



Karnataka Bank Ltd.
Your Family Bank. Across India.

Analysis of Financial Results

March 2017



Company Overview

Financial Performance

Annexure

Business Strategy



1. Time tested Bank with over 93 years of banking history
2. Pan-India footprint
3. Robust technology and risk management systems
4. Strong productivity, capital adequacy ratios
5. Experienced management team & Professional Board
6. Highest Standards of Corporate Governance
7. Business Process Reengineering under implementation
8. Consistent track record of profit since inception
9. Powered by KBL - VISION 2020

History & Evolution



- Incorporated in **1924**, Karnataka Bank is one of the oldest time tested private sector Banks.
- Offers wide variety of corporate and retail banking products and services to over **8.2 million** customers.
- Forayed into General Insurance business as a JV partner in Universal Sampo General Insurance Company Limited.
- **2,148** service outlets with **765** branches, **3** Extension Counters and **1,380** ATMs in 509 centres across India as on Mar 31, 2017.
- Business Turnover of **Rs. 93,737 crore** as at 31.03.2017.

2017	• Networth of the Bank crossed Rs. 5,000 crs
2016	• Completed 1:2 rights issue to raise Rs. 658.96 crs
2015	• Unveiled KBL - VISION 2020 & adopted Vision Statement • No. of ATMs crossed 1,000
2014	• Business turnover crossed the milestone of Rs. 75,000 crore
2013	• Secured ISO 27001 : 2005 Certificate from NQA • BPR implementation under the guidance of M/s KPMG Advisory Services Pvt Ltd. commenced
2012	• Business Turnover crossed the milestone of Rs. 50,000 crore • No. of branches crossed 500 • Average turnover per branch crossed Rs. 100 crore • Launched ASBA facility
2011	• Right issue of Rs. 457.03 crore in the ratio of 2:5. • Launched Online Trading facility
2010	• Maiden QIP aggregate Rs. 160.83 crs.
2009	• Compliance with Basel-II norms
2007	• Completion of 100% core banking
2006	• Floated general insurance JV along with Allahabad Bank, Indian Overseas Bank, Dabur Investments and Sampo Japan Insurance • Launched CDSL-DP services at select branches
2005	• Completed 2:1 rights issue to raise Rs. 160 crs
2003	• Right issue in the ratio of 1:2
2002	• Bancassurance tie-up with MetLife • Maiden bonus issue in the ratio of 1:1
2000	• Implementation of "Finacle" CBS
1995	• Public issue of 45 lakh equity shares in October 1995
1977	• Became an authorised dealer of foreign exchange
1960 to 1966	• Took over assets and liabilities of Sringeri Sharada Bank Ltd, Chitaldurg Bank & Bank of Karnataka, Hubli.
1924	• Incorporated on 18 th February 1924 at Mangalore by Late B R Vyasarayachar & other leading members of the South Kanara Region



Awards & accolades received during the current FY 2016-17:

- ❖ **4 Social Banking Awards** instituted by the ASSOCHAM under Small Bank category:
 - ❖ Winner - Government Schemes & Priority Sector Lending,
 - ❖ Runner Up - Agricultural Banking & Overall Best Social Bank.
- ❖ **Best MSME Bank Award [Private sector] 2016** instituted by The ASSOCHAM.
- ❖ **IBA - Banking Technology Awards 2017** under Small Bank category:
 - ❖ Winner - Best Financial Inclusion Initiatives
 - ❖ Runner Up - Best use of Digital and Channels Technology.
- ❖ **FIEO - Southern Region Export Excellence Award: Best Financial Institution [Southern Region]** under Gold Category, instituted by FIEO.
- ❖ **Greentech Safety Award 2016** instituted by M/s Greentech Foundation, New Delhi, under 'Gold' category in Banking sector.
- ❖ **Certificate of Special Mention** for use of Technology for Financial Inclusion among Small Banks, instituted by IDRBT.
- ❖ **CFBP Jamnalal Bajaj Uchit Vyavahar Puraskar - 2015** - "Certificate of Merit" under 'Service Enterprises - Large' category.
- ❖ **'Award of Excellence'** for "Outstanding Performance in MSME funding" instituted by FITS.



Awards & accolades received recently:

- ❖ **STP Award 2016** in recognition of its **outstanding payment formatting & Straight- Through Rate** instituted by The Bank of New York Mellon.
- ❖ **MSME Banking Excellence Award - 2016**, instituted by CIMSME:
 - ❖ **Runner Up - CSR Initiatives & Business Responsibility [Emerging category].**



Shri Raghurama, General Manager, receiving the awards from Shri Arjun Ram Meghwal, Hon'ble Minister of State for Finance and Corporate Affairs and Shri Mukhtar Abbas Naqvi, Hon'ble Minister of State for Minority Affairs (I/C) and Parliamentary Affairs, on April 20, 2017, at New Delhi. Bank has bagged the award, instituted by Chamber of Indian Micro Small & Medium Enterprises [CIMSME], under the category: CSR Initiatives & Business Responsibility Award – Runner Up (Emerging Category).

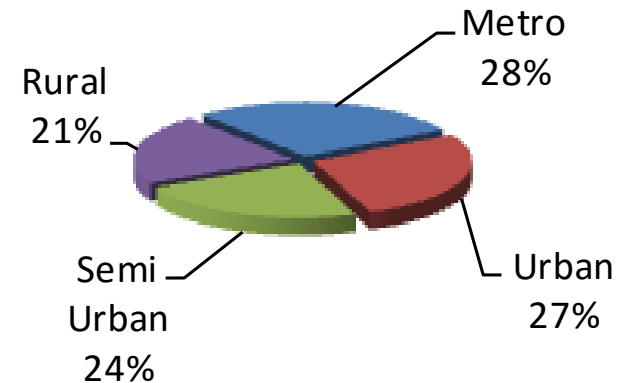
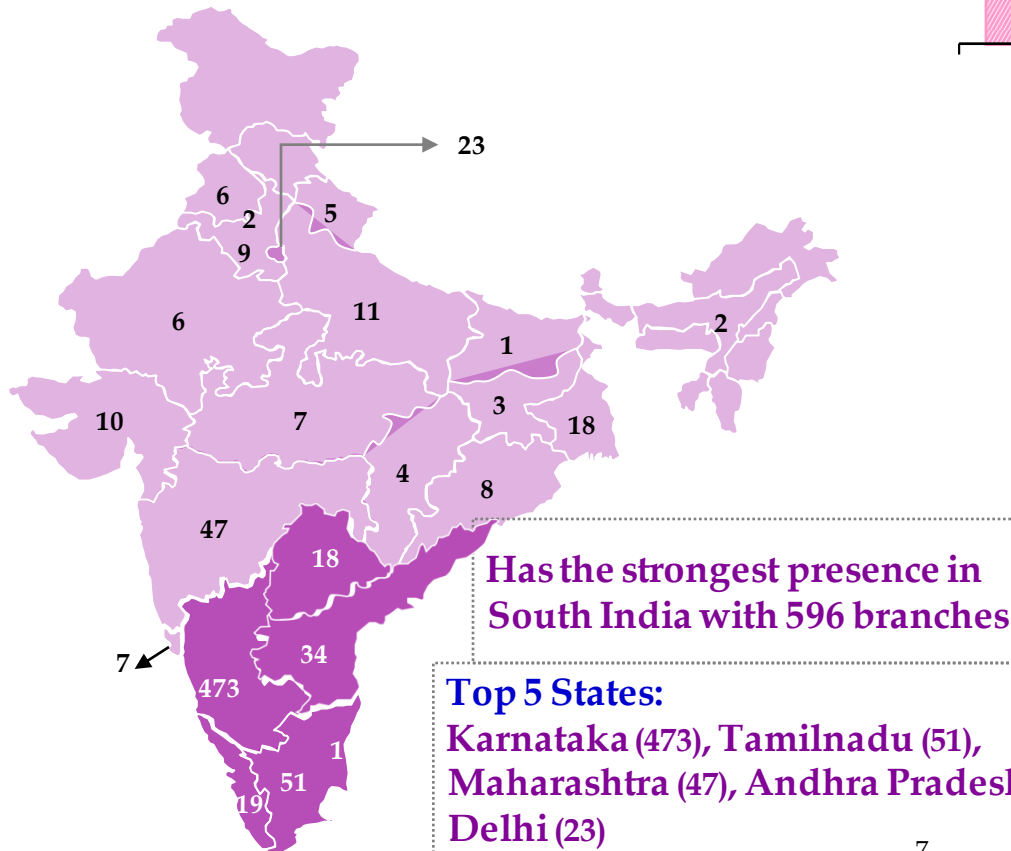
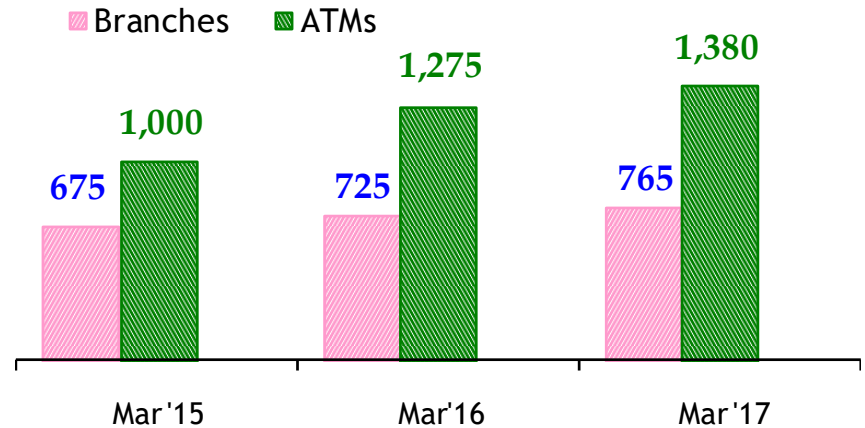
Pan-India footprint



Pan-India Presence

- Total 2,148 outlets –765 branches, 3 Extension Counters & 1,380 ATMs
- Total 30 e-Lobbies & 80 mini e-Lobbies
- Specialized branches for Forex, Industrial, Agriculture, MSME, Corporate business & Financial Inclusion
- 102 Financial Inclusion branches, 37 Ultra Small branches
- Expanding network in northern India also.

No of branches & ATMs





Strong technology platform

The existing “ISO 27001:2013” certificate encompassing the Information Security Management System (ISMS) at the Bank’s Data Centre, Near line Site [NLS] at Bengaluru and Information Technology Department including the DR site [IT & DR] at Head Office, Mangaluru, has been renewed by AJA Registrars, UK, for a further period of three years up to March 2019, reflecting the Bank’s continued commitment to technology adoption.

- ◆ Pioneer in implementing “Finacle” (CBS) amongst the old generation private sector banks
- ◆ State-of-art IT set up which has enabled Anytime Anywhere Banking through alternate delivery channels such as ATMs, VISA International Debit Card, RUPAY Debit Card, Internet Banking, Mobile Banking, IMPS, e-lobby etc.
- ◆ Enabled Online Account Opening, implemented ‘M-Passbook’ (Mobile Passbook), ‘KBL Apna App’ (SMS Banking) etc as additional facilities for the convenience of customers.
- ◆ Also offers other products such as NGRTGS, NEFT, NECS, CTS, Online Trading, ASBA facility, Gift Card, Travel Card, Biometric Smart Card under Financial Inclusion, PoS Network, Online inward remittance facility to NRIs etc.
- ◆ Implemented Lending Automation Processing System (LAPS) software for efficient life cycle management of loan accounts and improved monitoring.
- ◆ Implemented an Enterprise Level Fraud Risk Management System (ELFRMS) for effective cyber fraud prevention across delivery channels.
- ◆ Launched Mobile Banking App on Unified Payment Interface (UPI) Platform branded “KBL SMARTz”.



Effective risk management system

- ◆ Periodical monitoring & reviewing of risk profile of the bank .
- ◆ Internal Credit Rating of all the borrowers: Credit exposure above INR 25 lakh are rated borrower-wise and credit facilities below INR 25 lakh & all schematic advances including agri-credit proposals are rated under 'Pool based approach'.
- ◆ Continuous offsite surveillance of borrower accounts.
- ◆ Effective ALM/mid office set up to monitor Liquidity risk/ Market risk on a continuous basis.
- ◆ For effective Operational risk management:
 - Bank is building up a database of internal Loss data, near- miss cases and other Operational risk events, since Sept 2007.
 - Bank has an effective AML monitoring system to scrutinize the customer transactions to ensure compliance to the extant guidelines.
- ◆ Bank has taken all necessary steps for migration to 'Basel II advanced approaches' under Credit, Market and Operational Risk and also complied with the extant 'Basel III' guidelines of RBI.
- ◆ Bank has implemented a scientific Fund Transfer Pricing (FTP) & Customer Profitability Management System (CPMS) to assess the performance of branches / products / portfolios / customers.



(Rs. crs)

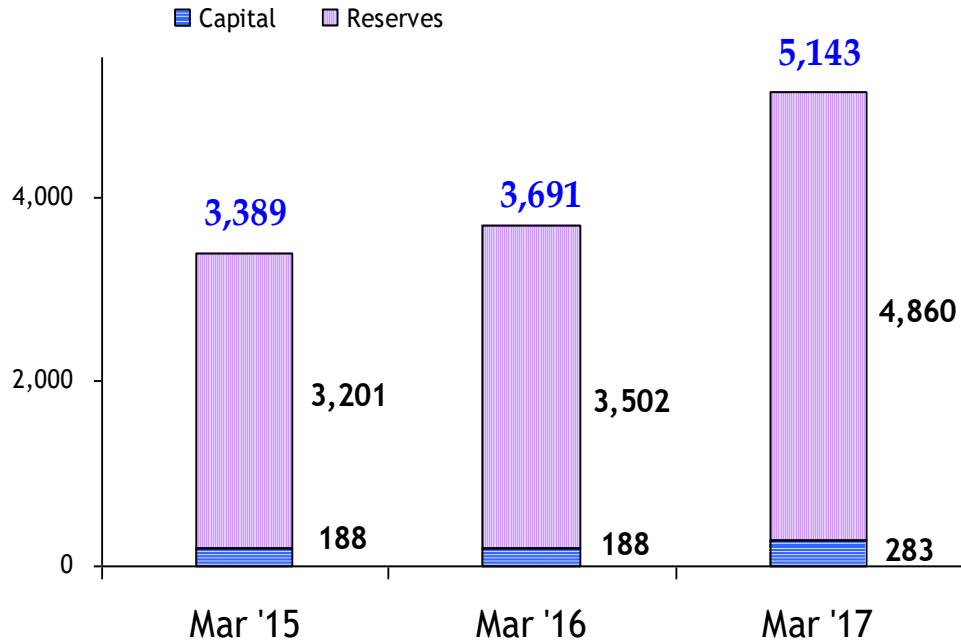
KPAs	Q4 of FY 2016-17	FY 2016-17
Net profit	138.37	452.26
Operating profit	329.27	995.80
Turnover	93,737	93,737
Return on Asset	0.85%	0.74%
Earning per Share	* 4.90	19.38
Return on Equity	10.83%	10.24%
Net Interest Margin	2.17%	2.44%
Gross NPA	4.21%	4.21%
Net NPA	2.64%	2.64%
Cost to Income	50.40%	56.70%
CRAR (Basel III)	13.30%	13.30%

* Not annualized

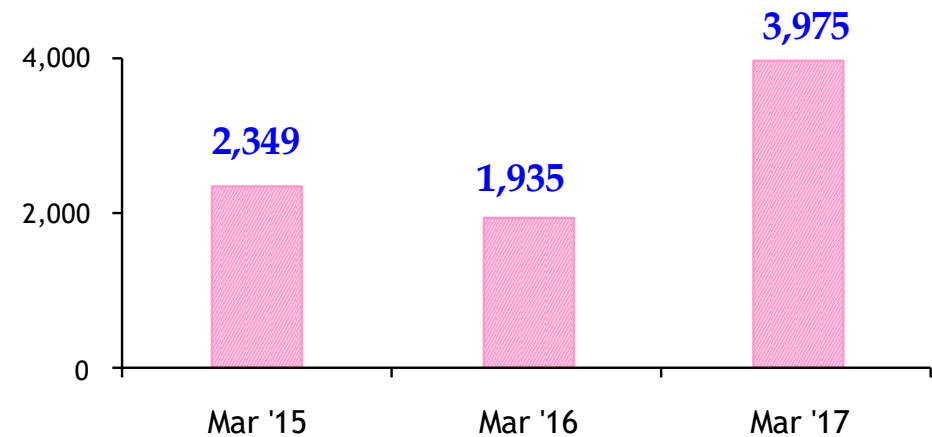
Financial strength of the Bank



Networth (RS. crs)



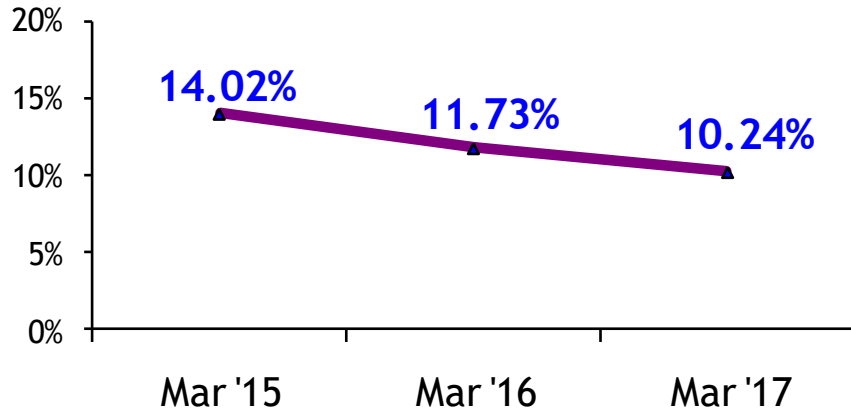
Market capitalisation (RS. crs)



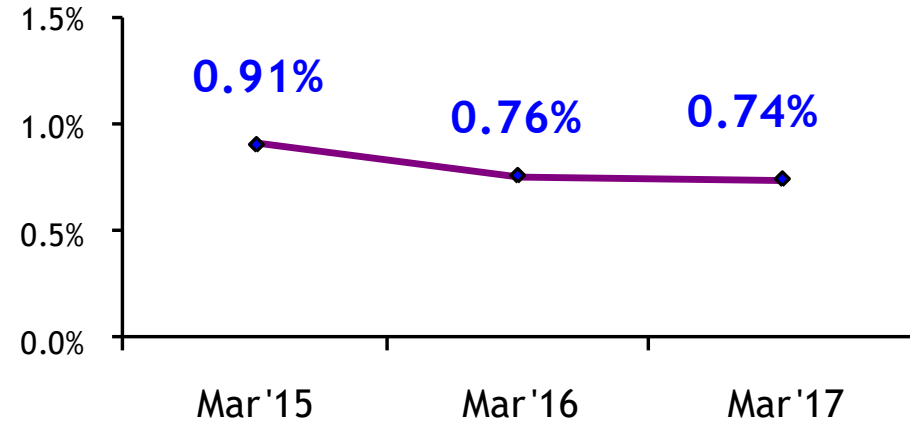
Return and Capital Adequacy Ratios



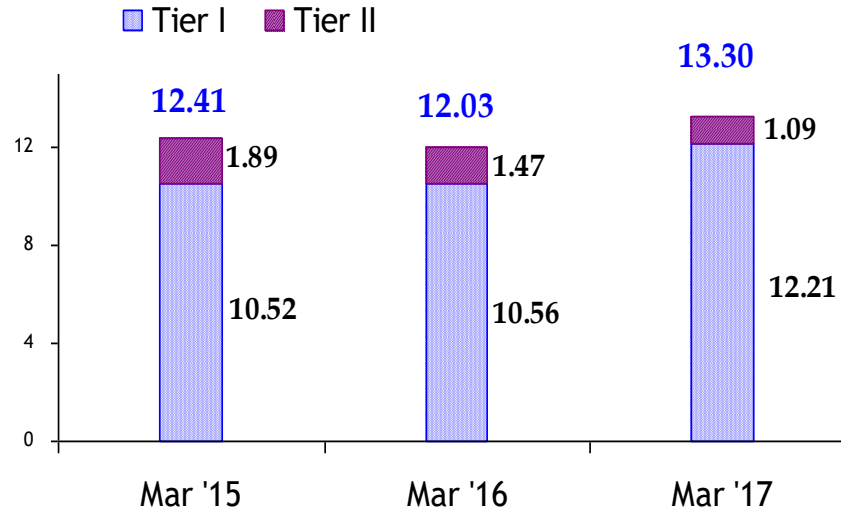
Return on Equity (%) (after tax)



Return on Assets (%) (after tax)



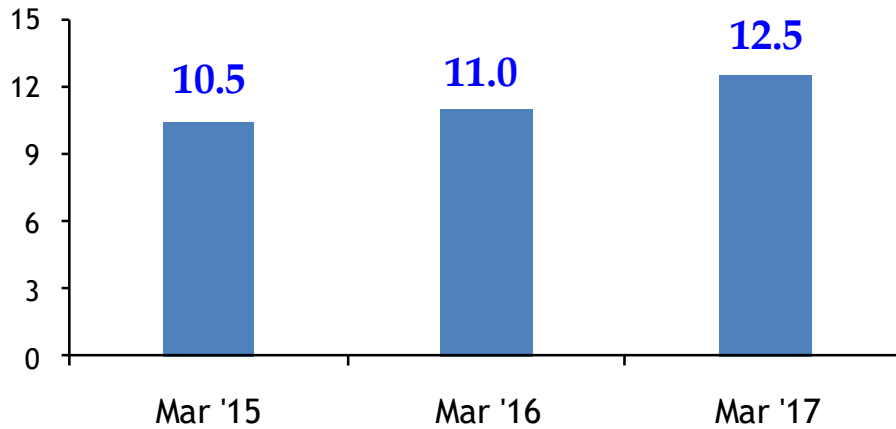
Capital Adequacy (%) - Basel III



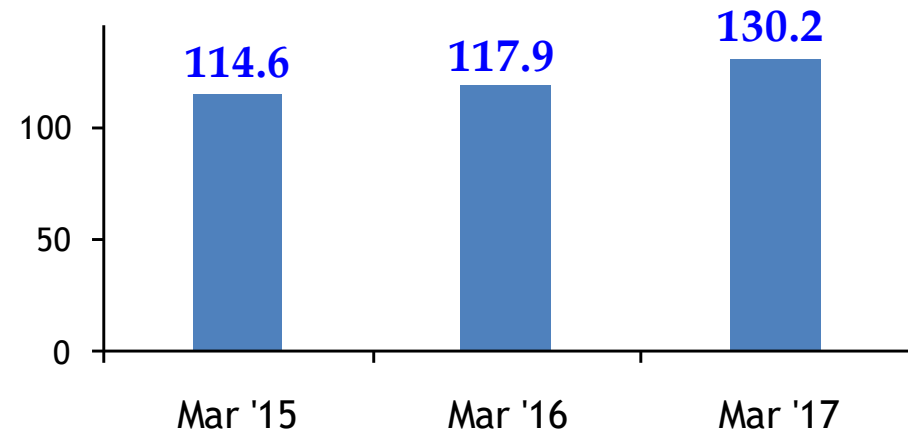
Productivity ratios



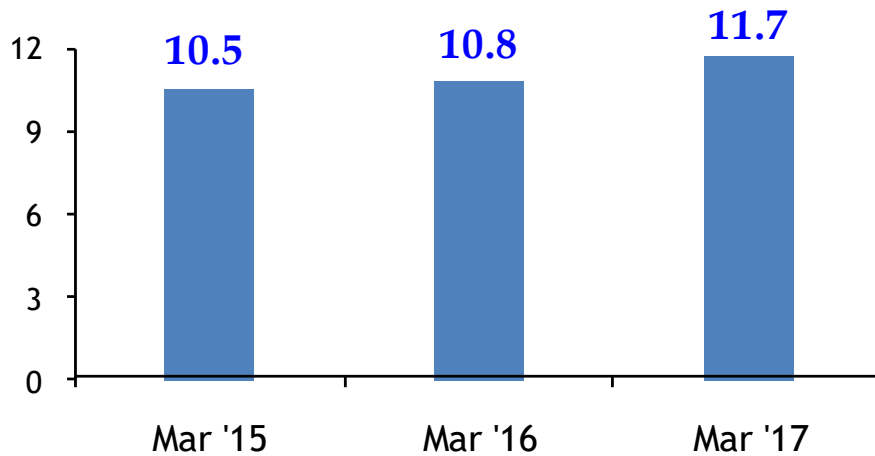
Operating Profit per employee (RS. lakh)



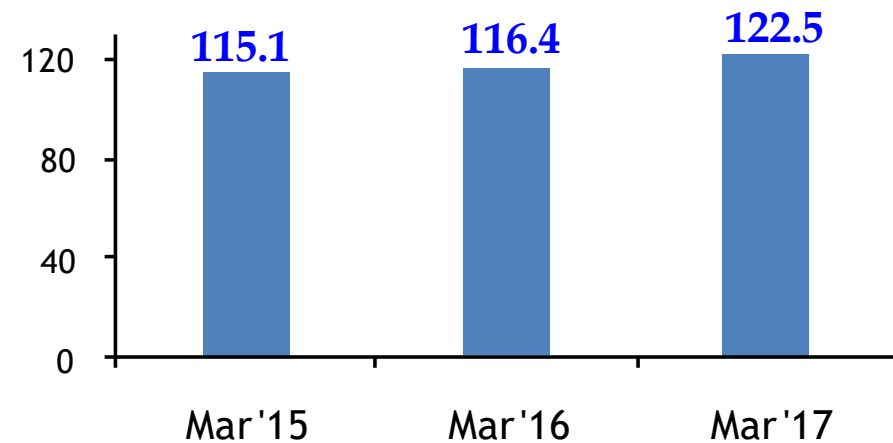
Operating Profit per branch (RS. lakh)



Business per employee (RS. crs)



Business per branch (RS. crs)

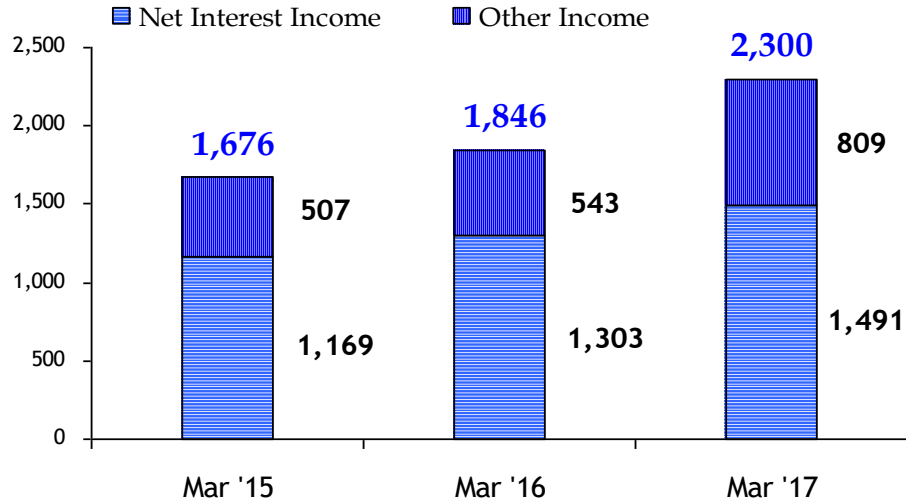


Financial Performance

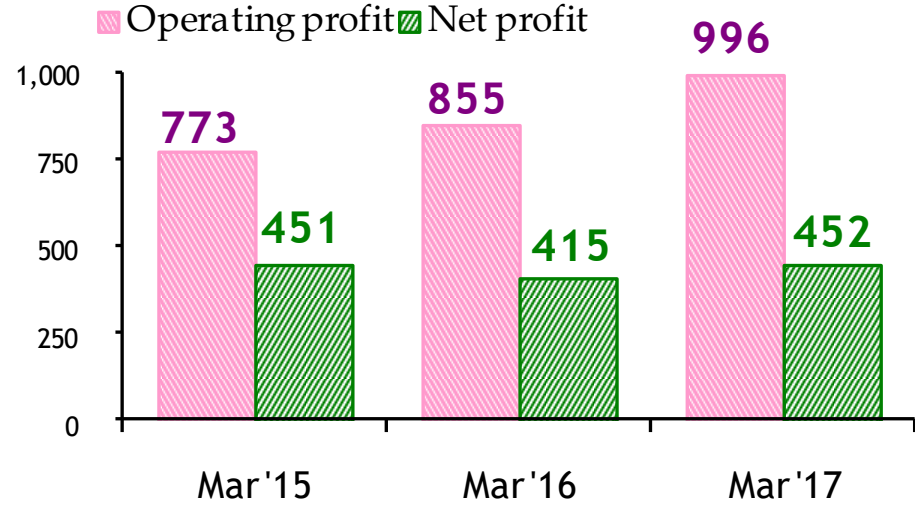
Income & Profit



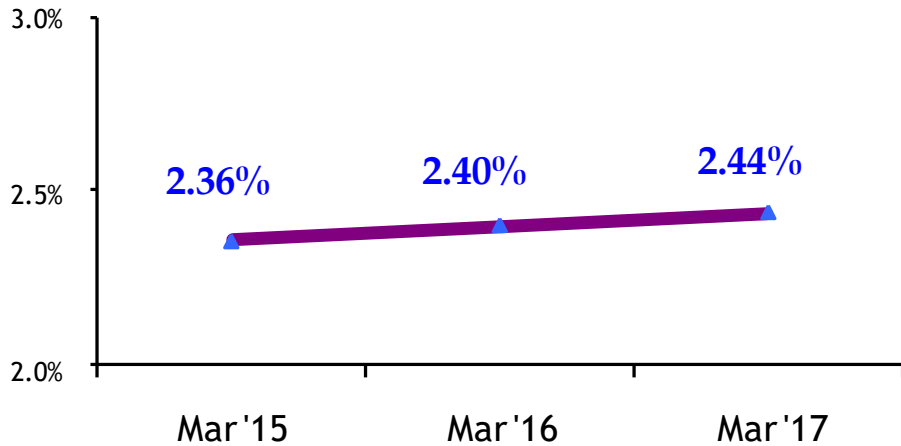
Net Income (Rs. crs)



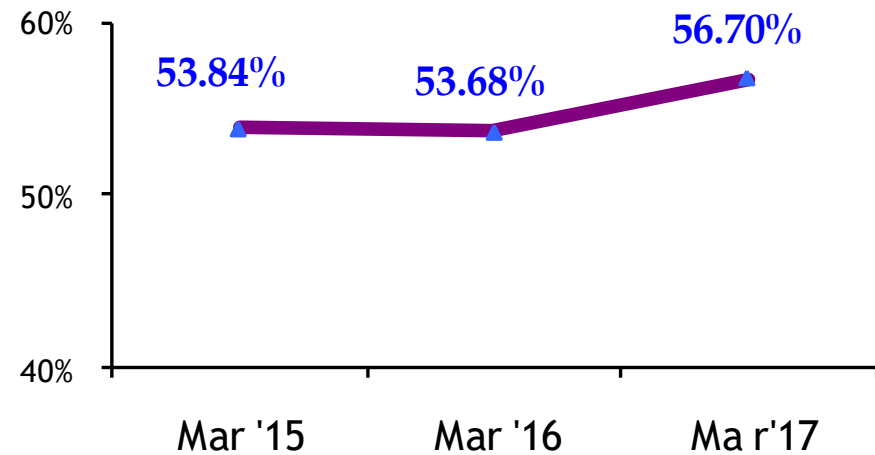
Operating and Net Profit (Rs. crs)



Net Interest Margins (%)



Cost to Income Ratio (%)

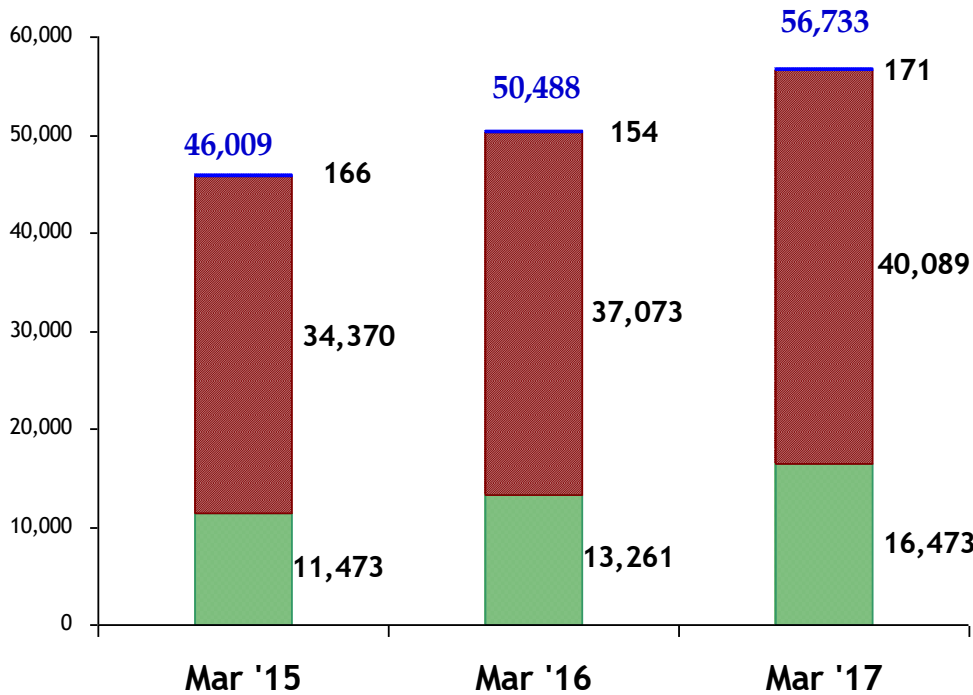


Deposits

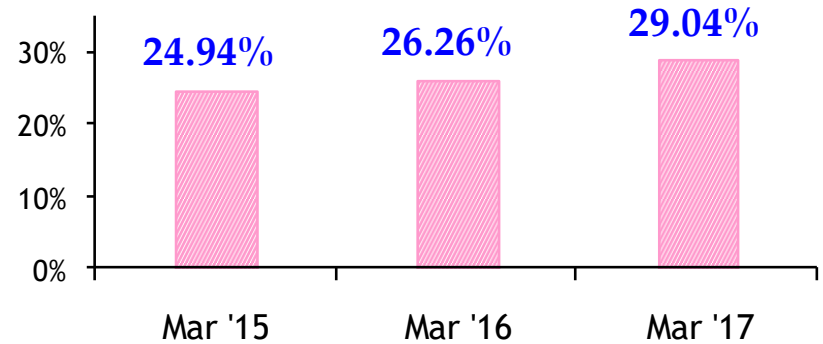


Deposits (Rs. crs)

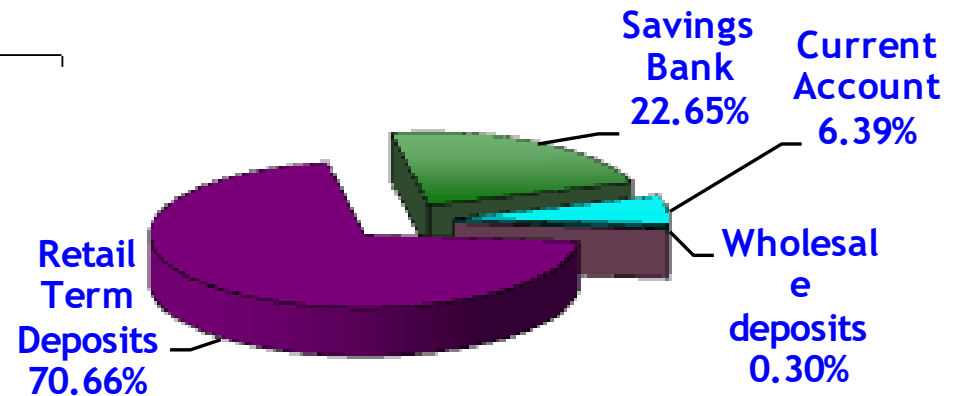
■ CASA ■ Retail ■ Wholesale deposits



CASA share to total Deposits

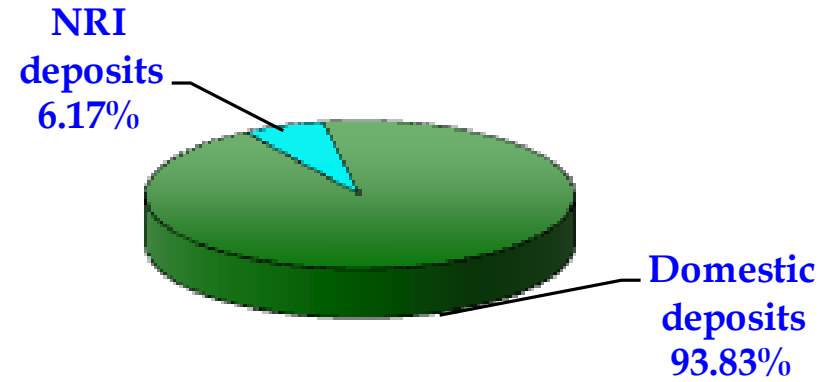
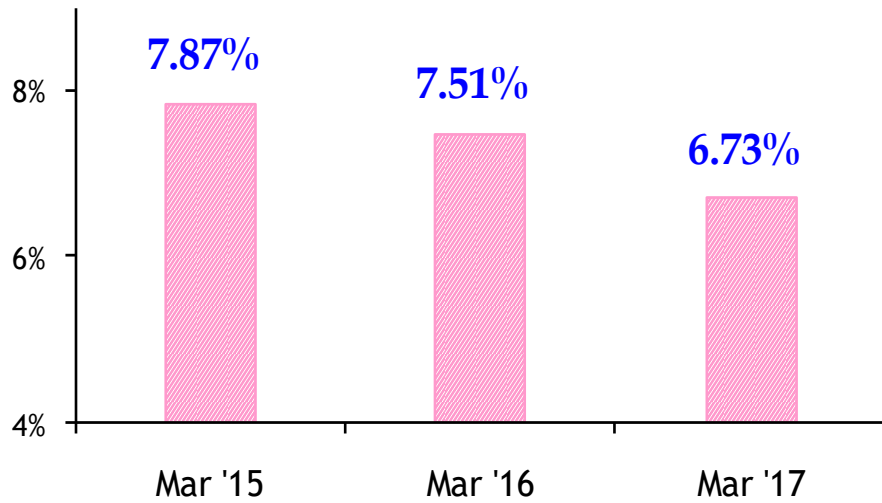


Deposits break up (Mar '17)

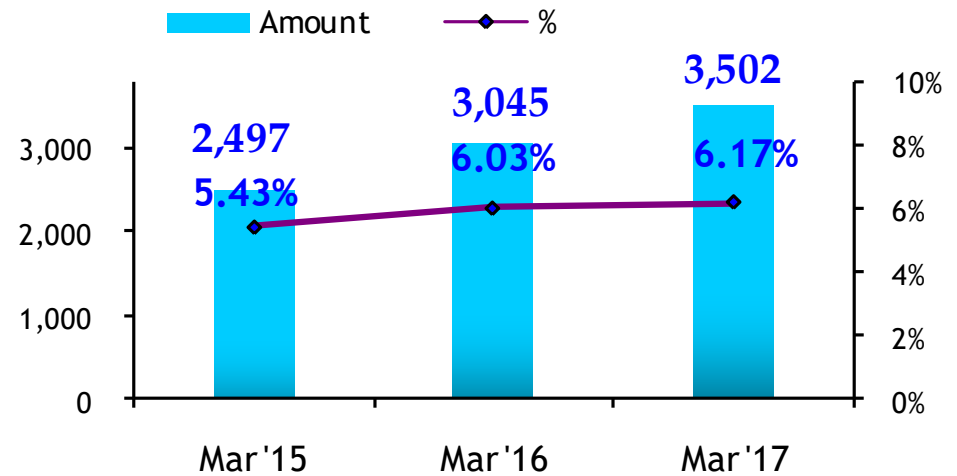




Cost of Deposits

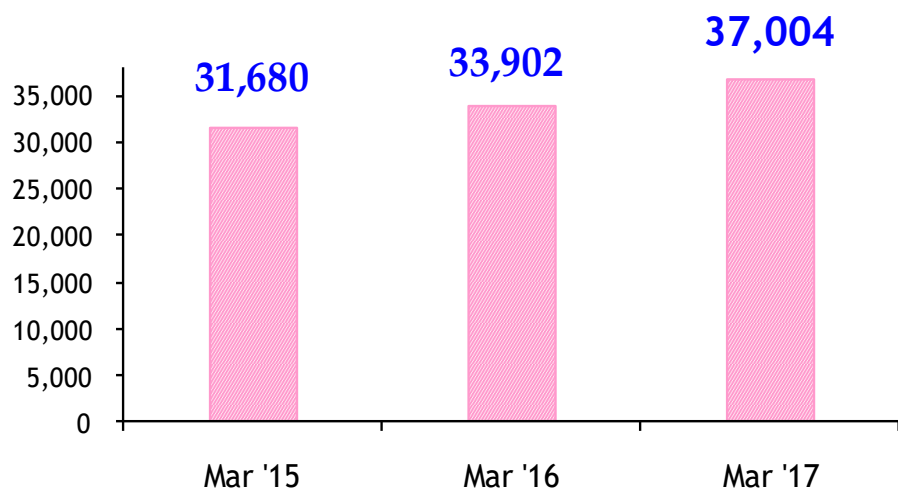


NRI Deposits (Rs. crs)





Advances (RS. crs)

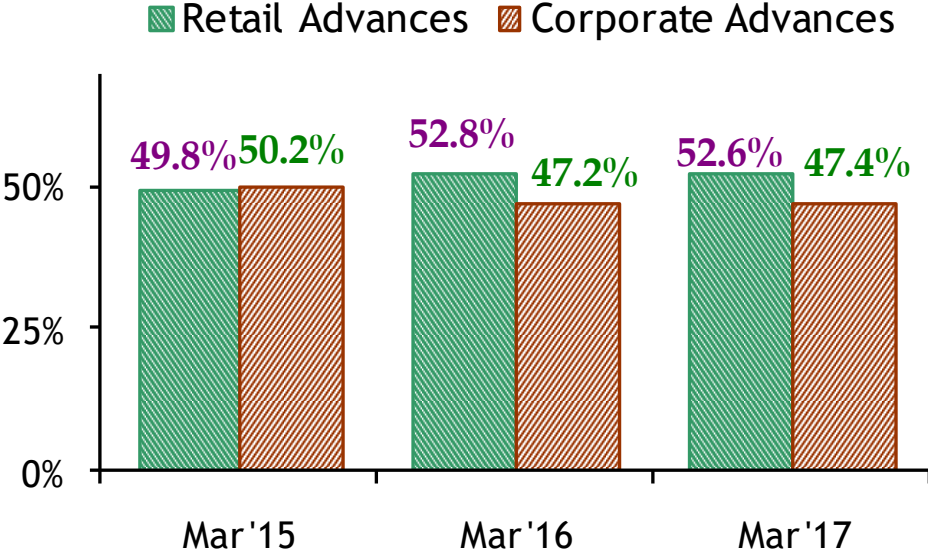


External rating wise Credit Portfolio as of Mar '17 [corporate borrowers]

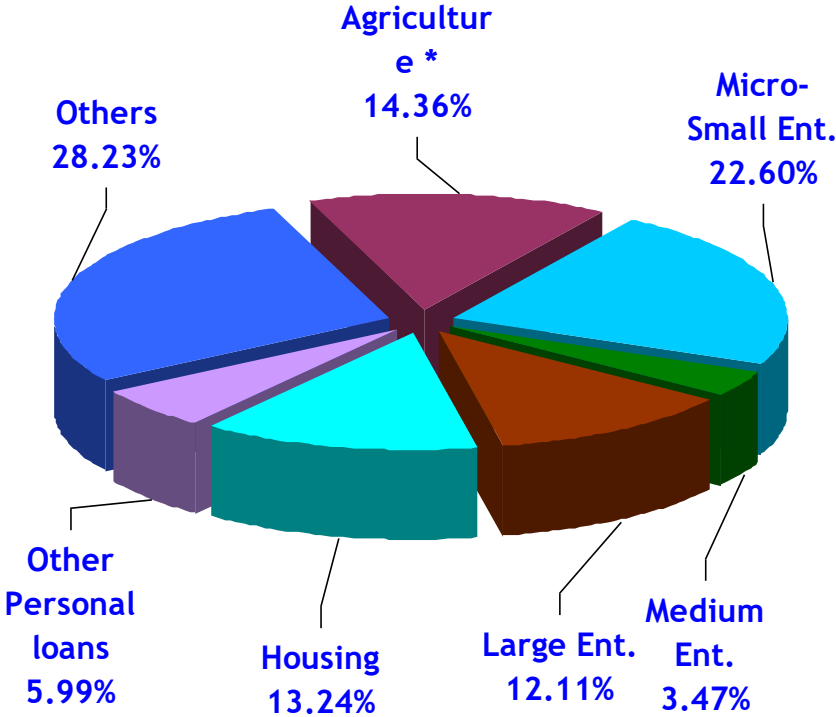
Rating	No of Borrowers	Balance O/s (in crs)	% to GBC
AAA	8	1,486.31	3.95%
AA	21	1,853.60	4.93%
A	28	1,260.96	3.35%
BBB	29	1,221.38	3.25%
BB	23	1,202.09	3.20%
B	15	500.02	1.33%
C	1	39.11	0.10%
D	12	916.71	2.44%
Total	137	8,480.18	22.56%
Gross Bank Credit		37,585.24	



Retail & Corporate Advances (%)



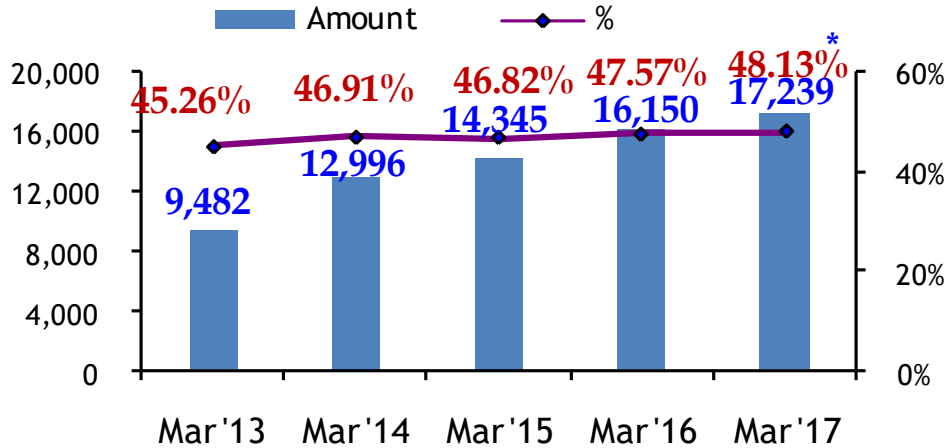
Segmentation of Advances (Mar '17)



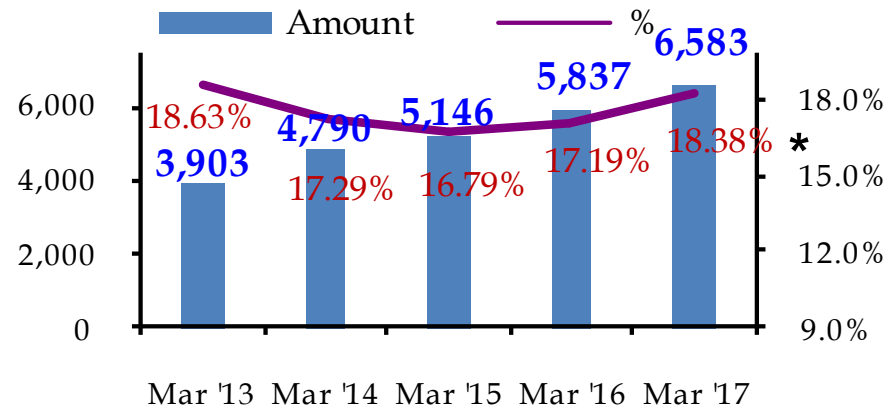
* However, this works out to 18.38% of the ANBC of 31.03.2016.



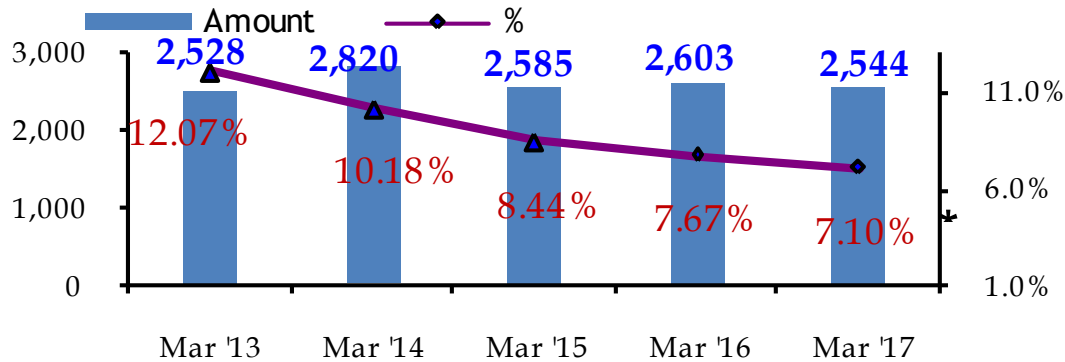
Priority Sector Advances (Rs. crs)



Agriculture Advances (Rs. crs)



Advances to Weaker Section (Rs. crs)

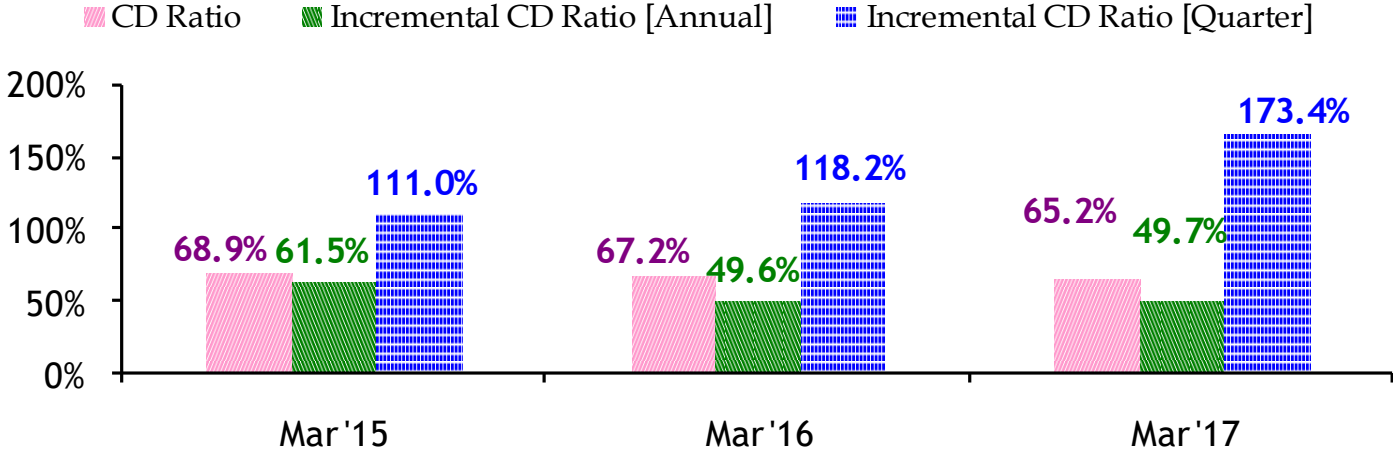


* Base figure for the calculation of % is ANBC as on March 31st of previous year.

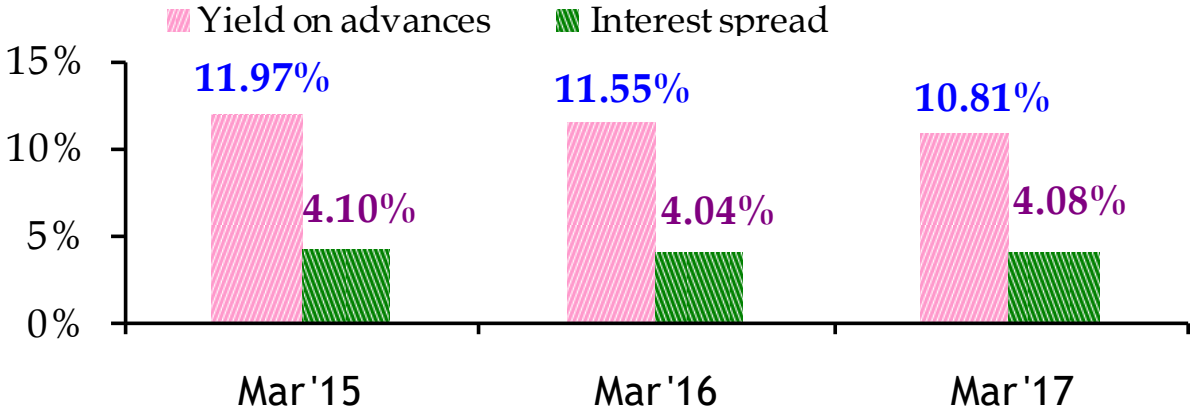
CD Ratio & Yield on Advances



Credit Deposit ratio (%)

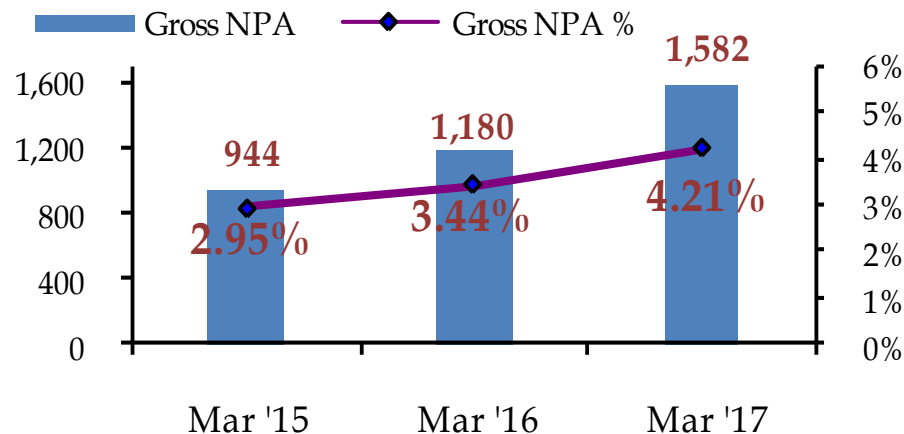


Yield on Advances & Interest Spread (%)

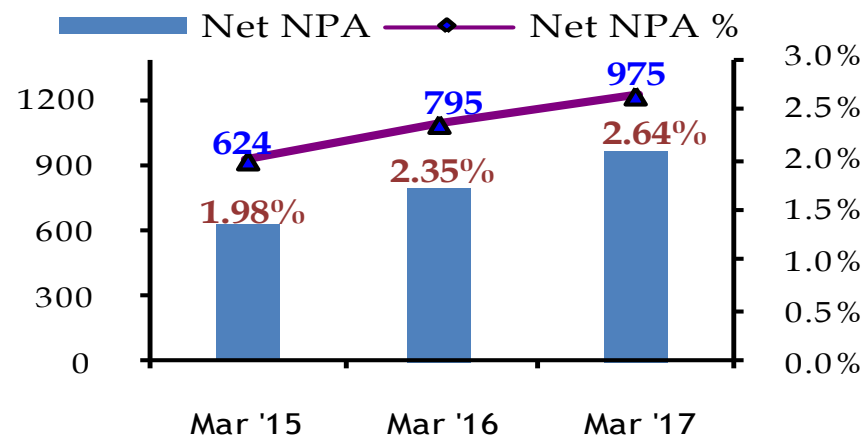




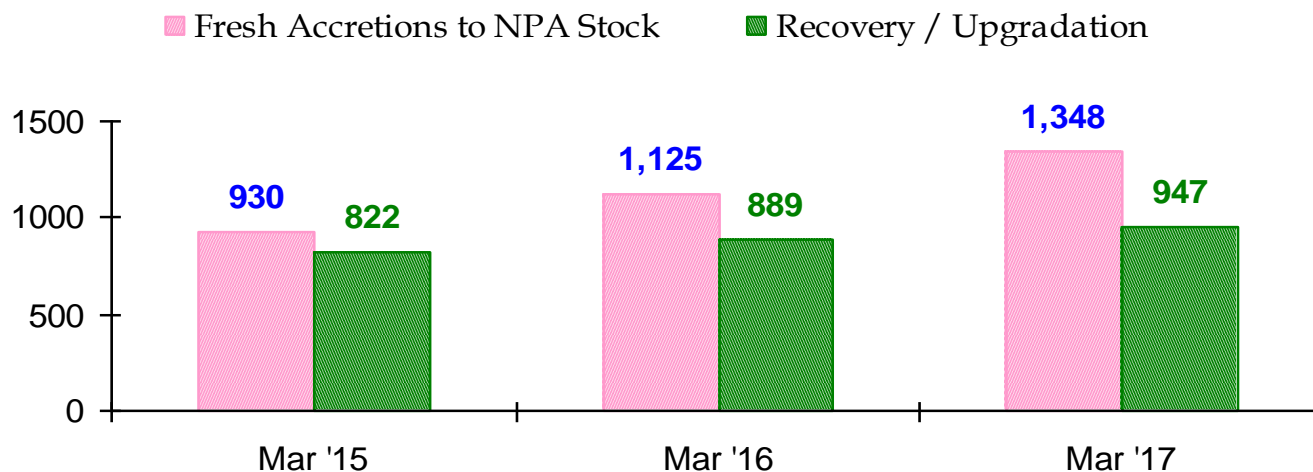
Gross NPAs (Rs. crs)



Net NPAs (Rs. crs)

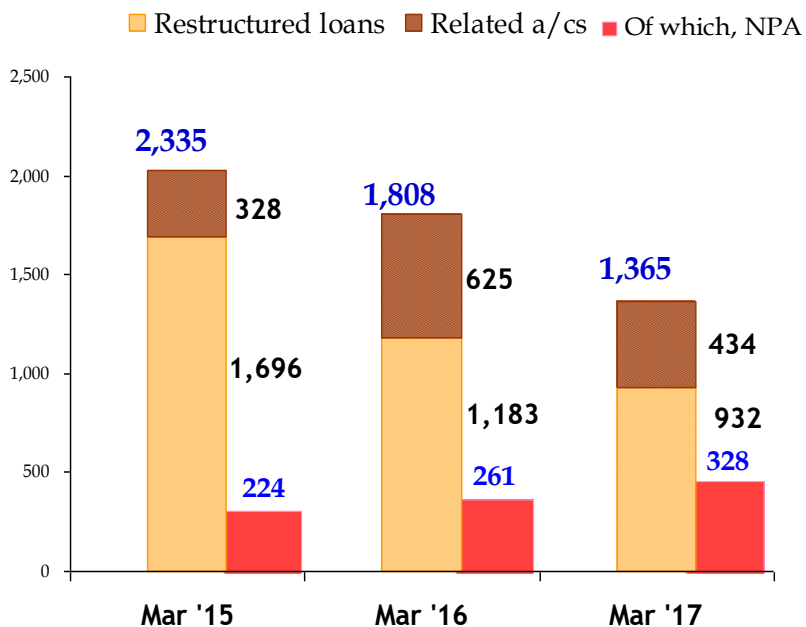


Fresh accretions and recoveries (Rs. crs)





Restructured loans & related accounts



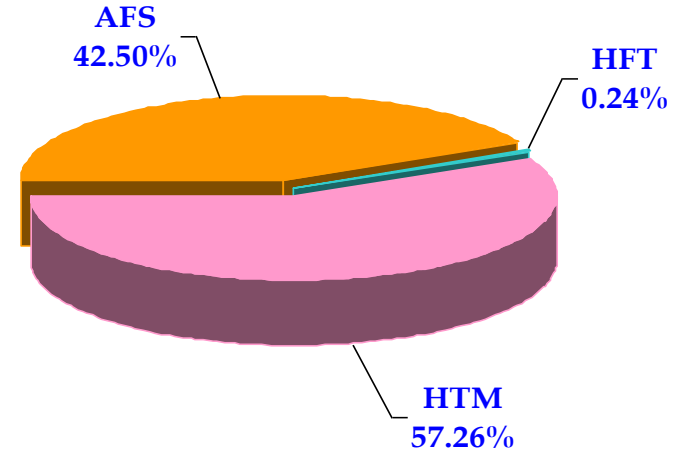
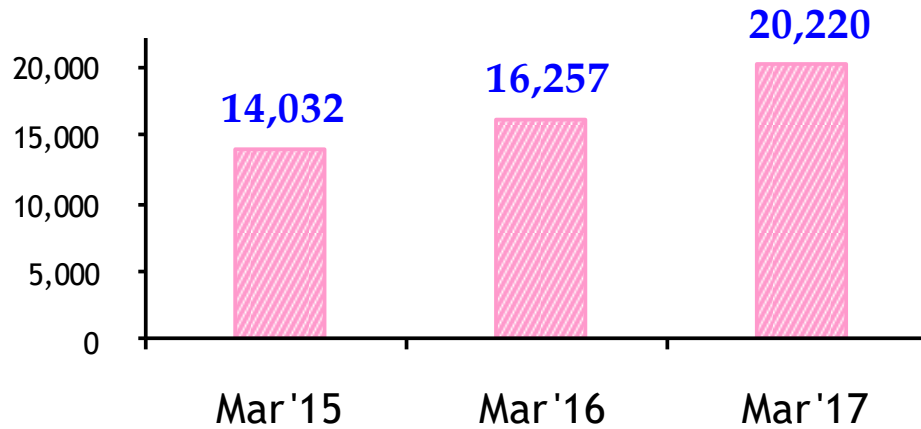
Sector wise Restructured Adv. as Mar '17:

Sector	Restructured Adv.	Of which, NPA
Infrastructure	626.29	62.99
Large Industry	493.42	170.17
MSME [excl. Infrastructure]	94.48	44.73
Others	53.62	33.40
Real Estate [including CRE, excluding Services]	48.82	1.48
Agriculture	46.12	15.22
Wholesale/Retail Trade [excl. services]	1.93	-
Education [Individual + Institution]	0.47	0.05
Grand Total	1,365.15	328.05

Investments



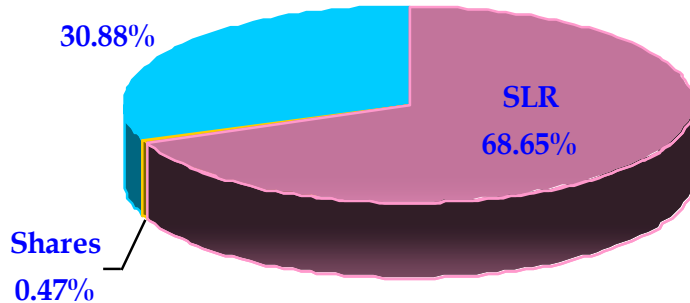
Investments [excl. RIDF] (Rs. crs)



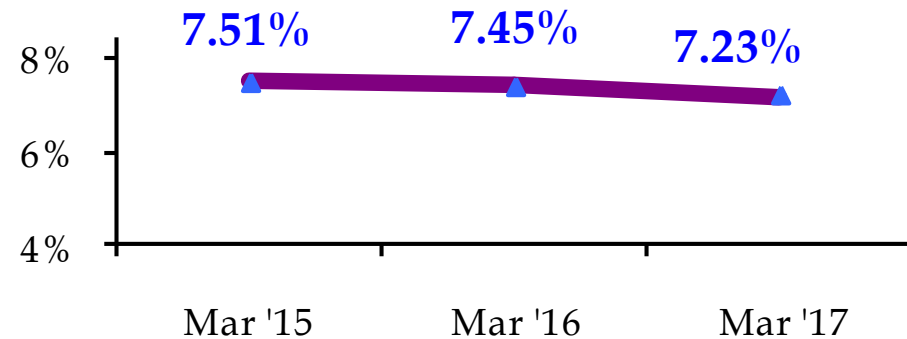
Duration

AFS	HFT	HTM	TOTAL
1.46	0.44	5.52	3.79

Debtures,
Bonds, CD,
MF



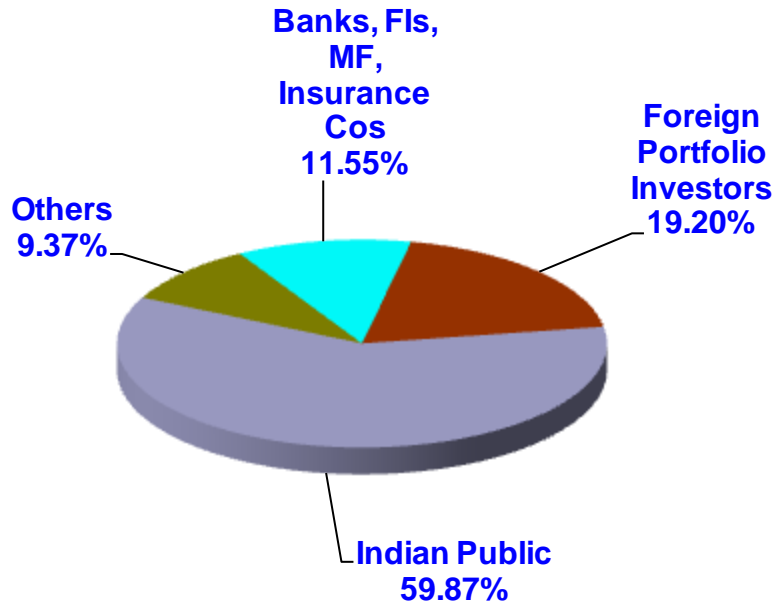
Yield on Investments (excl. RIDF & MF) (%)



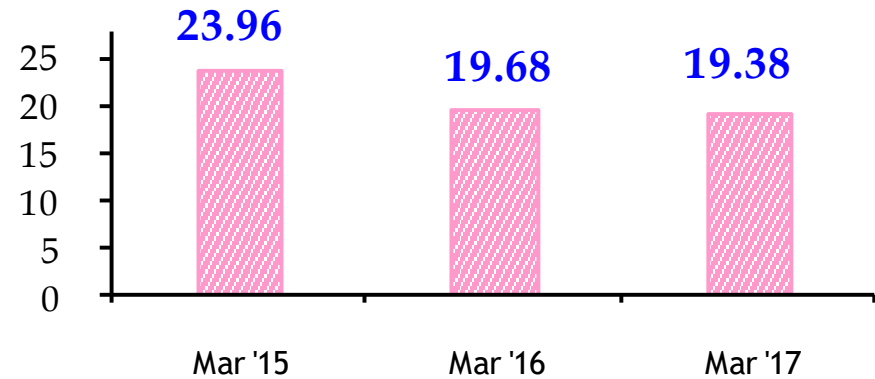
Share holders' value



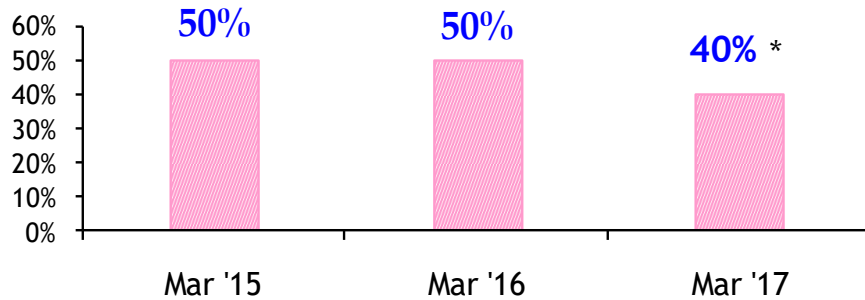
Share holding pattern (Mar 2017)



Earning Per Share (Rs.)

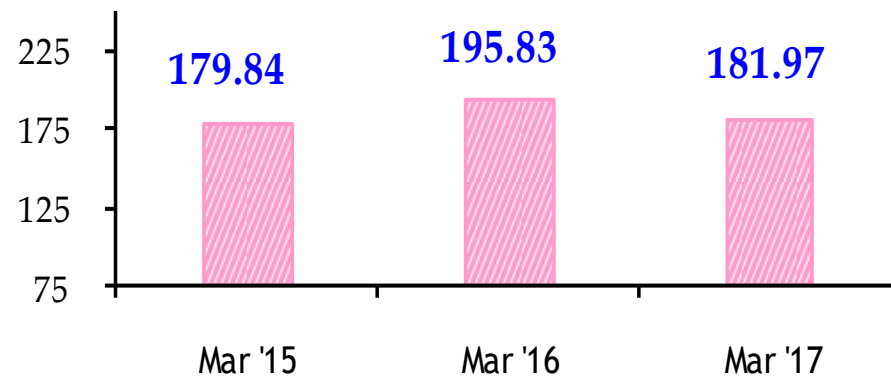


Dividend (%)



* Proposed

Book value (Rs.)

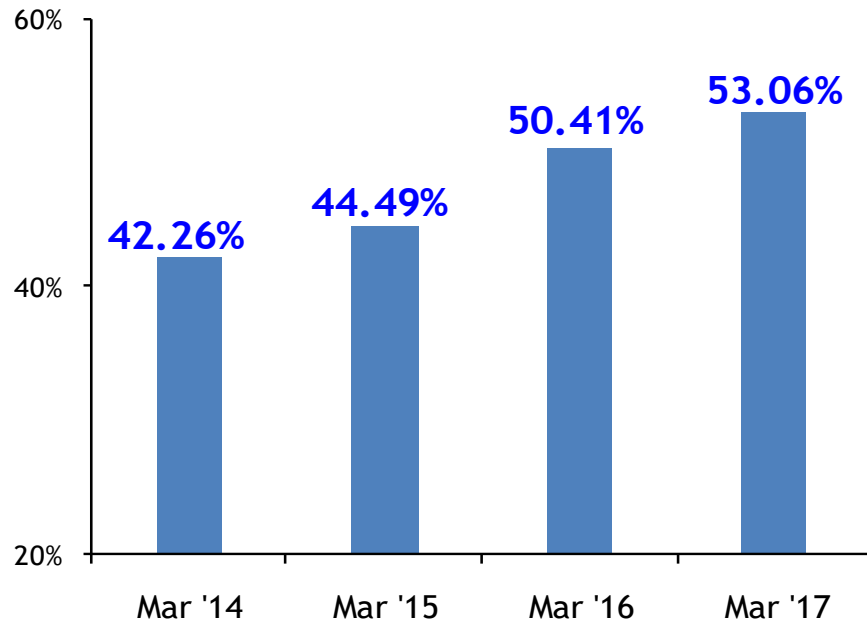


Leveraging on Technology



Migration to Digital Channel

[share of ADC transactions to total CBS transactions]



MULTI-DIMENSIONAL BANKING. POWERED BY TECHNOLOGY.



Annexure

Deposits & Advances



Rs. crs	<u>Mar-15</u>	<u>Mar-16</u>	<u>Mar-17</u>
Total Deposits	46,009	50,488	56,733
CASA Deposits	11,473	13,261	16,473
Retail Deposits	34,370	37,073	40,089
Wholesale Deposits	166	154	171
Total Advances	31,680	33,902	37,004
Priority Sector Advances	14,345	16,150	17,239
Agri Advances	5,146	5,837	6,583
MSE Advances	6,359	8,037	8,496
Advances to Weaker Section	2,585	2,603	2,544

Income & Expenditure



Rs. crs	<u>Mar-15</u>	<u>Mar-16</u>	<u>Mar-17</u>
Interest Income	4,698	4,992	5,185
Interest Expense	3,529	3,689	3,694
Net Interest Income	1,169	1,303	1,491
Fee Income	394	481	505
Treasury Income	113	62	304
Non-Interest Income	507	543	809
Total Income (Net of Interest Expense)	1,676	1,846	2,300
Operating Expenses	952	991	1,304
Operating Profit before exceptional item	723	855	996
Less: Exceptional item	-50	-	-
Operating Profit after exceptional item	773	855	996
Provision for loan losses in Adv. / losses in Invts. / Taxes / other	322	440	544
Net Profit	451	415	452

Interest Income & Interest Expenditure



Rs. crs	<u>Mar-15</u>	<u>Mar-16</u>	<u>Mar-17</u>
<u>Interest Income</u>			
Interest Income	4,698	4,992	5,185
Interest on Advances	3,506	3,700	3,794
Interest on Investments	1,086	1,190	1,298
Other interest	106	102	93
Yield on Advances	11.97%	11.55%	10.81%
Adjusted yield on Invts.	8.70%	7.76%	9.03%
<u>Interest Expense</u>			
Interest Expense	3,529	3,689	3,694
Interest on Deposits	3,408	3,588	3,601
Other interest	121	101	93
Cost of Deposits	7.87%	7.51%	6.73%
<u>Net Interest Income</u>			
Net Interest Income	1,169	1,303	1,491
Interest Spread in Lending	4.10%	4.04%	4.08%
Net Interest Margin on average assets	2.36%	2.40%	2.44%

Capital Adequacy under BASEL III



Rs. crs	<u>Mar-15</u>	<u>Mar-16</u>	<u>Mar-17</u>
Total Risk Weighted Assets	32,021	34,787	38,902
Total Capital Fund	3,974	4,185	5,172
Total Tier I Capital	3,369	3,675	4,749
 Paid up Equity Capital	188	188	283
 Reserves under Tier I Cap.	3,181	3,487	4,467
Total Tier II Capital	605	510	423
 Surplus Provisions & Reserves	250	250	258
 Subordinated Debt Fund	355	260	165
Total CRAR	12.41%	12.03%	13.30%
 CRAR Common Equity Tier I Capital	10.52%	10.56%	12.21%
 CRAR Tier I Capital	10.52%	10.56%	12.21%
 CRAR Tier II Capital	1.89%	1.47%	1.09%

Other initiatives / developments



- ❖ Launched Mobile Apps, viz.,
 - “KBL-ApnaApp” & “KBL-mPassBook” for enabling customers to carry on a host of banking activities through their mobile phone,
 - “KBL-POS Manager” for POS merchants,
 - “KBL-Smartz” on Unified Payments Interface (UPI) platform of NPCI.
- ❖ Launched ‘KBL-Mobile’, a updated version of Mobile Banking.
- ❖ Launched FEBA [Finacle E-Banking Application], a updated version of Internet Banking.
- ❖ Launched RuPay International Platinum Debit Card.
- ❖ Launched co-branded Credit Card, in association with SBI.
- ❖ Tied up with Bajaj Allianz General Insurance Co. Ltd for distribution of general insurance products.
- ❖ Tied up with 4 Asset Management Co.s, viz., UTI MF, Birla Sun Life MF, SBI MF & LIC MF, for distribution of their Mutual Fund products.
- ❖ Introduced online account opening.
- ❖ Extension of Single Window System to more branches, with Automated Token System.
- ❖ HRMS project is implemented, by which most of the HR activities are now digitized & centralized, paperless, instantaneous & more efficient.

Other initiatives / developments (contd...)



- ❖ Introduced online loan application submission for MSME and other retail loans through Bank's website.
- ❖ Introduced Aadhaar Enabled Payment Systems [AEPS] "On-Us" transactions at all the 113 BC locations, with which, any customer of our Bank with Aadhaar enabled account can transact at any of the BC locations of our Bank.
- ❖ Under national level "APY - Customer First" campaign conducted by the PFRDA, all the top 5 positions have been bagged by our branches, under the category of 'Other Private Banks'.
- ❖ Under national level "APY Fortune-100" campaign conducted by the PFRDA, 4 of our branches have been selected as Winners of the "Fortune-100" contest.
- ❖ Entered into MOU with M/s Tirth Agro Technology Pvt. Ltd, a company engaged in manufacturing and marketing of Agriculture implements & Equipments under brand name of "Shaktiman" of various models and variants to finance the purchase of agriculture equipments and machineries by the farmers.
- ❖ Signed an MOU with M/s National Collateral Management Services Ltd, a company engaged in providing godown services to the farmers / agriculturists for financing against the Warehouse Receipts to farmers helping them to avoid distress sale.
- ❖ Introduced a special scheme KBL AGRO PROCESSING to cater to the requirements of the Agro Processing / Food Processing industries, so that the crops grown by the farmers are further processed and thereby enhance the returns to the farmers.

Corporate Social Responsibility



Sponsorship of Modernized Neonatal Intensive Care Unit (NICU) to the Paediatric Department of KVG Medical College & Hospital (KVG MCH), Sullia.

Donation of dish washer system to Anegudde Shree Vinayaka Temple, Kumbhasi.





Business Strategy



- ❖ Bank has adopted a Vision Statement, “To be a Progressive, Prosperous and well Governed Bank”.
- ❖ Bank’s total business turnover is projected to increase in a progressive manner to touch RS. 1,80,000 crore by March 2020, with deposits of RS. 1,00,000 crore & advances of RS. 80,000 crore.
- ❖ Service outlets are projected to touch 3,500 [1,000 Branches + 2,500 ATMs] by March 2020. E-lobbies/ Mini e-lobbies to touch 250.
- ❖ Digital Banking initiative to be taken forward by increasing the digital touch points.
- ❖ Bank aims to become a Preferred Banker to atleast 1% of India’s population by March 2020.
- ❖ Credit quality initiatives, Risk management practices, Compliance culture & Marketing initiatives to be further strengthened.
- ❖ Rationalization of ATMs & Branches.

Corporate Goal for 2017 -18



- ❖ **Business Turnover of Rs. 1,10,000 crore.**
- ❖ **Opening of 35 new Branches to take the total no. of Branches to 800.**
- ❖ **To introduce following products and services:**
 - ❖ **Cash Recyclers,**
 - ❖ **Corporate Mobile Banking,**
 - ❖ **KBL Locator and e-Address book app.**
 - ❖ **Tie up with Life Insurance Corporation of India for distribution of life insurance products.**
 - ❖ **Centralized account opening.**



- ❖ Focus on accounts / salary accounts of HNIs, 'Educational Institutions', 'Govt. and Pvt. Organizations', 'IT Companies', 'Temples' etc.
- ❖ Targeting working women/Professionals/ housewives.
- ❖ Providing value added service such as 'Personal Accident Insurance Scheme', viz., KBL - Suraksha.
- ❖ Increasing the penetration level of alternate delivery channel products and enhance the digitalization at Bank
- ❖ Holding CASA Campaigns to reach out new clients.
- ❖ Thrust on retail loans.
- ❖ Holding Housing & Car loan campaigns to have focused attention.
- ❖ Focused attention to the Credit Oriented Branches.
- ❖ Business generation through dedicated Marketing Team.
- ❖ Holding regular Big Login Days for generation of life insurance products.
- ❖ Aggressive marketing of general insurance products.
- ❖ Holding regular K Health Care Day for generation of health insurance products.
- ❖ Tie up with more Asset Management Co.s for distribution of their mutual fund products.



WE EXPRESS OUR HEARTFELT GRATITUDE FOR OVERWEHLMING SUBSCRIPTION TO OUR RIGHTS ISSUE DURING THE FY 2016-17 AND TO ALL OUR STAKE HOLDERS FOR THEIR TRUST & SUPPORT AND SOLICIT THEIR CONTINUED PATRONAGE, AS WE CONTINUE OUR JOURNEY WITH RENEWED DEDICATION & COMMITMENT TO MAKE OUR BELOVED KARNATAKA BANK A FINANCIAL POWER HOUSE.

Board of Directors



P Jayarama Bhat
Non Executive Chairman



Mahabaleshwara M S
Managing Director & CEO



Ashok Haranahalli
Bengaluru
Advocate



Mrs Usha Ganesh, IAS
Bengaluru
Former Member of
Karnataka Administrative
Tribunal



Rammohan Rao Belle
Bengaluru
Former MD & CEO,
SBI Gen. Insu. Co. Ltd



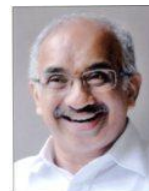
B A Prabhakar
Bengaluru
Former Chairman & MD of
Andhra Bank



U R Bhat
Mumbai
Investment Adviser &
Columnist



Keshav Krishnarao Desai
Hubballi
Businessman



D. Surendra Kumar,
Shri Kshethra Dharmastala,
Dakshina Kannada
Educationist



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