

annual report
2005 - 06



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75TH ANNUAL GENERAL MEETING

Venue : Dr. B. R. Ambedkar Bhavana,
Millers Road, Vasanthanagar
Bangalore - 560 052

Day / Date : Tuesday, September 26, 2006

Time : 10.30 AM

CONTENTS

1. Board of Directors	01
2. Directors' Report	02
3. Management Team	09
4. Management Discussion & Analysis Report	10
5. Corporate Governance Report	19
6. Auditors' Report	32
7. Balance Sheet	34
8. Cash Flow Statement	55
9. Statement pursuant to section 212	56
10. ING Vysya Financial Services Limited	57
11. Consolidated Auditors' Report	73
12. Consolidated Financials	74
13. Consolidated Cash Flow	96

BOARD OF DIRECTORS

K R Ramamoorthy
Chairman (from May 5, 2006)

G M Rao
(Chairman upto Jan 19, 2006)

Vaughn Richtor
Managing Director & CEO (from Feb 7, 2006)

Bart Helleman
(MD & CEO upto Oct 6, 2006)

Arun Thiagarajan
Cees Ovelgonne (upto Sep 22, 2005)

Joseph J Kestemont

Lars Kramer

Luc Vandewalle (upto June 30, 2006)

Peter Alexander Smyth

Peter Staal (upto Sep 22, 2005)

Prakash G Apte

Philippe Damas (from Sep 22, 2005)

Richard Cox (from July 13, 2006)

Ryan Andrew Padgett

Subrahmanian K R V

Wilfred Nagel (from Sep 22, 2005)

COMPANY SECRETARY

K B V Narayan

STATUTORY AUDITORS

M/s BSR & Co.,
Chartered Accountants
Mumbai

ING VYSYA BANK LIMITED

Registered and Corporate Office
ING Vysya House, No.22, M.G.Road
Bangalore, 560 001

Karvy Computershare Private Limited

Unit: ING Vysya Bank Limited
"Karvy House", 46, Avenue 4,
Street No. 1, Banjara Hills,
Hyderabad - 500 034
Phone: 040-23420815
Fax: 040-23420814

DIRECTORS' REPORT

Your Directors take pleasure in presenting the Seventy Fifth Annual Report on the business and performance of your Bank together with the Audited accounts for the year ended March 31, 2006 and other documents and statements as required.

Financial Performance

Your Bank earned a net profit of Rs. 9 crore compared to a net loss of Rs. 38 crore in the previous year and the highlights of the financial performance are summarized in the following table:

[Figures Rs. crore except ratios/percentages]

	March 31, 2006		March 31, 2005
Total Assets	16,766		15,390
Growth- Year on Year		9%	
Capital and Reserves	1,020		709
Net Interest Income	481		357
Growth- Year on Year		35%	
Non Interest Income	190		123
Growth- Year on Year		55%	
Operating Profit	153		99
Growth- Year on Year		54%	
Net profit	9		(38)
Return on equity	1.03%		-
Cost Income ratio	77.26%		79.28%
Capital Adequacy	10.67%		9.09%

The net interest income as indicated above increased to Rs. 481 crore for the year ended March 31, 2006 compared to Rs. 357 crore in the previous year showing a growth of 35%. The non-interest income increased to Rs. 190 crore in the year ended March 31, 2006 compared to Rs. 123 crore in the year before. A major component of the non-interest income is the income on account of commission, exchange and brokerage amounting to Rs. 126 crore for the year as against Rs. 115 crore for the previous year.

As already informed to the members in the Report of your Directors for 2004-05, your Bank has successfully completed the rights issue and allotted 6,83,70,616 shares of Rs. 10 each at a premium of Rs. 35 (against the pre-rights issue price of Rs. 502.80) aggregating to Rs. 307.66 crore, adding to the net worth of the Bank. Consequent to the above, the capital and reserves (excluding share application money) has gone up from Rs. 709 crore to Rs. 1020 crore. The Capital Adequacy Ratio of the Bank has increased to 10.67% compared to 9.09% at the end of the previous year.

Appropriation of Profits

(Rs. crore)

	March 31, 2006	March 31, 2005
Net Profit for the year	9.06	(38.17)
Profit brought forward	(34.60)	3.57
Transfer from Investment Fluctuation Reserve	55.10	-
Profit available for appropriation	29.56	(34.60)
Transfer to Statutory Reserve	2.26	-
Transfer to Capital reserve	26.00*	-
Balance carried to Balance Sheet	1.29	(34.60)

* Ref. note no. 18.18 of Notes on accounts: a further amount of Rs. 16.76 crore would be transferred to capital reserves in the next year, in terms of regulatory requirements.

In view of the inadequacy of profits, your Board of Directors has not recommended payment of dividend for the year ended March 31, 2006.

Consolidated Financial Statements

As required by AS 21 and AS 23 issued by the Institute of Chartered Accountants of India, the Bank's consolidated financial statements are included in this Annual Report incorporating the accounts of the subsidiary company viz. ING Vysya Financial Services Limited (IVFSL) and Associates viz. ING Vysya Life Insurance Company Private Limited (upto August 24, 2005 i.e. the date of disinvestment) and ING Investment Management (India) Private Limited, in line with the basis of consolidation as explained in the Notes to the said consolidated statements.

Business Performance

The Bank's total assets increased to Rs. 16,766 crore as at March 31, 2006 from Rs. 15,390 crore as at March 31, 2005, recording a growth of 9%. A detailed discussion on the financial and segment-wise performance is included in the Management Discussion and Analysis Report, forming part of this Annual Report.

Deposits

Total deposits of the Bank stood at Rs.13,335 crore, marking an increase of Rs.766 crore (6%) over the previous year's deposits' level of Rs.12,569 crore. The overall cost of deposits declined from 5.01% to 4.91% during 2005-06.

The proportion of low cost deposits of the Bank to the total deposits increased from 24% as of March 31, 2005 to 27% as of March 31, 2006, registering a growth of 18% in absolute volumes, with encouraging response for the orange savings / current account schemes.

Advances

The net advances of the Bank have grown by 13%, increasing from Rs. 9,080 crore as at March 31, 2005 to Rs. 10,231 crore as at March 31, 2006.

Priority Sector Advances : The priority sector advances at Rs. 3,657 crore constituted 36.43% of the Net Bank Credit as at March 31, 2006 against 40% stipulated by the Reserve Bank of India. The advances to the agricultural sector amounted to Rs. 907 crore as at March 31, 2006 forming 9.04% of the total Net Bank Credit. Advances to the weaker sectors amounted to Rs. 378 crore forming 3.77% of the Net Bank Credit, while the Differential Rate of Interest (DRI) advances amounted to Rs. 41 crore, forming 0.49% of the Net Bank Credit.

Export Credit : Export credit increased by 12% from Rs. 985 crore as at March 31, 2005 to Rs.1,105 crore as at March 31, 2006, standing at 11% of net advances.

Investments

Total Investments of the Bank stood at Rs. 4,372 crore as at March 31, 2006 compared to the previous year's figure of Rs. 4,196 crore.

Non Performing Assets

The net non-performing assets' (NPA) ratio has been brought down to 1.76% as at March 31, 2006 from 2.13% as at March 31, 2005 due to the implementation of an effective recovery strategy and measures to contain growth of NPAs.

Branch Network

The number of branches as at March 31, 2006 had increased to 377 (including eight regional collection centers), from 370 as of March 31, 2005, in addition to 56 Extension Counters, which continue to be in operation.

Compliance

Based on scrutiny of certain customer accounts, RBI imposed a penalty of Rs. 10 lakhs on the Bank under the provisions of the Banking Regulation Act, 1949. The penalty was imposed primarily for:

- not exhibiting prudence in the opening of certain savings accounts, non-compliance of the KYC norms in respect of certain accounts and
- non-adherence to certain instructions of the Reserve Bank of India with regard to IPO financing.

The said penalty has been duly paid. Your management has revisited the process in place and taken steps to further strengthen the systems of internal controls with a view to ensure such incidence does not recur in future. Your management has also initiated appropriate disciplinary action for staff lapses.

Employee Stock Option Scheme

The shareholders of the Bank, at the Annual General Meeting (AGM) held on September 29, 2001 approved earmarking of 5,00,000 shares of the Bank to be granted under the Employee Stock Option Scheme (ESOS), which options are to be granted in three tranches. As a result of issue of Rights shares by the Bank during 2005 in the ratio of three shares for every one share held, a proportionate adjustment was made to the number of options already granted (and not exercised) and to the exercise price. Further, the shareholders have approved a revised ESOS at the AGM in 2005. The requisite particulars to be disclosed under the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, in respect of the options granted etc, under the above two schemes are furnished in Annexure -1 to this report.

Statutory Disclosures

The particulars of employees required under Section 217(2A) of the Companies Act, 1956 and the rules made thereunder, are given in the annexure appended hereto (Annexure- 2) and forming part of this report. In terms of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to the shareholders excluding the aforesaid annexure. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the Registered Office of the Bank. The Bank had 5312 employees as on March 31, 2006, out of which, 14 employees employed throughout the year were in receipt of remuneration of above Rs. 24.00 lakhs per annum and 27 employees employed for part of the year were in receipt of remuneration of Rs. 2 lakhs per month.

The provisions of Section 217(1)(e) of the Act relating to conservation of energy and technology absorption do not apply to your Bank. The Bank has, however, used information technology extensively in its operations.

Subsidiaries

ING Vysya Financial Services Limited (IVFSL) a 100% subsidiary of your Bank, engaged in marketing of the Bank's products and products of insurance and mutual funds earned a net profit of Rs. 4.95 crore for 2005-06, as against Rs.3.96 crore earned during the previous year.

As required under Section 212 of the Companies Act, 1956 the Balance Sheet, Directors Report and other documents pertaining to IVFSL, along with a statement of interest of the Bank in the subsidiary, are attached to the financial statements of your Bank.

Associates and Joint Ventures

ING Vysya Life Insurance Company Private Limited (IVL): During the year under review, your Bank divested its entire stake of 14.87% in IVL resulting in a profit of Rs. 22.89 crore.

ING Investment Management (India) Private Limited (IIMPL): Your Bank holds 99,30,000 shares in IIMPL at a book value of Rs. 9.93 crore. During the year 2005-06 it was decided not to subscribe to the rights shares offered by IIMPL (which brought down the holding of your Bank from 17.6% of last year) and further to divest the entire stake of the Bank in IIMPL by sale of the shares to an identified buyer at a consideration of Rs. 11.92 crore. The transaction will be put through after IIMPL obtains the approval from SEBI for the change in shareholding pattern.

Delisting

In view of the 'Nil' trading volumes in your company's shares for the last seven years in Bangalore Stock Exchange, a proposal is being placed before the shareholders at the ensuing Annual General Meeting for authorizing the Bank to seek delisting of its shares from the Bangalore Stock Exchange.

Directors

During the year, Mr. G M Rao, Non-Executive Chairman of the Board resigned on completion of the maximum permissible term of eight years stipulated under the Banking Regulation Act, 1949 as Director on the Board. Your Directors take this opportunity to place on record the yeoman services rendered by Mr. Rao as Promoter Director on the Board & as Chairman of the Board and considered that it would be appropriate to confer on him the title "Chairman-Emeritus", in recognition of his services.

Mr. Bart Hellemans ceased to be Managing Director & CEO on completion of his tenure on October 6, 2005. The Board places on record its appreciation of the services rendered by Mr. Hellemans in various capacities, as Deputy Managing Director and as Managing Director & CEO of the Bank.

Mr. Peter Staal, Mr. Cees Ovelgonne and Mr. Anand S Bhatt also resigned from their positions as Directors on the Board during the year. Mr. B Ramani Raj, nominee Director of the Reserve Bank of India ceased to be director effective December 9, 2005 on withdrawal of the nomination by RBI. Your Board of Directors take this opportunity to place on record its appreciation and gratitude for the valuable services rendered by them during their tenure as Directors on the Board.

Appointment of Chairman

Mr. K R Ramamoorthy has been appointed as Non-Executive Part-time Chairman of the Bank on honorary basis for a period of three years commencing from May 5, 2006 in terms of the approval of the RBI under Section 10B(1A)(i) of the Banking Regulation Act, 1949.

Appointment of Managing Director and CEO

The Board of Directors have appointed Mr. Vaughn Nigel Richtor as Additional Director with effect from October 26, 2005 and also proposed his name for appointment as Managing Director.

With the approval of Reserve Bank of India under Section 35B of the Banking Regulation Act, 1949, Mr. Vaughn Richtor has been appointed as the MD & CEO for a period of three years. Accordingly, he assumed office on February 7, 2006. In terms of Section 269 read with Part III of Schedule XIII to the Companies Act, 1956, the appointment and remuneration of Mr. Vaughn Richtor requires the approval of the shareholders, which is included in the Notice convening the Annual General Meeting, based on the requisite notice under Section 257 received from a member proposing his appointment to the said office.

Retirement of Directors by rotation

Mr. Ryan Padgett, Mr. Peter Smyth and Mr. Lars Kramer will retire by rotation in terms of Section 256 of the Companies Act, 1956 at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. A brief resume of these Directors is furnished in the Annexure to Notice convening the Annual General Meeting.

Appointment of Additional Directors

Mr. Philippe Damas and Mr. Wilfred Nagel were appointed as Additional Directors of the Bank during the year and shall hold office upto the ensuing Annual General Meeting. Your Bank has received notices from members pursuant to Section 257 of the Companies Act, 1956 proposing the candidature of Mr. Philippe Damas and Mr. Wilfred Nagel for the offices of Director. A brief resume of the said candidates who are to be so appointed are furnished in the Annexure to Notice convening the Annual General Meeting.

Registrar & Share Transfer Agents

Kavy Computershare Pvt. Limited, Hyderabad continues to be the Registrar and Share Transfer Agents for the shares of the Bank.

Auditors

The Statutory Auditors viz. M/s. BSR & Co., Chartered Accountants who were first appointed as auditors of the Bank at the 72nd Annual General Meeting (AGM) held on September 15, 2003 and re-appointed at the successive AGMs thereafter are due to retire at the conclusion of the ensuing AGM and are eligible for re-appointment. Subject to the approval of RBI, it is proposed to re-appoint M/s. BSR & Co., Chartered Accountants as Statutory Auditors of the Bank for the financial year 2006-07. Shareholders are requested to approve the appointment of said firm as auditors and authorize the Board of Directors to determine the remuneration payable to the said auditors and also to appoint Branch auditors and finalise their remuneration.

Other Reports

As required under Clause 49 of the Listing Agreement entered into with the Stock Exchanges, a detailed report on Corporate Governance and Management Discussion and Analysis Report are included in the Annual Report to form part thereof.

Directors' Responsibility Statement

As required by Section 217(2AA) of the Companies Act, 1956, your Directors confirm:

- (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank at the end of the financial year and of the profit of the Bank for the year under review;
- (iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities;
- (iv) that the directors had prepared the accounts for the financial year ended March 31, 2006 on a going concern basis.

Acknowledgements

The Board is grateful to the Reserve Bank of India for its continued guidance and support. The Board places on record its gratitude to the Securities and Exchange Board of India and other government and regulatory authorities for their guidance and support.

The Board wishes to place on record its sincere thanks to IFC, financial institutions & FIIs, stock exchanges, Indian Banks' Association, Indian Institute of Bankers, National Securities Depositories Limited, Central Depository Services (India) Limited, correspondent banks, rating agencies for their continued support.

The Board also place on record its special thanks to ING Group in providing the necessary guidance and support helping your Bank in its endeavours to upgrade its risk management and other processes to international standards.

The Board would like to take this opportunity to express sincere thanks to its valued clients and customers for their continued patronage. The Directors express their deep sense of appreciation of all the employees, whose outstanding professionalism, commitment and initiative has made the organisation's growth and success possible and continues to drive its progress. Finally, the Directors wish to express their gratitude to the Members for their trust and support.

For and on behalf of the Board



K R Ramamoorthy
Chairman

Date: July 13, 2006

ANNEXURE-1 TO DIRECTORS' REPORT

ESOS Scheme 2002 (as modified in 2005)				
Details	Tranche 1		Tranche 2	
	Pre-adjustment	Post-adjustment	Pre-adjustment	Post-adjustment
Options Granted	166,800	—	160,490	—
Grant Date	October 1, 2002	—	October 1, 2003	—
Grant Price	Rs. 203/- per option/share	Rs. 84.50/- per option/share	Rs. 255/- Per option/share	Rs. 97.50/- Per option/share
Grant Period	One year		One year	
Vesting schedule	1.10.2003 - 20%		1.10.2004 - 20%	
	1.10.2004 - 20%		1.10.2005 - 20%	
	1.10.2005 - 20%		1.10.2006 - 20%	
	1.10.2006 - 20%		1.10.2007 - 20%	
	1.10.2007 - 20%		1.10.2008 - 20%	
<i>Till June 30, 2005</i>				
Options vested	60,450	—	28,868	
Options exercised	59,740	—	27,568	
Shares arising out of exercise	59,740		27,568	
Options Lapsed	25,065	—	25,541	
Options outstanding	81,995	3,27,980	1,07,381	4,29,524
<i>From July 1, 2005 to March 31, 2006</i>				
Options vested	1,05,720		1,01,896	
Options Exercised	57,010		43,736	
Shares arising out of exercise	57,010		43,736	
Options Lapsed	14,860		32,218	
Options outstanding	2,56,110		3,53,570	
Variation of terms of options	Nil		Nil	
Money realized by exercise of options	Rs. 1,69,44,565		Rs. 1,12,94,100	
Employee wise details of options granted to key managerial personnel	Originally Granted	Options out-standing as on June 30, 2005 pursuant to adjustment	Originally Granted	Options out-standing as on June 30, 2005 pursuant to adjustment
1) Mr. Shantanu Ghosh, Country Head - Retail Banking	5,000	12,000	3,500	11,200
2) Mr. Muralidhar S, Chief Administrative Officer (since resigned)	2,000	—	3,500	—
3) Mr. Narayan K B V, Chief Finance Officer	3,025	7,260	3,500	11,200
4) Mr. Ravi Kumar V, Country Head - Financial Markets (since resigned)	5,000	—	3,500	—
5) Mr. Suresh Chandra Nanda, Regional CEO - North & East	—	—	3,500	11,200
6) Mr. Ashok Rao B, Chief - Corporate Audit Group	—	—	3,500	11,200
Any other employee who received a grant in any one year of options amounting to 5% or more of options granted during that year	NIL		NIL	
Identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	NIL		NIL	

ESOS 2005	
Details	Tranche
Options Granted	4,55,712 (Including 13000 on sign on options)
Grant Date	January 1, 2006
Grant Price	Rs. 124/- per option/share for options granted on January 1, 2006
Grant Period	One year
Vesting schedule	01.01.2007 – 25% 01.01.2008 – 25% 01.01.2009 – 25% 01.01.2010 – 25%
Options vested	—
Options exercised	—
Shares arising out of exercise	—
Options Lapsed	43,060
Options outstanding	8,50,240
Variation of terms of options	Nil
Money realized by exercise of options	—
Employee wise details of options granted to key managerial personnel	Originally Granted
1. Mr. Shantanu Ghosh, Country Head – Retail Banking	8,000
2. Mr. M V S Appa Rao, VP – Compliance	4,500
3. Mr. Bala Iyer, Chief Operational Risk Officer	4,500
4. Ms. Judy Manners, Chief Operating Officer	5,000
5. Mr. Victor ICI, Chief Officer- Corporate Legal & Compliance Dept.	3,500
6. Mr. Ashok Rao B Chief – Corporate Audit Group	5,000
7. Mr. Narayan K B V Company Secretary	3,000
8. Mr. Prasad J M Chief – Human Resources	5,500
9. Mr. Ravindra Kumar Country Head – Wholesale Banking	10,000
Any other employee who received a grant in any one year of options amounting to 5% or more of options granted during that year	NIL
Identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	NIL

The Bank follows the intrinsic method for valuing the stock options. The difference between Employee Compensation Cost computed based on such intrinsic value and Employee Compensation Cost that shall have been recognized if fair value of options had been used is explained below:

a) Employee Compensation Cost

(Amount in Rs.)

i) Intrinsic Value	6,268,140
ii) Black-Scholes*	8,911,885
Excess to be charged	2,643,745

b) Impact on Profit

(Amount in Rs.)

i) Declared Profit	90,564,408
ii) Less: Adjustment for additional charge due to Black Scholes	2,643,745
Adjusted Profit	87,920,663

c) Impact on EPS

	Basic (Rs.)	Diluted (Rs.)
i) Declared in the Financial Statements	1.02	1.02
ii) Revised EPS	0.99	0.99

d) Weighted Average details for all the three Tranches

i) Exercise Price	Rs. 105.15
ii) Fair Value	Rs. 51.98

e) Significant assumptions: Weighted average information to estimate the fair value of options

	Tranche I	Tranche II	Tranche III
i) Risk Free Interest Rate	5.89%	4.78%	6.68%
ii) Expected Life (excluding grant period of one year)	5 Yrs	5 Yrs	4 Yrs
iii) Expected Volatility	2.8%	2.4%	2.0%
iv) Expected Dividends	40%	40%	—
v) The price of the underlying share in market at the time of option grant (as per NSE)	Rs. 255.30	Rs. 451.30	Rs. 164.3
Share Prices adjusted after Rights issue	Rs. 97.57	Rs. 146.57	Rs. 164.3

* The Black-Scholes Model is used to calculate a theoretical call price (ignoring dividends paid during the life of the option) using the five key determinants of an option's price: stock price, strike price, volatility, time to expiration and short-term (risk free) interest rate.

The Black – Scholes Model for Option Valuation (Tranche – I)

Call option value calculated based on:

The current market value of the share is Rs. 97.57 (as on 1st Oct, 2002) (After Rights issue adjust)

(Rs. 255.30 at the time of option grant, i.e., without Rights issue adjust)

The exercise price is Rs. 84.50 (After Rights issue adjust) (Rs. 203 without Rights issue adjust)

The risk free rate of interest is the yield of 5-year gilt rate (5.89%)

The Standard deviation of the continuously compounded annual return on the share is 0.028. (i.e. Volatility is 2.8%)

The call option value for:

1st Year – Rs. 17.91

2nd Year – Rs. 22.47

3rd Year – Rs. 26.76

4th Year – Rs. 30.81

5th Year – Rs. 34.63

The Black – Scholes Model for Option Valuation (Tranche – II)

Call option value calculated based on:

The current market value of the share is Rs. 146.57 (as on 1st Oct, 2003) (After Rights issue adjust)

(Rs. 451.30 at the time of option grant i.e., without Rights issue adjust)

The exercise price is Rs. 97.50 (After Rights issue adjust) (Rs. 255 without Rights issue adjust)

The risk free rate of interest is the yield of 5-year gilt rate (4.78%)

The standard deviation of the continuously compounded annual return on the share is 0.024. (i.e., Volatility is 2.4%)

The call option value for:

1st Year – Rs. 53.63

2nd Year – Rs. 57.96

3rd Year – Rs. 62.10

4th Year – Rs. 66.04

5th Year – Rs. 69.80

The Black – Scholes Model for Option Valuation (Tranche – III)

Call option value calculated based on:

The current market value of the share is Rs. 164.30 (as on 1st Jan, 2006)

The exercise price is Rs. 124

The risk free rate of interest is the yield of 4-year gilt rate (6.68%)

The Standard deviation of the continuously compounded annual return on the share is 0.020. (i.e., Volatility is 2.0%)

The call option value for:

1st Year – Rs. 48.31

2nd Year – Rs. 55.81

3rd Year – Rs. 62.82

4th Year – Rs. 69.38

As required under Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, a certificate issued by Auditors of the Bank indication that the Scheme has been implemented in accordance with these guidelines and in accordance with the resolution of the Bank in General Meeting will be placed at the Annual General Meeting of the shareholders.