



Karnataka Bank Ltd.
Your Family Bank. Across India.



Analysis of Financial Results

December 2014



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Company Overview

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6. Highest Standard of Corporate Governance
7. Business Process Reengineering [BPR]



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 **8.7 million** customers
- Forayed into General Insurance business as a JV partner in Universal Sompo General Insurance Company Limited
- **1,452** service outlets with **10** Regional Offices, **632** branches, **4** Extension Counters and **806** ATMs in 420 centres across India as on December 31, 2014
- Business Turnover of **₹ 75,137** crore as at 31.12.2014.

2014	• Business turnover crossed the milestone of ₹ 75,000 crore
2013	• Secured ISO 27001 : 2005 Certificate from NQA
2012	• BPR implementation under the guidance of M/s KPMG Advisory Services Pvt Ltd. commenced • Business Turnover crossed the milestone of ₹ 50,000 crore • No. of branches crossed 500 • Average turnover per branch crossed ₹ 100 crore • Launched ASBA facility
2011	• Right issue of ₹ 457.03 crore in the ratio of 2:5. • Launched Online Trading facility
2010	• Maiden QIP aggregate ₹ 160.83 crs.
2009	• Compliance with Basel-II norms
2007	• Completion of 100% core banking • Floated general insurance JV along with Allahabad Bank, Indian Overseas Bank, Dabur Investments and Sompo Japan Insurance
2006	• Launched CDSL-DP services at select branches
2005	• Completed 2:1 rights issue to raise ₹ 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
1966	• Took over assets and liabilities of Bank of Karnataka, Hubli and opened 14 new branches
1961	• Took over assets and liabilities of the Chitaldurg Bank
1960	• Took over assets and liabilities of Sringeri Sharada Bank Ltd
1924	• Incorporated on 18 th February 1924 at Mangalore by Late B R Vyasarayachar & other leading members of the South Kanara Region



Awards & Accolades



Recent Awards:

- ❖ Bank has bagged ASSOCHAM's [Associated Chambers of Commerce & Industry of India] Certificate of Excellence for Social Banking, under private sector banks category.
- ❖ Bank has bagged “MSME BANKING EXCELLENCE AWARDS - 2014”, initiated by CIMSME [Chamber of Indian Micro Small & Medium Enterprises], under the following categories:
 - i) Best Bank Award for New Initiatives - Runner Up
 - ii) Best Bank Award for CSR & Green Initiatives - Runner Up.
- ❖ Shri P. Jayarama Bhat, MD & CEO, has been awarded the Asia Pacific HRM Congress Awards 2014, under the category “CEO with HR Orientation”.
- ❖ Shri P. Jayarama Bhat, MD & CEO, has been honored with the “New Year Award, 2015” by Academy of General Education, Manipal University and Syndicate Bank, Manipal.

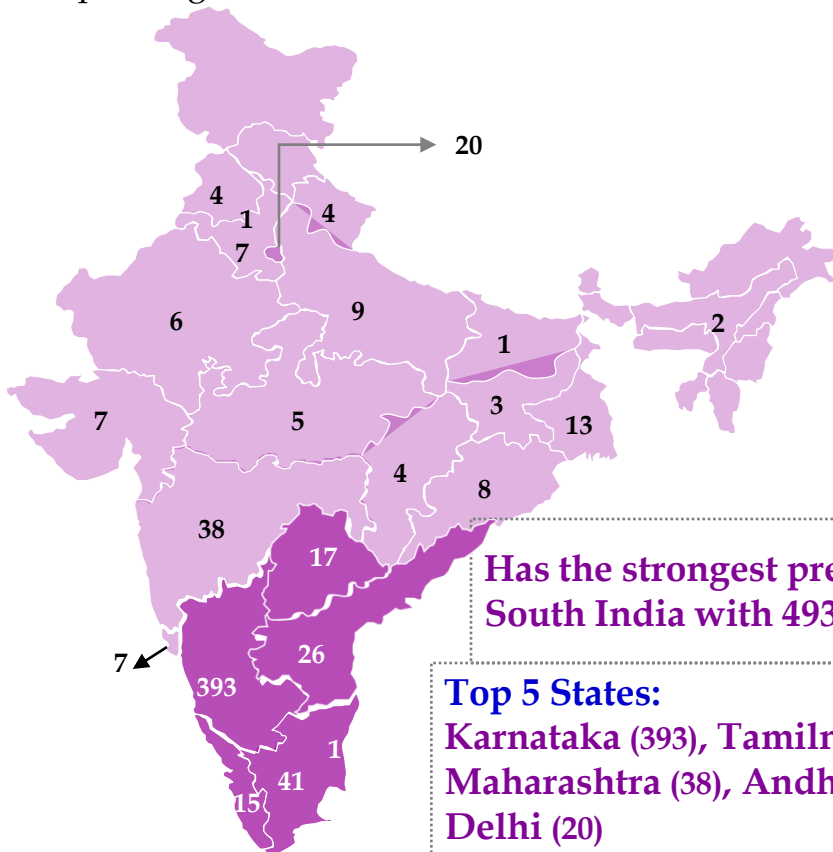
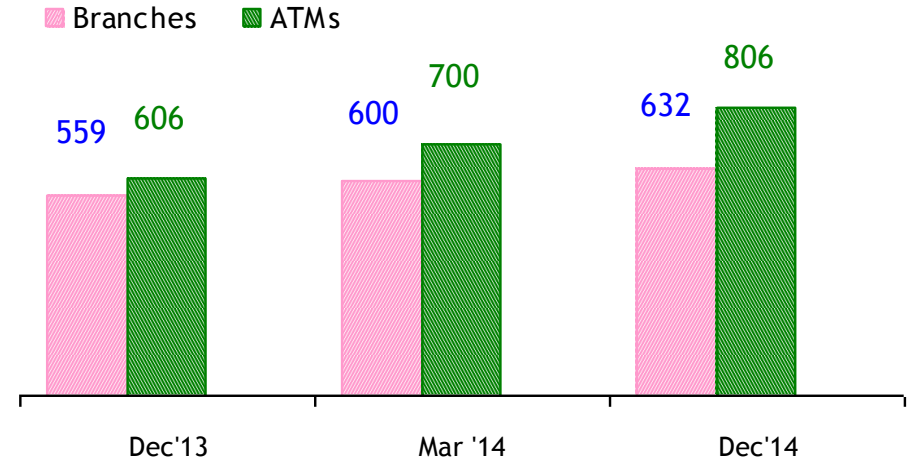


Pan-India footprint

Pan-India Presence

- Total 1,452 outlets – 10 regional offices, 632 branches, 4 Extension Counters & 806 ATMs
- Specialized branches for Forex, Industrial, Agriculture, MSME, Corporate business & Financial Inclusion
- 65 Financial Inclusion branches, 41 Ultra Small branches
- Expanding network in northern India also.

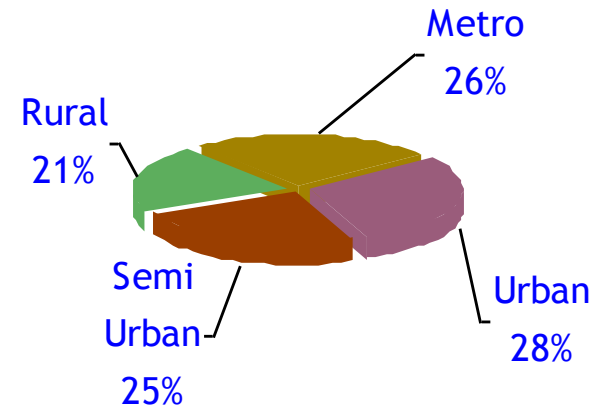
No of branches & ATMs



Has the strongest presence in South India with 493 branches

Top 5 States:
 Karnataka (393), Tamilnadu (41),
 Maharashtra (38), Andhra Pradesh (26),
 Delhi (20)

Area wise distribution of branches (Dec'14)





Strong technology platform

Secured “ISO 27001:2005” certificate from NQA [National Quality Assurance] for its three I.T. set-ups, encompassing the Information Security Management System (ISMS) at Data Centre, Near line Site [NS] at Bangalore and Information Technology Department including the DR site [IT & DR] at Head Office, Mangalore. Migration to the latest version - ISO 27001:2013 is under progress.

- ◆ Pioneer in implementing “Finacle” (CBS) amongst the old generation private sector banks
- ◆ 100% networking of branches using CBS
- ◆ State-of-art IT set up which has enabled Anytime Anywhere banking through alternate delivery channels such as ATMs, International Debit Card, Internet Banking, Mobile Banking, and also other products such as NG-RTGS, 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 Loan Account Processing System (LAPS) software for efficient life cycle management of loan accounts and improved monitoring.

Effective risk management system

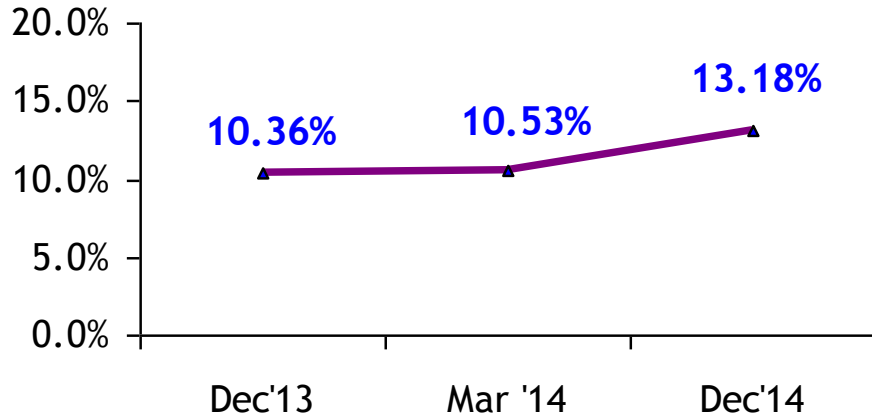
- ◆ Integrated Risk Management Committee develops policies and strategies for integrated risk management, monitors and reviews risk profile of the bank periodically
- ◆ Internal Credit Rating of all the borrowers: Credit exposure above INR 25 lakh are rated borrower-wise and credit facilities below INR 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 taken all necessary steps for migration to ‘Basel II advanced approaches’ under Credit, Market and Operational Risk and also implemented the presently applicable ‘Basel III’ guidelines of RBI



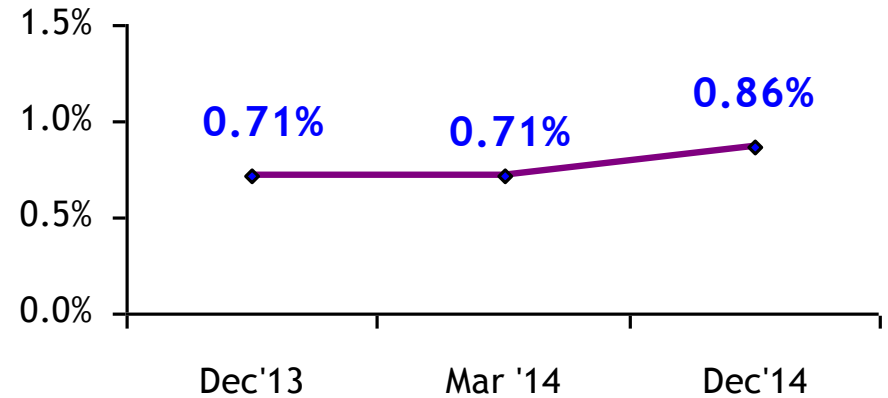
Return and Capital Adequacy Ratios



Return on Equity (%) (after tax)

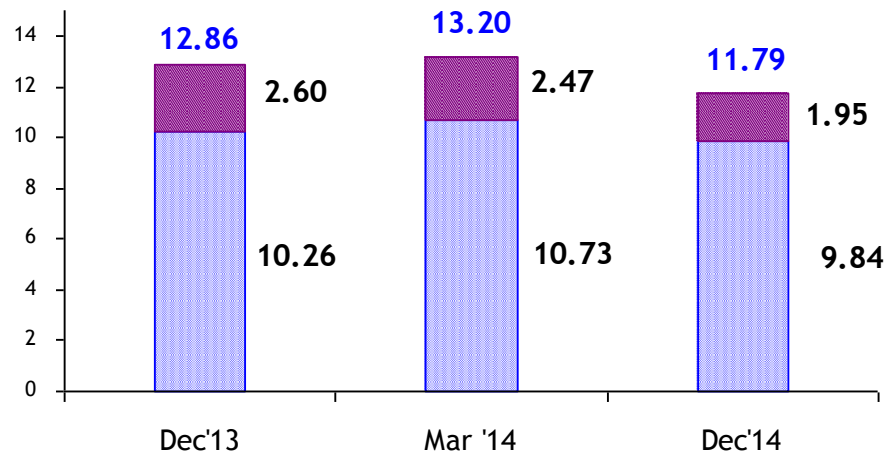


Return on Assets (%) (after tax)



Capital Adequacy (%) Basel III

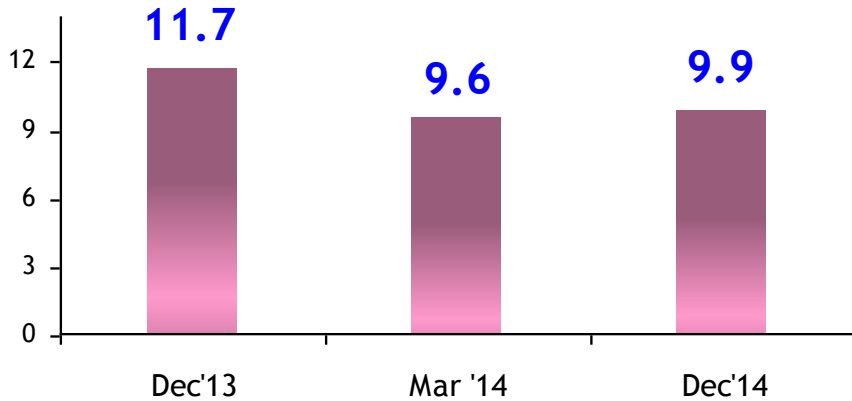
■ Tier I ■ Tier II





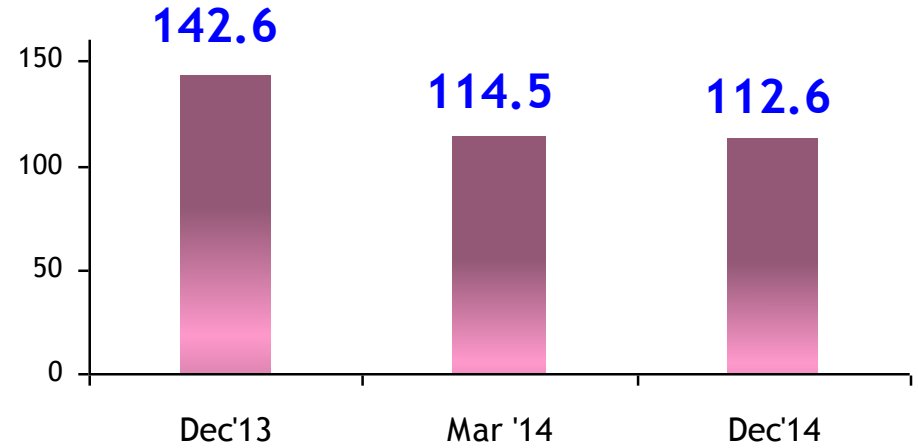
Productivity ratios

Operating Profit per employee (₹ lakh) *

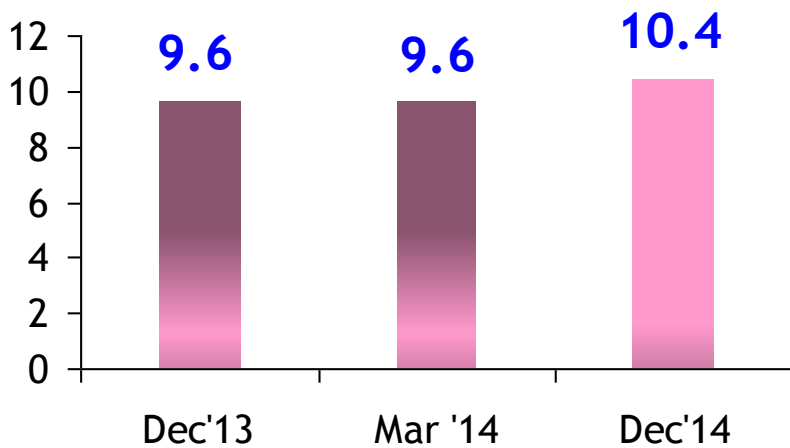


* annualised

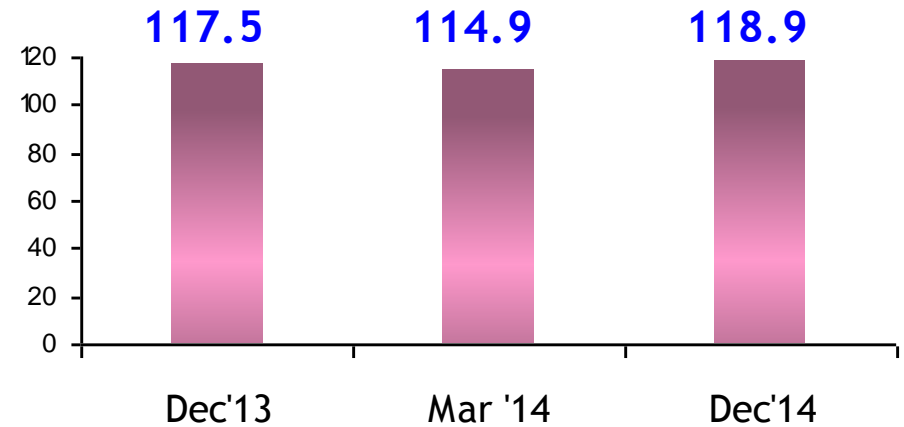
Operating Profit per branch (₹ lakh) *



Business per employee (₹ crs)



Business per branch (₹ crs)

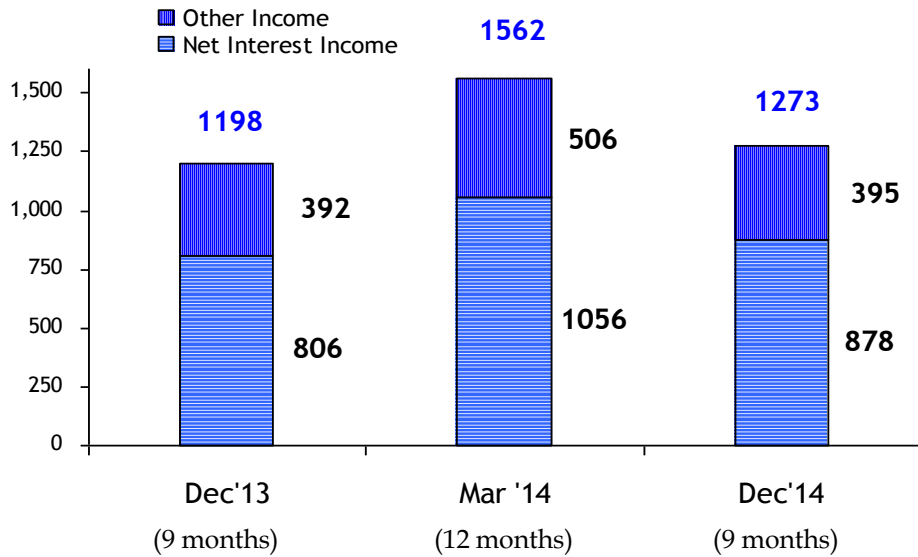


Financial Performance

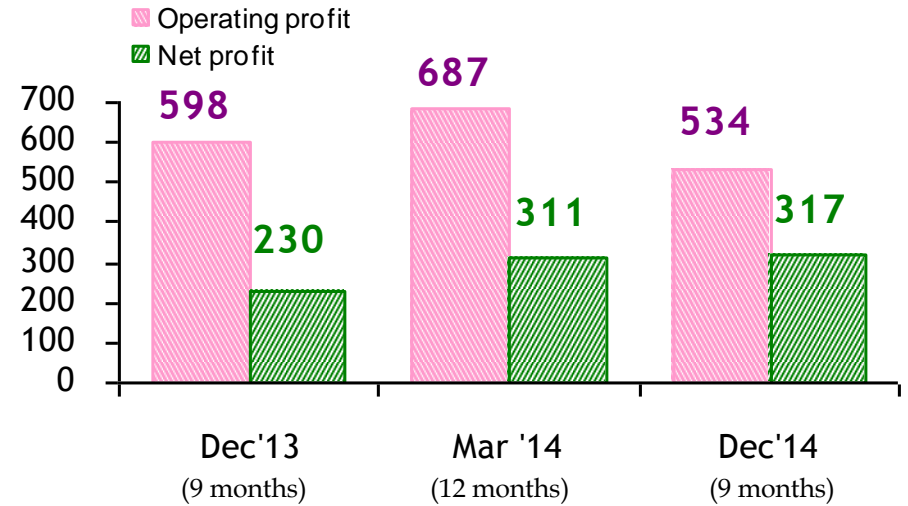


Income & Profit

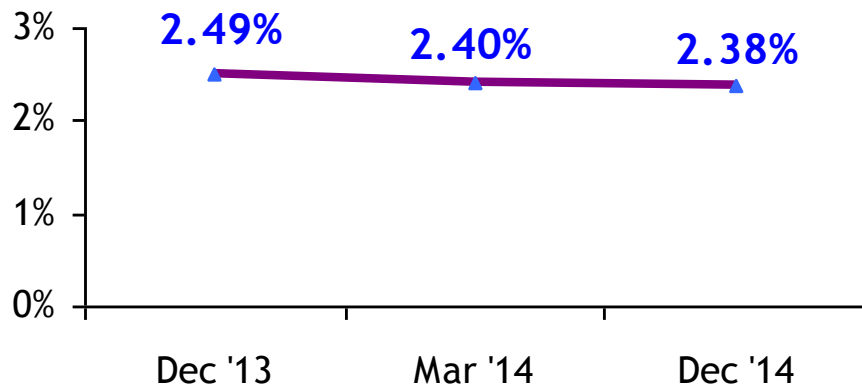
Net Income (₹ crs)



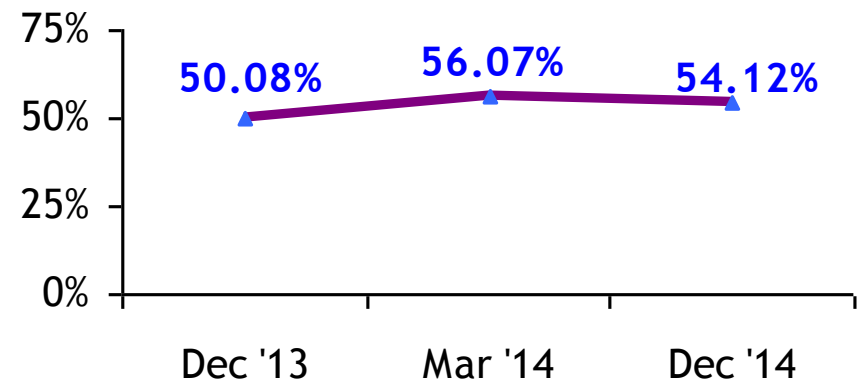
Operating and Net Profit (₹ crs)



Net Interest Margins (%)



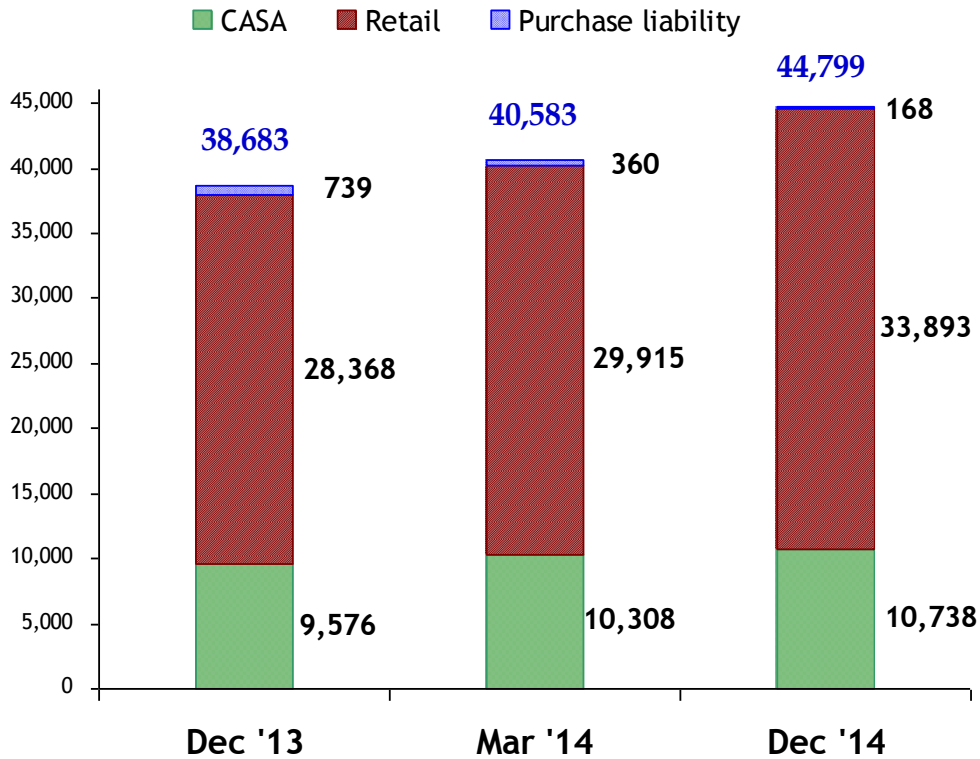
Cost to Income Ratio (%)



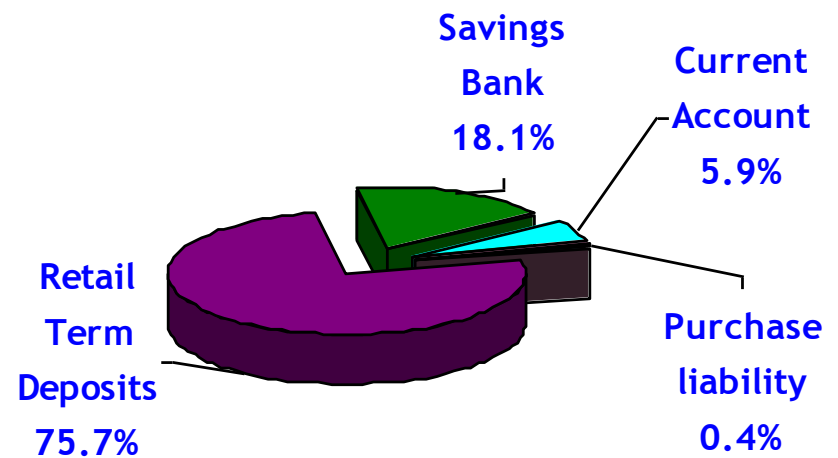


Deposits

Deposits (₹ crs)

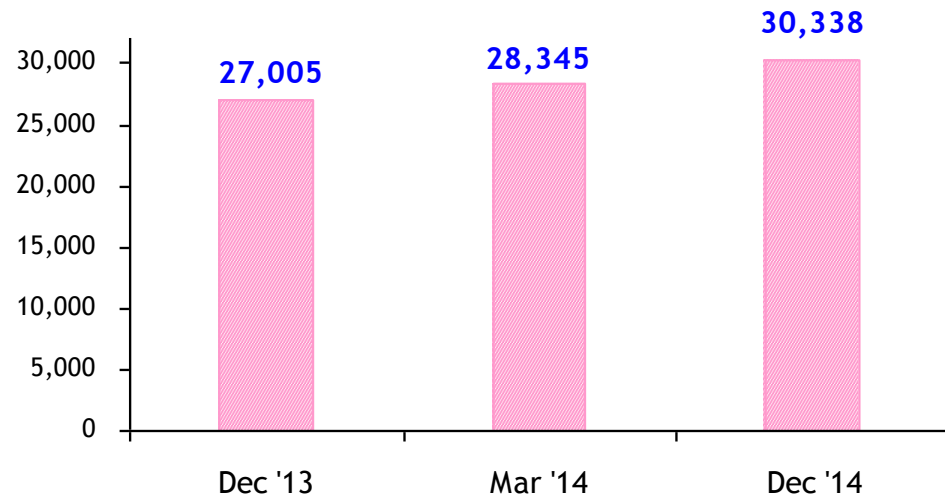


Deposits break up (Dec '14)

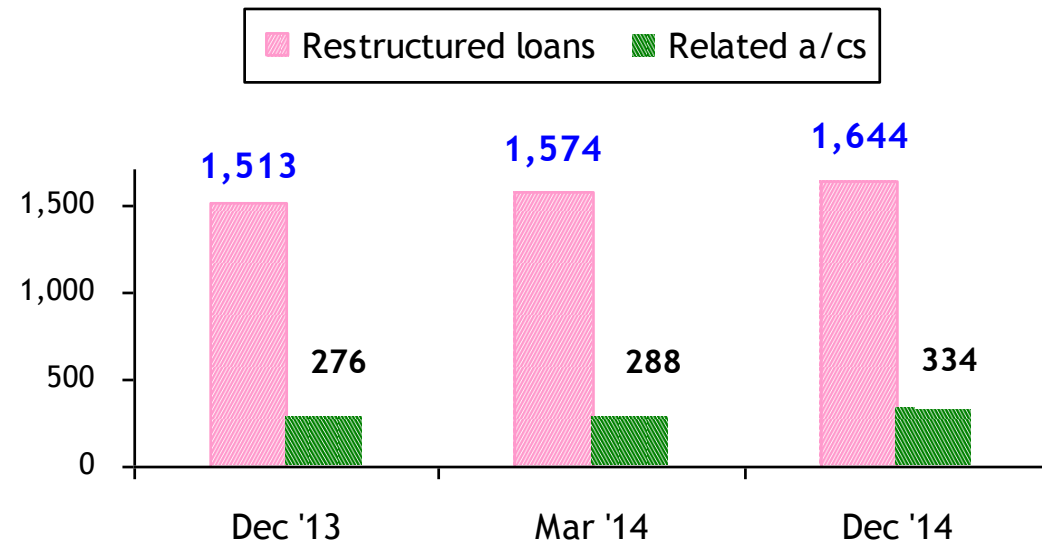




Advances (₹ crs)

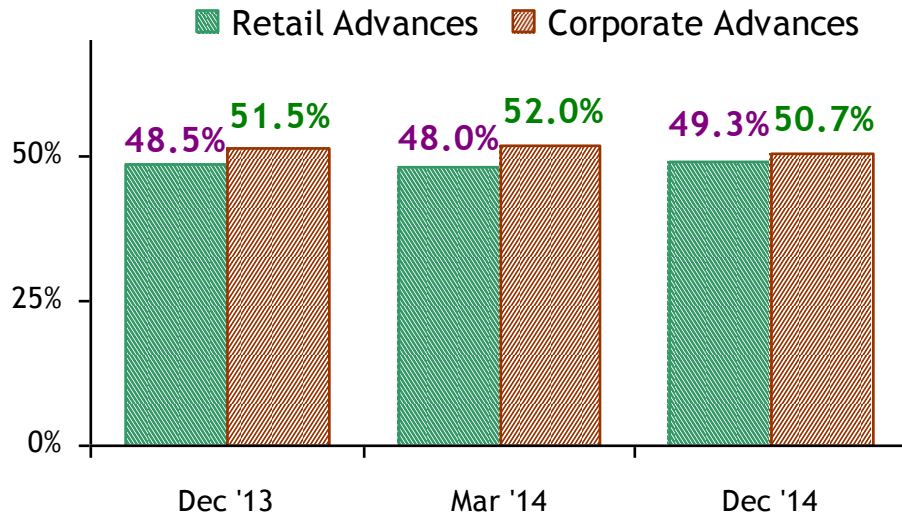


Restructured loans & related accounts (₹ crs)

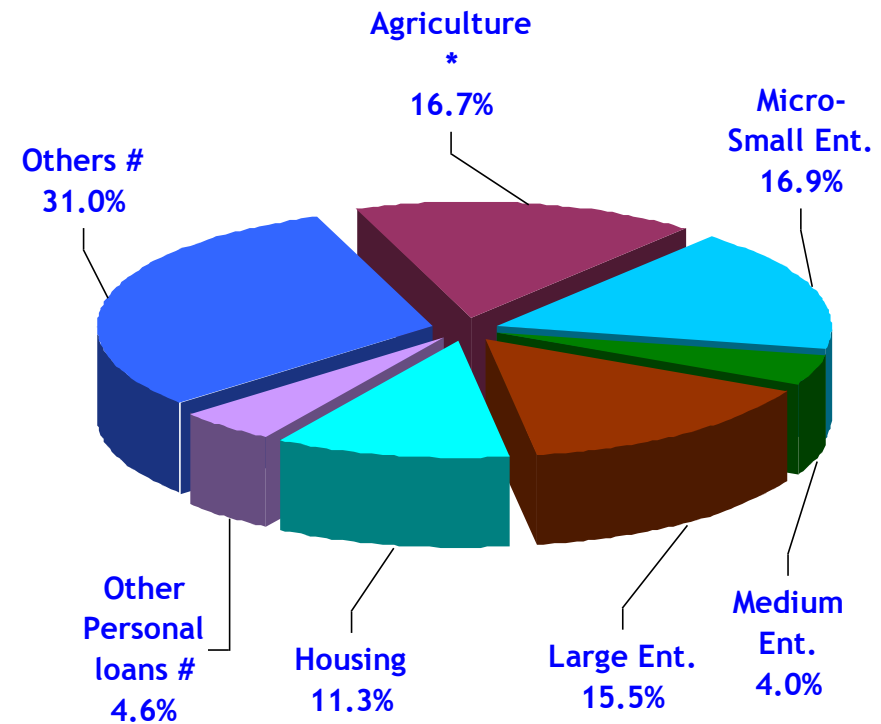


Advances

Retail & Corporate Advances (%)



Segmentation of Advances (Dec '14)



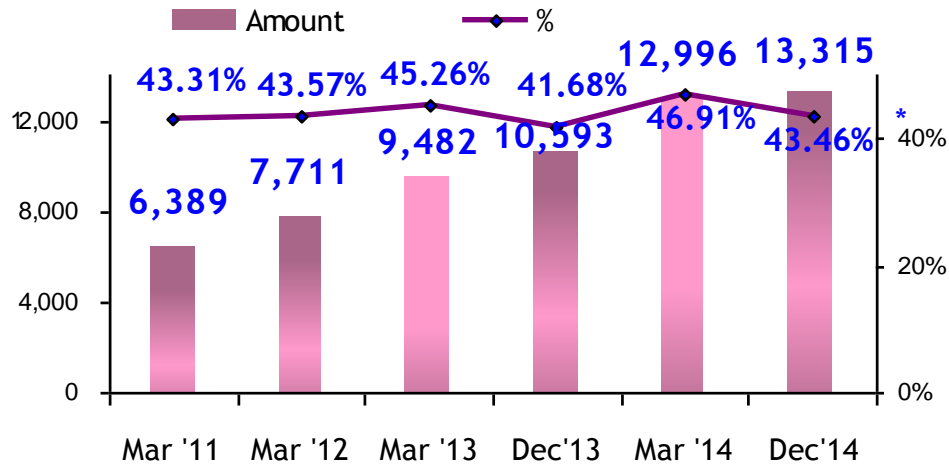
* However, this works out to 16.72% of the ANBC of 31.03.2014.

"Other Personal Loans" category has declined due to sectoral regrouping between "Other Personal Loans" and "Others" to the extent of 7.43%.

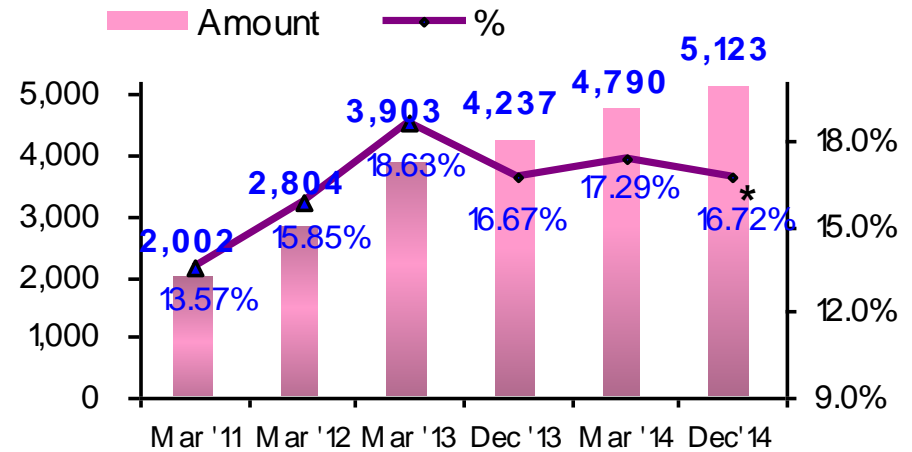


Advances

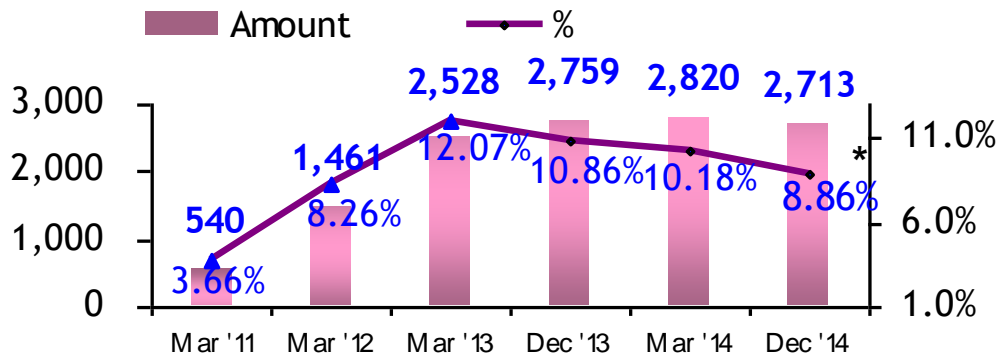
Priority Sector Advances (₹ crs)



Agriculture Advances (₹ crs)



Advances to Weaker Section (₹ crs)

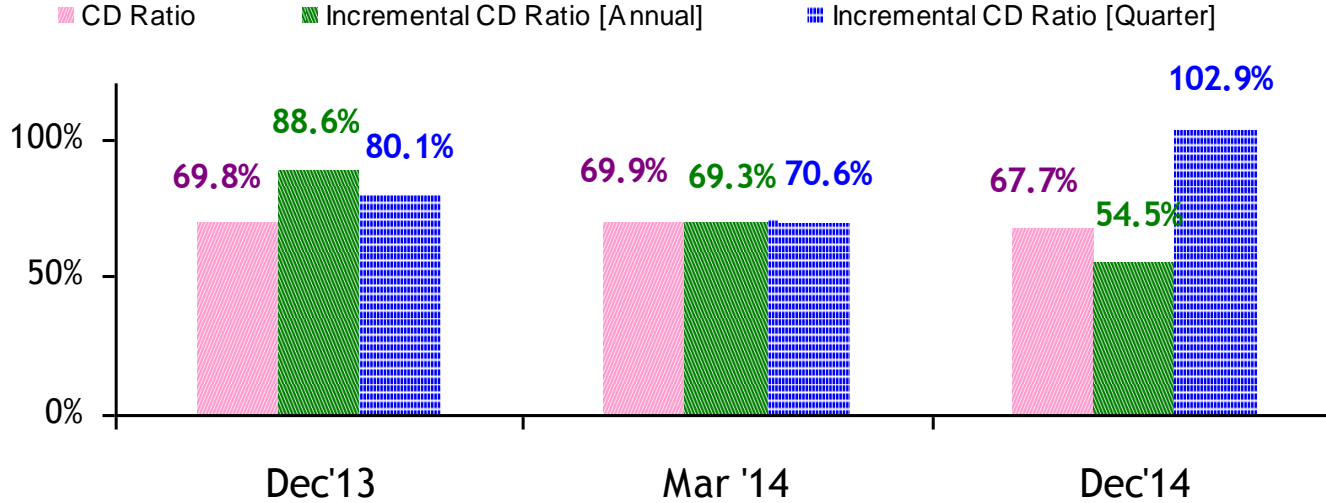


* Base figure for the calculation of % is ANBC as on March 31st of previous year.

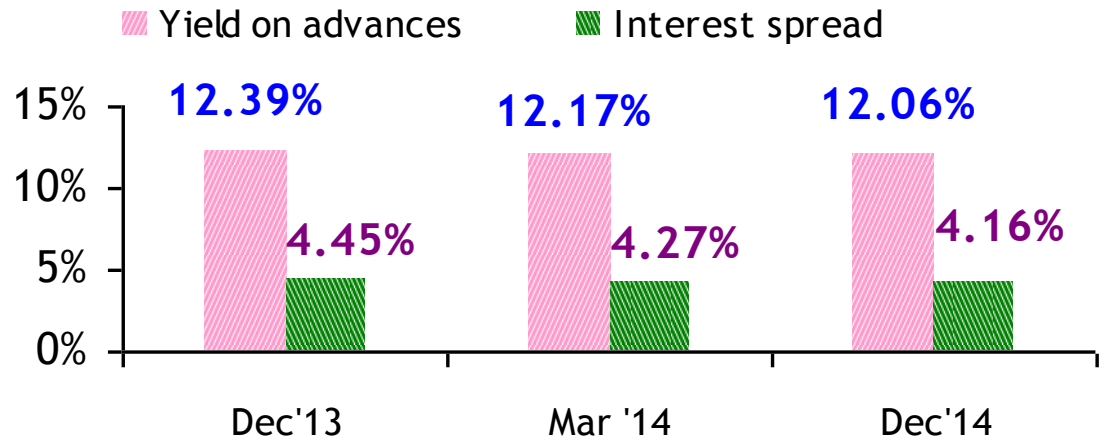


CD Ratio & Yield on Advances

Credit Deposit ratio (%)

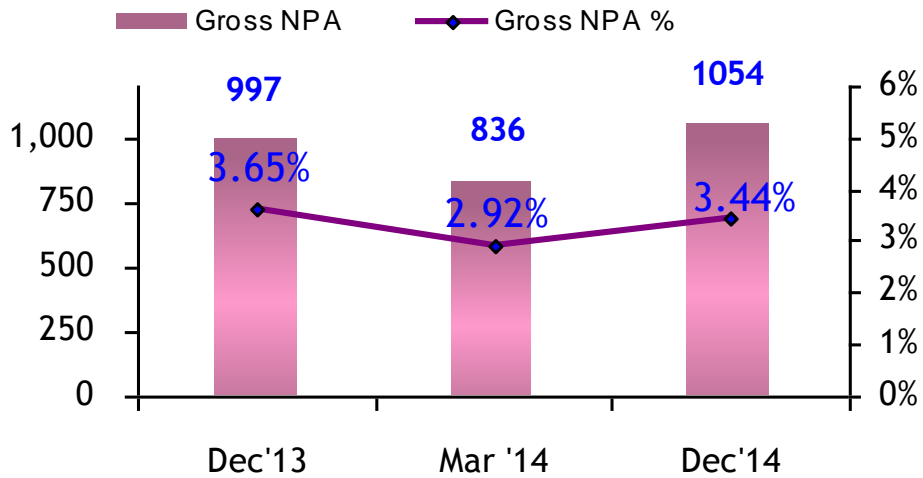


Yield on Advances & Interest Spread (%)

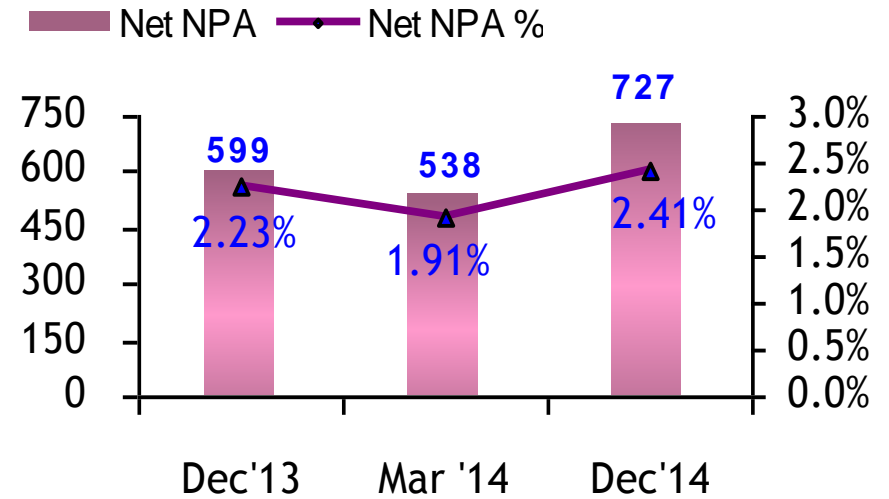




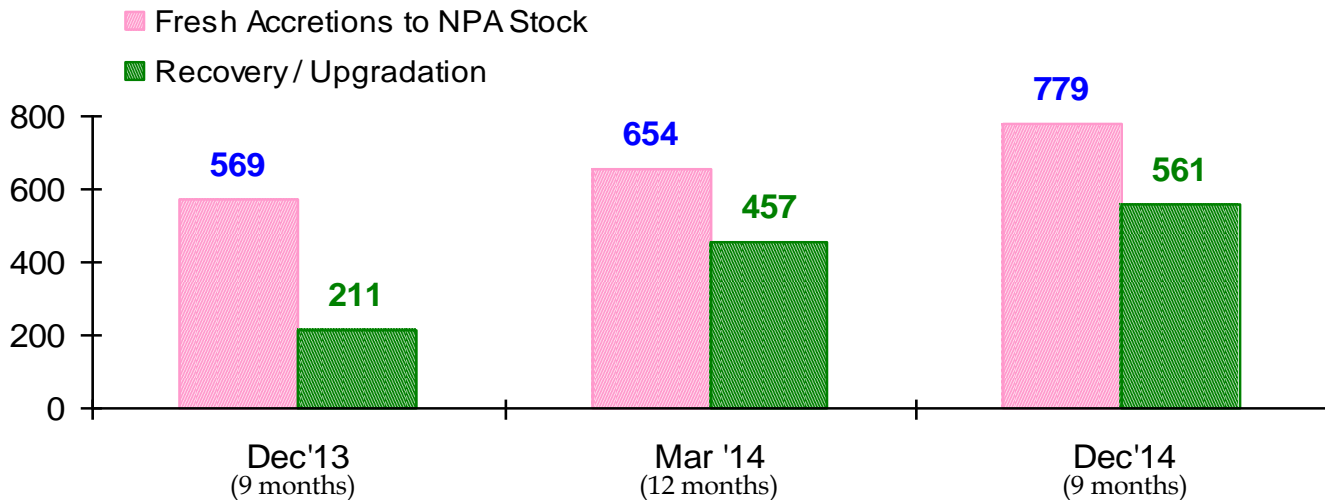
Gross NPAs (₹ crs)



Net NPAs (₹ crs)



Fresh accretions and recoveries (₹ crs)

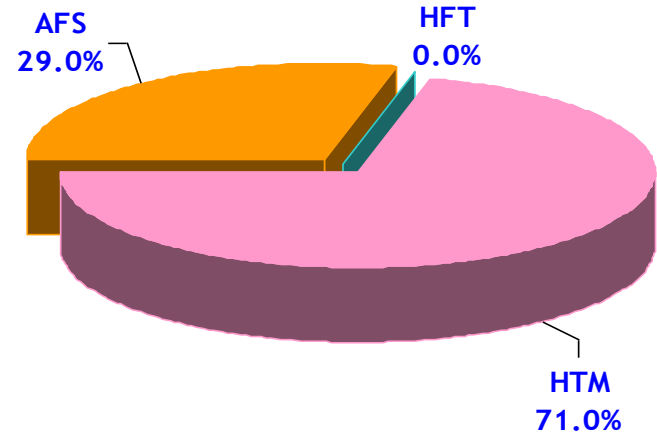
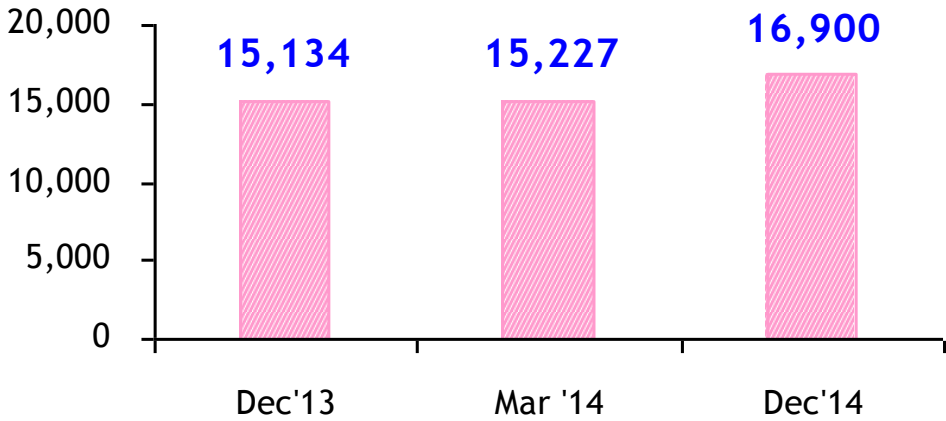




Investments

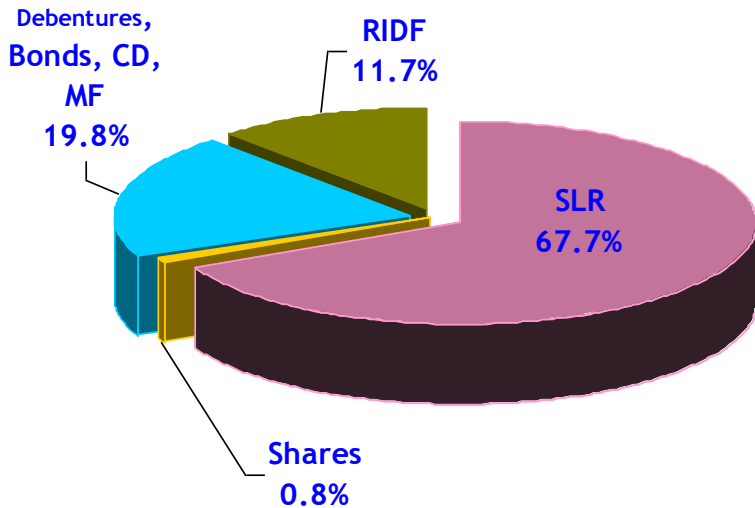


Investments (₹ crs)

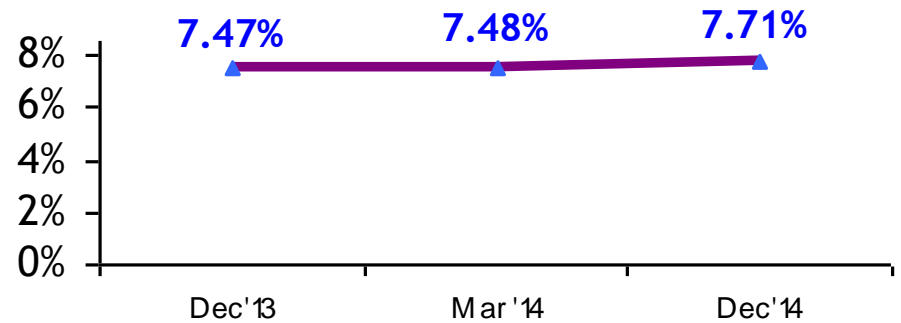


Duration

AFS	HFT	HTM	TOTAL
2.08	0.00	4.39	3.72



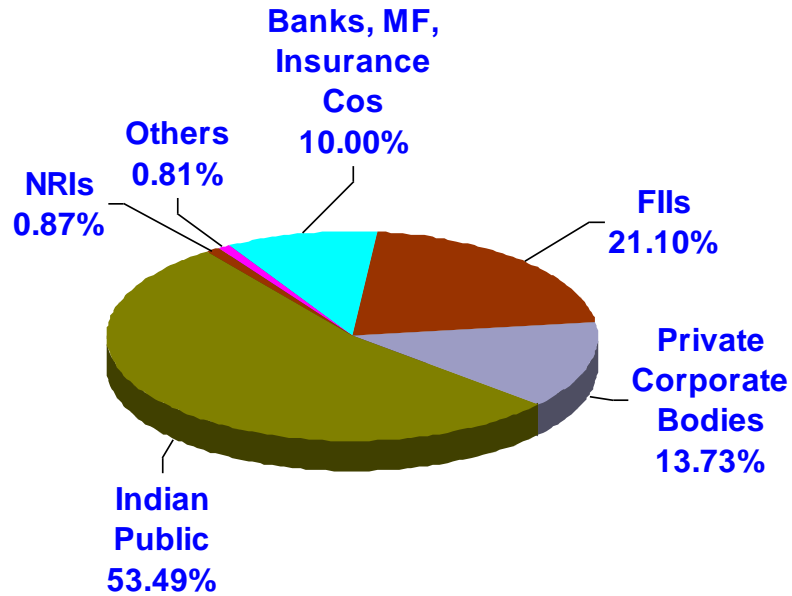
Yield on Investments (excl. RIDF & MF) (%)



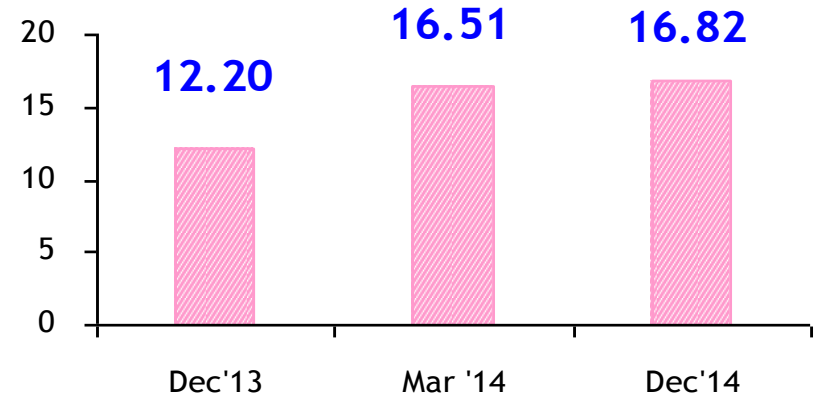


Share holders' value

Share holding pattern (Dec 2014)

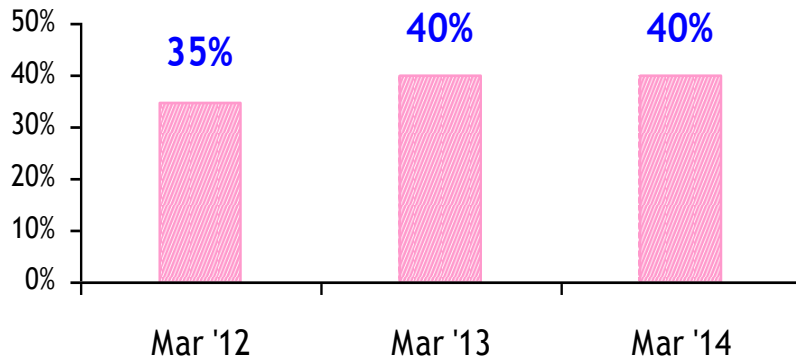


Earning Per Share (₹) *

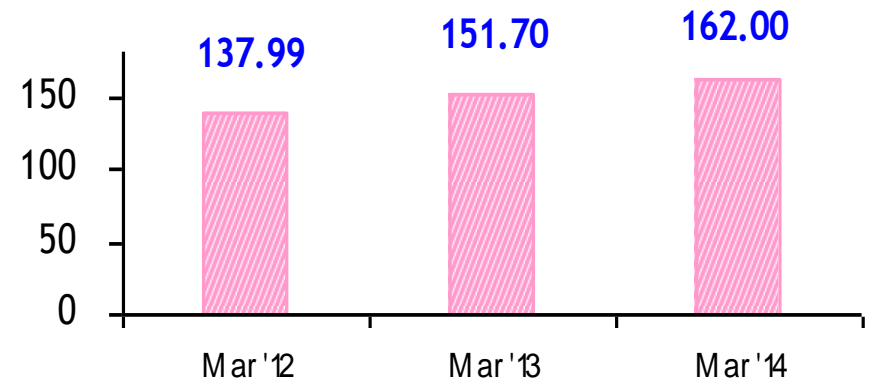


* annualised

Dividend (%)



Book value (₹)



Business Strategy



“PROJECT TEJAS” – BPR project of KBL



The Bank is implementing prioritized initiatives under “Project Tejas”, a Business Process Re-engineering [BPR] project of the Bank, which aims at high growth with superior quality across assets & liabilities portfolio and products & services.



Priorities	Strategy	Product support
<p>Increasing the share of CASA deposits</p>	<ul style="list-style-type: none"> • Introduction of new SB & Current account schemes tailored to suit the various market segments and periodical overhauling of the schemes with necessary sophistication / upgradation. • Increasing the penetration level of alternate delivery channels such as ATMs, Internet banking and mobile banking facilities, POS etc. • Pushing the use of electronic payment facilities like Real Time Gross Settlement (RTGS) and NEFT. • Effective marketing through a focused marketing vertical. • Holding CASA campaigns to reach out to new clients. 	<p><u>Salaried Persons</u></p> <ul style="list-style-type: none"> ⊙ KBL Salary Privilege <p><u>Students</u></p> <ul style="list-style-type: none"> ⊙ KBL - Tarun ⊙ KBL - Kishore <p><u>Women</u></p> <ul style="list-style-type: none"> ⊙ KBL - Vanitha <p><u>HNI's</u></p> <ul style="list-style-type: none"> ⊙ KBL - SB Money Sapphire ⊙ KBL - SB Money Platinum ⊙ KBL - SB Money Ruby <p><u>Businessmen/Corporates</u></p> <p><u>KBL Current Accounts</u></p> <ul style="list-style-type: none"> ⊙ General ⊙ Money Pearl ⊙ Money Ruby ⊙ Money Diamond ⊙ Money Platinum ⊙ Money Diamond Plus



Priorities	Strategy	Product support
<p>Credit in Centre Stage</p>	<ul style="list-style-type: none"> ➤ Augmenting the credit disbursal through specially identified Focused Attention Branches (FAB). ➤ Thrust on Micro, Manufacturing and Service sector under MSME lending and introduction of new loan products for MSME. ➤ Modification in organizational set up for effective credit dispensation and monitoring. ➤ Thrust on maintaining quality of credit and effective credit monitoring through creation of Regular Asset Monitoring Cell (RAM Cell) and Stressed Asset Monitoring Cell (SAM Cell). ➤ Tackling Non Performing Assets through early and effective recovery action. ➤ More thrust for Financial Inclusion agenda. ➤ Housing & Car loan campaign has started to have focused attention. 	<p style="text-align: center;"><u>Agri Sector</u></p> <ul style="list-style-type: none"> ○ KBL- Instant Agri Credit ○ KBL - Agri Gold ○ KBL - Kissan Credit Card ○ KBL - Krishik Sarathi ○ KBL - Krishik Godham ○ KBL - Kisan Mitra <p style="text-align: center;"><u>MSME Sector</u></p> <ul style="list-style-type: none"> ○ KBL- MSE (Traders, Professionals, Transport Operators etc) ○ KBL - MSE Support ○ Vyaapar Mithra <p style="text-align: center;"><u>Housing</u></p> <ul style="list-style-type: none"> ○ KBL- Apna Ghar ○ KBL - Home Comfort ○ KBL - Ghar Niveshan ○ KBL-Apna Ghar Elite ○ KBL - Mortgage ○ KBL - Lease N Cash <p style="text-align: center;"><u>Consumption</u></p> <ul style="list-style-type: none"> ○ KBL- Car Loan ○ KBL- Salaried Persons ○ KBL- Insta Cash ○ KBL - Easy Ride ○ KBL-New Vahana Mitra <p><u>Students</u></p> <ul style="list-style-type: none"> ○ KBL- Vidyanidhi <p><u>Women</u></p> <ul style="list-style-type: none"> ○ KBL- Mahila Udyog



Business Strategy

Priorities	Strategy	Product support
Augmenting Fee Income	<ul style="list-style-type: none"> ➤ Leveraging the Clientele base to enhance the “Other Income” by Cross Selling / upselling of other products such as insurance & mutual fund products, lockers, gift cards, travel cards, etc. ➤ Effective utilisation of ‘customer segmentation’ tool - CLIVE tool & CAFÉ tool provided by KPMG. ➤ Concentrating more on acquirer business in ATM channel. ➤ Appropriate counselling on “Financial Planning” relevant for various stages of one’s life/life style. 	<ul style="list-style-type: none"> ⊙ Life Insurance products ⊙ General Insurance products ⊙ Mutual Fund products ⊙ Demat Services ⊙ Online Trading ⊙ POS Network ⊙ Gift Card ⊙ Travel Card ⊙ ASBA facility ⊙ Online inward remittance facility for NRIs
Customer Relationship Management	<ul style="list-style-type: none"> ✓ Retention / Acquisition of customer through constant improvement in the services rendered. ✓ Speedy redressal of customer complaints & grievances. ✓ Special attention & support to senior citizens and differently enabled customers. 	<ul style="list-style-type: none"> ⊙ ATM facilities ⊙ Internet Banking facilities ⊙ Mobile Banking ⊙ Moneyplant Visa International Debit Cards ⊙ E - Commerce Online payment through Debit Card ⊙ M-Commerce Payment thro Mobile ⊙ Missed Call Banking facility ⊙ IVR facility to support customers ⊙ A dedicated Customer Service & Grievance Redressal Cell at HO ⊙ Online Grievance Redressal Mechanism



Financial Inclusion Initiative

- ❖ Bank is providing banking services to rural unbanked areas through 106 outlets, including 41 Ultra Small Branches [USBs].
- ❖ Bank plans to open another 39 service outlets, including 25 USBs, by the end of March 2015.
- ❖ Bank has sponsored 5 Financial Literacy & Credit Counseling [FLCC] Centres.
- ❖ Bank is one of the Trustees of Karnataka Farmers' Resource Centre, which serves as a Resource Centre for providing training, counseling & consultancy services to farmers.
- ❖ Bank is participating in the Govt. of Karnataka EBT Pilot project for NREGA / SSP beneficiaries.
- ❖ Bank is participating in DBT programme of Govt. of India.
- ❖ Bank is also participating in Modified DBTL for both Aadhaar based as well as Non-Aadhaar based (LPG ID) across the country.
- ❖ Bank has tied up with M/s BASIX Sub-k iTransactions Ltd. for providing end-to-end Business Correspondent Services in the 82 Gram Panchayats covering 357 villages in the states of Karnataka and Chattisghar.
- ❖ Bank has introduced Basic Savings Bank Deposit Account [BSBD] & SB-Small Account with simplified KYC requirement for hassle free opening of account.
- ❖ Bank has also introduced the revised General Credit Card scheme which enables customers in rural & semi urban area to avail hassle free credit for entrepreneurs in rural areas.
- ❖ Bank is conducting account opening camps at various centers under Pradhan Mantri Jan-Dhan Yojana [PMJDY].



MSME Initiative



- ❖ Focused attention through 160 specialised MSME branches to ensure hassle free flow of credit to the sector.
- ❖ Holding MSME cluster meets at various centres in association with stakeholders like DIC, ASSOCHAM, DSIA, etc.
- ❖ Simplified systems & procedures, attractive rates of interest & collateral free loans upto ₹ 10 lakh.
- ❖ Bank is extending differential rate of interest to MSE loans covered under CGTMSE.
- ❖ Bank is not charging Processing Charges for loans to MSEs, upto ₹ 5 lakh limit.
- ❖ Bank has entered into a MOU with Reliance Capital Ltd. for financing of MSMEs through co-financing arrangement.
- ❖ Bank has entered into a MOU with Credit Analysis & Research Ltd (CARE), for providing Credit Rating Services & Due Diligence Services to the MSME clients of the Bank.
- ❖ Bank has entered into a MOU with M/s Ashok Leyland, Tata Motors, BEML, TVS Motors for purchase of vehicles by Micro & Small Entrepreneurs.
- ❖ Bank has launched Online Loan Application Submission for MSME customers on Bank's website under the MSME portal.



Other initiatives / developments

- ❖ 'Agri meets' are being held at various agri centres, by involving NABARD & Lead Bank.
- ❖ Bank has entered into an MOU with NCMSL, NBHC & Staragri for availing Collateral Management services to extend loan against WHRs to farmers.
- ❖ Sugar cane growers are targeted for finance under MOU with sugar mills.
- ❖ Specialized centres have been identified & Agriculture Field Officers are placed for enhancing the Agri portfolio.
- ❖ Exporters' meets are being held at various potential centres, in association with FIEO.
- ❖ Bank has tied up with Times of Money to offer an internet based online money transfer solution, 'Remit2India', to NRIs.
- ❖ Bank has partnered with M/s UAE Exchange & Financial Service Lt.d., to offer inward remittance arrangement with Xpress Money Services as a sub agent, with which NRIs can transfer money from more than 150 countries.
- ❖ Bank has been assigned a score of 75.9 under BCSBI Code Compliance Rating, indicating "Above Average" level of compliance & ranked 20 among 48 member banks.
- ❖ "Missed Call Banking Solution" since introduced for account balance enquiry & mini statement.
- ❖ Bank has launched "i-Hundi" facility through Interactive Voice Response [IVR] channel, wherein Bank's customers can donate funds to adored deities/temples/trusts which are registered with the Bank.

Annexure



Deposits & Advances



₹ crs	<u>Dec-13</u>	<u>Mar-14</u>	<u>Dec-14</u>
Total Deposits	38,683	40,583	44,799
CASA Deposits	9,576	10,308	10,738
Retail Deposits	28,368	29,915	33,893
Purchase liability, CD, IBD	739	360	168
Total Advances	27,005	28,345	30,338
Priority Sector Advances	10,593	12,996	13,315
Agri Advances	4,237	4,790	5,123
MSE Advances	4,489	4,835	5,191
Advances to Weaker Section	2,759	2,820	2,713



Income & Expenditure



₹ crs	<u>Mar-14</u> [12 months]	<u>Dec-13</u> [9 months]	<u>Dec-14</u> [9 months]
Interest Income	4,189	3,130	3,502
Interest Expense	3,133	2,324	2,624
Net Interest Income	1,056	806	878
Fee Income	404	299	294
Treasury Income	102	93	101
Non-Interest Income	506	392	395
Total Income (Net of Interest Expense)	1,562	1,198	1,273
Operating Expenses	875	600	739
Operating Profit	687	598	534
Provision for loan losses in Adv. / losses in Invt. / Taxes / other	376	368	217
Net Profit	311	230	317



Interest Income & Interest Expenditure



₹ crs	<u>Mar-14</u> [12 months]	<u>Dec-13</u> [9 months]	<u>Dec-14</u> [9 months]
<u>Interest Income</u>			
Interest Income	4,189	3,130	3,502
Interest on Advances	3,162	2,368	2,603
Interest on Investments	1,022	758	888
Other interest	5	4	11
Yield on Advances	12.17%	12.39%	12.06%
Adjusted yield on Invts.	7.34%	7.50%	8.23%
<u>Interest Expense</u>			
Interest Expense	3,133	2,324	2,624
Interest on Deposits	2,976	2,206	2,529
Other interest	157	118	95
Cost of Deposits	7.90%	7.94%	7.90%
<u>Net Interest Income</u>			
Net Interest Income	1,056	806	878
Interest Spread in Lending	4.27%	4.45%	4.16%
Net Interest Margin on average assets	31 2.40%	2.49%	2.38%



Capital Adequacy



₹ crs	<u>Dec-13</u>	<u>Mar-14</u>	<u>Dec-14</u>
Total Risk Weighted Assets - Basel II	27,077	28,200	30,926
Total Risk Weighted Assets - Basel III	27,125	28,247	30,976
Total Capital Fund	3,524	3,752	3,708
Total Tier I Capital	2,819	3,052	3,052
Paid up Equity Capital	188	188	188
Reserves under Tier I Cap.	2,631	2,864	2,864
Total Tier II Capital	705	699	656
Surplus Provisions & Reserves	199	199	220
Subordinated Debt Fund	506	500	436
CRAR under Basel II	13.01%	13.30%	11.99%
CRAR Tier I Capital	10.41%	10.82%	9.87%
CRAR Tier II Capital	2.60%	2.48%	2.12%
CRAR under Basel III	12.86%	13.20%	11.79%
CRAR Common Equity Tier I Capital	10.26%	10.73%	9.84%
CRAR Tier I Capital	10.26%	10.73%	9.84%
CRAR Tier II Capital	2.60%	2.47%	1.95%



Outlook for 2014 -15

- ❖ **Business Turnover of ₹ 80,000 crore.**
- ❖ **75 new Branches to take the total no. of Branches to 675.**
- ❖ **300 new ATMs to take total no. of ATMs to 1,000.**
- ❖ **Introduction of technology based facilities: e-Lobby, Passbook Printer Kiosk, Loyalty points for debit card operations, Online account opening, Mobile POS (MPOS).**



WE EXPRESS OUR HEARTFELT GRATITUDE TO ALL OUR STAKE HOLDERS FOR THEIR TRUST & SUPPORT ON COMPLETION OF 9 DECADES OF PURPOSEFUL BANKING AND SOLICIT THEIR CONTINUED PATRONAGE, AS WE CONTINUE OUR JOURNEY WITH RENEWED DEDICATION & COMMITMENT.





Board of Directors



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Non Executive Chairman



P Jayarama Bhat
Managing Director & CEO



T S Vishwanath
New Delhi
Chartered Accountant
Former President,
ICAI



S V Manjunath
Chikmagalur
Planter



D Harshendra Kumar
Shri Kshethra
Dharmastala,
Dakshina Kannada



Dr. H Rama Mohan
Kundapura
Medical Practitioner



T R Chandrasekaran
Chennai Chartered
Accountant



Ashok Haranahalli
Bangalore
Advocate



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



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



B A Prabhakar
Bangalore
Former Chairman & MD of
Andhra Bank



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