the metros to be followed by branches in the state capitals
- Distribution of insurance products

Financial Ratios and Other Financial Information of the Bank for last 5 years

(Rs crore)

As on March 31	1998	1999	2000	2001	2002
Average balances of interest earning assets	35,206.2	39,981.5	44,988.3	51,477.8	58,276.9
Average interest rate (%)	10.9	11.7	10.8	10.9	10.9
Interest income	3,823.0	4,690.7	4,851.7	5,618.3	6,370.6
Avg. balances of interest bearing liabilities	34,106.0	39,342.4	45,777.0	52,305.9	62,357.4
Interest rate for the above (%)	8.1	8.0	7.5	7.1	7.3
Interest expenses	2,748.1	3,130.8	3,414.5	3,735.3	4,550.3
Average balance of interest bearing rupee liability of Bank	34,106.0	39,342.4	45,777	52,305.9	62,357.4
Ratio of average earning assets to average interest bearing liabilities	1.03	1.02	0.98	0.98	0.93
Interest Expense apportioned to Interest Earning Assets	2,603.81	2,993.22	3,234.13	3,574.77	4,350.49
Net Interest Income	1,074.9	1,560.0	1,437.3	1,883.1	1,820.3
Net Interest Margin / Yield Spread (%)	2.8	3.5	2.8	3.3	2.7
Gross Yield (%) (Gross Income/AWF)	11.94	12.42	11.83	11.52	11.89
Average cost of loan funds (%)	8.12	7.92	7.53	7.17	7.36
Return on average assets (%)	0.53	0.51	0.46	0.49	1.08
Average share capital & reserves to average total asset (%)	5.67	5.35	4.92	4.67	4.58
Cash EPS (Rs per share)	12.52	17.53	17.28	20.72	30.26

All the financial ratios/capital adequacy ratios as specified in the Offer Document and the disclosures regarding NPAs confirm to the norms as specified by RBI.

## RISK MANAGEMENT

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 or minimise risk inherent in business but to monitor and manage them consciously and actively. The Risk Management guidelines of RBI, inter alia, cover the following:

- Credit Risk
- Market Risk
- Operating Risk
- Forex Risk

### Credit Risk

Credit risk is the potential that the borrower or the counter party will fail to meet its obligation in accordance with agreed terms. The Bank's loan policy includes detailed guidelines on procedures and responsibility for credit appraisal and review. Credit appraisal skills of the functionaries, at various levels, are constantly upgraded through specialised training programmes.

### Market Risk

Domestic interest rates have been gradually deregulated increasing market risk both in commercial business as well as trading activities. The Bank has formally introduced an Asset Liability Management (ALM) System to address the market risk. The two-tier Asset Liability Committee (ALCO) system constituted by the Bank formulates, among other things, Balance Sheet Management, pricing of products, both assets and liabilities, and is continuously taking steps to evolve an effective transfer pricing mechanism.

### Operating Risk

Operational risk is a potential risk of financial losses arising from the performance of operational business process and activities. To mitigate these operational risks, the Bank constantly updates its procedures and systems, trains staff and also subjects all critical areas of operation to concurrent audit.

During the last three years, RBI has issued a number of guidelines to usher in risk management culture in the domestic financial services sector and strengthen the risk management framework. In line with the importance assigned to the function





of risk management in banking business, the Bank has constituted a Risk Management Committee consisting of senior personnel to address each of the above mentioned risks. The key functions of the Committee are:

- Identifying, measuring and monitoring the risk profile of the Bank
- Reviewing risk models adopted by the Bank and identifying new risks in the light of developments in the market
- Developing risk policies clearly spelling out the quantitative prudential limits on various segments of Bank's operations
- Assigning risk limits in terms of portfolio standards or credit at risk and value at risk
- Designing stress scenarios to measure the impact of unusual market conditions and monitor the variance between the actual volatility of portfolio value and that predicted by risk measures
- Establishment of an effective Management Information System (MIS)

The Bank has also adopted, effective FY2001, a credit risk rating model developed by CRISIL to evaluate the risk profile of high value credits. The Bank proposes to increase coverage of such risk rating to other credit assets in the near term. During FY2002, the Bank engaged the services of M/s. Pricewaterhouse Coopers (PwC) to study and suggest measures for implementation of an 'Enterprise Wide Risk Management Framework' in the Bank. The diagnostic and design phases of the assignment have been successfully completed within the pre-determined time schedule. The Bank proposes to implement a software solution in the current financial year, which would sufficiently address the risk monitoring requirements for the Bank's credit portfolio.

#### **Forex Risk**

As per RBI guidelines, banks are not allowed to keep open positions on their foreign exchange transactions beyond prescribed limits on a daily basis. Foreign exchange transactions beyond such limits, if any, must be squared off at the end of each day. Hence, the risk from exchange rate fluctuations is minimised. The Bank has put in place necessary limits to manage its forex risk.

#### **REGULATORY SUPERVISION BY RBI**

RBI conducts an annual inspection of the Bank based on the audited accounts. Simultaneously, RBI carries out branch inspection on a selective basis. RBI also conducts offsite and periodic onsite surveillance of the branches of the Bank. Discussions with the management of the Bank also form a part of the inspection and surveillance process. An inspection of Canara Bank under section 35 of the Banking Regulation Act, 1949 was conducted by Reserve Bank of India with reference to its position as on March 31, 2001. The Annual Financial Inspection Report of Reserve Bank of India has pointed out deficiencies in credit appraisal, credit risk rating, credit supervision, income recognition, provisioning as well as certain other systems, procedures and other operational matters of the Bank. The Bank has advised RBI of the remedial measures taken, Systems introduced and those under implementation. A compliance report on the observations made in the AFI report

for the year ending March 31, 2000 has since been sent to RBI.

### **OVERVIEW OF ORGANISATION STRUCTURE AND SUPPORT FUNCTIONS**

#### **Hierarchy and Responsibilities**

The Bank functions under the supervision of its Board of Directors consisting of the Chairman and Managing Director, the Executive Director and other Directors as nominated by the Government of India. The Bank has constituted various committees like Management Committee, Audit Committee, Asset Liability Management Committee etc., in line with the RBI guidelines.

The Bank functions under the supervision of the Board of Directors consisting of the Chairman and Managing Director, the Executive Director and other Directors as nominated by the Government of India. The Bank has a management structure comprising Central Office, Circle Offices and the branches, covering major geographical areas.

The Bank has taken initiatives in furthering corporate governance practices leading to greater transparency and better co-ordination between the Board and Management and the members of the organisation. The Bank has constituted various Committees of Directors in keeping with the existing guidelines of the RBI, notably the following:

#### **Management Committee of Directors**

The Committee consists of the CMD, Executive Director, Directors representing Gol and RBI, a Chartered Accountant in practice and two Non-Official Directors on a rotation basis. The Committee exercises delegated authority for sanction of credit proposals, loan compromise and write-off, major capital and revenue expenditure, acquisition and hiring of premises, suits and investment in Government and other approved securities among others.

#### **ALM Committee of Directors**

The Bank has put in place a two-tier Asset-Liability Management system comprising the 'ALCO Main Committee' consisting of top executives of the Bank, headed by the CMD of the Bank as Chairman of the Committee and the 'ALCO Sub-committee' consisting of senior management personnel. The two committees review information on the maturity profiles of the assets and liabilities for taking decisions on the asset-liability balance.

#### **Audit Committee of Directors**

The Audit Committee provides directions and oversees the operations of the entire audit function of the Bank. The Committee oversees the operation of the entire audit function, reviews the internal inspection /audit function comprising internal audit and inspection within the Bank, statutory and external audit of the Bank and inspection of RBI. The Committee also reviews the position of Inter Branch Accounts Reconciliation and operations of Nostro Accounts.

#### **Credit Committee**

In accordance with the RBI regulations, the Bank has set up a Credit Committee comprising the General Manager - Corporate Credit Wing, General Manager - Priority Credit Wing, General Manager - Personnel Wing and General Manager - T & I O Wing.



The committee deliberates on the following:

1. All credit proposals for sanction/renewal/extension of limits
2. All Proposals for lending at sub-PLR, sub-PTLR, PLR, PTLR, Superfine rate etc.
3. Change in terms and conditions including acceptance of alternate security, dilution in security, reduction in margin, waiver of personal guarantee and/or corporate guarantee or any other major modifications affecting the proposal.
4. Refund/write off of interest in respect of accounts which are not marked for recovery, including proposals of sick units/ BIFR accounts

#### 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 and Managing Director and Executive Director, both appointed by the GoI, other Directors representing the Government, Reserve Bank of India, Employees and Officers of the Bank. The day-to-day affairs of the Bank are managed by the Chairman and Managing Director, the Executive Director, the Bank's General Managers, and Deputy General Managers who are assisted by a team of competent professionals.

#### Key Managerial Personnel

Name and Qualification	Date of Joining the Bank	Experience in the Industry	Designation	Functional Responsibility
Mr. R. V. Shastri M.A. (Economics)	01.05.2001	34 years	Chairman and Managing Director	Director on the Board
Mr. N. Kantha Kumar B.Com, LLB, CAIIB	09.01.1967	35 years	Executive Director	Director on the Board, Government and Corporate Accounts, Publicity and Public Relations
Mr. K. V. Hegde M.Com, AIB(London), FIIB	20.12.1968	33 years	General Manager	Treasury & International Operations
Mr. K. M. Shet B.Com., LLB, CAIIB	21.04.1970	32 years	General Manager	Circle Office, Delhi
Mr. M. P. Nayak B.Sc., BL, CAIIB	01.02.1964	38 years	General Manager	Circle Office, Bangalore
Mr. G. Umesh Shenoy M.Sc, CAIIB	07.01.1971	31 years	General Manager	Managing Director, Canfin Homes Ltd.
Mr. M. S. Nayak B.Sc. (Agri)	29.10.1971	30 years	General Manager	Human Resources and Organisation Development and Industrial Relations
Mr. A. Fernandes B.Com, LLB, CAIIB	08.12.1962	39 years	General Manager	Corporate Credit Sanctions and Project Finance
Mr. H. R. Shenoy B.Com	05.09.1962	40 years	General Manager	Recovery Wing
Mr. P. Ramamoorthy B.Sc, BL, CAIIB-I	11.04.1969	33 years	General Manager	Monitoring credit and risk activities of all the subsidiaries
Mr. R. Muralikrishna B.Com, CAIIB-I	14.08.1970	32 years	General Manager	Technology Initiatives
Mr. S. A. Shanbhag M.A., CAIIB	29.11.1962	39 years	General Manager	Circle Office, Mumbai North
Mr. V. G. Prabhu B.A.	02.01.1963	39 years	General Manager	International Division, Mumbai
Mr. K. Annappayya B.Com, CAIIB-I	29.01.1971	31 years	General Manager	Planning & Development wing
Mr. S. Jayaraman B.Sc, CAIIB-I	20.05.1972	30 years	General Manager	Circle Branch, Hyderabad
Mr. M. Gokuldas B.Com, CAIIB-I	11.10.1967	34 years	General Manager	Priority and SSI Sector, Regional Rural Banks
Mr. K. Rangaraya B.Com, CAIIB-I	12.08.1970	32 years	General Manager	Circle Office, Chandigarh





Name and Qualification	Date of Joining the Bank	Experience in the Industry	Designation	Functional Responsibility
Mr. K. Suresh Rao M.Sc., CAIIB-I	01.12.1971	31 years	General Manager	Circle Office, Kolkata
Mr. G. N. Moorthy B.Sc. (Agri), Diploma Cobol, Diploma Business Management	01.10.1972	30 years	General Manager	On Deputation to Indian Overseas Bank, Chennai as Chief Vigilance Officer
Mr. V. A. P. Mallan CAIIB	12.09.1961	41 years	General Manager	Circle Office, Trivandrum
Mr. V. S. Reddy M.A., CAIIB	13.04.1972	30 years	General Manager	Circle Office, Mumbai City
Mr. Prakash P. Mallya M.A	24.10.1973	29 years	General Manager	General Administration
Mr. J. S. Kalyanpur B.Com, CAIIB-I	18.03.1964	39 years	General Manager	On Deputation to Gilts Securities Trading Corporation Ltd., Mumbai as Managing Director
Mr. George Joseph B.Com, CAIIB, AIB London, Diploma Banking	01.12.1971	31 years	General Manager	Circle Office, Chennai
Mr. D. Anil Prabhu B.Com, CAIIB	02.04.2001	31 years	General Manager	Vigilance and Audit

Note: Except for Sri R. V. Shastri, Chairman and Managing Director and Sri D. Anil Prabhu, General Manager – Vigilance and Audit, all key managerial personnel are working in the Bank since the start of their careers and hence their experience in the Bank is equivalent to experience in the banking industry. Sri R. V. Shastri has been associated with Canara Bank for approximately 1 year and 4 months whereas Sri Anil Prabhu has been associated with the Bank for approximately 1 year and 5 months (as at the end of August 2002).

The key managerial personnel are on the rolls of the Bank as permanent employees. The area of experience for the key managerial personnel is banking.

**Changes in key management personnel from the level of General Manager and above during the last three years (from April 1, 1999) are as under -**

Name	Position held	Reason for Change
Mr. T. R. Sridharan Ms. Ranjana Kumar	Chairman & Managing Director Executive Director	Attained superannuation on 30.05.1999. Elevated as Chairperson & Managing Director of Indian Bank on 29.06.2000.
Mr. R. J. Kamath	Chairman & Managing Director	Appointed as Chairman & Managing Director on 20.05.2000. Attained Superannuation as April 30.2001.
Mr. R. V. Shastri	Chairman & Managing Director	Appointment w.e.f 01.05.2001
Mr. R. P. Gupta	Executive Director	Retired on 30.06.2001
Mr. N. Kantha Kumar	Executive Director	Appointment w.e.f 06.12.2001
Mr. M. V. Kamath	General Manager	Voluntary Retirement on 10.07.1999.
Mr. H. D. Pai	General Manager	Retired on 31.07.1999
Mr. P. Ravindran	General Manager	Retired on 31.10.1999
Mr. H. N. Nayak	General Manager	Retired on 30.11.1999
Mr. G. A. Shenai	General Manager	Retired on 31.05.2000
Mr. M. R. Ramanandan	General Manager	Retired on 31.05.2002
Mr. K. P. Shenoy	General Manager	Retired on 30.06.2000



Name	Position held	Reason for Change
Mr. V. Aghoram	General Manager	Retired on 30.11.2000
Mr. A. K. Mehta	General Manager	Retired on 30.11.2000
Mr. A. K. S. Rao	General Manager	On elevation as E.D of Bank of Maharashtra
Mr. B. R. R. Rao	General Manager	Retired on 31.12.2000
Mr. U. J. Kamath	General Manager	Retired on 31.01.2001
Mr. P. P. Bhat	General Manager	Retired on 28.02.2001
Mr. M. A. Kamath	General Manager	Retired on 31.03.2001
Mr. M. S. Rao	General Manager	Retired on 30.04.2001
Mr. B. V. Kamath	General Manager	Expired on 17.06.2001
Mr. P. T. Kuppuswamy	General Manager	Voluntary Retirement on 30.06.2001
Mr. K. Raghunath	General Manager	Retired on 30.09.2001
Mr. N. Kantha Kumar	General Manager	On elevation as E.D of our Bank from 05.12.2001
Mr. T. R. Kini	General Manager	Retired on 28.02.2002
Mr. R. Murali Mohan Rao	General Manager	Retired on 28.02.2002
Mr. H. R. Shenoy	General Manager	Promoted w.e.f 15.09.1999
Mr. P. Ramamoorthy	General Manager	Promoted w.e.f 15.09.1999
Mr. R. Muralikrishna	General Manager	Promoted w.e.f 15.09.1999
Mr. S. A. Shanbhag	General Manager	Promoted w.e.f 01.10.1999
Mr. V. G. Prabhu	General Manager	Promoted w.e.f 01.06.2000
Mr. K. Annappayya	General Manager	Promoted w.e.f 02.11.2000
Mr. S. Jayaraman	General Manager	Promoted w.e.f 02.11.2000
Mr. M. Gokuldas	General Manager	Promoted w.e.f 19.07.2001
Mr. K. Ranagaraya	General Manager	Promoted w.e.f 19.07.2001
Mr. K. Suresh Rao	General Manager	Promoted w.e.f 19.07.2001
Mr. G. N. Murthy	General Manager	Promoted w.e.f 19.07.2001
Mr. V. A. P. Mallan	General Manager	Promoted w.e.f 19.07.2001
Mr. V. S. Reddy	General Manager	Promoted w.e.f 19.07.2001
Mr. Prakash P. Mallya	General Manager	Promoted w.e.f 16.02.2002
Mr. J. S. Kalayanpur	General Manager	Promoted w.e.f 16.02.2002
Mr. George Joseph	General Manager	Promoted w.e.f 28.02.2002
Mr. D. Anil Prabhu	General Manager	Appointment w.e.f. 02.04.2001 as Chief Vigilance Officer of the Bank

#### Transaction between the Bank and Key Managerial Personnel

The key managerial personnel of the Bank are the employees of the Bank. The transactions of Canara Bank with the key managerial personnel pertain to the compensation and benefits as applicable to all the permanent employees of the Bank. All the key managerial personnel are of the General Manager grade and hence their compensation falls in the scale of Rs19,340 – Rs21,300 p.m. The other benefits include the festival loans, housing loans, reimbursement of certain expenses etc. as per employees' service rules.

The compensation of the CMD and the ED are provided under the para "Terms of appointment of Chairman and Managing Director" and "Terms of Appointment of Executive Director" on page 137.





# Board of Directors

No.	Name, Age and Experience	Date of Appointment and Expiry of current term	Residential address	Other Directorships
1	Mr. R. V. Shastri Chairman & Managing Director Experience: 34 years in Banking Age: 57 years	Appointment: 01.05.2001 Expiry of term: 31.10.2004	'Canara Bank House', No.74, Kanakapura Road, Basavanagudi, Bangalore-560004.	Director & Chairman : Canbank Factors Ltd. Canbank Venture Capital Fund Ltd. Canbank Computer Services Ltd. Gilt Securities Trading Corporation Ltd. Indo Hong Kong International Finance Ltd., Hong Kong Director: EXIM Bank of India
2	Mr. N. Kantha Kumar Executive Director Experience: 35 years Age: 56 years	Appointment: 06.12.2001 Expiry of term: 31.03.2006	"Anugraha", 1363, 9 <sup>th</sup> Cross Road, J.P.Nagar Ist Phase, Bangalore-560078.	Director and Vice-Chairman: Canbank Factors Ltd. Canbank Venture Capital Fund Ltd. Canbank Computer Services Ltd. Gilt Securities Trading Corporation Ltd.
3	Mr. Ajit M. Sharan Director representing Gol Joint Secretary, Gol Experience: 23 years Age: 45 years	Appointment: 20.03.2002 Expiry of term: No expiry of term defined	2-C, HUDCO Place, Andrews Ganj, New Delhi-110 049	Director: New India Assurance Company United India Insurance Company General Insurance Corporation of India
4	Mr. M. K. Bhattacharya (Director representing RBI), Regional Director, RBI Experience: 34 years in Banking Age: 58 years	Appointment: 02.04.2002 Expiry of term: No expiry of term defined	302, Block I, Krishna Apartment, 13, Ali Askar Road, Bangalore-560 052	Nil
5	Mr. S. K. Kohli Officer Director Experience: 21 years in Banking Age:48 years	Appointment: 28.10.1998 Expiry of term: @	A-1-154, Janakpuri New Delhi - 110058	Nil
6	Mr. A. Shashikanth Workmen Director Experience: 34 years in Banking Age: 55 years	Appointment: 25.08.1999 Expiry of term: @	'Gokul' No.11 Brindavan Layout Chikkakalasandra Subramanyapura Post Bangalore - 560 061	Nil
7	Mr. N. C. Rajappa Part-time Non-Official Director Experience: Agriculturist Age:50 years	Appointment: 28.08.2001 Expiry of term: 27.08.2004	HIG 5, APHB Colony, Near Red Bridge, Amalapuram-533201.	Nil
8	Mr. Amar Nath Singla Part-time Non-Official Director Experience: 33 years Age:46 years	Appointment: 12.09.2001 Expiry of term: 11.09.2004	A-6/32 Paschim Vihar New Delhi 110 063	Nil

@ Holding position until successor is nominated/eligible for re-nomination



No.	Name, Age and Experience	Date of Appointment and Expiry of current term	Residential address	Other Directorships
9	Dr. Sone Lal Part-time Non-Official Director Joint Commissioner (S&R)(Retd) Experience:33 years Age : 63 years	Appointment: 05.11.2001 Expiry of term: 04.11.2004	D-427, Govind Puram Post.DASNA, Ghaziabad Uttar Pradesh	Nil
10	Mr. R. N. Parjane Part-time Non-Official Director Experience: Director – Godavari Doodh Sangh Age: 32 years	Appointment: 05.11.2001 Expiry of term: 04.11.2004	9, Chari, Sanvatsar P.O.Sanvatsar Tal.Kopargaon Dist.Ahmednagar	Director – Godavari Doodh Sangh
11	Mr. B. K. Shekhar Part-time Non-Official Director Experience: Practising Advocate Age: 42 years	Appointment: 26.11.2001 Expiry of term: 25.11.2004	Hrshimangalathu Rishimangalam Tiruvanthapuram-695035	Nil
12	Dr. Seema Part-time Non Official Director Experience: Medical Doctor & Social Service Age: 38 years	Appointment: 05.12.2001 Expiry of term: 04.12.2004	604, Indraprasta Apartment West Boring Canal Road PATNA (Bihar) PIN 800 001	Nil
13	Mr. Anup Prakash Garg Part-time Non official Director Experience: 19 years as practising Chartered Accountant Age:44 years	Appointment: 12.06.2002 Expiry of term: 11.06.2005	42A, Chandralok Colony, Khajrana Road, Indore 452001.	Srishti Energy Systems Ltd.

#### Changes in the Directors in the last three years (from April 1, 1999) and reasons thereof

The changes that took place in the Board of Directors during the last three years are as follows:

Name	Position held	Reasons
Mr. T. R. Sridharan	Chairman & Managing Director	Attained superannuation on 30.05.1999
Mr. C. Cherian	Director	Expired on 13.06.1999
Mr. A. Shashikanth	Workman Director	Nominated w. e. f. 25.08.1999
Mr. R. H. Advani	Non Official Director	Ceased to be Director w. e. f. 20.01.2000
Mr. M. R. Krishnamurthy	Non Official Director	Ceased to be Director w. e. f. 20.01.2000
Mr. Vijay G. Kalantri	Non Official Director	Ceased to be Director w. e. f. 20.01.2000
Ms. Padma Ramachandran	Non Official Director	Ceased to be Director w. e. f. 20.01.2000
Mr. C. B. Mouli	Non Official Director	Ceased to be Director w. e. f. 20.01.2000
Mr. H. Krishnamurthy	Non Official Director	Ceased to be Director w. e. f. 20.01.2000
Mr. R. J. Kamath	Chairman & Managing Director	Appointed Chairman & Managing Director of Andhra Bank w. e. f. 20.05.2000
Ms. Ranjana Kumar	Executive Director	Appointed Chairperson & Managing Director of Indian Bank w. e. f. 29.06.2000





Name	Position held	Reasons
Mr. R. P. Gupta	Executive Director	Appointed as Executive Director w. e. f. 30.06.2000
Mr. Ramani Raj	Director representing RBI	Attained superannuation w. e. f. 30.06.2000
Mr. N. P. Sinha	Director representing RBI	Nominated w. e. f. 24.07.2000
Mr. Anup Mishra	Director representing GOI	Resigned w. e. f. 31.08.2000
Mr. V. P. Bharadwaj	Director representing GOI	Nominated w. e. f. 30.10.2000
Mr. Alok Kumar	Nominated Director GOI	Nominated w. e. f. 21.03.2001 Vice Mr. V. P. Bharadwaj
Mr. R. J. Kamath	Chairman & Managing Director	Attained superannuation w. e. f. 30.04.2001
Mr. R. V. Shastri	Chairman & Managing Director	Appointed as Chairman & Managing Director w. e. f. 01.05.2001
Mr. R. P. Gupta	Executive Director	Attained superannuation w. e. f. 30.06.2001
Mr. N. C. Rajappa	Part time non-official Director	Nominated w. e. f. 28.08.2001
Mr. Amar Nath Singla	Part time non-official Director	Nominated w. e. f. 12.09.2001
Dr. Sone Lal	Part time non-official Director	Nominated w. e. f. 05.11.2001
Mr. R. N. Parjane	Part time non-official Director	Nominated w. e. f. 05.11.2001
Mr. B. K. Shekhar	Part time non-official Director	Nominated w. e. f. 26.11.2001
Dr. Seema	Part time non-official Director	Nominated w. e. f. 05.12.2001
Mr. N. Kantha Kumar	Executive Director	Appointed as Executive Director w. e. f. 06.12.2001
Mr. Ajit M. Sharan	Director representing GOI	Nominated w. e. f. 20.03.2002 Vice Mr. Alok Kumar
Mr. M. K. Bhattacharya	Nominated Director RBI	Nominated w. e. f. 02.04.2002 Vice Mr. N.P.Sinha
Mr. Anup Prakash Garg	Part time non-official Director	Nominated w. e. f. 12.06.2002

The cumulative expenditure on Travelling Allowance (T.A.), Hotel/Halting Expenses (H.A.) and fees for directors in the last one year is as follows

(Rs lakh)

Year ended March 31, 2002	Amount
Remuneration (sitting fees) paid to Directors	0.63
T.A incurred/paid to Directors	16.26
Hotel expenses incurred by Directors	6.41
H.A.(Halting Allowance) paid to Directors	0.05
Total	23.35

## HUMAN RESOURCES DEVELOPMENT

The Bank employs a Human Resources Development system which inter-alia covers Career Planning, Cadre Building and optimal utilisation of available skillsets. This is being achieved through focus on areas such as inventory of the existing and envisaged skills, augmenting of in-house and external training activities and fast-track promotion opportunities to build an inspiring and learning organisation climate.

The Bank has put in place a training identification system wherein a streamlined process of identifying the training needs of the staff members and posting them regularly for training is ensured. In order to equip employees with requisite knowledge in functional areas and update their skills on an ongoing basis, the Bank provides specialised training to its employees through

'in-company programs' in areas of Credit Management, Forex, Treasury, Information Technology, Merchant Banking, Management of NPAs, etc. The Bank houses training infrastructure for its staff consisting an Apex Training College and 12 Regional Staff Training Colleges located all over the country. Besides, the Bank has established Computer Learning Centres at 10 centres to exclusively cater to the training of their staff in Information Technology.

In addition to the internal training being provided, the Bank deputs its staff to external training programs to institutes of repute. Institutes such as the IIMs, ASCI-Hyderabad, NIBM-Pune and XLRI-Jamshedpur have conducted training programs for the employees of the Banks in the past. In line with the increasing emphasis on retail lending as part of the Bank's overall strategy, the Bank has developed a series of programs on marketing conducted at IIM-Calcutta.

The Bank has initiated steps to instill a performance-oriented culture. As a step in this direction, the Bank employs, apart from banking professionals, specialists such as Chartered Accountants, Cost Accountants, Economists, Agricultural Officers, Law Officers, Engineers, MBAs and the like at various levels to diversify the skill base within the organisation.

## Voluntary Retirement Scheme

During the financial year 2000-01, the Bank completed its 'Special Voluntary Retirement Scheme'. The Voluntary Retirement Scheme was adopted by the Board at its meeting



held on December 10, 2000, details of which are given in the table below:

	Officers	Workmen	Total
No. of Applications Received (Net position)	4,229	3,815	8,044
No. of Applications Accepted	4,008	3,746	7,754
No. of Employees Remaining (Post VRS)	12,787	35,056	47,843

The VRS scheme has enabled the Bank to rationalise its workforce through a reduction in head count by approximately 14%. The reduced work force post-VRS has not materially affected the Bank's operations and performance.

#### Manpower deployment and productivity

Employee productivity of the Bank has been improving over the years. Business per full-time employee and net profit per full-time employee have improved in the last five years as shown below:

As on March 31	1998	1999	2000	2001	2002
Business per full-time employee (Rs lakh)	102	117	135	191	215
Net Profit per full-time employee (Rs lakh)	0.39	0.43	0.45	0.63	1.64

#### INFORMATION TECHNOLOGY

The Bank's activities on the information technology front are guided by an IT Plan drawn up by the Bank under the supervision of the Bank's Board. The Bank houses a Computer Policy and Planning Department which monitors the IT activities of the Bank within the broad framework provided by the IT Plan. The Bank has developed the capability to meet its technology requirements in-house. A large portion of software currently deployed has been developed in-house with recourse to outsourcing of software limited to a few areas. The Bank has engaged Indian Institute of Science, Bangalore as its consultant for implementing various IT initiatives within the Bank.

The Bank has leveraged its in-house technology capabilities in initiating the following activities:

- Implementation of CCMS Services in 99 Operating centres and 214 pooling branches
- Provision of Tele Voice Banking in 77 branches; 4192 customers have availed this facility
- Implementation of Any-Where Banking in 180 branches, covering Bangalore, Chennai, Delhi, Mumbai and Kolkata cities
- Implementation of 'CANNET', the Bank's Corporate Intranet for the benefit of employees
- Establishment of MICR (Magnetic Ink Character Recognition) centres at Bangalore, Trivandrum and Madurai
- Implementation of Electronic Data Interchange ('EDI') facility at Mangalore Seaport and Cochin Port Trust

#### Branch computerisation

The Bank has a total of 1,564 computerised branches

comprising 658 fully computerised and 906 partially computerised branches as on March 31, 2002. 81% of the total business of Bank is currently covered through computerisation. The Bank proposes to cover additional 81 branches under total computerisation and 65 branches under partial computerisation.

#### Delivery Channels

The Bank has Networked ATMs, ATMs under Shared Payment Network System ('SPNS')- SWADHAN and SWIFT connectivity to 44 branches. As on March 2002, the Bank had 103 ATMs across the country. The Bank also provides televoice banking facility, remote customer terminal, 'Self-help' terminals in branches, AnyWhere Banking facility in the branches of 5 metros, RBI's Electronic Fund Transfer facility and Corporate Cash Management Services.

#### Connectivity of Branches/Offices

Being a member of Closed User Group (INFINET), the Bank installed 36 VSATs (PAMA and TDMA) and established connectivity between all circle offices, Head Office and most of the Regional Offices. 225 branches have been brought into the Corporate Network. The Bank has established connectivity for all category 'A' branches and all category 'B' branches located in all Export Intensive Centres.

#### HOUSE KEEPING

The Bank has an established system and guidelines for in-built House Keeping. The system knits the gap between development and internal control and is concerned with supervision of different aspects of day to day operations on an on going basis and updation of each sections work and records to detect and correct lapses and irregularities in the initial stage itself. It also acts as a tool for self-development and training, and facilitates evaluation of employees' performance.

#### INTER-BRANCH RECONCILIATION

Inter-Branch Reconciliation system within the Bank has been rendered more effective due to the computerisation of over 1560 branches and automation of approximately 81% of the transactions. The Bank has an established system in place for transfer of data directly from the computerised branches to Circles Offices and the Head Office through modems and VSAT network. Educational letters are dispatched to circles whenever deficiencies are observed in the Inter Branch Accounts Reconciliation. Periodical bulletins are furnished on the Circles' position under different parameters in Inter Branch Accounts Reconciliation to bring in a spirit of competition. The Bank has constituted Inter-Branch Reconciliation Review Committees at the apex level as well as the circle level which review the progress on a monthly basis.

High Value debit entries (Rs5 lakh and above) pending for more than a month are 'NIL' as at March 31, 2002, as against the RBI time norm of 2 months for reconciliation of High Value entries. The Bank has achieved this position even in respect of entries of Rs1 lakh and above entries, treating such entries also as High Value entries as a prudent measure, although as per RBI norm, 'High Value' means entries of Rs 5 lakh and above. The Bank has achieved a reconciliation cycle of less than 3 months in respect of other debit entries. Debit entries aged more than 3 months are 'NIL', as against the RBI stipulation of 6 months.





In respect of credit entries also, the Bank has achieved over 99.99% reconciliation with respect to the six-month time norm of RBI.

### AUDIT AND INSPECTION

The Bank has a comprehensive inspection and audit system covering the entire operation of the branches as well as all administrative offices. The Inspection System is aimed at detecting signals of approaching adverse events and developments at the branch level to facilitate appropriate corrective action. The Bank conducts internal audits to verify that the books and records are being maintained in accordance with the practices and procedures prescribed by the management, that they reflect a correct record of the assets and liabilities, that the advances shown in the books have been authorised by the competent authority and that they are realisable and enforceable by law, that the assets really exist, that all income accruing has been brought into account, that all expenditures are appropriately charged and where necessary has been duly authorised and that all instructions issued by the management are being duly complied with. The Audit Committee oversees the audit and inspection functions.

Keeping with the RBI Guidelines, the Bank has established the system of Concurrent Audit by appointing firms of Chartered Accountants as concurrent auditors. The number of branches under concurrent audit is as shown below:

Concurrent Audit Branches	For 2001-2002 (01.07.2001 to 30.06.2002)	For 2002-03 (01.07.2002 to 30.06.2003)
Concurrent Audit Branches	308	320
Continuous Audit Branches	14	16
Concurrent Audit of Foreign Departments	12	12
Continuous Audit of Foreign Departments	04	04
International Division, Mumbai	01	01
Total	339	353

At present 353 branches are under Concurrent Audit, which cover 50.12% of deposits, 73.77% of advances and 58.36% of total business of the Bank.

### VIGILANCE MECHANISM

The Bank's Vigilance Cell was constituted in 1972. The Cell functions under the supervision and guidance of Chief Vigilance Officer and is assisted by Vigilance Officers at the head office, all Circle Offices, the International Division, Mumbai, and concerned subsidiaries. Besides paying attention to the preventive, detective, surveillance and punitive aspects of vigilance, the Cell also monitors implementation of various guidelines issued by the Central Vigilance Commission on vigilance management in public sector banks. In addition to the Central Vigilance Commission, the Cell also maintains a close liaison with the Ministry of Finance (Banking Division), Reserve Bank of India and Central Bureau of Investigation. The Bank holds conferences at regular intervals of all vigilance officers of the Bank for reviewing vigilance administration and for increasing awareness.

### OBSERVATIONS OF JANAKIRAMAN COMMITTEE / JOINT PARLIAMENTARY COMMITTEE

The Janakiraman Committee ('JRC'), constituted by the Reserve Bank of India, and the Joint Parliamentary Committee ('JPC'), constituted by Govt. of India, (the 'Committees') had been formed to look into the various irregularities by banks, financial institutions, etc. in their securities transactions leading to the securities scam in 1992. The Committees have provided their findings through a series of reports submitted during the period May 1992 to December 1993 (the 'Reports'). The Committees noted serious irregularities in respect of transactions undertaken by various banks in Government Securities, public sector bonds, units of UTI and other mutual funds and other similar instruments. The Committees also noted non-compliance to guidelines issued by RBI.

The Reports include observations of the Committees in respect of transactions undertaken and irregularities observed in the functioning of Canara Bank, CANFINA and Canbank Mutual Fund ('CMF'). In respect of Canara Bank, the Committees indicated the irregularities observed and reported in the annual inspection reports of RBI, such as short sale of securities, transactions executed at rates vastly different from market rates, holding of unapproved securities in excess of permitted limit and irregularities in buy-back transactions. In respect of CANFINA's operations, the Committees noted that CANFINA had violated RBI guidelines in relation to its Portfolio Management Services ('PMS') / Corporate Investment Advisory Services ('CIAS') operations. The Committees also witnessed a lack of monitoring and internal control system in CANFINA. In respect of Canbank Mutual Fund ('CMF'), the Committees have indicated that CMF had violated guidelines issued by RBI and Controller of Capital Issues relating to secondary and money market operations, investments in the primary market and arms length relationship between sponsors, subsidiaries and the mutual fund. It was also noted that a majority of secondary market operations of CMF had been carried out through a few brokers.

### CANARA BANK'S SUPPORT TO CANFINA

Canara Bank had purchased securities worth Rs2,335.68 crore at book value from CANFINA during 1992-93 to provide liquidity support to CANFINA. The securities purchased comprised PSU Bonds (Rs1,776.39 crore), Corporate Debentures (Rs16.91 crore) and mutual fund instruments (Rs542.22 crore). Out of such purchases, a few of the PSUs had refused to register the transfer of securities in the name of Canara Bank for reason of pending disputes with CANFINA. The names of the PSUs are mentioned below:

- Housing and Urban Development Corporation Ltd. ('HUDCO')
- Indian Railway Finance Corporation Ltd. ('IRFC')
- Nuclear Power Corporation of India Ltd. ('NPC')
- National Thermal Power Corporation Ltd. ('NTPC')
- Mahanagar Telephone Nigam Ltd. ('MTNL')
- Power Grid Corporation India Ltd. ('PGCIL')

CANFINA has since reached a settlement with four of the PSUs namely, HUDCO, IRFC, NPC and NTPC. Under the settlement terms entered into with HUDCO, IRFC and NPC, the aggregate





crystallised liability (principle and interest included) of CANFINA was Rs1,317.69 crore, to be repaid in instalments over the period FY2000-FY2007. CANFINA has discharged the liability to the extent of Rs666.27 crore till the end of FY2002. The balance amount of Rs651.42 crore is payable over the period FY2003 to FY2007, of which a sum of Rs66.87 crore has been paid in April, 2002. Canara Bank envisages a total shortfall in CANFINA's ability to service the obligation to the extent of Rs638.66 crore of which amount, the Bank has already made a cumulative provision for Rs432 crore as at the end of FY2002, to provide support to CANFINA in servicing this obligation.

With respect to NTPC, CANFINA has already discharged the liability based on the settlement entered into with the PSU. Canara Bank has made full provision in FY2000 towards the deficit of Rs96.90 crore to CANFINA in the settlement.

The disputes with MTNL and PGCIL are still unresolved. Securities of the two PSUs having a book value of Rs194.35 crore have not been registered in the name of the Bank or have been withheld/cancelled. To secure its exposure, the Bank has either registered or noted a lien on other securities of CANFINA having a market value of Rs176.85 crore as at the end of FY2002. The Bank has provided for the difference of Rs17.50 crore. The Bank is pursuing with the two PSUs for recovery of the amount.

#### CANARA BANK'S SUPPORT TO CANBANK MUTUAL FUND

Canstar scheme, launched in 1990 by Canbank Mutual Fund provided repurchase facility at a minimum repurchase price from the fourth year to tenth year. However, the scheme could not repurchase the units from the seventh year onwards (i.e. on completion of 6 years of the scheme), when the NAV of the scheme was Rs23, due to continuous fall in NAVs. The repurchase facility continued to remain suspended till the termination of the Scheme on September 17, 2000. With a view to mitigating the hardship caused to the unit holders of Canstar scheme on account of suspension of the repurchase facility, Canara Bank, though not legally required to do so, made an offer during September, 1997 and again during December 1998-January 1999, to buy all units at Rs23 per unit which was the minimum repurchase price on completion of 6 years. In pursuance of these offers, about 43.40 crore units out of the net public holding of 45.59 crore units were purchased by Canara Bank. The unit holders whose names have appeared in the Register of Unit holders as on the date of termination, were paid the redemption price of Rs40 per unit in respect of the outstanding names. The difference of Rs23 and Rs11 per unit, being the NAV at the time of conversion of units and recovered from Canbank Mutual Fund, has been the loss incurred by Canara Bank over 43.40 crore units purchased from Canbank Mutual Fund. The Bank had effected a direct write-off of the shortfall amounting to Rs507 crore against its equity capital as per approval obtained from RBI.

#### SUBSIDIARIES

The Bank has the following subsidiaries:

1. Canbank Computer Services Ltd.
2. Canbank Factors Ltd.
3. Canbank Financial Services Ltd.
4. Canbank Investment Management Services Ltd.

5. Canbank Venture Capital Fund Ltd.
6. Gilt Securities Trading Corporation Ltd.
7. Indo Hong Kong International Finance Ltd.

None of the subsidiaries of the Bank are listed.

#### Canbank Computer Services Ltd.

Date of Incorporation August 31, 1994

Promoters Canara Bank (62.97%), Bank of Baroda (12.35%), Vijaya Bank (6.17%) Vysya Bank (6.17%), Karur Vysya Bank (6.17%) and Lakshmi Vilas Bank (6.17%)

#### Main Business

Canbank Computer Services Limited ("CCSL") is a joint venture of Canara Bank in association with five other banks, incorporated during 1994 to provide software consultancy and training to financial and other institutions. CCSL designs and develops software for banks and non-banking financial companies. The range of products encompasses a large area covering Retail Banking, Credit Cards, Electronic Funds Transfer (EFT), Interbranch connectivity, Leasing, Housing Finance, Hire Purchase, Fixed Assets etc. CCSL imparts specialised training in Information Technology and Banking, and also renders consultancy in the field of technology application and upgradation, business process re-engineering etc. CCSL also functions as Registrar & Transfer Agent.

Brief financial details of CCSL are given below:

(Rs crore)

Year Ending as on March 31	1998	1999	2000	2001	2002
Equity Share Capital	3.24	3.24	3.24	3.24	3.24
Reserves and Surplus	(0.26)	(0.95)	(0.99)	(2.36)	(2.22)
Total Income	1.51	2.28	4.07	2.73	3.77
PAT	(0.44)	(0.68)	(0.04)	(1.37)	0.15
Dividend (%)	-	-	-	-	-
Earnings per share (Rs)	-	-	-	-	0.45
Net Asset Value (Rs)	9.12	7.00	6.51	2.39	2.95

The company is availing following limits from Canara Bank.

(Rs crore)

Particulars	Limit	Outstanding as on 31.03.2002
Fund Based	0.50	0.35
Non Fund Based	Nil	Nil

Charges paid to the Bank by CCSL are as follows:

(Rs crore)

Year Ended March 31	FY2000	FY2001	FY2002
Interest	Nil	0.015	0.035
Rent	0.126	0.164	0.315
Total	0.126	0.179	0.350



**Canbank Factors Ltd.**

Date of Incorporation May 10, 1991

Promoters Canara Bank (70%), SIDBI (20%) and Andhra Bank (10%)

**Main Business**

Canbank Factors Limited is the factoring subsidiary of the Bank, set up in 1991 in association with Andhra Bank and Small Industries Development Bank of India (SIDBI). CFL has branches at Bangalore, Chennai, Coimbatore, Hosur, Hyderabad, Mumbai and Pune.

Brief financial details of Canbank Factors Ltd. is given below:

(Rs crore)

Year Ending as on March 31	1998	1999	2000	2001	2002
Equity Share Capital	20.00	20.00	20.00	20.00	20.00
Reserves and Surplus	11.42	15.47	19.29	23.19	27.64
Total Income	16.82	18.75	22.75	24.31	25.99
PAT	5.49	6.68	6.48	6.54	7.25
Dividend (%)	10	12	12	12	14
Earnings per share (Rs)	2.75	3.34	3.24	3.27	3.62
Net Asset Value (Rs)	15.67	17.70	19.62	21.54	23.80

The company is availing the following limits from Canara Bank:

Particulars	Limit Rs crore	Outstanding Rs crore as on 31.03.2002
Fund Based	60.00	13.43
Non-Fund Based	Nil	Nil

Charges paid to the Bank by Canbank Factors Ltd. are as follows:

(Rs crore)

Year Ended March 31	2000	2001	2002
Interest	0.56	0.89	0.63
Rent	0.11	0.17	0.17
Commission	0.03	0.01	0.01
Others (IP Commission)	0.02	0.07	0.13
Total	0.72	1.14	0.94

**Canbank Financial Services Ltd.**

Date of Incorporation June 1, 1987

Promoters Canara Bank (100%)

**Main Business**

Canbank Financial Services Ltd. ("CANFINA") was initially established as the merchant banking subsidiary of Canara Bank. The merchant banking license held in the name of CANFINA has since been transferred to Canara Bank. Activities of CANFINA during 2001-02 were confined to legal matters arising out of past transactions in securities and others, besides concentrating on collection of lease rentals and realisations of investments.

Brief Financial details of CANFINA is given below:

(Rs crore)

Year Ending as on March 31	1998	1999	2000	2001	2002
Equity Share Capital	30	30	30	30	30
Reserves and Surplus	(59.37)	(187.44)	(339.01)	(429.02)	(477.76)
Total Income	31.38	46.15	49.97	35.05	19.57
PAT	(6.73)	(128.07)	(151.57)	(51.57)	(48.23)
Dividend (%)	-	-	-	-	-
Earnings per share (Rs)	-	-	-	-	-
Net Asset Value (Rs)	-9.79	-212.31	-230.92	-228.93	-230.15

The subsidiary has not availed of any limits with Canara Bank.

Charges paid to the Bank by CANFINA are as follows:

(Rs crore)

Year Ended March 31	FY2000	FY2001	FY2002
Rent	0.67	0.32	0.22

**Canbank Investment Management Services Ltd.**

Date of Incorporation March 2, 1993

Promoters Canara Bank (100%)

**Main Business**

Canbank Investment Management Services Limited acts as investment manager of all schemes floated by Canbank Mutual Fund. Currently, it manages 13 schemes, comprising 10 in the open ended and 3 in the closed ended categories. CIMS also acts as a sub-investment manager to the Canbank (offshore) Mutual Fund.

The combined net assets managed by CIMS, as at March 2002, stood at Rs891 crore, including assets of Rs104 crore under the offshore fund. CIMS has an investor base of 3.47 lakh, serviced through 16 Investor Relations Centres spread across the country.

Brief financial details of CIMS is given below:

(Rs crore)

Year Ending as on March 31	1998	1999	2000	2001	2002
Equity Share Capital	10.00	10.00	10.00	10.00	10.00
Reserves and Surplus	26.92	28.57	28.71	29.15	30.08
Total Income	20.91	15.08	15.07	11.85	12.18
PAT	7.70	7.16	4.03	2.25	3.13
Dividend (%)	50	50	35	16.5	22
Earnings per share (Rs)	7.70	7.15	4.03	2.25	3.13
Net Asset Value (Rs)	36.90	38.55	38.70	39.14	40.08

The subsidiary has not availed of any limits with Canara Bank.

Charges paid to the Bank by CIMS are as follows:

(Rs crore)

Year Ended March 31	2000	2001	2002
Rent	2.11	2.11	1.55
Others (Property Tax)	0.56	0.60	0.44
Total	2.67	2.71	1.99



### Canbank Venture Capital Fund Ltd.

Date of Incorporation February 22, 1995  
Promoters Canara Bank (100 %)

#### Main Business

Canbank Venture Capital Fund Ltd. ("CVCFL"), a wholly owned subsidiary of Canara Bank, is the trustee and the manager of Canbank Venture Capital Fund. At present, CVCFL is managing three funds, viz., CVCFL-I, CVCFL-II and CVCFL-III.

CVCFL-I, the first fund set up in 1989, has a corpus of Rs16.42 crore, contributed jointly by Canara Bank, CANFINA and the World Bank lines of credit. CVCFL-I has been fully invested in 40 companies dealing with chemicals, computer software, energy related ventures, food and food processing, telecom etc. Out of these 40 investments, 12 have since been listed. CVCFL-I is currently in a divestment mode, with 29 divestments having been made. Redemption of the corpus of CVCFL-I to the contributors has been made to the extent of about 78%, including full repayment of the World Bank line of credit during 2001-02.

CVCFL-II was set up during May 1998 with a corpus of Rs10.5 crore, solely contributed by Canara Bank. CVCFL-II is in the final stage of investment with investments of Rs8.05 crore in 7 companies dealing with diverse products and services.

CVCFL-III, the third fund, was launched in March 2001 with a corpus of Rs30 crore, contributed equally by Canara Bank and SIDBI. A general fund, with focus on small scale units and IT sector, CVCFL-III has made sanctions to the extent of Rs15.45 crore in 5 companies covering Telecom, Software, Integrated HR Services and Bio-technology.

Brief financial details of CVCFL are given below:

(Rs crore)					
Year Ending as on March 31	1998	1999	2000	2001	2002
Equity Share Capital	0.25	0.25	0.25	0.25	0.25
Reserves and Surplus	0.03	0.08	0.11	0.11	0.58
Total Income	0.31	0.43	0.45	0.40	1.13
PAT	0.01	0.10	0.09	0.05	0.53
Dividend (%)	—	18	25	15	25
Earnings per share (Rs)	0.59	4.07	3.80	2.04	20.61
Net Asset Value (Rs)	11.21	13.27	14.30	14.51	33.06

The subsidiary has not availed of any limits with Canara Bank.

Charges paid to the Bank by CVCFL are as follows:

(Rs crore)			
Year Ended March 31	2000	2001	2002
Rent	0.036	0.036	0.036
Dividend	0.063	0.038	0.063
<b>Total</b>	<b>0.099</b>	<b>0.074</b>	<b>0.099</b>

### Gilt Securities Trading Corporation Ltd.

Date of Incorporation March 1, 1996  
Promoters Canara Bank (51%), Bank of Baroda (29%) and Corporation Bank (20%)

#### Main Business

Gilt Securities Trading Corporation Limited ("GSTCL"), promoted jointly by Canara Bank, Bank of Baroda and Corporation Bank, was incorporated in the year 1996 as a Primary Dealer in Government Securities. The Company offers continuous two way quotes in select Government Securities/Treasury bills and operates in both wholesale and retail markets.

Brief financial details of GSTCL are given below:

(Rs crore)					
Year Ending as on March 31	1998	1999	2000	2001	2002
Equity Share Capital	100.00	100.00	100.00	100.00	100.00
Reserves and Surplus	22.95	37.07	53.66	57.78	137.38
Total Income	72.46	82.69	104.76	98.75	212.21
PAT	25.25	25.12	29.96	17.34	100.21
Dividend (%)	10	10	12	12	20
Earnings per share (Rs)	2.53	2.51	3.00	1.73	10.02
Net Asset Value (Rs)	12.29	13.70	15.36	15.78	23.73

The subsidiary has not availed of any limits with Canara Bank.

The subsidiary has not paid any charges to the Bank.

### Indo-Hong Kong International Finance Ltd.

Date of Incorporation May 11, 1984  
Promoters Canara Bank (100%)

#### Main Business

Indo Hong Kong International Finance Limited ("IHFL"), a wholly owned subsidiary of the Bank, is a deposit-taking company authorised under the Hong Kong Banking Ordinance. IHFL provides commercial banking services in Hong Kong. Its services include short and medium term lending, financing of international trade and accepting deposits.

The company's net worth stood at USD15.53 million as at the end of the financial year 2002.

Brief financial details of the company are given below:

(USD mn)					
	1.1.1997 to 31.12.1997	1.1.1998 to 31.12.1998	1.1.1999 to 31.12.1999	1.1.2000 to 31.03.2001	2001-2002
Equity Share Capital	10.0	10.0	10.00	10.00	10.00
Reserves and Surplus	2.1	2.6	3.00	4.25	5.53
Total Income	2.52	2.75	2.69	3.70	2.50
PAT	1.01	1.02	0.31	1.10	1.38
Dividend (%)	5%	5%	Nil	Nil	Nil
Earnings per share (USD)	101	102	31	110	138
Net Asset Value (USD)*	1,210	1,263	1,300	1,425	1,553

Note: \* Face Value of each share : USD1,000

The company is availing the following limits from Canara Bank:

Particulars	Limit USDmn	Outstanding USDmn as on 31.03.2002
Fund Based	10.00	7.00
Non Fund Based	Nil	Nil





Charges paid to the Bank by Indo-Hong Kong International Finance Ltd. are as follows:

(USDmn)

As at	31.12.1999	31.03.2001	31.03.2002
Interest	0.071	0.196	0.068
Others	0.015	0.019	0.015
Total	0.086	0.215	0.083

#### REGIONAL RURAL BANKS

The contribution towards the capital of each of the RRBs is 50%, 35% and 15% by the Central Government, the Sponsoring Bank and the State Government respectively. The Bank has sponsored 8 Regional Rural Banks (RRBs), as under:

1. Tungabhadra Gramin Bank ('TGB')
2. South Malabar Gramin Bank ('SMGB')
3. Aligarh Gramin Bank ('AGB')
4. Etah Gramin Bank ('EGB')
5. Sahyadri Gramin Bank ('SGB')
6. Kolar Gramin Bank ('KGB')
7. Chitradurga Gramin Bank ('CGB')
8. Jamuna Gramin Bank ('JGB')

The consolidated financial Position of the 8 RRBs as on March 31, 2002 is as under:

(Rs crore)

Name of the RRB	No. of Branches	Equity Share Capital	Deposits	Net Advances	Total Business	Total Income	Net
TGB	161	1.00	488.10	473.81	961.91	86.87	16.10
SMGB	200	1.00	585.66	627.58	1213.24	101.48	11.93
AGB	85	1.00	413.24	165.64	578.88	55.11	12.21
EGB	58	1.00	192.15	77.50	269.65	15.30	1.25
SGB	29	1.00	73.50	58.67	132.17	13.55	2.63
KGB	63	1.00	154.35	92.29	246.64	22.81	4.94
CGB	93	1.00	191.30	151.80	343.1	32.90	5.44
JGB	42	1.00	190.82	43.23	234.05	21.29	3.00
<b>Total</b>	<b>731</b>	<b>8.00</b>	<b>2,289.12</b>	<b>1,690.52</b>	<b>3,979.64</b>	<b>349.31</b>	<b>57.50</b>

All the RRBs have earned profit for the year ended March 2002. The Bank has not received any dividend from the RRBs as the profits are retained by the banks for plough back in business.

#### OTHER COMPANIES CO-PROMOTED BY THE BANK

##### Canfin Homes Ltd.

Date of Incorporation 29.10.1987

Promoters Canara Bank and its Subsidiaries (33.20%), Unit Trust of India (18.74%), Housing Development Corporation Ltd. (12.20%), National Housing Bank (1.59%), Public (31.83%)

##### Main Business

Canfin Homes Limited ("CHL") is a housing finance institution sponsored by Canara Bank. CHL provides long-term finance to individuals including NRIs for construction or purchase of residential houses/flats and to companies, corporations,

societies or associations for the purpose of construction or purchase of residential houses/flats.

For the year 2001-02, with a borrowing clientele base of over 55,000, sanctions made by the company were Rs401 crore while disbursements were Rs354 crore. Cumulative sanctions of the company aggregated to Rs2,237 crore while cumulative disbursements stood at Rs1,909 crore.

Brief Financial details of the company is given below:

(Rs crore)

Year Ending as on March 31	1998	1999	2000	2001	2002
Equity Share Capital	20.481	20.481	20.48	20.48	20.48
Reserves and Surplus	47.79	57.54	67.06	79.57	92.55
Total Income	99.37	108.47	113.33	127.65	139.52
PAT	11.12	14.71	14.79	17.70	19.80
Dividend (%)	22	22	23	23	25
Earnings per share (Rs)	5.43	7.18	7.22	8.64	9.67
Net Asset Value (Rs)	33.33	38.06	42.71	48.83	55.26

Canfin Homes Ltd. made its public issue of equity in 1989 and is currently listed on the Bangalore Stock Exchange Ltd., The Madras Stock Exchange Ltd., The Stock Exchange, Mumbai and the National Stock Exchange of India Ltd. The details of the issue are:

1. Year of Issue : 1989
2. Type of Issue : Public Issue of Equity
3. Amount of Issue : 1,00,00,000 shares of Rs10 each
4. Date of closure of Issue : 21.2.1989
5. Date of completion of delivery of shares issued : 28.3.1989
6. Rate of dividend paid : 
 

1997-1998	22%
1998-1999	22%
1999-2000	23%
2000-2001	23%
2001-2002	25%

The securities of CHL on the above stock exchanges had not at any time been suspended from trading. Also, CHL has not been levied with penalties/fines by any of the stock exchanges mentioned above.

Canfin homes Ltd. also made a Rights Issue in 1992, the details of which are as follows:

1. Year of Issue : 1992
2. Type of Issue : Partly Convertible Debentures Issue on Right Basis
3. Ratio : 1:1
4. Amount of Issue : Rs250 per debenture; Issue size Rs10.50 crore
5. Date of closure of Issue : 17.3.2002
6. Date of completion of delivery of shares issued : 1.10.1992



The company has availed the following limits from Canara Bank:

Particulars	Limit Rs crore	Outstanding Rs crore as on 31.03.2002
Term loan and other Credit Facilities	80.51	80.51
Overdraft	3.78	0.33

Charges Paid to Bank:

(Rs crore)

Year Ended March 31	2000	2001	2002
Interest	7.88	9.89	10.38
Rent	0.44	0.79	0.54
Bank Charges	0.20	0.14	0.15
Processing Fee on Term Loan	Nil	50.00	Nil
Printing and Stationery etc.	0.05	0.03	0.05
<b>Total</b>	<b>8.57</b>	<b>11.35</b>	<b>11.12</b>

#### VERMA COMMITTEE RECOMMENDATIONS

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 systematic risks. The panel selected the following seven parameters for the financial year 1998 and 1999 to judge weakness / strength:

- Capital Adequacy Ratio (CAR)
- Coverage
- Return on Assets (ROA).
- Net Interest Margin (NIM).
- Ratio of Operating Profit to Average Working Funds.
- Ratio of Cost to Income.
- Ratio of Staff Cost to Net Interest Income plus all other income.

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

- Banks where none of the seven parameters are met.
- Banks where all the parameters are met.
- Banks where some of the seven parameters are not met.

The Bank has been placed amongst nine banks in the third category for compliance with Capital Adequacy Ratio (CAR) but did not comply with one or two of the remaining efficiency parameters for the financial year 1998 and 1999. The Working Group commented that the banks classified in this category are fairly well placed to tackle the visible pointers to weaknesses through internal strategies. For the year 1999, the Bank did not comply with the benchmark 'Return on Assets' ratio. The Bank has since improved its 'Return on Assets' ratio to 1.03% for the year 2002, as against 0.47% for the year 1999 (Benchmark ratio for 1999 was 0.61%).

#### VI. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE

The banking sector has been subject to many regulatory changes such as accounting norms becoming more stringent and increases in the capital adequacy levels. The sector has been a witness to both falling interest levels and increased competition. Canara Bank with its large number of branches covering the entire country is in a strong position to handle the changes and continues to improve its performance.

The Bank has embraced technology in order to improve its service and reduce costs. It appointed Indian Institute of Science, Bangalore to advise it on its IT initiatives. Currently over 81% of the Bank's business are computerised enabling the Bank to provide technology intensive services like AnyWhere Banking, TeleBanking, ATMs, remote terminals and corporate cash management services. The Bank also plans to introduce internet and mobile banking.

The Bank has taken a proactive approach towards increasing its asset quality and has engaged the services of Pricewaterhouse Coopers (PwC) to implement an Enterprise Wide Risk Management Framework. The Bank has a low net NPA ratio of 3.89%. The Bank has increased its focus on retail lending with emphasis on Housing Finance and Credit Cards, besides mobilising retail deposits to reduce funding costs. With a wide network of correspondent banking arrangements and Rupee Drawing Arrangements with Exchange Houses in the Middle East, International Operations remains a key area of focus for the Bank. To increase its thrust on trading and exchange business and to give a fillip to proprietary trading in major currencies, the Bank has commenced its Night Desk operations at its International Division, Mumbai.

The Bank continues to increase its product offerings and has signed a Letter of Intent with Dabur CGU to distribute Insurance products.





## Financial Highlights of the Bank

(Rs crore)

Year ended March 31	2000	2001	2002	% change from 2000 to 2001	% change from 2001 to 2002
<b>Total income</b>	5,687.42	6,536.05	7,799.09	14.92%	19.32%
Interest earned	4,851.74	5,618.26	6,370.56	15.80%	13.39%
Other income	835.68	917.79	1,428.53	9.83%	55.65%
Commission, Exchange and Brokerage	319.54	322.71	322.17	0.99%	-0.17%
Profit on Sale of Investments	132.89	201.39	662.81	51.54%	229.12%
Profit on sale of Land/Buildings and Other Assets	0.69	0.66	0.74	-4.15%	11.13%
Profit on Exchange Transactions (Net)	96.69	123.81	129.44	28.05%	4.55%
Income Earned by way of Dividend etc. from Subsidiaries and/or Joint Ventures abroad/in India	52.00	30.01	53.78	-42.29%	79.22%
Income from Leasing / Hire Purchase	11.02	6.03	5.69	-45.30%	-5.62%
Miscellaneous Income	222.84	233.18	253.91	4.64%	8.89%
<b>Expenditure</b>	4,764.26	5,404.83	6,142.85	13.45%	13.65%
Interest expended	3,414.47	3,735.25	4,550.24	9.39%	21.82%
Employee Related Expenses	951.09	1,253.07	1,122.52	31.75%	-10.42%
Other operating expenses	398.71	416.51	470.09	4.46%	12.86%
Total Operating Expenses	1,349.80	1,669.58	1,592.61	23.69%	-4.61%
Profit before provisions and contingencies	923.16	1,131.22	1,656.24	22.54%	46.41%
Less: Provisions and contingencies	687.11	846.12	914.84	23.14%	8.12%
<b>Net Profit</b>	236.05	285.10	741.40	20.78%	160.05%

### Significant items of income and expenditure during 2001-02 (Comparison of financials for the year ended March 2002 with March 2001)

#### Net Profit

The Bank registered a net profit of Rs741.40 crore in 2001-02, compared to a net profit of Rs285.10 crore in 2000-01, an increase of 160%. The higher profits were primarily because of increased interest income, quantum rise in non-interest income, particularly profit on sale of investments and savings in operating costs due to Special Voluntary Retirement Scheme. Return on Assets, a measure of profitability, rose to 1.03% in 2001-02 from 0.43% in 2000-01. Profits per employee also moved up from Rs0.63 lakh to Rs1.64 lakh during the same period.

#### Interest Income

Income from advances improved from Rs2,920.19 crore in 2000-01 to Rs3,130.48 crore in 2001-02. The advances rose from Rs27,831.77 crore as on March 31, 2001 to Rs33,126.70 crore as on March 31, 2002. Investments increased from Rs21,445.46 crore as on March 31, 2001 to Rs23,220.10 crore as on March 31, 2002. The income on investments increased from Rs2,234.30 crore to Rs2,496.71 crore in the same period. The yield on average investments excluding profits from sale of investments decreased from 11.05% to 10.94% in the same period. If profits from sale of investments are included, the yield has increased from 12.04% in 2000-01 to 13.91% in 2001-02. The net interest income of the Bank has fallen from Rs1,883.02 crore in 2000-01 to Rs1,820.32 crore in 2001-02. The Bank has constituted a two tier Asset Liability Committee to examine the assets and liability composition, maturity mismatches across time buckets, interest rate sensitivity of these assets and liabilities and its impact on the Net Interest Margin.

#### Other Income

The Bank has laid thrust on improvement of non-interest income as a means of improving profitability. The non-interest income of the Bank grew by 55.65% from Rs917.79 crore in 2000-01 to Rs1,428.53 crore in 2001-02. The significant increase in non-interest income was primarily from trading operation in treasury, which contributed an incremental amount of Rs462 crore, an increase of 229% over the year 2000-01. Trading income made by the Bank during the year 2001-02 may not be sustainable in the subsequent years. The Bank proposes to augment its non-interest income in the coming years through a greater focus on forex trading and retailing in government securities.

#### Interest Expenses

As a result of growth of deposits from Rs59,069.52 crore in 2000-01 to Rs64,030.00 crore in 2001-02, interest on deposits also rose from Rs3,735.24 crore to Rs4,550.25 crore during the same period. The cost of funds increased from 6.45% in 2000-01 to 6.63% in 2001-02 and yield of funds reduced from 9.70% in 2000-01 to 9.29% in 2001-02. In consonance with the softer interest rate regime, interest spread came down from 3.25% to 2.65% during the same period, resulting in an adverse impact on the Net Interest Income.

#### Operating Expenses

The non-interest expenses of the Bank decreased from Rs1,669.58 crore in 2000-01 to Rs1,592.61 crore in 2001-02. This reduction of Rs77 crore in the operating expenses even after factoring in the Rs181.58 amortised cost of SVRS, has also contributed to the profit growth for the year 2001-2002.



## Significant items of income and Expenditure during the year 2000-2001 (comparison of financials for the year ended March 31, 2001 with the financials for the year ended March 31, 2000).

### Net profits

The Bank registered a net profit of Rs285.10 crore in 2000-01, compared to a net profit of Rs236.05 crore in 1999-2000, a rise of 20.78%. Return on Assets remained steady at 0.43% for the period. Profits per employee moved up from Rs0.45 lakh to Rs0.63 lakh during the same period.

### Interest Income

Income from advances improved from Rs2,488.42 crore in 1999-2000 to Rs2,920.19 crore in 2000-01. The advances rose from Rs23,546.72 crore as on March 31, 2000 to Rs27,831.77 crore as on March 31, 2001. Investments increased from Rs20022.80 crore as on March 31, 2000 to Rs21,445.46 crore as on March 31, 2001. The income on investments increased from Rs2,041.53 crore to Rs2,234.30 crore in the same period. The yield on average investments excluding profits from sale of investments decreased from 11.21% to 11.05% in the same period. If profits from sale of investments are included, the yield has increased from 11.93% in 1999-2000 to 12.04% in 2000-01. The Asset Liability Management Committee of the Bank keeps a close watch on interest rate movements and takes corrective measures. The net interest income of the Bank has risen from Rs1,437.27 crore in 1999-2000 to Rs1,883.02 crore in 2000-01.

### Other Income

The Bank has laid thrust on improvement of non-interest income as a means of improving profitability. The non-interest income of the Bank grew from Rs835.67 crore in 1999-2000 to Rs917.79 crore in 2000-01. The other income of the Bank comprises of fee-based income, treasury income and forex earnings.

### Interest Expenses

As a result of growth of deposits from Rs48,001.36 crore in 1999-2000 to Rs59,069.53 crore in 2000-01, interest on deposits also rose from Rs3,414.47 crore to Rs3,735.24 crore during the same period. However, in spite of increasing rates the Bank succeeded in keeping the cost of deposits down at 7.02% as on March 31, 2001 as compared to 7.28% as on March 31, 2000. Interest spread increased from 2.81% to 3.25% during the same period, resulting in an increase in the Net Interest Income.

### Operating Expenses

The non-interest expenses of the Bank increased from Rs1,349.79 crore in 1999-2000 to Rs1,669.58 crore in 2000-01. A significant portion of the incremental increase in operating expenditure was due to the outgo of Rs174.60 crore due to the Special Voluntary Retirement Scheme.

### Future changes in relationship between costs and revenues

Following the gradual reduction in interest rates, particularly, in the recent period, the Bank's margin is coming under pressure. To tackle this, the Bank has evolved a multi-pronged strategy of mobilising more low cost deposits, achieve better recovery in NPAs, focus on retail lending, boosting non-interest income and reduction in operational expenses.

### Non-Dependence on a few customers

The Bank has well diversified credit portfolio to prevent any concentration of exposures. The maximum exposure of credit to any one company or any one-business group is less than 2.3% of total advances.

### Competitive conditions

The Bank recognises the fact that competition has increased in the market due to the following reasons:

- Deregulation of interest rates on deposits and on advances
- Emergence of new private sector banks
- Technological advances

The Bank has developed a strategy to meet the competition by diversifying its product range and appropriate pricing of the same. The Bank enjoys a large franchise value through its branch network and will further leverage on the same through better use of technology.

### Material Developments

In the opinion of the Board of directors, no circumstances have arisen since the date of the last financial statements, as disclosed in the Offer Document, which would materially affect or are likely to affect the profitability of the Bank or the value of its assets or its ability to pay its liabilities within the next twelve months.

### Servicing Behaviour

The Bank has been servicing all its principal and interest liabilities on time and there has been no default since inception.

## VII. PREVIOUS ISSUE OF THE BANK DURING THE LAST THREE YEARS

The equity shares of the Bank are not presently listed and the Bank has not made any public issue of capital earlier.

## VIII. BASIS OF ISSUE PRICE

### Justification of Premium

The following factors have been considered while arriving at the Issue Price of Rs35 (share premium of Rs25 per share) per equity share.

### Quantitative Factors

1. Year-end earnings per share (EPS)

Year	EPS	Weights Used
1999-2000	4.08	1
2000-2001	4.93	2
2001-2002	12.83	3

Weighted average EPS for the last three years is Rs8.74

2. Price Earning (P/E) Ratio (in relation to Issue price of Rs35 per share): 4.00

The P/E ratio based on FY2002 earnings per share before return of capital is 2.73

3. Industry P/E
 

Highest	5.4
Lowest	1.4
Average	3.6

(Source: Capital Market Vol. XVII/10 dated August 4, 2002)





4. Return on Average Net Worth (RONW)

Year	RONW (%)	Weights Used
1999-2000	9.60%	1
2000-2001	10.63%	2
2001-2002	22.18%	3

Weighted average RONW for the last three years is 16.23%

5. The minimum return on increased post offer Networth required to maintain pre-offer EPS of Rs12.83 is (based on an offer price of Rs35 per share): 15.25%

6. Net Asset Value as on March 31, 2002 Rs57.84

Net Asset Value after public offer and after considering the return of capital of

Rs 277.87 crore Rs84.14

(on the basis of an offer price of Rs35 per share)

Public Issue price per share Rs35

**Qualitative Factors**

1. The Bank has a consistent track record of profitability since inception.
2. The Bank is a professionally managed organisation with a track record of operations of over 96 years.
3. The Bank offers a wide range of banking services, which include corporate and personal banking, industrial finance, agricultural finance, trade financing and international banking.
4. The Bank is one of the large banks in India with total business size (advances plus deposits) of Rs97,157 crore as on March 31, 2002.

5. The Net Asset Value of the Bank as on March 31, 2002 is Rs57.84 per share

6. The Bank has a large network of branches spread throughout the country providing access to cheaper funds. The network of the Bank stood at 2,409 branches inclusive of its branch at London besides 218 Extension Counters. The Bank has also opened specialised branches to cater to the needs of corporate and industrial finance, Non Resident Indians, hi-tech agricultural finance and small-scale industries.

7. Foreign Business Turnover, an area of strength for the Bank, aggregated to Rs59,333 crore for the financial year 2001-02.

8. The Banks Capital Adequacy Ratio ('CAR') is 11.88% as on March 31, 2002 against the RBI prescribed minimum of 9%.

9. A low net NPA level of 3.89%.

10. The Bank has achieved a high level of automation covering 65% of the branch network and 81% of the Bank's business. ATM strength of the Bank stands at 103 as at the end of FY2002.

**In view of the reasons mentioned above, the Bank and all the Lead Managers to the Issue, in consultation with whom the premium has been decided, are of the opinion that the premium is reasonable and justified.**



## IX. OUTSTANDING LITIGATION, DEFAULT AND MATERIAL DEVELOPMENTS

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

1. Cases filed against the Bank
2. Cases filed against the Bank's subsidiaries and sponsored institutions
3. Disputed Tax Liabilities

### 1. DETAILS OF THE CASES FILED AGAINST THE BANK AS ON MARCH 31, 2002 AND WHICH ARE OUTSTANDING AS ON DATE

There are 734 cases against the Bank with monetary reliefs amounting to Rs.270.04 crore claimed therein against the Bank.

#### A. Details of Show Cause Notices issued to the Bank:

The Custodian established under the Special Court (Trial of Offences Relating to Transactions in Securities) Act, 1992 has issued the following show cause notices to the Bank regarding various transactions, which involved payments made by Mr. Hiten Dalal (a notified party):

Details of the Show Cause Notices	Remarks
6/2002 dated January 9, 2002	<p>Bank of America ("BA") sold certain securities to Canbank Financial Services Limited ("Canfina") in respect of which the Custodian has issued the Show Cause Notice. It is alleged in the Show Cause Notice that Canfina had partly paid the purchase consideration of the said sale transaction, leaving a sum of Rs. 2,21,75,000/- outstanding. It is further alleged in the Show Cause Notice that the alleged short payment of Rs.2,21,75,000/- was subsequently made good by Mr. Hiten Dalal to BA.</p> <p>The Bank has contended that the short payment of Rs. 2,21,75,000/- was netted off by the Bank against the consideration payable in respect of certain independent transactions between the Bank and BA. The Bank has filed its reply recording this contention.</p> <p>The case has been adjudicated in favour of the Bank and the Bank is discharged in the case.</p>
56/2002 dated June 20, 2002	<p>The Bank sold certain securities to Citibank in respect of which the Custodian has issued the Show Cause Notice.</p> <p>It is alleged in the Show Cause Notice that there was a difference between the price at which the Bank recorded the above sale of the securities in its books, and the price at which Citibank recorded the purchase of the securities in its books. It is further alleged in the Show Cause Notice that the differential amount of Rs.4,75,000/- was made good by Mr. Hiten Dalal to Citibank.</p> <p>The Bank has filed its reply contesting the Show Cause Notice.</p>
60/2002 dated June 21, 2002	<p>The Bank sold certain securities to Indian Overseas Bank ("IOB") in respect of which the Custodian has issued the Show Cause Notice.</p> <p>It is alleged in the Show Cause Notice that there was a difference between the price at which the Bank recorded the above sale of the securities in its books, and the price at which IOB recorded the purchase of the securities in its books. It is further alleged in the Show Cause Notice that the differential amount of Rs.60,00,000/- was made good by Mr. Hiten Dalal to IOB.</p> <p>The Bank is in the process of filing its reply contesting the Show Cause Notice.</p> <p>The Show Cause Notice is yet to be adjudicated.</p>
74/2002 dated August 2, 2002	<p>American Express Bank ("AMEX") sold securities to the Bank in respect of which the Custodian has issued the Show Cause Notice.</p> <p>It is alleged in the Show Cause Notice that there was a difference between the price at which the Bank recorded the above purchase of the securities in its books, and the price at which AMEX recorded the sale of the securities in its books. It is further alleged in the Show Cause Notice that the differential amount of Rs.92,50,000/- was made good by Mr. Hiten Dalal to AMEX.</p> <p>The Bank is in the process of filing its reply contesting the Show Cause Notice.</p> <p>The Show Cause Notice is yet to be adjudicated.</p>





76/2002 dated August 13, 2002	<p>AMEX has sold securities to Citibank in respect of which the Custodian has issued the Show Cause Notice.</p> <p>It is alleged in the Show Cause Notice that there was a difference between the contracted rate and the delivery rate. It is further alleged in the Show Cause Notice that the differential amount of Rs.33,75,000/- was made good by Mr Hiten Dalal.</p> <p>By its letter dated May 4, 1999, AMEX has alleged that the counter party to the aforesaid transaction was the Bank and not Citibank.</p> <p>The Bank is in the process of filing its reply contesting the Show Cause Notice.</p> <p>The Show Cause Notice is yet to be adjudicated.</p>
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B. Disciplinary action by Regulatory Authority against the Bank:

- SEBI has awarded two penalty points against the Bank for certain discrepancies observed in connection with the Bank's Merchant Banking Activities in the year 1995.

Issuer Company	Irregularity	Action taken
Sun Source (India) Limited	Delay in filing copies of the prospectus/ letter of offer with SEBI.	One penalty point imposed.
Arham Plastics Limited	Delay in filing copies of the prospectus/ letter of offer with SEBI.	One penalty point imposed.

- SEBI has de-authorised two branches of the Bank to act as Collecting Bankers for the Public/Rights Issues for a period of three months during the year 2000 for violation of SEBI Bankers to the Issue Guidelines.

Branch	Issuer Company	Irregularity	Action taken
Bhadra, Ahmedabad	Incap Financial Services Limited	The branch received application along with Stock Invest after the issue closing date.	The branch was debarred from acting as Bankers for a period of three months from March 20, 2000
Thousand Lights, Chennai	Incap Financial Services Limited	The branch received application along with Stock Invest after the issue closing date.	The branch was debarred from acting as Bankers for a period of three months from March 20, 2000.



C. The cases filed against the Bank in India, where the monetary relief claimed against the Bank is over Rs 1,00,00,000/- (as on the date of filing of the cases) are itemized hereunder, with brief details furnished by the Bank:

Sr.No.	Name of the Branch	Name of the Plaintiffs/ Complainants/ Applicants	Date, Case No. & Court	Amount claimed in Rs (in crores) except as otherwise indicated	Remarks
1.	Ghatkopar, Mumbai City	Mr. Prakash Shenoy ("Shenoy")	17.10.1996 OP No.236 of 1996 National Consumer Dispute Redressal Commission, New Delhi	10.57	Shenoy has claimed damages on account of alleged deficiency of service on the part of the Bank in withdrawing the credit facilities, which were sanctioned by the Bank. The Bank is opposing the complaint.
2.	Bhat Bazar, Mumbai City	Pratibha Pratistan Public Charitable Trust & 5 others ("Trust")	13.06.1997 OP No.156 of 1997 National Consumer Dispute Redressal Commission, New Delhi	11.91	The Trust has claimed damages on account of alleged deficiency of service on the part of the Bank. The Bank is opposing the complaint.
3.	Vile Parle, Mumbai City	Minhas Steel Limited ("Minhas")	02.06.1995 Suit No.3043 of 1995 High Court, Bombay	8.65	Minhas has claimed damages on account of alleged deficiency of service on the part of the Bank. The Bank has filed its written statement denying the allegations and praying for dismissal of the suit.
4.	Sindhi Society, Mumbai City	Messrs Sucharu Enterprises ("Sucharu")	17.05.1999 Suit No.3086 of 1999 High Court, Bombay	1.28	<p>The Bank has filed a suit being Suit No.496 of 1997 in the Bombay High Court against Global Trust Bank ('GTB') and Sucharu, for recovery of the amounts of certain cheques, which were wrongly credited by GTB to the account of Sucharu. The suit has been transferred to the Debt Recovery Tribunal, Mumbai ('DRT') and has been registered as Original Application No.560 of 2000.</p> <p>Sucharu has filed the suit against Motorola India Limited and others, wherein an amount of Rs.1,28,58,055/- together with further interest at the rate of 24% per annum is claimed jointly and severally against the Bank and GTB.</p> <p>The Bank is opposing the above suit.</p>





5.	Ashram Road, Ahmedabad	Testeels Limited ("Testeels")	27.09.1995 Suit No. 5247 of 1995 City Civil Court, Ahmedabad	37.55	Testeels has claimed damages against the Bank and the Central Bank of India for allegedly having prevented Testeels from using the sanctioned credit facilities and allegedly making false statements before the Board for Industrial and Financial Reconstruction ('BIFR') based on which statements, BIFR concluded that Testeels should be wound up. The Bank has filed its written statement denying the allegations and praying that the suit be dismissed.
6.	Mowbrays Road, Chennai	M/s Pearl Impex ("Pearl")	17.08.2000 OP No.517 of 2000 National Consumer Dispute Redressal Commission, New Delhi	2.85	Pearl has claimed damages on account of alleged deficiency of service on the part of the Bank. The Bank is opposing the complaint.
7.	Chintadripet, Chennai	Janapriya Finance & Industrial Investments Limited ("Janapriya")	05.07.1989 Summary Suit No. 517 of 1989 High Court, Kolkata	2.67	Janapriya has filed the suit claiming recovery of the amount of fixed deposits, with further interest thereon. The Bank is opposing the suit on the ground that the claim of Janapriya is based on fake deposit receipts. The High Court has appointed a Committee of Management to look into the matter.
8.	R. P. Road, Secunderabad	Bank of Tokyo & Mitsubishi Limited ("BTM")	Original Suit: 13.12.1999 Appeal: 26.06.2002 Misc Appeal No. 263 of 2002 In Original Application No. 3268 of 1999, Debt Recovery Appellate Tribunal, Mumbai	2.07	BTM had filed an application in the DRT, since the Bank did not honour the invocation of the Counter Bank Guarantee given by the Bank in favour of BTM. The Bank did not honour the Counter Bank Guarantee based on legal opinion procured by the Bank. The said application was dismissed by the DRT and costs of Rs.10,000/- was awarded to the Bank. BTM has preferred an Appeal against the aforesaid dismissal Order before the Debt Recovery Appellate Tribunal. The Appeal is pending.
9.	Sector 17C, Chandigarh	Punjab Wireless System Limited ("PWSL")	04.01.1994 Suit No. 6 of 1994 1 <sup>st</sup> Class Sub-Judge, Chandigarh	1.28	The 1 <sup>st</sup> Class Sub-Judge, Chandigarh, in the suit filed by PWSL, stayed the Bank from making payment under the Letter of Credit ("L/C") issued on behalf of PWSL in favour of the State Bank of India ("SBI"). This stay was subsequently vacated. Immediately thereupon, the amount under the L/C was paid by the Bank to SBI.  SBI has filed an application in the suit claiming interest from the Bank on delayed payment of the amount under the L/C. The Bank is opposing the said application.  The suit has been adjourned sine die. In the meantime, PWSL has been directed to be wound up and the Official Liquidator has been appointed.



10.	Cantonment, Bangalore	M/s. Electronic Research Limited ("ERL")	Original Suit: 20.10.1993 Appeal: 22.03.2000 RFA 253 of 2000 In OS No 6303 of 1993 High Court, Kamataka	6.84	Some of the employees of ERL fraudulently encashed a cheque issued by ERL drawn on the Bank. ERL, therefore, filed a suit being Suit OS No. 6303 of 1993 against the Bank, the concerned employees, Union of India and the Collector of Customs in respect of the said cheque. The said suit was dismissed by the High Court. Against the dismissal Order, ERL has preferred the Appeal. The Bank is opposing the Appeal.
11.	Punalur & Quilon Main, Trivandrum	Punalur Paper Mills Limited ("Punalur")	13.08.1987 Suit No. 3074 of 1987 High Court, Bombay	26.67	Punalur has claimed damages for alleged deficiency of service on the part of the Bank in not granting timely credit facilities to the Bank. Punalur has submitted a compromise proposal which is under consideration. As a part of the compromise proposal, Punalur would have to withdraw the suit.
12.	Overseas Branch, Agra	Messrs Wasan & Co & others ("Wasan")	25.09.1998 Suit No. 793 of 1998 The 5 <sup>th</sup> Additional Civil Judge, Agra	2.54	Wasan has filed the suit against State Bank of Bikaner & Jaipur and others, including the Bank. Wasan has submitted a compromise proposal which has been accepted by the Bank but not yet acted upon. As per the compromise proposal, Wasan has agreed to withdraw the suit.
13.	Connaught Circle, Delhi	Punjab National Bank ("PNB")	28.09.1995 Original Application No. 5 of 1995 DRT, Delhi	6.66	PNB filed the application for recovery against the Bank. By an order passed by the Hon'ble Supreme Court of India, it has been directed that the proceedings filed by PNB and the Bank against each other in the DRT, Mumbai be withdrawn. The Bank has withdrawn its application against PNB. PNB has yet to withdraw the application.
14.	Kidderpur, Kolkata	M/s EMEC (P) and Mr Ramprasad Chowdhary (jointly "EMEC")	26.05.1998 Suit No. NS/15 of 1998 High Court, Kolkata	4.33	As a counter blast to an application filed in the DRT by the Bank against EMEC for recovery of its dues, EMEC filed the suit against the Bank claiming damages. The Bank is opposing the suit.
15.	Patna Main, Patna	M/s. Bihar Wollen Fabrics ("BWF")	28.07.1991 Original Suit No. 106 of 1991 High Court, Patna	4.87	An application was filed in the DRT by the Bank against BWF for recovery of its dues. BWF filed the suit against the Bank claiming damages for alleged non-extension of working capital facilities by the Bank. The Bank is opposing the suit. BWF has filed a Writ Petition in the Patna High Court against the direction of the Bank to BWF at the time of considering the settlement proposal to disclose its assets on affidavit. The Writ Petition is pending.





16.	Darbhanga, Patna	M/s. Dazy Pharmaceuticals ("Dazy")	6.12.1995 Original Application No.PT/639 of 1998 DRT, Patna	1.13	In the application filed by the Bank against Dazy for recovery of its dues, Dazy filed its counter claim against the Bank. The Bank has filed its reply opposing the alleged claim of Dazy.
17.	Overseas Branch, New Delhi	Wasan Exports Private Limited ("Wasan")	07.08.1998 UTPE No. 179/97 Monopolies & Restrictive Trade Practices Commission, New Delhi	5.30	Wasan filed the application against the Bank and others alleging that as a result of deficient services and unfair trade practices indulged in by the Respondents, Wasan suffered a loss. The Bank is opposing the application.

D. The cases filed against the Bank outside India, where the monetary relief claimed against the Bank is over Rs 1,00,00,000/- (as on the date of filing of the cases) are itemized hereunder, with brief details furnished by the Bank:

Sr.No.	Name of the Plaintiffs/ Complaints/Applicants	Date, Case No. & Court	Amount claimed	Remarks
1.	Solo Industries Limited ("Solo")	10.08.1999 High Court of Justice, Commercial Court of London	26,96,785.40 USD	The summary application filed by Solo was dismissed by the Commercial Court of London. The Court of Appeal dismissed the appeal filed by Solo against the Order of Dismissal. The second Appeal filed by Solo was also dismissed by the House of Lords. The Trial will not commence, unless Solo takes further steps as required under English law.
2.	Credit Lyonnais Forfaiting ("CLF")	24.03.1999 Commercial Court of Nanterre	6,12,500 USD + 1,00,000 French Francs	Banque de l'Ile de France ("BDEI") negotiated a Foreign Letter of Credit ("FL/C") opened by the Bank. Believing a fraud had been perpetrated at the time of opening the FL/C, the Bank refused to honour its commitment under the FL/C. BDEI obtained an attachment order from the Commercial Court of Nanterre against the funds in the Bank's account with CLF. BDEI later on assigned the claim under the FL/C to CLF. Thereafter, CLF filed a suit in the Commercial Court of Nanterre and obtained a garnishee order for \$ 612,500 against the balance lying in the Bank's account with Societe Generale, Paris. Finally, by its Order dated June 22, 1999, the Commercial Court of Nanterre held that the CLF is not liable to honour its commitments under the FL/C and revoked the attachment order and the garnishee order. CLF has filed an Appeal in the Court of Appeal at Versailles against the Order of dismissal. The Bank is opposing the Appeal.



3	Dalil Exchange ("Dalil")	12.12.1998 Case No 7398/98 Bahrain Court	1,18,82,318/- Bahrain Dinar	Dalil filed a case against the Bank claiming damages for the alleged termination of the Rupee Drawing Arrangement granted to it. The Court appointed one M/s. Al Mezan Bureau ("AMB") to reconcile the account of Dalil with the Bank to arrive at the amount due to Dalil and to offer comments and report on the same. After reconciliation of the accounts, AMB recommended payment of Rs 72,91,191.96 by the Bank. The attempts to settle the matter have fallen through. The Bank is opposing the application. However, the Bank obtained permission of RBI and made provision for Rs 72,91,191.96 against USD by way of a forward cover, which would roll over until disposal of the case and until such time that the Court directs the Bank to remit the proceeds to Dalil.
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**E. Writ Petitions filed against the Bank**

There are four writ petitions filed jointly against Canbank Mutual Fund, the Bank and others seeking a direction to pay three times the investment amount and an injunction restraining the Canbank Mutual Fund from converting Cantriple + Scheme into an open ended scheme. Before any relief could be granted in these writ petitions, the Cantriple + Scheme was converted into an open ended scheme.

As the Bank has been impleaded in the above writ petitions as the Principal Trustee of Canbank Mutual Fund, the Bank sought legal opinion as to whether they would be liable to pay any amount under the Cantriple + Scheme. As per the opinion, the Bank would not be liable to make any payments under the Cantriple + Scheme. In any event, the Auditors have included the said sum of Rs 151.49 crores under the Cantriple + Scheme as a contingent liability of the Bank.

Names of the Parties	Date, Cases and Court	Remarks
Sanjay Kumar Tulsian V/s. Canara Bank & Ors	02.08.1999 Writ Petition No. 1718 of 1999 High Court, Kolkata	No interim reliefs have been granted.
Narayan Choudhary V/s. Canbank Mutual Fund & Ors	13.08.1999 Writ Petition No. 14650 of 1999 High Court, Kolkata	No interim reliefs have been granted.
Peerless General Finance Company Limited V/s. Canara Bank & Ors	10.09.1999 Writ Petition No. 2087 of 1999 High Court, Kolkata	No interim reliefs have been granted.
Mukesh Amol Chandnani ("Chandnani") V/s. Union of India & Ors	10.06.1999 Writ Petition No. 1401 of 1999 High Court, Bombay	The Petition was dismissed for default. Chandnani has taken out an application for restoration of the Petition. The application is pending.

**F. Details of the cases filed by the employees/ ex-employees/ unions/ associations against the Bank:**

There are 486 court cases/industrial disputes pending at various stages filed by various employees/ex-employees/unions/ associations relating to disciplinary action, service policy, false caste certificate and other miscellaneous matters before the Tribunals, Civil Courts, High Courts and Supreme Court.

Most of the above cases do not have any financial implications on the Bank. In some of the cases, especially cases relating to dismissal, removal, retirement, there is a possibility that the Court/Tribunal may order reinstatement of the employee/s with or without back wages. In such cases, there could be some financial implications on the Bank. At this stage, it is not possible to quantify the potential financial implications of such cases. In any event, the financial implications, if any, would not be very significant and would not affect the financial results of the Bank.





G. Details of the cases filed against the Bank where no monetary relief has been claimed against the Bank:

As on March 31, 2002, there are 1,070 suits/claims filed against the Bank by various parties in different fora where no monetary reliefs have been claimed against the Bank.

H. Details of the complaints filed against the Bank through the Banking Ombudsman:

As on March 31, 2002, there are 27 complaints filed against the Bank. The Bank is opposing the said complaints.

2. DETAILS OF THE CASES FILED AGAINST THE BANK'S SUBSIDIARIES/SPONSORED INSTITUTIONS AS ON MARCH 31, 2002 AND OUTSTANDING AS ON DATE.

A. Criminal cases filed against the Bank's subsidiaries/sponsored institutions:

Sr. No.	Name of the Parties	Date, Case No. & Court	Remarks
1.	Mr Kiran Chand Lunawat & Anr. (jointly "Lunawat") V/s. 1. Mr P. R. Nayak 2. Mr D. M. Nanjundappa 3. Mr M. M. Khanna 4. Mr A. M. Prabhu 5. Mr R. J. Kamath 6. Mr G. A. Shenai 7. Mr K. M. Shet	08.11.1995 Case No. C/1475/95 15 <sup>th</sup> Metropolitan Magistrate, Kolkatta	Lunawat filed the complaint under Section 420 read with Section 120B of the Indian Penal Code against the Trustees of CMF and the Managing Director and Executive Director of CIMS. On applications being made by the Accused for discharge, the the Learned Metropolitan Magistrate allowed the application subject to the direction that the Accused should appear before the Learned Magistrate on the date of recording evidence, examination of the Parties and delivery of the judgement. Against the said order, the Accused filed Criminal Revision Application No 1762 of 1997 ("CRA") in the High Court at Calcutta for quashing the said order. The High Court has stayed the operation of the said order until disposal of the CRA. The CRA is pending final hearing and disposal.
2.	Mr Dilip Cheriwal ("Cheriwal") Vs. 1. CMF 2. Mr K. Laxminarayan, 3. Mr R. M. Venkatachallam, 4. Mr M. N. Kamath, 5. Mr B. R. Acharya	28.09.1999 Case No. 1074 of 1999 First Class Judicial Magistrate, Patna	Cheriwal filed the complaint under Sections 406, 409, 420 read with 120B of the Indian Penal Code against CMF and its trustees. The complaint is now being prosecuted only against CMF. The Revision Petition filed by CMF before the Sessions Court, Patna for quashing the complaint was dismissed. Against the order of the Sessions Court, CMF has preferred an appeal to the High Court, Patna, which is pending final hearing and disposal.



B. Cases against the Bank's subsidiaries/sponsored institutions in respect of securities laws:

• Cases filed against Canfina:

Sr. No.	Name of the Plaintiffs/ Complaints/Applicants	Date, Case No. & Court	Amount Claimed (Rs. in crores)	Remarks
1.	Standard Chartered Bank ("SCB")	26.11.1992 Special Court Suit No. 12 of 1994 (Original Suit No. 3914/92) Special Court, Mumbai	88.07	SCB has filed the suit against Canfina and Mr. Hiten Dalal for recovery of Rs.88.07 crores or alternatively for delivery of the 9% IRFC bonds of face value of Rs.70 crores. The Bank is opposing the suit.
2.	State Bank of Saurashtra ("SBS")	26.04.1995 Special Court Suit No. 3 of 1995 Special Court, Mumbai	137.04	SBS issued an account payee crossed bankers cheque on the instructions of Mr. Harshad Mehta ('HM') in favour of the Bank. According to SBS, they had no transaction with the Bank or Canfina. It is Canfina's case that they had a securities sale transaction with HM Group and the cheque was tendered to them by HM and that the cheque was made out in favour of the Bank on their instructions. As the amount is being claimed against the Bank and Canfina jointly and severally, the entire amount is shown as a contingent liability of Canfina. Canfina is opposing the suit.
3.	Mr. Naresh Agarwal ("Naresh")	06.08.1993 Special Court Suit No. 4 of 1998 Special Court, Mumbai (Originally Suit No.1827 of 1993 filed in the High Court of Delhi)	3.18	Naresh has filed the suit for non-delivery of the certain shares by Canfina. Canfina is opposing the claim. Canfina has filed its counter claim in the suit for Rs 2.53 crores.

• Details of Show Cause Notices issued to Canfina:

The Custodian established under the Special Court (Trial of Offences Relating to Transactions in Securities) Act, 1992 has issued the following show cause notices to Canfina regarding various transactions involving payments made by Mr. Hiten Dalal ('HPD')(a notified party), amounting to Rs.54.51 crores as on 31-03-2002:





Details of the Show Cause Notices	Remarks
Show Cause Notice No.7/02	<p>Canfina sold certain securities to ANZ Grindlays Bank ("ANZ") for a consideration of Rs.60,25,06,847.31. Canfina received a differential amount of Rs.54,00,000.00 from HPD, a notified party.</p> <p>Canfina has contended that it has received only the amount as per contract and the broker would have paid the difference on his own volition, he being liable to ensure that Canfina got the exact sale consideration as contracted.</p> <p>Custodian's order is for the cancellation of the transaction under which Canfina received Rs.54,00,000.00 from HPD. The Custodian has adjudicated the matter against Canfina.</p> <p>Canfina has filed Misc. Petition 498/2002 before the Special Court Mumbai challenging the Custodian's order.</p>
Custodian Claim dated May 26, 1999	<p>Canfina had purchased a certain State Loan 1999 from ANZ Grindlays Bank ("ANZ") for a consideration of Rs.18,47,06,599.00. For this sale ANZ received Rs.73,00,000/- from HPD. The Custodian is claiming the said amount paid by HPD from ANZ and from Canfina.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Custodian Claim dated 19.05.1999	<p>Canfina purchased certain bonds from ANZ for Rs.31,52,44,520.55. ANZ paid the consideration to the tune of Rs.31,15,24,520.55 and HPD paid Rs.37,20,000/-. The Custodian is claiming the amount paid by HPD from ANZ and from Canfina.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Show Cause Notice 50/2002	<p>Canfina sold certain securities to Standard Chartered Bank ("SCB") for a consideration of Rs.10,54,37,500/- Canfina received Rs.10,50,00,000/- from SCB and Rs.4,37,500/- from HPD.</p> <p>Canfina sold certain securities to Citibank for a consideration of Rs.24,64,51,369.86. Canfina received Rs.24,60,51,369.86 from Citibank and the balance Rs.4,00,000/- from HPD.</p> <p>Canfina purchased from Canbank Mutual Fund ("CMF") certain securities for a consideration of Rs.15,21,52,191.78. Canfina paid Rs.15,23,77,191.78 to CMF resulting in an excess payment of Rs.2,25,000/- which was recovered from HPD.</p> <p>Custodian is claiming that payment of Rs.4,37,500/-, Rs. 4,00,000/- and Rs.2,25,000/- are not bonafide payments towards difference payment as claimed by Canfina.</p> <p>Custodian's order is for the cancellation of the transaction under which Canfina received Rs.10,62,500/- from HPD.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Custodian Claim dated January 18, 2000	<p>Canfina sold certain bonds to ANZ for a consideration of Rs.12,19,82,465.75 and received the said amount from them. The Custodian is claiming that a sum of Rs.36,00,000/- has been paid by HPD to ANZ for this transaction and therefore the sum has to be refunded by ANZ / Canfina.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Custodian Claim dated May 24, 1999	<p>Canfina purchased from ANZ certain securities for a purchase consideration of Rs.27,60,00,000/- and paid the purchase consideration accordingly. According to the Custodian, ANZ received from HPD also a sum of Rs.2,30,67,600/-, being the differential purchase consideration. This payment according to the Custodian is attached property of the notified broker and therefore has to be returned.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Show Cause Notice 38/2002	<p>Canfina had a sale transaction with Bank of America, ("BOA") for the sale of certain securities for a consideration of Rs.24,99,41,917.81. Canfina received Rs.23,79,41,917.81 from BOA and Rs.1,54,30,000 from HPD.</p> <p>The Custodian is claiming that the payment of Rs.1,54,30,000/- received from HPD was unauthorised and Canfina has to return the same with interest.</p> <p>Canfina contends that it received from HPD the difference in the above transaction amounting to Rs.1,20,00,000 and the balance Rs.34,30,000/- is towards Canfina's purchase of Rs. 2,00,00,000/- of other securities on the same day with ANZ in which Canfina paid Rs.34,30,000 to ANZ in excess.</p> <p>The Custodian is yet to adjudicate on the matter.</p>



Show Cause Notice 48/2002	<p>According to the Custodian, Canfina received Rs.33,25,000/- from HPD which has to be refunded.</p> <p>According to Canfina the payment is in respect of certain securities contracted with HPD but not carried out by him and difference was paid to Canfina for not honouring the deal.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Show Cause Notice No.37/2002	<p>Canfina sold to BOA certain bonds for a consideration of Rs.25,21,50,684.90 and received the sale consideration of Rs.23,46,50,684.90 from BOA and Rs.1,50,00,000/- and Rs.25,00,000/- from Andhra Bank. According to the Custodian the cheques received from Andhra Bank are from the account of HPD and a sum of Rs.1,75,00,000/- is an unauthorised payment and needs to be returned.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Show Cause Notice No.49/2002	<p>Canfina purchased certain securities from ANZ for a consideration of Rs.13,30,00,000/-. Canfina paid Rs.13,50,00,000/- to ANZ and the excess payment of Rs.20,00,000/- was returned by HPD to Canfina. The Custodian is contending that the payment of Rs.20,00,000/- by HPD is an unauthorised payment and has to be returned.</p> <p>The Custodian has been adjudicated against Canfina.</p>
Custodian Claim dated May 26, 1999	<p>Canfina purchased certain bonds from ANZ for a consideration of Rs.27,19,97,260.27 and the payment was accordingly made. According to the Custodian the contracted price for purchase was Rs.28,20,23,260.27 and the differential amount of Rs.1,00,26,000/- has been paid by HPD to ANZ. According to the Custodian this payment by HPD is an unauthorised one and therefore has to be returned.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Custodian Claim dated June 6, 2000	<p>Canfina purchased from ANZ certain securities for a consideration of Rs.18,00,00,000/- and payment was accordingly made. According to the Custodian HPD has paid a further sum of Rs.1,06,50,000/- to ANZ for this transaction on the basis that the actual purchase transaction was for Rs.19,06,50,000/-. According to the Custodian this payment of Rs.1,06,50,000/- by HPD to ANZ is unauthorised &amp; has to be returned.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Show Cause Notice 47/2002 and claim dated November 29, 1999	<p>Canfina received the following amounts from various parties</p> <p>January 22, 1991 Rs.28,00,000/-</p> <p>November 26, 1991 Rs.99,75,000/-</p> <p>May 23, 1991 Rs.57,50,000/-</p> <p>April 29, 1991 Rs.21,30,000/-</p> <p>All these payments have been received in relation to the securities transactions contracted through various brokers. According to the Custodian the payments of Rs.57,50,000/- and Rs.21,30,000/- were made by HPD from his account. HPD being a notified party and payments made being unauthorised, the said payments have to be returned.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Show Cause Notice 44/2002	<p>Canfina sold certain bonds to BOA for a total consideration of Rs.167,78,60,660.34. The payments were received as under from:</p> <p>BOA Rs. 46,96,06,926.67</p> <p>BOA Rs.120,21,93,733.67</p> <p>Andhra Bank Rs. 60,60,000.00</p> <p>According to the Custodian payment of Rs.60,60,000/- is made by HPD from his account and is an unauthorised payment and has to be returned.</p> <p>The Custodian is yet to adjudicate on the matter.</p>





Show Cause Notice 35/2002	<p>Canfina sold to BOA certain bonds for a sale consideration of Rs.93,52,46,575.34. For this sale Canfina received from BOA Rs.90,02,46,575.34 and Rs.3,50,00,000/- from Andhra Bank. According to the Custodian the payment of Rs.3,50,00,000/- has been made by HPD from his account and is an unauthorised payment. The Custodian is claiming the return of the said sum.</p> <p>The Custodian has adjudicated the matter against Canfina.</p>
Show Cause Notice 34/2002 and claim dated January 29, 2002	<p>Canfina sold certain securities to BOA for a consideration of Rs.123,11,09,726.03.</p> <p>Canfina sold certain securities to Andhra Bank Financial Services Ltd ("ABFSL") for a consideration of Rs.28,79,46,301.37.</p> <p>In respect of these sales, Canfina received Rs.19,87,87,500/- and Rs.24,82,21,301.37 from Andhra Bank and Rs.107,20,47,226.03 from BOA.</p> <p>The Custodian has claimed return of Rs.15,90,62,500/- being the net amount paid by HPD from his account, unauthorisedly according to the Custodian. Subsequently, vide show cause notice 34/2002 the Custodian claimed return of Rs.19,87,87,500/- and Rs.24,82,21,301.37.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Show Cause Notice 16/2002	<p>Canfina sold various securities for total consideration of Rs.136,64,75,616.38. The sale consideration was received from the counterparties to the extent of Rs.135,78,75,616.38. The differential of Rs.86,00,000/- was received from HPD. According to the Custodian the payment was unauthorised and has to be returned.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Show Cause Notice 45/2002	<p>Canfina sold to American Express Bank ("Amex") certain securities for a consideration of Rs.102,70,62,500/- Amex paid the consideration to Canfina amounting to Rs.100,12,50,000/- and the balance Rs.2,58,12,500/- was paid by Andhra Bank. According to the Custodian the payment of Rs.2,58,12,500 was made by HPD from his account and is an unauthorised payment. The Custodian is claiming return of this payment made to Canfina.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Custodian claim dated August 3, 1999	<p>Canfina sold certain securities to SCB and also purchased certain bonds from SCB.</p> <p>According to Canfina the purchase consideration was Rs.61,50,55054.79 and the sale consideration was Rs.60,07,49,315.06 Thus Canfina was to pay the net amount of Rs.1,43,05,739.73 which was paid. According to the Custodian, the sale consideration ought to be Rs.63,39,49,407.77 and therefore there is a short payment of Rs.188,94,349.99. According to the Custodian the differential amount was paid by HPD from his account to SCB and is an unauthorised payment and is to be returned.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Custodian claim dated July 26, 1999	<p>Canfina purchased from SCB certain bonds for a purchase consideration of Rs.51,44,04,794.52 and the payment was accordingly made. According to the Custodian the purchase consideration was Rs.51,49,54,794.52 and therefore the differential amount of Rs.5,50,000/- was funded by HPD from his account and is an unauthorised payment and is to be returned.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Custodian claim dated August 6, 1999	<p>On 5.10.91, Canfina contracted to sell to SCB certain bonds for a sale consideration of Rs.160,44,24,601.33. According to the custodian the sale consideration ought to be Rs.154,24,24,601.33, and the differential of Rs.6,20,00,000/- has been funded by HPD to SCB and therefore is an unauthorised payment and is to be returned.</p> <p>The Custodian is yet to adjudicate on the matter.</p>
Show Cause Notice 36/2002	<p>Canfina sold certain bonds to BOA for a consideration of Rs.51,68,21,917.81. Rs. 49,68,21,917.81 was received from BOA and Rs. 2,00,00,000/- from Andhra Bank. According to the Custodian the payment from Andhra Bank was received by debit to the account of HPD, a notified party. Further according to the Custodian this payment by HPD is an unauthorised one and has to be returned.</p> <p>The Custodian has adjudicated the case against Canfina.</p> <p>Canfina has filed a Misc. Petition 461/2002 before the Special Court Mumbai challenging the Custodian's order.</p>



Custodian claim dated August 6, 1999	Canfina sold to SCB certain bonds for a purchase consideration of Rs.89,40,96,382.00. According to the Custodian the purchase consideration was Rs.91,40,96,382.00. Further according to the Custodian the differential of Rs. 2,00,00,000/- has been paid by HPD to SCB and is an unauthorised payment and is to be returned. The Custodian is yet to adjudicate on the matter.
Custodian claim dated April 25, 2000	Canfina sold to Andhra Bank certain bonds for a sale consideration of Rs.10,52,75,250.77. On the same day Canfina also purchased bonds for a purchase consideration of Rs.21,00,50,501.55. Thus the net consideration payable by Canfina is Rs.10,47,75,250.78. Canfina however paid Rs.10,50,25,250.78 resulting in an excess payment of Rs.2,50,000/- This sum has been returned by HPD to Canfina which according to the custodian is an unauthorised payment by HPD and is to be returned. The Custodian is yet to adjudicate on the matter.
Custodian claim dated February 9, 2001	According to the Custodian Canfina has received dividends on Canstock for the year 1991-92 of Rs.67,50,000/- and for the year 1992-93 Rs.37,50,000/- in respect of 2 Canstock certificates which according to the Custodian belongs to a notified party. The Custodian is yet to adjudicate on the matter.
Show Cause Notice 28/2002	Canfina purchased certain bonds from Amex for a consideration of Rs.19,09,34,383.56 which Canfina accordingly paid. According to the Custodian, Amex bank also received from HPD the sum of Rs.32,39,500/- towards the differential purchase consideration in respect of this transaction. According to the Custodian the purchase consideration ought to be Rs.19,41,73,883.56. Further according to the Custodian the payment by HPD to Amex is an unauthorised one and has to be returned. The Custodian is yet to adjudicate on the matter.
Custodian Claim dated June 14, 2000	Canfina sold to Amex certain bonds for a consideration of Rs.503,45,547.95. Canfina received Rs.75,000/- short which according to the Custodian was funded by HPD. Canfina sold certain securities to SCB for sale consideration of Rs.41,52,50,000/. Canfina received Rs.13,75,000/- short which was funded by HPD. Canfina sold to Kotak certain securities for sale consideration of Rs.3,77,50,000/. Canfina received Rs.9,25,000/- short which according to the Custodian was funded by HPD. Canfina sold certain bonds to BOA for a consideration of Rs.10,11,37,671.23. Canfina received Rs.3,50,000/- short which according to the Custodian was paid by HPD. Canfina sold certain bonds to ABN Bank for a consideration of Rs.4,04,55,068.44. Canfina received Rs.1,40,000/- short which according to the Custodian was paid by HPD. Canfina sold certain bonds to BOA for a sale consideration of Rs.26,30,22,054.79. Canfina received Rs.9,10,000/- short which according to the Custodian was paid by HPD. Canfina sold to CMF certain bonds for a sale consideration of Rs.35,77,35,958.90 and also sold certain other bonds to CMF for a sale consideration of Rs.10,07,79,315.07. In respect of these two sales to CMF, Canfina received Rs.48,50,000/- short which according to the Custodian was paid by HPD. The Custodian is claiming that the payments made by HPD are unauthorised and therefore to be returned. The Custodian is yet to adjudicate on the matter.

- Suits/Claims against Canbank Mutual Fund

The Hon'ble Supreme Court of India in its decision in the case of Canara Bank & others Versus National Thermal Power Corporation Limited and another reported in 2000 (001) SCC 043, has held that the Trustees of the Trust (Canbank Mutual Fund) constituted by Canara Bank as the Settlor for the benefit of numerous unit holders cannot be termed and styled as a government company or public sector undertaking., that is, Canbank Mutual Fund is distinct from Canara Bank, which is the Principal Trustee amongst other trustees.





In view of the aforesaid decision, the litigation relating to Canbank Mutual Fund ("CMF") where the Bank is the Principal Trustee would not adversely affect the financial statements of the Bank.

However, for the sake of information, the cases filed against CMF, where monetary relief claimed against CMF is over Rs 1,00,00,000/- (as on the date of filing of the cases) are disclosed, with brief details furnished by CMF:

Cases against CMF:

Sr. No.	Name of the Plaintiffs/ Complainants/Applicants	Date, Case No. & Court	Amount claimed (Rs) (in crores)	Remarks
1.	Standard Chartered Bank ("SCB") V/s. Canara Bank & Ors	27.11.1992 Special Court Suit No. 11 of 1994 Special Court, Bombay	64.80	SCB filed the suit against the trustees of CMF, including the Bank in respect of non-receipt of 9% IRFC Bonds of face value Rs 50 crore purportedly sold to SCB. CMF has filed its written statement opposing the suit. The matter is pending for final hearing.
2.	Standard Chartered Bank ("SCB") V/s. Canara Bank & Ors	27.11.1992 Special Court Suit No. 14 of 1994 Special Court, Bombay	18.46	SCB filed the suit against the trustees of CMF including the Bank in respect of non-receipt of 9% HUDCO bonds of face value Rs.15 crore purportedly sold to SCB. CMF has filed its written statement opposing the suit before the Special Court. The matter is pending for final hearing.
3.	Standard Chartered Bank ("SCB") V/s. Andhra Bank Financial Services Limited ("ABFSL") & Ors	27.11.1992 Special Court Suit No. 6 of 1994 Special Court, Bombay	55.26	SCB filed the suit against ABFSL for recovery of money paid for purchase of 17% NPCL Bonds of face value Rs.50 crore by SCB from ABFSL. Mr Hiten Dalal and the trustees of CMF including the Bank were impleaded as Defendants as SCB contended that it purchased the concerned bonds twice, once from ABFSL and once from CMF. CMF is opposing the suit. The matter is pending for final hearing.
4.	Hongkong and Shanghai Banking Corporation Limited ("HSBC") V/s. Canara Bank & Ors	27.09.1995 Suit No. 3984 of 1995 High Court, Bombay	18.59	HSBC filed suit against the trustees of CMF, Canfina and Mr Naresh Agarwal praying that the Trustees of CMF and Mr Naresh Agarwal be directed to (i) deliver to HSBC 13% Coal India Bonds of face value Rs 18 crore; (ii) pay to HSBC all the instalments of interest due thereon; and (iii) pay to HSBC further interest thereon. In the alternative, HSBC prayed that the Trustees of CMF and Mr Naresh Agarwal be directed to pay to HSBC a sum of Rs.18,59,71,808.22 together with further interest thereon.  CMF is opposing the suit. The matter is pending for final hearing.



C. Cases filed by regulatory authorities:

- Details of cases relating to company law violations against Canfina, its Directors and Company Secretary:

Sr. No.	Name of the Parties	Date, Case No. & Court	Remarks
1.	Canfina & Ors. V/s. Registrar of Companies, Karnataka ("ROC") & Ors.	25.07.1995 Writ Petition No. 63 of 1995 High Court, Karnataka	The Petition is filed by Canfina and its then directors under Section 633 of the Companies Act, 1956 for restraining the ROC from prosecuting the matters against Canfina and its directors for alleged violations of Sections 49, 49(1), 58A, 58B, 205(2)(b), 209, 211, 292 and 300 of the Companies Act, 1956. The High Court has stayed the complaints filed by ROC against Canfina and its directors until further orders.
2.	Bansi Mehta V/s. Registrar of Companies, Karnataka ("ROC") & Ors.	21.07.1995 Writ Petition No. 79 of 1995 High Court, Karnataka	Mr. Bansi Mehta was not joined in the above Writ Petition No. 63 of 1995 and therefore, he filed the Writ Petition separately. The High Court has stayed the ROC's complaint against Mr. Bansi Mehta also, until further orders.
3.	Canfina & Ors. V/s. Registrar of Companies, Karnataka ("ROC") & Ors.	02.08.1995 Writ Petition No. 92 of 1995 High Court, Karnataka	The Petition is filed under Section 633 of the Companies Act, 1956 for restraining the ROC from prosecuting its complaint against Canfina and its directors for alleged violations of Sections 162, 168, 210 and 220 of the Companies Act, 1956. The High Court has stayed the complaints until further orders.
4.	Registrar of Companies, Karnataka ("ROC") V/s. R K Kannan & Ors.	12.06.1997 Complaint No. 406 of 1997 Special Court, Economic Offences Bangalore	The complaint was filed alleging violation of Sections 58A(2), 58A(6) of the Companies Act, 1956 and Rules 3 and 4 of the Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Amendment) Rules, 1975. The same is pending.

- Disciplinary action by Regulatory Authority against Canbank Investment Management Services Limited ("CIMS"):

By an order dated January 30, 2000, SEBI ordered adjudication against the alleged violation of Regulations 29(2) and (4) of the SEBI (Mutual Funds) Regulations, 1996 by the companies pertaining to the non-disclosure of certain information in the abridged of a offer document of Canpep'93 Scheme. By an Order dated November 10, 2000, the adjudicating officer levied a penalty of Rs 3,00,000/-, which was upheld by the Securities Appellate Tribunal. CIMS paid the penalty on May 3, 2001.

D. The cases filed against the Bank's subsidiaries, which have not been acknowledged as debt:

- The cases filed against Canfina, where monetary relief claimed against Canfina is over Rs 1,00,00,000/- (as on the date of filing of the cases) are itemized hereunder, with brief details furnished by Canfina:

1.	Citibank N.A. ("Citibank")	06.07.1996 Civil Appeal No. 9138 of 1996 Supreme Court of India	27.06	By its Order dated April 22, 23 and 26, 1996, the Special Court passed a decree in favour of Citibank directing Canfina to deliver the 9% IRFC bonds of Rs.50,00,00,000/- to Citibank before August 16, 1996 failing which Canfina was directed to make payment of the decretal amount Against the said Order, Citibank preferred the Civil Appeal claiming only the difference between what was originally sought for in the suit before the Special Court and what was decreed in favour of Citibank. Canfina is opposing the Civil Appeal.
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- The cases filed against Canbank Investment Management Services Limited ("CIMS"), where monetary relief claimed against CIMS is over Rs 1,00,00,000/- (as on the date of filing of the cases) are itemized hereunder:

Sr. No.	Name of the Plaintiffs/ Complainants/Applicants	Date, Case No. & Court	Amount claimed (Rs) (in crores)	Remarks
1.	Shrenik K Jhaveri ("Shrenik") Vs. Canbank Investment Management Services Limited ("CIMS")	18.08.1997 Summary Suit No. 3485/97 High Court, Bombay	60.41	Shrenik filed the suit under Order 37 Rule 2 of the Code of Civil Procedure, 1908 for recovery of monies for delivery of 85,000 equity shares in respect of Nahar Spinning Mills Limited delivered by Shrenik to CIMS. Leave to defend was granted to CIMS and CIMS has filed its written statement opposing the suit. The suit is pending for final hearing and disposal.





- E. Details of the cases filed against Canfina where no monetary reliefs have been claimed against Canfina:  
As on March 31, 2002, there are 25 cases filed against Canfina in different fora where no monetary relief has been claimed against Canfina.
- F. Details of the cases filed by the employees/ex-employees/unions/ associations of the employees against Canfina:  
One Mr. N. Satyanarayana Rao, an employee of Canfina had filed Writ Petition No.9579 of 1997 against Canfina for non-acceptance of his resignation and non-payment of terminal benefits by Canfina. The issue has been resolved and the said Mr. Satyanarayana Rao has agreed to withdraw the Writ Petition.
- G. Details of the consumer cases filed against Canfina:  
There are 184 consumer cases filed by various parties against Canfina, where the aggregate principal amount claimed is approximately Rs. 78 lacs.
- H. The cases filed against CMF, where monetary relief claimed against CMF is over Rs 1,00,00,000/- (as on the date of filing of the cases) are itemized hereunder, with brief details furnished by CMF:
- |    |   |  |   |
|----|---|--|---|
| 1. | Seth Sagamal Bagrodia Charitable Trust ("Trust")<br>Vs.<br>1. CMF<br>2. Mrs. Ranjana Kumar<br>3. CIMS<br>4. Canfina | 18.11.1999<br>C A No. 467 of 1999<br>MRTP Commission,<br>New Delhi | The Trust filed the complaint against CMF and others alleging commission of unfair trade practices and claiming compensation of Rs15,21,180 and damages of Rs 5,00,000/- on account of loss of future opportunities. The MRTP Commission held that Canfina was wrongly impleaded as a party and, therefore, directed its name to be deleted as one of the parties. CMF is opposing the complaint. |
|----|---|--|---|
- I. Details of consumer cases filed against CMF and its trustees:  
There are a total of fifty nine consumer complaints (including appeals) filed by various parties against CMF in respect of the various schemes floated by CMF, which are pending. The aggregate principal amount claimed in the said complaints is Rs 1,66,47,300.75 (Rupees One Crore Sixty Lakh Forty Seven Thousand Three Hundred and paise Seventy Five only).

### 3. INCOME TAX AND INTEREST TAX MATTERS

- A. Income Tax:  
The aggregate amount of the contingent income tax liability involved in the 12 Appeals filed by the Bank and which is pending before the Commissioner of Income Tax (Appeals) or the Income Tax Appellate Tribunal is Rs.233.88 crore as on March 31, 2002. These Appeals pertain to the assessment years 1992-1993 to 1999-2000. The entire tax liability involved in the above 12 Appeals has been paid by the Bank.  
The aggregate amount of the income tax liability involved in the 10 Appeals filed by the Income Tax Department against the Bank and which is pending before the Income Tax Appellate Tribunal is Rs164.40 crore as on March 31, 2002. These Appeals pertain to the assessment years 1989-1990 to 1997-1998. These Appeals are in the nature of Second Appeal wherein the Commissioner of Income Tax (Appeals) has decided the issues in favour of the Bank and allowed the refund of income tax paid. The Bank has accounted for the amounts refunded.
- B. Interest Tax:  
The aggregate amount of tax involved in 3 Appeals filed by the Bank before the Commissioner of Income Tax (Appeals) and the Income Tax Appellate Tribunal is Rs.2.59 crore as on March 31, 2002. The entire tax liability involved in the above 3 Appeals has been paid by the Bank.  
The aggregate amount of tax involved in an Appeal filed by the Income Tax Department before the Income Tax Appellate Tribunal is Rs.1.39 crore as on March 31, 2002. The Bank has paid the entire tax liability.
- C. The amount of the contingent income tax liability involved in the Appeals filed by Canfin Homes Limited and which are pending at various stages is Rs.4.90 crore as on March 31, 2002. Although Canfin Homes Limited has paid the entire tax liability involved in the above Appeal, the Bank has not provided for Rs.1.90 crore in its profit and loss account.

### DEFAULTS

Besides the above, the Bank, its subsidiaries and sponsored institutions have not defaulted in meeting any of its statutory or institutional dues and have made all payments/refunds on fixed deposits.

Besides the above, no proceedings have been initiated against the Bank, its subsidiaries and sponsored institutions for any of the offences specified in paragraph 1 of Part I of Schedule XIII of the Companies Act, 1956.

Besides the above, there are no pending proceedings initiated for economic offences against the Bank, its subsidiaries and sponsored institutions. Besides the above, no disciplinary action/ investigation has been taken by the SEBI against the Bank, its subsidiaries and sponsored institutions and its respective directors.

No penalties have been imposed on the Bank by RBI.





## Contingent Liabilities

The contingent liabilities as on March 31, 2002 is as below:

(Rs crore)

Particulars	Amount
Guarantees	5,471.46
Letters of Credit	2,954.29
Forward Exchange Contracts	26,894.72
Claims against Bank not acknowledged as Debt.	632.91
Others (IDBI/SIDBI Bills Rediscounting)	70.87
Total	36,024.25

### Guarantees and Letters of Credit (LC)

The outstanding guarantees issued on behalf of its constituents as on March 31, 2002 amounted to Rs5,471.46 crore. During the year 2001-02, the Bank had not paid 197 guarantees amounting to Rs21.76 crore due to various reasons.

For the year ended March 31, 2002 the Bank issued LCs aggregating to Rs6220.09 crore as against Rs5960.57 crore in 2000-01. During the current year, the Bank earned an income of Rs129.16 crores crore from the Guarantee and LC business as against Rs118.68 crores crore during the year 2000-01.

The contingent liabilities outstanding on account of Guarantees, LCs, Acceptances and Endorsements as on March 31, 2002 was Rs.8324.19 crores. The total devolved liabilities on the Bank in respect of non-fund based business viz. Guarantee, LCs and Acceptances and Endorsements, as at March 31, 2002 was Rs.892.43 crores of which a sum of Rs. 870.67 crores relate to commitment honoured by the Bank and a sum of Rs.21.76 crores was towards those which could not be honoured by the Bank due to injunction order issued by the Court. The total honoured devolved liability of Rs. 870.67 crores included NPAs to the extent of Rs.467.95 crores and the provision made in respect of the same is Rs.185.89 crores.

### Forward Exchange Contracts

The contingent liability on account of outstanding forward foreign exchange contracts as on March 31, 2002 was Rs26,894.72 crore. Contracts representing merchant purchase and merchant sales aggregates to an amount of Rs507.09 crore.

Details of the Forward Exchange Contracts as on March 31, 2002 are as under:

(Rs crore)

Name of the Branch	Amount
Intl. Division, Mumbai	17,161.78
Delhi Main	3,258.64
Bangalore	404.18
Kolkata	2,861.34
Chennai	927.75
IRS/FRA at Intl. Division, Mumbai	1,773.95
Other Foreign Depts & Designated branches	507.08
Total	26,894.72

### Defaults

The Bank has not defaulted in the payment of interest and repayment of principal to other banks, financial institutions, deposit holders, etc. The Bank has not defaulted in the payment of any

statutory payments/dues nor has it defaulted on dues to holders of other debt instruments.

Other than the above, there are no disputes/litigations towards tax liabilities or criminal prosecutions against the Bank and its Directors for any offence, economic or otherwise. As regards civil litigations against the Bank and its Directors, there are no material disputes/legal actions other than those disclosed above.

No penalties have been imposed on the Bank by RBI. No proceedings is being undertaken by Governmental authorities except those relating to the income tax disputes as given above.

The Bank as on date does not owe any sum exceeding Rs1.00 lakh, which is outstanding for more than 30 days, to small-scale undertakings.

## X. RISK FACTORS AND MANAGEMENT PERCEPTION THEREOF

### RISK FACTORS

The investors should carefully consider the following risk factors as well as the other details and information contained in this Offer Document in evaluating the Bank and its business before investing in the shares offered by this Offer Document.

1. The Janakiraman Committee ('JRC') / Joint Parliamentary Committee ('JPC') Reports had highlighted the various irregularities committed by banks and financial institutions etc., in their securities transactions in the six reports submitted during the period May 1992 to December 1993. One of the Subsidiary Companies viz. Canbank Financial Services Ltd. ('CANFINA') and Canbank Mutual Fund ('CMF') have been commented upon in the JRC / JPC Report, on account of certain transactions which they had entered into and certain irregularities noticed in their functioning. The Reports include observations of the Committees in respect of transactions undertaken and irregularities observed in the functioning of Canara Bank, CANFINA and Canbank Mutual Fund ('CMF'). In respect of CANFINA's operations, the Committees noted that CANFINA had violated RBI guidelines in relation to its Portfolio Management Services ('PMS') / Corporate Investment Advisory Services ('CIAS') operations. The Committees also witnessed a lack of monitoring and internal control system in CANFINA. In respect of Canbank Mutual Fund ('CMF'), the Committees have indicated that CMF had violated guidelines issued by RBI and Controller of Capital Issues relating to secondary and money market operations, investments in the primary market and arms length relationship between sponsors, subsidiaries and the mutual fund. It was also noted that a majority of secondary market operations of CMF had been carried out through a few brokers. For further details, please refer to page 44 of the Offer Document.

### Management Perception

Litigation involving CANFINA / Canbank Mutual Fund and others mentioned in JRC / JPC Reports is at various stages before Courts awaiting final decision.

2. There are no disputes / claims against Canara Bank in respect of the findings of the JPC/JRC Reports even though the Bank figures in the JPC / JRC Reports. However, Canara Bank has been impleaded as one of the defendants in the





petition filed by State Bank of Saurashtra ('SBS') in respect of collection of bankers cheque issued by SBS representing the payment of Rs79.7 crore payable to CANFINA and collected by the Bank as per regular arrangement. The case is pending in the Special Court. The claim amount in respect of this case is Rs137.04 crore.

#### Management Perception

Canara Bank has filed a written statement explaining its position.

3. As on March 31, 2002, the net NPAs of the Bank stood at 3.89% of Net Advances. The absolute amount of the net NPAs as at the end of March, 2002 stood at Rs1,288.39 crores. For more details, please refer to para on Recovery Management on page 28.

#### Management Perception

The Bank has successfully reduced its net NPAs from 7.52% in FY1998 to 3.89% in FY2002. At 3.89%, the Bank has one of the lowest NPA levels in the domestic banking industry. Steps are taken on a continuous basis to control the level of NPAs and ensure recovery of the existing bad loans. The Bank has formulated a Recovery Policy with built in mechanism to settle NPAs by compromise as well. The Bank has a set up a Recovery Wing at its Head Office headed by a general manager and nominated executives at circle offices and regional offices for continuous monitoring of the accounts and accelerating recovery process.

4. On 13.01.2000, Canbank Mutual Fund was referred to adjudication for making inadequate disclosure in abridged offer document of Canpep'93 (converted) scheme. In the adjudication order (dated 10/11/2000) passed by the Adjudication Officer, a penalty of Rs.3,00,000/- was levied against the AMC of Canbank Mutual Fund, Canbank Investment Management Services Ltd. Warning and deficiency letters were issued on 16.06.99 and 12.12.2000 to the fund on the basis of the inspection report for the years 1996-97, 1997-98 and 1998-99. The Mutual Fund has also been issued a warning letter for violating the advertisement code for its Canpep'93 scheme on 31.01.2000.

#### Management Perception

The Company has paid the penalty of Rs3.00 lakh on May 3, 2001.

5. Contingent liabilities of the Bank as at March 31, 2002 aggregated to Rs36,024.26 crores which includes Rs445.57 crores pertaining to claims against the Bank not acknowledged as debt, Rs26,894.73 crores pertaining to outstanding Forward Exchange contracts and Rs5,471.46 crore pertaining to Guarantees given by the Bank on behalf of its constituents.

#### Management Perception

The contingent liabilities have arisen in the ordinary course of business of the Bank.

6. Contingent liabilities of the Bank include disputed income tax and interest tax demands against the Bank under appeals, references, etc. amounting to Rs187.35 crore, which have not been provided for. For more details, please refer to the para on 'Outstanding litigation, default and material developments on page 53.

#### Management Perception

The Bank has contested the above mentioned claims. The Bank has disclosed the disputed amount as contingent liability and has not provided for the same as legally advised.

7. The Bank has an Asset Liability mismatch as on March 31, 2002. The maturity mismatch exists for the term of 1 to 3 years and over 5 years to the tune of 35.61% and 1.90% involving a total outflow of Rs7,281.57 crore and Rs383.17 crore respectively. The funding of the Bank is primarily short term and medium term deposits and as such if the depositors do not roll over the funds upon maturity, the business of the Bank could be affected. For more details kindly to para on Asset Liability management on page 31.

#### Management Perception

As on March 31, 2002, 65.25% of Bank deposit liabilities consisted of Term deposits. 41.17% of the term deposits mature within 1 to 3 years and 50.02% of the term deposits have a maturity period of upto 1 year. The Bank has put in place a two-tier Asset-Liability Management system comprising the 'ALCO Main Committee' and the 'ALCO Sub-committee' which periodically aggregate and review the maturity profiles of the assets and liabilities through the Bank's ALM Information system.

8. The increase in net profits of the Bank in the FY2002 from Rs285 crore to Rs741 crore (a growth of 260%) is largely due to growth in profit on sale of investments from Rs201 crore in FY2001 to Rs663 crore (a growth of 330%), which may not be sustainable in future years.

#### Management Perception

Apart from profit on sale of investments, which are derived from active market operations and sustainability depending on market conditions, the Bank has also embarked on its strategy to diversify its income streams through new products and services. The Bank has identified retail lending as a key growth area to maintain its growth trend in advances and augment income. The Bank also proposes to increase its non-interest income through a greater focus on areas such as forex trading, retailing in Government securities and distribution of insurance products (when permitted under the applicable laws) in addition to sustaining the normal growth in its advances portfolio.

9. The Annual Financial Inspection ('AFI') Report of Reserve Bank of India on the position of the Bank as on March 31, 2001 has pointed out certain deficiencies in credit appraisal, credit risk rating, credit supervision, income recognition, provisioning as well as other operational matters.

#### Management Perception

The Bank has appraised RBI of the remedial measures taken, systems introduced and those under implementation. There are no material deficiencies in respect to the Bank in the AFI Report for FY2001.

10. (A) Outstanding litigation/disputes against Canara Bank:
  - (i) As on March 31, 2002 there are 734 cases of litigation/disputes outstanding against the Bank with the monetary claims totaling to Rs270.04 crore in





respect of securities laws, cases under criminal laws, with statutory authorities, civil suits, cases in consumer courts, writ petitions, complaints to Banking Ombudsman.

- (ii) As on March 31, 2002 there were 486 cases involving litigation filed by employees/ex-employees before various Courts/Tribunals/Authorities. The Bank has not made any provision in this regard.
- (B) There are cases of civil suits, criminal cases and cases in consumer courts outstanding against Canara Bank' subsidiaries and co-promoted/sponsored institutions:
  - (a) CANFINA
  - (b) Canbank Investment Management Services Ltd.
  - (c) Canbank Mutual Fund
- (i) Canstar, a close-ended scheme, floated in August, 1990, provided for repurchase facility at minimum specified repurchase price on completion of 3 years from date of allotment. However, the fund faced problem in meeting the repurchase commitment and from the 6<sup>th</sup> year (1997), the trustees suspended the repurchase of Canstar units. Canara bank, the sponsors of the fund came out with an offer and acquired most of the units at Rs. 23 per unit leaving only 3.78% units to other unit holders. A writ petition on the subject was filed by some investors/investor association before the High Court of Allahabad. Further, trustees have decided to terminate Canstar scheme on completion of 10 years and paid the unit holders the minimum repurchase price of Rs. 40 per unit on surrender of units as promised in the offer document.
- (ii) A criminal complaint has been filled by one Mr. Kiran Chand Lunawat on November 8, 1995 in the Court of the Metropolitan Magistrate, Calcutta against the then trustees of the Mutual Fund and the Managing Director, Executive Director of CIMS, the AMC, concerning repurchase facility of Canstar units and the same is pending. At the instance of the Fund, the proceedings have been stayed by the Hon'ble Calcutta High Court.
- (iii) Two civil suits are pending before the City Civil Court, Bangalore claiming Rs22,461.0 as compensation and interest in Canstar scheme, offered by Canbank Mutual Fund. Cases are also pending before various consumer fora alleging deficiency of services by Canbank Investment Management Services Ltd., the RTA agents, and also concerning suspension of repurchase facility under Canstar scheme. These cases are at various stages of hearing/appeal.
- (iv) The Cantriple scheme of Canbank Mutual Fund was launched in 1991 indicating a minimum return of 3 times of the face value at the end of 90 months from the date of allotment (June 1999). However, Canbank Mutual Fund has taken a stance that there was no commitment of paying 3 times of the face value and there was only an indication in the offer document in this regard. The scheme was converted into an open ended scheme in June 1999. One investor has moved the Honourable High Court of Mumbai (petition no. 1401 of 1999) on the issue

and the decision is awaited. However, SEBI has directed Canbank Mutual Fund to write to the unit holders of the scheme, giving them an option to choose between conversion or redemption of their units. Canbank Mutual Fund has also been directed to mention clearly in the letter to the unit holders that the decision of the court in the matter of pricing would be final.

- (v) Canbank Mutual Fund is involved in 4 cases before the Special Court for the claims arising out of the scam provided transactions.
- (vi) One of the employees of Canbank Investment Management Services Ltd. has been held guilty of contempt of court by the Special Court constituted under the Special Court (Trial of Offences Relating to Transactions in Securities) Act, 1992 at Mumbai, during the course of evidence in the case filed against Canbank Mutual Fund in Canstar scheme. The matter is pending in the Supreme Court.
- (vii) As per the inspection report of SEBI for the period October 1, 2001 to March 31, 2002, in Canexpo Scheme, investment was made in Infosys Technologies Ltd. in excess of the 10% limit prescribed under Clause 10 of the seventh schedule to the SEBI (Mutual Funds) Regulations, 1996 for which a warning letter has been issued.

For further details please refer to the para on 'Outstanding Litigation, Default and Material Developments' on page 53.

#### Management Perception

The Bank/subsidiaries/associate companies as applicable have taken steps as legally advised. The Bank has been legally advised that the outcome of the litigation/disputes against the Bank as stated above will not have a material impact on the Bank.

- 11 The Bank faces credit risk, which involves inability or unwillingness of a customer or counter part to meet the commitments in relation to lending, trading, hedging, settlement, and other financial transactions.

#### Management Perception

The Bank has constituted a separate Risk Management Wing to manage the various risks involved in the banking business including credit risk. The Bank has also engaged the services of PriceWaterhouse Coopers, consultants to assist the Bank for implementation of Integrated Risk Management System. The Bank has also adopted a Credit Risk Rating Model developed by CRISIL to risk rate high value credits. For full details, please refer to page 24 on Loan Policy and Lending Activities.

- 12 The Securities Exchange Board of India (SEBI) has awarded two penalty points against the Bank for certain discrepancies observed in connection with Bank's Merchant Banking Activities in the year 1995. For more details, please refer to the para on 'Outstanding litigation, defaults and material developments on page 53.

#### Management Perception

One penalty point each was imposed on the Bank for delay in filing the copies of Prospectus/Letter of Offer with SEBI in





the case of two public issues in 1995. The Bank has taken measures to streamline the merchant banking activities.

- 13 Two Branches of the Bank were deauthorised by SEBI to act as collecting Bankers for Public/Rights issues for three months during the year 2000 for violation of Bankers to the Issue guidelines of SEBI. For more details please refer to the para on Outstanding Litigation, defaults and material developments on page 53.

#### Management Perception

The de-authorisation of two branches from acting as Bankers to Public Issues has expired in June 2000. The Bank has taken measures to streamline the working of branches as Bankers to Public Issues.

- 14 The Verma Committee, which carried out a study on the banking sector, 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, Canara Bank was classified in 'Category 3', indicating compliance with CAR and non-compliance with one or two of the remaining parameters for the year 1999. The Bank did not comply with the benchmark for Return on Assets. For additional details please refer page 49.

#### Management Perception

The report pertained to years 1998 and 1999. The Bank has shown an improvement in performance in 1999 over 1998 as per the classification. Additionally, the Committee has commented that the Bank is fairly well placed to identify weaknesses through internal strategies. The Bank has since improved its 'Return on Assets' ratio to 1.03% for the year 2002 (0.47% for the year 1999).

- 15 The Bank could not achieve the stipulation of the export target of 12% of net bank credit as per RBI directives for FY2002.

#### Management Perception

The Bank has met 92.93% of the export target for FY2002. RBI has not taken any action, levied any penalty or given any adverse remark.

- 16 Servicing obligations of CANFINA include principal and interest repayments in respect of settlements reached with three PSU companies – HUDCO, IRFC and NPC. The Bank envisages a shortfall to the tune of Rs638.66 crore on part of CANFINA in servicing such obligations over the period FY2002-06. For full details, please refer to page 44 under the heading "Canara Bank's Support to CANFINA".

#### Management Perception

The Bank has already made a provision of Rs432 crore as at March 31, 2002 for meeting the envisaged shortfall in servicing the dues of three PSUs. As per the settlement terms, the balance short fall of Rs 219.41 crore will be provided over a period of 4 years upto FY2006 in line with the repayment terms as agreed upon.

- 17 CANFINA has incurred a net loss of Rs48.23 crore for FY2002 and has accumulated losses of Rs720.84 crore as the end of FY2002. The Networth of CANFINA has turned negative and was Rs690.84 crore for FY2002. The auditors of CANFINA have expressed doubts regarding the 'going

concern status' of the company in their audit report for FY2002.

#### Management Perception

The Bank has made 100% provision against its equity investment of Rs20.0 crore in CANFINA. The negative networth of Rs690.84 crore is represented by Asset Deficit Account amounting to Rs243.08 crore and Profit & loss account of Rs477.76 crore (less share capital of Rs30 crore) of which Rs432 crore has been provided. The balance provision of Rs258.84 crore, as per the terms of the settlement, will be made to meet the shortfall in the next four years.

- 18 Securities purchased by Canara Bank from CANFINA include bonds of two PSUs – MTNL and PGCIL, where the Bank is not in possession of the securities and disputes between CANFINA and the two PSUs are unresolved. The book value of the securities is Rs194.35 crore. For full details, please refer page 44 under the heading "Canara Bank's Support to CANFINA".

#### Management Perception

The Bank holds other securities of CANFINA whose value, as at March 31, 2002 was Rs176.85 crore. These securities are either registered in the name of the Bank or are held under a lien. The Bank has provided fully for the balance shortfall of Rs17.50 crores. The Bank is pursuing with the two PSUs for recovery of the amount relating to the Bonds issued by the said PSUs.

- 19 As part of CANFINA's involvement in the 1992 securities scam, charges were imposed against the company and its then officials, against whom action is taken/ charge sheet is filed by CBI. In two such charge sheets, two officials have been convicted and sentenced.

#### Management Perception

CANFINA had dismissed the two officials after holding departmental enquiries.

- 20 Contingent liabilities of the Bank's subsidiary CANFINA aggregated at Rs283.31 crore as at March 31, 2002, comprising claims of Rs282.81 crore not acknowledged as debt and outstanding letters of credit and guarantees of Rs.5.0 crore.

#### Management Perception

CANFINA has also filed 23 claims against others for recovery of Rs1,246.09 crore which are pending before Special Courts/ High Courts/Receiver and other Civil Courts. One of the petitions filed has been decreed in favour of CANFINA for Rs61.76 crore and the amount has been deposited by one of the judgement debtors as per the directions of the court pending disposal of appeal.

- 21 Canbank Computer Services Ltd., a subsidiary of Canara Bank, has accumulated losses of Rs2.22 crores as at the end of financial year 2002.

#### Management Perception

The Bank has made a provision for Rs1.57 crores as at the end of FY2002 against its total equity investment of Rs2.04 crores. The Company has made a net profit (after tax) of Rs 0.14 crores during FY2002.





- 22 Canfin Homes Ltd., the Housing Finance Company sponsored by Canara Bank, has a disputed income / interest tax liability of Rs4.90 crores in its books of accounts.

#### Management Perception

The matter is under various stages of appeal and as a measure of prudence Canfin Homes Ltd. has made a provision of Rs3 crores.

- 23 One of the Regional Rural Banks (RRBs) sponsored by Canara Bank, Chitradurga Grameena Bank has accumulated losses aggregating to Rs3.21crores as on March 31, 2002.

#### Management Perception

Canara Bank has sponsored the RRBs in association with the Central Government and the respective State Governments. The Central Government, the respective State Government and Canara Bank have contributed 50%, 15% and 35% of the equity capital of the RRBs respectively. Chitradurga Grameena Bank has made a profit of Rs. 5.40 crores for FY2002 and thereby reduced the accumulated losses.

- 24 Tier I capital of the Bank as a portion of the total capital has come down over the last few years.

#### Management Perception

The Bank has raised Tier II capital over the last few years in the form of subordinated debt to maintain its capital adequacy thus reducing the portion of Tier I capital as a proportion of overall capital. The current issue would enable the Bank to enhance its Tier I capital.

- 25 The rate of growth in deposits of the Bank was lower than the rate of growth in advances. This may deter further business growth and may propel liquidity crisis.

#### Management Perception

The Bank is actively managing its assets and liabilities to minimise cost, maintain margins and minimise mismatches.

- 26 In respect of the Bank's credit exposure to Engineering and Petroleum industries, the exposure is heavily concentrated in favour of the top 10 borrowers.

#### Management Perception

The credit exposure is within the prudential limits approved by the Bank's board of directors and that specified/approved by the RBI.

- 27 Interest cost for the Bank has grown by 21.82% in FY2002 compared to 9.39% in FY2001.

#### Management Perception

The higher growth in interest cost for FY2002 is due to the increase in deposits by Rs4,960 crore in FY2002.

#### External to the Bank

The present Issue of equity shares carries the following normal business risks associated with the activities of public sector commercial banks.

- 1 There are a number of restrictions as per the Bank Nationalisation Act and Banking Regulations Act, which impede the flexibility of the Bank's operations and affect/restrict investor's right. They are as follows:
  - 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. There are restrictions in the Banking Regulation Act regarding
    - a) Setting up of subsidiaries by a bank
    - b) Management of the bank including appointment of directors
    - c) Borrowings and creation of floating charge thereby hampering leverage. Banks may have to resort to unsecured debt instruments for borrowings
    - d) Expansion of business as branches need to be licensed
    - e) Opening of new place of business and transfer of existing place of business
    - f) Disclosures in the Profit & Loss account and Balance Sheet
    - g) Production of documents and availability of records for inspection by shareholders
    - h) Reconstruction of banks through amalgamation etc.
    - i) Further issues of capital including issue of bonus shares/ rights shares for which prior MoF/RBI approval is needed
    - j) Undertaking trading activity in goods as per Section 8, which may act as an operational constraint
    - k) Requirement for maintaining assets in India which would be not less than 75% of the Bank's demand and time liabilities in India, which in turn may prohibit the bank from creating overseas assets and exploiting overseas business opportunities
  - iii. Every banking company is required to create a Reserve Fund by transfer of a sum equivalent to not less than twenty percent of profit as disclosed in the Profit & Loss account before any dividend is declared
  - iv. Every banking company has to maintain assets in India which would be not less than 75% of the Bank's demand and time liabilities in India, which in turn may prohibit the bank from creating overseas assets and exploiting overseas business opportunities.
  - v. The financial disclosures in the Offer Document may not be available to investors after listing, on a continuous basis.
  - vi. Various rights/powers of shareholders available under the Companies Act in this behalf are not available to shareholders of banks as the provisions of the Companies Act are not applicable to the Banks. Rights





like calling for general meetings, inspection of minutes and other material records, application by members for investigation of affairs of a company, application for relief in cases of oppression and mismanagement, voluntary winding up are not available to shareholders of a bank.

- vii. No person holding shares in the bank in respect of any shares held by him, can exercise voting rights on poll in excess of 1% of the total voting rights of all the shareholders of the bank.
- viii. No banking company shall pay dividend on its shares until all its capitalised expenses (including preliminary, organisational expenses, share selling commission, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off. The Bank has received an exemption from GoI, vide letter ref. F.No. 11/10/2002-BOA dated August 29, 2002 from this provision relating to the payment of dividend up to 31.03.2004.
- 2 Increase in regional hostilities, terrorist attacks and other acts of violence and war could adversely affect the country's economic growth and development thereby the financial markets including the Bank's business and its future financial performance.
- 3 The performance, quality and growth of the assets of the Bank are dependent on the health of the overall Indian economy. Slowdown in economic growth in India could affect the business of the Bank.

#### **Management perception**

The Bank is expanding its product and service offerings to diversify its income stream. The Bank's thrust on retail products is envisaged to provide growth. Risk management systems, credit supervision, special emphasis on recovery of NPAs and close monitoring will enable the Bank to closely monitor the health of its credit portfolio. The slowdown witnessed in the Indian and global economy in the past few years has not materially affected the Bank's profitability.

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

#### **Management Perception**

The changes occurring in the policy environment as a result of various reform measures have brought in various opportunities for growth as well as challenges. The Bank is backed by professional management and has over 96 years of experience in managing the impact of similar changes.

- 5 Competition from existing and new commercial banks - The Bank faces strong competition in all areas of its business from other larger banks, regional, old and new private sector banks and foreign banks. Also mutual funds, with various innovative product offerings are depriving banks of low cost deposits.

#### **Management Perception**

The Bank is backed by over 96 years of banking experience.

- 6 Interest rate risks - Banking operations are greatly dependent upon its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities.

#### **Management Perception**

These risks are inherent in the banking business. The Bank has put in place adequate risk control measures to manage such risks.

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

#### **Management Perception**

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

- 8 Disintermediation risk - With the increasing trend towards disintermediation in the financial markets, many companies may access the markets directly, thereby reducing their dependence on the banking system.

#### **Management Perception**

With gradual integration of the various segments of the financial markets and financial innovations, disintermediation is bound to increase. The Bank recognises this aspect and is focussing on increasing non-fund-based business and income therefrom.

- 9 The Bank has increased the spread of its business covered under computerised environment. This may increase the Bank's vulnerability to power disruptions, system failures and accessibility to frauds thus affecting its performance.

#### **Management perception**

The Bank has constituted a Computer Policy and Planning Department, headed by a General Manager to monitor its IT activities and ensure uninterrupted functioning in case of exigencies.

### **XI. INVESTOR GRIEVANCES AND REDRESSAL SYSTEM**

Since the Bank is entering the Capital Market for the first time, there are no outstanding grievances from investors. To ensure that grievances of investors are expeditiously attended to, the Bank proposes to set up a Share Department at its Head Office or to appoint Registrars and Transfer agents to effectively deal with investor complaints. Investors may note that Mr. T. Y. Prabhu, Deputy General Manager (T & IO Wing) has been appointed as the Compliance Officer. In case of any pre-issue/post-issue related problems such as non-receipt of letters of allotment/share certificates/refund orders/cancelled stockinvests etc., the investors are requested to contact the Compliance Officer at :

#### **Mr. T.Y. Prabhu**

Deputy General Manager  
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T & IO Wing, Head Office  
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Tel. : (080) 223 8185 Fax : (080) 223 3573  
E-mail : cmbd@vsnl.net

The Registrar to the Issue, Karvy Consultants Ltd. will also be available to handle any investor queries/ complaints.



## PART II

### A. GENERAL INFORMATION

#### Consents

Consents in writing of the Auditors, Lead Managers, Co-Managers, Legal Advisors, Compliance Officer, Directors, Registrar and Bankers to the Issue to act in their respective capacities, have been obtained and filed along with a copy of the Offer Document with BgSE and such consents have not been withdrawn upto the time of delivery of the Offer Document to the said Stock Exchange.

The Auditors have given their written consent to the inclusion of their Report in the form and context in which it appears in the Offer Document and such consent and Report has not been withdrawn upto the time of delivery of the Offer Document to BgSE.

#### Expert Opinion

The Bank has not obtained any opinion from any expert other than those mentioned in the Offer Document.

#### Change in Directors during the last three years

The changes that took place in the Board of Directors during the last three years (since 01.04.1999) are as follows:

Name	Position held	Reasons
Mr. T. R. Sridharan	Chairman & Managing Director	Attained superannuation on 30.05.1999
Mr. C. Cherian	Director	Expired on 13.06.1999
Mr. A. Shashikanth	Workman Director	Nominated w. e. f. 25.08.1999
Mr. R. H. Advani	Non Official Director	Ceased to be Director w. e. f. 20.01.2000
Mr. M. R. Krishnamurthy	Non Official Director	Ceased to be Director w. e. f. 20.01.2000
Mr. Vijay G. Kalantri	Non Official Director	Ceased to be Director w. e. f. 20.01.2000
Ms. Padma Ramachandran	Non Official Director	Ceased to be Director w. e. f. 20.01.2000
Mr. C. B. Mouli	Non Official Director	Ceased to be Director w. e. f. 20.01.2000
Mr. H. Krishnamurthy	Non Official Director	Ceased to be Director w. e. f. 20.01.2000
Mr. R. J. Kamath	Chairman & Managing Director	Appointed Chairman & Managing Director of Andhra Bank w. e. f. 20.05.2000
Ms. Ranjana Kumar	Executive Director	Appointed Chairperson & Managing Director of Indian Bank w. e. f. 29.06.2000
Mr. R. P. Gupta	Executive Director	Appointed as Executive Director w. e. f. 30.06.2000
Mr. Ramani Raj	Director representing RBI	Attained superannuation w. e. f. 30.06.2000
Mr. N. P. Sinha	Director representing RBI	Nominated w. e. f. 24.07.2000
Mr. Anup Mishra	Director representing GOI	Resigned w. e. f. 31.08.2000
Mr. V. P. Bharadwaj	Director representing GOI	Nominated w. e. f. 30.10.2000
Mr. Alok Kumar	Nominated Director GOI	Nominated w. e. f. 21.03.2001 Vice Mr. V. P. Bharadwaj
Mr. R. J. Kamath	Chairman & Managing Director	Attained superannuation w. e. f. 30.04.2001
Mr. R. V. Shastri	Chairman & Managing Director	Appointed as Chairman & Managing Director w. e. f. 01.05.2001
Mr. R. P. Gupta	Executive Director	Attained superannuation w. e. f. 30.06.2001
Mr. N. C. Rajappa	Part time non-official Director	Nominated w. e. f. 28.08.2001
Mr. Amar Nath Singla	Part time non-official Director	Nominated w. e. f. 12.09.2001
Dr. Sone Lal	Part time non-official Director	Nominated w. e. f. 05.11.2001
Mr. R. N. Parjane	Part time non-official Director	Nominated w. e. f. 05.11.2001
Mr. B. K. Shekhar	Part time non-official Director	Nominated w. e. f. 26.11.2001
Dr. Seema	Part time non-official Director	Nominated w. e. f. 05.12.2001
Mr. N. Kantha Kumar	Executive Director	Appointed as Executive Director w. e. f. 06.12.2001
Mr. Ajit M Sharan	Director representing GOI	Nominated w. e. f. 20.03.2002 vice Mr. Alok Kumar
Mr. M. K. Bhattacharya	Nominated Director RBI	Nominated w. e. f. 02.04.2002 Vice Mr. N.P.Sinha
Mr. Anup Prakash Garg	Part time non-official Director	Nominated w. e. f. 12.06.2002





### Changes in Statutory Central Auditors over Last Three Years and Reasons Thereof

(Financial Year ending 31.03.1999 to Financial Year ending 31.03.2002)

Year	Added/ Retired	Name of the Auditor	Reason
1999-00	Retired	1. M/s M. P. Chitale & Co	
		2. M/s R. G. N. Price & Co	
	Added	1. M/s Suresh Chandra & Associates	
		2. M/s N. Sankaran & Co	RBI directive
200-01	Retired	1. M/s Thakur Vaidyanath Aiyer & Co	
	Added	1. M/s R. G. N. Price & Co	RBI directive
2001-02	Retired	1. M/s R. R. Chadha & Co	
		2. M/s S. Venkaram & Co	
	Added	1. M/s S. Bhandari & Co	
		2. M/s R. K. Kumar & Co	RBI directive

### Authority for the Present Issue

The Issue of equity shares is being made after obtaining the approval of the Government of India (GoI) under Section 3(2B)(c) of the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970 as amended from time to time, by letter of Government of India, Ministry of Finance, Department of Economic Affairs (Banking Division) letter dated August 29, 2002, and the resolution of the Board of Directors of the Bank (the Board), passed at its meeting held on May 31, 2002.

### Procedure and Time Schedule for Allotment/Refund

In the event of the present Issue of equity shares being over-subscribed, the basis of allotment will be finalised in consultation with the BgSE.

The Bank shall as far as possible complete allotment of shares offered to the public within 30 days of the closure of the Issue. If the allotment has not been made and/or the refund orders not despatched to the investors within 30 days, the Bank shall pay interest @15% per annum on the entire amount for any delay beyond 30 days till the date of allotment. In case of any delay in the dispatch of refund orders beyond 30 days from the closure of the Issue, interest @15% per annum, except to applicants applying through Stockinvests, will be paid on the refund amount from the 31st day from the closure of the Issue until the date of dispatch of the refund orders.

### 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 as far as possible within 30 (thirty) days from the date of closure of the Issue. Any delay beyond 30 days shall entail payment of interest at 15% per annum. 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) on the refund banker to the Issue and will be dispatched by Registered Post for amounts above Rs1,500 and by Certificate of Posting otherwise. Such Cheques or Demand Drafts will be payable at par at specified centres where the applications have been received.

The Bank has undertaken to make adequate funds available to the Registrar to the Issue for complying with the requirements of dispatch of Allotment Letters/ Share Certificates/ Refund Orders by Registered Post.

The subscription received in respect of Public Issue will be kept in a separate bank account and the Bank shall not have access to such funds unless approvals from all the Stock Exchanges, where listing has been proposed and approval of the BgSE for allotment has been obtained.

No separate receipt will be issued for the application money. However, the nominated branches of the Bankers to the Issue or the collection centres receiving the application form will acknowledge receipt of application by stamping and returning the acknowledgement slip given at the foot of each application form.

### Basis of Allotment

In the event of the public Issue being oversubscribed, the allotment will be on a proportionate basis and the basis of allotment will be finalised in consultation with the BgSE ('Regional Stock Exchange'). The drawal of lots to finalise the basis of allotment shall be done in the presence of a Public Representative on the governing board of the Regional Stock Exchange. The Executive Director/Managing Director of the Regional Stock Exchange along with the post issue Lead Managers and the Registrar to the Issue shall be responsible to ensure that the basis of allotment is finalised in a fair and proper manner in accordance with the SEBI guidelines:

- 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 BgSE 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 relevant SEBI Guidelines.
- The balance of net Issue to Indian Public shall be made available to investors including corporate bodies/institutions and individual applicants who have applied for allotment of more than 1,000 equity shares.
- The unsubscribed portion of the net Issue to any of the categories specified in (a) or (b) shall be made available for allotment to applicants in the other category, if so required.
- The allotment shall be on a proportionate basis under the reservation for employees category as well as under the net offer to the public category.
- Applicants will be categorised according to the number of equity shares applied for.
- The total number of equity shares to be allotted to each



category as a whole shall be arrived at on a proportionate basis i.e. the total number of shares applied for in that category (number of applications in the category multiplied by the number of equity shares applied for) multiplied by the inverse of the oversubscription ratio.

- (g) Number of equity shares to be allotted to the successful allottees will be arrived on a proportionate basis i.e. total number of equity shares applied for by each applicant in that category multiplied by the inverse of the oversubscription ratio.
- (h) In all the applications where the proportionate allotment works out to less than 100 equity shares per applicant, the allotment shall be made as follows:
- Each successful applicant shall be allotted a minimum of 100 equity shares, and
  - The successful applicants out of the total applicants of that category shall be determined by drawal of lots in such a manner that the total number of equity shares allotted in that category is equal to the number of equity shares worked out as per (f) above.
  - 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. All applicants in such categories would be allotted equity shares arrived at after such rounding off.
  - If the equity shares allocated on a proportionate basis to any category is more than the equity shares allotted to the applicants in that category, the balance available equity shares for allotment shall be first adjusted against any other category where the allotted equity shares are not sufficient for proportionate allotment to the successful applicants in that category. The balance equity shares if any, remaining after such adjustment will be added to the category comprising of applicant applying for minimum number of equity shares.
- (i) The unsubscribed portion, if any, out of the equity shares reserved for Employees will be added back to the Net Issue to Indian Public and vice-versa. The oversubscription under reserved categories for Employees will be added to Net Issue to Indian public, if Net Issue to Indian Public is undersubscribed and to the extent of such undersubscription and vice-versa.
- (j) In the event of oversubscription, in the process of rounding off to ensure allotment in marketable lots, the Bank may 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.

#### **LEAD MANAGERS TO THE ISSUE**

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**BROKERS TO THE ISSUE**

All brokers who are members of recognised Stock Exchanges  
can act as Brokers to the Issue.



## B. FINANCIAL INFORMATION

### AUDITORS' REPORT

The Board of Directors

Canara Bank

Head Office

112, J.C. Road,

Bangalore – 560 002

Dear Sirs,

In terms of our appointment for the purpose of certification of the statement of accounts to be incorporated in the offer document proposed to be issued by the Bank in connection with the Initial Public Offer of Equity Shares, we state as follows:

1. We have examined the Audited accounts of the Bank for the five consecutive financial years ended on 31<sup>st</sup> March, 2002 being the last date upto which the accounts of the Bank have been made up and audited by the Auditors of the Bank of those respective years.
2. We further report as follows :
  - a) The Profit & Loss of the Bank for the five consecutive financial years ended on 31<sup>st</sup> March, 2002 are as set out in Part I enclosed.
  - b) The Assets and Liabilities of the Bank for the five consecutive financial years ended on 31<sup>st</sup> March, 2002 are as set out in Part II enclosed.
  - 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 set out on 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.
3. a) The following are the subsidiary companies of the bank :

S. No.	Name of Subsidiary	Bank's Holding (%)
(i)	Canbank Factors Ltd.	70.00%
(ii)	Canbank Computer Services Ltd.	62.97%
(iii)	Gilt Securities Trading Corporation Ltd.	51.00%
(iv)	Canbank Investment Management Services Ltd.	100.00%
(v)	Canbank Venture Capital Fund Ltd.	100.00%
(vi)	Canbank Financial Services Ltd.	100.00%
(vii)	Indo-Hongkong International Finance Ltd.	100.00%

- b) The statements of Profit & Loss, Assets & Liabilities of each of the above subsidiary companies for each of the five consecutive financial years ended on 31<sup>st</sup> March, 2002 read together with the Significant Accounting Policies and Notes on Accounts as examined by the respective auditors together with the Auditors' Reports **are annexed in Part VI for each subsidiary company.**
4. We further report that in respect of the five consecutive financial years ended 31<sup>st</sup> March, 2002, the amount of dividend transferred to the Government of India by the Bank and the dividend declared by the subsidiaries are as given in Part VII.





5. We have also examined the accompanying statement of Key Accounting Ratios set out in Part VIII for the five consecutive financial years ended 31<sup>st</sup> March, 2002 and the Statement of Capitalisation, Tax Shelter and Net Worth 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

**P. L. MITTAL & CO.**

Chartered Accountants

(P.L. Mittal)

Partner

**R. G. N. PRICE & CO.**

Chartered Accountants

(S. Subramanian)

Partner

**S. BHANDARI & CO.**

Chartered Accountants

(A. S. Bhandari)

Partner

Dated: August 31, 2002

Place: Bangalore

**SURESH CHANDRA & ASSOCIATES**

Chartered Accountants

(Suresh Chand Gupta)

Partner

**N. SANKARAN & CO.**

Chartered Accountants

(B. Chandrasekhar)

Partner

**R. K. KUMAR & CO.**

Chartered Accountants

(C. R. Sundararajan)

Partner



# PART I STATEMENT OF PROFIT & LOSS

(Rs crore)

Year ended 31st March	1998	1999	2000	2001	2002
<b>INCOME</b>					
<b>Interest Earned</b>					
Interest and Discount on advances/bills	2005.56	2282.79	2488.43	2920.19	3130.48
Income on Investments	1525.61	2098.14	2041.53	2234.3	2496.71
Interest on balance with RBI and other Inter-Bank lending	258.4	303.29	320.59	463.39	707.57
Others	24.2	0.38	1.2	0.38	35.8
<b>SUB TOTAL</b>	<b>3813.77</b>	<b>4684.6</b>	<b>4851.75</b>	<b>5618.26</b>	<b>6370.56</b>
<b>OTHER INCOME</b>					
Commission, Exchange and Brokerage	253.88	296.8	319.54	322.71	322.17
Profit on sale of Investments (Net)	100.25	61.37	132.89	201.39	662.81
Profit on sale of land, building and other assets	0.36	0.55	0.69	0.66	0.73
Profit on exchange transactions (Net)	91.45	92.29	96.69	123.81	129.44
Income earned by way of dividends from Subsidiaries/Companies/JV in India	5.44	4.56	52	30.01	53.78
Bad Debts Recovery	63.44	51.84	67.41	51.08	87.29
Service Charges	49.13	69.78	96.58	111.28	110.13
Locker Rent	9.78	12.39	14.04	15.69	16.00
Leasing Income	9.26	6.14	11.02	6.03	5.69
Miscellaneous Income	33.98	39.11	44.81	55.13	40.49
<b>SUB TOTAL</b>	<b>616.97</b>	<b>634.83</b>	<b>835.67</b>	<b>917.79</b>	<b>1428.53</b>
<b>TOTAL INCOME</b>	<b>4430.74</b>	<b>5319.43</b>	<b>5687.42</b>	<b>6536.05</b>	<b>7799.09</b>
<b>EXPENDITURE</b>					
<b>Interest Expended</b>					
Interest On Deposits	2603.81	2993.22	3234.13	3574.77	4350.49
Interest on RBI/Inter-bank Borrowings	19.99	13.07	18.55	28.67	21.71
Others	124.31	124.5	161.79	131.81	178.05
<b>SUB TOTAL</b>	<b>2748.11</b>	<b>3130.79</b>	<b>3414.47</b>	<b>3735.25</b>	<b>4550.25</b>
<b>Operating Expenses</b>					
Payment to & Provision for employees and wages	691.1	879.83	951.09	1078.47	940.94
Amortization of VRS expenditure	0	0	0	174.6	181.58
Rent, Taxes and Lighting	98.97	109.99	120.92	133.74	144.32
Printing and Stationery	18.85	17.52	18.13	10.17	16.42
Advertisement and Publicity	2.46	2.39	2.12	3.33	5.98
Depreciation on bank's properties	50.95	55.42	75.28	65.91	92.68
Directors' fees, allowances and expenses	0.24	0.26	0.16	0.14	0.23
Auditors' fees and expenses	5.33	5.65	9.03	8.56	9.92
Law Charges	0.77	1.57	1.20	0.80	0.85
Postage, Telegrams, Telephones, etc.	14.25	14.81	15.17	15.97	18.09
Repairs and maintenance	14.47	20.04	22.07	24.69	25.43
Insurance	17.33	19.09	22.83	25.38	30.87
Other Expenditure	95.39	104.66	111.79	127.82	125.29
<b>SUB TOTAL</b>	<b>1010.11</b>	<b>1231.23</b>	<b>1349.79</b>	<b>1669.58</b>	<b>1592.6</b>
<b>TOTAL EXPENDITURE</b>	<b>3758.22</b>	<b>4362.02</b>	<b>4764.26</b>	<b>5404.83</b>	<b>6142.85</b>





(Rs crore)

Year ended 31st March	1998	1999	2000	2001	2002
Gross Profit before provisions for income tax and extraordinary items	672.52	957.41	923.16	1131.22	1656.24
Less :Extra Ordinary items	0	0	0	0	0
Gross Profit before provisions for IT	672.52	957.41	923.16	1131.22	1656.24
Provisions and contingencies	469.5	732.35	687.11	846.12	914.84
<b>NET PROFIT FOR THE YEAR</b>	<b>203.02</b>	<b>225.06</b>	<b>236.05</b>	<b>285.10</b>	<b>741.40</b>
<b>Profit available for appropriations</b>	<b>203.02</b>	<b>225.06</b>	<b>236.05</b>	<b>285.10</b>	<b>741.40</b>
<b>APPROPRIATIONS</b>					
Transfer to Statutory Reserve	41.00	70.00	72.00	86.00	186.00
Transfer to Revenue Reserve & Other Reserve	79.02	110.00	116.00	141.19	310.42
Transfer to Capital Reserve – Excess depreciation on Inv. W.B.	0.00	0.00	0.00	0.00	0.00
Transfer to Investment Fluctuation Reserve	47.00	0.00	0.00	0.00	164.00
Transfer to Capital Reserve – Investments (HTM)	0.00	0.00	0.00	0.86	0.98
Dividend to Central Government	36.00	45.06	48.05	57.05	80.00
<b>TOTAL</b>	<b>203.02</b>	<b>225.06</b>	<b>236.05</b>	<b>285.10</b>	<b>741.40</b>
Provisions for Income Tax	80.00	100.00	121.00	191.00	310.00
Provision for Standard Advances	0.00	0.00	57.00	10.00	13.00
Depreciation on Investments	(90.15)	0.00	0.00	7.66	12.53
Provision for Bad and Doubtful Debts	397.50	505.95	409.13	398.76	385.69
Others	82.15	126.40	99.98	238.70	193.62
<b>TOTAL</b>	<b>469.50</b>	<b>732.35</b>	<b>687.11</b>	<b>846.12</b>	<b>914.84</b>

## PART II STATEMENT OF ASSETS AND LIABILITIES

(Rs crore)

As At 31st March	1998	1999	2000	2001	2002
<b>A ASSETS</b>					
Cash in hand	272.22	297.69	322.24	413.00	495.52
Balance with RBI	3781.41	3796.71	3516.19	3473.36	7364.34
Balance with Banks					
- in India	457.78	379.96	393.20	594.91	930.66
- outside India	2395.80	2797.73	2878.62	8664.96	3114.42
Money at call and short notice	813.16	907.50	435.00	25.00	592.76
Investments					
- in India	15940.45	17056.29	19620.94	20946.18	22693.46
- outside India	90.53	300.20	401.86	499.29	526.65
Advances					
- in India	16505.25	19071.40	23114.78	27369.03	32410.91
- outside India	319.43	458.71	431.95	462.74	715.79
Fixed Assets	282.18	406.98	421.8	516.46	530.18
Other Assets	2106.15	2503.67	2779.99	3422.53	2707.86
<b>TOTAL (A)</b>	<b>42964.36</b>	<b>47976.84</b>	<b>54316.57</b>	<b>66387.46</b>	<b>72082.55</b>



(Rs crore)

As At 31st March	1998	1999	2000	2001	2002
<b>B LIABILITIES</b>					
Demand Deposits from Banks	445.32	529.54	314.22	679.79	484.51
Demand Deposits from Others	5837.23	5367.74	6790.19	7167.55	6663.72
Savings Deposits	8076.61	9542.93	11129.34	12785.87	14511.46
Term Deposits from Banks	960.29	1172.01	1223.50	1331.07	1332.52
Term Deposits from Others	22725.56	25346.39	28544.11	37105.24	41037.8
Borrowings					
- in India	497.91	882.39	824.16	666.25	267.40
- outside India	0	0	0	81.6	76.240
Other Liabilities and Provisions	2266.52	2365.83	2533.04	3088.82	3116.240
Sub-ordinate Debts	0	500.00	500.00	800.00	1250.00
<b>TOTAL (B)</b>	<b>40809.44</b>	<b>45706.83</b>	<b>51858.56</b>	<b>63706.19</b>	<b>68739.89</b>
<b>C NET ASSETS (A-B)</b>	<b>2154.92</b>	<b>2270.01</b>	<b>2458.01</b>	<b>2681.27</b>	<b>3342.66</b>
Represented by:					
<b>D Share Capital</b>	<b>577.72</b>	<b>577.87</b>	<b>577.87</b>	<b>577.87</b>	<b>577.87</b>
<b>E RESERVES AND SURPLUS</b>					
Statutory Reserve	424.00	494.00	566.00	652.00	838.00
Capital Reserve (Others)	105.68	105.68	105.68	106.54	107.52
Investment Fluctuation Reserve	75.00	9.94	9.94	5.15	169.15
Revenue and Other Reserves	428.52	538.52	654.52	795.71	1106.12
Special Reserve u/s 36(1)(viiiia)	544.00	544.00	544.00	544.00	544.00
<b>TOTAL (E)</b>	<b>1577.20</b>	<b>1692.14</b>	<b>1880.14</b>	<b>2103.40</b>	<b>2764.79</b>
<b>F TOTAL (D + E)</b>	<b>2154.92</b>	<b>2270.01</b>	<b>2458.01</b>	<b>2681.27</b>	<b>3342.66</b>
<b>G CONTINGENT LIABILITIES</b>					
Claims against the Bank not acknowledged as debt	119.06	240.76	527.23	492.96	445.57
Disputed income tax demand under appeal/references etc.	80.30	242.59	202.31	195.28	187.35
Liability for partly paid Investments	0	0	0	0	0
Liability on account of outstanding forward exchange contracts	10631.76	8504.96	14799.8	27515.14	26894.73
Guarantees given on behalf of constituents	3414.93	3655.92	4185.54	4458.6	5471.46
Acceptances, endorsements and other obligations	1893.01	1877.09	2497.67	2470.72	2954.29
Other items for which the Bank is contingently liable	338.09	299.14	225.35	69.47	70.87
<b>TOTAL (G)</b>	<b>16477.15</b>	<b>14820.46</b>	<b>22437.9</b>	<b>35202.17</b>	<b>36024.27</b>
<b>Bills for Collection</b>	<b>2671.30</b>	<b>2775.92</b>	<b>2736.41</b>	<b>2871.07</b>	<b>3920.21</b>





## Details of Adjustments

(Rs crore)

Year ended March 31	1998	1999	2000	2001	2002
<b>INCOME</b>					
Interest Income	0	0	0	0	0
<b>TOTAL INCOME</b>	0	0	0	0	0
<b>EXPENDITURE</b>					
Interest Expended	0	0	0	0	0
Operating Expenses	0	0	0	0	0
<b>TOTAL EXPENDITURE</b>	0	0	0	0	0
Gross Profit before provisions for income tax and extraordinary items	0	0	0	0	0
Less :					
Extra ordinary items	0	0	0	0	0
Gross Profit before provisions for income tax	0	0	0	0	0
Provisions and contingencies	0	0	0	0	0
Net profit / loss for the year	0	0	0	0	0
<b>APPROPRIATIONS</b>					
Transfer to Revenue and Other Reserves	0	0	0	0	0

## Increase/Decrease in Assets & Liabilities (Cumulative)

(Rs crore)

Year ending March 31	1998	1999	2000	2001	2002
<b>ASSETS</b>					
Fixed Assets	-147.98	-142.8	-137.87	-133.19	-128.83
Increase (+) / Decrease (-) in Assets	-147.98	-142.8	-137.87	-133.19	-128.83
<b>LIABILITIES</b>					
<b>RESERVES AND SURPLUS</b>					
Revaluation Reserve	-147.98	-142.8	-137.87	-133.19	-128.83
Increase (+) / Decrease (-) in Liabilities	-147.98	-142.8	-137.87	-133.19	-128.83

## PART III

### A. SIGNIFICANT ACCOUNTING POLICIES ADOPTED IN PREPARING FINANCIAL STATEMENTS

#### 1. Accounting Convention

The accounts are prepared under the historical cost convention and conform to the statutory provisions and prevailing practices, except as otherwise stated.

#### 2. Foreign Currency Translation/Conversion of Foreign Currencies

Assets and Liabilities as also Income and Expenditure items of the foreign branch are translated at the closing rate of exchange prevailing as at the year-end.

Assets and liabilities in Foreign currency (except foreign currency deposits and corresponding assets) including

Forward Exchange Contracts, guarantees, acceptances, endorsements and obligations are evaluated as per FEDAI guidelines.

Foreign Currency deposits and corresponding assets are translated at notional rates, which are periodically reviewed. The gain or loss on evaluation of outstanding Forward Exchange Contracts is taken to revenue as per FEDAI guidelines.

#### 3. Investments

Classification of Investments is made as per the guidelines of Reserve Bank of India. The entire Investment portfolio of the Bank is classified under three categories viz. 'Held to Maturity', 'Available for sale' and 'Held for Trading'.



In respect of securities included in any of the above three categories where interest / principal is in arrears for more than 180 days, income is not recognized as per prudential norms.

The valuation of Investments is done in accordance with the guidelines issued by Reserve Bank of India as under:

a) Held to Maturity

Investments under 'Held to Maturity' category are carried at acquisition cost. The excess of acquisition cost, if any, over the face value is amortized over the remaining period of maturity. Investments in subsidiaries and sponsored institutions are valued at carrying cost. Any permanent diminution in the value is fully provided for.

b) Available for Sale

The individual securities under this category are marked to market. Central Government securities are valued at market rates declared by Fixed Income Money Market and Derivatives Association of India (FIMMDA). State Government securities, other approved securities, Debentures and Bonds are valued as per the yield curve, average credit spread rating and methodology suggested by FIMMDA. Quoted Shares are valued at market rates. Unquoted 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 are valued at carrying cost. Mutual Fund Instruments are valued at market rate or repurchase price or net asset value in that order depending on their availability.

Based on the above valuation under each sub-category of Available for Sale:

- (i) if the figure results in appreciation, the same is ignored.
- (ii) if the figure results in depreciation, the same is charged to Profit & Loss Account. An equivalent amount (net of tax benefit and net of consequent reduction in the transfer to Statutory Reserve) or the balance available in the Investment Fluctuation Reserve Account, whichever is less, is transferred from the Investment Fluctuation Reserve Account to the Profit & Loss Account.

c) Held for Trading

The individual scrips under this category are held at original cost. The same is valued at weekly intervals at market rates 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.

4. Advances

- a) Advances are classified as performing and non-performing assets and provisions are made in accordance with the prudential norms prescribed by Reserve Bank of India.

- b) Advances are stated net of write off, provisions for non-performing assets, claims received from credit guarantee institutions, re-discount and Interest suspense.
- c) As per prudential norms, general provision on Standard Assets is made @ 0.25%.

5. Fixed Assets

The premises of the Bank include freehold and leasehold properties. Land and Buildings are capitalised based on conveyance / letters of allotment/agreement to lease and/or physical possession of the property. Advances made for acquisition of assets and deposits made on leased properties are included under "Other Assets", pending capitalization.

Premises and other Fixed Assets are stated at historical cost except wherever revalued. The appreciation on revaluation is credited to the 'Revaluation Reserve' Account. Depreciation attributable to the enhanced value is transferred from revaluation reserve to the credit of depreciation in the Profit and Loss Account.

6. Depreciation

- a) Fixed Assets excluding computer hardware/software are depreciated under Written Down Value method as per the rates determined by the management on the basis of estimated useful life of the respective assets. As per the guidelines of Reserve Bank of India, depreciation is charged on computer hardware/software at 33.33% on straight-line method.
- b) Premium paid on leasehold property is charged over the lease period as per the written down value method.
- c) Depreciation on Assets given on Lease is charged on Written Down Value method as per Schedule XIV of the Companies Act, 1956 after adjusting Capital recovery.
- d) Depreciation on additions to fixed /leased assets is charged for the full year irrespective of the date of acquisition. No depreciation is provided in the year of sale/disposal.

7. Revenue Recognition

- a) Revenue recognition is generally on accrual basis. In the case of Non-performing assets, income is recognised to the extent of realisation. In respect of Loans Past Due accounts recoveries are appropriated towards principal after adjusting balance in Interest Suspense, if any.
- b) Commission, Exchange, Brokerage, Fees, Dividends and locker rent are accounted for as income on receipt basis.
- c) Interest on refund of direct taxes is accounted for in the year in which the assessment order is passed.

8. Retirement Benefits

Contribution to Pension Fund is made based on actuarial valuation at the year-end, in respect of employees who have opted for Pension scheme.

Contribution to the Gratuity Fund is made based on actuarial valuation at the year-end.





Leave Encashment is accounted for on 'PAY-AS-YOU-GO' method.

#### 9. Taxation

Provision for Income tax is made after due consideration of the judicial pronouncements and legal opinion. Disputed taxes, not provided for are included under "Contingent Liabilities".

#### 10. Net Profit

Net Profit has been arrived at after accounting for the following "Provisions and Contingencies":

- Depreciation on Investments.
- Provision for Income tax and Wealth tax in accordance with the statutory requirements.
- Provision for loan losses.
- Write off of certain non-performing advances.
- Provision for Standard Assets
- Other usual and necessary provisions.
- Transfer to contingencies.

#### B. Significant Changes in Accounting Policies from 1<sup>st</sup> April, 1997 to 31<sup>st</sup> March, 2002

1. During the five consecutive financial years ended 31<sup>st</sup> March, 2002, various guidelines were issued by the Reserve Bank of India on Income recognition, Asset Classification, Provisioning in respect of Standard Assets, Non Performing Assets, Other Assets, Classification of Investments, valuation thereof, depreciation on Investments / Fixed / Leased Assets and amortization of SVRS expenditure. Necessary changes in the Accounting Policies have been made by the Bank in the relevant years, to be in conformity with the RBI guidelines.
2. Provision in respect of initial contribution to Pension Fund arrived at as on 31<sup>st</sup> March, 1996 as per actuarial valuation was spread over a period of five years. The incremental liability for pension for 1996 – 97 onwards has been provided for, on a year to year basis.
3. Assets and Liabilities as also Income and Expenditure items of the foreign branch were translated at the market mid-rate of exchange prevailing as at the year end upto 31<sup>st</sup> March, 1999 and at the closing rate of exchange as at the year end thereafter.
4. Dividend was recognised as Income based on declaration of the same upto 31<sup>st</sup> March, 1999 and on receipt basis thereafter.

#### PART IV

##### A. MATERIAL NOTES ON ACCOUNTS:

1. Investments: The Investments were classified as Permanent & Current and valued as per RBI guidelines. With effect from 30.09.2001, in terms of revised RBI guidelines, Investments have been reclassified under 'Held to Maturity', 'Available for Sale' and 'Held for Trading' categories and valued accordingly.

- a) The category wise position of the Investment portfolio as on 31.03.2002 is as follows:

Category	Book Value as at March 31, 2002	Percentage
Held to maturity	6903.75	29.73%*
Available for sale	15615.33	67.25%
Held for trading	701.03	3.02%

(\* Excluding exempted category 24.40%)

- b) The investments in equity shares, convertible debentures and units of equity oriented mutual funds as on 31.03.2002 aggregate to Rs304.98 crore.
2. The Bank has continued its support for its wholly owned subsidiary Canbank Financial Services Ltd. (CANFINA). Securities purchased from CANFINA included in "Investments" amounted to Rs53.53 crore and in "Other Assets" (being investments overdue for redemption) amounted to Rs240.63 crore. Securities with a Book Value of Rs194.35 crore included under "Other Assets" have not been registered or have been withheld / cancelled by two PSUs by linking to their claims against CANFINA. While recovery of the amount due from the said two PSUs is being pursued, the Bank has secured its exposure with additional securities having a market value of Rs176.85 crore as on 31.03.2002 and these securities are either registered in the name of the Bank or lien is noted. The bank is holding adequate provision to cover the net shortfall.
3. The Bank is building a contingent provision for envisaged shortfall in servicing the dues of three PSUs by its wholly owned subsidiary CANFINA, where the settlement has been reached. Accordingly, the provision held Rs432 crore, in the opinion of the Management is considered adequate as at 31.03.2002.
4. Expenditure on Special Voluntary Retirement Scheme (SVRS): In accordance with the guidelines of Reserve Bank of India, the total expenditure (comprising of ex-gratia and contribution to Gratuity & Pension Fund) on account of the Special Voluntary Retirement Scheme offered by the Bank is amortized over a period of five years considering the future benefit arising therefrom. Accordingly a sum of Rs356.18 crore has been charged to Profit & Loss Account and the balance unamortized amount of Rs554 crore as on 31<sup>st</sup> March, 2002 is included in "Other Assets".
5. Inter Branch Transactions: The initial matching of entries to the extent received at Head Office for the purpose of reconciliation under Inter-Branch transactions upto 31.03.2002 has been done. The Bank is continuing its efforts to reconcile, clear and reduce the remaining outstanding entries.
6. Premises: Premises include properties capitalized aggregating to Rs201.22 crore in respect of which conveyance deeds are pending execution.
7. Share Capital: During the year ended 31<sup>st</sup> March, 1998, the bank received an additional capital of Rs600 crore from Government of India. Further, a sum of Rs507.10 crore representing the guaranteed amount for Canstar units over the NAV of Rs11 per unit was reduced from the capital in that year with the approval of Government of India.



## 8. a) Movement of NPA

(Rs crore)

Particulars	March 31, 2002	
	Gross	Net
Opening Balance as on 01.04.2001	2150.29*	1345.99
Add : Additions during the year	651.84	150.20
Total	2802.13	1496.19
Less : Reductions during the year	689.69	207.80
Balance as on 31.03.2002	2112.44	1288.39

\*Adjusted for interest suspense of Rs92.60 crore.

## (b) Movement of Provisions held towards NPA

(Rs crore)

Particulars	March 31, 2002
Opening Balance as on 01.04.2001	558.17
Add : Provisions made during the year	384.47
Sub Total	942.64
Less : Write off, Write Back of excess provisions	377.65
Closing Balance as on 31.03.2002	564.99

## c) Information in respect of Restructuring etc. undertaken during the year

(Rs crore)

Particulars	March 31, 2002
Total amount of loan assets subjected to restructuring	484.29
The amount of Standard Assets subjected to restructuring etc.	481.64
The amount of Sub-standard assets subjected to restructuring etc.	2.65

## d) Lending to Sensitive Sectors

(Rs crore)

Particulars	March 31, 2002
A) Advances to Capital Market Sector	169.39
B) Advances to Retail Sector	153.18
C) Advances to Commodity Sector	560.21
Total	882.78

## B. NOTES ON ADJUSTMENTS

There being no quantified qualifications in the auditors' reports, no adjustments therefore have been considered necessary while preparing the financial statements for the five consecutive financial years ended 31<sup>st</sup> March, 2002.

## PART V

## AUDITORS' QUALIFICATIONS FOR WHICH ADJUSTMENTS COULD NOT BE CARRIED OUT

1. Effect of leave encashment accounted on the basis of PAY-AS-YOU-GO method which is not in accordance with the Accounting Standard – 15 issued by the Institute of Chartered Accountants of India, amount not being ascertained.
2. Conversion of Revenue items and Fixed Assets of the Bank's foreign branch at the year end closing rate and conversion of Foreign Currency Deposits and corresponding assets at notional rate which are not in accordance with Accounting Standard - 11 of the Institute of Chartered Accountants of India, effect not being ascertained.
3. Income by way of commission, exchange, brokerage, fees, dividends and locker rent are accounted on cash basis which is not in accordance with Accounting Standard - 9 issued by the Institute of Chartered Accountants of India, effect not being ascertained.
4. Effects on the accounts, if any, can not be determined pending final settlement of the securities held in two PSUs as mentioned in note no.2 of Part IV and the obligation of the Bank in respect of its wholly owned subsidiary as stated in note no.3 Part IV.
5. Effect of adjustments in the accounts arising from balancing/reconciliation/clearance of items in Inter Branch Accounts, the amount being not quantifiable.
6. The adjustment for initial contribution of Rs40.37 crore towards Pension Fund determined in 1995-96 and amortized for over a period of 5 years, the initial year being prior to 01.04.1997.

## Statement of Networth (Excluding Revaluation Reserve on Fixed Assets)

(Rs crore)

Year ending March 31	1998	1999	2000	2001	2002
Share Capital	577.72	577.87	577.87	577.87	577.87
Free Reserves	1577.20	1692.10	1880.10	2103.40	2764.79
Net Worth (excluding Revaluation Reserve)	2154.92	2269.97	2457.97	2681.27	3342.66



**KEY ACCOUNTING RATIOS**

Year ended March 31	1998	1999	2000	2001	2002
Earning per share (Rs)	3.51	3.89	4.08	4.93	12.83
Book value per share (Rs) (excluding Revaluation Reserve)	37.37	39.28	42.53	46.40	57.84
Return on Net Worth (%)	9.42	9.91	9.60	10.63	22.18
<b>Other Ratios</b>					
Net NPA to Net Advances Ratio (%)	7.52	7.09	5.28	4.84	3.89
Interest Income / Working Fund (%)	9.96	10.64	9.54	9.70	9.29
Non Interest Income / Working Fund (%)	1.58	1.42	1.64	1.58	2.08
Return on Assets (%)	0.47	0.47	0.43	0.43	1.03
Net Profit / Working Funds (%)	0.53	0.51	0.46	0.49	1.08
Business per employee (Rs lakh)	102.7	114.23	133.46	187.59	210.97
Net Profit per employee (Rs lakh)	0.39	0.43	0.45	0.63	1.64
Capital Adequacy Ratio(%)	9.54	10.96	9.64	9.84	11.88
Capital Adequacy Ratio (%) - Tier I	8.81	8.57	7.77	7.31	8.07
Capital Adequacy Ratio (%) - Tier II	0.73	2.39	1.87	2.53	3.81
Credit / Deposit Ratio (%) (net)	44.22	46.55	49.05	47.12	51.74
Interest Spread / Average Working Fund (%)	2.80	3.54	2.83	3.25	2.65
Gross Profit / Average Working Fund (%)	1.75	2.17	1.81	1.95	2.41
Return on Average Net Worth (%)	10.03	10.17	9.99	11.09	24.62
Yield on Advances (%)	12.26	12.14	11.49	11.21	10.59
Yield on Investments (%)	10.47	12.81	11.11	10.9	10.75
Cost of Deposits (%)	7.86	7.81	7.28	7.02	7.16
Cost of Borrowings (%)	15.04	12.12	11.54	9.43	11.13
Gross Profit per employee (Rs lakh)	1.29	1.83	1.76	2.50	3.66
Business per branch (Rs lakh)	2312.46	2513.12	2920.75	3529.75	3957.7
Gross Profit per branch (Rs lakh)	29.09	40.24	38.51	47.04	68.75

**Definitions of Key Ratios**

Return on Average Net Worth (%)	Net Profit / Average of Opening and Closing Network
Average Working Funds (AWF)	Total average of monthly total assets as per Form X.
Net Profit / AWF (%)	Net Profit / AWF
Business per employee (Rs lakh)	Deposits excl. bank deposits plus Advances/Employee strength
Credit / Deposit Ratio (%) (net)	Total advances / total deposits
Operating Expenses / AWF (%)	Non-interest expenditure / AWF
Interest Spread / AWF (%)	Net Interest earned / AWF
Gross Profit / AWF (%)	Profit prior to provisions and contingencies / AWF
Yield on Advances (%)	Interest earned on Advances / Average Advances as per Form X
Yield on Investments (%)	Interest earned on Investments / Average Investments as per Form X
Cost of Deposits (%)	Interest expended / Average Deposits as per Form X
Cost of Borrowings (%)	Interest on Borrowings / Average Borrowings as per Form X
Gross Profit per employee (Rs lakh)	Profit prior to provisions and contingencies / Employee strength
Business per Branch (Rs lakh)	Advances plus Deposits excl. bank deposits/ Number of branches
Gross Profit per Branch (Rs lakh)	Advances plus Deposits excl. bank deposits/Number of branches

All the financial ratios/capital adequacy ratios as specified in the offer document and the disclosures regarding NPAs confirm to the norms as specified by RBI.



# Tax Shelter

(Rs crore)

Year ended March 31	1998	1999	2000	2001	2002
Tax Rate %	35.00%	35.00%	38.50%	39.55%	35.70%
Tax at actual rate on Profits	99.06	113.77	137.46	188.30	375.35
Adjustments:					
<b>Permanent Differences</b>					
i) Interest on Tax free Bonds	-61.65	-150.04	-156.67	-88.10	-61.41
ii) Dividend Income	-29.27	-32.49	-52.00	-30.01	-53.78
iii) Interest income from infrastructure projects	-5.73	-45.01	-95.83	-156.25	-159.34
<b>Total</b>	<b>-96.65</b>	<b>-227.54</b>	<b>-304.5</b>	<b>-274.36</b>	<b>-274.53</b>
<b>Timing Differences</b>					
i) Difference between book depreciation and IT depreciation on fixed assets	4.91	-8.54	-1.39	4.83	15.48
ii) Provision for bad and doubtful debts/bad debts written off	28.17	0	40.24	0	0
iii) Discount on Zero Coupon bonds	-39.39	-28.72	-17.51	0	0
iv) VRS Expenditure	0	0	0	-233.60	65.38
v) Other adjustments	-21.37	3.17	69.62	133.26	6.40
<b>Total</b>	<b>-27.68</b>	<b>-34.09</b>	<b>90.96</b>	<b>-95.51</b>	<b>87.26</b>
<b>Net Adjustments</b>	<b>-124.33</b>	<b>-261.63</b>	<b>-213.54</b>	<b>-369.87</b>	<b>-187.27</b>
<b>Tax Saving thereon</b>	<b>-43.52</b>	<b>-91.57</b>	<b>-82.21</b>	<b>-146.28</b>	<b>-66.86</b>
<b>Total Taxation</b>	<b>55.54</b>	<b>22.20</b>	<b>55.25</b>	<b>42.01</b>	<b>308.49</b>

Note: Figures for the four financial years ended upto March 31, 2001 have been computed as per the returns filed with the Income Tax department. For the year ended March 31, 2002, pending filing of return of income, figures are calculated on an estimation basis.

## Capitalisation Statement as at March 31, 2002

(Rs crore)

Particulars	Pre-Issue	Post-Issue as adjusted for the proposed issue of 11 crore equity shares At Rs35 per share
Loan funds		
Long Term	1250.00	1250.00
Short Term	343.63	343.63
Total Debt	1593.63	1593.63
Shareholders' Funds		
Share Capital	577.87	410.00**
Reserves and Surplus	2764.80	3039.80
Total Equity	3342.67	3449.80
Long Term Debt / Equity Ratio	37.40%	36.23%

Note: \*\* After the proposed return of Rs277.87 crore as approved by the Government of India vide their letter under reference – F.No. 11/10/2002-BOA dtd. August 29, 2002.





**PART VI**

**ANNEXURE A**

**CANBANK COMPUTER SERVICES LTD.**

The Board of Directors

Canara Bank

112, J.C.Road

Head Office

BANGALORE – 560 002

Sirs,

As required for the purpose of certification of statement of accounts to be incorporated in the offer document proposed to be issued by Canara Bank in connection with the initial offer of Equity Shares, we state as follows :

1. We have examined the audited financial statements of Canbank Computer Services Ltd., a subsidiary of Canara Bank, for the five financial years ending with 31<sup>st</sup> March 2002 being the last date upto which the accounts have been made and audited by the Auditors of the Company of those respective years.
2. The aforesaid financial statements have been prepared in accordance with the Companies Act, 1956 and as per SEBI Regulations issued from time to time and subject to the limitations for disclosure required therein.
3. We certify that the figures stated in the annexed consolidated Profit and Loss Account for the five financial years ending on 31<sup>st</sup> March 2002 and the Balance Sheets as at the end of the respective years along with the significant Accounting Policies are prepared from the audited statements of accounts of the Company. Appropriate adjustments and regroupings, which in our opinion were considered necessary, have been made. The Statement is subject to Notes on Accounts and various qualifications made in the Audit Reports of respective years.

For and on behalf of  
**Prasad, Girish & Co.**  
Chartered Accountants

(G.G.Prasad)  
Partner

Dated : 02.07.2002

Place: Bangalore



# STATEMENT OF PROFITS/LOSSES

(Rs lakh)

Year ended March 31	1998	1999	2000	2001	2002
<b>INCOME</b>					
<b>Income from Operations</b>					
Software Services	55.56	48.55	39.77	58.17	152.10
Software Packages Sold	Nil	Nil	Nil	Nil	Nil
Data Processing	5.71	6.25	6.16	10.69	68.06
Consultancy	12.67	8.33	108.43	8.42	2.84
Training & Seminars	15.19	8.07	11.57	15.59	6.97
R & T Services	51.13	153.65	224.23	114.82	96.63
OPE-Income	Nil	Nil	Nil	32.28	26.74
<b>Total</b>	<b>140.26</b>	<b>224.85</b>	<b>390.16</b>	<b>239.97</b>	<b>353.34</b>
<b>Other Income</b>					
Interest	10.24	3.44	1.88	1.65	1.83
R & T Printing Charges - Mailing List	Nil	Nil	Nil	1.91	1.63
Miscellaneous Income	0.02	0.06	3.69	0.73	1.55
<b>Work in Progress</b>	<b>NIL</b>	<b>NIL</b>	<b>11.70</b>	<b>28.80</b>	<b>18.89</b>
<b>TOTAL INCOME (A)</b>	<b>150.52</b>	<b>228.35</b>	<b>407.43</b>	<b>273.06</b>	<b>377.24</b>
<b>EXPENDITURE</b>					
Work in Progress	Nil	Nil	Nil	11.70	28.80
Personnel Expenses					
Salary & Other Allowances	62.02	95.29	106.89	116.47	110.93
Contribution to PF & Other Funds	5.83	11.35	11.65	14.89	11.07
Leave Fare Concession	0.78	2.76	2.16	3.76	3.45
Medical Benefits	1.59	2.24	1.79	3.09	3.25
Staff Training Expenses	2.18	1.02	1.33	0.59	0.02
Staff Welfare Expenses	0.24	0.70	0.75	0.98	2.18
Stipend to Student Trainees	0.40	0.59	1.96	2.57	1.74
Gratuity	Nil	Nil	2.06	2.52	3.07
Leave Encashment	Nil	Nil	3.54	2.41	4.30
<b>Total</b>	<b>73.04</b>	<b>113.95</b>	<b>132.13</b>	<b>147.28</b>	<b>140.01</b>
<b>Operating &amp; Administrative Expenses</b>					
Auditors' Remuneration	0.15	0.16	0.28	0.16	0.16
Advt & publicity expenses	2.53	2.34	1.22	1.22	Nil
Bank Charges	0.01	0.06	0.02	0.13	0.07
Board Meeting Expenses	0.07	0.08	0.20	0.32	0.40
Books & periodicals	1.03	1.31	1.37	1.96	1.87
Business Development	0.52	0.60	0.44	0.70	0.55
Bad Debts written off	Nil	Nil	Nil	Nil	2.51
Communication Expenses	5.22	3.49	3.75	5.25	7.64
Cost of Software Packages Sold	Nil	Nil	Nil	Nil	Nil
Computer Consumables & Hire Charges	Nil	Nil	Nil	Nil	2.04





(Rs lakh)

Year ended March 31	1998	1999	2000	2001	2002
Directors' Sitting Fees	0.14	0.06	0.07	0.19	0.15
Directors' Travel & Conveyance	0.67	0.38	0.45	0.60	0.33
Electricity Charges	6.18	13.23	10.46	13.21	12.17
Insurance	0.36	2.00	0.22	1.36	1.03
Interest on Lease Rental	Nil	3.19	0.60	Nil	Nil
Lease Rentals	25.50	74.76	74.76	74.76	NIL
Legal & Professional Fees	1.76	3.71	1.24	10.15	4.16
Loss on sale of Assets	Nil	0.60	3.55	Nil	Nil
Other Expenses	0.95	0.34	3.57	0.58	2.23
Outsourcing Expenses	6.19	4.93	40.77	16.96	27.56
Printing & Stationery	1.89	2.04	3.94	2.90	4.19
Rates & Taxes	0.39	0.21	0.50	0.45	3.73
Rent	23.18	18.40	12.61	16.38	31.50
Repairs & Maintenance – Premises	2.18	2.40	1.91	2.83	2.54
Repairs & Maintenance – Others	4.68	14.46	11.06	7.77	12.70
Repairs & Maintenance – Vehicles	1.46	1.88	1.18	0.89	0.48
Royalty	0.09	0.61	0.27	0.70	0.10
Software Purchases	2.70	6.47	1.76	3.28	1.54
Subscription & Membership Fees	0.76	0.43	0.56	1.06	0.59
Training & Seminar Expenses	7.54	4.03	6.53	11.35	4.12
Travelling & Conveyance Expenses	5.32	7.28	13.85	15.45	9.45
Out of Pocket Expenses	Nil	Nil	61.57	32.28	26.74
<b>Total</b>	<b>101.47</b>	<b>169.45</b>	<b>258.71</b>	<b>222.89</b>	<b>160.55</b>
Discount	Nil	Nil	0.37	0.40	0.26
Interest	Nil	Nil	Nil	1.49	3.51
Preliminary Expenses Written Off	0.35	0.35	0.35	0.35	0.35
R & D Expenses Written Off	Nil	Nil	Nil	3.06	3.06
Depreciation Charges	19.63	20.37	21.39	22.90	-
Prior Period Items – Expenses	Nil	Nil	Nil	Nil	0.95
<b>Total Expenditure (B)</b>	<b>194.49</b>	<b>304.12</b>	<b>412.95</b>	<b>410.07</b>	<b>337.49</b>
<b>Profit / (Loss) (A-B)</b>	<b>(43.97)</b>	<b>(75.77)</b>	<b>(5.52)</b>	<b>(137.01)</b>	<b>39.75</b>
Depreciation Charges	-	-	-	-	25.37
Less: Provision for Taxation	Nil	0.01	Nil	Nil	Nil
Add : Excess provision of earlier year	Nil	Nil	Nil	Nil	Nil
Excess Provision for Royalty written back	Nil	Nil	Nil	Nil	0.26
Prior Period Items – Expenses	0.21	Nil	Nil	Nil	Nil
Prior Period Items – Incomes	Nil	6.81	1.63	Nil	Nil
<b>Profit / (Loss) After Tax</b>	<b>(44.18)</b>	<b>(68.95)</b>	<b>(3.89)</b>	<b>(137.01)</b>	<b>14.64</b>

**STATEMENT OF ASSETS AND LIABILITIES**

(Rs Lakh)

Year ended March 31	1998	1999	2000	2001	2002
<b>I. Sources of Funds</b>					
Shareholders' Funds					
Share Capital	324.00	324.00	324.00	324.00	324.00
Reserves and Surplus	NIL	NIL	NIL	NIL	NIL
Loan Funds					
Secured Loans	NIL	NIL	NIL	39.33	35.25
Unsecured Loans	NIL	NIL	NIL	NIL	NIL
<b>Total</b>	<b>324.00</b>	<b>324.00</b>	<b>324.00</b>	<b>363.33</b>	<b>359.25</b>
<b>II. Application of Funds</b>					
<b>Fixed Assets</b>					
Gross Block	195.03	171.39	183.58	200.69	217.77
Less: Depreciation	40.88	56.49	77.00	99.90	125.27
Net Block	154.15	114.90	106.58	100.79	92.50
<b>Investment</b>	<b>0.03</b>	<b>0.03</b>	<b>0.03</b>	<b>0.03</b>	<b>NIL</b>
<b>Current Assets, Loans &amp; Advances</b>					
Work-in-Progress	NIL	NIL	11.70	28.80	18.88
Sundry Debtors	85.13	116.28	53.42	41.39	80.47
Cash and Bank Balances	61.06	14.38	47.54	9.44	1.57
Other Current Assets	0.71	0.02	1.04	0.03	0.18
Loans & Advances	6.84	12.71	28.39	35.57	28.48
<b>Total (A)</b>	<b>153.74</b>	<b>143.39</b>	<b>142.09</b>	<b>115.23</b>	<b>129.58</b>
<b>Less: Current Liabilities and Provisions</b>					
Current Liabilities	12.22	7.95	16.27	45.25	63.53
Provisions	0.22	23.49	21.33	53.99	27.74
<b>Total (B)</b>	<b>12.44</b>	<b>31.44</b>	<b>37.60</b>	<b>99.24</b>	<b>91.27</b>
Net Current Assets (A - B)	141.31	111.95	104.49	16.00	38.30
<b>Miscellaneous Expenditure</b>					
(To the extent not written off or adjusted)	2.10	1.75	13.66	10.25	6.83
<b>Profit and Loss Account</b>	26.41	95.35	99.25	236.26	221.61
<b>Total</b>	<b>324.00</b>	<b>324.00</b>	<b>324.00</b>	<b>363.33</b>	<b>359.25</b>





## SIGNIFICANT ACCOUNTING POLICIES

### 1. Accounting Policies

#### a. Accounting Assumptions

The financial statements are prepared under historical cost convention on accrual basis.

#### b. Revenue Recognition

Revenue for software services are recognised over contractual period or on the basis of milestones of billing for work done as provided in the service contracts. The work-in-progress is valued on the basis of proportionate cost incurred taking into account the percentage completion of works, estimated project cost and such parameters. Revenue for R & T services are recognised as per the terms provided in the contracts with the clients. Out of Pocket expenses are billed separately and charged to the revenue account.

#### c. Expenditure

Expenses are accounted on accrual basis except reimbursement of employee benefits such as medical expenses.

#### d. The procurements of Software are treated as revenue expenditure and tools for development of Software are treated as fixed assets and dealt with accordingly.

#### e. Fixed Assets and Depreciation

Fixed Assets are stated at cost of acquisition or construction. Depreciation on various assets is provided on straight line method at the rates provided in the Schedule XIV of the Companies Act, 1956 on pro-rata basis from the date of acquisition.

#### f. Retirement Benefits

Periodical contributions made towards Provident Fund of the employees of the Company are charged to revenue on accrual basis. Direct recruit employees of the Company are covered under the Group Gratuity Scheme of LIC. Provision has been made with respect to gratuity dues of deputed employees. Provision has also been made towards leave encashment.

#### g. Preliminary Expenses

Preliminary expenses are written off over a period of ten years in equal instalments.

#### h. Research & Development Expenses

The Research and Development Expenses of Rs12,25,952 incurred during the year 1999-2000 are amortised over a period of subsequent 4 years.

2. The requirements under Clause 4C of Part II of Schedule VI to the Companies Act, 1956 does not apply as the company is not engaged in any manufacturing activity.

3. The balances under Sundry Debtors, Advances from Customers and other advances are subject to confirmations from respective parties.

4. Contingent Liabilities – Nil for all years.

5. Estimated amount of contracts remaining to be executed on capital account and not provided for – Nil for all years.

6. Sundry Debtors includes the following sums due from Companies under the same management within the meaning of sub section (1B) of Section 370 of the Companies Act, 1956:

(Rs lakh)

	1997-98	1998-99	1999-2000	2000-2001	2001-02
Canara Bank	24.15	48.75	16.00	5.07	7.22
Canbank Investment Management Services Ltd.	52.25	46.38	32.68	23.21	20.41
Gilt Securities Trading Corp.	0.60	0.75	0.25	-	-

### 7. Expenditure in Foreign Currency

(Rs Lakh)

As on March 31	1998	1999	2000	2001	2002
CIF Value of Imports	-	-	-	-	-
Other Expenditure	-	01.87	00.64	00.73	-

8. FOB value of exports and earnings in Foreign Exchange – Nil for all years

9. Auditors' qualifications for which adjustments could not be carried out - Nil



## ANNEXURE B

### CANBANK FACTORS LTD.

To

The Board of Directors  
Canbank Factors Limited  
No.17, Seshadri Road  
Bangalore-560009.

As desired by you for the purpose of preparing consolidated Financial Statements and incorporating in the prospectus of Canara Bank, for the proposed Initial Public Offer (IPO) of equity shares, we state the following:

1. We have examined the audited financial statements of Canbank Factors Limited, for five financial years ended on 31<sup>st</sup> March 2002, being the last date upto which accounts have been made up and audited by the respective auditors of the Company.
2. The aforesaid financial statement have been prepared in accordance with the provisions of Companies Act, 1956, the accounting standards promulgated by the Institute of Chartered Accountants of India (ICAI), the prudential norms applicable to Non-Banking Financial Companies (NBFC's) issued by the Reserve Bank of India, SEBI regulations issued from time to time and are subject to the limitations of disclosures contained therein.
3. The Profit and Loss Account for the five financial years ended on 31<sup>st</sup> March 2002 and the Balance Sheet as at the end of the respective years, and the significant accounting policies, notes to the accounts (which form part of the aforesaid financial statements) were compiled from the aforesaid financial statements after making such regroupings, adjustments which, in our opinion, is considered necessary and appropriate, subject to the various qualifications, disclaimers if any, contained in the auditors' report on the accounts of the respective years.
4. We have only verified the figures for five years complied from the audited financial statements of the Company. We have not carried out any audit or a limited reviews of the figures for the purpose of this report and do not express any opinion on the same.

**For John, Joseph and Mathew**

Chartered Accountants

(K.T.Mathew)

Partner

Dated: 12<sup>th</sup> July 2002.

Place: Bangalore



**STATEMENT OF PROFITS/LOSSES**

(Rs Lakh)

Year ended March 31	1998	1999	2000	2001	2002
<b>INCOME</b>					
Discount Charges	1183.61	1364.53	1730.25	1899.14	2044.42
Service Charges	271.34	300.87	336.80	340.82	351.75
Processing charges	9.26	18.27	28.30	27.15	51.52
Income from leasing	92.19	129.54	133.56	119.17	97.39
Interest Earnings – Gross	86.50	60.21	42.75	42.52	51.70
Lease Equalisation	37.87	0.00	0.00	0.00	0.00
Misc. Income	1.79	1.58	3.07	1.98	1.73
<b>TOTAL INCOME</b>	<b>1682.56</b>	<b>1875.00</b>	<b>2274.73</b>	<b>2430.78</b>	<b>2598.51</b>
<b>EXPENDITURE</b>					
Personnel Expenses	71.15	71.73	88.92	90.31	94.25
Other operating & Administration Expenses	104.24	93.00	199.61	228.41	307.47
Interest	570.82	663.43	832.05	908.19	850.11
Depreciation	101.00	97.30	99.01	113.03	93.43
Lease Equalisation	0.00	0.01	5.43	12.43	27.23
Investment premium Amortisation	1.17	1.17	1.17	1.17	1.17
<b>TOTAL EXPENDITURE</b>	<b>848.38</b>	<b>926.64</b>	<b>1226.19</b>	<b>1353.54</b>	<b>1373.66</b>
Profit before tax and extraordinary income	834.18	948.36	1048.53	1077.24	1224.85
Less :Provision for taxation	310.00	340.00	400.00	500.00	500.00
Profit after tax and before extraordinary income	524.19	608.36	648.53	577.24	724.85
Add : Extraordinary Income	25.44	60.53	0.00	77.29	0.00
<b>NET PROFIT</b>	<b>549.63</b>	<b>668.89</b>	<b>648.53</b>	<b>654.53</b>	<b>724.85</b>
Add: Brought forward bal.of P&I A/c	7.73	0.36	1.25	3.38	8.44
<b>SUB TOTAL</b>	<b>557.36</b>	<b>669.25</b>	<b>649.78</b>	<b>657.91</b>	<b>733.29</b>
<b>LESS : APPROPRIATIONS</b>					
Transfer to Statutory Reserve	212.00	134.00	130.00	140.00	150.00
Proposed dividend & Tax thereon	220.00	264.00	266.40	264.48	280.00
Reserve for contingencies	0.00	200.00	125.00	135.00	150.00
Transfer to General Reserve	125.00	70.00	125.00	110.00	150.00
<b>BAL.CARRIED TO BALANCE SHEET</b>	<b>0.36</b>	<b>1.25</b>	<b>3.38</b>	<b>8.44</b>	<b>3.29</b>



## STATEMENT OF ASSETS AND LIABILITIES

(Rs Lakh)

Year ended March 31	1998	1999	2000	2001	2002
<b>LIABILITIES</b>					
Share Capital	2000.00	2000.00	2000.00	2000.00	2000.00
Reserves & Surplus	1142.36	1547.25	1929.38	2319.44	2764.29
Secured Loans	1380.11	1520.66	1359.94	1846.65	1343.53
Unsecured Loans	5202.33	7404.18	7649.61	9746.78	11590.85
Current Liabilities & Provisions	5097.07	6901.97	1356.70	1882.97	1467.45
<b>TOTAL</b>	<b>14821.87</b>	<b>19374.06</b>	<b>14295.63</b>	<b>17795.84</b>	<b>19166.12</b>
<b>ASSETS</b>					
Fixed Assets ( net of depreciation)	271.87	353.84	267.61	246.95	158.51
Investments	335.98	335.98	335.98	335.98	335.98
Loans & Advances	1297.52	1122.45	1206.32	1431.78	1105.16
Current Assets	12909.60	17556.05	12481.15	15777.73	17564.24
Misc. Expenditure	6.91	5.74	4.57	3.40	2.23
<b>TOTAL</b>	<b>14821.88</b>	<b>19374.06</b>	<b>14295.63</b>	<b>17795.84</b>	<b>19166.12</b>

### SIGNIFICANT ACCOUNTING POLICIES

#### 1. Accounting Convention:

The accounts have been prepared under the Historical Convention.

#### 2. Income recognition:

Income is generally accounted on accrual basis and in terms of the guidelines of the Reserve Bank of India for Non Banking Financial Companies.

- Discount: Income is considered to accrue on time basis on the balances in the Prepayment Accounts at the rate of Discount applicable.
- Service Charges: Income is considered to accrue on the amount of debts factored at the applicable rate.
- Processing Charges: Income is considered in full at the time of sanction of the factoring limits by the company.
- Interest on Investments: Income is considered to accrue on time basis.
- 

a) Lease Finance: Lease Rentals are accounted on accrual basis with a corresponding adjustment of Annual Lease Equalisation and Statutory Depreciation charge over the lease term and the Lease Terminal Adjustment being recorded at the end of each year.

b) Lease management Fees: Income is considered in the year in which it accrues.

#### 3. Investments:

All Investments are valued on individual basis. Long term investments are valued at cost or face value whichever is

lower. Premium, if any, paid in excess of the face value is amortised over the remaining period.

#### 4. Fixed assets:

Fixed Assets are valued at cost (inclusive of installation and other direct incidental expenses) less accumulated depreciation.

Assets purchased but given on lease are capitalised on installation at cost, Net of Modvat.

#### 5. Depreciation:

i. Assets other than given on Lease: Depreciation is provided on Written Down Value Method on pro-rata basis in accordance with the rates prescribed under Schedule XIV of the Companies Act, 1956.

ii. Assets given on Lease: Depreciation inclusive of extra shift allowance wherever applicable is provided on Written Down Value (WDV) basis at the rates specified in Schedule XIV of the Companies Act, 1956.

or

In the ratio of leased rentals accrued during the year to the lease rentals for the entire primary/secondary period of the lease, as per agreements, whichever is higher.

#### 6. Asset classification:

In terms of the guidelines of Reserve Bank of India, Debts Factored are classified into Performing and Non-performing Assets based on the recovery of Principal /interest;

A) Non-performing Assets are further categorised as Sub-Standard, Doubtful and Loss Assets.

B) Provision required to be made in respect of Non-performing Assets is determined as under:





- i. For Sub-standard Asset at 10% of the outstanding.
  - ii. For Doubtful Asset –
    - a. 100% of the extent to which the Debts Factored are not covered by realisable value of security and
    - b. 20% to 50% of the secured portion depending upon the period for which the Asset has remained doubtful.
  - iii. For Loss Asset at 100% of the outstanding.
7. Factored Debts and Funds-in-use
- Debts Purchased are included under Current Assets as Sundry Debtors. The unpaid balance of debts factored and due to clients after collection are deducted from Gross Debts Factored and the Funds-in-use is arrived at.
8. Retirement Benefits:
- The Provident Fund contribution for the directly recruited staff are being remitted to the Regional Provident Fund Commissioner and accounted for on accrual basis.
- As regards Gratuity, the Company has taken a Master Policy from LIC of India under Group Gratuity Scheme. The premium under this policy is calculated on actuarial basis by them.
9. Borrowing Cost:
- Borrowing Cost that are attributable to construction of fixed assets are capitalised as part of such assets for the period up to the date of commencement of production. All other borrowings costs are charged to revenue on accrual basis.
10. Foreign Exchange Transaction:
- a) Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction.
  - b) Current assets and Current Liabilities are translated at the year end rate.
  - c) The differences between the rate prevailing on the date of the transaction and on the settlement and also on translation of current assets & current liabilities at the end of the year are recognised as income or expenditure as the case may be and are adjusted in the Profit and Loss Account accordingly.
  - d) Liability on account of Exchange difference in respect of foreign currency loans utilised for the purpose of acquiring fixed assets and outstanding on the balance sheet date is added to the cost of the fixed assets. Exchange difference on such loan instalments paid during the year is accounted for as revenue expense.
- In respect of Foreign Exchange Contracts, the difference between the forward rate and exchange rate at the date of the transaction is recognised as income or expense over the life of the contract, except in respect of liabilities incurred for acquiring fixed assets in which case, such difference should be adjusted in the carrying amount of the respective fixed assets.
- Any profit or loss arising on cancellation or renewal of a forward exchange contract is recognised as income or as expense for the period, except in case of a forward exchange contract relating to liabilities incurred for acquiring fixed assets, in which case, such profit or loss should be adjusted in carrying amount of the respective fixed assets.

## NOTES TO ACCOUNTS

1. Contingent Liabilities are as under:

(Rs)

As on March 31	1998	1999	2000	2001	2002
Cheques Discounted with Bankers	12,62,288.00	39,90,513.00	59,90,475.00	32,37,778.50	32,70,557.00
Claims against the Company not acknowledge as Debts	Nil	28,47,827.00	Nil	38,19,084.00	1,33,07,670.00
Estimated amount of contracts remaining to be executed on Capital account not provided for	8,18,000.00	39,600.00	Nil	1,27,500.00	Nil

2. Disclosure under Accounting Standard AS 17 - Segment Reporting :  
The Company is carrying on the business of "Factoring" as a single product and hence there are no identifiable segment within that to comply with the requirement of Accounting standard AS 17. The Company introduced Export Factoring recently and the total business done does not qualify to be reported as a separate segment as it does not reach the threshold limit of 10 % both in Assets and Revenue.
3. Disclosure under Accounting Standard AS 18 - Related Party disclosures :  
Canara Bank holds 70% of the share capital of the Company and also controls the composition of the Board and as such "Canara Bank" is a related party with in the meaning of Accounting Standard AS 18.
  - a) Canara Bank has sanctioned an ODBD limit of Rs 60 crore to the company at Prime Lending Rate (PLR) which is at present 11.75% per annum.





- b) Canara Bank deputed its employees to the Company including the Managing Director and as on 31<sup>st</sup> March 2002 there are 13 deputed employees of Canara Bank working with the Company.
4. Disclosure under other Accounting Standards - AS 19, 20, 21, 22.
- The Accounting Standards AS 19 relating to Accounting for leases is not applicable to the Company as the Company has not put through any Lease Transaction during the current year. As regards Accounting Standard AS22 relating to Accounting for taxes on income is applicable only from financial year 2002-03. The other Accounting Standards AS 20 relating to Earnings per share and the Accounting Standard AS21 relating to Consolidated financial statements are not applicable to the Company.
5. Provision for taxation has been made in the accounts on the basis of Company's Computation. (This includes an amount of Rs19.31 Lakh towards tax payable on the taxable portion of the Extra ordinary Income of Rs48.81 Lakh Financial Year 2000-2001)
6. As per Section 45 IC of the Reserve Bank of India (Amendment) Act, 1997 every Non Banking Financial Company shall create a Reserve Fund and transfer there in not less than 20% of the net profit of the Company every year before any dividend is declared. No appropriations from this Reserve Fund shall be made except for the purposes as may be specified by RBI from time to time. This came into effect from the financial year 1996-97. During the finalisation of accounts for the year 1996-1997, the subject reserve had not been created and entire distributable profit (after provision for dividend) had been transferred to General Reserves. Consequent to the commands of C&AG in this regard, which has been accepted by the Company, the said Reserve has been created during the year and transferred therein an amount of Rs2.12 crore (out of the distributable profit of the current year) representing the amount required for both the financial years 1996-97 and 1997-98 (F.Y. -1997-98)
7. The remuneration including Provident Fund and Gratuity Liability of the Executives/Officers of the Company who are on secondment from Canara Bank, which is calculated in accordance with the service rules of the Bank, has been charged to the accounts on the basis of the advice received from the Bank. The Company has been making payments towards Provident Fund in respect of Staff directly recruited by the Company to the Regional Provident Fund Commissioner's Office regularly. As regards Gratuity the Company has taken a Master policy from LIC of India for covering Gratuity Liability of its employees recruited directly on actuarial basis as per Accounting Standard 15. The said policy is being renewed every September by paying appropriate premium. (The Leave salary for the directly recruited employees of the Company is not forming part of the terminal benefits of the employees. However, the Company has a measure of prudence has provided in full for the accumulated leave balance in respect of the said employees Financial Year 2000-01 & 2001-02).
8. The Company's appeals preferred against the demands made by the Income Tax department in respect of payment of Interest Tax for the Assessment years 1992-93 to 1995-96 have been allowed in its favour and necessary orders have been issued to that effect by the Commissioner of Income Tax (Appeals II), Bangalore. The Company has also received the refund orders in respect of Interest Tax paid for the Assessment years 1992-93 & 1993-94 amounting to Rs25.44 Lakh which has been included under Miscellaneous Income (with interest). The refund orders are awaited for the next two Assessment years 1994-95 & 1995-96. (Financial Year 1997-98)
9. The Company's appeals preferred against the demands made by the Income Tax department in respect of payment of Interest Tax for the Assessment years 1992-93 to 1995-96 have been allowed in its favour and necessary orders have been issued to that effect by the Commissioner of Income Tax (Appeals II), Bangalore. The refund for Assessment years 1992-93 & 1993-94 amounting to Rs25.44 Lakh was received during the previous year and included under the "Miscellaneous Income". The refunds for the subsequent Assessment years 1994-95 & 1995-96 have been received during the current year amounting to Rs60.53 Lakh. In addition, an amount of Rs28.48 Lakh has been retained by the department towards Income Tax Demand for the Assessment year 1992-93. The net refund amount of Rs60.53 Lakh has been classified as "Extraordinary Income" as per the Accounting Standard -5. Accordingly the refund received during the previous year amounting to Rs25.44 Lakh have also been re-classified under "Extraordinary Income". The Company had gone on appeal in respect of the Income Tax Demand of Rs28.48 Lakh and the same was heard on 15-02-1999. It is expected that the appeals would be allowed in the favour of the Company. This amount has been shown under "Contingent Liabilities" as Claims against the Company not acknowledge as debts.(Financial year 1998-99)
10. The Company's appeals preferred against the demands made by the Income Tax department in respect of payment of Interest Tax for the Assessment year 1996-97 have been allowed in its favour and necessary orders have been issued to that effect by the Commissioner of Income Tax (Appeals II), Bangalore, received by us on 15/3/2000. The refund for the same is awaited. As regards the Income Tax Demand of Rs28.48 lakh for the Assessment year 1992-93, we are happy to inform the members that the appeal has been allowed in favour of the Company vide the orders of Commissioner of Income Tax (Appeals II), Bangalore, received by us on 15/3/2000. The refund for this also is awaited. (Financial year 1999-2000)
11. The Company's appeals preferred against the demands made by the Income Tax department in respect of payment of Interest Tax for the Assessment year 1996-97 have been allowed in its favour and the refund of Rs41.69 Lakh (inclusive of interest of Rs4.84 Lakh) has been received during the current year. In respect on the Income Tax Demand for the Assessment year 1992-93, the same has also been allowed in favour of the Company and a refund of Rs35.60 Lakh (inclusive of interest of Rs7.12 Lakh) has been received.





These refunds were appropriately classified under "extraordinary items" in the Profit & Loss Account. The interest Tax Assessment for the Assessment Year 1998-99 has been completed by the department by raising a demand of Rs38.19 Lakh. The Company as in the earlier years has preferred an appeal against the order of the Assessment Officer. This amount has been appropriately shown under claims against the Company not acknowledged as debts in the note 1 (b) supra. (Financial year 2000-2001)

12. The company has received a Demand Notice from Income Tax department for Rs94.89 Lakh pertaining to Assessment year 1997-98 (Financial Year 1996-97) towards disallowance of depreciation claimed (100% Depreciable Asset) on the assets leased to Bellary Steels & Alloys Limited. The Company is however going on Appeal against the said Assessment order of the department. The Interest tax Assessment order for the Assessment Year 1999-2000 (Previous year 1998-99) is yet to be completed by the department. However as in the earlier years the company will be preferring appeals against this order which were allowed in favour of the company in the earlier years. (Financial year 2001-2002)

13. The Company has Created a "Reserve for Contingencies" (Rupees in Lakh)

Year	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Amount	Nil	200.00	125.00	135.00	150.00
Aggregate	Nil	200.00	325.00	460.00	610.00

14. The carrying cost of the investments determined as per RBI guidelines is

Year	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Amount	Nil	3,53,86,750.00	3,53,98,431.00	3,53,86,750.00	3,53,86,750.00

15. Credit Balance in Client's account under Sundry Creditors include Rs4,43,750.28 due to M/s Pearl Metal Products (BLR) Private Ltd for more than 30 days. This amount can be drawn by the client at any time in the normal course of factoring activity. (Financial year 1998-99)
16. Credit Balance in Client's account under Sundry Creditors for more than 30 days include Rs11,896 due to the following:- (Financial year 1999-2000)

	Amount in Rupees
Pearl Metal Products (Bangalore) Ltd	8,433
Vaishnavi Industries	48
Venkateshwara Industries	2,943
Raghavendra Industries	472
<b>Total</b>	<b>11,896</b>

These amounts can be drawn by the client at any time in the normal course of Factoring Activity.

17. The unsecured loans include Inter-Corporate Deposit of Rs965 Lakh, and an amount of Rs443 Lakh & Rs652 Lakh under Public & Exempted Deposits respectively all of which are due within one year. (Financial year 2000-2001)

18. The unsecured loans include Inter-Corporate Deposit of Rs1265 Lakh (previous year Rs965 Lakh), and an amount of Rs523 Lakh (previous year Rs443 Lakh) & Rs225 Lakh (previous year Rs652 Lakh) under Public & Exempted Deposits respectively all of which are due within one year. The other Un-secured Loans namely Commercial Paper, Foreign Currency Line of Credit and Short Term Un-secured Loans are also due within one year (Financial year 2001-02).
19. The Proposed Dividend for the year 2001-2002 is made exclusive of Dividend Distribution Tax. This is on account of the abolition of the said Tax in the Finance Bill of 2002, which is pending approval of the Parliament. (Financial year 2001-02)
20. The company has no dues to any SSI's which are more than 30 days. (Financial Year 2000-01 & 2001-02).
21. The Investments of the Company are classified as long term and these are accounted at face value. The premium paid in excess of the face value is being amortised over the remaining period. The interest accrued but not received on the above investments amounting to Rs17,89,130 has been shown under Current Assets as Interest Accrued but not due. The carrying cost of the above investments determined as per RBI guidelines is Rs3,53,86,750
22. Depreciation for the current year includes an amount of Rs1.74 Lakh relating to the previous year. Miscellaneous Expenses includes loss on sale of assets of Rs0.33 Lakh. Miscellaneous income includes profit on sale of assets of Rs0.03 Lakh. (Financial year 1998-99)
23. There was an excess Depreciation of Rs9.07 lakh in the year 1998-99 which has been adjusted / reduced out of the Depreciation chargeable for the Current year. Miscellaneous income includes profit on sale of Asset of Rs1618 on account of sale of 2 old printers. (Financial year 1999-2000)
24. Miscellaneous income includes profit on sale of asset of Rs1,349.49 on account of sale of old computers and an amount of Rs20,432 being exchange fluctuation (gain) in connection with Export Factoring Business. Miscellaneous expenses includes Rs22,516.83 on account of sale of old batteries and closer of one lease account. Bank charges includes an amount of Rs7,50,000 paid to Canara Bank, R.C road branch as Issuing and Paying Agent Commission, towards issue of Commercial Paper. (Financial year 2000-2001)
25. Miscellaneous income includes an amount of Rs1.78 Lakh (previous year Rs0.01 Lakh) which is on account of profit on sale of Assets and closure of Lease and an amount of Rs0.11 Lakh (previous year Rs0.20 Lakh) being exchange fluctuation (gain) in connection with Export Factoring Business. Miscellaneous expenses include Rs0.30 Lakh (previous year Rs0.76 Lakh) on account of sale of assets. Bank Charges includes an amount of Rs13.13 Lakh (previous year Rs7.50 Lakh) paid to Canara Bank, Madhav Nagar Branch as Issuing and Paying Agent Commission, towards issue of Commercial Paper. The interest earnings includes interest on loan against public deposits. The figures of the previous year have been re-grouped accordingly. (Financial year 2001-2002)





26. The amounts shown below remained as unclaimed deposits. In respect of these deposits no interest shall be paid unless renewed effective from the maturity date. The Company has no unpaid deposits.

(Rs Lakh)

Year ended March 31	1998	1999	2000	2001	2002
Current Year	12.34	19.41	12.64	15.40	22.68
Previous year	8.50	12.34	19.41	12.64	15.40
Number of Deposits	27	38	33	40	37

27. The amount receivable as Lease rentals in the coming years in respect of such lease transactions. The total value of assets given on Lease during the year. The cumulative value of asset given on lease given below

(Rs Lakh)

Year ended March 31	1998	1999	2000	2001	2002
Total asset given on Lease Current	123.39	142.19	NIL	68.94	-
Total asset given on Lease Previous	203.29	123.39	142.19	NIL	-
Cumulative value of asset	347.66	489.86	489.86	558.80	466.10
Lease rentals receivable	393.27	212.25	141.45	122.66	76.88

This includes General Plant & Machinery Rs497.19 Lakh (previous year Rs428.24 Lakh), Computers Rs49.84 lakh (previous year Rs49.84 Lakh) & Rubber Moulds Rs11.78 Lakh (previous year Rs11.78 Lakh). (Financial Year 2000-2001)

This includes General Plant & Machinery Rs416.27 Lakh (previous year Rs497.19 Lakh), Computers Rs49.84 Lakh (previous year Rs49.84 Lakh) & Rubber Moulds NIL (previous year Rs11.78 Lakh). (Financial Year 2001-2002)

28. An amount of Rs7.03 lakh was due from M/s Sri Theepa Pressed Components (P) Ltd towards Lease Rental / Overdue Charges for a period of 4 months. This amount has not been considered as income in our books as a matter of financial prudence. In respect of Bellary Steels and Alloys, an amount of Rs44.82 Lakh (inclusive of sales tax and penal charges) is outstanding, representing 18 months lease rentals. The entire amount has not been recognised as "income" in our books and in order to exhibit this amount as due from them, we have accounted the same as "lease rentals receivable" and correspondingly shown the same under "Lease Suspense" under Current Liabilities. As a measure of abundant caution, we have also provided 10 % on the capital portion of the lease rentals accounted as receivable.
29. Debts Factored included under Current Assets as Sundry Debtors include an amount of Rs34,36,33,957 (Previous Rs36,08,82,187), representing the unpaid balance of the factored debts due to clients after collection. (Financial year 1997-98)
30. Debts Factored included under Current Assets as Sundry Debtors include an amount of Rs53,24,74,932 (Previous Rs34,36,33,957), representing the unpaid balance of the factored debts due to clients after collection. Thus the fund deployed in factoring business is rupees Rs117.58 crore (Financial year 1998-99)
31. There was an amount of Rs16.82 lakh due from M/s Bellary Steels & Alloys Ltd towards Lease Rental / Overdue Charges for a period of 7 months. This amount has not been considered as income in the books as a matter of financial prudence and has been kept under Sundry Liabilities.
32. Debt considered doubtful include the amounts payable to the clients upon realisation of the invoice. This amount has been deducted out of the Debts Factored as 'Due on Collection of Factored Debts'. Therefore, the net amount due from the Client is only the "Funds-in-use." Accordingly, the provision for Non-performing assets has been made only on funds-in-use in tune with the prudential norms of Reserve Bank of India. However, this treatment does not affect the computation of the Net Profit and Net Current Assets of the Company.
33. The Debts considered doubtful include the amounts of margin payable to the clients upon realisation of the debt. This amount has been shown separately under 'Due on Collection on Factored Debts'. Therefore, the provision has been made in tune with the prudential norms of Reserve Bank of India. Only on "Funds-in-use." However, during the previous year debts were classified as 'doubtful' only to the extent of provision made on "Funds in use". The figures of the previous year are therefore, regrouped in order to facilitate comparison. (Financial year 1998-99)





34. As per RBI Guidelines in terms of Accounting Policies No 6, the Debts Factored & Funds-in-use of the Company has been classified as under :-

(Rs)

Year		Standard Asset	Sub-standard Asset	Doubtful Asset	Loss Asset	Total
1997-98	Debts Factored	Nil	Nil	Nil	Nil	Nil
1997-98	Funds-in-use	Nil	Nil	Nil	Nil	Nil
1998-99	Debts Factored	Nil	Nil	Nil	Nil	Nil
1998-99	Funds-in-use	Nil	Nil	Nil	Nil	Nil
1999-00	Debts Factored	175,18,61,596	2,07,07,855	95,45,538	Nil	178,21,14,989
1999-00	Funds-in-use	121,83,24,543	1,00,87,798	70,90,760	Nil	123,55,03,101
2000-01	Debts Factored	250,47,10,447	1,71,59,286	95,45,538	141,24,776	254,55,40,047
2000-01	Funds-in-use	155,61,46,937	85,09,886	68,92,754	88,26,308	158,03,75,885
2001-02	Debts Factored	296,18,86,504	6,14,431	250,04,842	Nil	298,75,05,777
2001-02	Funds-in-use	174,96,60,936	5,11,088	143,88,553	Nil	176,45,60,577

We have provided 100% on Non- Performing Assets during the current year.

35. Provision Others includes provision for sub-standard lease of Rs3,33,247 and provision for leave salary (Direct Recruits of the Company) of Rs3,38,572.
36. The Deposit figure has been segregated into 'Exempted Deposits' (Deposits from Corporate bodies) and 'Public Deposits' (from General Public) in tune with Reserve Bank of India guidelines. However, the interest payable on both the categories have been shown together under 'Current Liabilities & Provisions'. (Financial year 1998-99 & 1999-2000)
37. The Deposit figure has been segregated into 'Exempted Deposits' (Deposits from Corporate bodies) and 'Public Deposits' (from General Public) in tune with Reserve Bank of India guidelines. However, the interest accrued but not due on both the categories have been shown together under 'Current Liabilities & Provisions'. (Financial year 2000-2001 & 2001-2002)
38. Expenditure in Foreign Currencies

(Rs)

Year ended March 31	1998	1999	2000	2001	2002
Travelling	Nil	Nil	1,14,190	Nil	65,205
Import Factor Comm.	Nil	Nil	Nil	18,067	1,13,693
Interest Payments (inclusive of Provision)	Nil	Nil	Nil	Nil	40,32,893
Miscellaneous	Nil	Nil	21,244	8,47,094	8,47,150
Total	Nil	Nil	1,35,434	8,65,161	50,58,941

39. Earnings in Foreign Currencies :

(Rs)

Year ended March 31	1998	1999	2000	2001	2002
Discount charges	Nil	Nil	Nil	Nil	1,25,809
Service, handling charges	Nil	Nil	Nil	Nil	1,70,289
Total	Nil	Nil	Nil	Nil	2,96,098



40. The particulars of provision for bad and doubtful debts are given as under :-

(Rs)

Year		Opening Balance	Provision for the year	Provision written off	Closing Balance
1997-98	Factoring	Nil	Nil	Nil	Nil
1997-98	Leasing	Nil	Nil	Nil	Nil
1998-99	Factoring	Nil	Nil	Nil	Nil
1998-99	Leasing	Nil	Nil	Nil	Nil
1999-00	Factoring	33,48,000	81,88,192	91,08,779	24,27,413
1999-00	Leasing	Nil	Nil	Nil	Nil
2000-01	Factoring	24,27,413	93,10,000	Nil	117,37,413
2000-01	Leasing	Nil	Nil	Nil	Nil
2001-02	Factoring	1,17,37,413	1,12,47,099	80,84,871	1,48,99,641
2001-02	Leasing	3,33,247	29,189	Nil	3,62,436

41. Managing Directors Remuneration

(Rs)

Year			Salary & Allowances	Provident Fund	Total
1996-97	Mr. M.N. Rao	1/4/1996 to 31/3/1997	2,33,424	17,502	2,50,926
1997-98	Mr. M.N. Rao	1/4/1997 to 30/11/1997	1,80,795	11,680	1,92,475
1997-98	Mr. P Ramamoorthy	1/1/1998 to 31/3/1998	54,405	3,690	58,095
1998-99	Mr. P Ramamoorthy	1/4/1998 to 31/3/1999	2,38,338	14,880	2,53,218
1999-2000	Mr. P Ramamoorthy	1/4/1999 to 6/5/1999	26,543	1,585	28,128
1999-2000	Mr. R.Ranganathan	7/5/1999 to 31/3/2000	2,56,433	14,662	2,71,095
2000-2001	Mr. R.Ranganathan	1/4/2000 to 14/3/2001	3,11,372	8,929	3,20,301
2000-2001	Mr. M Krishnamurthy	14/3/2001 to 31/3/2001	25,657	1,838	27,495
2001-2002	Mr. M Krishnamurthy	1/4/2001 to 14/6/2001	62,261	4,473	66,734
2001-2002	Mr. B Sukumaran	18/5/2001 to 31/3/2002	2,89,428	23,146	3,12,574

42. Auditor's Remuneration

(Rs)

Year ended March 31	1998	1999	2000	2001	2002
Audit Fees	40,000	40,000	40,000	40,000	42,000
For Certification	Nil	3200	5,000	17,500	25,100
Out of Pocket Expenses	45,000	35,000	45,000	50,000	50,000
Total	85,000	78,200	90,000	1,07,500	1,17,100

As per the amended section 224 (8)(aa) of the Companies Act, 1956, the remuneration of the Statutory Auditors appointed by C&AG has to be fixed by the Company in general meeting. The appointment of Statutory Auditors for the financial year 01-02 has been communicated by C&AG vide their letter No.CA V/COY/CENTRAL GOVT.COMPCANFAC(1)/173 dated 08/12/2001, together with the remuneration payable. The same procedure was followed by them for the previous year 2000-2001 as well. In view of the above, we intend to obtain the ratification / approval of our shareholders at the ensuing Annual General Meeting with regard to payment of Auditors Remuneration for 2000-01 and 2001-02.

43. None of the employees of the Company are coming within the preview of Section 217 (2A) of the Companies Act, 1956.

44. Certain Balances in Sundry Creditors, Loans and Advances, Debts Purchased and Clients Prepayment Accounts are subject to confirmation.

45. Information with regard to other matters specified in Clauses 3, 4(A), 4(C), and 4(D) of part II of Schedule VI to the Companies Act, 1956 are either NIL or not applicable to the Company.

46. Previous year's figures have been regrouped and recast wherever appropriate and necessary and the figures for both current and previous year are reported rounded off to the nearest rupee.





## ANNEXURE C

### CANBANK FINANCIAL SERVICES LTD

To,  
The Board of Directors,  
Canara Bank  
Head Office  
No.112, J C Road  
Bangalore

Sirs,

As desired for the purpose of certification of Statement of Accounts to be incorporated in the Offer Documents proposed to be issued by Canara Bank in connection with the initial offer of Equity Shares, we state as follows:

1. We have examined the audited Financial Statements of Canbank Financial Services Ltd., (Wholly Owned Subsidiary of Canara Bank), for the five financial years ending with 31<sup>st</sup> March, 2002 being the last date up to which the Accounts have been made and audited by the Auditors of the Company of those respective years.
2. The aforesaid Financial Statements have been prepared in accordance with the Companies Act, 1956.
3. The Profit and Loss account for the five financial years ending on 31<sup>st</sup> March, 2002 and the Balance Sheet as at the end of the respective years and the significant accounting policies are prepared from the aforesaid accounts and making such adjustments and regrouping which were in our opinion considered appropriate, subject to Notes on Accounts as per Audit Reports of respective years and various qualifications made in the Auditors Report of respective years. The figures of five years have been compiled and verified from the Audited Statements of Accounts of the Company.
4. The annexed statements are financial data for five years i.e 1997-98 to 2001-02, Accounting Policies, Notes thereon and Auditors Comments on the same is certified by us.

**For MOORTHY & KANTHARAJ**

Chartered Accountants,

P. Kantharaj

Partner.

Dated: 17.07.2002

Place: Bangalore

**STATEMENT OF PROFITS/LOSSES**

(Rs Lakh)

Year ended March 31	1998	1999	2000	2001	2002
<b>INCOME</b>					
Leasing	1425.10	941.74	586.74	290.33	126.75
Hire Purchase	1.02	0.18	0.00	0.00	0.00
Investments	693.05	2520.79	1099.31	736.62	299.55
Merchant Banking	585.89	0.00	0.00	0.00	0.00
Excess Provision Written Back	249.74	216.63	711.59	233.23	388.98
Interest on Bank Deposits	82.13	708.42	2007.79	2112.59	949.32
Interest on Others	17.04	65.33	7.13	1.16	52.80
Interest on Income Tax Refund	37.02	12.35	474.97	24.70	8.80
Miscellaneous Income	46.82	150.45	99.88	106.34	126.24
Prior Period Adjustments	0.00	0.00	9.68	0.07	4.80
<b>TOTAL INCOME</b>	<b>3137.81</b>	<b>4615.89</b>	<b>4997.09</b>	<b>3505.04</b>	<b>1957.24</b>
<b>EXPENDITURE</b>					
Personnel	138.08	109.56	112.85	93.95	63.81
Director's Sitting Fees	0.00	0.00	0.00	0.05	0.06
Rent	82.37	67.16	66.56	32.47	21.77
Rates & Taxes	9.55	8.81	6.24	7.64	5.06
Electricity	10.17	3.86	2.67	2.03	1.69
Insurance	1.05	0.78	0.70	0.89	0.62
Telephone & Telex	12.08	9.51	5.18	4.20	2.97
Postage & Courier	1.90	1.52	1.27	0.63	0.55
Repairs & Maintenance	14.79	8.09	5.75	5.65	4.20
Travelling Expenses	5.74	4.26	6.27	11.29	6.33
Conveyance	2.78	2.33	2.16	1.50	1.53
Auditors Remuneration including reimbursement of Expenses	0.80	0.63	0.32	0.32	0.47
Brokerage	0.04	0.07	7.48	10.83	14.34
Printing & Stationery	1.96	1.06	0.91	1.37	1.31
Subscription & Membership	1.64	0.57	0.47	0.44	0.38
Legal Expenses	72.83	36.24	116.86	390.59	325.71
Business Development Expenses	0.55	0.31	0.22	0.21	0.18
Interest Tax	3.41	1.17	1.67	0.00	0.00
Miscellaneous Expenses	23.45	40.68	24.35	8.59	53.72
Bad Debts Written Off	81.61	41.40	0.00	0.00	0.00
Loss on Sale of Fixed Assets (Net)	78.37	179.68	289.56	39.53	85.78
Loss on Sale of Investments	0.00	81.16	1365.02	0.00	77.83
Diminution in value of Securities	0.00	117.82	106.43	428.04	0.00
Provision for Doubtful Debts/Advances/Invesments	399.34	187.11	197.93	49.34	2.26
Provision for Contingencies	125.57	0.00	486.77	208.06	0.00
Finance Charges	1664.78	1664.27	1662.40	0.00	0.00
Asset Deficit A/c Written Off	0.00	14259.17	15513.67	7322.49	6076.99





(Rs Lakh)

Year ended March 31	1998	1999	2000	2001	2002
Depreciation	971.00	593.68	170.54	42.17	32.50
Prior Period Adjustments	106.69	1.39	0.00	0.00	0.00
<b>TOTAL EXPENDITURE</b>	<b>3810.55</b>	<b>17422.29</b>	<b>20154.25</b>	<b>8662.28</b>	<b>6780.06</b>
<b>Loss for the Year</b>	<b>672.74</b>	<b>12806.40</b>	<b>15157.16</b>	<b>5157.24</b>	<b>4822.82</b>
Provision for taxation of earlier years (net)	0.00	0.00	0.00	3843.89	51.45
Deficit brought from Last Balance Sheet	5264.53	5937.27	18743.68	33900.83	42901.96
<b>BALANCE DEFICIT CARRIED TO BALANCE SHEET</b>	<b>5937.27</b>	<b>18743.67</b>	<b>33900.84</b>	<b>42901.96</b>	<b>47776.23</b>

**BALANCE SHEET**

(Rs Lakh)

Year	1998	1999	2000	2001	2002
<b>LIABILITIES</b>					
Share Capital	3000.00	3000.00	3000.00	3000.00	3000.00
Unsecured Loans	13160.40	11526.55	11304.82	9420.68	7536.54
Deferred Liability	0.00	0.00	0.00	70334.98	57605.46
Current Liabilities	1303.20	105824.31	104099.10	14093.60	10699.89
Provisions	3562.29	3189.29	3676.90	7883.20	7716.84
<b>TOTAL LIABILITIES</b>	<b>21025.89</b>	<b>123540.15</b>	<b>122080.82</b>	<b>104732.46</b>	<b>86558.73</b>
<b>ASSETS</b>					
Fixed Assets (Net of Lease Terminal Adjustment A/c, Depreciation & Provision)	1531.77	616.39	319.27	248.95	218.71
Investments	1224.03	836.64	673.70	560.01	583.55
Interest Accrued	207.81	1199.13	1697.85	1896.62	107.37
Stock of Securities	5284.38	18541.97	6754.86	3790.45	4160.56
Sundry Debtors	181.33	161.48	124.89	41.62	6.82
Cash and Bank Balances	2130.87	29396.64	34405.45	17908.36	1011.03
Loans and Advances	4528.43	6093.78	5828.27	6897.35	8386.52
Miscellaneous Expenditure - Asset Deficit A/c	0.00	47950.44	38375.70	30487.14	24307.95
Profit & Loss A/c	5937.27	18743.68	33900.83	42901.96	47776.23
<b>TOTAL ASSETS</b>	<b>21025.89</b>	<b>123540.15</b>	<b>122080.82</b>	<b>104732.46</b>	<b>86558.74</b>



**SIGNIFICANT ACCOUNTING POLICIES FORMING PART OF  
ACCOUNTS FOR THE PERIOD FROM 1<sup>ST</sup> APRIL 1997 TO 31<sup>ST</sup>  
MARCH 2002**

**1. Fixed assets**

Fixed Assets, including assets given on lease, are stated at historical cost, net of accumulated depreciation, Lease terminal adjustment Account and Provisions.

**2. Investments**

**2.1**

- a. Investments comprising Government Securities, Shares, Debentures, Bonds, Mutual Funds and UTI instruments, etc., are stated category-wise and further classified into "Permanent" (Non-trade) and "Current" (Trade) depending upon whether they are meant for Holding / Trading.
- b. Cost includes acquisition charges such as Brokerage, Stamp Charges, Fees, etc., and in respect of devolved securities, excludes the related underwriting commission / brokerage/ front-ended commission.
- c. Premium on acquisition of permanent investments is amortized pro-rata from the date of acquisition till the maturity of such investments, while discount on acquisition of such investments is ignored.

**2.2 Valuation**

Investments are valued category-wise as detailed below:

- a) Quoted Scrips are valued at Market value.
- b) Unquoted Scrips (except Shares and Debentures) are valued on Yield to Maturity method.
- c) Unquoted Shares and other Capital Market instruments are valued at lower of cost or Book value ascertained from the latest available Balance Sheet of the Company and in case of non-availability of Book value, the total investment in such Company is considered at Re.1.
- d) Unquoted Debentures and other debt papers are valued at carrying cost, if interest has been serviced regularly; otherwise, by applying prudential norms of Reserve Bank of India in relation to the non-performing assets.
- e) Quoted but not traded Scrips are classified as unquoted and valued accordingly.
- f) Investments in Mutual Fund instruments are valued at Market value, or in its absence at the Net Asset Value declared by the Mutual Fund in respect of each scheme.
- g) Investments in subsidiaries and sponsored institutions are valued at Book value as ascertained from the latest available Balance Sheet of the Company or at carrying cost or at Market quote, whichever is less.

Based on the above valuation under each category, if the resultant figure is depreciation, the same is charged to the Profit and Loss account, and if it is appreciation, the same is ignored.

- 2.3 In respect of investments, both permanent and current, if in the opinion of the Management, the value thereof has been permanently impaired, then full provision has been made to the extent of such impairment.

**3. Asset deficit account:**

This policy is effective from accounting year 1998-99 onwards.

The deficit arising out of the settlement with erstwhile PMS / CIAS constituents being excess of liability accepted over and above the tranche balance and the diminution in the value of the assets taken over as compared to the Book value, is shown as "Asset Deficit Account".

- a) In respect of investments and assets taken over from erstwhile PMS / CIAS constituents, the increase in the Market value of such assets as compared to the value at which it is taken over is recognized on their realization and is adjusted to the "Asset Deficit Account", whereas the loss is charged to Profit and Loss account.

The balance in Asset Deficit Account, after the above adjustment, is being written off over a period of time in direct proportion to the length of the repayments period.

- b) The Investment taken over are valued every year as per the Accounting Policy.

**4. Revenue recognition**

**4.1 General**

Income is generally recognized on accrual basis, except in respect of Non Performing Assets, which is recognized on actual realization as per RBI guidelines issued from time to time.

**Lease Finance**

- a) Lease Rentals are accounted on the basis of the Schedules attached to the Lease Agreements on accrual basis with a corresponding adjustment of Annual Lease Equalisation and Statutory Depreciation charge, over the Lease term, and the Lease Terminal adjustments being recorded at the end of each year.

This is in consonance with the Guidance Note on "Accounting for Leases" issued by the Institute of Chartered Accountants of India for the assets capitalized on or after April 1, 1989.

- b) Front ended Lease Management Fees and other service charges are considered as income in the year in which the Lease Agreements are executed.

Points 4.2 to 4.5 mentioned below are for the accounting year 1997-98 & 1998-99 only

**4.2 Hire Purchase**

EMIs are recovered as per the Schedules forming part of the Hire Purchase agreements and out of EMIs due, income recognition is based on Actuarial Method.





#### 4.3 Broking

- Income is recognized on the basis of contracts.

#### 4.4 Profit/Loss On Sale Of Securities

Profit/loss on sale of securities is accounted on the basis of contracts.

#### 4.5 R & T Services

Income is recognized based on the estimated work executed/ service rendered.

### 5. Depreciation

#### 5.1 Assets given on Lease

##### a) Assets acquired prior to April 1, 1988

Depreciation is provided on Straight-line method as per Section 205 (2)(b) of the Companies Act, 1956 considering the specified period as determined at the time of acquisition.

##### b) Assets acquired on or after April 1, 1988

- (i) Depreciation is provided on Straight-line method at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956.

OR

In the ratio of Lease Rentals for the year to the Lease Rentals for the entire primary period of the Lease by charging / writing-off 95% of the cost of the Leased Assets over such primary period, as stated in the Lease Agreements, whichever is higher.

##### (ii) Additional Provisioning for Lease Accounts

In respect of Non Performing Assets, additional provision at the rates specified below, are made on the Net Book value (NBV). The Net Book value means depreciated Book value of the Leased Assets as adjusted by the Balance of Lease Terminal adjustment account.

#### ● Current and outstanding Leases

a. Where any amount of Lease Rentals are overdue up to 12 months	Nil
b. Where any amount of Lease Rentals are overdue for more than 12 months but up to 24 months	10% of the Net Book Value
c. Where any amount of Lease Rentals are overdue for more than 24 months but upto 36 months	50% of the Net Book Value.
d. Where any amount of Lease Rentals are overdue for more than 36 months	100% of the Net Book Value.

#### ● Completed Leases

On the expiry of a period of 12 months after the due date of the last installment of Leased Asset, the entire Net Book value is provided for.

#### 5.2 Other Assets

Depreciation is provided on the Written Down Value method at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956.

#### 6. Retirement Benefits:

Gratuity: Provision for Gratuity in respect of eligible employees of the Company is made on accrual basis for actual liability upto the year end; and in respect of Deputationists, the same is made on accrual basis for actual liability for each completed year of service rendered in the Company.

Accrued Privilege Leave: Liability for encashment of unavailed Privilege Leave of employees is provided on accrual basis for actual liability on the basis of accumulated / unavailed leave entitlement upto the year end; and in respect of Deputationists, the entitlement is based on the period of Deputation to the Company.

NOTE: The Policy for all the previous five Accounting Years is the same, except where specific mention has been made year-wise as above.



# NOTES FORMING PART OF ACCOUNTS FOR THE PERIOD FROM 1<sup>ST</sup> APRIL 1997 TO 31<sup>ST</sup> MARCH 2002

## I. GENERAL

### A. Contingent Liabilities etc., on account of:

(Rs lakh)

As At	31.03.2002	31.03.2001	31.03.2000	31.03.1999	31.3.1998
Claims against the Company not acknowledged as debt (*)	28280(**)	23086	23158	23158	65482
Outstanding Letter of Credit / Guarantees etc	50	46	46	46	46

(\*) These include -

1. Interest claimed upto the filing of suits and since the matters are subjudice, claims for further interest etc., are not considered.

(\*\*)

2. Claims from custodian to the extent of Rs5,451 lakh exclusive of interest Rs13,573 lakh thereon.

### B. Sales Tax on Lease Rentals:

1. Liability towards Sales Tax in respect of Lease Rentals has been setup based on Assessment Orders, wherever completed, Returns filed and opinion obtained from Consultants.
2. The Company has filed Appeals against some of the orders involving an amount of Rs17.32 lakh (\*). Since these amounts are recoverable from Lessees in terms of the Lease Agreements, provision for such liability has not been made in the accounts. Provision has also not been made towards penalty of Rs13.20 lakh (\*) against delayed / non Liability towards sales tax in respect of Lease Rentals has been setup based on -payment of tax. Some of the Appeals have been disposed off in favour of the Company and consequential Assessment Orders are awaited. Further, based on opinions, the Company is confident of succeeding in remaining Appeals against the demand.

(\*) Previous years:

(Rs Lakh)

	As at 31-3-01	As at 31-3-00	As at 31-3-99	As at 31-3-98
Appeal amount	17.32	22.64	22.64	22.64
Penalty	13.20	22.18	22.18	22.18

### C. Income Tax and Interest Tax:

Provision has been made in the Accounts on the basis of completed Assessment, Returns filed and opinion obtained from Consultants. However in respect of disputed Income Tax and Interest Tax demand of Rs121.30 Lakh (\*) no provision has been made, as the company is confident of succeeding in the appeals.

(\*) Previous years:

(Rs Lakh)

	As at 31-3-01	As at 31-3-00	As at 31-3-99	As at 31-3-98
Income Tax	-	2619.94	3896.60	286.03
Interest Tax	-	-	-	-

- D. The Company has continued to provide medical benefits to all the employees as in the past.

The Mumbai branch of the Company has been registered under the ESI Act in respect of employees working in that branch. There was a demand from ESI, Mumbai for Rs7.51 Lakh for which the Company has filed an appeal with ESI Corporation, Mumbai. Their reply is awaited.

Notice has been received from the Deputy Director (Inspection), ESI Regional Office, Karnataka, directing the Company to register under the ESI Act, The Company has sought exemption under ESI Act from the Karnataka State Government. Their reply is awaited.

In the meanwhile, the ESI has passed an order, holding that the company is covered under the ESI Act. Against the above order, the Company has filed petition before the ESI court and the same is admitted. The liability if any, in this regard at present undeterminable.

- E. The Company has preferred an appeal before the Supreme Court against the Orders of the Hon'ble Special Court, Mumbai decreeing the Company to pay a sum of Rs6392.70 Lakh to Citibank in a securities transaction. The Company has however recognized the entire liability in the Accounts in the Accounting year 1995-96 and discharged the liability in the Accounting year 1996-97. The appeal is still pending.

- F. During the Accounting Year 1996-97, the Company had received a sum of Rs14754.13 Lakh from State Bank of Saurashtra (SBS), consequent upon the Interim Order passed by the Hon'ble Supreme Court in an Appeal filed by them against the decree of the Hon'ble Special Court, Mumbai in favour of the Company in a matter relating to delivery of 500 Lakh units of Unit Trust of India 1964 scheme. Out of this amount, a sum of Rs2855.09 Lakh stands allocated to two outstanding PMS / CIAS clients. During 2001-02 the Supreme Court has disposed off the case by modifying the monetary value of the decree to the sum already paid by the SBS under the decree. Therefore no further sums are receivable under the decree.





#### G. Special Court Petition 74/95

In a suit filed against the erstwhile Dealers of Canfina and other parties, relating to a conspiracy to defraud Canfina in a security transaction in May 1992, the Special Court at Mumbai has decreed the Suit whereunder the sum of Rs6176.45 Lakh became payable as on 28.4.2001. The transaction involved a sale of security at off-market prices and purchase back of the same at market / fair prices.

Appeals have been filed by the defendants, in the Supreme Court of India, against the judgment of the Special Court and the same is pending before the Supreme Court.

On an application made by Citibank, one of the Appellants, the Supreme Court acceded to the request of the Citibank to deposit the sum in Canara Bank to be dealt in accordance with the outcome of the Appeal. The CitiBank has deposited the money with Canara Bank on 28.4.2001. Accordingly therefore, the decreed amount including interest thereon, is not recognized in the Books of Account of the Company.

#### H. On R & T Activities:

The company had been carrying on R&T Agency activity from 1987. Application for grant of certificate of Registration was made out with SEBI in May 1992 as per SEBI Act, 1992. The Company's networth became negative in the year 1995-96 and hence registration could not be pursued further. During February, 1997 while rejecting the application, the SEBI communicated to the company to discontinue the activity. However, in response to the representation made by the company SEBI granted time till 31.12.97 for cessation of this activity.

On cessation of R&T activities, the Company had, under a MOU signed with Canbank Computer Services Ltd., (CCSL) allowed the latter Company to utilize the infrastructure facilities for a monthly rent of Rs6.23 Lakh for a period of 5 years commencing from 1.1.1998. The Lease Rentals so received have been accounted under Miscellaneous Income. However the agreement was terminated on 1.4.2001. Consequently the assets used by them are sold to CCSL at book value.

#### II. BALANCE SHEET

A. 1 The Company continued to manage funds for and on behalf of the customers under Portfolio Management Scheme (PMS) and Corporate Investment Advisory Services (CIAS) accepted in the earlier years. The amount of such funds outstanding as at the year-end excluding the accounts where the Company had entered into an Agreement for repayment of the amount is Rs38946.56 Lakh (\*) against which equivalent book value of assets are held. The approximate market value of these assets is Rs32440.54 Lakh (\*) which includes 503.58 Lakh units of Unit Trust of India 1964 scheme (cost Rs8382.67 Lakh – market value Rs3197.77 Lakh), being a part of 2600 Lakh units receivable from Bank of Karad (under liquidation) under a purchase transaction.

In respect of this, the Company has filed a suit and the same is pending in the Hon'ble Special Court, Mumbai.

Considering their nature, the said liability and corresponding assets do not form part of, and have not been incorporated in the Accounts of the Company.

(\*) Previous Years

(Rs Lakh)

	As at 31-3-01	As at 31-3-00	As at 31-3-99	As at 31-3-98
Outstanding amount	36361	69550	85451	171324
Market Value	34501	67102	76226	157138

#### 2. Securities tied to PMS / CIAS tranches include :-

- a) Cancigo, a non-transferable Mutual Fund instrument (Face Value Rs161.15 Lakh Book Value Rs290.39 Lakh) (\*), being a part of Face Value Rs3300 Lakh under a purchase transaction held in the name of other parties and purchased from a Broker who was subsequently notified under the Special Court (Trial of Offences relating to Transactions in Securities) Act, 1992.

A Petition was filed before the Hon'ble Special Court to declare that the Cancigo investment is the property of the Company and cannot be attached under the provision of the Special Court Act. The Hon'ble Special Court has however, taken the view that it is a money claim which would fructify at the time of distribution of related assets of the said notified Broker. An Appeal has been filed before the Hon'ble Supreme Court against the Order of the Hon'ble Special Court and the same has been admitted.

(\*) Previous years

(Rs Lakh)

	As at 31-3-01	As at 31-3-00	As at 31-3-99	As at 31-3-98
Face Value	161	2706	2706	3300
Book Value	290	4249	4249	5407

- b) The following Bonds purchased from two Banks being a part of a set of purchase transaction in respect of which the Company hold no document of title :-

As on 31-3-2002, As on 31.3.2001 and As on 31.3.2000

(RsLakh)

Particulars	Face Value	Book Value	Market Value
13% DVC Bonds	2081.31	1837.14	2081.31
13% CIL Bonds	657.66	592.03	657.66

As on 31-3-1999

(RsLakh)

Particulars	Face Value	Book Value	Market Value
13% DVC Bonds	2124.74	1883.27	2124.74
13% CIL Bonds	1374.86	1211.72	1374.86

As on 31-3-1998

(RsLakh)

Particulars	Face Value	Book Value	Market Value
13% DVC Bonds	2850	2642	2850
13% HPF Bonds	500	467	500
13% CIL Bonds	1800	1598	1800





However, Suits have been filed and are pending in the Hon'ble Special Court against the said Banks.

- c) Tainted securities amounting to Rs167.65 Lakh (\*) (Market Value Rs197.48 Lakh) (\*)

(\*) Previous Year

(RsLakh)

	As at 31-3-01	As at 31-3-00	As at 31-3-99	As at 31-3-98
Book Value	167.66	167.00	166.96	856.00
Market Value	243.90	324.00	442.18	1235.00

- d) Cancelled / forfeited PSU Bonds (matured for redemption) having an aggregate Book Value of Rs5105.20 Lakh, (\*) Face Value of Rs4091.41 Lakh (\*) and Market Value of Rs4091.41 Lakh (\*). In respect of these Bonds the aggregate interest not paid by the PSUs upto the date of maturity works out to Rs5121.84 Lakh. (\*)

(\*) Previous Year

(Rs Lakh)

Status	As at 31-3-01	As at 31-3-00	As at 31-3-99	As at 31-3-98
Book Value	5105	5105	5169	7864
Face Value	4091	4091	4195	7415
Market Value	4091	4091	4195	7665
Interest Not paid	5122	5122	5242	5531

3. To meet the obligations to PMS / CIAS constituents, certain corresponding securities were transferred to Canara Bank at Book Value under arrangements as per which, the cost of funding and incidental expenses as well as profit / loss that may ultimately arise on disposal of the same would not be on account of the said Bank. Bonds issued in the earlier years by PSUs and held under such arrangements have been unilaterally cancelled / forfeited / withheld for transfer (Face value Rs19999.82 Lakh) (\*).

(\*) Previous Years:-

(Rs Lakh)

	As at 31-3-01	As at 31-3-00	As at 31-3-99	As at 31-3-98
Face Value	19999	19999	30799	71444

The said action is disputed and / or the subject matter of litigation, where the Company is named as the second Respondent. Since the transactions under the arrangements have nexus to PMS / CIAS operations, the related funding cost and incidental expenses etc., are to be charged to PMS / CIAS constituents. Amounts aggregating to Rs15679.08 Lakh have already been so charged upto the year end 31.3.1994.

The net funding cost and incidental expenses, etc., communicated by the said Bank (Rs9521.51 Lakh upto 31.3.2002(\*)) do not include interest receivable in respect of the said Bonds; and had the same been considered (Rs22277.64 Lakh upto 31.3.2002 and Rs337.79 Lakh for

the year (\*)), the costs / expenses communicated for the year 2001-02 (Rs1240Lakh (\*)) would not have arisen, and has, accordingly not been accounted / recorded.

(\*) Previous Years

(Rs Lakh)

	As at 31-3-01	As at 31-3-00	As at 31-3-99	As at 31-3-98
Net Funding Cost	9602	8442	11890	26229
Int.Recble.Cumulative	21939	21580	33032	39509
Int. Recble. Cur.Year	360	360	4916	9934
Cost/Exps. Cur. year	2299	3420	1788	6217

4. Bonds issued by the PSUs (PMS / CIAS constituents) and allocated to the tranches have been unilaterally cancelled / forfeited / withheld in the earlier years by these PSUs. Based on legal opinion, these cancelled / withheld / forfeited Bonds allocated to other tranches have been re-allocated to the respective PMS / CIAS constituents in earlier years who have cancelled / forfeited the Bonds.

- 5 a. The Company had made an offer to the PMS / CIAS constituents to take delivery of assets / securities available in their respective tranches or to accept the proceeds thereof on sale / realization. During the years 1998-99 and 1999-2000 the Company had, with the intervention of the parent Bank, Canara Bank and the Ministry of Finance, Government of India, executed agreements with three Public Sector Undertakings (PSU) clients agreeing to repay crystallized liability aggregating to a sum of Rs115284.22 Lakh in eight installments. The payments made in terms of Agreement during the year amounted to Rs12729.51 Lakh (cumulative Rs57678.76 Lakh (for previous year Rs44949.24 Lakh)) from Company's own resources.

On 10.4.2000, a Tripartite Agreement has been entered into with one more PSU client viz NTPC, Canara Bank and the Company. In terms of the Agreement, the PSU has paid net amount of Rs4629.38 Lakh to Canara Bank in full and final settlement of all mutual disputes. As per the Agreement, this PSU shall have no claims against the Company in respect of the monies invested by this PSU in the Company.

In consequence of this Agreement, Canara Bank has also claimed from the Company a sum of Rs20072.87 Lakh being the Book value (Face value Rs21145 Lakh) of withheld Bonds receivable from this PSU as against the Book value of assets of Rs16903.21 Lakh (Market Value Rs10955.14 Lakh) held in the investment tranche of this PSU.

The Company had recognized the above claim made by the Bank in the Financial Accounts of the Company during the year 1999-2000 and discharged the liability to the Bank to the extent of Rs10486.11 Lakh. However deficit arising on account of this settlement amounting Rs9117.73 lakh (difference between net claim and realizable value of assets held in the tranches) has been written off.

Based on legal opinion, the assets allocated to these PMS tranches have been accounted for in the Books of Accounts of the Company.





The Deficit of Rs30487.13 Lakh (\*) in the Asset Deficit A/c. as on 31.3.2001 has been reduced to Rs30384.93 Lakh (\*) as per the Accounting Policy, on account of higher realization as compared to the value at which these assets were accounted for in the Books earlier. Further as per the policy, a sum of Rs6076.98 Lakh (\*) has been written off during the year.

(\*) Previous Years:- (Rs Lakh)

	As at 31-3-01	As at 31-3-00	As at 31-3-99	As at 31-3-98
Opening Asset Deficit A/c	38375.69	47950.44	0	-
Closing Asset Deficit A/c	30487.13	38375.69	47950.44	-
Charged to P&L A/c	7322.48	15513.67	14259.17	-

5 b. Settlement with Bongaigaon Refineries and Petrochemicals Ltd (BRPL) and Oil Industries Development Board (OIDB)

In the meeting held under the auspices of the Joint Secretary (BO) in the Office of Department of Economic Affairs, Government of India, an understanding has been reached with BRPL and OIDB to settle their PMS / CIAS investments. In terms of the understanding, the Company has agreed to pay an amount of Rs27450 Lakh (BRPL – Rs2408 Lakh and OIDB Rs25042 Lakh).

The amount is payable by way of down payment of Rs5000 Lakh and the balance Rs22450 Lakh within a period of 3 months from the date of signing of the Agreement. Accordingly, the Company had entered into an Agreement with these PSUs and paid Rs5000 Lakh (Rs2408 Lakh to BRPL as full and final settlement and Rs2592 Lakh to OIDB as part payment) as agreed. The balance amount of Rs22450 Lakh has also been paid during the year as per the agreement by partly disposing the assets held under the investment accounts of the above PSUs and partly from Company's own resources. The Company has booked losses on account of these settlement in the year 2000-01. Out of the amount paid by the Company from its own sources, to the extent recoverable (Rs1290.37 Lakh) from the securities still to be disposed off is shown as receivable from PMS/CIAS accounts. The market value of the above securities as on 31.03.2002 is Rs1438.87 Lakh.

The company has also agreed with OIDB & BRPL that in so far as the securities locked up in court cases which stand allocated to their tranches are concerned, they will be made over to them as and when they are realised. The face value of such assets is Rs6627.44 Lakh & Rs1215.54 Lakh respectively.

6. PMS / CIAS Investment of Mahanagar Telephone Nigam Limited (MTNL) and Power Grid Corporation of India Limited (PGC)

In the meeting held under the auspices of the Special Secretary (Banking), Ministry of Finance, Department of Economic Affairs, Government of India, an understanding had

been reached with 2 of the PMS / CIAS clients namely MTNL and PGC to settle the disputes. In terms of the understanding, the Company has agreed to pay an amount of Rs23797.81 Lakh to MTNL and Rs13702 Lakh to PGC. The Company has also agreed to pay to PGC further Rs1969 Lakh in 2 installments. The Book value of the investments in the PMS / CIAS tranche as at the year end is Rs36098.67 Lakh (MTNL Rs24093.51 Lakh and PGC Rs12005.16Lakh) and the realizable value is Rs22766.11 Lakh (MTNL Rs15702.04 Lakh & PGC Rs7064.07 Lakh).

Simultaneously, both MTNL and PGC are to pay to Canara Bank sum of Rs41600 Lakh (MTNL Rs34700 Lakh & PGC Rs6900 Lakh) and to the Company Rs9213.95 Lakh (MTNL Rs2178.95 Lakh & PGC Rs7035 Lakh) being the maturity value of Bonds withheld / cancelled by these PSUs inclusive of interest.

However, formal Agreement is yet to be entered into and these PSUs have sought further discussion and negotiation. The matter is still pending. Canara Bank has sought collateral security to the extent of the Bonds sold by the Company to them under the Rescue Operation. Pending final settlement, the Company has accordingly pledged the assets standing in the respective investment tranches as collateral security to the Bank. The pledged assets includes equity shares which stands transferred in Canara Bank's name.

B. Current Assets – Stock of Securities

These include,

1. Tainted shares (Book value Rs437.90 Lakh against which full provision has been held), acquired / routed through the persons notified under the Provisions of Special Court (Trial of Offences relating to Transaction in Securities) Act, 1992.
2. 4.10 Lakh shares of Reliance Industries Ltd., (Book value Rs377.93 Lakh against which full provision has been made) deposited and transferred in the name of Official Receiver (including Bonus shares @1:1 received subsequently) pursuant to the directions issued by the Hon'ble High Court, Calcutta in a matter relating to securities transactions with a Broker.

III. PROFIT & LOSS ACCOUNT

1. The Executive Director is on secondment from Canara Bank and his remuneration is paid / provided in accordance with the Service Rules of the said Bank and as per Section 198 and 269, read with Schedule XIII of the Companies Act, 1956.
2. Included in the Profit & Loss account is remuneration paid to the Executive Director Rs3.25lakh (\*) ( Managing Director) including contribution to Provident Fund Rs0.21 Lakh (\*) (including Managing Director) and other allowances Rs0.07 Lakh (\*) (including Managing Director) .

(\*) Previous Year

Rs In Lakh

	As at 31-3-01	As at 31-3-00	As at 31-3-99	As at 31-3-98
Aggregate Amount	3.21	2.90	2.22	2.35
Cont. to PF	0.26	0.18	0.13	0.15
Other Allow.	0.01	0.02	0.06	0.07
Arrears	—	0.59	—	—





3. Dues to Small Scale Industries (SSIs) units more than 30 days and where such balance exceeds Rs1 Lakh is Nil (Previous year - Nil).

4. The networth of the Company is negative by Rs69084.18 Lakh (previous year is Rs70389.09 Lakh). This is mainly on account of the fact that the Company had entered into Agreement with 6 of the PMS / CIAS PSU clients. In terms of the Agreement, the Company has assumed liabilities payable over a period of time as indicated in Note No.II A.5.a & 5.b. The liabilities accepted are in excess of the realizable value of the assets held in the investment tranches. As on 31.03.2002, the Company has fully discharged its schedule of commitments under the Agreements.

In order to meet the envisaged shortfall by the Company from the year 2002-2003 onwards, Canara Bank, the Parent Bank, has created a contingency provision from the year 1998-99 onwards by estimating the shortfall of Rs63866 Lakh. As on 31.3.2002, the Bank has, based on NPV method, made a provision of Rs43200 Lakh in their Books. The balance of the shortfall will be provided for by the Bank, as required, in the ensuing years. In addition to the above, the Bank has also made full provision for the dues, if any, from the Company to the Bank towards deficit on account of the settlement with one of the above 6 PSUs. Hence, the Company is confident of meeting its commitments without any difficulty. It is expected that the entire liabilities would be liquidated by the year 2006-2007, with the realization of the assets including those, which are disputed and stuck up in the Court cases. Further, the Company is pursuing the matter with the remaining 2 PMS / CIAS - PSU clients to resolve disputes and the Company is hopeful of reaching amicable settlement during the ensuing years.

The Company down sized its activities as a Non-Banking Financial Company, as the capital adequacy requirement under the relevant RBI guidelines is not being met. The Company plans to draw up the future business plan after the settlement of disputes as aforesaid is completed.

5. Previous year figures have been re-grouped / re-classified / re-casted wherever necessary. Hence the previous year figure are not strictly comparable with those of the current year.

Additional notes relating to profit & loss account for earlier years is given below, year-wise:

#### For 2000-01

During the year the company has introduced VRS to down size the staff strength. The scheme was in force upto 30-4-2000. The ex-gratia amount paid to employees amounting to Rs30.41 Lakh has been accounted under salary.

#### For 1999-2000

During the year company has changed the method of valuation for investments in sponsored institutions. The investments in sponsored institutions is valued at book value as ascertained from the latest available Balance Sheet of the company or at carrying cost or at market quote, whichever is less, instead of carrying cost. Due to the above change, the loss for the year is increased by Rs82 Lakh.

#### For 1997-98

a) The Company had, in an earlier year, accepted from a PSU, an Inter Corporate Deposit (Rs15000 Lakh) and besides discharging its liability towards interest till the date of maturity as per applicable terms and conditions, has further repaid Rs3502 Lakh thereafter.

The Company has negotiated to repay the outstanding liability and as per the terms of the understanding reached in the meeting held on 12.8.98 in the Office of the Special Secretary (Banking) Ministry of Finance, Govt. of India, it is agreed to pay interest @ 12% p.a. from the original date of maturity i.e., 24.7.92 to 31.12.95 and the outstanding amount including interest as agreed in repayable over a period of 8 years in the form of 20% down payment before 30.09.98 and the balance in seven annual installments commencing from 30.09.99.

The total interest payable works out to Rs4987 Lakh which the Company has decided to absorb over a period of 3 years and accordingly a sum of Rs1662 Lakh has been accounted under 'Finance Charges' during the financial years 1997-98, 1998-99 and 1999-2000.

b) Consequent to the judgement of the Hon'ble High Court of Karnataka in the matter of applicability of the Employees Provident Fund and Miscellaneous Provisions Act, 1952 to the Company and the orders passed by the Regional Provident Fund Commissioner, Karnataka the Provident Fund contributions have been transferred to the Provident Fund Commissioner, Karnataka on 18.9.97 for future management and the hitherto managed CANFINA Staff Provident Fund Trust has been terminated w.e.f. 19.9.97.

c) Income from Funds Management includes Rs40 Lakh representing income relating to earlier years accounted during the year consequent upon settlement with the parties.

d) Income from Funds Management also includes Rs167 Lakh being amount receivable from M/s. NGEF Ltd., (A Government of Karnataka Undertaking). In terms of the BIFR orders this amount is due for payment in four annual equal installments commencing from 1<sup>st</sup> September, 1999.

Pending implementation of BIFR package by M/s. NGEF Ltd., full provision has been made for the amount receivable as a matter of prudence and abundant caution.

#### AUDITORS' QUALIFICATION FOR WHICH ADJUSTMENT COULD NOT BE CARRIED OUT

We have examined the audit reports for the year 1997-98 to 2001-2002. It is noticed that, in each year's report, it is stated that "considering the factual & legal complexities involved which are narrated in each year & also taking into account the impacts of the same on accounts, they are unable to express any opinion on

a) Whether the Balance Sheet gives a true & fair view of the state of affairs of the company as at 31<sup>st</sup> March of each year and

b) Whether the Profit & loss Account gives a true & fair view of the loss of the company for the year ended on that date of the each year.





#### ANNEXURE D

##### CANBANK INVESTMENT MANAGEMENT SERVICES LTD.

We have checked the attached statement of accounts for five years prepared by Canbank Investment Management Services Limited which is to be incorporated in the offer document proposed to be issued by Canara Bank in connection with the initial offer of Equity Shares. We state as follows: -

1. We have reviewed the audited financial statements of Canbank Investment Management Services Limited for the five financial years ending with 31<sup>st</sup> March, 2002 being the last date upto which the accounts have been made and audited by the auditors of the Company of those respective years. The Annual Accounts for the year ending 31<sup>st</sup> March, 1998, 1999 and 2000 have been audited by other audit firms and for the year ending 31<sup>st</sup> March, 2001 and 2002 have been audited by us.
2. The aforesaid financial statements have been prepared in accordance with the Companies Act, 1956 and as per SEBI Regulations issued from time to time and subject to the limitations for disclosure required therein.
3. The attached statement has been compiled from Profit and Loss Account for the five financial years ending on 31<sup>st</sup> March, 2002 and the Balance Sheet as at the end of the respective years and the significant accounting policies and notes on accounts from the aforesaid annual accounts after making such adjustments and regrouping which were in our opinion considered appropriate, subject to notes on accounts as per audit reports of the respective years and various comments made in auditor's report of respective years.

**For Mukund M. Chitale & Co.**

Chartered Accountants

(M.M. Chitale)

Partner

Dated: 9 July 2002

Place: Mumbai



# STATEMENT OF PROFITS / LOSSES

(Rs Lakh)

Year ended March 31	1998	1999	2000	2001	2002
<b>INCOME</b>					
Management Fees	1788.85	1227.54	1249.98	934.25	781.46
Dividend	0.00	0.00	0.00	16.56	263.20
Interest	277.43	277.76	230.25	234.34	126.07
Profit on sale of Investments	6.84	3.25	27.06	0.00	0.00
Profit on sale of Assets	0.65	0.12	0.00	0.00	0.00
Miscellaneous Income	17.52	0.13	0.02	0.05	47.67
<b>TOTAL INCOME</b>	<b>2091.29</b>	<b>1508.80</b>	<b>1507.31</b>	<b>1185.20</b>	<b>1218.40</b>
<b>EXPENDITURE</b>					
Employee's Remuneration & Benefits					
- Salaries, Bonus and Other Allowances (for the year 1997-98 includes arrears due to salary revision Rs. 18.43 lakhs )	189.41	188.74	196.97	195.85	197.34
- Contribution to PF, Group Gratuity and Other Funds	26.40	26.91	27.03	20.79	23.92
- Other Welfare Expenses	31.99	40.74	36.04	36.45	43.45
Advertisement and Publicity	42.36	14.45	32.84	26.37	14.09
Computer Software & Development	0.00	19.57	15.96	11.56	5.38
Depreciation	138.60	122.35	112.98	101.27	91.45
Director Sitting Fees	0.00	0.90	0.60	0.61	0.72
Donation :					
- National Defence Fund	0.00	0.00	5.00	0.00	0.00
- Others	0.00	0.07	0.32	15.93	0.00
Electricity Charges	24.74	22.67	29.57	26.52	24.27
Insurance	0.82	0.99	1.00	0.96	1.00
Legal and Professional Charges	8.08	2.84	4.20	1.59	14.31
Loss on sale of Investments	0.00	0.00	0.00	3.00	13.39
Loss on sale of Assets	0.00	0.00	1.44	0.08	0.35
Miscellaneous Expenses	28.80	16.25	17.78	28.90	41.76
Preliminary Expenses written off	0.60	0.60	0.60	0.60	0.60
Payment to Statutory Auditors					
- Audit Fee	0.75	1.05	1.05	1.05	1.05
- Reimbursement of Expenses	0.00	0.00	0.00	0.00	0.02
Payment to Other Auditors					
- Internal Audit, Tax Audit, Certification Charges etc.	13.97	11.66	11.48	10.62	5.61
Postage, Telegrams & Telephone	41.34	31.81	31.91	28.67	30.38
Printing & Stationary	20.68	17.38	16.24	18.26	18.47
Rates & Taxes	2.17	0.54	7.62	60.23	44.97
Rent (for the year 1997-98 includes arrears due to rate revision Rs. 44.59 lakhs )	276.14	290.21	291.51	241.94	188.77
Repairs & Maintenance					
- Buildings	8.10	9.35	10.72	15.06	9.13
- Others	52.39	29.49	33.83	39.02	43.09
Scheme Expenses	0.00	21.87	19.90	9.71	48.49
Service Charges	39.89	39.00	39.00	0.00	0.00





(Rs Lakh)

Year ended March 31	1998	1999	2000	2001	2002
Travelling & Conveyance	25.53	24.53	23.56	25.12	25.81
Write off in diminution in value of investments	0.00	0.00	0.00	0.00	0.81
<b>TOTAL EXPENDITURE</b>	<b>972.76</b>	<b>933.97</b>	<b>969.15</b>	<b>920.16</b>	<b>888.63</b>
Profit for the year before Taxation & Prior period items	1118.53	574.83	538.16	265.04	329.77
Less : Prior period items	1.53	1.38	1.65	3.54	0.38
Less : Provision for diminution in value of investments	0.00	3.68	0.00	2.12	0.00
Add : Excess provision for earlier year no longer required					
- for income tax	0.00	284.31	4.22	15.92	0.00
- for wealth tax	12.00	0.00	0.00	0.00	0.00
- for diminution in value of investments	0.00	0.00	0.55	0.00	0.00
Less : Provision for income tax	359.00	135.00	135.00	44.00	10.00
Less : Provision for wealth tax	0.00	3.22	3.22	5.86	6.23
<b>Profit for the year</b>	<b>770.00</b>	<b>715.86</b>	<b>403.06</b>	<b>225.44</b>	<b>313.16</b>
Balance brought forward	1920.30	2063.30	2156.08	2130.34	2151.40
<b>Amount available for appropriations</b>	<b>2690.30</b>	<b>2779.16</b>	<b>2559.14</b>	<b>2355.78</b>	<b>2464.56</b>
<b>APPROPRIATIONS :-</b>					
Dividend					
-Interim Dividend	500.00	350.00	350.00	0.00	0.00
-Final Dividend	0.00	150.00	0.00	165.00	220.00
-Tax on Dividend	50.00	51.50	38.50	16.83	0.00
Transferred to General Reserve	77.00	71.58	40.30	22.55	31.32
<b>Balance of profit carried to Balance Sheet</b>	<b>2063.30</b>	<b>2156.08</b>	<b>2130.34</b>	<b>2151.40</b>	<b>2213.24</b>

#### STATEMENT OF ASSETS AND LIABILITIES

(Rs Lakh)

AS AT MARCH 31	1998	1999	2000	2001	2002
<b>SOURCES OF FUNDS</b>					
Share Capital	1000.00	1000.00	1000.00	1000.00	1000.00
Reserve & Surplus	2692.56	2856.92	2871.48	2915.09	3008.25
<b>TOTAL</b>	<b>3692.56</b>	<b>3856.92</b>	<b>3871.48</b>	<b>3915.09</b>	<b>4008.25</b>
<b>APPLICATION OF FUNDS</b>					
Fixed Assets (net of depreciation)	1691.97	1603.56	1501.93	1416.01	1324.70
Capital Advances	0.00	0.00	0.00	0.00	6.72
Investments	2021.01	1874.96	1658.21	1680.39	2457.13
Current Assets, Loans & Advances					
- Sundry Debtors	112.36	113.24	98.78	91.16	90.05
- Cash & bank Balances	141.19	82.43	569.22	707.83	237.32
- Other Current Assets	46.20	283.99	85.46	194.36	37.28
- Loans & Advances	5876.47	1426.97	847.86	345.15	419.90
Total Current Assets	6176.22	1906.63	1601.32	1338.50	784.55
Less : Current Liabilities	596.33	116.00	161.39	41.99	63.85
Provisions	5603.29	1414.62	730.38	479.00	501.59
Total Current Liabilities	6199.62	1530.62	891.77	520.99	565.44
Net Current Assets	(23.40)	376.01	709.55	817.51	219.11
Preliminary Expenses (to the extent not written off)	2.98	2.39	1.79	1.18	0.59
<b>TOTAL</b>	<b>3692.56</b>	<b>3856.92</b>	<b>3871.48</b>	<b>3915.09</b>	<b>4008.25</b>



## SIGNIFICANT ACCOUNTING POLICIES

### 1. Basis of Accounting:

The financial statements are prepared under historical cost convention on accrual basis and in accordance with the accounting standards referred to in section 211(3C) of the Companies Act, 1956.

### 2. Fixed Assets and Depreciation:

Fixed Assets are stated at cost of acquisition or construction. Depreciation on various assets is provided on written down value method at the rates provided in Schedules XIV of the Companies Act, 1956, except in the case of Electrical Fittings. The rate of depreciation charged on Electrical Fittings is @ 20% p.a. on written down value. Depreciation on additions/deletions during the year are provided pro-rata basis.

Cost of temporary partitions/constructions not removable/reusable as such, in Company's leased/ rental premises are charged to revenue.

### 3. Investment:

Investments are stated at cost. Income from investment is recognised in the accounts, in the year in which it is accrued. (This accounting policy was for the year 1997-98).

Long term investments are stated at cost. However, provision for diminution in value of investments is made, if such diminution in the opinion of the management is of a permanent nature.

Current investments are stated at lower of cost and fair market value.

(This accounting policy was for the year 1998-99, 1999-2000, 2000-01 & 2001-02)

The excess of cost over face value in respect of long term investment is amortised over the period of holding of investment upto redemption. (This accounting policy was for the year 2000-01 & 2001-02)

### 4. Retirement Benefits:

Periodical contributions made to concerned authority towards provident fund are charged to revenue.

Group Gratuity Scheme is administered through policy taken from Life Insurance Corporation of India and the premium is charged to revenue based on actuarial valuation of gratuity liability made as at 1<sup>st</sup> September each year.

Leave encashment benefits on retirement are provided on actual basis.

### 5. Revenue Recognition:

Revenue is recognised when there is certainty of ultimate collection.

### 6. Preliminary Expenses:

Preliminary expenses are written off over a period of ten years in equal installments.

### 7. Prior Period Items:

Income and expenditure relating to earlier year/s are shown separately, if significant and material. (This accounting policy was for the year 1997-98, 1998-99 & 1999-2000)

The prior period items represent income or expenses, which

have arisen in the earlier years but accounted for in the current years. (This accounting policy was for the year 2000-2001)

### 8. Initial Issue Cost/Expenses of Schemes:

Initial issue cost/expenses under any Scheme/s exceeding prescribed limits and expenses which are not attributable to scheme/s incurred as per the Securities and Exchange Board of India (Mutual Fund) Regulation, 1996 and Asset Management Company agreement with Canbank Mutual Fund, if any, are absorbed as revenue expenditure in the year in which they are incurred. (This accounting policy was for the year 1997-98, 1998-99 & 1999-2000).

## SIGNIFICANT CHANGES IN ACCOUNTING POLICIES:

Interest accrued on interest bearing investments till the date of acquisition paid to the seller at the time of purchase, hitherto considered as part of cost of acquisition of investment, now has been charged to the debit of interest account, to make the accounting policy commensurate with the guidelines issued by the Securities and Exchange Board of India (Mutual Fund) Regulation, 1996. As a result of the change in accounting policy, profit for the year 1997-98 is understated by Rs.9.89 lakhs and investments are understated by the same amount.

## NOTES TO ACCOUNTS FOR THE PERIOD 01.04.1997 TO 31.03.2002

1. Claims against the company not acknowledged as debts - NIL.
2. Estimated amount of contracts remaining to be executed on capital account and not provided for – Rs.5.55 lacs for the year 1998-99 and Rs.1067761 lacs for the year 2001-02.
3. Contingent Liability Rs.5640340 towards claim made by Canara Bank for reimbursement of municipal taxes made by Municipal Corporation of Greater Mumbai arising out of enhancement of ratable value for the period 01.04.2000 to 31.03.2002 (This note appeared in the accounts for the year 2001-02).
4. Managerial Remuneration under section 198 of the Companies Act, 1956.

Managing Director of the company was on deputation from Canara Bank upto 13.12.2000. The remuneration of Managing Director was in accordance with the service rules of the said bank and also in terms of appointment as 'Managing Director' (as 'Whole Time Director' for 1997-98 & 1998-99) by the shareholders of the company.

Canara Bank deputed an Executive Director for the company from 14.12.2000. The remuneration of the Executive Director was in accordance with the service rules of the said bank and the same is subject to approval by the shareholders of the company in the forthcoming Annual General Meeting. The remuneration of the Executive Director was in accordance with the service rules of Canara Bank and was approved by the shareholders of the company at the Annual General Meeting held on 7<sup>th</sup> June, 2001. The Executive Director relinquished his position as Executive Director on 29<sup>th</sup> Nov., 2001 and he was appointed as Managing Director of the company on the same day on the advice of the said Bank.





The remuneration of the Managing Director is in accordance with the service rules of the said Bank and the same is subject to approval of the shareholders of the company at the Annual General Meeting.

	1997-98	1998-99	1999-00	2000-2001		2001-2002	
				M.D.	E.D.	M.D.	E.D.
Salary & Allowances	235191	261895	280258	257351	90229	105692	201183
Contribution to Provident Fund & Other funds	16647	18146	17976	18450	7109	8080	15757
PL Encashment ( Ex Exe Director)	3119	-	-	-	-	-	-
Gratuity (Ex. Exe./Managing Director)	81900	-	-	-	-	-	-
Leave Salary (Ex. Exe./ Managing Director)	54987	-	-	-	-	-	-
Value of Perquisites	69671	59421	139658	139658	-	99393	-
Arrears (Ex. Managing Director)	-	600	75361	-	-	-	-

5. During the year the company acquired 2500 units @ Rs. 23 each for Rs. 57500 of Canstar Schemes upon compulsory acquisition order passed by Consumer Forum Court, Ernakulam. The above units actually were to be repurchased by Canstar Scheme, but owing to suspension of repurchase facility by Canstar Scheme, the company as Investment Manager of the Mutual Fund Schemes paid the investor and acquired these units from them in terms of the said court orders.

In terms of resolution passed by the Board of Trustees these units will be repurchased by Canstar Scheme. These units acquired are shown under Other Advances. The company is not recognising any further liability/provision for other pending suits related to repurchase of units by Canstar Scheme due to the fact that the company is entitled to get such sum paid by it, duly reimbursed from Canstar Scheme in terms of the resolution passed by the Board of Trustees of Canbank Mutual Fund with regard to Canstar Scheme (This note appeared in the accounts for the year 1998-99).

6. Initial issue expenses of Schemes launched during the year absorbed by the company as per the terms of the agreement between the company and Canbank Mutual Fund and as per the offer letter of the Schemes :

Name of the Scheme	1999-2000	2001-02
Cangilt (PGS)	1319000	-
Canliquid	-	2064409

7. Hitherto, expenses of the existing scheme/s exceeding the prescribed limits were being absorbed by the company. However, during the year, the amount of Rs.42.02 lakhs being the expenditure in excess of the prescribed limit has not been absorbed by the company, as a result of which the Profit and Reserves for the year are higher to that extent (This note appeared in the accounts for the year 1999-2000)
8. Expenditure incurred by the schemes in excess of the limit prescribed by SEBI (Mutual Fund) Regulation, 1996, absorbed by the company :

Name of the Scheme	1999-2000	2001-02
Canpep94	-	105000
Canpremium	249000	240000
Canbonus	-	2008660
Others	209000	-

9. Income from Management fees includes Rs.95.53 lakhs received from Canbank Mutual Fund – General Administration Dept. (CMF – GAD) for the period 7.12.2000 to 31.3.2001. The accounts of Canbank Mutual Fund - General Administration Department (CMF - GAD) for the year 2000-2001 are under audit and the amount of Rs. 95.53 lakhs has been taken as income on the basis of certificate obtained from the auditors of CMF – GAD. As per the certificate of the auditors, the amount of Rs. 95.53 lakhs calculated @ 0.50% consist of Rs. 12.66 lakhs as per SEBI Circular and Rs. 82.87 lakhs recovered on gross assets of CMF - GAD. (This note appeared in the accounts for the year 2000-2001).
10. Income from Management fees includes Rs.116.48 lakhs received from Canbank Mutual Fund – General Administration Dept. (CMF – GAD) for the year 2001-02. The accounts of Canbank Mutual Fund - General Administration Department (CMF - GAD) for the year 2001-02 are not yet audited and hence the amount of Rs. 116.48 lakhs has been taken as income on the basis of certificate obtained from the internal auditors of CMF – GAD. As per the certificate of the auditors, the amount is calculated @ 0.50% consisting of Rs. 37.33 lakhs as per SEBI Circular and Rs. 79.16 lakhs recovered on gross assets of CMF - GAD. (This note appeared in the accounts for the year 2001-2002).
11. Income from Management fee includes Rs.1275153 received from Canbank Offshore Mutual Fund towards sub-manager services. The fees for the period 01.04.2001 to 31.12.2001 as per the certificate obtained from the statutory auditors of the Fund is Rs.1102763. The fees for the period 01.01.2002 to 31.03.2002 amounting to Rs.172390 has been taken as income as certified by the authorised official of the Fund.





12. The Company does not expect any amount to be paid to Canara Bank for service charges and accordingly no provision has been made for the same (Previous year Rs.38.99 lakhs) (This note appeared in the accounts for the year 2000-01).
13. An amount of Rs.3.00 lakhs paid to SEBI as penalty for non-disclosure of certain information in the abridged offer document of Canpep93 scheme, has been absorbed by the Company as scheme expenses (This note appeared in the accounts for the year 2001-02).
14. The Fixed Asset Register has been updated and matched with the schedule of Fixed Assets. Consequently certain items of fixed assets had to be reclassified and the depreciation on such items had to be reworked with reference to the date of the original transaction. This has resulted in certain expenses amounting to Rs.24427 (net) being written off in the current year. The net effect on the cost and accumulated depreciation on each class of asset due to the reclassification of asset has been shown in the schedule of Fixed Assets. The Depreciation for the year as shown in schedule of Fixed Assets amounting to Rs. 9215061 includes Rs. 70143 written off for earlier years on account of reclassification of assets. (This note appeared in the accounts for the year 2001-02).
15. Operating Leases:

The Company has entered into lease agreements for various premises of the branch offices for which the future lease payments are as under:

Particulars	Amount
Not later than 1 year	1425000
Later than 1 year but not later than 5 years	3699622
Later than 5 years	16961906

16. The Company has received intimation u/s. 143(1)(a) of the Income Tax Act, 1961 determining a refund of Rs422.74 lakhs inclusive of interest on refund of tax of Rs44.29 lakhs for the Assessment Year 1996-97. The said refund has been adjusted by the Income Tax Department towards demand for assessment year 1994-95 to the extent of Rs368.76 lakhs.

In respect of Assessment Year 1994-95, by virtue of the Income Tax Appeal Order passed by CIT (Appeals), the various disallowance made by the Assessing Officer for the said year is deleted accordingly the demand raised for the said year at Rs. 368.76 lakhs has become infectious. Also, since the uncertainty of the disputed issues is now resolved in favour of the company, income from interest on refund of tax at Rs. 33.03 lakhs received during previous year is recognised during this year. Adjustment giving effect to the said order is not made since Order giving effect to the CIT (Appeals) Order, is pending before the Assessing Officer.

In respect of Assessment Year 1995-96, the Company has received order u/s. 143(3) of the Income Tax Act, 1961 determining a refund of Rs. 15.39 lakhs. Adjustment giving effect to the said Order is not made, pending verification and reconciliation of the refund.

Provision for Income Tax and Wealth Tax of Rs. 5577.00 lakhs (Previous year 5230.00 lakhs) and advance payment of

Income Tax and payment of Wealth Tax of Rs. 5790.32 (Previous year Rs. 5390.66 lakhs) comprise of provisions / payments respectively since 1993-94 and the same shall be adjusted inter-se after the proceedings are completed by the Income Tax Department. (This note appeared in the accounts for the year 1997-98).

17. Income Tax Assessments have been completed upto Assessment Year 1996-97. Accordingly Advance Tax and Provision for Income tax, Inter-se, for respective assessment years have been adjusted in the books of accounts and excess provisions of Rs. 284.31 lakhs is written back to the credit of Profit and Loss Account as provision no longer required. (This note appeared in the accounts for the year 1998-99).
18. Income Tax Assessments have been completed upto Assessment Year 1997-98. Accordingly, Advance Tax and Provision for Income tax, Inter-se, for respective assessment years have been adjusted in the books of accounts and excess provision of Rs. 4.22 lakhs is written back to the credit of Profit and Loss Account as provision no longer required. (This note appeared in the accounts for the year 1999-2000).
19. Income Tax Assessments have been completed upto Assessment Year 1999-2000. Accordingly, Advance Tax and Provision for Income tax, Inter-se, for respective assessment years have been adjusted in the books of accounts. (This note appeared in the accounts for the year 2000-2001)
20. Interest accrued on interest bearing investments till the date of acquisition paid to the seller at the time of purchase, hitherto considered as part of cost of acquisition of investment, now has been charged to the debit of interest account, to make the accounting policy commensurate with the guidelines issued by the Securities and Exchange Board of India (Mutual Fund) Regulation, 1996. As a result of the change in accounting policy, profit for the year 1997-98 is understated by Rs.9.89 lakhs and investments are understated by the same amount.

#### 21. Expenditure in Foreign Currency :

Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
Travelling	-	65120	72146	-	-
Subscription	34353	-	-	-	-
Training & Seminar	-	11177	-	-	-

#### 22. Earnings in Foreign Currency – NIL.

23. The figures for the previous year have been rearranged / regrouped wherever necessary.





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**ANNEXURE E**

**CANBANK VENTURE CAPITAL FUND LTD.**

The Board of Directors  
Canbank Venture Capital Fund Ltd  
6<sup>th</sup> Floor, Naveen Complex  
No.14, M.G.Road  
Bangalore 560 001

Sirs,

As desired for the purpose of certification of statement of accounts to be incorporated in the offer document proposed to be issued by Canara Bank in connection with the initial offer of Equity Shares, we state as follows:

We have examined the audited financial statement of Canbank Venture Capital Fund Ltd., for the five financial years ending with 31<sup>st</sup> March 2002 being the last date up to which the accounts have been made and audited by the auditors of the company of those respective years.

The aforesaid financial statements have been prepared in accordance with the Companies Act, 1956.

The profit and loss account for the five financial years ending 31<sup>st</sup> March 2002 and the Balance Sheet as at the end of the respective years and the significant accounting policies are prepared from the aforesaid accounts after making such adjustments and regrouping which were in our opinion considered appropriate, subject to notes on accounts as per audit reports of respective years and various qualifications made in the audit's report of respective years. The figures of five years have been compiled and verified from the audited statements of accounts of the Company.

**For C Venkat Krishna & Co.**

Chartered Accountants

Ms. Santhi Latha

Partner

Dated : 01.07.2002

Place : Bangalore

**STATEMENT OF PROFITS / LOSSES**

(Rs lakh)

Year ended March 31	1998	1999	2000	2001	2002
<b>INCOME</b>					
Management fee	30.00	40.95	41.34	36.47	104.56
Dividend on Mutual Fund units	0.00	0.00	0.00	0.00	3.20
Interest on bank deposits	1.46	2.05	4.33	4.00	5.29
Miscellaneous income	0.00	0.08	0.01	0.01	0.25
<b>Total Income</b>	<b>31.46</b>	<b>43.08</b>	<b>45.68</b>	<b>40.48</b>	<b>113.30</b>
<b>EXPENDITURE</b>					
Staff Salary and other benefits	13.18	13.03	16.78	20.07	21.12
Rent	3.43	2.87	3.56	3.56	3.56
Publicity and Advertisement	0.00	0.00	0.14	0.01	0.00
Travelling and Conveyance	0.93	1.02	0.62	1.58	0.61
Telephones and Fax	1.50	1.07	0.93	1.14	1.33
Postage and Courier	0.16	0.19	0.19	0.21	0.15
Office Expenses	0.58	0.27	0.37	0.44	0.42
Printing and Stationery	0.36	0.33	0.41	0.61	0.44
Water Charges	0.22	0.16	0.20	0.13	0.23
Professional and Retainer fee	0.94	0.21	0.28	0.28	0.32
Electricity	0.53	0.58	0.58	0.64	0.65
Recruitment expenses	0.00	0.00	0.27	0.00	0.00
Y2K Testing fee	0.00	0.00	0.27	0.00	0.00
Rates and Taxes	0.01	0.34	0.02	0.07	0.08
Subscription charges	0.39	0.38	0.32	0.11	0.62
Insurance on Assets	0.06	0.05	0.03	0.02	0.04
Library Books	0.00	0.04	0.23	0.00	0.01
Repairs and Maintenance					
- Vehicle	0.66	0.40	0.20	0.44	0.74
- Office equipment	0.36	0.61	0.74	0.76	0.70
- Others	0.10	0.07	0.06	0.16	0.07
Auditors' Remuneration					
- Statutory Audit	0.15	0.15	0.15	0.15	0.15
- Tax Audit	0.00	0.05	0.05	0.05	0.05
- Other services	0.02	0.01	0.00	0.00	0.00
Other administrative expenses	0.48	0.38	0.37	0.35	0.42
Preliminary expenses written off	0.05	0.05	0.05	0.05	0.05
Loss on sale of fixed assets	0.04	0.12	0.00	0.00	0.00
Depreciation	4.14	3.70	2.50	1.84	2.01
<b>TOTAL EXPENDITURE</b>	<b>28.29</b>	<b>26.08</b>	<b>29.32</b>	<b>32.67</b>	<b>33.77</b>





(Rs lakh)

Year ended March 31	1998	1999	2000	2001	2002
<b>Profit before Tax</b>	<b>3.18</b>	<b>17.00</b>	<b>16.36</b>	<b>7.81</b>	<b>79.53</b>
Add/ Less :					
- Income-tax for earlier years	0.00	0.18	0.00	0.00	1.11
- Provision for Tax	1.70	6.65	6.87	2.70	28.00
<b>Profit after Tax</b>	<b>1.48</b>	<b>10.17</b>	<b>9.49</b>	<b>5.11</b>	<b>52.64</b>
<b>Profit appropriation</b>					
- Transfer to Reserve Fund	0.00	2.03	1.90	1.02	5.27
- Proposed Dividend	0.00	4.50	6.25	3.75	6.25
- Corporate Dividend Tax and Surcharge	0.00	0.50	0.68	0.84	0.00
- <b>Balance Carried to Balance Sheet</b>	<b>1.48</b>	<b>3.14</b>	<b>0.66</b>	<b>-0.50</b>	<b>41.12</b>

**STATEMENT OF ASSETS AND LIABILITIES**

(Rs lakh)

Year Ended March 31	1998	1999	2000	2001	2002
<b>LIABILITIES</b>					
Share Capital	25.00	25.00	25.00	25.00	25.00
Reserves & Surplus	3.02	8.19	10.75	11.27	57.66
Secured loans	0.00	0.00	0.00	0.00	0.00
Unsecured loans	0.00	0.00	0.00	0.00	0.00
Creditors for Expenses	5.85	4.24	6.14	3.35	3.87
Provisions :					
- Income tax	3.45	8.35	15.22	17.92	37.35
- Proposed Dividend	0.00	4.50	0.00	3.75	6.25
- Corporate Dividend Tax and Surcharge	0.00	0.50	0.00	0.84	0.00
- Gratuity	0.00	0.00	0.00	0.66	0.98
- Leave Salary	0.00	0.00	0.00	0.83	1.16
<b>TOTAL LIABILITIES</b>	<b>37.32</b>	<b>50.78</b>	<b>57.11</b>	<b>63.62</b>	<b>132.27</b>
<b>ASSETS</b>					
Fixed Assets (Net of depreciation)	12.38	8.46	6.27	6.61	7.82
Investments	0.00	0.00	0.00	0.00	41.00
Sundry Debtors	5.00	0.00	0.00	0.00	0.00
Cash and Bank balances	14.16	31.12	29.59	25.29	36.63
Loans, Advances and Deposits	5.40	10.87	20.98	31.50	46.66
Misc.exp.to the extent not written off /adjusted	0.38	0.33	0.27	0.22	0.16
<b>TOTAL ASSETS</b>	<b>37.32</b>	<b>50.78</b>	<b>57.11</b>	<b>63.62</b>	<b>132.27</b>



## SIGNIFICANT ACCOUNTING POLICIES

1. The Company follows accrual system of accounting.
2. Income Recognition
  - (i) Annual / Management fee for managing the Venture Capital Funds is recognised as per the Agreement / Trust Deed with / of the respective Funds.
  - (ii) Miscellaneous Income and Dividends – on receipt basis.
3. Fixed Assets are capitalised at cost of acquisition less depreciation.
4. Depreciation is charged on WDV method as per the rates mentioned in the Schedule XIV of the Companies Act, 1956.
5. Current Investments are carried at lower of cost or market value and provision is made to recognise any diminution in the value. Long-term investments are carried at cost and provision is made to recognise any diminution in the value, other than temporary, in the value of such investment.

## NOTES TO ACCOUNTS FOR THE PERIOD 01.04.1997 TO 31.03.2002

(Rs in lakh)

S. No.	Particulars	Year ending March 31				
		1998	1999	2000	2001	2002
1	Contingent Liability : Increase in Advance Rent deposit payable in respect of the premises occupied by the Company.	Nil	0.26	0.26	0.26	0.26
2	Estimated amount of liability on capital contracts remaining to be executed and not provided for	Nil	Nil	Nil	Nil	Nil
3	Earnings / Expenditure in foreign currency	Nil	Nil	Nil	Nil	Nil
4	Directors Remuneration and Allowances	3.26	3.87	4.32	3.86	4.24
	Directors Sitting fee	0.01	0.01	0.01	0.01	0.02
5	Travelling expenses include :					
	Travelling - Directors	0.56	0.76	0.58	1.32	0.57
	- Others	0.76	0.58	0.42	0.81	0.63

6. During the year there were no employees in the company who were employed through out the year or part of the year, drawing salary of more than Rs25,000 per month or Rs3,00,000 per annum (in the year 1997-98 to 98-99), Rs50,000 per month or Rs6,00,000 per annum (in the year 99-00 to 00-01) Rs1,00,000 per month or Rs12,00,000 per annum ( in the year 01-02).
7. Year 98-99: The computer systems in use in the company comprise of Intel Avion AV 3000 Server with a network of 9 nodes. The software used are Windows NT 4.0, Windows 95, MS Office 97 and Tally 5.0. The company is not using any in-house developed packages and the machines are used for general office purposes in the form of word processors only except for the accounting part for which Tally 5.0 Software has been installed. The suppliers of the above hardware / operating systems/application software have confirmed that the same are Y2K compliant.
8. Year 98-99: The Accounts for the year ended on 31<sup>st</sup> March, 1999 adopted by the Board on 28.05.1999 and certified by the Statutory Auditors on 28.05.1999 have been revised in the light of the observations made by the Comptroller & Auditors General of India ( C&AG) under section 619(4) of the Companies Act, 1956, besides effecting certain modifications/disclosures in the Accounts and the Notes. However, this has no effect on the profit of the company except for reduction of Rs4,500 in the profit appropriated, on account of Surcharge on Corporate Dividend Tax now provided.
9. Year 2001-02: Provision for taxation is computed as per total income returnable under the IT Act, 1961 after taking into account, the allowable deductions and exemptions.
10. Year 2001-02: The Company has accounted for Gratuity and Leave salary based on management assessment and not on actuarial basis. This is considered adequate. No separate Gratuity Fund is created. Contributions made to PF are charged to P& L account.





11. Related party disclosures : (from year 2001-02)

Name of the transacting related party	Description of the relationship between the parties	Description of the nature of transactions	Volume of the transactions either as an amount or appropriate proportion
Canara Bank	Parent Bank	- Equity Contribution. All the shares are held by Canara Bank and its nominees - Bank Deposit with Canara Bank branch - Lease arrangements for the company's RO premises	Rs25.00 lakh Rs25.00 lakh Rs0.30 lakh per month.
Canbank Factors Ltd.	Fellow Subsidiary	Cumulative Deposits	Rs10.00 lakh
Canbank Investment Management Service Ltd. (Trustee of Canbank Mutual Fund)	Fellow Subsidiary	Investment in Canbank Mutual Fund – Cangilt (PGS) Scheme	Rs41.00 lakh

12. Apart from the above :

- There are no elements of related party transactions necessary for an understanding of the financial statement.
- There are no appropriate proportions of outstanding items pertaining to related parties as at the balance sheet date.
- There are no amounts written off or written back in the period in respect of debts due from related parties and no provision is made for doubtful debts due from any such parties.

13. Management contracts including deputation of employees :

- Members of the Board of Directors
- The Managing Director, Sr.Vice President and one Asst.Vice President, deputed from Canara Bank are among the key management personnel of the company.

14. Miscellaneous income includes interest on Income-tax refund for the Financial Years 1997-98 & 1999-2000 received of Rs24,682.

15. Previous year's figures have been regrouped / recast wherever necessary.



**ANNEXURE F**

**GILT SECURITIES TRADING CORPORATION LTD.**

The Board Of Directors,  
CANARA BANK  
Head Office,  
112, J. C. Road,  
Bangalore – 560 002.  
Sirs,

As desired for the purpose of certification of statement of accounts to be incorporated in the offer document proposed to be issued by Canara Bank in connection with the initial offer of Equity Shares, we state as follows:

1. We have examined the audited financial statement of Gilt Securities Trading Corporation Limited, for the five financial years ending with 31<sup>st</sup> March, 2002 being the last date up to which the accounts have been made and audited by the auditors of the company of those respective years.
2. The aforesaid financial statements have been prepared in accordance with the Companies Act, 1956 and as per SEBI Regulations issued from time to time as applicable to the company and subject to the limitations for disclosure required therein.
3. The Profit and Loss account for the five financial years ending on 31<sup>st</sup> March, 2002 and the Balance Sheet as at the end of the respective years and the significant accounting policies are prepared from the aforesaid accounts and making such adjustments and regrouping which were in our opinion considered appropriate, subject to notes on accounts as per audit reports of respective years and various qualifications made in the audit's report of respective years. The figures of five years have been complied and verified from the audited statements of accounts of the company.

**For D.N.KUBAL & CO**  
Chartered Accountants

DEEPAK KUBAL  
Partner

Dated : 04.07.2002  
Place : Mumbai





# STATEMENT OF PROFITS/LOSSES

(Rs Lakh)

Year ended March 31	1998	1999	2000	2001	2002
<b>INCOME</b>					
Trading Profit/(Loss) on Dated Govt. Securities	683.20	806.72	1633.99	-549.28	12594.34
Discount on Treasury Bills	597.35	322.07	871.89	979.54	725.02
Interest on Dated Govt. Securities	5935.94	7116.50	7892.66	9318.39	7747.14
Interest on Repo Lending	4.73	3.78	0	0.41	0
Interest on Call & Short Notice Lending	9.91	4.13	30.72	33.59	15.77
Interest Income on Tax Free PSU Bonds	0	0	0	0	69.79
Underwriting Fee	15.52	16.00	45.35	92.98	69.16
Miscellaneous Income	0.05	0.03	1.02	0.04	0
<b>Total Income</b>	<b>7246.7</b>	<b>8269.23</b>	<b>10475.63</b>	<b>9875.67</b>	<b>21221.22</b>
<b>EXPENDITURE</b>					
Interest on Call & Short Notice Borrowing	2355.57	2843.54	2478.73	3384.51	3947.3
Interest on Repo Borrowing	913.8	972.02	16.59	0.56	7.04
Interest on Demand loan from RBI	0	0	0	3212.66	1001.88
Interest on Liquidity Support from RBI	0	481.97	2961.51	67.79	113.21
Broken Period Int. on Tax Free PSU Bonds	0	0	0	0	36.68
Employees remuneration & Benefits	23.06	26.95	39.14	46.53	36.02
Travelling, Conveyence & Motor Car Expenses	5.71	5.66	8.22	9.76	15.78
Legal & Professional Fees	8.47	5.07	3.42	4.19	3.30
Repairs & Maintenance	2.72	3.09	5.55	28.57	10.33
Brokerage	2.83	10.73	25.84	24.25	105.92
Electricity Charges	2.40	4.15	3.40	7.90	11.21
Rent	12.36	13.59	11.31	98.86	106.69
Postage, Telephone & Telegrams	3.63	7.87	9.24	8.83	20.04
Printing & Stationery	1.38	2.42	2.61	2.69	3.43
Advertising	0.11	0	0.27	0.26	7.49
Software Expenses	0.67	0	1.03	2.80	27.57
Sitting Fees to Directors	0.02	0.03	0.04	0.04	0.09
Miscellaneous Expenses	3.26	5.20	6.02	4.26	3.58
Donations	0	0	0	10.00	0
Write off of Assets	0	0	0	1.62	0
Meeting Expenses	0	0	1.48	2.52	2.00
Training Expenses	0	0	0.39	1.42	0.57
Professional Membership	0	0	0.75	1.75	2.15
Stamp Duty	0	0	0	18.01	0
Depreciation on Fixed Assets	8.76	8.02	6.96	14.57	24.60
Miscellaneous Expenditure written off	12.02	12.02	12.02	12.01	0
<b>TOTAL</b>	<b>3356.77</b>	<b>4402.33</b>	<b>5594.52</b>	<b>6966.36</b>	<b>5486.88</b>
Profit for the year Before Tax	3889.93	3866.9	4881.11	2909.31	15734.34
Net Change in unrealised	0	0	0	0	0
App./ Dep. In investment	0	0	0	0	0
Less prior period adjustment	0	0	0	0	0
Less: short prov. of income	0	0	0	0	0



(Rs Lakh)

Year ended March 31	1998	1999	2000	2001	2002
Tax for earlier years	0	0	0	0	0
Profit Before Tax	3889.93	3866.9	4881.11	2909.31	15734.34
Provision for Taxation	1365.00	1355.00	1885.00	1175.00	5713.00
<b>Profit After Tax</b>	<b>2524.93</b>	<b>2511.9</b>	<b>2996.11</b>	<b>1734.31</b>	<b>10021.34</b>
Profit brought forward	623.98	1483.93	2392.83	3376.94	3394.85
Transfer from General Reserve	0	0	0	0	0
Profit available for appropriations	3148.91	3995.83	5388.94	5111.25	13416.19
Transfer to General Reserve	0	0	75	44	1005
Transfer to Statutory Reserve	505	503	600	350	2005
Interim Dividend	1000	500	1200	1200	2000
Final Dividend (Proposed)	0	500	0	0	0
Tax on Dividend	159.98	100	137	122.4	61.2
<b>Profit carried to Balance Sheet</b>	<b>1483.93</b>	<b>2392.83</b>	<b>3376.94</b>	<b>3394.85</b>	<b>8344.99</b>

#### STATEMENT OF ASSETS / LIABILITIES

(Rs Lakh)

As on March 31	1998	1999	2000	2001	2002
<b>LIABILITIES</b>					
Share Capital	10000	10000	10000	10000	10000
Reserves & Surplus	811	1314	1989	2383	5393
Profit & Loss Account	1483.93	2392.83	3376.94	3394.85	8344.99
Secured Loans	33153.63	44103	67956	67100	57236
Unsecured Loans	22861	11197	16481	13000	35000
Current Liabilities	60.52	35.80	106.42	90.68	84.52
Provisions					
A) For assured returns	0	0	0	0	0
B) Others	2612.34	4517.34	5852.34	8349.74	14140.34
<b>TOTAL LIABILITIES</b>	<b>70982.42</b>	<b>73559.97</b>	<b>105761.70</b>	<b>104318.27</b>	<b>130198.85</b>
<b>ASSETS</b>					
Fixed Assets(Net of Depreciation)	23.57	21.46	18.36	76.09	104.43
Investments	0	0	0	0	25
Current Assets					
Cash & Bank Balances	11.18	7.04	1.97	3.12	6.00
Loans & Advances	2671.36	6725.68	6272.43	8967.98	13594.75
Stock- in- Trade	66442.97	64952.40	96664.20	93183.66	114558.56
Accrued Income	1797.29	1829.36	2792.73	2087.42	1910.13
Preliminary/preoperative Expenses (to the extent not written off)	36.05	24.03	12.01	0	0
<b>TOTAL ASSETS</b>	<b>70982.42</b>	<b>73559.97</b>	<b>105761.70</b>	<b>104318.27</b>	<b>130198.87</b>

Adjustments resulting from Audit Qualifications, material amounts relating to adjustments for previous years and changes in accounting policies as per Clarification XIV of SEBI Guidelines

Year ended 31st March	1998	1999	2000	2001	2002
Net profit for the year	3889.93	3866.90	4881.11	2909.31	15734.34
Less: Adjustments	0	0	0	0	0
Adjusted Profit	3889.93	3866.90	4881.11	2909.31	15734.34





## SIGNIFICANT ACCOUNTING POLICIES

### 1. Method of Accounting

- The accounts are prepared on historical cost in accordance with generally accepted Accounting Principles and RBI Guidelines in respect of Primary Dealers.
- Method of accounting employed by the Company is generally accrual basis both as to expenditure and income by also following the concept of materiality.

### 2. Recognition of Income and Expenses

- Profit or Loss on sale of securities is recognised on settlement dates.
- Profit or Loss on sale of securities is recognised on weighted average cost method.
- Profit on sale of securities credited to the Income Account is net of loss on sale of securities.
- In the case of Dated Government Securities, the purchase and sale price of securities is bifurcated into cost and accrued interest paid or realised.
- The amounts paid and received towards accrued interest on the purchase and sale of Dated Government Securities are netted at the year end and reckoned as expense/income.
- Interest accrued on Dated Government Securities is recognised at the coupon rate.
- As a Primary Dealer, the Company has been permitted by the Reserve Bank of India to enter into Repo and Reverse Repo transactions. Such transactions are treated as secured borrowing/lending transactions and accordingly disclosed in the financial statements.
- Purchase and sale consideration of Repoed Securities is not bifurcated into cost and interest paid or realised. The difference between the purchase/sale and resale/repurchase consideration in a Repo transaction is booked as interest received or interest paid.
- Accrued expense/income of Repo transactions viz. the difference between the settlement value of sale/purchase and repurchase/resale is reckoned at the year-end and apportioned on time basis.
- The following is the treatment of Underwriting Fee arising from underwriting commitments undertaken by the Company at auctions/floatations in the Primary Market:
  1. Where the amount of securities acquired on primary allotment and/or on devolvement exceeds or is equal to the amount of securities underwritten, the whole of the underwriting fee received is capitalised.
  2. Where the amount of securities acquired on primary allotment and/or on devolvement is less than the amount of securities underwritten, only such proportion of the underwriting fee received is capitalised as the amount of securities allotted and/or devolved bears to the amount of securities underwritten and the balance of underwriting fee received is considered as 'Other Income'.

- Brokerage payable on sale of securities is treated as expense.

- The difference between cost and redemption value of Treasury Bills and Zero Coupon Bonds held as on the Balance Sheet date is apportioned on time basis and recognised as accrued income. This accrued income is included in the carrying amount of these securities and regarded as cost.

### 3. Valuation of Current Assets

- Treasury Bills and Dated Government Securities held in stock at the end of the year are valued at weighted average cost or market price whichever is lower. Cost for this purpose is net of front-end fee/underwriting fee/discount/commission received, if any.
- While applying the weighted average cost basis for arriving at the cost of the closing stock of Treasury Bills and Dated Government Securities, sales and purchases relating to Repo deals are excluded and only outright sales/purchases are considered.
- For the purpose of valuation, the following order is considered for rates:
  1. The latest rates as per the actual trade under SGL transactions as reported by RBI.
  2. The latest bid rates quoted by DFHI, STCI and other Primary Dealers.

### 4. Fixed Assets

- Fixed Assets are valued at original cost less accumulated depreciation. Costs include all direct costs attributable to acquisition, installation and commissioning.
- Depreciation is provided on Written Down Value method at the rates specified in and in the manner laid down by Schedule XIV of the Companies Act, 1956.

### 5. Preliminary Expenses

Preliminary Expenses including Share Issue Expenses were amortised over a period of 5 years.

## SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

Changes between 1<sup>st</sup> April 1997 to 31<sup>st</sup> March 2002: NIL

## NOTES TO ACCOUNTS FOR THE PERIOD 1<sup>ST</sup> APRIL 1997 TO 31<sup>ST</sup> MARCH 2002

1. Treasury Bills and Dated Government Securities in which the Company deals are regarded as Current Assets and treated as Stock-in-Trade. These securities are held with RBI in the SGL and NSDL Account of the Company. However, the stocks sold under Repo transactions, outstanding at the year-end are considered as the Company's own stocks on the basis of confirmation of the counter parties.
2. Purchases and sales of Treasury Bills and Dated Government Securities are disclosed in the Profit and Loss Account with a view to indicating the turnover of the Company and exclude Repo transactions. For this purpose, sales also include maturity proceeds, if any, when these are held by the Company till date of maturity.



3. Establishment Expenses include payments made to other institutions towards emoluments of their employees whose services are lent to the Company.
4. The Managing Director is on secondment from Canara Bank and his remuneration is in accordance with the service rules of the Bank. The particulars of aggregate remuneration are:

(Rs Lakh)

	2001-02	2000-01	1999-2000	1998-99	1997-98
Salary and Allowances	3.02	2.85	3.18	2.33	2.80
Contribution to Provident and Other Funds	0.23	0.22	0.19	0.15	0.14
Other Perquisites	0.63	1.45	0.83	0.69	0.27
Total	3.88	4.52	4.20	3.17	3.21

5. The computation of net profits under Section 349 of the Companies Act, 1956, has not been given, as commission by way of percentage of profits is not payable to the Managing Director.
6. Foreign Exchange Earnings- Nil (Previous Year-Nil)
7. Foreign Exchange Outgo - Rs33,668 (Previous Year-Nil).
8. As none of the employees directly recruited by the company has completed the minimum length of service under the Payment of Gratuity Act, 1972, no provision for gratuity has been made in the accounts for the years 1997-98 to 1999-2000. As no employee is recruited by the Company, no provision for gratuity has been made in the accounts for the years 2000-2001 & 2001-2002.
9. The Company has been advised that the interest earned by the Company on Government Securities dealt with by it in the course of its business does not amount to 'Interest' within the meaning assigned to it under the Interest Tax Act, 1974, i.e. 'interest on loans and advances made in India'. The Company along with other Primary Dealers has also taken up the issue with the Central Board of Direct Taxes for issue

of necessary notification/clarification in this regard. In view of the above, no provision has been considered necessary in the accounts for interest tax in respect of interest income from Government Securities.

10. During the current financial year, the Company has borrowed in the Money Market from Mutual Funds, who are authorised by the Reserve Bank of India to participate in the Money Market as lenders.
11. Contingent Liability not provided for: Interest Tax demand of Rs198.11 lakh (31.3.01-Rs198.11 lakh) not accepted by the Company, and for which appeals have been filed before the authorities.
12. The Company has kept as Security, Government Dated Securities-11.03% GS2012 for Face Value- Rs3,00,00,000 with Clearing Corporation of India Ltd. towards Settlement Guarantee Fund Contribution. (Previous Years - Nil).
13. The Company has taken the premises (Registered Office) on a sub-lease for a period of 10 years from 17.05.2000. As per the sub-lease agreement the Company cannot sub-let or assign the premises except to Canara Bank without the previous consent of sub-lessor and the sub-lease is not renewable. Under the terms of sub-lease there will be increase in sub-lease rent of 25% after completion of 5 years.
14. The company is dealing only in Treasury Bills and Government Dated Securities. The operations are based in MUMBAI only. Hence segment reporting is not applicable to the Company.

#### AUDITORS' QUALIFICATIONS FOR WHICH ADJUSTMENTS COULD NOT BE CARRIED OUT

There were no material audit qualifications for which adjustments could not be carried out in the accounts for the period 1<sup>st</sup> April 1997 to 31<sup>st</sup> March 2002.





## **ANNEXURE G**

### **INDO HONG KONG INTERNATIONAL FINANCE LTD.**

The Board of Directors  
Canara Bank  
Head Office  
112, J.C. Road  
Bangalore – 560 002

Dear Sirs,

In terms of our appointment for the purpose of certification of the statement of accounts of Indo Hong Kong International Finance Limited (a wholly owned subsidiary company of Canara Bank) to be incorporated in the offer document proposed to be issued by Canara Bank, in connection with their Initial Public Offer of Equity Shares, we state as follows:

1. We have examined the statement of accounts of the company for the five consecutive accounting years ended on 31<sup>st</sup> March, 2002 being the last date up to which the accounts of the company have been compiled by the bank based on the accounts audited by the overseas auditor of the said company of those respective years.
2. We further report as follows :
  - a) The Profit & Loss of the company for the five consecutive accounting years ended 31<sup>st</sup> March, 2002 are as set out in Part I enclosed.
  - b) The Assets and Liabilities of the company for the five consecutive accounting years ended as at 31<sup>st</sup> March, 2002 are as set out in Part II enclosed.
  - c) The aforesaid Statement of Profit & Loss and Assets & Liabilities read together with Significant Accounting Policies and Significant Changes in Accounting Policies as set out in Part III, and Notes on Accounts as set out in Part IV, in the format as near thereto as applicable to the parent bank have been drawn up which, in our opinion, is considered appropriate.
3. There are no material auditors' qualification that needed any adjustments to the financial statements.

#### **For and on behalf of**

##### **P.L. MITTAL & CO.**

Chartered Accountants

(P.L. Mittal)  
Partner

##### **R.G.N. PRICE & CO.**

Chartered Accountants

(S. Subramanian)  
Partner

##### **S. BHANDARI & CO.**

Chartered Accountants

(A.S.Bhandari)  
Partner

Date : August 31, 2002

Place : Bangalore

##### **SURESH CHANDRA & ASSOCIATES**

Chartered Accountants

(Suresh Chand Gupta)  
Partner

##### **N. SANKARAN & CO.**

Chartered Accountants

(B. Chandrasekhar)  
Partner

##### **R.K. KUMAR & CO.**

Chartered Accountants

(C.R.Sundararajan)  
Partner



# STATEMENT OF PROFITS/LOSSES

(USD mn)

Financial Year Ended	31.12.1997	31.12.1998	31.12.1999	31.03.2001	31.03.2002
<b>INCOME</b>				**	
<b>Interest Earned</b>	<b>1.723</b>	<b>1.867</b>	<b>1.931</b>	<b>2.582</b>	<b>1.625</b>
<b>Other Income</b>	<b>0.793</b>	<b>0.880</b>	<b>0.766</b>	<b>1.120</b>	<b>0.871</b>
Commission and Brokerage	0.564	0.548	0.498	0.647	0.473
Profit on sale of Investments	0.000	0.000	0.011	0.099	0.127
Profit on exchange transactions (Net)	0.000	0.060	0.017	0.081	0.109
Miscellaneous Income	0.229	0.272	0.240	0.293	0.162
<b>Total</b>	<b>2.516</b>	<b>2.747</b>	<b>2.697</b>	<b>3.702</b>	<b>2.496</b>
<b>EXPENDITURE</b>					
<b>Interest Expended</b>	<b>0.310</b>	<b>0.425</b>	<b>0.324</b>	<b>0.704</b>	<b>0.322</b>
<b>Operating Expenses</b>	<b>0.818</b>	<b>0.862</b>	<b>0.850</b>	<b>1.127</b>	<b>0.855</b>
Staff Costs	0.255	0.268	0.299	0.454	0.335
Premises and equipment expenses	0.306	0.316	0.302	0.323	0.244
Depreciation	0.015	0.016	0.018	0.065	0.050
Other Operating Expenses	0.242	0.262	0.231	0.285	0.226
<b>Total</b>	<b>1.128</b>	<b>1.287</b>	<b>1.174</b>	<b>1.831</b>	<b>1.177</b>
<b>Gross Profit before provisions for income tax and extraordinary items</b>	<b>1.388</b>	<b>1.460</b>	<b>1.523</b>	<b>1.871</b>	<b>1.319</b>
<b>Less : Provisions</b>	<b>0.375</b>	<b>0.438</b>	<b>1.216</b>	<b>0.769</b>	<b>-0.058</b>
Provisions & Contingencies	0.155	0.200	1.017	0.472	-0.224
Provision for Taxation	0.220	0.238	0.199	0.297	0.166
<b>Net Profit for the Year</b>	<b>1.013</b>	<b>1.022</b>	<b>0.307</b>	<b>1.102</b>	<b>1.377</b>
Add : Profit & Loss Brought Forward	1.591	2.104	2.626	2.933	4.035
<b>Profit Available for Appropriation</b>	<b>2.604</b>	<b>3.126</b>	<b>2.933</b>	<b>4.035</b>	<b>5.412</b>
<b>APPROPRIATIONS</b>					
Dividend to Central Govt / Parent Bank	0.500	0.500	0.000	0.000	0.000
<b>Balance carried over to Balance Sheet</b>	<b>2.104</b>	<b>2.626</b>	<b>2.933</b>	<b>4.035</b>	<b>5.412</b>
Break-up of Provisions and Contingencies					
Provision for income-tax, interest tax and wealth tax	0.220	0.238	0.199	0.297	0.166
Provision for Investment	0.000	0.000	0.061	0.056	0.103
Provision for Bad & Doubtful debts	0.155	0.200	0.956	0.416	0.064
<b>Sub Total</b>	<b>0.375</b>	<b>0.438</b>	<b>1.216</b>	<b>0.769</b>	<b>0.333</b>
Less : Excess provision written back	0.000	0.000	0.000	0.000	0.391
<b>Total</b>	<b>0.375</b>	<b>0.438</b>	<b>1.216</b>	<b>0.769</b>	<b>-0.058</b>

**Remarks :** \*\* The financial statements for the period ended March 31, 2001 covers a period of 15 months from January 1, 2000 to March 31, 2001 and therefore may not be comparable with amounts shown for the other years. The financial information from the audited accounts of the respective years have been presented in the above format in line with that of Parent Bank.





## STATEMENT OF ASSETS AND LIABILITIES

(USD mn)

Financial Year Ended	31.12.1997	31.12.1998	31.12.1999	31.03.2001	31.03.2002
<b>ASSETS</b>					
Cash and short term funds	0.732	1.138	0.406	0.961	0.226
Placement with Banks and other Financial Institutions	3.642	1.750	5.000	3.250	5.000
<b>Investments</b>					
- Held to Maturity Securities	0.000	1.520	3.951	7.866	7.278
- Non Trading Securities	0.000	1.120	1.875	2.539	1.930
Trade Bills	11.855	12.334	7.979	7.252	11.356
Advances	2.344	2.707	2.942	4.714	3.344
Fixed Assets	0.429	0.421	0.410	0.494	0.446
Other Assets	0.187	0.122	0.396	0.325	0.303
<b>TOTAL</b>	<b>19.189</b>	<b>21.112</b>	<b>22.959</b>	<b>27.401</b>	<b>29.883</b>
<b>LIABILITIES</b>					
Deposits and Balances of banks & other Financial Institutions	0.000	0.000	3.000	5.500	7.000
Deposits of Customers	6.372	7.812	6.856	7.405	7.229
Other Accounts & Provisions	0.063	0.129	0.093	0.186	0.122
Borrowings	0.036	0.000	0.000	0.000	0.000
Taxation	0.114	0.045	0.013	0.057	0.000
Proposed Dividend	0.500	0.500	0.000	0.000	0.000
<b>TOTAL</b>	<b>7.085</b>	<b>8.486</b>	<b>9.962</b>	<b>13.148</b>	<b>14.351</b>
<b>NET ASSETS</b>	<b>12.104</b>	<b>12.626</b>	<b>12.997</b>	<b>14.253</b>	<b>15.532</b>
Represented By :					
<b>Share Capital</b>	<b>10.000</b>	<b>10.000</b>	<b>10.000</b>	<b>10.000</b>	<b>10.000</b>
<b>Reserves &amp; Surplus</b>	<b>2.104</b>	<b>2.626</b>	<b>2.997</b>	<b>4.253</b>	<b>5.532</b>
Investment Fluctuation Reserve	0.000	0.000	0.064	0.218	0.119
Balance of Profit and Loss Account	2.104	2.626	2.933	4.035	5.413
<b>TOTAL</b>	<b>19.189</b>	<b>21.112</b>	<b>22.959</b>	<b>27.401</b>	<b>29.883</b>
<b>CONTINGENT LIABILITIES</b>					
Direct Credit Substitutes	0.000	0.000	0.546	0.429	0.428
Trade related contingencies	0.000	0.000	6.651	4.800	5.593
Letters of Credit	6.118	3.657	0.000	0.000	0.000
Acceptances	2.001	3.414	0.000	0.000	0.000
Guarantees and other obligations	0.370	0.335	0.000	0.000	0.000
Forward Forex Contracts for hedging purpose	0.000	0.000	3.120	2.713	1.948
<b>TOTAL</b>	<b>8.489</b>	<b>7.406</b>	<b>10.317</b>	<b>7.942</b>	<b>7.969</b>



## SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### 1. Revenue Recognition

Interest income is recognised in the income statement as it accrues, except in the case of doubtful debts where interest ceases to be accrued. Doubtful debts are those debts where there is reasonable doubt about the ultimate collectibility of principal or interest; or against which a specific provision has been made; or where contractual payments of principal and / or interest are more than 3 months in arrears and where the net realisable value of the security is insufficient to cover payment of principal and accrued interest.

When interest has ceased to be accrued, accrual of interest to the income statement is resumed only if all arrears of principal and interest from the borrower have been cleared and it is probable that the customer is capable of fully servicing his obligations for the foreseeable future.

Fees and commission income is accounted for in the year when receivable, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fees is recognised on an appropriate basis over the relevant period.

### 2. Advances and other accounts

Advances to customers and trade bills are stated in the balance sheet after deducting provision for bad and doubtful debts.

Provision for bad and doubtful debts is made, having regard to both specific and general risks.

The specific element of the provision relates to those loans that have been individually reviewed and specifically identified as bad or doubtful. Factors which are considered include expected cash flows, financial condition of the borrower and current economic conditions. The general element of the provision relates to those losses that, although not yet specifically identified, are known from experience to be present in the Company's portfolio of loans and advances. In determining the level of the provision required, management considers numerous factors including, but not limited to, domestic and international economic conditions, the composition of the loan portfolio and prior loan loss experience.

Provisions are applied to write off advances when all security has been realised and further recoveries are considered unlikely.

Loans with a specific due date are classified as overdue when the principal or interest is overdue and remains unpaid as at the year end date. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid as at the year end date. Loans

repayable on demand are categorised as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or, the loan has remained continuously outside the approved limit that was advised to the borrower.

Rescheduled advances refer to those loans that have been restructured or renegotiated due to the deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule. Rescheduled advances which have been overdue for more than three months under the revised repayment terms are classified as overdue advances and not as rescheduled advances.

### 3. Impairment

At each balance sheet date, the Company reviews the carrying accounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### 4. Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Company has the expressed intention and ability to hold to maturity (held to maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held to maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each year represents a constant yield on the investment.

All securities other than held to maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed off or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.





## 5. Property, Plant and Equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses, if any.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in the income statement.

Depreciation is provided to write off the cost of the property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum :

Land held on long leases	2%
Buildings	2%
Leasehold improvements	Over the unexpired period of lease
Furnitures, fittings, computers, office equipment and motor vehicle	25%

## 6. Foreign Currencies

The Company maintains its books of accounts in United States Dollars. Transactions in currencies other than United States Dollars are translated into United States Dollars at the rates ruling on the transaction dates. Monetary assets and liabilities denominated in currencies other than United States Dollars are re-translated into United States Dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

## 7. Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

## 8. Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term.

## 9. Cash equivalents

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

## 10. Financial derivative products

Financial derivative products, which include financial futures and forward contracts, interest rate swaps, options and similar derivative products, are recognised on a trade date basis and are initially measured at cost. Financial derivative products outstanding at the year end, except for those designated as hedges, are valued at market rate, with

unrealised gains and losses included in the income statement. Gains and losses related to these derivative products that are designated as hedges are dealt with in accordance with the accounting treatment applicable to the position hedged.

## Significant Changes in Accounting Policies from 1<sup>st</sup> January, 1997 to 31<sup>st</sup> March, 2002

The Company adopted the following new Hong Kong SSAPs during each of the relevant periods as follows :-

**Year ended 31 December 1997 : Nil**

**Year ended 31 December 1998 : Nil**

**Year ended 31 December 1999 :-**

SSAP 1 (Revised) : Presentation of financial statements.

SSAP 2 (Revised) : Net profit or loss for the period, fundamental errors and changes in accounting policies.

SSAP 24 : Accounting for investments in securities.

SSAP 1 (Revised) and SSAP 2 (Revised) are concerned with the presentation and disclosure of financial information. The presentation in the current year's financial statements has been modified in order to conform with the requirements of those Standards. Comparative amounts have been restated in order to achieve a consistent presentation.

SSAP 24 has introduced a new framework for the classification of investments in securities and the adoption of the standard has had a significant effect on the treatment adopted by the Company for its investments in securities. In adopting SSAP 24, the Company has selected the alternative treatment for securities other than held to maturity securities.

Under SSAP 24, investments in securities are now classified as held to maturity (carried at cost less provision for irrecoverable amounts), trading securities (carried at fair value, with valuation movements dealt with in the income statement) and other securities (carried at fair value, with valuation movements dealt with in equity).

The adoption of these standards had no material effect on the result of any of the Relevant Periods, accordingly no prior period adjustment has been required.

**15 month period ended 31 March 2001 : Nil**

**Year ended 31 March 2002 :-**

SSAP 28 is concerned with Impairment. At each Balance Sheet date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.



Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The adoption of these standards had no material effect on the result of any of the Relevant Periods, accordingly no prior period adjustment has been required.

#### NOTES TO THE FINANCIAL STATEMENTS

1. General: The Company is a private limited company incorporated in Hong Kong. Its ultimate holding company is Canara Bank which is incorporated in India.

The principal activities of the Company are the provision of commercial banking services in Hong Kong.

2. Adoption of Statements of Standard Accounting Practice: The Company has adopted Statements of Standard Accounting Practice ("SSAPs") as issued by the Hong Kong Society of Accountants from time to time.

The adoption of these SSAPs has not affected the amounts reported for the relevant periods.

3. No provision for deferred taxation has been recognised in the financial statement as the timing difference is insignificant.
4. Lease Commitments: At the balance sheet date, the Company had commitment for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

(USD mn)

	2002	2001
Within one year	149,723	148,851
In the second to fifth years inclusive	53,069	159,048
Total	202,792	307,899

5. Capital Commitments:

(USD mn)

	2002	2001
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for in the financial statement	31,804	-

## PART VII

### STATEMENT OF DIVIDEND DECLARED BY THE BANK AND ITS SUBSIDIARIES

#### A. CANARA BANK

##### STATEMENT OF DIVIDEND

Year Ended	For the Year	No. of Shares (crore)	Rate of Dividend	Amount of Dividend (Rs crore)
31.3.1998	1997-98	57.77	6.23%	36.00
31.3.1999	1998-99	57.79	7.80%	45.06
31.3.2000	1999-00	57.79	8.31%	48.05
31.3.2001	2000-01	57.79	9.87%	57.05
31.3.2002	2001-02	57.79	13.84%	80.00



**B. SUBSIDIARIES**

	Year	No. of shares (Crore)	Rate of Dividend (%)	Amount (Rs crore)
<b>I. Canbank Factors Ltd.</b>				
Year ended				
31.3.1998	1997-98	1.4	10.00%	1.40
31.3.1999	1998-99	1.4	12.00%	1.68
31.3.2000	1999-00	1.4	12.00%	1.68
31.3.2001	2000-01	1.4	12.00%	1.68
31.3.2002	2001-02	1.4	14.00%	1.96
<b>II. Gilt Securities Trading Corporation Ltd.</b>				
Year ended				
31.3.1998	1997-98	5.1	10.00%	5.10
31.3.1999	1998-99	5.1	10.00%	5.10
31.3.2000	1999-00	5.1	12.00%	6.12
31.3.2001	2000-01	5.1	12.00%	6.12
31.3.2002	2001-02	5.1	20.00%	10.20
<b>III. Canbank Investment Management Services Ltd.</b>				
Year ended				
31.3.1998	1997-98	1	50.00%	5.00
31.3.1999	1998-99	1	35.00%	3.50
31.3.2000	1999-00	1	35.00%	3.50
31.3.2001	2000-01	1	16.50%	1.65
31.3.2002	2001-02	1	22.00%	2.20
<b>IV. Canbank Venture Capital Fund Ltd.</b>				
Year ended				
31.3.1998	1997-98	0.03	0.00%	0
31.3.1999	1998-99	0.03	18.00%	0.05
31.3.2000	1999-00	0.03	25.00%	0.06
31.3.2001	2000-01	0.03	15.00%	0.04
31.3.2002	2001-02	0.03	25.00%	0.06
<b>V. Indo-Hong Kong International Finance Ltd.</b>				
Year ended				
31.12.1997	1997	0.1	5.00%	1.96*
31.12.1998	1998	0.1	5.00%	2.12*
31.12.1999	1999	0.1	0.00%	0*
31.03.2001 (15 Months)	2000-01	0.1	0.00%	0*
31.03.2002	2001-02	0.1	0.00%	0*

(\* Converted into Indian Rupees)

Note: No dividend was declared by the subsidiaries Canbank Computer Services Ltd. and Canbank Financial Services Ltd. during the last five years.



## C. STATUTORY AND OTHER INFORMATION

### Minimum Subscription

If the Bank does not receive the minimum subscription of 90% of the Issue amount, on the date of closure of the Issue, or if the subscription level falls below 90% after the closure of the Issue on account of cheques having been returned unpaid or withdrawal of applications, the Bank shall forthwith refund the entire subscription amount. If there is delay beyond 8 days after the Bank becomes liable to pay the amount, the Bank shall pay interest as per section 73 of the Companies Act, 1956.

### Expenses of the Issue

The expenses of the Issue payable by the Bank are estimated to be around 5% of the total issue size and include brokerage (2.50%), fees and reimbursement to the Lead Managers (0.50%), Registrars (0.25%), printing and distribution expenses (0.60%), publicity (0.75%), listing fees, stamp duty and others (0.40%). The Issue expenses will be met out of the proceeds of the Issue.

### Fees Payable to the Lead Managers to the Issue

The fee payable to the Lead Managers to the Issue are as set out in the Memorandum of Understanding, copies of which are kept open for inspection at the Head Office of the Bank.

### Fees Payable to the Co-Managers to the Issue

There are no fees payable to the Co-Managers to the Issue

### Fees Payable to Registrar to the Issue

The fee payable to the Registrars to the Issue are as set out in the Memorandum of Understanding, copies of which are open for inspection at the Head Office of the Bank.

### Brokerage

As per Section 13 of the Banking Regulation Act, 1949, no banking company can directly or indirectly pay out by way of commission, brokerage, discount in any form in respect of any shares issued by it, any amount exceeding in the aggregate 2.5% of the face value of the said shares.

The Bank has got an exemption from Gol, Ministry of Finance, Department of Economic Affairs (Banking Division) vide letter ref. F. No. 11/10/2002-BOA dated August 29, 2002 from the provisions of the said Section 13 relating to the payment of brokerage, commission, discount upto 31.03.2004.

Accordingly, brokerage would be paid to the Brokers to the Issue as per Bank's communication to the BgSE, BSE and NSE.

In case of tampering or over stamping of broker codes on the Application Form, the Bank's decision to pay brokerage in this respect will be final and no further correspondence will be entertained in this matter.

Since the Issue is not being underwritten, no underwriting commission is payable.

### Offer Otherwise than for Cash

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

### Previous Commission and Brokerage

No previous commission or brokerage has been paid by the Bank for any Issue of equity shares.

### Previous Issues by the Bank

The Bank has not made any issue of equity shares/debentures/preference shares by way of Public/Rights Issue through an offer document since the date of nationalisation in July 1969. However, the Bank has raised Tier II capital by way of private placement to augment capital adequacy as under:

Issue	Year of Placement	Size (Rs crore)	Tenor (months)	Credit Rating	Coupon (% p.a.)	Redemption date
1	1998-99	500	Opt-I 63 Opt-II 87	—	13.85 14.20	22.04.2004 22.04.2006
2	2000-01	300	76	—	11.95	14.04.2006
3	2001-02	376	67	AA+ by CRISIL	9.70	12.04.2006
4	2001-02	74	63	AA+ by CRISIL	9.40	12.04.2006
Total		1,250				

For the purposes of raising equity through this Issue, there is no requirement as per the covenant in any of the documents relating to the borrowings to take prior approval/consent of the lenders /trustees.

### Option to Subscribe

Save as otherwise stated in the Offer Document, the Bank has not given any person nor does it propose to give any person any option to subscribe for any shares of the Bank.

### Undertaking Regarding 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 this Offer Document, other than property as given hereunder:

- The contracts for the purchase or acquisition whereof were entered into, or may be entered into, in the ordinary course of the Bank's business, such contracts not being made in contemplation of the offer nor the offer in consequence of the contract; or
- In respect of which the amount of the purchase money 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.

### Terms of Appointment of Chairman and Managing Director

In exercise of the powers conferred by clause (a) of sub section (3) section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 read with sub clause (1) of clause 3, clause 5, clause 6, clause 7, and sub clause (1) of clause 8 of the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, the Central Government, after consultation with the Reserve Bank of India appointed Mr.R.V.Shastri as Chairman & Managing Director, Indian Overseas Bank as Chairman and Managing Director,





Canara Bank from 01.05.2001 and upto 31.10.2004 vide letter F.No.9/46/2000-B.O.I dated April 10, 2001, Government of India, Ministry of Finance, Department of Economic Affairs (Banking Division)

The compensation details are as follow:

Salary: Rs26,000 per month in the scale of pay of Rs24,050-650-26,000

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.

#### Terms of appointment of Executive 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, and sub clause (1) of clause 8 of the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, the Central Government, after consultation with the Reserve Bank of India appointed Mr.N.Kantha Kumar as a Whole time Director (designated as the Executive Director) of Canara Bank for the period from the date of his taking charge and up to 31<sup>st</sup> March 2006.

The compensation details are as follow:

Salary: Rs22,050 per month in the scale of pay of Rs22,050-500-24,050

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

#### Payment or Benefit to the Directors and Officers of the Bank

No amount or benefit has been paid or given or is intended to be paid or given to any Director or Officer of the Bank except their normal remuneration and/or reimbursement for the services rendered to the Bank to which they are entitled to or may become entitled to under the provisions of the Bank Nationalisation Act or otherwise in accordance with the Law.

#### 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 Offer Document or proposed to be acquired by it. 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. The Directors have no interest 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.

#### Capitalisation of Reserves or Profits

There was no capitalisation of profits or reserves in the last five years ended March 31, 2002

#### Revaluation of Assets

Provisional Depreciation on Immovable properties for the half year ended 30.09.93 are as under:

(Rs)

Original cost of premises as on 31.03.1993	91,29,41,478.83
Additional on A/c of Revaluation as on 31.03.1993*	1,78,65,00,000.00
Additions for the period from 01.04.93 to 30.09.1993	1,33,05,826.62
Total (A)	2,71,27,46,905.45
Deletions for the period from 01.04.93 to 30.09.1993	3,700.00
Original Cost price as on 30.09.1993	2,71,27,43,205.45
Depreciation charged upto 31.03.1993	22,00,00,382.20
Add:Provisional depreciation for the Half year ended 30.09.1993	1,49,64,760.00
Add:Provisional depreciation on A/c of revaluation for the Half Year ended 30.09.1993.	3,36,04,168.00
Total (B)	26,85,69,316.20
Balance as on 30.09.1993 (A-B)	2,44,41,73,889.25

\*During 1993, out of 207 properties, 198 properties were revalued. Revaluation increase was Rs1,78,65,00,000. During 1996, certain adjustments were made in the revaluation of 3 properties due to demolition of certain portion of the buildings. Due to this, some adjustments made in the revalued value and a changed value is Rs178,33,14,666.27.

#### D. MAIN PROVISIONS OF THE BANK NATIONALISATION ACT

Relevant provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, as amended by the Banking Companies (Acquisition and Transfer of Undertakings) Amendment Act, 1994 & 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 (2A) of the Bank Nationalisation Act the authorised capital of the Bank shall be Rupees one thousand and five hundred crore to be divided into one hundred and fifty crore of fully paid-up equity shares of Rs10 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 Rupees three thousand crore, or be less than Rupees one thousand and five hundred crore.

##### Issued Capital

Section 3(2B) 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 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;
- 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.

Sec 3 (2BB) of Bank Nationalisation Act 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"

Sec 3 (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 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.

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

Constitution 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 Bank Nationalisation Act;
- (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.

- (iv) 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.
- (v) 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;
- (vi) 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;
- (vii) 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;
- (viii) subject to the provisions of clause (i), not more than six directors, to be nominated by the Central Government;
- (ix) 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:
  - (i) agricultural and rural economy
  - (ii) banking
  - (iii) co-operation
  - (iv) economics
  - (v) finance
  - (vi) law
  - (vii) small scale industry
  - (viii) any other matter the special knowledge of, and practical experience in which would in the opinion of the Reserve Bank, be useful to the corresponding new bank;
- (B) represent the interest of depositors; or
- (C) 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: (1) 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.





(2) 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 there at.

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 dependents.

- (l) the preparation and submission of statements of programs 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.

#### **E. MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION**

The contracts referred to below (not being contracts entered into in the ordinary course of business carried on by Canara Bank or entered into more than two years before the date of the Offer Document) which are or may be deemed material have been entered by the Bank. Copies of these contracts together with the copies of the documents referred to below, all of which have been attached to a copy of this Offer Document has been delivered to the BgSE and may be inspected at the Head Office of the Bank between 10 A.M. and 12 Noon on any working day of the Bank from the date of Offer Document until the date of closing of the subscription list.

#### **A. MATERIAL CONTRACTS**

1. Memorandum of Understanding with the Lead Managers to the Issue, ICICI Securities and Finance Company Ltd., SBI Capital Markets Ltd., J M Morgan Stanley Private Ltd., Kotak Mahindra Capital Company Ltd. and DSP Merrill Lynch Ltd. agreeing to act as Lead Managers to the Issue on the terms stated therein
2. Memorandum of Understanding between Canara Bank and Karvy Consultants Ltd. agreeing to act as the Registrar to the Issue on the terms stated therein
3. Letters from the Canara Bank to the Lead Managers to the Issue appointing them as such and their acceptances thereof
4. Letter from the Canara Bank to the Registrar i.e. Karvy Consultants Ltd. appointing them as such and their acceptance thereof
5. Letter from the Canara Bank to the Legal Advisors to the





- Issue i.e. DSK Legal, appointing them as such and their acceptance thereof

#### **B. DOCUMENTS**

1. Copy of resolution of Board of Directors dated May 31, 2002 approving the Issue.
2. Copy of letter dated F. No. 11/10/2002-BOA dated August 29, 2002 from Ministry of Finance, Department of Economic Affairs (Banking Division) to the Bank approving the Issue.
3. Government of India, Ministry of Finance (Department of Economic Affairs) Notification in Part I, Section I of the Gazette of India regarding return of capital.
4. Copy of the initial listing applications made to BgSE, BSE and the NSE for listing of the shares of the Bank.
5. Copy of the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970, the Banking Companies (Acquisition and Transfer of Undertakings) Amendment Act, 1994 and the Banking Companies (Acquisition and Transfer of Undertakings) Amendment Act, 1995.
6. Consents in writing of Auditors, 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. to act in their respective capacities, all dated July 11, 2002.
7. Consent in writing from the Bankers to the Issue.
8. Copy of letter dated August 31, 2002 from Auditors, confirming the Tax benefits as mentioned in the Offer Document.
9. Copy of letter dated August 31, 2002 from Auditors including the Auditor's Report and other financial data incorporated in the Offer Document.
10. Copy of resolution of Board of Directors authorising the Registrars to dispose off the applications received with Stockinvest.
11. Copy of resolution of Board of Directors authorising the Chairman and Managing Director (CMD) to take decisions and execute all agreements / documents and sign declaration/papers as may be required for the initial public on behalf of the Board of Directors.
12. Government of India notification regarding appointment of Mr. R. V. Shastri as the Chairman and Managing Director of the Bank.
13. Government of India notification regarding appointment of Mr. N. Kantha Kumar as the Executive Director of the Bank.
14. Annual Reports/Balance Sheets of Canara Bank for the last 5 years.
15. Tripartite agreement between Canara Bank, Karvy Consultants Ltd. and the National Securities Depository Ltd. ('NSDL') dated September 23, 2002.
16. Tripartite agreement between Canara Bank, Karvy Consultants Ltd. and the Central Depository Services (India) Ltd. ('CDSL') dated September 23, 2002.
17. Observations letter No.PMD/SNB/18739/2002 dated September 24, 2002 from SEBI.
18. Letter dated September 11, 2002 from BgSE, letter dated September 19, 2002 from BSE and letter dated September 19, 2002 from NSE.



### **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 Offer Document is contrary to the provisions of the said Acts/Regulations/Guidelines and rules thereunder.

**Signed by the Chairman and Managing Director pursuant to the authority granted by the Board of Directors of the Bank at their meeting held on July 26, 2002.**

Sd/-

**Mr. R. V. Shastri**

Chairman and Managing Director

Place : Bangalore

Date : September 27, 2002