

January 23, 2006

The Chairman & Chief Executive Officer,
Bharat Overseas Bank Ltd.,
Head Office, Habib Towers,
196, Anna Salai,
Chennai – 600 002

Dear Sir,

Violations of RBI instructions etc. – Imposition of Penalty

Please refer to our letter No. DBS. CO. PP. No. 9299/11.01.021/2005-06 dated December 29, 2005 and your response letter dated January 16, 2006 in connection with imposition of penalty under Section 47A (1) (b) of the Banking Regulation Act, 1949.

2. After examining the bank's reply and the oral submission made on January 21, 2006, the Reserve Bank of India held, inter-alia, that the bank had committed the following irregularities

- (i) Extending IPO finance to fictitious/benami individuals without appropriate due diligence to establish their identity or existence.
- (ii) Apart from providing intra day funding of margin money to brokers, the bank had extended huge amounts to a group of accounts through these fictitious/benami individuals in violation of RBI directive on limits on funding of IPOs, (which specified, inter-alia, a limit of Rs.10 lakh per individual).
- (iii) The internal control system has failed to arrest the above irregularities. It also did not act upon the alerts emanated from the internal audit.
- (iv) Collection of account payee cheques of various individuals who are not the customers of the bank, besides crediting the proceeds of the refund orders to accounts other than the accounts of the payees.

3. In view of the above, the Reserve Bank of India has imposed a penalty of Rs.20.00 lakh (Rupees twenty lakh only) on the bank.

4. You may note to disclose the particulars of the above penalty in the "Notes on Accounts" to the Balance sheet in the Annual Report in terms of RBI Circular No. DBOD.BP. BC .49/21.04.018/2004-05 dated October 19, 2004.

Yours faithfully

(G. Gopalakrishna)
Chief General Manager-In-Charge